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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 I
SUPPLEMENT

AID/LAC/P-066/1

Grant:519-K-603
519-0267

[redacted]

(UNCLASSIFIED [redacted]
Decontrol after July 1, 1982

CLASSIFICATION: (Unclassified [redacted]

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. Grant No. 519-K-603 (519-0267 Amendment #1)

2. COUNTRY: El Salvador

3. CATEGORY: Cash Transfer

4. DATE: 3/22/82

5. TO: A/AID

6. OYB CHANGE NO.:

7. FROM: AA/LAC

8. OYB INCREASE:

TO BE TAKEN FROM: Economic Support Fund (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 25,000,000

10. APPROPRIATION - ALLOTMENT: 72-1121037 237-65-598-00-50-21

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☐ FORMAL ☒ NONE

13. ESTIMATED DELIVERY PERIOD: FY 82

14. TRANSACTION ELIGIBILITY DATE: Date of obligation

15. COMMODITIES FINANCED:

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: 25,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $25,000,000 Cash Transfer	Other:

18. SUMMARY DESCRIPTION

The purpose of this program is threefold: to ameliorate the country's balance of payments crisis; to strengthen the private sector by providing the foreign exchange resources which will permit the importation of raw materials, intermediate goods and spare parts by the manufacturing, industrial, and business communities; and to help restore economic stability to El Salvador. This Program amendment provides for a $25 million increase in grant funds from $20 million (FY 81) to a total of $45 million. A.I.D. will obligate additional grant funds in the amount of $20.0 million to the GOES and the GOES will agree to make available the foreign exchange necessary to import from the United States at least $20.0 million worth of raw materials, intermediate goods and spare parts for the private sector. Prior to disbursement of the additional grant funds, the GOES and the A.I.D. will also agree upon the establishment of certain priority fiscal and monetary targets in 1982. Five million dollars authorized under this PAAD amendment will not be made available for obligation for the purposes described in the foregoing paragraph until after Congressional Notification. In the event that issues arise during the Congressional Notification period, the Assistant Administrator for Latin America and the Caribbean shall decide whether the question of deauthorizing said $5 million be submitted to the Administrator. After the expiration of the Congressional Notification period, it is planned that the additional $5 million will be obligated. Its disbursement (cont

19. CLEARANCES		DATE
LAC/CEN	JClarey	3/22/82
LAC/DP	JPurcell	[illegible]
GC/LAC	BVeret	
ARA/ECP	JPenfold	
LAC/DR	ILevy	3/24/82
FM	CChristensen (draft)	3/24/82
AA/PPC	JBolton	3/24/82
GC	RKammerer	[illegible]

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE

Deputy Administrator

TITLE

CLASSIFICATION: (Unclassified [redacted]

will be subject to GOES compliance with the condition precedent to second disbursement and GOES agreement to make available the foreign exchange necessary to import from the United States at least $5 million worth additional of raw materials and intermediate goods for the private sector.

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Project No. 519-0267

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1. SUMMARY AND RECOMMENDATIONS

A. Recommendations: USAID/El Salvador recommends that the funding for cash transfer the Private Sector Support I program be increased from $20.0 million to $45.0 million in ESF grant funds, and that $20.0 million of the incremental funding be available for obligation before March 28, 1982.

B. Grantee: The Grantee 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:

Purpose - The Program has two purposes: 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 urgently needed raw materials, intermediate goods and spare parts required to sustain production and arrest economic decline.

Rationale - El Salvador's GDP has declined almost 20 percent in real terms since 1978. On a percapita basis, national output in 1981, was about 25 percent lower than in 1978. The Central Bank estimates that stabilizing production at the 1981 level (a target of zero growth in real GDP) requires imports valued at $1,043.4 million. To reach this level of imports will require $151.8 million in foreign exchange over and above available amounts. In the absence of additional international financial assistance, this substantial balance of payments (BOP) gap could cause the country's net international reserves (already reduced to a negative $144 million in December 1981) to decline to levels of crisis proportion in 1982. To the degree that the balance of payments gap is not financed or reduced, GDP will continue to show negative growth, the consequences of which --in terms of consumption and employment -- must be viewed agaisnt the background of the decline already experienced during 1979-81. Thus, as in 1981, the elements most critical to arresting the GDP decline in 1982 are imports and balance of payments financing.

Compounding the problem of the downhill slide in the GDP is the fact that the GOES requires unprecedented amounts of financial resources to fulfill its promises of reform at a time when its tax base is dwindling, unemployment is sky-rocketing, and prospects for attracting new investment capital are diminishing daily. If economic deterioration is to be halted, production must be stimulated, employment increased, and implementation of public development programs accelerated. However, the GOES is limited in its ability to stimulate production for lack of adequate foreign exchange resources to purchase essential inputs; furthermore, public development programs must be curtailed to reduce an unacceptably large budget deficit. To achieve economic stability and eventually growth, then, additional external financial resources must be forthcoming for balance of payments and budget support.

Resources are important, but timing is also critical. In a matter of days El Salvador will hold the first open, honest elections in the Nation's history. Whatever group assumes leadership will be gragile and vulnerable to the instability created by: i) infignting between the private and public sectors as each competes for scarce financial resources; ii) a labor sector made restive by unemployment; iii) intolerable levels of political and criminal violence; and iv) guerilla forces recruited largely from among the unemployed.

The elections can be expected to resolve some of the political uncertainties which have been obstacles to economic stabilization. However, as a result of the temporary decision-making vacuum which usually accompanies major institutional reorganization and procedural changes during power transitions, the elections are also expected to interrupt (for several weeks and possibly for several months) the flow of additional economic resources into the Salvadoran economy. The interruption may be viewed as unavoidable; but if financial resources are not effectively at hand to carry the country through this critical period, the economy could well continue to deteriorate at an accelerated pace. The resultant destabilizing effect might neutralize if not actually diminish economic and political achievements to date.

D. Design Issues: After evaluating the alternatives of Development Assistance project funding and PL 480 non-project funding, the Mission and LAC Bureau have determined that non-project ESF assistance is the most appropriate A.I.D. funding mechanism for the present objectives. Because A.I.D. economic assistance has become a major factor in the overall Salvadoran economy 1/ in terms of the balance of payments picture, the monetary equation, and the public sector budget, a broader macro-economic approach to leveraging A.I.D. assistance is required to encourage private sector support and, simultaneously public sector financing for high priority programs. In this regard, non-project, ESF assistance provides the greatest flexibility.

ESF assistance need not be "tied" to specific expenditures. Therefore it allows the GOES to consider such assistance in the overall Monetary Program. Development Assistance project funding, on the other hand, is earmarked for specific public sector expenditures. Likewise, local currency generations from PL-480 Title I financing are tied to specific self-help measures or counterpart costs which appear in the GOES budget.

By means of macroeconomic covenants that address major concerns, the "untied" approach enables the Mission to evaluate GOES efforts in priority sectors through a budget and monetary program review process in place of specific project monitoring, thus permitting more effective use of limited Mission staff.

A cash transfer programming mode has been chosen because of the need for the fastest possible disbursements and impact on the balance of payments problem. Since the mechanisms for managing a Cash Transfer Program are already in place, resources flowing from this program into the GOES economy should do so in an uninterrupted manner. The Mission evaluated the possibility of providing the proposed ESF grant assistance in the form of a Commodity Import Program (CIP). Due to start-up time requirements, however, the approach was rejected in favor of a Cash Transfer.

To determine the best use of foreign exchange to stimulate imports, the Mission conducted an in-depth analysis of guaranteed lines of credit established by the Central Bank with U.S. banks, including those lines established under A.I.D.'s Private Sector Support I and II Programs. The methodology and findings are discussed in detail in Section 4 of this paper. The study determined that existing lines are not being used to their maximum potential due to the BCR's limited capacity to provide foreign exchange once outstanding letters of credit come due. Moreover, negative balances in foreign exchange availability projected to begin in June of 1982 could be expected to further restrict the use of guaranteed lines of credit. In addition, the U.S. Embassy Economic Officer's meetings in December 1981 and January 1982 with banks in Chicago, New York and Miami turned up only one bank in Miami which expressed mild interest in the line of credit arrangement. This is consistent with the BCR's experience under the Private Sector Support II Program, wherein it was able to negotiate only one line of credit after five months of negotiations. The Mission has therefore concluded that it would not be in the best interest of the GOES or the BOP situation in general to have the BCR open new lines of credit using foreign exchange made available as a result of the Cash Transfer Supplement proposed for authorization in this paper.

E. Conditions and Covenants: The Grant Amendatory Agreement will include the following new Conditions and Covenants:

1. Condition Precedent to Disbursement of Additional Funds

Prior to the disbursement of any funds under the Amendatory Agreement, the Grantee will submit in form and substance satisfactory to A.I.D. a) the Central Government's budget allocations for 1982 for the following areas: agrarian reform; public sector employment generation; humanitarian assistance and other areas as may be mutually agreed by the Grantee and A.I.D.; and b) the 1982 Central Reserve Bank (BCR) program for credit expansion to the private sector.

2. Covenants

a. A.I.D. and the Grantee agree to meet periodically, but no less than every three months, to review the Grantee's progress towards achievement of the budgetary and monetary objectives submitted in compliance of the condition precedent to disbursement of additional funds. The Grantee further agrees to submit to A.I.D. in advance of these periodic meetings information sufficient to enable the Grantee and A.I.D. to conduct adequate and satisfactory reviews of progress.

b. The Grantee agrees that over the period of twelve months beginning on the date of signing of Amendatory Agreement No. 2, the GOES shall make available to the private manufacturing, industrial, and business sectors of El Salvador the equivalent of $25* million in foreign exchange for the importation of raw materials, intermediate goods and spare parts from the United States.

*Will be initially set at $20.0 million and increased to $25.0 million if and when the remaining $5.0 million is obligated.

F. Waivers: No waivers are required.

2. BACKGROUND AND PROBLEMS TO BE ADDRESSED

A. Summary: El Salvador's Gross Domestic Product (GDP) in 1981 has been estimated by the Central Bank at $3.6 billion, which is about 9.5 percent below the 1980 figure in real terms. This estimate reflects a 17.4 percent decrease in the value of manufacturing output, a comparable drop for the transport and communications sector, and declines of 14.4 percent and 12.8 percent for commerce and personal services, respectively. Also estimated is a 25 percent decline in export sales, attributable not only to cutbacks in production but also to a drop in world market prices for coffee and cotton, El Salvador's principal export crops.

Imports fell off during 1981, and the trade deficit continued to widen, largely owing to shortage of foreign exchange and to dampened demand for agricultural, and industrial products. This deficit, combined with a growing debt service burden and the large movement abroad of capital (estimated at $95 million in 1981 alone) has resulted in a highly unfavorable balance of payments, in spite of financial support provided by A.I.D. and other foreign sources. For 1981, the overall balance on current and capital accounts is projected at minus $116.4 million, bringing net international reserves to minus $144 million compared with the surplus of $234 million existing in 1978.

On the fiscal and monetary sides, the IMF has required cutbacks in government spending and limits to credit expansion by the Central Reserve Bank. A preliminary GOES budget for 1982, prepared by the Ministry of Planning and still under consideration by the Junta, projects a $ - 490.48 million deficit, of which only 50 percent is expected to be financed by Central Bank credits, A.I.D. inputs, and various international lending sources.

Another indicator of El Salvador's economic difficulties is the decline in the money supply. Between December 1979 and August 1981, the supply decreased by $65.5 million, notwithstanding credits provided by the Central Bank to the GOES and to the public autonomous institutions of $400.0 million and $724.5 million, respectively. The consumer price index during the 12-month period ending July 1981, rose by 13.2 percent.

Unless corrective measures are taken, the decline in real GDP and net international reserves which El Salvador has experienced over the past two years can be expected to accelerate, broadening the gap to be filled by external financial aid. At a time when the Government requires unprecedented financial resources to fulfill its promises of reform, its tax base is dwindling, unemployment is rising, and there is little prospect for attracting new investment capital.

B. Economic Growth: El Salvador's GDP has declined almost 20 percent in real terms since 1978. On a per capita basis, national output in

1981 was about 25 percent lower than in 1978. Real investment was down by more than 60 percent and per capita private consumption was down by 30 percent. Open unemployment fluctuates around 30% of the work force but is higher during slack agricultural seasons.

The Central Bank's end of fiscal year estimates of the GDP for 1981 and change projections for key components based on a target of zero growth in real GDP for 1982 are presented in Tables 1 and 2. At this point, zero growth in real GDP in 1982 is only a target providing a basis for projected imports, balance of payments financing requirements, fiscal policy, and monetary policy.

The real GDP estimate for 1981 shows a 9.5% decline from the 1980 level. The decline is broadly distributed among all key sectors, with sharp declines in manufacturing industry, transport, personal services, and commerce. Both private and public capital formation are estimated to have declined about 14%, while exports of goods and services (mostly coffee, cotton, and manufactured goods to the CACM) fell by a substantial 25%.

The foregoing figures are due in no small part to the dramatic fall in the importation of productive inputs (raw materials and intermediate goods) and capital goods which are vital to the industrial sub-sector of the economy and which at constant prices have declined 30 percent and 69 percent, respectively, from 1978 figures (Tables 3 and 4). The decline in imports is a direct function of the lack of foreign exchange - itself a manifestation of a lack of investor and supplier confidence in the current political situation. At the end of 1981, Salvadoran net international reserves stood at a negative $144 million. The Central Reserve Bank (BCR) of El Salvador estimates that just to maintain 1981 levels of imports will require an additional $151.8 million in foreign exchange over inflows projected for 1982. Thus, the elements most critical to arresting the GDP decline in 1982 - as in 1981 -- are imports and balance of payments financing (both of which are examined in more detail below).

C. Financial Resources:

1. Foreign Exchange Situation:

a) Imports: Table 3 shows the projected value of imports for 1981 and estimates of actual 1978-80 imports in current prices. The table indicates a predictable shift away from investment and discretionary imports in favor of productive and basic consumption goods.

Table 4 presents estimates of the one-year and three year declines in real imports by major categories. Capital goods imports have fallen off drastically and steadily for the last three years. Imports of non-consumer goods declined most sharply in 1979 and 1980, but the pace of

decline slowed in 1981. In consumer goods, however, the pace of decline accelerated in 1981 with possibly ominous consequences for the importation of basic products. Overall, by the end of 1981, real imports will have declined by 42.5 percent in the last three years, and by 12.1 percent since last year.

b) Balance of Payments: Table 5 is a projection of El Salvador 1982 balance of payments BOP situation, assuming zero real GDP growth and zero deterioration in foreign exchange reserves. The most recent statistics for 1981 are included for comparison purposes.

El Salvador is presently working toward a standby agreement and second CFF drawing with the IMF. Total IMF assistance in 1982 should amount to $85 million, making the IMF the second largest donor, after the U.S., to El Salvador in 1982. Other multilateral donors include the Interamerican Development Bank (IDB), which is expected to disburse about $46.5 million in 1982 for El Salvador, and CABEI, the World Bank, CIDA and others which together should disburse almost $45 million. El Salvador also benefits from participation in the Mexico/Venezuela Central American oil facility, which should provide about $48 million in concessionary financing for petroleum imports in 1982.

Including $85 million in IMF assistance and all presently planned USAID disbursements, the still unfinanced BOP gap is expected to be $151.8 million in 1982. This figure is substantial, and in the absence of international financial assistance it could cause the country's net international reserves (already reduced to $144 million in 1981) to decline to levels of crisis proportions in 1982. However, it should be borne in mind that the BOP projection shown in Table 5 is a "requirement-oriented projection", and not a prediction of what is actually likely to happen. It is designed to show what the unfinanced BOP gap would be if a given real GDP target is to be attained. In practice and in the absence of additional foreign exchange resources to cover the projected deficit, the Central Bank would not permit the gap to materialize; alternatively, imports would be sharply reduced from the level projected and the country would face another significant decline in its real GDP - as it did in 1981 - and consequent greater unemployment and more business closures.

2. Fiscal and Monetary Situation:

a) The Central Governments's 1982 Budget. The GOES published its 1982 budget in late December. Table 6 is a synopsis of that budget, adjusted for Mission estimates of AID assistance to the Public Sector and other items excluded from the original document. As adjusted, the unfinanced deficit for 1982 is estimated to be $235 million.

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Since late 1979, the Government has had to fund the national war effort, pay for its enhanced role in the economy due to the economic and social reforms of 1980, and attempt to cover absent private investment with public investment. The budget, however is austere. Only the legislature, the central elections council, the foreign ministry, and the Ministry of Defense and Public Security received increases in their operating budgets. The operating budget for all other units of central government declined by some 15 percent in real terms. Total expenses, including transfers, investments, and the increase in the national security budget, increased by less than the expected rate of inflation; thus, the Government as a whole absorbed a reduction.

b) Bank Credit, Money Supply, and Prices: Loans and investments by the banking system to all sectors increased by seven percent in current terms between December 1980 and August 31, 1981 (Table 13). Most of this credit went to the Central Government (an increase of 50 percent), while credit extended to the private sector increased by only 3.9 percent, which means a reduction in real terms. In contrast, over the twenty-month period December 31, 1979 through August 31, 1981, bank credit to the private sector -- expressed in terms of "credit outstanding" -- remained almost constant. Since many accounts are in arrears, however, the volume of new loans actually declined.

The Money Supply contracted by 19 percent between 1980 and August 1981. Although the Money Supply increased by 9.4 percent between the end of 1979 and December 31, 1980, the drop over the twenty-month period December 1979 through August 1981 was 11.5 percent. The cause of this reduction in money supply may be the "external sector". That is, the large deficit in the BOP may have drained the money supply as a combined result of the deficit on current account and the net private capital outflow.

During the twelve-month period ending in July 1981, the general consumer price level increased by 13.2 percent. The index for foodstuffs increased by 73.9 percent, but cereals, the key component in the diet of low-income groups, increased by 26.5 percent. Given the state of war, these increases are relatively moderate, in large part due to conservative monetary and fiscal management.

c) Policy Changes

Credit Expansion and Fiscal Authority. The Central Bank has agreed to comply with an IMF requirement to restrict credit expansion to ₡ 525 million($210 m) 1982, of which ₡350 million ($140 m) would be allocated to the Central Government, ₡50 million ($20 m) to autonomous public agencies, and ₡125 million ($50 m) to the private sector. This will still leave a financing gap in the GOES Central Budget of some ₡490 million ($196 million). The IMF is also insisting that at least $32 million of $69 million in Central Bank arrearages (as of December 31, 1981) be repaid.

[redacted]

[redacted]

Wage and Price Control. The IMF also sought an immediate lifting of wage and price controls, the GOES has responded with limited increases in wages and the prices of non-basic commodities, with possible further increases in the future. Public Sector salaries, however, will not be increased.

Interest Rates - While GOES planners have stated their intention of raising interest rates to some 25% over the next three years, rates currently do not permit a normal rate of return over inflation to lenders in the short term. While borrowing rates for the agricultural sector and small business are expected to remain artificially low until 1983, the GOES began raising lending rates and all non-agricultural borrowing rates in increments of two percent starting in January 1982.

Exchange - In lieu of devaluation, the GOES has taken steps to release the pressure on depleting supplies of foreign exchange. Since December 1, 1981, GOES regulations have been modified to:

1) Liberalize treatment of private, hard currency deposits, which can presently be withdrawn only for "authorized" activities, thereby effectively creating a parallel exchange market with floating rates;

2) Reduce or remove import controls to permit holders of hard currency to spend their money as they choose;

3) Establish a list of preferred use, principally the importation of production of production and consumption necessities, for which hard currency can be obtained at the old official rate; and

4) Adjust interest rates to attract hard currency from caches inside and outside the nation with the banking system.

In order to bolster public sector access to hard currency, to allow government support of the parallel exchange rate which might otherwise skyrocket, and to limit hard currency capital flight, the GOES presently requires that exporters of non-traditional products turn in at least half of their foreign exchange earnings to the Central Bank, which exchanges them into colones at the old rate. (Proceeds from traditional exports of coffee, cotton, and sugar continue to pass through the Central Bank as before, permitting the Government both access to their hard currency earnings and control over agricultural profits.)

D. Effect on Private Sector

1. Structure - In 1978, El Salvador's manufacturing plants numbered 1,128. Manufacturing operations were largely concentrated in textile and leather industries, food processing, metal products, paper, and

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chemicals. Over 58,000 people were employed in factories with five employees or more, and probably twice that number of additional jobs had been generated in other sectors of the economy. Table 8 provides information on the industrial structure in 1978 by industry type and size, and the changes in this structure that had taken place by 1981. Table 9 shows trends in manufacturing employment during this four-year period.

2. Production - Industrial production has fallen steadily since 1978 and is now clearly approaching a crisis situation. Table 10 shows trends in the value of industrial production in real terms between 1978 and 1981. If the 1978-81 rate should continue, industrial production could drop to 40 percent by the end of 1982. With further plant closings likely, however, the trend is more realistically toward the 50-60 percent range.

El Salvador's industry depends on imports for 62 percent of its raw material supplies. As shown in Table 11, the decline in industrial production has proceeded apace with the decline in imports of industrial raw materials. As shown in Table 12, capital goods imports by industry dropped by about 69 percent in real terms from 1978 to 1981.

3. Employment - Although only six percent of all firms operating in 1978 had shut down operations by 1981, the concentration of closures in large firms among the labor-intensive textile and metal products industries caused factory employment to decline by 18,217 jobs.

E. Status of Private Sector Support I and II Programs (PSS-I&II):

PSS-I: In December of 1980, a Cash Transfer of $20 million was made to the GOES in response to the critical need for foreign exchange to alleviate a rapidly deteriorating balance of payments situation. The dollar funds obtained from the Cash Transfer enabled the BCR to make available an equivalent amount of foreign exchange to the industrial sector for the importation of raw materials and intermediate goods from the United States. Local currency counterpart was used to create a ₡50 million ($20 million) special line of credit to help meet the short-term working capital credit requirements of the private sector. In addition, ₡50 million of local currency generated from use of the dollar was deposited in a special line of credit to meet short-term production credit needs of the Agrarian Reform Sector.

A total of $11.4 million of the original $20 million Cash Transfer was deposited in three U.S. banks to leverage additional amounts in lines of credit, whereby confirmed letters of credit can be issued up to a total amount in excess of the required deposit. The remaining $8.6 million was used to pay individual commercial obligations, such as letters of credit and balances due on open account of the Salvadoran private sector owed to U.S. suppliers.

Table I gives the status of the negotiated lines of credit as of February 1, 1982.

PSS-II: A second Cash Transfer with the same major objectives as the first was made in July 1981. The dollar funds obtained from this Cash Transfer enabled the BCR to make $24.9 million available to the industrial sector for essential imports from the U.S. Local currency generations from the use of the dollars were used to establish a medium-term structural working capital fund for the industrial sector and to fund institutional support needs of key public and private sector entities.

Immediately upon execution of the cash transfer, the BCR entered into a series of negotiations with eight U.S. banks in an effort to use the entire amount of the Cash Transfer to create additional leveraged lines of credit similar to those established with funds from PSS-I. Because of the need to open the lines of credit as soon as possible to service the backlog of applications for foreign exchange to finance imports, the BCR was forced to either rapidly conclude the negotiations in order to issue new letters of credit or to make the funds available to pay obligations due and payable. A line of credit contract was negotiated and signed between the Bank of America and the BCR in August 1981; negotiations with other banks, however, were long delayed. Therefore, a decision was made in consultation with AID, to suspend the negotiations and to use the remaining $19.9 million to pay current obligations owed by Salvadoran importers.

As shown in table II, as of the end of February a total of $8.2 million in letters of credit had been issued through the Bank of America line of credit. The balance of the required attributable transactions were related to obligations previously incurred for the importation of raw materials and intermediate goods from U.S. suppliers. These obligations are primarily for import purchases made on open account (the supplier ships the merchandise with payment due upon receipt of documents by the importer or at some later date, depending on the credit terms extended by the supplier), or for letters of credit opened through the negotiated lines of credit. Table III summarizes import transactions approved for attribution to A.I.D. funds as of February 1982.

Annex C is a detailed description of results obtained to date under the PSS-I and PSS-II programs. In addition, Section 4-C summarizes the methodology and findings of the Mission's analysis of utilization of all leveraged lines of credit established with Private Sector Support funds. The analysis suggests that the use of A.I.D. dollars as deposits to negotiate additional lines of credit is not the most efficient use of foreign exchange provided under PSS-III. Present lines are not being used to their capacity due to the shortage of foreign exchange to cancel letters of credit as they are due.

TABLE I

Bank	1 Line of Credit	2 Deposit	3 Total Value of L/Cs opened to date	4 Total Value of L/Cs paid to date	5 (3-4-5) Total Value of Outstanding L/Cs	6 (1-5=6) Unused Credit Available
First Nat. Bank of Chicago	4.0	.4	1.8	0	1.8	2.2
Manufactrs. Hanover Trust	15.0	10.0	26.9	18.0	8.9	6.1
Capital Bank	2.0	1.0	2.7	1.2	1.5	.5
Total	21.0	11.4	31.4	19.2	12.2	8.8

TABLE II

BANK OF AMERICA

Line of Credit
($ millions)

Value of Line of Credit	Deposit	Value of L/C Opened	Value of L/Cs paid to date	Total Value of Outstanding L/Cs	Unused Credit Available
10.0	5.0	8.2	.6	7.6	2.4

TABLE III

(in $ millions)

B of A (line of credit)		8.2
L/Cs Paid		
Lines of credit	7.0	
Independent	--	7.0
Open Account		1.0
TOTAL:		$16.2*

*Does not include transactions valued at $8.8 million for which customs documentation is now being assembled.

3. PRIVATE SECTOR SUPPORT I SUPPLEMENT DESCRIPTION

A. Program Rationale: As described in Section II, the private sector, while providing all of the goods and services supporting the Salvadoran people, is operating within an environment of sociopolitical change. The consequent uncertainties, coupled with recessionary forces generally pressing the economy, have caused a steady decline in industrial output since 1978.

Violence and terrorism have been unsettling influences. The resistance from the Left is concentrated in a guerrilla force which conducts operations against the Government and wherever possible disrupts productive activity. Targets in early 1981 were industrial plants; more recently, the attacks have centered on power, transport, and communication systems.

As detailed in Section 2, the GDP has dropped almost 20 per cent in real terms since 1978 while national per capita output fell by 25 percent. Open unemployment hovers around 30 per cent, subject to increases after the agricultural planting and harvesting seasons.

In a country such as El Salvador, in which national output is critically dependent on imports of productive inputs (raw material and intermediate goods) and capital goods, the linkage of imports to growth is unbreakable. The importation of productive inputs and capital goods, have declined nearly 30 percent and 69 percent, respectively, from 1978 figures. Thus, as in 1981, the elements most critical to arresting the GDP decline in 1982 are imports and balance of payments financing.

In general terms, the Central Bank estimates that stabilizing production at the 1981 level (a target of zero growth in real GDP) requires imports of about $1,043.4 million, implying a substantial unfinanced balance of payments gap. Present estimates are that to reach this level of imports, El Salvador will require an additional $151.8 million in foreign exchange. 1/ An assumption of zero GDP growth also implies an increase in public investment of 19%, with a concomitant central government budget deficit estimated at $ 235 million, even after substantial central bank financing.

To the degree that the two "gaps" -- balance of payments gap and the central government budget deficit -- are not financed or reduced, GDP will show negative growth. The consequences, in terms of consumption and employment, of a further decline in the real 1981 GDP must be viewed against the background of the decline already experienced during 1979-81, estimated at 25% in real per capita income. Moreover, efforts to bring about economic and political stabilization will be hindered, perhaps fatally, unless financing for increased imports is made available.

1/ This figure takes into account projected disbursements from all USAID programs already approved and disbursements from all other sources, including the IMF.

B. Program Supplement Description: The purpose of the Program Supplement is to provide immediate balance of payments support to the GOES through an additional Cash Transfer of $25 million. To directly address the problem of foreign exchange shortages impeding imports by the manufacturing, industrial, and business communities, the BCR will upon execution of the Cash Transfer make available an equivalent amount of foreign exchange to the industrial sector for the importation of raw materials, intermediate goods and spare parts from the U.S. to the private sector in El Salvador either by direct purchase or through already established guaranteed lines of credit.

The GOES will channel the foreign exchange made available for imports in a manner to achieve the most efficient use of the Country's foreign exchange. As a result, assistance is expected to have a positive impact on production, employment, and economic recovery in general.

Local Currency Uses - USAID, in its first two Private Sector Support (PSS) agreements with the GOES, excercised direct control of the local currency generated by U.S. dollar contributions. Each agreement required that separate local currency accounts be established in the Central Bank which could be drawn against for a specific set of approved uses, also established in the agreement. These uses included activities in the private sector (e.g., medium term structural capital line of credit) and the public sector (e.g., funding for the GOES election committee, basic health services for Phase I haciendas, operational support for agricultural sector planning unit). These local currency generations were thus directly traceable to a specific BCR credit program or a line item in the GOES public sector budget with the idea that, having been generated by A.I.D. ESF dollars, they should be directly applied to financing of A.I.D. priorities. In the GOES budget these funds entered as a direct input on the revenue side tied to a specific line item on the expenditure side.

Given the magnitude of A.I.D. economic assistance, A.I.D. has become a major factor in the overall Salvadoran economy, balance of payments picture, monetary equation and public sector budget. (Projected ESF financing for 1982 of $125 million (including $100 million CBI) represents 50% of all GOES sources available for internal credit expansion to the

private sector. The Mission, therefore considers it appropriate to use a broader, macro-economic approach to leveraging our assistance in order to achieve our objectives of ensuring adequate private sector support and public sector financing for high priority programs.

In essence, the proposed approach calls for providing ESF funds with no specific linkage of local currency generations: local currency funds operated by A.I.D. funds become fungible with other sources of BCR credit expansion (e.g. expansion of money supply and other hard currency loans which are not tied to local currency generations). This allows the GOES to consider such ESF connected colones in their overall monetary program. In return A.I.D. would reserve the right to:

1. Concur in priority areas of the final GOES public sector budget (a large part of which is financed by credit from the Central Bank which in turn is partially backed by ESF local currency generations). In reviewing the GOES budget, A.I.D. would be able to ensure that high priority programs (e.g., agriculture sector reform) are fully financed.

2. Concur in the GOES - BCR program for expansion of credit to the private sector.

Technical Assistance - The Mission is working to follow up on the Private Sector Support Program with a technical assistance effort aimed at longer term developments and improvements in the operations, administrative and control mechanisms of the Salvadoran banking system. The Mission plans to make use of the applicable recommendations from the recently completed Private Sector Study, field work by Mission personnel and any assistance which might become available from other sources, such as the IMF. The present funding strategy under consideration is to use funds provided under the Reform Policy and Planning Project, 519-0260 at a later date for provision of technical assistance and to hold a portion (up to $500 thousand) of FY 82 ESF funds as a reserve on an interim basis while technical assistance planning is completed.

C. Implementation Arrangements: In order to effeccively implement the Program with some assurance that the funds made available by the BCR for imports are not diverted to non-productive purposes, such as capital flight, the Mission will require the following implementation procedures:

1. Criteria for Eligibility: The criteria used by the Central Reserve Bank (BCR) in the selection of applications for foreign exchange which are to be attributed to the $25 million made available by the BCR for imports will include, but not be limited to the following: (i) only applications for raw materials, intermediate goods, or spare parts imported from the United States will be selected; (ii) funds shall not be used for the procurement of military equipment or services of any kind, or any other items on A.I.D.'s restricted list.

For those items which meet selection criteria, high priority will be given to the applications from businesses which will be forced to reduce their levels of employment or cease operation if the procurement of essential imports is not undertaken immediately. In such cases, the BCR will request appropriate information from each applicant regarding his inventory of essential imports eligible for financing under the Program in order to determine applicant priorities.

2. Application/Transaction Control Records. Applications selected on the basis of the above criteria will be summarized in a monthly report submitted to A.I.D. Once an applicant has been selected, a separate control file for source documents for each transaction will be established in the BCR. The files will be maintained in a manner to facilitate periodic physical inspection by USAID staff and/or AID auditors. Each file will be identified by a transaction number assigned by the BCR following approval of the foreign exchange application (Form 15). This transaction number will appear on all documents related to the individual transaction and can be used for cross reference with the monthly and quarterly BCR reports concerning the use of these funds.

For those transactions which use the lines of credit, each transaction file will contain the original or a photocopy of the following documents as they are received by the BCR:

1) copy of the application for foreign exchange (Form 15);

2) copy of the letter of credit opened by the importer/Salvadoran commercial bank;

3) copies of export documents, including the

   a) commercial invoice,
   b) bill of lading/airway bill
   c) insurance certificate, if applicable; and,

4) copies of customs documentation, including the import certificate

For those transactions requiring direct payment to the exporter for goods already shipped, the control file will contain the documents listed above except for document 2) which will be either a copy of the L/C, international money order, or other payment document.

3. Publicity. The GOES and the BCR will take the steps necessary to ensure that the general public as well as importers are made aware of the GOES regulations governing the acquisition and disposal of foreign exchange and the penalties for violating these regulations. This will be accomplished by the publication in several national newspapers of a summary of the relevant regulations and the penalties for their violation. In order to give particular attention to the importers who receive financing from funds provided under this Program, the BCR will summarize the relevant regulations (particularly the Law for Control of International Transfers) and circulate copies of the summary, through the Salvadoran commercial banks, to the recipients of import financing.

4. Reporting.

1) Transactions using Guaranteed Lines of Credit. The BCR will prepare a monthly report to be forwarded to A.I.D. containing the following data on each transaction: the transaction code number, the names of the importer and exporter; the type of merchandise (including NAUCA code); the letter of credit (L/C) value; the FOB value of the merchandise; the name of the U.S. advising bank; the name of the Salvadoran issuing banks; and a listing of relevant dates to permit tracking of the transaction from approval of the foreign exchange application (Form 15) through the payment (in U.S.$) of the L/C and any applicable interest payments to the arrival of the merchandise in El Salvador. The report will be prepared on a cumulative basis which will update the status of previous months transactions and include any new transactions begun during the past month.

2) Transactions Requiring Immediate Payment. Because these transactions require an immediate decision on eligibility and transfer of U.S. dollars by the BCR through the banking system to the U.S. exporter, the monthly report does not need to show the status of the transaction over an extended period of time. Therefore, the report will show the final disposition of the transaction, i.e., the names of the importer and exporter, a short description of the merchandise imported, the NAUCA code, and the FOB value, the date payment was made, and the method of payment used to effect each transaction.

5. Certification of Imports. The Superintendent of Banks and Other Financial Institutions will certify to A.I.D., on a quarterly basis, beginning on the date of the signature of the Project Loan Agreement,

the import transactions completed during the previous period. The certification will list each transaction by its respective transaction code number, name of the importer, and FOB value financed with Project Loan funds (both lines of credit and immediate purchase). The certification will contain an explanation of those transactions for which there is any discrepancy between the amount of foreign exchange and/or type of goods received in country, as shown in the various transaction documents, such as the Form 15, the L/C, or customs documentation. Only completed transactions for which the merchandise has arrived in El Salvador and has been cleared through Salvadoran customs will be listed in the certification. The certification will be in the form of a letter containing the requested data and will be signed by the Superintendent. The letter should be received by A.I.D. within two weeks after the end of each quarterly period.

4. TECHNICAL ANALYSES

A. Debt Service: Until 1979 El Salvador maintained a solid financial position with the rest of the world. The country was able, in large part, to finance its foreign obligations, principally imports of goods and services, with export earnings from the production and sale of traditional agricultural crops, such as coffee, sugar, and cotton, as well as an increasing level of industrial exports to the CACM.

As the result of a combination of factors, including: a drop in world market prices for the major traditional export crops; far reaching agrarian and financial reforms which in the short term have disrupted traditional patterns of production; and political violence which has significantly lowered the levels of industrial and agricultural production, export earnings since 1979 have dropped by 35% at current prices. At the same time, import requirements at current prices have remained at close to the 1979 level, showing a drop of only 10% As a consequence of these economic and political factors, the GOES has been forced to increase its expenditures to make up for the decline in private sector production in the face of declining tax revenues, thus creating a substantial GOES budget deficit in 1980 and 1981. During the three year period 1979-1981, the net international reserves, previously used to finance any balance of payments gaps and support fiscal deficits, dropped from a positive $126 million in 1979 to a negative $144 million in 1981. Therefore, the GOES has been forced to increase its level of external financing by 50%, from $955 million in 1979 to $1,438 million in 1981, to cover these shortfalls.

Of this external debt, over 40% is direct government borrowing; another 40% is owed by the Central Reserve Bank of El Salvador; and the remainder is outstanding private sector obligations to external lenders. Because of El Salvador's previous history of conservative financial management the GOES has so far been able to contract additional external debt without creating an alarming repayment burden on the export earnings of the Salvadoran economy. However, this freedom of movement may be restricted in the future because the debt service ratio, which was a modest 2.6% in 1977, grew to 28% in 1981.

If the balance of payments current account which is projected to be a negative $344 million in 1982, continues to show a deficit thus forcing the GOES to seek additional external debt financing, it will place a heavy burden on the Salvadoran economy's ability to repay these obligations. For example, yearly repayment of debt already contracted by the GOES to the USG (comprised of A.I.D. loans, PL 480, CCC and FMS) will grow from 7 million in 1982 to $90 million in 1994. To reduce this future burden, the Mission favors the authorization of $25 million in grant funds as an addition to the Private Sector Support I Program.

B. Foreign Exchange Controls. A.I.D. is particularly concerned that the impact of the proposed program not be obtained as a result of funds being used in activities which in some way contribute to capital flight. As described in Section 3, the Program has documentation and monitoring requirements which should minimize this effect. In addition, since 1980 -- when international net reserves became negative -- the GOES has taken a number of measures to conserve foreign exchange resources and to stem capital flight. These measures are briefly described below.

1. Priority Allocation - At present, the use of foreign exchange is allocated by import categories. By priority, they are: energy, food, medicine, supplies to industry and agriculture, spare parts, repayment of foreign loans and commercial imports and services. Within categories, allocation is judged by the urgency of the needs to make payment and the length of time the request for foreign exchange has been pending.

2. Export Registration - In February 1980, marketing and export registration systems were established for coffee, cotton, sugar and shrimp to guarantee that foreign exchange passes directly into BCR accounts. Exporters are paid in the local currency equivalent.

3. Imports - Control over imports has been tightened by imposing stricter documentation requirements. Importers must supply to the BCR for foreign exchange in advance and register the type of goods, quantity, and price. Payment of foreign exchange is 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. In late 1980, the GOES passed legislation which essentially banned the importation of luxury items such as liquors, cosmetics, etc. from other than Central American Common Market countries.

4. Price Checking - Through inflated invoices, it might be possible for excess funds to leave the country for the benefit of importers under arrangements worked out between the importer and supplier. Therefore, in accordance with a covenant of the Loan Agreement for the Private Sector Support II Program, the GOES has undertaken the development of a system for price checking of import transactions to identify and take appropriate action against violation of capital flight regulations.

5. Parallel Market - In spite of the limitations imposed on the use of foreign exchange and substantial efforts to obtain foreign financing, the BCR was unable to satisfy the 1981 demand for foreign exchange to purchase essential imports. As a result, many importers were forced as a last resort to the black market to satisfy their foreign exchange requirements. To deal with the situation, the GOES authorized "Special Foreign Currency Deposits" on December 17, 1981, which permit all banks to open direct accounts in U.S. dollars or other foreign currency for

deposits of any foreign exchange earnings except from traditional exports. The regulation moved the GOES away from absolute foreign exchange control to a double market control in which an official and a parallel market co-exist. Movements in the "Special Foreign Currency Deposit Accounts" during January 1982 are shown in Table 7. These figures are subject to review and reflect the BCR's first attempt to establish a record of these accounts. The outstanding balance shows an increase of more than $500,000 between January 1 and January 29, 1982. More than 90% of withdrawals were used to purchase imports.

The special foreign currency deposits are expected to increase both the price and supply of foreign currency, thus driving demand down. Also, the diversion of foreign exchange transactions for non-priority purposes to the parallel market should reduce the demand for foreign exchange in the official market, enhance the GOES' capacity to meet the official market's foreign exchange demand, and hence, improve the country's international reserves position.

In conclusion, the Mission expects that the implementation arrangements discussed in Section 3 and the application of GOES regulations and policies described above will if not prevent at least minimize any diversion of program resources through capital flight.

C. Guaranteed Line of Credit Analysis - In 1/21/81 the Central Bank negotiated the first in a series of guaranteed lines of credit with foreign banks to leverage the amount of foreign exchange available to the Salvadoran economy. All of these guaranteed lines of credit are used to finance the importation of goods for industry, agriculture, and commerce. The following is a short description of the structure and operation of this mechanism.

1) The BCR (or a Salvadoran commercial bank with BCR approval and guarantee) negotiates an agreement with a foreign bank whereby the BCR deposits a certain amount of foreign exchange, say $10 million (as in the case of Manufacturers Hanover Trust), in the foreign bank for the right to open confirmed letters of credit up to a stated maximum value above the deposit, say $15 million.

2) In the agreements the BCR accepts to the following basic conditions:

   a) The deposit will be maintained at its initial value over the life of the agreement;

   b) Letters of credit can only be opened by certain Salvadoran commercial banks approved by the foreign bank;

   c) The foreign bank will accept either time draft or sight draft letters of credit.

d) All sight draft letters of credit will be paid upon presentation of commercial and shipping documentation by the exporter and will be financed by the foreign bank for a period of not less than 60 days, with applicable interest charges at the current prime rate plus some additional points.

e) The importer/Salvadoran bank will pay upon expiration of the financing period, the amount due including the value of the letter of credit, bank commission fee, and interest charges.

The BCR objective in creating these special guaranteed lines of credit was to allow for tighter cash management of scarce foreign exchange resources. by knowing the exact date that import transaction obligations are due and payable. The foreign bank notifies the Salvadoran banking system of its payment on the letter of credit, which is the beginning of the 60 day financing period. The BCR can then fix its future obligations on a specific date 60 days in the future, and, in the meantime, use available resources up to the amount of anticipated inflows of foreign exchange. In addition it was believed that such agreements would help to rebuild confidence in the Salvadoran economy and banking system by the foreign banking community so that future credit could be obtained on more favorable terms and in larger amounts.

Since the initial BCR agreement with CABEI, the Central Bank has used AID funds from both PSSI and PSS II to negotiate additional lines of credit with four U.S. banks, as well as two others using its own funds. As of the end of 1981, the BCR was using ten lines of credit, eight of which had been negotiated with U.S. banks, for a total value of $62.2 million. These lines of credit are supported by deposits totalling $17.9 million. As of the end of 1981 letters of credit had been opened which totalled $67.7 million; the balance of funds available as of that date was $35.9 million, that is to say over half the total value of the lines of credit was being left idle.

The outstanding balance of letters of credit opened under the A.I.D. funded lines of credit have consistently been less than the total value of the BCR deposits in the U.S. banks. Only during the months of June and August has the outstanding balance surpassed the total value of deposits. This means that during much of this period, the BCR has actually been a net lender to the U.S. banks, instead of a borrower. Because new letters of credit are opened as old ones are paid the Salvadoran banking system would have had to open a cumulative total of $48.8 million in order to have a zero net lending/borrowing position. However, the actual cumulative total is $35.8 million or $13.0 million less than necessary to reach the breakeven point. The net lending position of the BCR has important implications for the Salvadoran banking for two reasons: (1) it increases the cost of imports by adding unnecessary interest charges; and (2) the excess deposit held by the U.S. banks freezes foreign exchange which could be used immediately to finance imports.

The BCR foreign exchange cash flow for 1981 showed $900 million in inflows and $907 million in outflows of which $311 was sold to the commercial banks to pay for the importation of high priority goods, principally raw materials and other inputs for industry and agriculture. The foreign exchange cash flow projections for 1982 shows a total of $300 million flowing through the banking system for the importation of goods and services. At this time, total value of the credit lines is $58.2 million. If this total amount was fully used twice during the year the total value of import transactions financed would be $116.4 million during the year, or approximately 40% of the total BCR import financing to the commercial banks. Given the fact that in 1981 this amount was 14%, the remaining import obligations were paid through open account arrangements, such as direct supplier credit, and individually financed letters of credit. It can be assumed that the 1981 usage of 14% will rise during 1982, but it is doubtful that this figure will reach the full 40%. It would therefore be more advantageous to the BCR to increase their usage of existing lines rather than tying up new foreign exchange in more lines of credit.

One of the purposes of the establishment of credit lines was to build up confidence in the Salvadoran banking system. So far we have no clear evidence that that goal has been achieved based on the BCR's poor performance in contracting additional credit lines, under Private Sector Support II and the lack of interest expressed by U.S. banks during discussions of additional guaranteed lines of credit with the Economic Officer of the Embassy.

Unfortunately, confidence in the Salvadoran economy and banking system is not only a function of timely payment of letter of credit obligations, but also the perception in other countries of the stability and long range economic prospects of El Salvador. This situation has not improved, the economy continues to decline and the level of guerrilla violence against the economic infrastructure continues to escalate. These factors combine to make the propsects for rapid negotiation and signing of new guaranteed line of credit agreements bleak if not impossible.

In conclusion, the guaranteed line of credit mechanism has a rightful place in the BCR program to efficiently manage its scarce foreign exchange resources. However, this mechanism can only be useful to the extent that foreign exchange from other sources is available to flow through the banking system to pay off the obligations and to the extent that letters of credit are used by the private sector to transact business with foreign suppliers. From the above analysis it is clear that the BCR has

been overly optimistic in its projections of available foreign exchange and has not been able, in global terms, to make efficient use of the guaranteed lines of credit already contracted. It is the Mission's plan to study this mechanism in greater depth to determine if some portion of future A.I.D. programs, in particular, the contemplated CIB funds, can and should be reserved for opening additional guaranteed lines of credit. Such an analysis will take into account projected inflows of foreign exchange (from export earnings, international donors organizations, and foreign credit sources), the use of letters of credit by Salvadoran importers, and the financial costs and benefits to be obtained from the mechanism, both in individual and global terms.

D. Credit Needs - Prior to 1980, the use of BCR credit was divided more or less equally between the public and private sectors; in 1979, the BCR advanced ₡711 million to private banks and ₡728 million to public autonomous institutions. Both sectors made considerable use of external financing. No net advances were made to the Central Government.

At the present time, all credit for the private sector, except for a very little from external sources, is provided through public sector institutions (Central Bank, rediscount lines, commercial banks, and autonomous agencies). Except for a very small provision of credit to micro-industries through FIGAPE, the private industrial sector relies almost wholly on the commercial banks.

Tables I and II summarize findings with respect to production, credit, and inputs of an independent assessment of the private sector conducted in December, 1981. 1/

Since 1978, the commercial banks have held loan levels fairly steady at ₡2.0 billion to ₡2.4 billion in outstanding credit. The percentage for industry has been steady at 13 to 14 percent, but this figure does not take into account refinancing of maturing loans in all areas, which climbed steadily from 14 percent in 1978 to 27 percent in May 1981. Refinancing for traditional customers may also be included in the rollover of standing credit lines; thus, refinancing is presently estimated to be as high as 50% of outstanding credit. Also, considering that inflaction from 1978 through 1981 approached 50 percent, the volume of new loans and outstanding credits, in real terms, has dropped by about a third. This is constant with the sharp decline in the economy, reducing in real terms the demand for short-term working capital loans.

The cited report indicates that the decline, in real terms, of loans to industry is the result primarily of lesser short-term credit demand. In turn, the lesser credit demands result from (1) the closing or lower utilization of industrial capacity owing to terrorism and loss of markets; (2) the difficulty in obtaining foreign exchange for import of raw materials, and (3), the declining credit-worthiness of industries as profits disappear and losses accumulate.

1/ Checchi and Company, "Maintaining El Salvador's Private Sector: Industrial Recovery", A.I.D., IQC Contract No. AID/SOD/PAC-C-0399 December, 1981.

If the decline in Salvadoran industrial production is to be stopped, the study concludes, credit and foreign exchange resources will be needed beyond those now available in the banking system. Foreign exchange is required for capital goods replacement and raw materials, and local currency credit is needed for working capital and medium-term credit.

To enable growth to reach the 80 percent level, an additional ₡100 million over and above available financing will be needed (Table III). The study further recommends that this funding should be directed to new rehabilitation and medium development loans, which the commercial banking system is not presently structured to provide.

At current prices, the Private Sector Study estimates a cumulative foreign exchange requirement through 1982 of US $239 million for capital goods (machinery and spare parts) and US $341 million to finance imported raw materials, to restore plant and equipment sufficiently to reach the industrial recovery goal of 80 percent of the 1978 production level. The total is US $580 million or US $195 million in foreign exchange over the estimated availabilities of US $385 million in El Salvador for these purposes in 1982 (Tables IV and V).

The urgency of the foreign exchange problem is more evident after examining the Central Bank's monthly foreign exchnage requirements and resources presented in Table VI. Through 1981, each month there were applications from the banking system requesting funds for payment of authorized import transactions valued at $35.1 million. As shown in Table VI, most applications could not be approved for lack of foreign exchnage. Of the authorized applications, approximately 80% were arrearages (imports that were already in the country.)

TABLES

TECHNICAL ANALYSES

GOES Debt Service - Principal and Interest

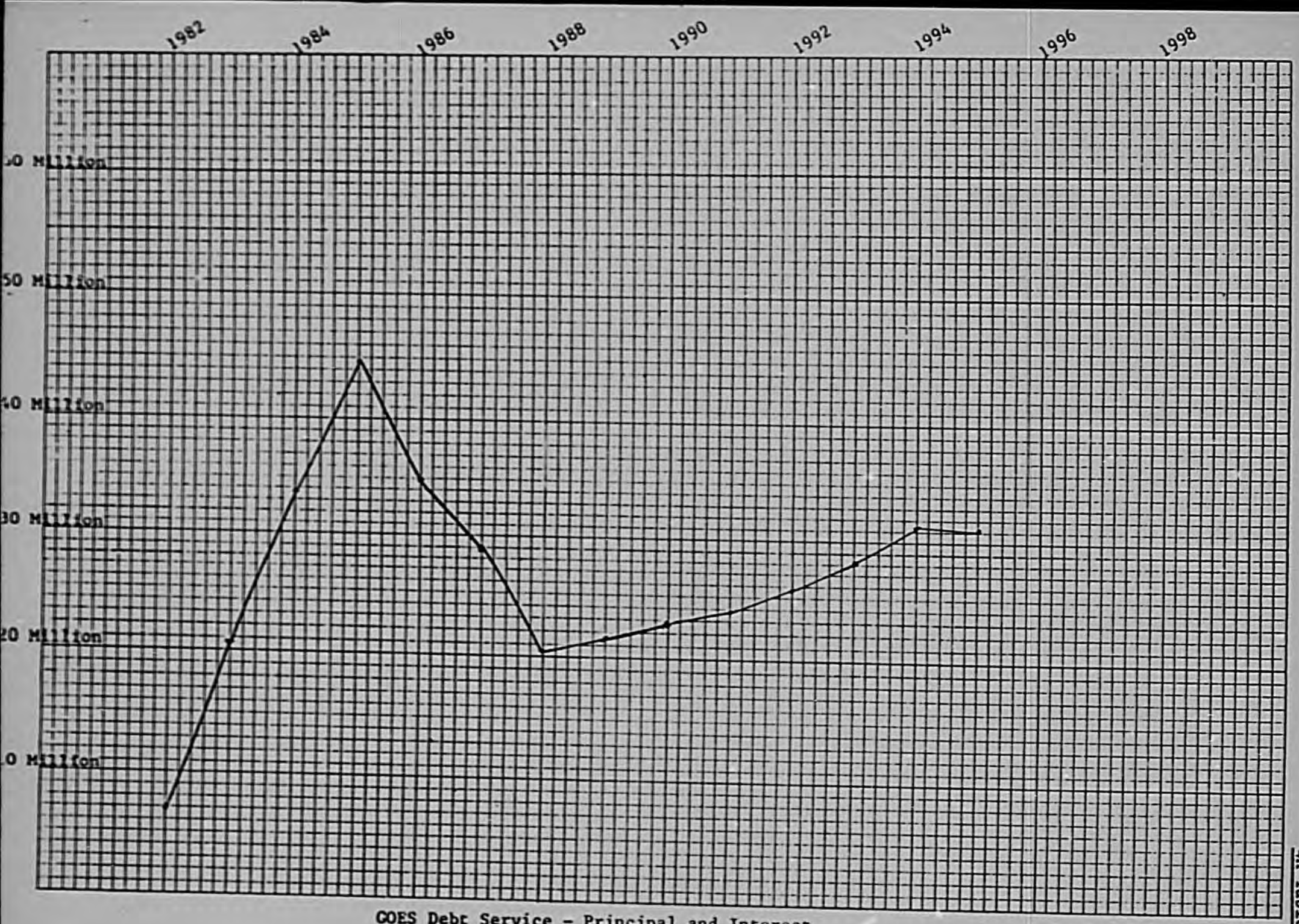
For the Period 1982 Thru 1995

($000)

	PL-480 Title I	CCC	HIG	AID Loans	TOTAL
1982	57		2790	4040	6887
1983	457	9270	5146	5591	20464
1984	861	15770	7319	9591	33541
1985	1542	25770	7319	9888	44519
1986	1562	16500	7010	9728	34800
1987	2415	10000	7010	9568	28993
1988	3481		7010	9562	20053
1989	4757		7010	9651	21418
1990	4932		7010	10655	22597
1991	4843		5370	13598	23811
1992	4750		4170	16875	25795
1993	4659		4170	19247	28076
1994	4563		4170	22500	31233
1995	4472		4170	22478	31120
TOTAL	43351	77310	79674	172772	373307
	1/	2/	3/	4/	5/

1/ Amortization includes FY 1983 agreement ($30 Million) and payable in 20 years.
2/ Amortization includes proposed FY 1983 authorization (3 year amortization period).
3/ Includes proposed project for FY 1983.
4/ Includes FY 1983 AID and CBI.
5/ Amortization amounts do not consider loans after FY 1983.

March 1, 1982



GOES Debt Service - Principal and Interest

March 1, 1982

4A-Table II

SECTION 4.C. GUARANTEED LINES OF CREDIT ANALYSIS - TABLE I

CREDIT UTILIZATION FACTORS

(000s US dollars)

January 31, 1982

Bank	Life of the Line (Months)	Value of Line	Guarantee Deposit	Cumulative Use	Weighted Average L/C Time (days) 3/	Necessary Use 2/	Rotating Factor (1 year)	Value of Line Utilization Factor Weighted 1/	Guarantee Deposit Weighted Utilization Factor 1/
MANTRUST	13	15,000.0	10,000.0	23,498.6	110	35,900.0	1.45	0.45	0.68
CAPITAL BANK	11	2,000.0	1,000.0	2,345.8	118	2,800.0	1.41	0.42	0.83
FIRST NATIONAL BANK OF CHICAGO	6	4,000.0	400.0	1,784.9	63	1,100.0	0.89	0.12	1.23
BANK OF AMERICA	5	10,000.0	5,000.0	8,214.3	83	9,000.0	1.97	0.48	0.96
		31,000.0	16,400.0	35,843.6		48,800.0			

1/ The weighted utilization factor is the ratio of cummulative used amount to value of line (or guarantee deposit) weighted by time.

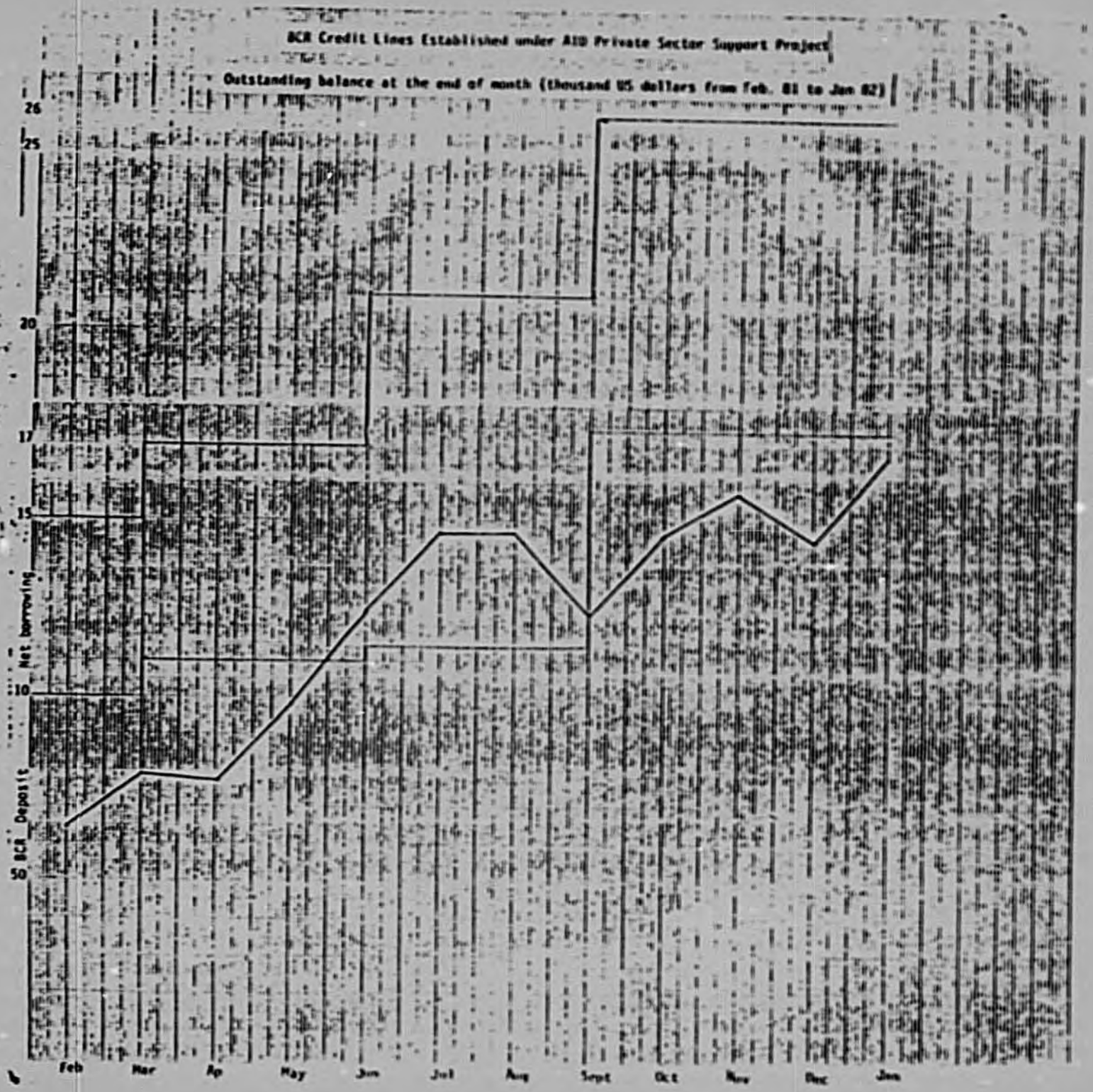
2/ Cummulative use necessary to achieve a 1.0 guarantee deposit utilization factor.

3/ Weighted by value.

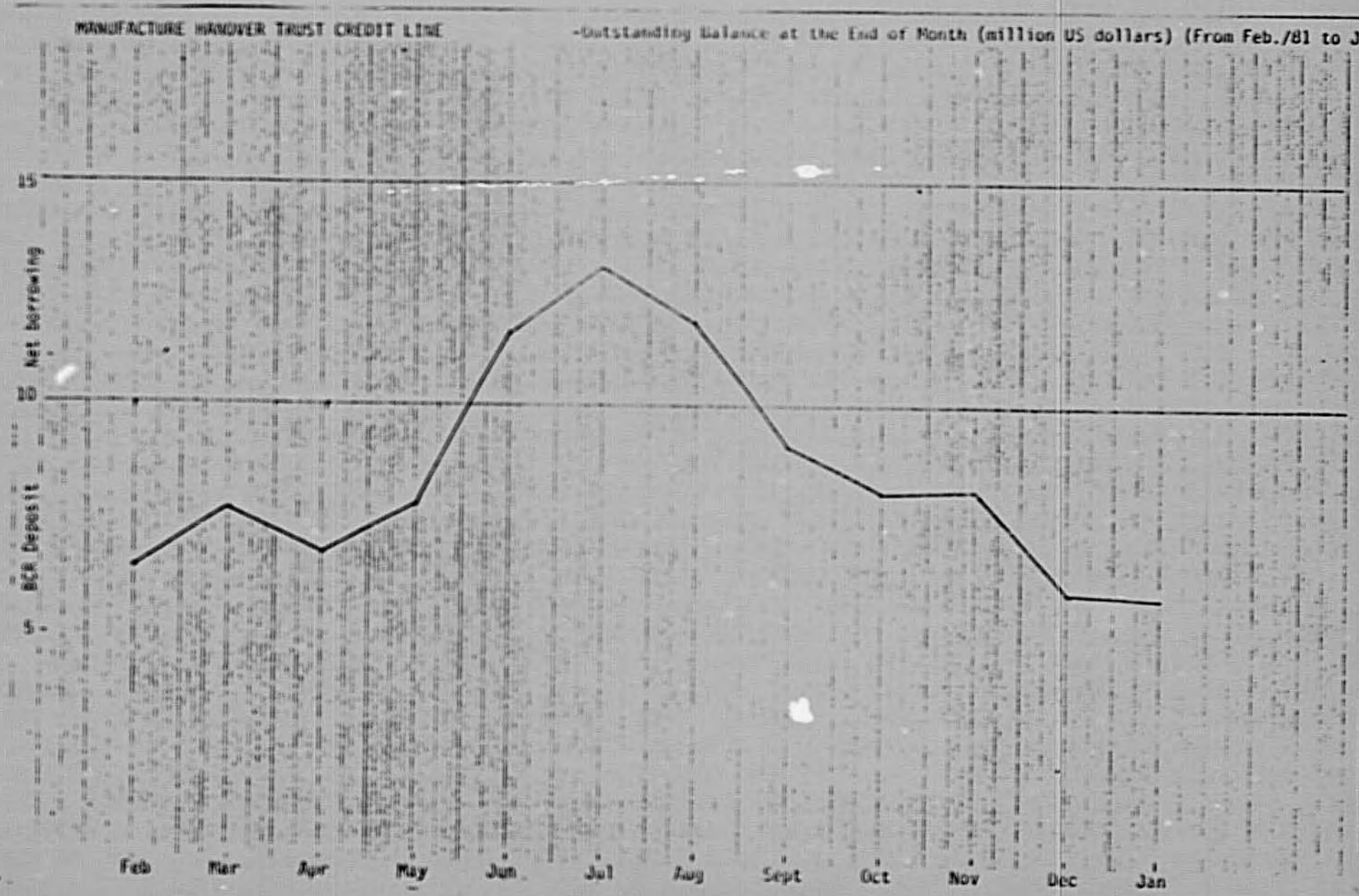
VdeA, Econ/Spec/DPO:em-3/5/82

4C -- Table II

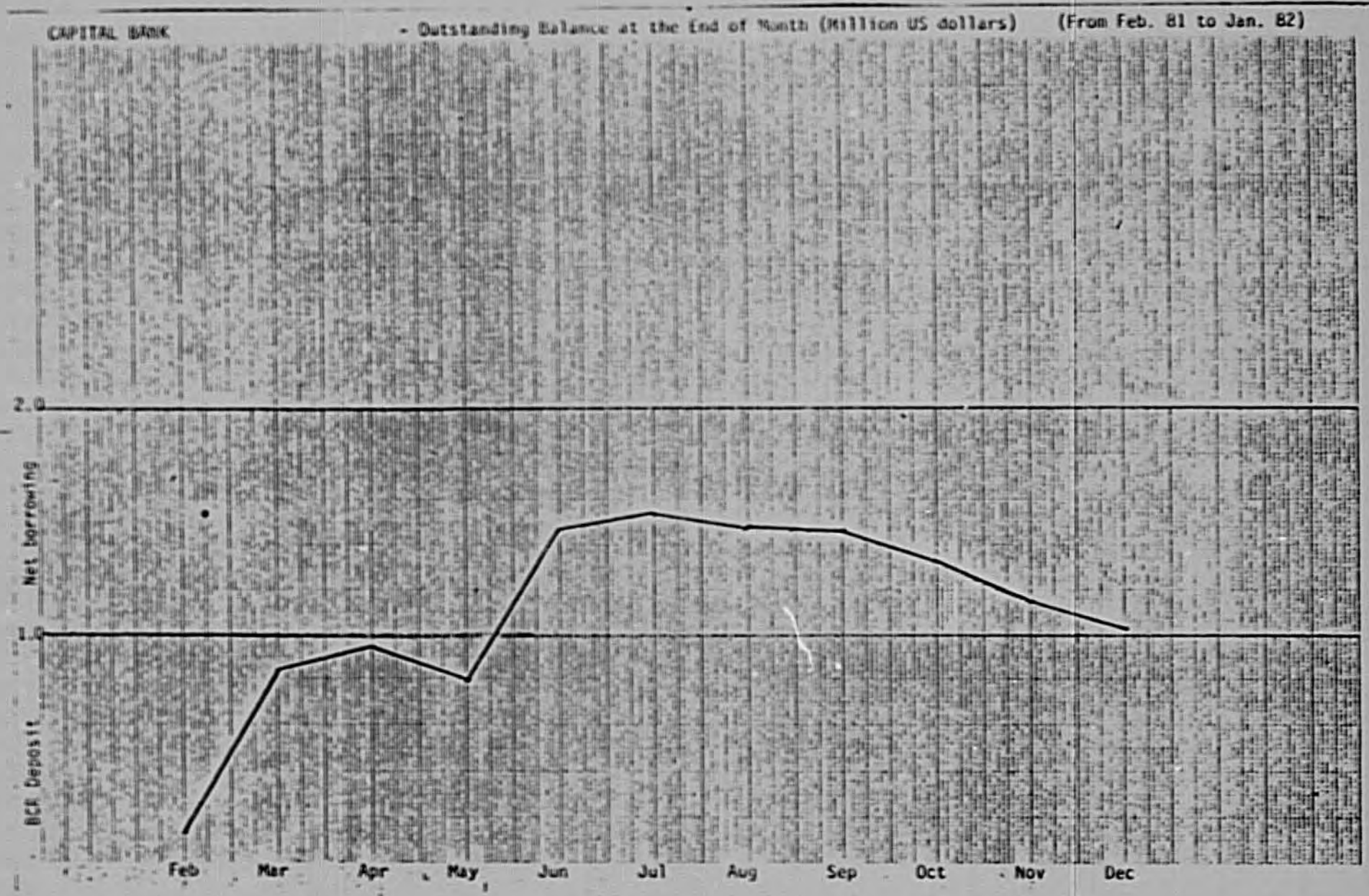
SECTION 4.C. GUARANTEED LINE OF CREDIT ANALYSIS - TABLE II



SECTION 4.C. GUARANTEED LINE OF CREDIT ANALYSIS - TABLE III



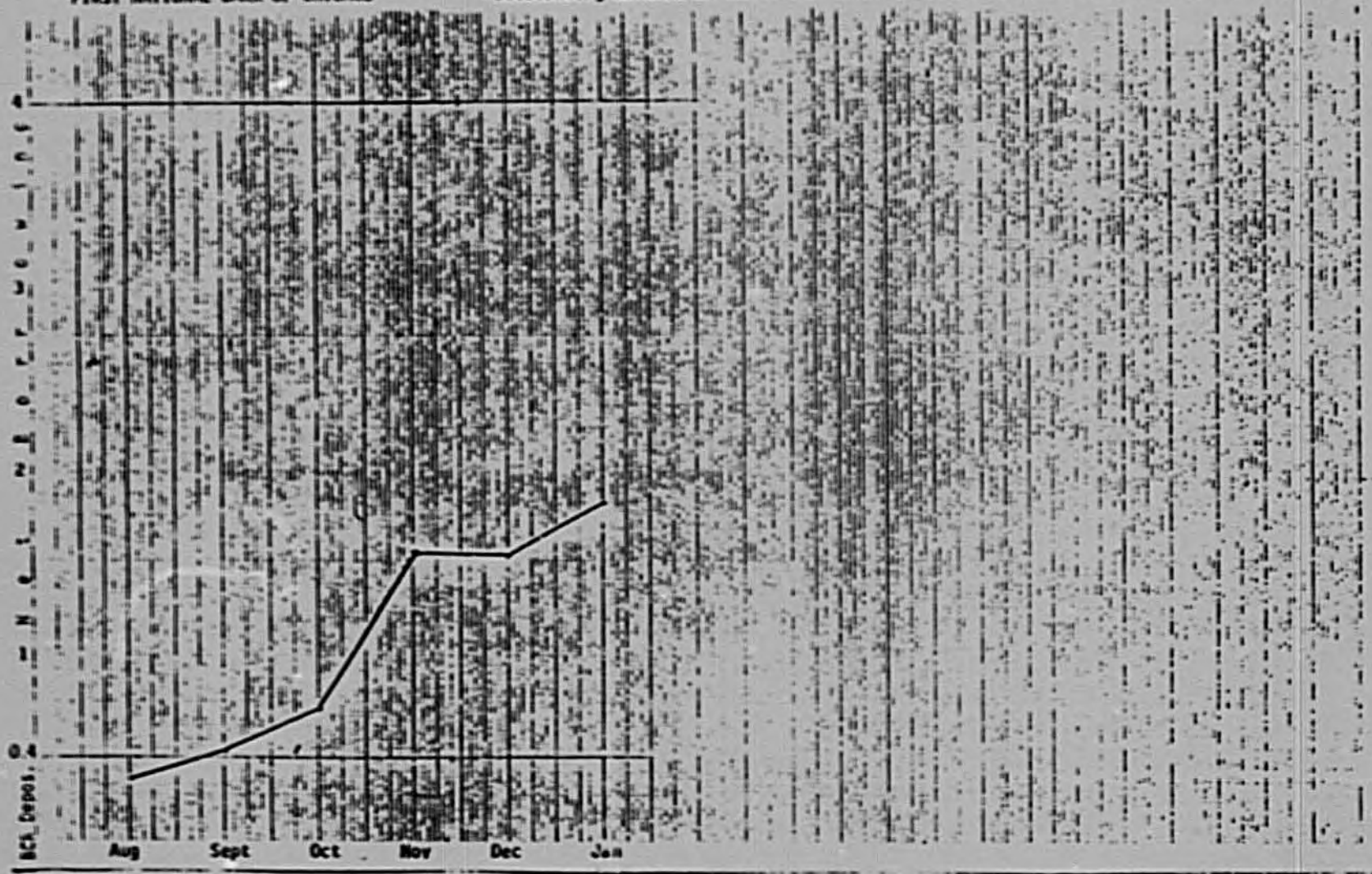
SECTION 4.C. GUARANTEED LINE OF CREDIT ANALYSIS - TABLE IV



SECTION 4.C. GUARANTEED LINE OF CREDIT ANALYSIS - TABLE V

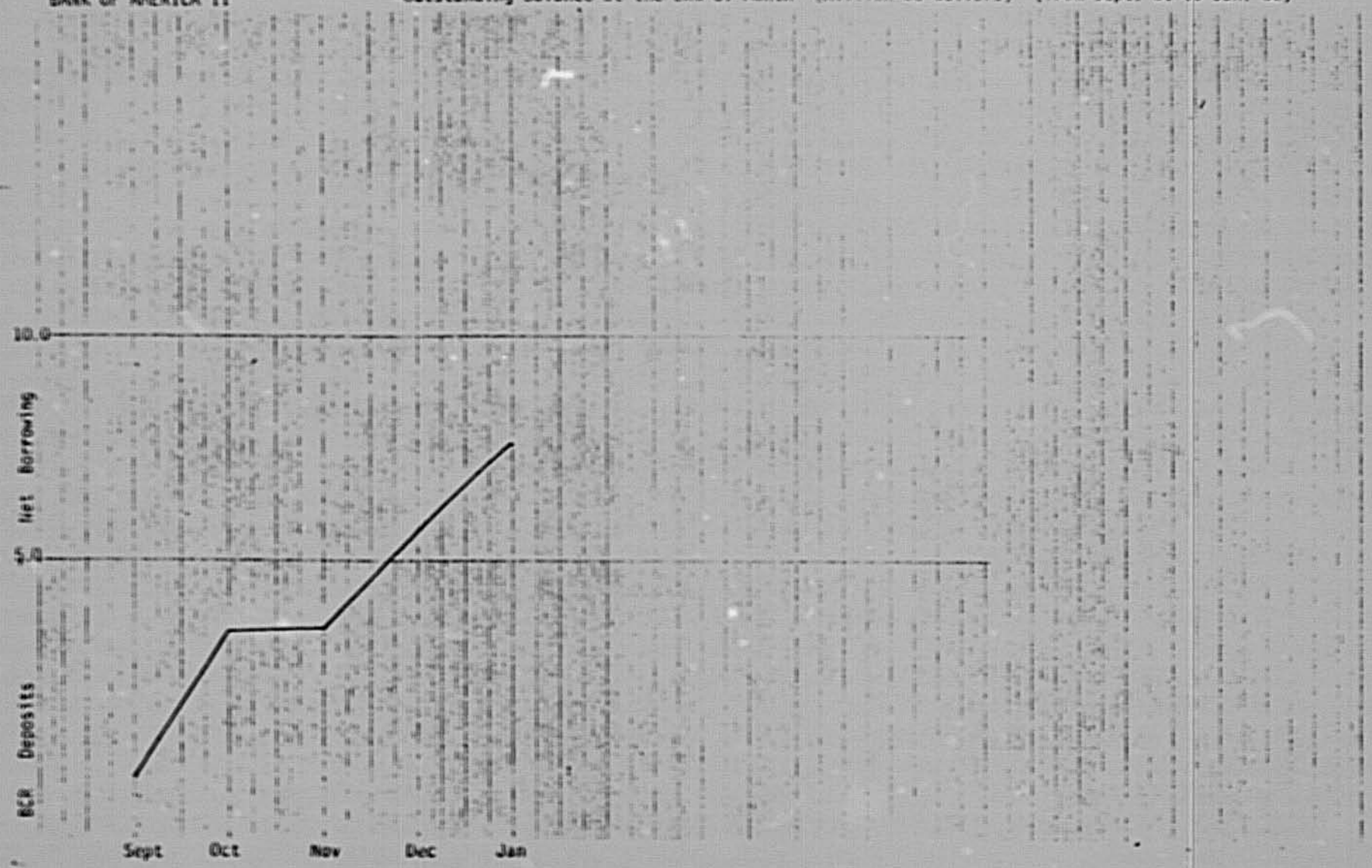
FIRST NATIONAL BANK OF CHICAGO

-Outstanding Balance at the End of Month (million US dollars) (From Aug/81 to Jan/82)



SECTOPM 4.C. GUARANTEED LINE OF CREDIT ANALYSIS - TABLE VI

BANK OF AMERICA II -Outstanding Balance at the End of Month (million US dollars) (from Sept. 81 to Jan. 82)



BCR's FOREIGN EXCHANGE LINES OF CREDIT

($000)

SECTION 4.C. TABLE VII

Foreign Bank	Value Office of the Line	Guarantee Deposit	Date of Opening of the Deposit	Interest Paid on Guarantee Deposit	Interest Charge on Credit: Interest paid to foreign bank	Interest Charge on Credit: Foreign Bank's Commission	Interest Charge on Credit: BCR's Guarantee Commission	Interest Charge on Credit: Local Bank's Commission	Credit Outstanding Period: Maximum Days: Documented L/C	Credit Outstanding Period: Maximum Days: Financing Sight L/C	Credit Outstanding Period: Minimum	Credit Line Expiration Date
I. First National Bank of Chicago	4,000	400	06/22/81		1.5% above the interest rate for banking discount	usual	0.5%	2.0%	180	180		01/31/82
II. Bank of America I	5,000				0.5% over LIBOR or prime rate	usual	0.5%	2.0%	90	90	90	11/06/82
III. Bank of America II	10,000	5,000	09/16/81	17.65	1.25% over LIBOR	usual	0.5%	2.0%	90	90	60	09/08/82
IV. Manufacturers Hanover Trust	15,000	10,000	12/24/81	18.0	1.0% or 3/4% over prime rate		Difference between 1 3/4% and the commission above prime charge by Man. Trust	2.0%	180	90	90	11/30/81
V. Sudameris	3,000			Fluctuating	1.5% over LIBOR	usual	0.5%	2.0%	90	90	90	11/06/81
VI. Capital Bank	2,000	1,000	[illegible]	17.0	1.0% over prime rate	usual	0.5%	2.0%	180	180	180	1/28/82
VII. Irving Trust Co.	5,000				3/4% over prime rate plus 1.25% compromise commission	usual	0.5%	2.0%	90	180	90	12/31/81
VIII. American Express	5,000				1dem	usual	0.5%	2.0%	90	180	90	12/31/81
IX. Morgan Guarantee Trust	5,000				1dem	usual	0.5%	2.0%	90	180	90	12/31/81
X. Besander	3,200	500	3/17/81		0.5% over LIBOR	usual	0.5%	2.0%	60	60		7/23/82

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4C - Table VII

TABLE I

EL SALVADOR

INDUSTRIAL PRODUCTION, CREDIT, AND IMPORTS 1978 - 1981

(in millions)

Year	Gross Value of Industrial Production		Bank Credit Used by Industry		Industrial Raw Materials Imports		Industrial Capital Goods Imports	
	Current Prices Colones	Constant Prices 1/ 1962 = 100	Current Prices 3/ Colones	Constant Prices 1/ 1962 = 100	Current Prices U.S. $	Constant Prices 1978 = 100	Current Prices U.S. $	Constant Prices 1/ 1978 = 100
1978	3.011	1.728	358	143	267	267	87	87
1979	3.277	1.678	330	122	296	263	67	60
1980	3.536	1.453	263	70	284	225	45	36
1981	3.308	1.200 2/	202 4/	54	263	185	38	27

Source: Central Reserve Bank

1/ See Table for details.

2/ ROCAP estimate of 17.4% decline from 1980.

3/ Sum of disbursements to industrial borrowers on new loans plus refinancing loans.

4/ Annual rate (January-May).

TABLE II

PRICE INDICES USED IN TABLE

Year	Industrial Production Price Index 1/ (1962 = 100)	Financial Price Index 1/ (1962 = 100)	U.S. Dollar Import Price Index 4/ (1978 = 100)
1978	174.2	249.8	100.0
1979	195.3	269.8	112.4
1980	243.3	326.7	126.3
1981	275.7 2/	373.7 3/	142.0
1982	312.3 2/	427.6 3/	159.6

1/ 1978-1980 Central Reserve Bank.

2/ Deflator = 13.30%

3/ Deflator = 14.40%

4/ Deflator = 12.40%

TABLE III

ESTIMATE OF INDUSTRY'S CREDIT REQUIREMENTS IN 1982
(In millions of colones)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1982
1. Production Levels as % of 1978	76	78	81	85	80
2. Working Capital					
Local Bank Credit (1962 Prices)	27.2 1/	27.9 1/	29.0 1/	30.4 1/	114.5
Local Bank Credit (Current Prices)	116.3	119.3	124.0	130.0	489.6
3. Capital Replacement (90%) 2/					
Short-term					104.0
Medium-term					433.3
4. Total Credit Needs					1,026.9

1/ 25% of total annual needs, see Table 7.

2/ 90% of $149.6 million converted to 1982 colones. See Table 9.

TABLE IV

ESTIMATE OF CAPITAL REPLACEMENT REQUIREMENTS
(at 1978 prices)

1. Accumulated Deficit:

Year	Production Level	Anticipated Capital Replacement Imports	Actual Capital Replacement Imports	Cummulative Annual Deficits
	%	(Millions of U.S. Dollars)		
1978	100	87	87	-
1979	97	84	60	24
1980	84	73	36	37
1981	69	60	27	33
Total		304	210	94 1/

2. Requirements for 1982:

Quarter	1978 Production Level	Recovery of Cumulative Deficit 2/	Normal Annual Replacement	Total Required
1st	76%	40	16.5	56.5
2nd	78%	22	17.0	39.0
3rd	81%	10	17.6	27.6
4th	85%	8	18.5	26.5
Total	80%	80	69.6	149.6

1/ To restore 100% of 1978 production capacity.

2/ To restore 80% of 1978 production capacity.

TABLE V

ESTIMATE OF INDUSTRY'S FOREIGN EXCHANGE REQUIREMENTS IN 1982
(in millions of U.S. dollars)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1982
1. Production Levels as Percent of 1978	76	78	81	85	80
2. Foreign Exchange Required at Constant 1978 Prices					
Capital Replacement 1/	56.5	39.0	27.6	26.5	149.6
Imported Raw Materials 2/	50.7	52.1	54.1	56.7	213.6
Total Foreign Exchange	107.2	91.1	81.7	83.2	363.2
3. Foreign Exchange Required at Current Prices					
Capital Replacement	90.2	62.2	44.0	42.3	238.8
Imported Raw Materials	80.9	83.2	86.3	90.5	340.9
Total Foreign Exchange	171.1	145.4	130.3	132.8	579.7

1/ See Table 9.
2/ See Table 5.

TABLE VI

IMPORT REQUIREMENTS AND FOREIGN EXCHANGE AVAILABILITIES IN 1981

(million US$)

	Authorized Applications pending Foreign Exchange	Foreign Exchange Available
Dec. 1980	23.5	9.4
Jan. 1981	33.1	53.7
Feb. 1981	37.1	12.5
March 1981	33.3	6.6
April 1981	30.5	8.9
May 1981	40.4	15.2
June 1981	50.0	19.6
July 1981	37.2	42.2
Aug. 1981	30.4	13.8
Sept. 1981	27.9	7.6
Oct. 1981	30.8	2.7
Nov. 1981	26.1	9.3
Dec. 1981	21.1	2.3

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?	(a) No (b) 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?	(a) No (b) 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 8.5 % of the 1981 Central Government budget was for defense and public security expenditures.

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 arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	To the best of our knowledge, the GOES is not in arrears.
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	N/A
16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?	No.
17. 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.
18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?	No.

B. FUNDING CRITERIA FOR COUNTRY

1. Security Supporting Assistance 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.

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b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? — Yes.

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

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment. — N/A

b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs? — N/A

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? — N/A

d. FAA Sec. 201(b)(5), (7) & (8); Sec 208; 211(a)(4), (7). Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution. — N/A

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

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(4) (a) Allocating available budgetary resources to development.	Yes.
(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.	No.
(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom initiative, and private enterprise.	El Salvador has instituted major agrarian and banking reforms and will be holding free elections this year.
(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	N/A
e. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?	Yes.

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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 $25 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%)?	Yes.

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 effectively 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 international and domestic trade activities in the Salvadoran private sector, and in so doing, support private initiative and competition throughout the country.

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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 importation of U.S.-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 $25 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 Security Supporting Assistance	
a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?	This Project will provide additional foreign exchange needed for the importationof raw materials, intermediate goods, spare parts, and capital goods, required by the weakened industrial/manufacturing sector. Provision of the materials will help revive the industrial sector, and through it, help strengthen the general economy.
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 source.]	N/A

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

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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

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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

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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 — Yes, to the extent feasible.

    If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

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.

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e. App. Sec. 103. to pay pensions, etc., for military personnel?	Yes.
f. App. Sec. 106. to pay U.N. assessments?	Yes.
g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending).	Yes.
4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms?	N/A

Annex B

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MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

DECS/UCP-AID-GOES/71

No.

San Salvador, 10 de marzo de 1982

ASUNTO: Solicítase Donación de US $25.0 millones para Apoyo al Sector Industrial

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

Estimado señor Askin:

Después de saludarlo muy atentamente, por este medio solicito a esa Misión, Donación por un monto de US $25.0 millones que servirá para Apoyar al Sector Industrial de El Salvador.

La anterior solicitud se hace, debido a que nuestra Industria, así como el país entero, han sido afectados grandemente por los acontecimientos ya por todos conocidos.

Esperando la consideración y deferencia a nuestra solicitud, aprovecho la oportunidad para reiterarle mi estimación.

Atilio Viéytez
Ministro

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STATUS OF PRIOR PRIVATE SECTOR SUPPORT PROGRAMS

PRIVATE SECTOR SUPPORT I (519-0267)-PERFORMANCE TO DATE

The Grant Agreement for this Program was signed on December 17, 1980, with a PACD of December 17, 1981. The Program consisted of three parts: (1) a dollar Cash Transfer; (2) a local currency agricultural credit fund for the Agrarian Reform Sector, and, (3) a local currency short-term working capital fund for the industrial private sector. The major objective of the Program was to assist the private sector to maintain an adequate level of production and employment by supplying vitally needed foreign exchange and local currency working capital resources.

A. The Dollar Cash Transfer

1. Purpose: A Cash Transfer of $20 million dollars was made to the GOES in response to the critical need for foreign exchange to alleviate a rapidly deteriorating balance of payments situation. The dollar funds obtained from this Cash Transfer enabled the Central Reserve Bank of El Salvador (BCR) to make available an equivalent amount of foreign exchange to the private sector for the importation of raw materials and intermediate goods from the United States.

2. Description: The BCR elected to use the Cash Transfer to enter into a series of negotiated line of credit agreements with major commercial banks in the U.S. A total of $11.4 million of the original $20 million Cash Transfer was deposited in three U.S. banks to leverage additional amounts in lines of credit, whereby confirmed letters of credit can be issued up to a total amount in excess of the required deposit, as shown below:

(in $ millions)

Bank	Deposit AID funds	Line of Credit
Manufacturers Hanover Trust	$ 10.0	$ 15.0
Capital Bank (Miami)	1.0	2.0
First National Bank of Chicago	.4	4.0
Total	$ 11.4	$ 21.0

The remaining $8.6 million was used to pay individual commercial obligations, such as letters of credit and balances due on open account, of the Salvador private sector owed to U.S. suppliers.

3. Status: The $20 million Cash Transfer, according to the terms of the Project Agreement, was liquidated on an attibution basis. The BCR supplied USAID/El Salvador with $20 million worth of import transaction documentation (invoices and bills of

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lading) which were reviewed, and, if eligible, approved for attribution under the Program. The final package of documentation was presented and approved in September 1981, raising the amount of approved transactions to over $20 million.

USAID/El Salvador has continued to monitor the use of the negotiated lines of credit established with AID funds. The Manufacturers Hanover Trust and Capital Bank lines of credit were renewed for an additional year, and will thus expire in November 1982 and January 1983 respectively. The First National Bank of Chicago line of credit was allowed to expire in January 1982. As of the end of January 1982, the three lines of credit showed the following status:

Bank	1 Line of Credit	2 Deposit	3 Total Value of L/Cs opened to date	4 Total value of L/Cs paid to date	5 (3-4=5) Total value of Outstanding L/Cs	6 (1-5=6) Funds Available
First Nat. Bank Chicago	4.0	.4	1.8	0	1.8	2.2
Manufact. Han. Trust	15.0	10.0	26.9	18.0	8.9	6.1
Capital Bank	2.0	1.0	2.7	1.2	1.5	.5
Total	21.0	11.4	31.4	19.2	12.2	8.8

For a more detailed description of the impact of these negotiated lines of credit and applicability of this mechanism for subsequent Private Sector Support Programs refer to_____.

B. Agrarian Reform Credit

1. Purpose: Shortly after the signature of the Grant Agreement, the BCR deposited ₡50 million ($20 million) in a special line of credit to meet short-term production credit needs of the Agrarian Reform Sector.

2. Description: Because of the timing of the Grant Agreement, the special line of credit was opened too late in the crop year to be invested directly in new loans to the Agrarian Reform Sector. Therefore, the BCR elected to purchase a portion of the portfolio of Agrarian Reform Sector loans held by the commercial banks. The amount purchased from each commercial bank was based on the relative lending activity of each bank in that sector. The ₡50 million invested by the BCR in the purchase of commercial bank loans was recovered in full by June 15, 1981, and available for re-investment during the subsequent crop cycle. For the second crop cycle, the BCR opened a line of credit for refinancing of outstanding short-term debt in the Agrarian Reform Sector. However, with the advice of a team of AID/W auditors who examined the Project in late 1981, AID and the BCR halted processing of loans under this line following approval and disbursement of loans totalling ₡7 million ($2.8 million).

3. Status: In accordance with a Condition Precedent contained in the Project Agreement Supplement No. 2 to A.I.D. Project No. 519-0263, Agrarian Reform Credit, the BCR is in the process of creating an investment line of credit for the third crop cycle, to be funded by the ¢50 million from this project. This line of credit will be available to Agrarian Reform Sector Cooperatives which are being financed by commercial banks and institutions other than the Banco de Fomento Agropecuario (BFA). The BCR is currently carrying out the necessary legal procedures required to change the regulations to permit the utilization of these funds for terms longer than the normal agricultural production cycle. This line of credit will also be funded with ¢9.75 million ($3.9 million) in local currency generations from the FY 1982 PL-480 Program and additional funds to be supplied by the Inter-American Development Bank. It is expected that the required paperwork will be completed shortly, and the investment line of credit functioning immediately threafter.

C. Industrial Working Capital

1. Purpose: Shortly after the signature of the Grant Agreement, the BCR created a one year ¢50 million special line of credit to help meet the short-term working capital credit requirements of the private sector.

2. Description: The BCR allocated the full ¢50 million among the commercial banks based on the relative capital position of each within the banking system as a whole. The existence of this special line of credit was advertised nationwide to solicit private sector applications. Loan applications were made by private sector industrial firms to the commercial banks, which then forwarded them to the BCR for review and approval, and subsequent disbursement. The loans approved were used by private sector industrial firms for short-term working capital needs, such as payroll obligations and the purchase of locally produced or distributed raw materials. Terms of the loans were not to exceed one year.

3. Status: As of February 28, 1982, ¢2.2 million was invested in short-term working capital loans to the private sector. Since the creation of this special line of credit a total of ¢6.5 million has been disbursed for loans with ¢2.4 million in loans approved and pending disbursement. The slow rate of disbursement, as demonstrated by these figures, is the result of a combination of factors: relatively low demand for additional short term credit; and, relatively high liquidity in the banking system which allows them to meet the existing demand with their own funds.

The BCR has extended the short-term working capital line of credit until June 30, 1982. The basic nature of the fund remains unchanged. However, the extension has been made only to process applications which were received before the end of 1981, the original expiration date of the line of credit. Any new applications received will be considered under the Structural Working Capital Line of Credit.

Short-Term Working Capital
Line of Credit
(In Millions of Colones)

Month	(1) Line of Credit	(2) Outstanding Balance	(3) Total Available (3)= (1)-(2)
January	50.0	-.-	50.0
February	50.0	-.-	50.0
March	50.0	.9	49.1
April	50.0	1.9	48.6
May	50.0	1.4	48.6
June	50.0	1.2	48.8
July	50.0	.9	49.1
August	50.0	.9	49.1
September	50.0	1.1	48.9
October	50.0	1.3	48.7
November	50.0	1.7	48.3
December	50.0	2.5	47.5

	Line of Credit	Outstanding Balance*	Total Available	% Utilization
Short-term Working Capital PSS I	50	1.7	48.3	3%
Structural Working Capital PSS II	52.25	5.9	46.35	11%

*Total value of loans contracted

PRIVATE SECTOR SUPPORT II (519-0274)-PERFORMANCE TO DATE

The Loan Agreement for this Program was signed on July 21, 1981. The Program consists of three parts: (1) a dollar cash transfer; (2) a local currency medium term structural working capital fund for the industrial private sector; and, (3) a special fund to meet institutional support needs of key public and private sector entities. The major objective of the Program is the same as that of Private Sector Support I(PSSI), i.e., to maintain an adequate level of production and employment by supplying vitally needed foreign exchange and local currency credit resources.

A. The Dollar Cash Transfer

1. Purpose: A Cash Transfer of dollars was made to the GOES in response to the critical need for foreign exchange to alleviate a deteriorating balance of payment situation which was exacerbated by a sustained decline in world market prices for the traditional export crops of El Salvador, the major source of foreign exchange for the economy. The dollar funds obtained from this Cash Transfer enabled the Central Reserve Bank of El Salvador (BCR) to make $24.9 million available to the industrial sector for the importation of raw materials and intermediate goods from the U.S.

2. Description: The BCR immediately entered into a series of negotiations with 8 U.S. banks in an effort to use the entire amount of the Cash Transfer to create additional leveraged lines of credit similar to those established with funds from PSSI. Because of the need to open the lines of credit as soon as possible to service the backlog of applications for foreign exchange to finance imports, the BCR was forced to either rapidly conclude the negotiations in order to issue new letters of credit or to make the funds available to pay obligations due and payable. A line of credit contract was negotiated and signed between the Bank of America and the BCR in August 1981. The BCR continued to negotiate with the other U.S. banks. A decision was made, in consultation with AID, to suspend the negotiations and to use the remaining $19.9 million to pay current obligations owed by Salvador importers.

3. Status: As of the end of February a total of $8.2 million in letters of credit had been issued through the Bank of America line of credit, as shown below:

BANK OF AMERICA

Line of Credit
($ millions)

Value of Line of Credit	Deposit	Value of L/C Opened	Value of L/Cs paid to date	Total Value of Outstanding L/Cs	Funds Available
10.0	5.0	8.2	.6	7.6	2.4

The BCR is preparing documentation for transactions to be attributed against the remaining $19.9 million supplied under the Program. These obligations relate primarily to import purchases made on open account (the supplier ships the merchandise with payment due upon receipt of documents by the importer or at some later date, depending on the credit terms extended by the supplier), or for letters of credit, either opened through the negotiated lines of credit or opened with currently available foreign exchange.

In summary, as of the end of February import transactions attributed to the AID Program are as follows:

(in $ millions)

B of A (line of credit)		8.2
L/Cs Paid		
Lines of credit	7.0	
Independent	-	7.0
Open Account		1.0
TOTAL		$16.2

B. Structural Working Capital

1. Purpose: Shortly after the signature of the Loan Agreement, the BCR created a ₡52.25 million special line of credit to help meet the need for medium-term credit for working capital in the Private Sector.

2. Description: The BCR allocated the Structural Working Capital Line of Credit to the commercial banking system and various semi-autonomous financial institutions on a first-come first-serve basis. The existence of the line of credit was advertised nationally to solicit applications from the private sector. Loan applications are prepared and submitted to the participating financial institutions which review and approve or reject them. If approved at this level, they are then forwarded to the BCR for consideration. Upon approval by the BCR, the necessary contract documentation is prepared by the financial institution and the loan amount is disbursed from the BCR through the institution to the

borrower. Responsibility for management of the loan rests with the financial institution. The approved loans are used by private sector industrial firms to refinance short term debt, adjust or expand inventory levels, and purchase capital goods to maintain or expand production levels.

3. Status: As of February 28, 1982, 128 loans totalling ₡26.1 million have been approved for the private sector. Loan applications began to be submitted by individual firms within weeks after the creation of this line of credit. By September 1981, the total value of applications submitted by interested firms exceeded the ₡52.25 million available through this line of credit. The relatively slow rate of disbursement is the result of a number of factors: (1) the need, as perceived by the BCR, to exercise greater control over the loan approval and disbursement process because of the relatively long-term nature of these loans and the consequent locking-in of those capital resources; and, (2) institutional constraints in the banking system which cause excessive delays in the processing of loan applications, and in some cases, the rejection or reduction in amount of loans. The constraints in the banking system will be addressed by the provision of technical assistance and training either under this Program or using other assistance resources. In the short-term, the BCR has recently assigned additional personnel to work with this line of credit in an effort to speed up the flow of applications through the system. During the month of February, ₡10.0 million in loans were reviewed and approved by the BCR, a significant increase over the performance in previous months.

C. Institutional Support Fund

1. Purpose: Shortly after the signature of the Loan Agreement, the BCR placed ₡10 million in a special account to be drawn upon for institutional support needs by a number of GOES agencies whose activities are important to the economic and social development of El Salvador.

2. Description: A preliminary budget showing the funds to be allocated to each participating GOES agency was submitted and approved by AID. (For further details of proposed uses, see San Salvador cable 6261/81 and State cable 237128/81.) Subsequently, Special Activity Agreements were prepared by each participating agency which contain: (1) a description of the activities to be carried out; (2) an implementation calendar; and, (3) a detailed line item budget of expenses to be financed from the Fund, such as technical services, supplies, and equipment. Nine GOES agencies have submitted separate Special Activity Agreements which the Mission has reviewed and approved as eligible for financing from the Fund (see the table in section 3. Status for allotment amounts).

3. Status: As of the end of February, all the participating agencies had initiated their Special Activities and were in the process of implementing them. Drawdowns by each agency from funds in the BCR special account are shown in the following table:

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GOES Agency	Funds Alloted	Funds Expended	Balance
Ministry of Health	¢ 3,000,000	¢ 500,000	¢ 2,500,000
Ministry of the Interior	1,500,000	1,438,000	62,000
Ministry of Labor	300,000	122,493	177,507
Ministry of Planning	2,050,000	450,000	1,600,000
Ministry of Education	1,500,000	258,140	1,241,860
Ministry of Justice	200,000	15,000	185,000
Ministry of the Presidency	35,000	30,000	5,000
Solicitor General for the Poor	815,000	619,912	195,088
Central Elections Committee	600,000	589,600	10,400
TOTAL	¢10,000,000	¢ 4,023,145	¢ 5,976,855
	($ 4,000,000)	($ 1,609,258)	($ 2,390,742)

Status: Structural Capital ¢52.25M
(Cumulative) (in Millions of Colones)

	September	October	November	December
Application (of BCR)	5.8	48.5	58.4	67
Approval	--	4.1	7.3	12.1
Contracts	--	--	.4	5.9
Disbursements		--	.25	1.0

Private Sector Support Program Procedures for Use of Funds to Finance Imports

a. Dierct Purchases

Under this arrangement the BCR previously has received applications (BCR Form 15) for the purchase of dollars from local Salvadoran commercial banks (hereafter referred to as local banks) acting on the behalf of their customers. In making the application, Salvadoran businessmen are required to pay 110% of the value of the transaction to the local bank - 100% for the value of the dollars plus a 10% guarantee deposit in colones to be redeemed upon submission of proof of entry into the country of the goods requested in the application for foreign exchange. (This may be done either by use of the businessmen's own funds or by taking out a loan with the local bank.) The BCR reviews the applications and assigns dollars to the local banks on the basis of established import priorities as determined according to the relative importance of the end use of the goods to be imported.

1. Upon approval of the application by the BCR, the BCR receives the colones from the local bank (the 10% deposit stays in the local bank) and writes a U.S. dollar check in favor of the local bank, which is taken by the importer to the local bank along with the original application for foreign exchange. The local bank in turn endorses the check and sends it to its correspondent U.S. bank. The local bank's U.S. account is duly credited and the cancelled check is returned to the BCR for auditing purposes.

2. a. Assuming purchases related to a given dollar transaction have already been made (that is, shipments of merchandise have been made on open account), the local bank will either write a check on its own U. S. account (bearing in mind that such a transaction is carried out on behalf of its client, a Salvadoran importer) to the U.S. exporter, or will direct the correspondent U.S. bank to send a check or money order, or make an electronic transfer to the account of the U.S. exporter.

b. If the dollars are related to purchases where the shipment of merchandise is to be made in the future (usually 60-90 days in the future), the local bank issues a draft letter of credit by cable or mail to its correspondent bank in the U.S., where it is then confirmed by the U.S. bank by cable or mail upon receipt of the full value of the transaction, in dollars, by the U.S. bank from the Salvadoran commercial bank. Prior to expiration of the letter of credit, the U.S. bank pays the exporter under the terms of the letter of credit upon receipt of the proper documentation, usually a bill of lading, supplier's (exporter) invoice and insurance documents, if insurance is paid by the exporter (see 3. below).

3. The exporter (or supplier) transfers the merchandise to a shipper who prepares the bill of lading for the exporter. The exporter in turn submits the bill of lading together with his invoice and insurance papers (where necessary) to the U.S. bank and requests payment under the terms of the letter of credit.

4. The U.S. bank reviews the documentation submitted, and, assuming all documents are in order, makes payment to the exporter under the letter of credit. The U.S. bank then notifies the local bank that payment has been made on its account.

5. The exporter or its correspondent bank then sends the originals, with several copies, of the shipping and other documentation to the local bank, which passes the originals to the customs. After clearing the merchandise through customs, the importer sends the import certificate and customs tax receipt to the local bank so that the importer can recover the 10% deposit made by him upon application for the purchase of foreign exchange.

6. Upon receiving notification of payment on the letter of credit by the U.S. bank, the local bank reconciles its dollar account records to agree with payments made by its correspondent U.S. bank. The bank then sends a document package containing copies of the bill of lading, invoice, insurance documentation, customs tax receipts, import certificate, and the original copy of the application for purchase of foreign exchange, to the BCR.

B. Line of Credit

The three lines of credit have been and are being used in those cases where payment in dollars need not be made in order to open a letter of credit and where the importer requires prompt delivery of his order but is unable to pay the invoice value at the time of shipment, and requires financing for a fixed period of time.

1. The importer through the local bank fills out an application for a letter of credit along with an application for foreign exchange (BCR Form 15) which are submitted to the BCR for review and approval.

2. After approving the application for the letter of credit, the BCR returns it to the local bank and retains the Form 15 for its records and to make a schedule of future foreign exchange requirements in order to meet the obligations arising on the expiration dates of the letters of credit opened under the terms of these lines of credit.

a. Assuming the time draft letter of credit is used, essentially the same letter of credit procedures described in Sections A.2.b. and A.3. through A.6 are used. The differences consist of the fact that all the

letters of credit are issued through one of the three U.S. banks mentioned earlier, and the fact that the BCR makes payment in dollars to the local bank eight to ten days prior to the expiration of the letter of credit, according to the previously prepared schedule of obligations, rather than prior to the opening of the letter of credit as is done in the immediate purchase situation. This enables the BCR to better manage its scarce foreign exchange resources. The local bank then pays the correspondent bank just before expiration of the letter of credit. After shipment has been made and the merchandise has been received and cleared by the customs office, the local bank sends the pertinent documentation, including the original application for the letter of credit, to the BCR for their files.

b. In those cases where the importer requires prompt develivery of merchandise but is unable to make payment upon presentation of documents, the importer submits a Form 15 and application for a letter of credit, using the line of credit, through the local bank to the BCR. The BCR approves the application, returns it to the local bank, and retains the Form 15 for the purpose of scheduling foreign exchange payments to the correspondent U.S. banks. Upon receipt of approval from the BCR, the local bank directs the correspondent bank to open a financed sight draft letter of credit in favor of the exporter, usually to be financed for a term of 60 days beyond the date of presentation by the exporter of the documentation for payment. This procedure requires the correspondent U.S. bank to pay the exporter upon presentation of adequate documentation and permits the importer/local bank to delay payment to the correspondent U.S. bank until the agreed-upon period of time has expired. As the date of expiration for the letter of credit draws near, the BCR pays dollars to the local bank which in turn pays the correspondent U.S. bank. The correspondent U.S. bank charges the importer interest from the date of payment to the exporter to the date of reimbursement by the local bank. It should be noted that interest payments are made by the importer through the local bank to the BCR and the correspondent U.S. bank in proportions dictated by the terms of the relevant line of credit agreement and letter of credit. To this end, the dollar transfer made by the BCR to the local bank, and thence to the correspondent U.S. bank, includes principal and interest payments.

The remainder of transactions carried out under the financed sight draft letter of credit arrangement correspond to points A.2.b., A.3. through A.6. and B.3.a.

TABLE 1

1981 GDP

	CURRENT US$ MILLIONS	PERCENTAGE
Consumption	3,325.6	88.6
Private	2,813.6	75.0
Public	512.0	13.6
Investment	435.5	11.6
Private Fixed Cap.	218.4	5.8
Public Fixed Cap.	233.6	6.2
Inventories	-16.5	-0.4
Net Trade and Services	-187.6	-5.0
Exports	816.4	21.8
Imports	-1,004.0	-26.7
GDP	3,573.4	100.0
Agriculture	736.6	20.6
Merchandising	940.3	26.4
Manufacturing	570.1	15.9
Public Administration	379.9	10.6
Construction	130.6	3.6
Other Valued Added	816.0	22.9

GDP Deflator: 13.3%

Source: USAID/El Salvador, Economic Section

October 1981

TABLE 2

PERCENT CHANGES IN

REAL DOMESTIC PRODUCT

	78/79	79/80	80/81	81/82	78/81	78/82
Consumption	-4.1	-6.3	-9.5	-3.3	-19.5	-22.2
Private	-5.5	-7.8	-10.4	-3.8	-22.8	-25.7
Public	5.1	2.9	-4.7	-1.0	3.0	2.0
Investment	-38.6	-36.8	-1.3	28.7	-61.1	-50.0
Private Fixed Capital	-31.8	-49.2	-13.6	9.5	-69.2	-66.3
Public Fixed Capital	-1.6	-13.8	-14.5	19.0	-27.4	-13.6
Net Trade & Services						
Exports	32.0	-24.6	-24.7	3.7	-22.4	-19.5
Imports	-12.8	-26.6	-20.9	3.5	-49.2	-47.5
GDP*	-1.5	-9.6	-9.5	-0-	-19.4	-19.4
Agriculture	1.5	-5.9	-4.3	-1.5	-8.6	-10.0
Merchandising	-2.6	-13.9	-14.4	-1.0	-28.2	-28.9
Manufacturing	-2.9	-15.5	-17.4	1.0	-32.2	-31.5
Public Admin	3.8	3.5	2.4	1.0	9.9	11.0
Construction	-14.4	-34.2	-7.9	17.0	-48.1	-39.3
Other Valued Added	-1.6	-5.2	-9.9	-7.8	-15.9	-16.6

* 1982 Projections Based on Zero Growth in GDP

Source: USAID/El Salvador, Economic Section

October 1981

TABLE 3

I M P O R T S

-- US$ MILLIONS --

	1978	1979	1980	1981	1982
Consumer Goods	266.4	275.8	306.7	284.0	304.0
Durables	62.4	57.2	33.6	16.8	12.0
Non-Durables	204.0	218.6	273.1	267.2	292.0
Production Goods	493.2	546.6	544.4	544.0	630.0
Manufacturing	343.3	410.2	434.8	426.0	506.0
Agriculture	63.8	56.9	47.8	56.0	56.8
Construction	76.6	72.3	56.6	57.2	61.2
Other	9.5	7.2	5.2	4.8	6.0
(Petroleum)	(76.4)	(114.3)	(151.3)	(170.0)	(181.0)
(Fertilizer)	(36.3)	(27.2)	(26.4)	(36.0)	(32.0)
Capital Goods	265.2	216.0	112.0	92.0	109.2
Manufacturing	86.9	67.0	45.2	38.0	41.2
Agriculture	22.6	17.2	7.2	6.0	12.0
Construction	30.6	29.4	12.7	8.0	13.2
Transportation	100.1	82.0	33.6	28.0	34.0
Other	25.0	20.4	13.3	12.0	8.8
Other and Discrepancy	5.3	-15.2	8.6	0.0	0.2
Total	1,030.1	1,023.2	971.7	920.0	1,043.4

Source: U.S. Embassy - San Salvador, October 1981.

NOTE: 1982 projections are based on an assumption of zero GDP growth.

TABLE 4

PERCENT CHANGE ON REAL IMPORTS

	1980/81	1978/81
Consumer Goods	- 21.7	- 37.6
Non-Consumer Goods	- 4.6	- 27.3
Capital Goods	- 21.9	- 77.1
TOTALS:	- 12.1	- 42.5

TABLE 5

EL SALVADOR: BALANCE OF PAYMENTS
(in US$ millions)

		1981	1982
	(GDP GROWTH:	-9.5	0)
Total Exports		792.1	773.3
Coffee		(398.6)	(379.1)
Cotton		(66.6)	(45.0)
Sugar		(18.8)	(19.8)
To CACM		(236.0)	(250.0)
To rest of world		(72.1)	(79.4)
Total Imports		920.0	1,043.4
Trade Balance	Sub-Total	-127.9	-270.1
Net Services		-127.6	-120.0
Net Transfers		28.1	28.6
Current Balance	Sub-Total	-227.4	-361.5
Net Official Capital		161.2	165.5
Net Bank Capital		60.2	49.2
Net Private Capital/Errors		-110.4	-50.0
Capital Balance	Sub-Total	111.0	164.7
Overall Balance	Sub-Total	-116.4	-196.8
Deficit Financing Change in Reserves		-74.1	0
IMF	Sub-Total	42.3	45.0
--CFF, Stand by, Other		(42.3)	(85.0)
--Reduction in Arrearages		(0)	(-32.0)
Additional Requirements	Total	0	-1[illegible]3.8

FOOTNOTES TO BOP

	1981	1982
Bank Capital (No Imf)	60.2	49.2
Withdrawals	94.7	92.9
AID	27.8	44.5
Venezuela	30.9	24.2
Mexico	22.9	24.2
Cabei	11.4	0
Other	1.7	0
Amortization	-34.5	-43.7
Official Capital	161.2	165.5
Withdrawals	178.7	187.0
AID	95.8	78.0
Cabei	6.8	13.8
IDB	53.0	64.8
IBRD	8.6	21.9
CIDA	0.2	3.0
Other	14.3	5.5
Amortization	-17.5	-21.5

Source: USAID/El Salvador, Economic Section

TABLE 5 (Cont.)

BALANCE OF PAYMENTS

-- IN MILLIONS OF U.S. DOLLARS --

	1978	1979	1980	PROJ 1981
Exports	848.8	1,224.2	968.5	792.1
Coffee	432.9	770.1	511.7	398.7
Cotton	98.4	84.6	82.8	66.6
Sugar	18.9	26.8	13.2	18.8
Shrimp	10.6	12.3	13.4	16.8
CACM	233.8	263.6	289.3	236.0
Other	54.2	66.8	58.1	55.2
Imports	1,030.1	1,023.2	971.7	920.0
CACM	240.0	257.0	318.7	300.0
Other	790.1	766.2	653.0	620.0
Trade Balance	- 181.3	201.0	- 3.2	- 127.9
Net Services	- 109.7	- 121.5	-140.0	- 127.6
Net Transfers	51.4	51.5	38.4	28.2
Current Balance	- 239.6	131.0	-104.8	- 227.3
Net Official Capital	61.8	66.8	89.6	161.1
Drawings	77.1	82.1	110.6	178.7
Payments	15.3	15.3	21.0	17.6
Net Bank Capital	66.9	36.6	97.2	102.5
Drawings	71.9	41.6	123.6	137.0
Payments	5.0	5.0	26.4	34.5
Net Private Capital	139.5	- 342.3	- 278.2	- 110.4
Capital Balance	268.2	- 239.1	- 91.4	- 153.2
GAP	(28.6)	108.1	196.2	74.1
Net International Res. (Assuming no new financing)	234.4	126.3	- 69.9	- 144.0

December 15, 1981

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TABLE 6

GOES 1982 BUDGET
(in US$ millions)

Taxes and Other Current Inflows			439.20
Current Expenditures			684.28
Salaries			(323.60)
Goods and Services			(82.80)
Public Debt-Interest			(50.80)
Public Debt-Amortization			(101.12)
(Agricultural Reform	58.0)		
(Foreign	9.92)		
(Other	33.2)		
Transfers			(107.20)
Off Budget Expenses			(18.76)
Current Deficit		Sub-Total	-245.08
Capital Expenditures		Sub-Total	-245.40
Real Investment			(150.96)
Financial Investment			(30.20)
Transfers			(64.24)
Deficit to be financed		Sub-Total	-490.48
Financing of Deficit			255.60
BCR			(140.0)
AID			(65.6)
Other Foreign			(50.0)
Unfinanced Deficit		Total	-234.88

Source: USAID/El Salvador Program Office - March 1, 1982

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TABLE 7

MOVEMENT OF FOREIGN EXCHANGE THROUGH THE
SPECIAL DEPOSIT ACCOUNTS FOR THE MONTH OF JANUARY 1982
(US DOLLARS)

Bank	Outstanding 1/1/82	Inflows	Outflows	Outstanding 1/29/82
Salvadoreño	116.170	200.213	314.757	1.626
Hipotecario	12.810	1.980	900	13.890
Comercio	56.820	-.-	26.914	29.906
Agrícola Comercial	101.405	79.373	124.374	56.404
Capitalizador	123	26.504	13.923	12.704
Crédito Popular	8.768	2.067	-.-	10.835
Cuscatlán	377.451	96.760	29.694	44.517
Financiero	-.-	28.460	28.460	-.-
Internacional	9.599	636.123	121	645.601
Mercantil	115.764	58.613	84.100	90.277
Agrícola	125.131	-.-	-.-	28.326
TOTAL	924.567	1.157.893	623.243	1.459.217

USES OF THE SPECIAL ACCOUNTS

Imports	577.273
Travel Expenses	3.416
Student Support	3.630
Family Assistance	1.600
Other	37.324
TOTAL	623.243

Source: USAID/El Salvador, Economic Section

Table 8

EL SALVADOR

CHANGES IN INDUSTRIAL STRUCTURE 1978-1981

		Food Products Beverages & Tobacco	Textiles & Leather Industries	Wood, Wood Products & Industries	Paper, Paper Products & Printing	Chemical Products	Non-Metals Mineral Products	Basic Metals	Metal Products	Other Industries	Total
	Uniform International Industrial Classification	31	32	33	34	35	36	37	38	39	
	Number of Factories by Employment Size										
Operating 1978	More than 99 employees	23	52	2	16	16	9	3	17	2	[illegible]
	From 20 to 99 employees	59	82	13	23	54	22	3	41	15	312
	From 5 to 19 employees	178	148	69	65	32	76	2	87	19	[illegible]
	Total Number of Factories	260	282	84	104	102	107	8	145	36	1,123
Operating 1981	More than 99 employees	21	30	2	13	15	7	3	5	2	[illegible]
	From 20 to 99 employees	57	73	12	21	53	22	3	39	15	235
	From 5 to 19 employees	177	145	69	63	30	76	2	87	18	[illegible]
	Total Number of Factories	255	248	83	97	98	105	8	131	35	[illegible]
Shut Down 1978-1981	More than 99 employees	2	22	-	3	1	2	-	12	-	[illegible]
	From 20 to 99 employees	2	9	1	2	1	-	-	2	-	17
	From 5 to 19 employees	1	3	-	2	2	-	-	-	1	[illegible]
	Total Number of Factories	5	34	1	7	4	2	-	14	1	68

Sources: Operating 1978: General Directorate of Statistics & Census.
Shutdowns 1978 to 1981: Social Security Administration

Table 9

EL SALVADOR

EMPLOYMENT IN THE INDUSTRIAL SECTOR

1978 - 1981

	1978	1979	1980	1981	Decline 1978-1981	Percent Change 1978-1981
Factories						
(Number of plants with over 4 employees)	1,128	1,119	1,073	1,060	68 4/	
Employment reported by 180 factories 1/	17,859	18,309	16,834	15,998	- 1,861	- 10.4%
Sample multiplier based on 1978	2.5066	2.5066	2.5066	2.5066	2.5066	
Employment by 1,060 factories still operating in 1981	44,766	46,095	42,197	40,101	- 4,665	- 10.4%
Employment by factories shut down during 1979-1981 2/	13,552	8,838	2,647	-	-13,552	-100.0%
Total Factory Employment	58,318 3/	54,933	43,716	40,101	-18,217	- 31.2%

Sources: 1/ Checchi survey, November 1981, see Appendix D.
2/ Social Security Administration.
3/ Economic Census, 1978 - General Directorate of Statistics & Census.
4/ Four additional firms shut down in 1981 but employment data is unavailable.

TABLE 10

INDUSTRIAL PRODUCTION
(millions of colones at 1962 constant prices)

Year	Gross Value	Production Index
1978	1,728	100
1979	1,678	97
1980	1,453	84
1981	1,200	69

Source: Table 5, Appendix F

TABLE 11

INDUSTRIAL RAW MATERIAL IMPORTS
(millions of U.S. dollars at constant 1978 prices)

Year	Raw Materials Imports	Raw Materials Index	Raw Material Supply Factor
1978	267	100	1.00
1979	263	99	1.02
1980	225	84	1.00
1981	185	69	1.00

TABLE 12

CAPITAL GOODS IMPORTS BY INDUSTRY
(in millions of U.S. dollars at constant 1978 prices)

Year	Capital Goods Imports	Capital Replacement Index	Capital Replacement Factor *
1978	87	100	1.00
1979	60	69	.72
1980	36	41	.49
1981	27	31	.45

*Ratio of capital replacement to the anciticipated capital replacement based on capital goods imports in 1978.

$$\text{Factor} = \frac{\text{Capital Replacement Index}}{\text{Industrial Production Index}}$$

Source: Checchi & Company "Maintaining El Salvador's Industrial Sector" December 1981.

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TABLE 13

MONETARY VARIABLES
(US$ millions)

	12/79	12/80	8/81
Credit and Investments	1,313.7	1,664.1	1,780.0
To Private Sector	888.7	870.6	905.0
To Official Institutions	371.3	564.9	531.7
To Central Government	53.6	228.6	543.4
Money Supply (M-1)	570.2	623.5	504.6
Cash in Circulation	296.2	287.5	208.6
Private Sight Deps.	231.2	278.7	230.4
Official Sight Deps.	42.7	57.3	65.6
Central Government Deps.	45.3	61.2	69.1

Source: Central Bank - October, 1981

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