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

EL SALVADOR

PROJECT PAPER

PRIVATE SECTOR SUPPORT II

AID/LAC/P-073

Loan Number: 519-K-030

UNCLASSIFIED

CLASSIFICATION:

AID 1120-1 (8-68) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. LAC-81-04 Loan Number 519-K-030 2. COUNTRY El Salvador 3. CATEGORY Cash Transfer 4. DATE April 22, 1981

5. TO: A/AID	6. OYB CHANGE NO.
7. FROM: AA/LAC, Edward W. Coy (Acting)	8. OYB INCREASE TO BE TAKEN FROM: Economic Support Fund (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 24,900,000	10. APPROPRIATION – ALLOTMENT

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
[X] LOAN [ ] GRANT	[ ] INFORMAL [X] FORMAL [ ] NONE	FY 81	Date of approval

15. COMMODITIES FINANCED

N/A

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:	$24,900,000	Other:	$24,900,000

18. SUMMARY DESCRIPTION

The purposesof this $24.9 million program are (1) to provide immediate balance of payments support to the Government of El Salvador (GOES) and (2) to strengthen the private sector in El Salvador by assuring access to foreign exchange for essential raw material and intermediate good imports and access to medium term credit to cover local operating costs. Over the longer run, achievement of both of these objectives will play an important role in re-activating the economy and restoring economic and political stability to El Salvador.

Because of the urgency of El Salvador's balance of payments crisis, immediately after GOES compliance with Conditions Precedent to Disbursement, AID will transfer the $24.9 million to the GOES. The GOES will make at least this amount of foreign exchange available to the private sector for the importation of raw materials and intermediate goods from the United States over a period of approximately a year. An equivalent amount of local currency will be allocated by the GOES for working capital and medium term credit needs of the private sector and for strengthening private and public sector entities vital to socio-economic development in El Salvador.

19. CLEARANCES	DATE
LAC/CEN: B. Gomez MArnold	6-1-81
LAC/DP : D. Lazar	1-2-81
GC/LAC : B. Veret	6/1/81
GC : J. Bolton	6/13/81
FM : T. McMahon	
AA/PPC : C. Paolillo	6/7/81
ARA/ECP: J. Eddy	
LAC/DR : M. Brown	6/5/81

20. ACTION

[X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE — DATE June 18, 81

Administrator, AID

TITLE

CLASSIFICATION:

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I. Summary and Recommendations

A. Recommendation

USAID/El Salvador recommends authorization of an Economic Support Fund loan of $24,900,000 for a Private Sector Support II Program. The dollar loan will be repaid in 40 years including a ten year grace period. The interest rate will be 2% during the grace period and 3% thereafter.

B. Borrower

The Borrower will be the Government of El Salvador. The Ministry of Planning will act as the coordinating agency, working with the Central Reserve Bank.

C. Program Summary

The purposes are (1) to provide immediate balance of payments support to the Government of El Salvador (GOES); and (2) to strengthen the private sector by assuring access to foreign exchange to permit the importation of raw materials and intermediate goods and access to medium-term credit to cover local operating costs. Because of recent political turmoil and external economic factors over which El Salvador has had no control (such as increased petroleum prices and decreased coffee prices), the economic situation in the country has continued to worsen during the past year. The most serious concern is the country's foreign exchange position -- as of January 1, 1981, net international reserves had fallen to minus $70 million, and, as projected by the AID Mission, reserves could fall by roughly an additional $150 million in 1981 without IMF and additional A.I.D. assistance.

The serious problem created by the lack of foreign exchange reserves has been compounded by the closing of traditional lines of foreign credit for imports of raw materials and intermediate goods due to the political and economic uncertainties in El Salvador. With U.S. and other foreign banks requiring full deposits in advance prior to the issuance of letters of credit for imports, the total flow of imports is constrained by the amount of disposable foreign exchange that can be tied up in advance deposits. The proposed program will attack this constraint directly by adding to the foreign exchange reserves of the GOES, which will permit an immediate expansion in the flow of imports. Over time, the cumulative increment in the flow resulting from the use of the dollar deposit-guarantee lines of credit described below may exceed by several times the original increase in the foreign exchange reserves provided by the A.I.D. loan.

The $24.9 million A.I.D. loan will be disbursed directly to the Central Reserve Bank (BCR) of El Salvador. The BCR in turn will sign agreements with U.S. banks whereby these funds will be deposited in the U.S. banks to serve as guarantees to back up revolving lines of credit established by the U.S. banks for Salvadoran importers. Under the first A.I.D. Private Sector Support project, where this mechanism was recently utilized, the BCR negotiated lines of credit that averaged 1.5 times the amount of the guarantee deposits. Assuming that the average letter of credit is for 180 days (i.e., the credit lines turn over twice in a year), the $24.9 million A.I.D. loan could facilitate the financing of approximately $75 million in raw material and intermediate good imports during a one year period.

A commodity import program (CIP) approach was rejected in favor of the cash transfer approach for several reasons. First, the CIP would not provide the immediate balance of payments impact that is provided by the cash transfer approach. Second, the CIP would not promote the opening of traditional commercial lines of credit, and thus it would not have a multiplier effect. Third, in establishing commodity import programs, frequently there are substantial start-up delays while the administrative arrangements and paperwork flows are worked out. Host country officials, importers, and exporters have to comprehend CIP procedures and requirements. In Jamaica, long delays were encountered in establishing the CIP administrative machinery and Egypt has experienced similar constraints in utilizing CIP resources. The Salvador program must have a more immediate impact. Finally, a CIP approach would be more staff intensive for the USAID Mission than the proposed cash transfer. Given the staffing constraints in the Mission and the heavy demands placed on existing staff in monitoring comprehensive agrarian reform and other high impact activities, the proposed approach with its more limited monitoring requirements is definitely the preferred option.

As a complement to the foreign exchange support, the BCR will also provide the local currency equivalent of $24.9 million to finance medium-term (one to four years) credit for the private sector and to strengthen key public and private sector development institutions. These local currency funds will supplement funds already made available under the Private Sector Support I Program.

D. Issues

1. What safeguards do we have that the $24.9 million loan will be used only to promote eligible imports and will not be diverted for other uses, such as military imports?

The special lines of credit created in the U.S. banks as a result of the A.I.D. cash transfer will be specifically restricted to imports of raw materials and intermediate goods for the private agricultural and industrial sectors.

The BCR has already begun negotiations with U.S. banks to establish the special lines of credit under this program. Therefore, it is expected that shortly after the $24.9 million A.I.D. loan is transferred to the BCR, the total amount will be placed in guarantee deposits in the U.S. banks. The A.I.D. Mission will be provided with copies of the agreements and evidence of deposit. During the life of the agreements, normally a year, the guarantee deposits may not be withdrawn and used for any other purpose. The special lines of credit established by the U.S. banks with their own funds, according to the agreements, may only be used to import raw materials and intermediate goods for the private sector, and every import request must be approved in advance by the BCR. The BCR will provide A.I.D. with quarterly reports on all the special line of credit showing by month, all transactions including the type of import, its value and the name of the importer.

All commercial documentation will also be made available for A.I.D. review and audit. Although the special lines of credit are not limited exclusively to U.S. exports, it is expected that they would be used predominantly for U.S. export. At a minimum, the GOES will be committed to import at least $24.9 million from the U.S. through these special lines of credit. Upon expiration of the period of the initial agreements between the BCR and the U.S. banks, if at least $24.9 million in eligible goods have been imported from the U.S. through the special lines of credit, the GOES may either renew the agreements or free up the guarantee deposits. A.I.D. monitorship of the speical lines of credit will continue through the life of the initial agreements, and through the life of any extensions to the agreements in the event this becomes necessary to reach the $24.9 million minimum of eligible imports from the U.S.

In macro-economic terms, the combined amounts of foreign exchange provided under both the first Private Sector Support program and this proposed program ($44.9 million) represent only 25% of the estimated value of the 1981 raw material and intermediate goods exports from the U.S. to the private sector in El Salvador, and only 6% of the total projected level of raw material and intermediate good imports. Thus, there should be strong demand for these funds by the private sector. It is also important to keep in perspective the magnitude of the proposed A.I.D. assistance relative to Salvador's total foreign exchange availabilities. Despite the projected gap in the balance of payments, Salvador's total export earnings for 1981 are estimated at approximately $800 million. These latter funds are not restricted to financing raw materials and intermediate goods but are available to cover the country's priority requirements for the use of foreign exchange, which include foreign debt service, essential imports, and presumably some military purchases. The point is that there are other sources of foreign exchange which can be used for other needs without trying to "divert" funds made available under the proposed program.

In conclusion, we believe the control mechanism proposed for this program is adequate to ensure that at least $24.9 million worth of eligible imports from the U.S. will be financed under the program. Consequently, we are confident that the Private Sector Support II

Program will achieve its stated objectives -- to provide essential balance of payments support, while simultaneously helping to strengthen the position of the private sector in El Salvador.

3. Will these A.I.D. loan funds contribute to capital flight? As described in Section IV.C, over the past year the GOES has tightened considerably the controls directed at conserving foreign exchange and stemming capital outflow. Under this proposed program, intermediate goods and raw materials imported by the Salvadoran private sector must be registered and approved in advance of the release of foreign exchange or opening of letters of credit. Approval documents will then be checked against cargo lists of goods off-loaded to customs warehouses ensuring that lines of credit and foreign exchange used to pay for these imports are not diverted into capital flight.

E. Conditions and Covenants

The Loan Agreement will include the following covenants:

1. That the GOES shall make its best efforts to utilize the full $24.9 million A.I.D. loan as a guarantee for U.S. bank lines of credit for imports of raw materials and intermediate goods.

2. To maximize the import financing made available under such guarantee arrangements, the GOES shall seek to maintain the guaranteed lines of credit in effect for a period of at least 12 months.

3. That the GOES will cause the Central Reserve Bank (BCR) within two weeks following the disbursement of funds under this Agreement to deposit in a special account, currency of the Republic of El Salvador equivalent in the amount of $20.9 million to meet medium-term structural capital requirements of the private sector.

4. That the GOES will in addition, within one month, deposit currency of the Republic of El Salvador equivalent in the amount of $4 million in a special account to be used to meet the institutional support needs of private and public sector entities whose operations are vital to the economic and social development of the country.

5. That the GOES will publicize within the private sector the availability of (a) the special lines of import credit and (b) the medium-term local currency credit, both made available as a result of the A.I.D. loan.

F. Waivers

No waivers are required.

II. Economic Situation

A. Summary

After a prolonged period of economic growth and monetary stability the economy of El Salvador declined sharply in 1979, entering a period of increasingly negative growth due to political and social instability. The projection for 1981 is for continuing economic deterioration, the degree of which will depend on the ability of the GOES to stabilize the political situation and lower the level of violence now being experienced.

Projections for any level of GDP indicate a significant balance of payments deficit. Unless this gap is narrowed by an inflow of external resources in the form of foreign currency capital transfers, there is likely to be a restriction in the supply of income producing imports. Because the Salvadoran economy is heavily dependent on imported raw materials and intermediate goods, any reduction is likely to cause negative growth rates, lower industrial production levels and increase unemployment, as well as decrease agricultural production. The result will be increased social dislocation and vulnerability to political instability.

B. Economic Growth

During the past two years El Salvador has been experiencing grave economic and political difficulties. Up to 1978 El Salvador had been maintaining sustained growth in both the agricultural and industrial sectors. Through 1978 economic growth had averaged approximately 5%. However, the majority of the benefits derived from this growth went to a relatively small number of wealthy families.

In 1979 growth came to a sudden halt. Political and economic uncertainty due to terrorism triggered a sharp decline in private investment and disrupted the rhythm of production. Industrial, construction, commercial and service sector activities all suffered sharp decreases. The Government's projections for 1980 underestimated the actual decline of almost 9% in real GDP. If this same rate of decline continues in 1981, or even if it slows to a 5% rate of decline, it would mean that between 1979 and 1981, the economy will have suffered a cumulative real per capita GDP decline of at least 22%. This rate of decline cannot be allowed to continue. To reverse this trend the economy must be stabilized and political violence brought under control. However, in order to achieve stabilization or even a negative 5% GDP growth rate in 1981, sufficient foreign exchange must be made available for the private sector. If not available, adequate levels of essential imports for industry and agriculture cannot be maintained and production will continue to fall.

C. Financial Resources

1. Foreign Exchange

During the past several years El Salvador's international reserve position has varied considerably. For example, in August 1979 net international reserves stood at $292 million; by the end of 1979, they had dropped to $135 million; and by the end of 1980, they had dropped to a negative $70 million. There are a number of reasons for this deteriorating situation, some of which are a result of the political environment and level of violence and some of which are entirely external to El Salvador, such as reduced coffee and increased oil prices. All of these factors continue to prevail and the foreign exchange situation in 1981 has continued to worsen.

In early April 1981, Department of State/A.I.D. projections showed an unfinanced foreign exchange gap of $143.5 million for 1981, assuming a 5% drop in GOP. With approximately $80 million of this gap potentially covered through IMF compensatory and program financing, A.I.D. proposed additional funding of $63.5 million to close the gap, of which this $24.9 million cash transfer program forms a part. On June 1, 1981 updated projections were prepared based on two slightly different sets of assumptions. These two new projections show the unfinanced gap as $15.5 million to $41.5 million greater than the April projections. Considering the magnitude of the gross value in the balance of payments equation, the difference between the April and June projections is largely accounted for by the different assumptions regarding the expected amount of IMF financing.

BALANCE OF PAYMENTS PROJECTIONS FOR 1981
(US $ in millions)

		April Projection	June 1 Projections[1/] I	June 1 Projections[1/] II
1.	Total Exports	785.6	786.2	832.2
	Coffee	343.0	360.0	360.0
	Cotton	60.0	66.6	66.6
	Sugar	25.8	18.9	20.9
	Shrimp	16.8	16.8	16.8
	To CACM	280.0	264.0	300.0
	Other	60.0	60.0	68.0
2.	Imports (CIF)	965.0	960.0	1000.0
3.	Net Services	-150.0	-150.0	-150.0
4.	Net Transfers	54.0	16.0	16.0
5.	Current Acct. Balance	-275.4	-307.8	-301.8
6.	Net Capital Account	131.9	161.6	161.6
	Official	159.4	195.6	195.[illegible]
	Banking Capital	67.9	46.0	46.0
	Private Capital	-95.4	-80.0	-80.0
7.	Overall Balance of Payments	-143.5	-146.2	-140.2
8.	Financing of Deficit			
	IMF	80.0	41.1	61.1
	U.S. bilateral[2/] reprogramming	63.5	63.5	63.5
9.	Remaining Unfinanced Gap	0	-41.5	-15.5

1/ Alternative I assumes a 5% drop in GDP as was assumed for the April projection, while Alternative II makes the assumption of a 4% drop in GDP which is that used by the National Planning Office of El Salvador. Alternative II assumes better export performance and $20.0 million more in IMF financing.

2/ Includes this $24.9 million ESF program, $7.1 million in Development Assistance Funds, $10.0 million in Housing Investment Guarantees, $13.5 million under PL 480, and $8.0 million in CCC credits.

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 externally set prices and 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 by possible 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. Although the government continues to tighten controls to prevent further capital flight, it will not be able to significantly reverse the determination of foreign banks to reduce their exposure in El Salvador. Thus, the outlook is grim. El Salvador's foreign exchange situation will continue to worsen unless the authorities are able to regain the confidence of the private sector by assuring that it will have a continuing and important role to play in the country's economy; secure substantial concessionary external assistance; and restore order and reduce violence.

2. Fiscal Situation

El Salvador has traditionally followed relatively conservative fiscal practices. For example, throughout the 1970's savings on current account were substantial and able to cover most capital expenditures. Financing of the government budget by external loans and internal borrowing were kept to a minimum. This situation changed dramatically in 1980 when savings on current account dropped to $17 million and the overall deficit increased to $198 million. This deficit was financed primarily by domestic borrowing ($150 million) and external borrowing ($48 million). In 1981 the latest projections indicate a probable central government deficit of some $300 million and a consolidated public sector deficit of some $350 million. It is not yet clear to what extent external assistance will be used to help finance this deficit. To the extent the Government must further expand domestic borrowing, there will be continued inflationary pressures and stronger measures to constrain credit to the private sector.

3. Monetary Situation

During the past 18 months, monetary policy has been influenced by two basic factors: the need to control capital flight and adjust to withdrawal of foreign lines of credit; and the need to finance increased public expenditure in the face of a declining economic base.

From March 1980 to March 1981 total deposits in the commercial banking system increased by $107 million or 16%, somewhat less than the rate of inflation. Therefore, although real liquidity has not increased, the system seems to have stabilized and panic withdrawals of deposits that characterized late 1979 and early 1980 seem to have abated. This is further indicated by the fact that cash held by the public has declined $46 million or 16%. During this period, Central Bank credit to the commercial banking system has declined $102 million or 11% while total central bank credit has increased $202 million or 24%. Since commercial bank credit goes mainly to the private sector, this reflects a shift from private to public sector financing. Additionally, the commercial bank system under direction of the Central Bank, provides major credits to the agrarian reform cooperatives. This has resulted in a hardening of lending terms to the private sector that, coupled with the overall severe shortage of foreign exchange, has created problems in cash management for many Salvadoran companies.

These problems will need to be resolved when it becomes possible to begin expanding private industry. The Central Bank, Commercial Banks and private businessmen agree that one problem has developed which needs to be addressed now. In attempting to preserve their financial viability the banks have shortened the period for an average commercial bank loan to private industry to 3 to 6 months. Such loans were previously granted up to one year. Under current circumstances these shortened terms make borrowing extremely difficult for the private sector. If more business and industries are to avoid further contraction and closure, lending terms should be improved.

D. Unemployment

At this time there is no reliable time series data on employment in El Salvador, so it is difficult to estimate the increase in unemployment that has occurred since the economy began to turn downward in 1979. Figures available indicate that unemployment in 1980 may have averaged 225,000 to 245,000 persons, or 16% to 17% of the labor force. This figure includes the openly unemployed and the unemployment equivalent of persons involuntarily working less than full time. It is important to note that the labor force is now growing annually by about 50,000 people. If the real GDP declines by 5%, there will be a loss of approximately 45,000 jobs, resulting in a total increase of 95,000 unemployed.

Another method of developing a meaningful picture of the unemployment situation, particularly in the industrial sector labor force, is to examine the number of factory closings since 1979 and the subsequent effect on employment. According to the latest statistics from the Salvadoran Social Security Institute the number of reported employers dropped from 11,367 in January 1980 to 10,355 in November 1980, i.e., by 9% during the period after a decade of continuous increases. The decline was particularly pronounced in the industrial, transport/communication, and service sectors of the economy. Data from a survey of industry on factory closings for the period June 1979 to November 1980 show that 56 factories ceased operation with a total loss of 10,875 jobs. However, because only 25% of this total are small or medium size companies, it is probable that this is an underestimation of the extent of the problem. Of further interest is the fact that 75% of these factories were manufacturers of either clothing or metal products, both relatively labor intensive operations. More recent figures from a follow-up survey show that 163 business establishments had closed as of March 1981 with a total of 19,136 jobs lost.

As a particularly vivid example of the above situation, the textile/clothing industry exporting to the U. S. has practically ceased operation as a result of the political violence. As of the end of June, 1979, the total value of such exports had risen over the previous year by 31.2%. However, four months later, exports had dropped to the 1978 level. As of July 1980 only 15 of the 35 companies in this industry which were in operation in June of 1979 were still functioning, two of these are working at only half their normal capacity.

In summary, estimates show that 35 to 40% of the labor force is subject to underemployment due to considerable variations in seasonal demand for agricultural labor. Open unemployment, principally non-agricultural, may be conservatively estimated at least 15%. Thus, at least 50% of the labor force may be considered as being either un- or under-employed. With a population growth rate of 3% annually creating demands for new jobs each year any further depression of economic activity causing a deterioration of the employment picture will add further pressure to the already unstable political and social fabric of El Salvador.

E. Effect on the Private Sector

The political events of the past year have had a decidedly negative effect on the private sector as a whole. Specific impacts in terms of shrinking credit, production, and employment are catalogued elsewhere in this paper; suffice it to say that political and social instability have had repercussive effects on the fragile relationship of consumer-worker-investor confidence which threaten continued decline of meaningful economic activity unless firm action is taken by the GOES in the very near future. Within the private sector, the manufacturing sub-sector produces about 25% of the total national output. Light industry, which composes the backbone of the sub-sector, employs a major portion of the sub-sector workforce. It has contracted significantly during 1979 and 1980, due to a number of factors:

- A repeating cycle of declines in domestic sales as labor force disposable income diminishes from decreased industrial production caused by the threat of violence and sabotage;

- A decline in export sales caused by a reluctance on the part of foreign customers to absorb the risk of entering into export or import contracts with Salvadoran companies and/or to extend credit for these transactions;

- Disruption of normal supply systems and production processes through strikes, general labor unrest or acts of terrorism;

- Large scale capital flight in 1979 and 1980 (estimated at one half billion dollars although the Central Bank does not - and cannot keep formal records on this problem);

- Reluctance on the part of foreign banks to renew traditional lines of credit or make new loans (it is estimated that $500 million in foreign lines of credit have dried up because of the political situation);

- Requirement on the part of U. S. banks that the full value of all export transactions be deposited before issuing the required payment instruments, such as Letters of Credit;

- Difficulty in obtaining local currency credit, particularly for working capital and medium term credit, on acceptable terms from domestic banks as a result of economy-wide credit difficulties, and in some cases, the unrealistic or overly restrictive conditions put on existing lines of credit.

Uncertainty with regard to government intentions toward the private sector because of past expropriation, thereby causing suspicion that the current government is anti-busines;

And, a severe shortage of foreign exchange to finance the importation of productive goods and services required by the industrial sector.

III. Program Description

A. Program Rationale

As stated in Section II, economic conditions and more specifically, the situation as regards the balance of payments, foreign exchange reserves, business closings and unemployment have continued to deteriorate. Political violence continues and its effects, particularly in the area of private investment, continue to spread. The combination of these worsening situations, if left unaddressed, will conspire to restrict imports even further with concomitant and devastating effect on the economy in general and the business community in particular. These events will make themselves felt in the political arena and could very well contribute to the downfall of the present government.

The Mission pointed out in its latest Country Development Strategy Statement that the primary economic and social problem facing the poor is to secure a job which will provide sufficient income to support themselves and their families. The private sector and specifically large and medium light manufacturing and artesanry establishments are essential to providing such employment opportunities. They provide about 240,000 jobs and produce roughly 25% of the total GDP. At present, nearly 30% of those people are out of work, many because of strikes or violence, but the majority because their employers are simply unable to make an economic go of it. The figures speak for themselves: 163 businesses (and these were just manufacturing and small commercial entities) closed in less than 2 years with a loss of almost 20,000 jobs. Many businesses are unable to continue because domestic demand has declined, but even more importantly, manufacturers cannot obtain lines of credit needed for the importation of materials or intermediate goods required for production.

As an example of this point, representatives of the Asociación Salvadoreña de Industria (ASI) negotiated with several U.S. commercial banks in June, 1980, to reopen traditional lines of credit for the relatively small amount of $60-$80 million. The attempt ended in failure when the ASI group was informed that no further lending would be contemplated until such time as some degree of political stability had returned to the country. This experience has since been repeated: now even the most credit worthy of industries in the private sector can no longer obtain credit directly from suppliers in the States since they are so wary of the economic/cash flow situation in El Salvador. All transactions are done now on an essentially cash basis, with most U.S. Commercial banks accepting only letters of credit opened by the BCR.

The CDSS makes a second, equally important point: El Salvador must export (manufactured goods and agricultural produce) to survive economically. This point will become more important as time goes on, particularly as El Salvador's economy evolves from primarily one with an agricultural base to one based on industrial production. The private sector plays a key role now in the production of export goods and will play an even more important part in the export area of the national economy as time goes on.

The private sector is key to economic recovery in El Salvador. It however, is being seriously weakened by the kinds of problems discussed in Section II.E of this document. Two of the most crucial factors are financial -- both the lack of sufficient foreign exchange and the lack of sufficient and appropriate domestic lines of credit. The former problem, access to foreign exchange, is probably the most important. The latter, domestic credit, is the result of a significant decline in <u>real</u> credit to the private sector during the past two years -- primarily because of a shift in overall credit allocations in favor of the public sector. Discussions with BCR and commercial bank personnel, together with members of the private business community, indicate that while there is significant demand for short-term working capital credit, there is also a need to develop lines of longer term structural credit which could be used to start new inventories, buy equipment, refinance existing debt, etc. Of particular importance is the need on the part of private businessmen to restructure this debt burden and at the same time avoid placing undue pressure on Salvadoran commercial banks to reduce their short term income prospects by forcing them to extend their short term portfolios. A new line of medium term credit would go far to meet those needs.

B. Detailed Program Description

Given the country's serious balance of payment crisis, AID will make a cash transfer of the $24.9 million to a United States bank account of the Central Reserve Bank (BCR). These dollars will be used for general balance of payments support to El Salvador, although by agreement with the GOES, they will guarantee lines of credit to finance imports of raw materials and intermediate goods from the United States to the private sector in El Salvador. Items to be imported under this program are the same as under the Private Sector I Program: e.g., raw materials and intermediate goods such as mineral and vegetable oils, chemicals, textiles, ingots, plastics, laminated metals, and wood products.

An important objective of the program is to strengthen the private sector and to demonstrate the importance of a healthy private sector to solving El Salvador's serious economic problems and to putting people back to work. Publicity will therefore be important. The Government has agreed to publicize the program to ensure that private sector entities are aware that foreign exchange and local credit are available to the private sector.

a. Dollar Procedures

The dollar proceeds of this cash transfer will be deposited in U.S. commercial banks under a series of agreements similar to those used under the first Private Sector Program, wherein the Central Bank used AID funds to lever lines of credit equal to approximately 1.5 times the absolute value of dollars transferred. See Annex J for a detailed description of how these agreements operate. In summary terms, the BCR will deposit funds from the AID loan into special account(s) in U.S. bank(s). These funds operate as a guaranty mechanism, thereby allowing the Salvadoran bank to open a confirmed letter of credit for the purchase of raw materials and intermediate goods. Following BCR approval of Salvadoran commercial bank requests for foreign exchange, these letters of credit are drawn upon for various lengths of time and then paid off according to the terms of the Letter of Credit, by the Salvadoran banks using funds provided by the BCR from the country's general foreign exchange reserves. The crucial point to note is that the cash transfer enables the BCR to lever substantially higher credit resources for essential imports by industrial and agricultural enterprises. For example, if the BCR is able to negotiate lines of credit 1.5 times larger than the deposits and if the average letter of credit is 180 days, the $24.9 million fully used would enable some $75 million of imports. This is particularly important since recent economic and political circumstances in El Salvador and the rest of Central America have caused most foreign banks to reduce their exposure in El Salvador, including a general policy not to open lines of credit to Salvadoran banks in the absence of up front deposits. The AID loan will make such deposits possible.

It is expected that each of the agreements negotiated with a U.S. bank will have an average life of one year. The BCR will review the agreements when they terminate to see whether the BCR should attempt to renew them. The advantages of renewal will of course depend upon the overall political and economic situation in the country. As long as U.S. commercial credit for El Salvador is as tight as it now is, we assume that it will be in the interest of the BCR to maintain these special arrangements. At any rate, when the U.S. bank - BCR agreements expire, the funds previously deposited will revert to the BCR's general foreign exchange holdings.

b. <u>Local Currency Procedures</u>

Within two weeks after transfer of the AID loan funds to a BCR account in a U.S. bank, the BCR will establish a colon account in the amount of ₡52.25 million ($20.9 million) as a medium-term (one to four years) structural capital fund for the private sector, with preference to be given to the industrial and artesenal sub-sectors. The fund will operate as a rediscount line and/or guarantee fund for lending by commercial banks to the private sector. Eligible uses will include refinancing, expansion or establishment of inventories, and purchase of some locally available equipment.

The balance of the local currency equivalent of Program funds, ¢10 million ($4.0 million), is to be placed in a separate account for use in supporting or maintaining the institutional capacities of public or private entities which play important development roles in the Salvadoran economy and society. In illustrative terms, we expect these funds to be used as follows:

Illustrative Uses	Million Colones
1. Health Sector Support -- basic health services for Phase I haciendas; support for Central American Research Service epidemiology work in collaboration with Center for Disease Control; and medical supplies for local hospitals.	¢4.4
2. Agriculture Sector Planning Support -- operational support for coordination and planning units	1.0
3. Election Committee Support -- operational cost support.	0.6
4. Agrarian Reform Support -- local costs for AIFLD.	2.5
5. Education Sector Support -- local currency to compensate for termination of occupational skills project and to allow core units to continue to operate.	1.5
	¢10.0

Because final negotiations with the GOES have not yet been completed, these uses are still only illustrative. Before entering into formal agreement with the GOES on uses, the Mission will advise AID/W and request the LAC Bureau Assistant Administrator's concurrent approval.

Regulations will be drafted for A.I.D. review and approval for the control and use of each of the local currency funds. Points to be covered for the structural capital account include deposit requirements, interest rates charged and other conditions, use of interest earned, eligible users and so forth. The Institutional Support Fund directive will address such questions as eligible users, types of costs to be financed, how the fund is to be used and who will administer it and how.

c. Reporting Requirements

The Central Bank will provide AID with quarterly reports on the use of all lines of credit created as a result of the deposit of dollar funds transferred by AID to the BCR through this program. These reports will be required for the life of the agreement initially signed by the BCR and U.S. bank. In most cases, this will be one year. The reports will identify what kinds of raw materials and intermediate goods were imported, by whom and the value of the imports. Also, the commercial documentation relating to the transactions must be maintained on file by the BCR for periodic review by A.I.D.

As pointed out earlier, the deposit of the $24.9 million will generate lines of credit that can finance a larger amount of imports over the life of the program due to the leveraging nature of the arrangement. To account for at least $24.9 million of goods imported from the U.S. as a result of this Program the Mission will review the BCR's periodic reports and identify priority items imported from the U.S. to be attributed to the A.I.D. loan. These reports will be submitted subsequently to AID/W for retention in the LAC/DR official project file.

The structure of the program will ensure that at least $24.9 million from the special lines of credit is used for imports from the U.S., and that these imports are limited to raw material and intermediate goods for the industrial and agricultural sectors. These conditions plus the Government's efforts to control foreig xchange use and capital flight will ensure that the $24.9 million is used for its intended purpose.

A.I.D. will also require periodic reporting on the two local currency accounts. The Central Bank will provide monthly reports on the structural capital account to include such data as numbers of loans made, names of participating banks and interest earned. The Ministry of Planning will control the institutional support fund and will make monthly reports to the Mission regarding fund amounts used.

IV. Technical Analysis

A. Foreign Exchange Controls and Allocation Procedures

Over the past year, controls directed at conserving foreign exchange and stemming capital outflow have been tightened considerably. In February 1980, marketing and export registration systems were established for coffee, cotton, sugar and shrimp which guarantee that foreign exchange passes directly into Central Reserve Bank accounts. Exporters are paid in local currency equivalent. Control over imports, which include those to be covered by this program, have been tightened by imposing stricter documentation requirements. Importers must apply for foreign exchange in advance and register the type of good, quantity and price. Payment of foreign exchangeis made only against transport documents and bills of lading that prove goods to be imported are on board a ship bound for El Salvador. Documents can then be checked against cargo lists of goods off-loaded to customs warehouses.

With a negative net reserve position, the major constraint on El Salvador's financial system is the availability of foreign exchange. At present, use of foreign exchange isallocated by import categories. By priority they are: energy, food, medicine, supplies to industry and agriculture, spare parts, repayment of foreign loans and donations and commercial imports and services. Within categories, allocation is judged by the urgency of the need to make payment and the length of time the request for foreign exchange has been pending. As of March 12, 1981, $37.1 million in requests were pending. These dated back to January 1981.

B. Credit Requirements

Annual credit balances in the commercial banking system for the industrial sector has averaged $124 million. As a result of the economic problems being experienced by the industrial sector, the total value of loans approved for refinancing of previously incurred debt has increased sharply, from an average of over $12.8 million approved in 1979 and 1980 to over $13.6 million for the first seven months of 1980. The recently drafted Industrial Plan 1981-83 states that approximately $335 million will be required for reactivation of the industrial sector during the life of the plan. A projection by The Association Salvadorena de Industria (ASI) estimates a total 1981 financing requirement of $120 million to $200 million. The larger figure is the estimated actual demand, given no worsening of the political situation. ASI feels that this amount can be fully utilized only if banking operations and procedures can be made more responsive in meeting the needs of the industrial sector. An important part of this is lengthening credit terms.

C. **Beneficiaries**

While the primary beneficiaries of this Program are the companies receiving the foreign exchange and/or credits, the benefits will be broadly disseminated in the economy. The program will stem, or slow the decline of economic activity. If the economy remains stagnant there will be no new job creation (no net gain in full time employment). However, for each 1% drop in real GDP avoided approximately 10,000 jobs will remain in the economy, affecting 50,000 family members. No precise evaluation of the employment effects can be determined for this project, but an increased availability of external funding will have a positive impact on employment. Consumers stand to benefit from increased industrial production, while producers in the agricultural sector will experience an increase in demand for their products. The foreign exchange gap will be reduced to the extent that a portion of the increased manufacturing output made possible by the program can be marketed abroad.

The Program to be described in the following section then, is designed to deal (insofar as resources are available) with the continuing economic problems discussed above, and to build upon the experiences gained under the Private Sector Support I Program. For those reasons, this Program will continue to provide credit to business, industries and artisans to allow them to stay in business. By providing essential balance of payments support, this Program can therefore help to alleviate a serious macroeconomic problem, as well as help to direct additional resources to the private sector and thereby help it generate much needed jobs for the economy.

3A(1) - COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

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?

   (a) No.

   (b) No.

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

   No.

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,

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

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

   N/A

10. FAA Sec. 620(q); 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. With respect to defense, the percentage drops to 6%. The GOES 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.N. obligations? If the country is in arrears, were such arreargès 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 iddividual 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. 666. Does the country object, on the 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. 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 COUNTRY

1. Economic Support Fund Country Criteria

a. FAA Sec. 502B. 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.

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) arrangments been made? — N/A

2. Development Assistance Country Criteria

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) populadistribution, and (5) unemployment. — N/A

b. <u>FAA Sec. 115</u>. 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?

N/A

c. <u>FAA Sec. 116</u>. 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?

N/A

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

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;

An advice of Program Change notifying the Congress of the use of $24.9 million of Economic Support Funds was sent to Congress.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

No, ESF funds are being used here to meet urgent, unforeseen need which was not tak into account in the preparation of the Congressional Presentation for the year i question.

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?

None is required.

3. FAA Sec. 209, 619. 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?

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

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.

The assistance will provide an infusion credit resources to the GOES which will allow it to finance a portion of the int national and domestic trade activities i the Salvadoran private sector, and in so doing, support private and competition throughout the country.

A.

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).

The project will encourage U.S. private trade abroad by providing the GOES and through it, the Salvadoran private sector, with the means for financing the importatio of American-produced goods.

6. 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 United States are utilized to meet the cost of contractual and other services.

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 has agreed, for its part, to contribute $24.9 million in local currency to work toward joint AID-GOES objectives.

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.

B. 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?

This Project will provide additional foreig exchange needed for the importation of raw materials and intermediate goods required b: the weakened industrial/manufacturing secto Provision of the materials will help revive the industrial sector, and through it, help strengthen the general eco

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by 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?

N/A

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 souce.)

N/A

B2b

(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;	N/A
(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?	N/A
(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;	N/A
(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	N/A
(a) to help alleviate energy problem;	N/A
(b) reconstruction after natural or manmade disaster;	N/A
(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	N/A
(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.	N/A
(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	N/A

B2

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. — N/A

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

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? — N/A

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position. — N/A

3. Nonproject Criteria for Development Assistance (Loans only) — N/A

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. — N/A

B3

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan. — N/A

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner? — N/A

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? — N/A

4. Additional Criteria for Alliance for Progress — N/A

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America? — N/A

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities? — N/A

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.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

   Standard A.I.D. Procedures will be used to the extent applicable.

2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?

   To the extent feasible, yes.

3. FAA Sec. 604(b). 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 the extent feasible, yes.

4. FAA Sec. 604(c). 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. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?

   N/A

6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

   N/A

7. FAA Sec. 604(f). 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

A

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	N/A
9. MMA 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 If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	Yes, to the extent feasible.

B. OTHER RESTRICTIONS

1. 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.
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 manufactured outside the United States?	Yes.
3. Will arrangement preclude use of financing:	
a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations 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(g). to compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes.
d. FAA Sec. 662. for CIA activities?	Yes.

MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

DECS/DSP/

USAID SAN SALVADOR
ACTION TO CRDO

APR 29 1981

ANNEX B. 01242

San Salvador, 27 de abril de 1981

ASUNTO: Solicitando préstamo de US $24.9 millones, apoyo Sector Industrial.

PDTS

5/11

Señor
Peter W. Askin
Director
Agencia para el Desarrollo Internacional (AID)
Presente

INFORMATION COPY

Estimado señor Askin:

Tengo el agrado de solicitar a usted, un préstamo de US$24.9 millones para apoyo al Sector Industrial de nuestro país. Contra estos US$24.9 millones, que se depositarán en bancos comerciales de los Estados Unidos, el Banco Central de Reserva emitirá cartas de crédito para la importación de materia prima para la industria salvadoreña.

Después de la operación del depósito de dólares, el Banco Central de Reserva, desembolsará ₡62.5 millones que se utilizarán de la manera siguiente:

- ₡52.25 millones al Banco Central de Reserva para establecer una línea de redescuento para financiamiento. Esta línea sería utilizada para otorgar préstamos para capital estructural a mediano plazo (hasta 4 años) al sector privado, con preferencia al subsector industrial y artesanal.
- ₡10.00 millones para aporte de fortalecimiento institucional al sector público y privado. Estos aportes se harán en común acuerdo con la Misión de A.I.D. para actividades que promueven el desarrollo social y económico del país.

Toda regulación del fondo para financiamiento industrial, incluyendo la línea de redescuento del Banco Central de Reserva, antes de emitir se será sujeta a la opinión de AID. También para efectos de este proyecto, la clasificación de pequeña y mediana industria estará contenida en la referida regulación, de acuerdo a criterios establecidos por el Gobierno.

MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

DECS/DSP/094

01242

En la seguridad de que nuestra solicitud pueda ser considerada y atendida favorablemente, aprovecho la oportunidad para expresarle las muestras de mi consideración y estima.

Atilio Viéytez
Ministro

TABLE C

EL SALVADOR: OFERTA Y DEMANDA GLOBALES

(Precios constantes de 1962-Miles de Colones)

	1979		1980	
	Valor	Δ %	Valor	Δ %
[illegible]nanda Global	4.706.823	- 2.8	4.124.254	-12.4
Consumo	3.146.317	- 7.0	3.048.760	- 3.1
Privado	2.697.655	- 8.6	2.580.960	- 4.3
Público	448.662	4.1	467.800	4.3
Inversión Interna Bruta	661.006	-14.7	490.828	-25.7
Formación de capital fijo	659.108	- 9.4	526.628	-20.1
Privado	410.430	-14.6	251.600	-38.7
Público	248.678	1.0	275.028	10.6
Variación de Inventarios	1.898	-	- 35.800	
Exportaciones de Bienes y Servicios	899.500	31.3	584.666	-35.0
[illegible]erta Global	4.706.823	- 2.8	4.124.254	-12.4
Importaciones de bienes y servicios	1.185.600	- 6.3	908.940	-23.3
Producto Interno Bruto	3.521.223	- 1.6	3.215.314	- 8.7
Agropecuario	840.272	1.5	785.600	- 6.5
Minería y Canteras	3.785	3.1	3.884	2.6
Industria Manufacturera	607.910	- 5.0	505.034	-16.9
Construcción	147.849	-10.5	125.523	-15.1
Electricidad, agua y serv. sanitarios	103.732	7.5	108.399	4.5
Transporte, Almacenaje y Comunic.	208.769	- 6.5	191.627	- 8.2
Comercio	786.224	- 3.6	688.196	-12.5
Financiero	106.064	2.1	97.526	- 8.0
Propiedad de viviendas	126.875	3.5	130.670	3.0
Admón. Pública	327.728	5.4	340.159	3.8
Servicios personales	262.015	- 3.2	238.696	- 8.9
[illegible]dice de Precios Implícitos	248.3	15.0	293.0	18.0

SV/[illegible]
[illegible]/II/81

BALANZA DE PAGOS

(En Millones de Colones)

	1979	1980
Exportaciones de Bienes	3.058.0	2.408.7
Café	1.925.2	1.279.2
Algodón	211.5	207.1
Azúcar	67.1	33.1
Camarón	30.8	33.0
M.C.C.A.	659.0	700.0
Otros	164.4	156.3
Importaciones de Bienes	2.553.7	2.390.0
M.C.C.A.	642.4	790.0
Resto del Mundo	1.911.3	1.600.0
Balanza Comercial	+ 504.3	+ 18.7
Servicios (Netos)	- 303.8	- 350.0
Transferencias (Netas)	+ 128.5	+ 95.9
Saldo en Cuenta Corriente	+ 329.0	- 235.4
Cuenta Capital	- 599.2	- 255.1
Capital Oficial 1/	167.0	206.2
Retiros	205.3	228.2
Amortizaciones	38.3	22.0
Capital Bancario	91.3	243.1
Retiros	103.9	309.0
Amortizaciones	12.6	65.9
Capital Privado	- 857.5	- 704.4
Reservas Internacionales Netas (Variación)	- 270.2	- 490.5
Nivel de Reservas Internacionales Netas	315.7	(174.8)

1/ Incluye BFA
Nivel de Reservas Netas

25/II/81

TABLE E

EL SALVADOR: IMPORTACION DE BIENES

(Millones de Colones)

	1978		1979		1980	
	Valor	Δ %	Valor	Δ %	Valor	Δ %
IENES DE CONSUMO	666.0	12.0	669.8	0.6	760.0	13.5
raderos	509.9	13.2	536.7	5.3	680.0	26.7
Duraderos	156.1	8.3	133.1	-14.7	80.0	-39.9
IENES INTERMEDIOS	1.235.5	5.2	1.366.5	10.6	1.349.5	- 1.2
ustria Manufact.	858.3	2.3	1.025.5	19.5	1.070.5	4.4
(Petróleo)	(192.6)		(285.8)	(48.4)	(356.6)	(24.8)
ropecuario.	159.6	7.5	142.2	-10.9	120.4	-15.3
(Fertilizantes)	(90.7)		(67.9)	(-25.1)	(63.2)	(- 6.9)
nstrucción	191.5	12.1	180.7	- 5.6	141.1	-21.9
ros	26.1	56.3	18.1	-30.7	17.5	- 3.3
ENES DE CAPITAL	663.1	13.0	517.4	-22.0	280.5	-45.8
ustria Manufact.	217.3	18.2	167.4	-23.0	110.2	-34.2
ansporte	250.2	22.5	194.8	-22.1	87.6	-55.0
ropecuario	56.6	- 3.6	43.1	-23.9	19.1	-55.7
nstrucción	76.4	-18.3	70.9	- 7.2	33.1	-53.3
ros	62.6	34.0	41.2	34.2	30.5	-26.0
screpancia	6.4					
OTALES	2.571.0	10.7	2.553.7	- 0.7	2.390.0	- 6.4

PARTICIPACION RELATIVA

(Porcentajes)

	1978	1979	1980
ienes de Consumo	25.9	26.2	32.0
ienes Intermedios	48.0	53.5	56.5
ienes de Capital	26.1	20.3	11.5

FUENTE: Sección de Balanza de Pagos

De
21

* Alternativa II

TABLE F

PARTE DE LA DEMANDA DE FINANCIAMIENTO PARA IMPORTACIONES DESTINADAS A LA PRODUCCION EXPORTABLE DEL SECTOR INDUSTRIAL QUE NO FUE POSIBLE CUBRIR CON RECURSOS DEL BCR NI DEL SISTEMA FINANCIERO NACIONAL DURANTE EL AÑO 1979

Banco	Millones de ₡	
Salvadoreño	20.000	
Cuscatlán	5.000	
Internacional	-.-	1/
Mercantil	720	
Bank of America	-.-	2/
Fomento Agropecuario	-.-	2/
Agrícola Comercial	6.476	
de Comercio	2.172	
Financiero	1.800	
Citibank	9.140	
de Londres y América del Sud Ltdo.	13.600	
de Desarrollo e Inversión	8.000	
Capitalizador	12.000	
Crédito Popular	-.-	1/
Hipotecario	-.-	1/
	78.908	

1/ No proporcionaron la información
2/ No tuvieron demanda insatisfecha

Fuente: Consulta directa con los Bancos del Sistema Financiero

JMRF/mgds
3/IX/80

TABLE G

EMPRESAS PEQUEÑAS Y EMPLEOS PERDIDOS EN EL SECTOR INDUSTRIAL

(JUNIO 1979-NOVIEMBRE 1980)

	No. Establecimientos				No. Empleos			
	Grande	Med.	Peq.	Total	Gde.	Med.	Peq.	Total
31 Alimentos, Bebidas y Tabaco.	3	1	1	5	431	21	4	456
32 Textiles, Vestuario y Cuero	25	4	3	32	6.159	123	33	6.315
33 Madera, Muebles	-	-	-	-	-	-	-	-
34 Papel, Imprenta y Editoriales	1	1	2	4	121	28	28	177
35 Químicos, derivados de Petróleo, Cárbón, Caucho y Plásticos	2	-	1	3	686	-	12	698
36 Minerales no metálicos	2		-	2	530	-	--	530
37 Metales Básicos	-	-	-	-	-	-	-	-
38 Metálicos, Maquinaria y Equipo	9	1	-	10	2.651	48	-	2,699
39 Otras Manufacturas	-	-	-	-	-	-	-	-
TOTAL	42	7	7	56	10.578	220	77	10.875

FUENTE: Ministerio de Trabajo y Previsión Social.

TABLE H

LABOR FORCE DATA FROM HOUSEHOLD SURVEYS, 1978-1980
(thousands of workers)

		February-September 1978	October-March 1978/79	January 1980
1.	Economically active population	1,425.5	1,518.9	1,625.6
2.	Total employed	1,372.2	1,441.1	1,504.2
3.	Fully employed	616.0	742.2	676.9
4.	Underemployed	756.2	698.9	827.3
	a. Hours worked	2.4	2.8	2.5
	b. Income	694.1	646.1	759.5
	c. Combined hours worked/income	15.0	12.5	16.5
	d. Voluntary	44.7	37.4	48.8
5.	Unemployed	53.3	77.8	121.4
6.	Open unemployment rate	3.7	5.1	7.5
7.	Total unemployment-equivalent rate	37.1	n.a.	37.9
8.	Partial unemployment-equivalent rate (4a* + 4c* + 5) /(1)	4.8	n.a.	8.5

Source: Proyecto Indicadores de Progreso Social, _Propuesta evaluativa de las condiciones del empleo en El Salvador_, 2nd. draft (San Salvador, June 30, 1980).

* Converted to a full-time unemployment-basis. The specific data are as follows:

	Feb-Sept. 1978	Oct-Mar 1978/79	Jan. 1980
4a	1.0	n.a.	1.0
4c	14.0	n.a.	15.5

TABLE I

GOBIERNO CENTRAL
Gastos Totales
- Millones de Colones -

	1978	1979	1980 1/
I. GASTOS CORRIENTES	782.7 2/	861.7	930.0
De Consumo	564.3	630.7	728.0
Remuneraciones	411.2	475.2	
Otros Gastos	153.1	155.5	
Transferencias Corrientes	195.3	207.5	177.0
Gastos de Ejercicios Anteriores	23.1	23.5	25.0
II. GASTOS DE CAPITAL	341.8	415.0	562.6 3/
Inversión Directa 4/	218.8	283.8	437.6
Real	218.8	273.8	437.6
Presupuesto Corriente	119.4	161.9	317.6
Presupuesto Anterior	99.4	111.9	120.0
Financiera	-.-	10.0	
Transferencias de Capital	123.0	131.2	125.0
Financiamiento	-.-	-.-	-
Varios	-.-	-.-	
III. AMORTIZACION DEUDA PUBLICA	33.0	28.8	21.3
Interna	24.7	17.9	12.0
Externa	8.3	10.9	9.3
GASTO TOTAL	1.157.6	1.305.5	1.513.9

1/ Cifra Estimada.
2/ No incluye C60.0 millones en bonos emitidos para cancelar deuda al ISSS.
3/ Incluye el Proyecto Pesquero Industrial C54.8 millones y el Programa de Generación de Empleo C16.8 millones financiados con recursos externos.
4/ Excluye Financiamiento a CEL.

10/II/81 · Revised 26/II/81 and adjusted upwards by A.I.D. in the amount of Ø30 million to provide for estim 1980 expenditures carried over into 1981; the Central Bank had shown this as not available.

Private Sector Support Program I (519-0267) - Performance to Date

The Grant Agreement for this Program was signed on December 17, 1981. It consists of three parts: a dollar cash transfer, a local currency agricultural credit fund for the Agrarian Reform sector and a local currency short term working capital credit fund for use in the private sector. The major objective of the program was the same as that for the Program under consideration in this paper: to assist the private sector to maintain an adequate level of production and employment by supplying much needed foreign exchange, local currency, and working capital.

A. The Dollar Transfer

The intent of the dollar cash transfer was to respond immediately to a rapidly deteriorating balance of payments situation through a cash transfer. The transfer of these dollars would then enable the Central Reserve Bank of El Salvador (BCR) to make available foreign exchange for the importation of raw materials and intermediate goods from the United States.

Because of the urgency of the country's balance of payments crisis, the BCR decided to use the $20 million as a lever to finance additional imports from the U.S. It opted to enter into a series of agreements with commercial banks in the U.S. under which the BCR used $11.4 million of the cash transfer funds to deposit funds into three accounts, and in so doing, permit the three U. S. banks to open letters of credit totalling $21 million for importing raw materials and intermediate goods into El Salvador. Two of the three agreements are valid until January 1982, while the third will expire in November 1981. The BCR was unable to negotiate favorable terms for similar agreements with the remaining $8.6 million of the $20 million cash tranfer. These funds were therefore released by the BCR for the direct importation of raw materials and intermediate goods. The BCR has received as of May 1, 1981, documentation (invoices, bills of lading, etc.) evidencing the importation of $9 million worth of raw materials and intermediate goods using both the $8.6 million and the $21 million in letters of credit guaranteed by the $11.4 million of the program funds. (See Table J.3 for a more complete description.)

The BCR established regulations for the use of the three accounts and or lines of credit, and allocated the $21.0 million among ten different Salvadoran banks for distribution to the private sector. (See attachments to this annex.) The net effect of the three agreements has been to create reliable sources of dollar funding for the importation of badly needed goods in the private sector since the lines of credit will be rolling over at the agreed upon levels and since the lines are restricted to the importation of raw materials and intermediate goods.

In order to illustrate how these special accounts and lines of credit operate, procedures for the agreement with Manufacturer's Hanover Trust are summarized below:

1. The BCR deposits $10 million in a special call account with the MHT for a period of nine months (March 1 - November 30). The special account acts as a partial guaranty fund on the part of the BCR to the MHT against the possibility of losses in the event that Salvadoran importers - and the Salvadoran banking system - cannot pay off a letter of credit opened under the arrangement in question.

2. Using the $10 million as a guaranty mechanism or in another

sense a good faith deposit, the MHT notifies the BCR that it (MHT) will confirm or guarantee, the payment of up to $15 million worth of documentary letters of credit or sight drafts issued by Salvadoran banking institutions for the purchase of raw materials and intermediate goods. The net effect is that the leverage by the MHT allows $15 million as opposed to $10 million of goods to flow through the import pipeline to El Salvador at any point in time.

3. Upon receipt of the notification from the MHT, the BCR begins accepting requests from Salvadoran banks for the opening of $15 million worth of sight drafts or documentary letters of credit.

4. Upon approval of the requests by the BCR, the $15 million in drafts and letters of credit are duly opened with MHT for various lengths of time and then closed, paid off by the Salvadoran banks using funds provided from general foreign exchange holdings of the BCR. This process is repeated several times until such time as the agreement between the BCR and MHT expires.

5. In the event that letters of credit are paid late or financing is specifically requested, the Salvadoran bank makes interest payments on the amount financed on a proportional basis of one to two, to the MHT and BCR. This ratio is based on the participation of the MHT and BCR. The ratio is based on the participation of the MHT ($5 million) and the BCR ($10 million) in this arrangement. Accordingly the Salvadoran bank makes an interest payment calculated at prime rate plus 1% to MHT on one third of a given borrowing and prime rate plus 1.75% to the BCR on two thirds of the same borrowing.

6. At expiration of the MHT-BCR agreement, the $10 million held in the account (which cannot be withdrawn over the life of the agreement) reverts to the BCR, along with interest earned by it during its deposit. It then becomes part of the BCR's general foreign exchange holdings.

B. Agricultural Credit

Shortly after the signature of the Grant Agreement, the BCR established a ₡50 million ($20 million) account to be used for short term production credit in the Agrarian Reform sector. Given the timing of the initiation of the Program and the fact that it was too late to participate in the 1980-1981 crop year in early January when the demand for agricultural credit is low, the BCR elected to invest in outstanding Agrarian Reform production credit portfolios held by the Agricultural Development Bank and commercial banks until such time as the portfolios turned over and the banking system invested in the new (1981-1982) crop year. (See attached tables) The new crop year has now started and the BCR is planning to reinvest its funds (having rolled over the 1980-1981 portfolio) in such a way as to meet additional credit needs during the new crop year. In the cases of both crop years, the BCR allocated funds to the banks listed on the basis of relative lending activity by the banks in 1980.

C. Working Capital

As part of the Program, the Project Agreement also called for the Government to ensure that at least $20 million equivalent of colones would be made available to help meet working capital credit requirements of the private sector over the ensuing twelve month period. The BCR set up a special account to guarantee that such funds would be available. It allocated these funds among commercial banks based on their relative capital positions within the overall banking system. Each bank could then draw on the account by rediscounting from its own portfolio.

To date, full utilization of this rediscount mechanism has not been necessary. Due to the seasonal slack in demand for agricultural credit from January through March, the commercial banks have been able to use their own resources to cover working capital loans. Even so, $2.52 million or 16% of the account had been drawn against by the banking system on February 26, 1981. By late March, this amount had been reduced to $.96 million. The account may be utilized at a higher rate as the seasonal demand for agriculture credit rises.

To guarantee adequate domestic credit to cover the working capital needed by the private sector, the BCR has agreed to extend the $20 million rediscount mechanism for the life of the new agreement. The basic nature of the fund will remain unchanged. However, the regulations controlling the fund will be amended in order to broaden the number of eligible users and uses and to reduce the direct relationship of this fund with the dollar lines of credit. Specifically, the BCR will remove language which requires all goods financed under the line of credit to have their source and origin in the U.S. The same regulation also stated that eligible participants under the line of credit would be primarily export oriented. This statement will be modified to make it clearer that non-export businesses may also participate.

TABLE J.1

DISTRIBUCION DEL DONATIVO DEL GOBIERNO DE LOS ESTADOS UNIDOS POR MEDIO DE LA AGENCIA PARA EL DESARROLLO INTERNACIONAL (A I D)

28 DE FEBRERO DE 1981

(EN US$MILLONES)

	Depósito	Crédito	Total Líneas de Crédito(1)
Manufacturers Hanover Trust Company	10.0(2)	5.0	15.0
Capital Bank	1.3(3)	1.0	2.0
First National Bank of Chicago	0.4(4)	3.6	4.0
Sub-total	11.4	9.6	21.0
Venta de divisas a bancos para importación de materias primas para la industria	8.6	—	—
Total	20.0	9.6	29.6

(1) Todas estas facilidades crediticias están limitadas a importaciones de bienes para los sectores industrial y agrícola

(2) La línea de crédito estará vigente hasta el 30 de noviembre de 1981 y podrá ser prorrogada por períodos anuales.

(3) La línea de crédito estará vigente hasta el 28 de enero de 1982 y podrá ser prorrogada por períodos anuales.

(4) La línea de crédito estará vigente hasta el 31 de enero de 1982.

DEPARTAMENTO DEL EXTERIOR

BANCO CENTRAL DE RESERVA
DE EL SALVADOR

MNF/rch.

TABLE II.2

DISTRIBUCION DE LINEAS DE CREDITO ENTRE BANCOS DEL SISTEMA SALVADOREÑO

31 DE ENERO DE 1981

(EN US$MILLONES)

BANCOS LOCALES	MANTRUST	CAPITAL	FIRSTCHICAGO	TOTAL
1. Agrícola Comercial	3.0			3.0
2. Capitalizador	2.0			2.0
3. Comercio	4.0	0.1		4.1
4. Crédito Popular		0.3		0.3
5. Cuscatlán		0.5		0.5
6. Hipotecario		0.5		0.5
7. Internacional		0.2		0.2
8. Mercantil	2.0	0.3		2.3
9. Salvadoreño	4.0			4.0
10. Desarrollo e Inversión		0.1	4.0	4.1
	15.0	2.0	4.0	21.0

MNF/rch.

Table J.3

Products Imported Using Dollar Cash
Transfer Funds
(Up to May 1, 1981)

Product Classification	Value
Wood and Related Products	$ 90,439.20
Raw Materials for Food Products	325,347.95
Paper and Related Products	2,934,930.40
Chemicals and Related Products	1,994,538.08
Textile and Related Products	1,503,478.60
Raw Materials for the Shoe Industry	1,380,631.48
Other	757,350.20
Total:	$8,986,715.91

Note: The imports listed in this table include only completed transactions, i.e., those for which complete documentation has been received by the Banco Central de Reservas (BCR). Letters of credit which have been opened or for which documentation has not yet been passed through the banking system to the BCR are not included.

TABLE J.4

LINEA DE CREDITO PARA CAPITAL DE TRABAJO DE LA INDUSTRIA MANUFACTURERA

Institución	Saldo	Cupo de Crédito	Disponibilidad
Banco Agrícola	₡ 82.000.00	₡ 3.000.000.00	₡ 2.918.000.00
Banco Capitalizador	450.000.00	2.500.000.00	2.050.000.00
Banco de Comercio	318.136.00	4.000.000.00	3.681.864.00
Banco de Crédito P.	725.004.00	5.000.000.00	4.274.996.00
Banco Cuscatlán	1.541.400.00	5.000.000.00	3.458.600.00
Banco Hipotecario	-.-	4.000.000.00	4.000.000.00
Banco Salvadoreño	1.433.875.00	5.000.000.00	3.566.125.00
Banco Financiero	1.132.200.00	3.500.000.00	2.367.800.00
Banco Internacional	220.890.19	2.500.000.00	2.279.109.8
Banco Mercantil	-.-	1.500.000.00	1.500.000.00
Banco de Desarrollo	267.897.81	3.000.000.00	2.732.102.1
SUB-TOTAL	₡ 6.171.403.00	₡ 39.000.000.00	₡ 32.828.597.0
Financiera Salvadoreña	100.000.00	2.000.000.00	1.900.000.0
SUB-TOTAL	₡ 6.271.403.00	₡ 41.000.000.00	₡ 34.728.597.0
MARGEN DE LA PRESIDENCIA	-.-	9.000.000.00	9.000.000.0
T O T A L	₡ 6.271.403.00	₡ 50.000.000.00	₡ 43.728.597.0

Febrero 26 de 1981.

RAJ/irb.-

TABLE J.5

NORMAS PARA LA UTILIZACION DE LA LINEA DE CREDITO CONTRATADA CON EL MANUFACTURERS HANOVER TRUST COMPANY DE NEW YORK

1. MONTO:	Hasta US$15.0 millones.
2. DESTINO:	Los recursos provenientes de este financiamiento se destinarán a la importación de fuera del área centroamericana de materias primas, repuestos, herramientas y otros insumos básicos para la agricultura y la industria, mediante el sistema de confirmación de cartas de crédito documentarias de hasta 180 días, o para financiar pagos de cartas de crédito a la vista por períodos de hasta 90 días a través del Manufacturers Hanover Trust Company de New York (MANTRUST).
3. INSTITUCIONES INTERMEDIARIAS:	Los bancos del sistema financiero nacional que seleccione el Banco Central de común acuerdo con el MANTRUST.
4. USUARIOS:	Todas las personas naturales o jurídicas que dentro del desarrollo natural de sus actividades productivas (industriales o agrícolas) importan los bienes indicados anteriormente.
5. PLAZO DE UTILIZACION:	Hasta el 30 de noviembre de 1981.
6. ASIGNACION DE DIVISAS:	Al vencimiento de cada obligación originada por apertura de cartas de crédito, el Departamento del Exterior del BCR proveerá oportunamente a las instituciones intermediarias las divisas para su correspondiente pago.
7. TASA DE INTERES:	a) La Institución Intermediaria pagará al MANTRUST una tasa de interés de hasta 1% anual sobre el Prime Rate flotante de dicho banco extranjero.

b) La Institución Intermediaria pagará al BCR, por concepto de aval, el diferencial que resulte entre 1-3/4% y la tasa de interés anual que le cobre el MANTRUST (*) sobre el Prime Rate fluctuante.

c) La Institución Intermediaria cobrará al usuario una tasa de interés de hasta el 2% sobre el costo de los recursos incluyendo los detallados en los literales anteriores. (**)

8. CONDICIONES ESPECIALES:

a) La cuantía y plazo de los créditos que se otorguen a los importadores deberá corresponder a las necesidades reales que demanda el proceso productivo de sus empresas y excluirá aquellos gastos no relacionados directamente con la importación financiada.

b) Las cartas de crédito para importaciones a través de este financiamiento, deberán ser aprobadas previamente por el Departamento del Exterior de este Banco Central. Para estos propósitos, las instituciones intermediarias presentarán original y copia de la solicitud de carta de crédito y el Formulario 15 aprobado por el Departamento de Control de Cambios

c) Se aprobarán cartas de crédito siempre que tengan un plazo mínimo de 90 días conforme se indica en el numeral 2.

(*) Resolución de Junta Directiva del BCR No. JD-1/81, del 2 de enero de 1981.

(**) Resolución de Junta Monetaria No. JM-1/74, de 1 de febrero de 1974.

24 de febrero de 1981.

TABLE 3.6

NORMAS PARA LA UTILIZACION DE LA LINEA DE CREDITO

DEL CAPITAL BANK-MIAMI

1. MONTO:	US$ 2.0 millones
2. DESTINO:	Los recursos provenientes de este financiamiento se destinarán a la importación, de fuera del área centroamericana, de materias primas, repuestos, herramientas y otros insumos básicos para la agricultura y la industria, mediante el sistema de confirmación de cartas de crédito documentarias hasta 180 días, o para el financiamiento de pagos efectuados por medio de cartas de crédito a la vista hasta 180 días.
3. INSTITUCIONES INTERMEDIARIAS:	Los bancos del sistema financiero nacional que seleccione este Banco Central de común acuerdo con el Capital Bank.
4. USUARIOS:	Todas las personas naturales o jurídicas, que dentro del desarrollo natural de sus actividades productivas (industriales o agrícolas), importen los bienes antes detallados.
5. PLAZO DE UTILIZACION:	Hasta el 28 de enero de 1982.
6. ASIGNACION DE DIVISAS:	Al vencimiento de cada obligación, originada por apertura de cartas de crédito, el Departamento del Exterior del BCR proveerá oportunamente a las instituciones intermediarias las divisas para su correspondiente pago.
7. TASAS DE INTERES:	a. La institución intermediaria pagará al Capital Bank, hasta el 1% anual sobre el Prime Rate del Capital Bank, vigente al primer día hábil de cada mes. b. La institución intermediaria pagará al BCR, por concepto de aval, el diferencial que resulte entre 1 3/4% y la tasa de interés que le cobre el Capital Bank sobre el Prime Rate. (*)

c. La institución intermediaria cobrará al usuario tasa de interés de hasta el 2% sobre el costo de estos recursos. (**)

8. CONDICIONES ESPECIALES:

a. La cuantía y plazo de los créditos que se otorguen a los importadores deberán corresponder a las necesidades reales que demande el proceso productivo de sus empresas y excluirá aquellos gastos que no estén directamente relacionados con la importación financiada.

b. Las cartas de crédito para importación, a través de este financiamiento, deberán ser aprobadas previamente por el Departamento del Exterior de este Banco Central. Para estos propósitos, las instituciones intermediarias presentarán original y copia de la solicitud de crédito y el Formulario 15 aprobado por el Departamento de Control de Cambios.

c. Se aprobarán cartas de crédito siempre que tengan plazos entre 90 y 180 días conforme se indica en el numeral 2.

(*) Resolución de Junta Directiva del BCR No. JD-1/81, de 2 de enero de 1981.

(**) Resolución de Junta Monetaria No. JM-1/74, de 2 de febrero de 1974.

MNF/meve.

24 de febrero de 1981

TABLE J.6.a.

INVERSIONES DEL FONDO DE FINANCIAMIENTO PARA EL SECTOR AGRARIO REFORMADO

(En Miles de Colones)

Institución	Café	Algodón	Caña	Cereales	Varios	Totales	Intereses	C + I
Banco Agrícola	1.191	1.478	203	451	-.-	3.323		
Banco Capitalizador	582	435	183	233	-.-	1.433		
Banco de Comercio	146	1.257	317	579	-.-	2.299		
Banco de Crédito P.	196	2.184	23	186	-.-	2.589		
Banco Cuscatlán	151	2.272	121	565	-.-	3.109		
Banco Hipotecario	2.518	5.695	213	1.105	-.-	9.531		
Banco Salvadoreño	951	749	235	839	-.-	2.774		
Banco Financiero	-.-	-.-	-.-	47	-.-	47		
Banco Internacional	204	-.-	22	13	-.-	239		
Banco Mercantil	109	-.-	10	87	-.-	206		
Banco de Desarrollo	123	484	49	46	-.-	702		
I N C A F E	9.834	-.-	-.-	-.-	-.-	9.834		
Banco de Fomento	-.-	-.-	-.-	-.-	13.914	13.914		
TOTALES	16.005	14.554	1.376	4.151	13.914	50.000		

For investment made by BCR in commercial bank agriculture portfolio in late 1980 - 81 crop cycle.
Febrero 25 de 1981.

RAJ/irb.-

TABLE J.6.b.

DIVISAS ASIGNADAS A LOS BANCOS PARA ATENDER SOLICITUDES PARA IMPORTACION DE MATERIA PRIMA Y OTROS INSUMOS PARA LOS SECTORES INDUSTRIAL Y AGRICOLA DEL PAIS (*)

1981	CANTIDAD EN MILES DE US$
Enero	15.976.000.00
Febrero	11.060.000.00
Marzo (Hasta el 16)	8.373.000.00
	35.409.000.00

(*) Comprende únicamente divisas cuando el importador directo es la propia empresa industrial o agrícola.

DEPARTAMENTO DEL EXTERIOR

BANCO CENTRAL DE RESERVA
DE EL SALVADOR

MNF/rch.