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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
ALLIANCE FOR PROGRESS
WASHINGTON, D. C. 20523

CAPITAL ASSISTANCE PAPER

EL SALVADOR - MALARIA ERADICATION

AID-LA/P-80

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April 21, 1966

MEMORANDUM FOR THE ADMINISTRATOR

SUBJECT: EL SALVADOR - Malaria Eradication

The attached Capital Assistance Paper sets forth the recommendations for authorization of a loan not to exceed \$1,635,000 to assist in financing the dollar and local currency costs of equipment, material, and services necessary for the conduct of El Salvador's regionally coordinated national plan to eradicate malaria from its territory.

David Bronheim
Deputy U.S. Coordinator

Attachments:

Summary and Recommendations
Project Analysis
Annexes 1 - IV

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EL SALVADOR - MALARIA ERADICATION

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EL SALVADOR - MALARIA ERADICATION

SUMMARY AND RECOMMENDATIONS

1. **BORROWER:** The Government of El Salvador. The execution of the project will be the responsibility of the Ministry of Health and Social Assistance through its National Anti-Malaria Campaign (CNAP).
2. **AMOUNT OF THE LOAN:** Not to exceed \$1,635,000, all or substantially all for local currency expenses.
3. **LOAN TERMS:** Repayment over a 40-year term from the date of first disbursement of loan funds, with a 10-year grace period on amortization of principal. Interest will accrue at the rate of 1% annually during the grace period and 2 $\frac{1}{2}$ % annually thereafter on the balance outstanding.
4. **TOTAL COST OF PROJECT:**

	\$	4,555,000
GOES Budget	\$	1,800,000
A. I. D. Loan	\$	1,635,000
	\$	<u>3,435,000</u>
PAHO	\$	360,000
UNICEF	\$	760,000
	\$	<u><u>4,555,000</u></u>
5. **DESCRIPTION OF THE PROJECT:** The loan will enable the GOES to conduct a three-year regionally coordinated malaria eradication program. The program will consist of an intensive collective drug campaign to reduce the number of human carriers of the disease, and, a continuation of the spraying campaign in pertinent areas to prevent transmission of the disease. Epidemiological surveillance including mass hematoc sampling will be maintained to evaluate the disease incidence and actions required for treatment of cases that may occur and guide corollary preventative measures. In this manner, by attacking the disease in both mosquitos and people, and by maintaining vigilance on the incidence of active cases, it is expected that transmission will be interrupted and, with surveillance and control by the GOES through its local health

units and posts thereafter, eradication will have been achieved.

6. **PURPOSE OF THE PROJECT:** To eradicate malaria from El Salvador in conjunction with a CA regional effort, thereby improving the health level of the population and increasing the productivity of areas now affected by malaria, and allowing most of the funds that GOES's future budget would otherwise allocate to malaria control to be diverted to other essential activities.
7. **BACKGROUND OF PROJECT:** The malaria eradication campaign that began in 1955 in El Salvador, in 1957 in Guatemala, Honduras and Nicaragua, has been successful up to the present, with the majority of the malarial areas (11,400 Km² out of 18,900 Km² in El Salvador) now virtually free of the disease. During the past year, however, the incidence of malaria began to rise due to the increasing resistance of the mosquitos to insecticides, and the need for an intensive campaign to eradicate malaria from the region was recognized by the host governments, PAHO, and A. I. D. Following an ARA/LA CAEC Meeting on May 10, 1965, the four host governments were advised that A. I. D. would finance 50% of the local cost component of a PAHO/A. I. D. approved regional eradication campaign, supplementing the Grant assistance of past years with loan funds, and this Capital Assistance Paper reflects the application received from the GOES for assistance in its portion of the regional campaign. Similar applications received from the Government of Guatemala, the Government of Honduras and the Government of Nicaragua have been authorized by AID/W. The loan to the Government of Honduras was signed on January 12, 1966 and the others are now in process of negotiation.
8. **ALTERNATE SOURCES OF FINANCING:** Since all or substantially all of the expenses of the project will be local cost financing, this project is not suitable for the Export-Import Bank. The IDB and IBRD have also informally indicated they are not interested in financing this project.
9. **VIEW OF THE COUNTRY TEAM:** The Country Team gives this project a high priority on both social and economic grounds, and recommends authorization of this loan.
10. **STATUTORY CRITERIA:** All statutory criteria have been or will be met.

11. **RECOMMENDATION:** Authorization of a loan to the Government of El Salvador for an amount not to exceed \$1,635,000 subject to the following terms and conditions:

A. Interest and Repayment Terms

The Borrower shall repay the loan to A. I. D. in United States Dollars within forty (40) years from the date of first disbursement under the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A. I. D. in United States Dollars on the disbursed balance of the loan interest of one (1) percent per annum during the grace period and two and one-half ($2\frac{1}{2}$) percent thereafter.

B. Other Terms and Conditions

1. Prior to the execution of the Loan Agreement PAHO/W and AID/W formally shall have approved the El Salvador Technical Plan and the Regional Coordination Plan.
2. Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D. in form and substance satisfactory to A. I. D., a schedule of its contributions to the project during the estimated disbursement period of three years from the date of execution of the Loan Agreement. The Borrower shall accompany that schedule with evidence satisfactory to A. I. D. that it will provide the contributions called for by the schedule.
3. Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D., in form and substance satisfactory to A. I. D., evidence that the contribution to the Project undertaken by UNICEF will be available on a timely basis.
4. Borrower shall covenant faithfully to carry out its national Technical Plan and the Regional Coordination Plan, and to obtain the approval of A. I. D. and

of PAHO before modifying its national Technical Plan or agreeing to modification of the Regional Coordination Plan.

5. Borrower shall covenant that, except as A. I. D. may otherwise agree, no funds made available to the Borrower by A. I. D. under the loan shall be used to pay the salary or related expenses to any position existing in the Borrower prior to January 1, 1966. (See Annex III, page 4, for details.)
6. Borrower shall covenant to give full cooperation to such persons as A. I. D. may nominate to monitor Borrower's performance under the Loan Agreement.
7. The Borrower shall covenant that it will maintain the National Anti-Malaria Campaign (CNAP) as a separate administrative, logistic, and technical entity within the Ministry of Health for the purpose of implementing the Project.
8. Borrower shall covenant to provide the resources necessary to achieve the eradication of malaria within its territory and to prevent the reappearance of malaria in that territory; and in furtherance of that undertaking Borrower shall covenant to consult periodically with representatives of A. I. D. or such persons as A. I. D. may nominate, during at least the first five years after the last disbursement of the Loan.
9. Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed with a company authorized to do marine insurance business in any state of the United States.
10. United States Dollars utilized under the loan to

local currency costs shall be made available to Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States.

11. The Loan shall be subject to such other terms and conditions as A. I. D. may deem advisable.

PROJECT COMMITTEE:

Loan Officers	:TTFoley/CFBorja Jr.
Public Health Advisors	:VRScott/FVintinner
Economic Officer	:BJMoser
Legal	:JAGrimes

Drafted: TTFoley/BJMoser/VRScott

SECTION I - DETAILED DESCRIPTION OF PROJECTA. BORROWER

The Borrower will be the Government of El Salvador, with the administrative responsibility for implementation of the project assigned to the Ministry of Public Health and Social Assistance.

Execution will be carried out by the National Anti-Malaria Campaign (CNAP), an agency of the Ministry of Public Health and Social Assistance, established under its present name in 1961. CNAP and its predecessor agencies have conducted a successful, although necessarily limited by budgetary restrictions, malaria control and eradication campaign in El Salvador over the past eleven years.

B. BACKGROUND OF PROJECT - MALARIA ERADICATION IN CENTRAL AMERICA1. Historical Background

Central America today is the beneficiary of a progressive fall in the malaria rate over the period of the last ten years. It is estimated that less than 20% of the original incidence of malaria remains. One is therefore tempted to conclude that malaria is no longer of prime importance. Recognizing that the disease cannot remain static but increases or decreases, depending upon the effort made to control it, it is pertinent to consider the original status of malaria.

In the total population of Latin America (230 million), 111 million people (48.5%) now live in areas which were originally malarious. In the isthmus of Central America, where the tropical conditions permit perennial mosquito breeding and malaria transmission, approximately 70% of the population live in areas which were originally at risk to malaria.

Sixty years ago during the construction of the Panama Canal, Gorgas observed that the malaria rate in the Canal Zone was equivalent to 1,263 hospital admissions per 1,000 population. The French failed to build the canal for lack of effective malaria control. The United States was able to achieve this result because of an intensive anti-larval campaign under the leadership of Gorgas.

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The early records in the Central American countries indicate that hyperendemic malaria with infection rates of approximately 50% involved those populations distributed adjacent to the foothills and lowlands where the vector breeding is predominant.

It was not by chance that the major cities of Central America have been established at high elevations. Prior to the institution of anti-malaria measures, the coastal lowlands were largely uninhabitable. The marked postwar agricultural development of sugar and cotton along the Pacific coast bears a direct relationship to the reduction of human reservoir of malaria parasites.

2. Technical Strategy

Although anti-malaria programs have been operative in Central America for over sixty years, the over-all endemicity of the disease was not significantly reduced except in areas such as the Panama Canal Zone where intensive anti-mosquito measures could be taken. Control measures were limited primarily to larviciding and water control measures, which served as a direct attack upon the breeding habitat of the mosquito population. The impossibility of financing anti-mosquito measures of this kind throughout the entire isthmus limited its applicability.

The advent of the residual insecticide, like DDT, permitted the application of a new principle which was adopted for the first time by all member countries of the World Health Assembly at its 1955 meeting in Mexico City. This principle was based upon the reduction of the parasite reservoir in humans and not upon the elimination of the mosquito in its outdoor breeding locations. The strategy was to spray all houses in malarious areas with DDT for the purpose of preventing mosquitoes from transmitting infections from potentially infected to non-infected people. The residual insecticide was not intended to reduce the total population of mosquitoes. This method was to be supported by case finding which sought to locate and treat all malaria cases.

This strategy was first applied successfully on a large scale in the United States, where the elimination of the reservoir of parasites within the human population was achieved before 1950. In the absence of parasites, the abundance of mosquito vectors was no longer significant. However, it is essential to understand that the potential for an outbreak always exists if an undetected case of

malaria is introduced in an area where the breeding of a vector mosquito is plentiful.

The normal duration of a malaria eradication program is approximately 10 years. The first two years are involved in definition of the malarious area and the development of an organization to carry out the campaign. The next four years are involved in a program of residual spraying which is referred to as the attack phase and the final four years are applied to case finding and detection of residual cases with radical treatment. Since the official policy of eradication was not established prior to 1955, most did not actually begin to implement campaigns until 1956 or later. Guatemala, Nicaragua, El Salvador and Honduras began their programs approximately in 1958; even though much of the basic preparatory work had already been done by this time, one should allow at least eight years for the completion of an eradication campaign in these countries under optimal conditions. Therefore, one could not have expected completion of the CA campaigns prior to 1966.

Basically, the technical strategy is not complicated. Organizational requirements are uncompromising and rigid due to the necessity for implementing the concept of comprehensive national coverage. Campaigns have not been easy to implement because they have placed enormous demands upon the organizational ability of Public Health ministries where no prior experience existed in national campaign management. It is therefore not difficult to discover organizational and administrative difficulties in each of the Central American programs. In spite of these deficiencies, careful reviews of the Central American problem areas by the Pan American Health Organization, A. I. D. and most recently by a United States Public Health Service team indicate that the serious problems are technical and not administrative. The major cause for delay in the completion of the Central American programs has been the development of resistance by mosquitoes to insecticides in the agricultural communities of the Pacific Coast. The reason for this development will be explained in the next section.

3. Technical Progress

In the Latin American region, eradication of malaria is an accomplished fact among 14.4 million population, including Venezuela, Chile, Puerto Rico, Barbados, Grenada, Martinique

and Santa Lucfa.

An additional 42.5 million are in the final phase, including British Honduras, Jamaica, Trinidad, Tobago, Dominica and Guadeloupe.

The residual problem is small in Bolivia, Argentina, Costa Rica and Ecuador.

Currently, 96 million population are protected by anti-malaria campaigns in 20 Latin American countries. The total malarious population of the countries of Central America and Panama are 9.2 million, representing less than 10% of the total Latin American population at risk. The current program status in each of the four Central American countries where A. I. D. now assists programs is given in the following table.

CURRENT STATUS OF MALARIA ERADICATION IN GUATEMALA, NICARAGUA, HONDURAS AND EL SALVADOR, BY POPULATION, 1963* (000)

	<u>Total Popula- tion</u>	<u>Original Malarious Population</u>	<u>Consol- idation Phase</u>	<u>Attack Phase</u>	<u>Total in Program</u>
Guatemala	4,120	1,912	1,234	678	1,912
Honduras	2,008	1,892	941	951	1,892
Nicaragua	1,767	1,697	668	1,029	1,697
El Salvador	2,511	1,641	---	1,641	1,641
Totals	<u>10,406</u>	<u>7,142</u>	<u>2,843</u>	<u>4,299</u>	<u>7,142</u>

*Extracted from Report on the Status of Malaria Eradication in the Americas, Pan American Health Organization, Directing Council, XV Meeting, 10 July 1964.

This table indicates that approximately 70% of the total population lives in areas which were originally at risk to malaria. All of the areas at risk are now included within an active program. In 80% of the population of these four countries, there is either no malaria or malaria is under satisfactory control by present methods. A total population of approximately two million with the four countries form the population group with special technical problems

not amenable to the spraying of DDT alone.

It is important to bear in mind that the principal malaria carrying mosquito of this area is anopheles albimanus, a vector which breeds in the coastal lowlands below an altitude of 3,000 feet. Malaria transmission along these coastal lowlands forms the principal focus for reinfection of other potential malarious areas within Central America. At the onset of eradication campaigns between 1956 and 1958, total coverage of all malarious areas was thoroughly carried out. The malaria rates began to fall as indicated by the slide positivity rate. For example, in Guatemala in 1958, 20.6% of all slides taken were positive. By 1962, the positivity rate had fallen to 1.85%. In El Salvador in 1959, the positivity rate was 24.6%. In 1963, it had fallen to 7.5%. In Honduras, the positivity rate fell from 10.85% to 2.47% between 1959 and 1961.

This rapid reduction in positivity rate reflected the interruption of malaria transmission within the confines of the original malarious area. As the reservoir of parasites in humans fell, it became possible for the first time in the history of Central America to undertake the consistent progressive development of cotton and sugar along the Pacific Coast lands. The increasing demographic shift of population from the highlands to the Pacific lowlands introduced a large susceptible population into areas with a high potential for malaria transmission. For example, it is estimated that the coastal population in El Salvador is now double that of 1958.

While recent history has indicated, as it has in many other parts of the world, that the immediate impact of a malaria program is to produce a redistribution of population into lands formerly uninhabitable due to malaria, this migration alone has not been an insuperable problem. It has meant a readjustment in program management to cope with the large influx of population. Serious technical difficulties developed primarily when cotton growers began the regular use of crop spraying and dusting. The effect of extensive aerial spraying resulted in the elimination of susceptible mosquito species with the survival of resistant vector species.

With the development of insecticide resistance and a change in insect behavior towards residual insecticides, it became necessary for the campaign to utilize alternate anti-malaria methods. Drug treatment and anti-larval methods were field tested on an increasing scale. Their use has not yet been used widely enough to produce a major impact on the eradication campaigns due to increased costs of labor.

It is recognized that these alternate measures would be more expensive than the standard residual insecticide approach. Recognizing, in perspective, that these problem populations of Central America form only 2% of the total population covered by present malaria campaigns in Latin America, there remains no alternative but to intensify the attack by a variety of nonspraying methods in spite of possible cost increase.

4. Consequences of Program Withdrawal

The malaria campaign in Central America has inherited a problem of its own making. Its impact has been successful enough to permit the redistribution of the highland populations to the formerly malarious coasts. The reservoir of malaria parasites has remained at a very low level. However, the mosquitoes are breeding at the same level as previously, since the modern eradication strategy makes no attempt to eliminate the mosquito in its natural breeding habitat. If the campaign is terminated, the inevitable result must be that the widely prevalent anopheles albimanus will transmit infection from the remaining human reservoir of parasites so that infection will once again become widespread on the coasts. If this develops, the agricultural population will be obliged to retreat to the highlands.

The loss of the Pacific Coast agricultural economy and the recrowding of the highland populations of Central America would be only a part of the results of program withdrawal. The parasite, which knows no political boundaries, would be disseminated through migratory laborers and travelers to adjacent territories in the Americas from which malaria has already been freed, as for example, British Honduras and large parts of Mexico.

5. United States Policy on Malaria Eradication

The United States has been actively interested in anti-malaria programs since the end of the last world war. While these programs experimented with the use of residual insecticides, endorsement by the United States of the worldwide malaria eradication program did not take place until a resolution to this effect was supported enthusiastically by the United States delegation, represented by the United States Public Health Service, at the Eighth Meeting of the World Health Assembly in Mexico in May of 1955.

United States Congressional Legislation to this effect was passed in Section 420 of the Mutual Security Act of 1957, which stated as follows:

"The Congress of the United States, recognizing that the disease of malaria, because of its widespread prevalence, debilitating effects, and heavy toll in human life, constitutes a major deterrent to the efforts of many people to develop their economic resources and productive capacities and to improve their living conditions, and further recognizing that it now appears technically feasible to eradicate this disease, declares it to be the policy of the United States and the purpose of this Section to assist other peoples in their efforts to eradicate malaria. "

Congress has continued to support this program even though the Agency for International Development has removed the program as a specific line item in the A. I. D. Congressional Presentation. In the debate on Foreign Assistance Act of 1963, Mr. Passman stated the following:

"Mr. Chairman, I want to mention now the Malaria Eradication Program which is scattered throughout this entire Bill. We have never cut this program since its inception.

"The gentleman from Massachusetts (Mr. Conte) had an interest in this particular program. I discussed it with the gentleman. We are today making legislative history here to the effect that the reduction we are recommending should not apply to the malaria eradication program. "

Executive history has also been favorable to the program since 1957. On March 30, 1962, President Kennedy issued the following statement:

"I am proud of the part which the United States is playing in the worldwide malaria eradication campaign. We have conquered malaria in our own country. Now through the Agency for International Development, we are devoting our technical skills and financial resources to this greater effort. We are also vigorously supporting

the worldwide leadership of the World Health Organization in the elimination of malaria, which involves also essential participation by allied agencies, the United Nations' Children's Fund and the Pan American Health Organization.

"Indeed, I am heartened not only by the progress against an ancient scourge but also by the growing cooperation of many countries--over 100--working through these agencies against a common enemy. In a world still sadly torn, the malaria program eradication campaign once more shows that its people can work together for mutual benefit. Worldwide technical cooperation on this scale is very new in man's history. It holds great promise for the future."

Current Executive support was stated in President Johnson's Health Message to Congress on February 10, 1964:

"The United States participates in an ambitious international effort to eradicate malaria--a disease which strikes untold millions throughout the world.

"Both my predecessors committed the United States to this campaign, now going forward under the leadership of the World Health Organization. The Congress has endorsed this objective and has supported it financially. We will continue to encourage WHO in its work to eradicate malaria throughout the world."

"We will continue to commit substantial resources to aid friendly nations through bilateral programs of malaria eradication."

These statements on policy indicate the recognition by the United States that its role is only one of partial support to the total effort. It recognizes that the principal responsibility belongs to each national government where malaria poses a problem. The United States recognizes it has no direct control over the successful execution of a program. In providing support, the United States recognizes that, in such a massive international effort, there will be individual governments which will fail to exert the optimum effort. But it also recognizes that malaria is a program composed of three major biological variables: man, the

parasite, and the mosquito. Biological variation and change within each of these factors will require occasional changes in strategy. In spite of technical problems, the multiplicity of anti-malaria methods now available have made it possible for the Secretariat of the 17th World Health Assembly to record in February 1964:

"It is the opinion of the Secretariat that there are no areas in the region of the Americas in which it will not be possible to eradicate malaria."

6. Financial Support by National and International Agencies

Between 1956 and 1965 program costs have been shared by national governments, UNICEF, PAHO and A. I. D. The following table provides the breakdown of government and A. I. D. participation for Guatemala and Nicaragua for 1956 to 1964, Honduras for Fiscal Years 1958 to 1963 and for El Salvador for 1955 through 1965.

	<u>Government Share</u>	<u>A. I. D. Share</u>	<u>Total Dollars</u>
El Salvador	61%	7%	\$ 7,896,117
Nicaragua	41%	31%	6,040,000
Guatemala	39%	28%	10,108,354
Honduras	31%	43%	5,021,500

The United States does have a policy commitment to support malaria eradication in the Americas. It is the primary interest of the United States that adequate support is forthcoming to meet the uncompromising requirements of a technical plan.

In view of the determination by the LA Region that United States grant funding of current Central American malaria programs would be terminated as of the end of Calendar Year 1964, the Region proposed that loan funds be made available from Calendar Year 1965 under the terms specified in AIDTO Circular XA-305. In supplementing grants with loans, the Latin American Bureau based its estimates of requirements on detailed plans jointly approved by the four national governments, the Pan American Health Organization, and the Office of Technical Cooperation and Research of A. I. D. These plans reflect the recognition by each of the four governments that special measures would have to be taken other than spraying if

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malaria eradication was to be accomplished. Because of increased local cost requirements, the respective national eradication agencies have appealed for assistance to the United States through their Directors and Ministers of Health. Resolutions to this effect were recorded in the May and July meetings in Managua of the Malaria Project Directors and Ministers of Health.

Because of the mosquito resistance problem in the Pacific coastal areas and because malaria transmission was not being interrupted by house spraying with residual insecticides in these areas, the Communicable Disease Center, USPHS, was requested to make an assessment of the malaria programs in four countries (El Salvador, Guatemala, Honduras, and Nicaragua) to which A. I. D. was providing assistance. This assessment led to the development of technical plans for a program which would involve mass drug treatment for the people living in the coastal areas, continual use of insecticides in areas where they were effective, and protection of areas which had been freed of the disease. These revised and intensified programs require larger budgets than are now available.

Following the U. S. Public Health Service (PHS) team assessment in early CY1964 of the malaria eradication programs in Guatemala, Honduras, El Salvador, and Nicaragua, and a subsequent joint A. I. D. -PHS/PAHO on-site study of country plans in July, 1964, an A. I. D. /PAHO proposal for a three-year loan-financed malaria eradication program was developed and presented to the US AID's Servicios Nacionales de Erradicación de la Malaria (SNEM's), The Campaña Nacional Anti-Palúdica (CNAP) of El Salvador, and the Ministers of Health during the A. I. D. /PAHO group visit in July 1964. Reaction was generally favorable on the part of all concerned, and the Health Ministeries, US AID's, and ROCAP began developing technical and financial data adequate to support requests for A. I. D. loans.

A. I. D. had determined that for purposes of inter-agency technical coordination a comprehensive Plan of Operations should be completed by the local SNEM's and CNAP specifying the program strategy and detailing the local cost budget requirements, and that this Plan, which came to consist of four national Technical Plans plus a four-country Coordination Plan, must be approved by PAHO and AID/W.

In early CY 1965 the first Technical Plans had been completed and submitted to the US AID's and PAHO; however, PAHO found that three of the six Technical Plans required revision, and the four-country Coordination Plan had not yet been drawn up. PAHO Technical approval of the El Salvador country plan for Malaria Eradication was granted by letter ME-1779-65, dated October 29, 1965, from the Director of the Pan American Health Service to the Surgeon General of the Public Health Service and concurred in by AID/W in AIDTO A-189 dated December 16, 1965.

At the end of April, 1965, PAHO called a meeting in Washington of the CA/P Minister of Health, SNEM and CNAP Directors, and UNICEF and A. I. D. representatives to discuss the regional technical aspects of malaria eradication. At this meeting a regional approach was agreed upon, the need for and availability of A. I. D. loan financing was recognized, and it was determined that a working group would be established to develop coordinated Technical Plans for each country and the region.

At a meeting in Panama on August 13-18, the Central America and Panama Health Ministers established a Coordinating Committee for malaria eradication throughout the region, and a meeting of this committee was scheduled for September 6-8 in Guatemala to review their completed--and revised--Technical Plans and to develop a comprehensive regional Coordination Plan. At this September meeting the four Technical Plans and the regional Coordination Plan were reviewed and concurred with by the CNAP Directors involved and representatives of PAHO, UNICEF, and A. I. D., and following final revisions, reproduction, etc., were to be forwarded to PAHO/W for approval.

A loan request was received on February 11, 1966 from GOES for \$1,635,000, equivalent to 47.6% of the GOES/AID financed portion of the proposed three-year eradication program. This request is in keeping with the 50% ceiling on local cost financing stated by AID/W a year earlier and reaffirmed in the ARA/LA CAEC meeting of May 10, 1965. IRR approval was granted by the CAEC on March 14, 1966. Minutes of the March 14, 1966 CAEC review and issues contained in the IRR are contained in Annex III.

C. COUNTRY TEAM COMMENT

The proposed three-year malaria eradication program

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will attack a disease which debilitates a portion of the population of El Salvador and has in the past rendered areas of high agricultural potential, especially along the Pacific Coast, practically uninhabitable. The benefits of this eradication program in a social sense, through improved health and living conditions, and in the economic sphere, through the opening of new lands for agriculture and the greater level of protection for areas already reclaimed from malaria, will be enormous.

The Country Team considers this project to be of high importance for El Salvador and the region, and gives full support to this loan request.

D. ALTERNATIVE SOURCES OF FINANCING

As this loan involves no, or insignificant, U. S. dollar procurement, the Export-Import Bank has not been contacted.

On October 11, and 12, 1965, IBRD and IDB, respectively, indicated informally that this financing would not be considered suitable for their institutions.

E. TECHNICAL ANALYSIS

1. Description of the Program

Malaria control activities started as far back as the year 1900, but the program referred to as the Malaria Eradication Program was not initiated until the year 1955. It is planned that the program will arrive at the maintenance phase in the 1970. The loan portion will terminate in 1968.

As in other malaria eradication programs, the original El Salvador program consisted of four phases: (1) Preparatory-(mapping and numbering of houses, recognizance and epidemiological studies to define malarial areas); (2) The attack-(massive drug treatment of the people, spraying of houses with insecticides and larvicides); (3) Consolidation-(epidemiological surveillance for detection of malaria cases); and (4) Maintenance-(prevention of reintroduction of malaria into areas free of malaria).

The following figures give an idea of the malarial problem, endemic in the country, and of the current situation, after several years of the anti-malaria campaign.

	Population Estimated for 1965	Territorial Extension Km ²
Total country	2,900,000	21,000
Areas of endemic malaria	2,320,000	18,900
Areas in consolidation phase	1,520,000	11,400
Areas in attack phase	800,000	7,500
Areas in above attack phase considered as problem areas	374,000	4,000

The Three-Year Program, 1966-68, has been prepared in accordance with the current situation which indicates that 34.5% of the population is living in the endemic malaria areas where more than 70% of the total cases registered in the country are found, and must be essentially protected with the attack methods which the eradication techniques consider adequate.

Consequently the respective program includes the

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following:

1. Methods of attack.

- 1.1 In the problem areas, coastal zones with 374.000 inhabitants, collective treatment shall be applied (290.000 people will receive medication every 14 days and 84.000 shall be under strict epidemiological vigilance). The areas under collective treatment shall be grouped in five work zones, of which, the first three are already established and the fourth and fifth shall start functioning as soon as the transportation equipment to be provided by UNICEF, arrives.

In addition, all the localities in these areas shall receive, simultaneously, DDT Spraying in two consecutive periods of four months each per year.

- 1.2 The remaining localities in the areas in the attack phase, having a population of 436.000 people, shall be submitted to two consecutive spraying periods of four months each per year.
- 1.3 Some localities in the areas of the consolidation phase, having approximately 150,000 people, will receive one spraying per year, to more firmly guarantee success in these areas.
- 1.4 Larvicides will be applied in those localities where indicated and feasible.
- 2 Areas in the consolidation phase shall be kept under adequate epidemiological vigilance and constant readiness maintained to take any measure which the situation requires.
3. Epidemiological Operations: Evaluational and entomological activities will be increased as necessary and in accordance with the activities applied in the different areas.
- 3.1 To current groups of efficient volunteer collaborators shall continue to be supervised by personnel of the campaign.
- 3.2 All febrile persons from whom a blood sample is taken to

investigate the presence of the malarial parasite will automatically receive anti-malarial drugs in accordance with their age.

- 3.3 In all indicated positive cases, radical treatment shall be given in accordance to the parasitary specimen found.

It is estimated that the areas under the attack phase will enter into the consolidation phase in 1969, however, if necessary, insecticide spraying, collective treatment or larvicides, alone or combined, will be immediately started in any specific area if transmission is re-established. The detailed technical plan of operation, which has been approved by PAHO/Washington and AID/W is submitted as Supplement A to this loan paper.

A brief summary of the plan is submitted as follows:

	<u>1966</u>	<u>1967</u>	<u>1968</u>
1. House Sprayings	184,000	184,000	90,000
1.1 Total Sprayings	339,250	339,250	150,000
	<u>1966</u>	<u>1967</u>	<u>1968</u>
2. Persons under Collective Treatment Programs	374,000	386,000	398,500
2.1 Persons who will receive mass medication	290,000	153,500	82,500
2.2 Persons under strict Epidemiological Vigilance	84,000	232,500	316,000
3. Notification Posts	2,400	2,500	2,500
4. Blood samples to be taken for Laboratory Examination	585,000	600,000	600,000

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5.	Persons to receive presumptive drug treatment	350,000	350,000	350,000
6.	Total personnel required (see technical plan for categories of personnel)	1,188	1,072	846

The Financial Section and Annex II of this loan paper present detailed information on the source and use of all funds for the program.

The cost for personnel, materials and equipment together with that which is now on hand in the program will be adequate to meet the requirements of the technical plan of operations. It should be noted, however, that the plan must be flexible to permit readjustments of the program after the first year when it is anticipated that malaria transmission will be substantially reduced.

2. Plan for Regional Coordination

A regional plan of coordination has been established between the five Central American countries and Panama (CA/P) in order that individual country programs will be coordinated and carried out effectively in terms of time schedules, technical procedures, attack methods along borders, and epidemiological vigilance. There will be continual exchange of information on program progress and problems among countries. A Work Group for Coordination has been established by the Ministers of Public Health of CA/P, members of which are the Directors of the National Malaria Eradication Services, CA/P and representatives of the Pan American Health Organization (PAHO), UNICEF, and A. I. D. This Work Group will meet at least twice each year to review progress made in each country, discuss any problems affecting national and regional aspects of the program which may arise, and prepare progress reports for the President of the Superior Council on Public Health, CA/P. These reports will be submitted to all Ministers of Public Health, CA/P. It is expected that country problems and those relating to transmission of malaria between countries

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may be resolved through coordination and evaluation of country programs by the Work Group.

3. Technical Personnel for the Program

Since the beginning of the program in 1955 the Government of El Salvador has received technical assistance from the Pan American Health Organization (PAHO). In May of 1964 A. I. D. provided the services of a Public Health generalist as a liaison officer for CNAP and USAID.

a. <u>PAHO Personnel</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Medical Officer	2	2	2
Sanitary Inspector	3	3	3

The personnel are stationed in San Salvador.

b. PAHO Zone Office Personnel

Medical Officer	2	2	2
Sanitary Engineer	1	1	1
Health Educator	1	1	1

As reorganization of malaria eradication activities in the CA/P region is intensified, PAHO plans to strengthen the malaria staff in the zone office located in Guatemala.

c. USAID Personnel

The USAID Mission continues to maintain its position of a Public Health generalist who will be expected to advise and be liaison officer to CNAP. The ROCAP Chief Public Health Advisor provides some advisory services, particularly on regional aspects of the program, and the Mission's administrative staff will provide backstopping and auditing.

It is planned that through a grant financed by PASA with the U. S. Public Health Service, two malariologists will be assigned to ROCAP to serve under the general supervision of ROCAP's Chief Public Health Officer. One of these malariologists will provide advisory and monitory services for El Salvador and Guatemala while the other will provide services

for Honduras and Nicaragua. The basic work of the USPHS malaria advisor will be to monitor project performance. The complexity of this task arises from the inclusion of 22 minimum technical, legal, and administrative requirements which must be included in an AID/WHO approved national plan of operation.

The advisor will assist CNAP in the preparation of annual detailed work plans in order to assure that the plans are satisfactory. During the course of an operational year, he will travel throughout the operational area to verify that targets are achieved in terms of house spraying or other techniques.

The advisor will provide technical and fiscal certification as required for disbursements under loan. The functions of the PAHO and AID malaria technicians will not overlap but rather will complement each other, with the latter serving to monitor use of funds and continually reporting on program progress and problems.

The technical advisory and evaluation services described above are adequate for the program.

d. National Malaria Eradication Service (CNAP)
Personnel

About 443 Salvadoran government workers are now employed in the program. With the initiation of the new technical plan which includes the increase of mass drug treatment an additional 745 employees will be required, making a total of 1188 for the first year CY-1966. This number will be decreased to 1072 in CY-1967 and to 846 in CY-1968. In addition there are 2300 volunteers who maintain malaria notification posts. Detailed personnel costs are shown in Annex II Exhibit 3.

Key staff members of the CNAP organization are the physicians, engineers and administrators who function as chiefs of the major technical sections of the national headquarters and as sector program chiefs in the field. A list of key CNAP personnel appears as Annex II, Exhibit 4. The compe-

tence of both the professional and nonprofessional personnel of the organization is high. Of equal importance is the strong dedication of the employees at all levels. Experience since the beginning of the program has shown that in spite of many and serious obstacles the employees have pushed the program ahead with the funds and materials available so that it is considered one of the best and most effectively administered programs in Latin America. With the increase of 745 employees during CY-1966 to meet the personnel requirements of the new technical plan involving mass drug treatment, a vigorous training program has been planned. The CNAP has the capability to handle such personnel training and administration.

4. Cost of Program

A. I. D. has been asked to lend the GOES 47.6% of the estimated local costs of this program. This loan of \$1,635,000 will be used for personal services (doctors, medicators, sprayers, etc.) \$1,436,320; equipment and materials (transportation, gasoline, oil, medical supplies, office supplies, special clothing, tires, spare parts) \$154,480; and miscellaneous expenses (rents, public utilities, malaria outbreaks, contingency reserve) \$44,200. These cost estimates are derived from detailed GOES analyses. The personal services cost is in line with wage scales now current in El Salvador, and the operating equipment and materials costs are based on previous experience and are reasonable.

While the procurement of equipment and materials is a minor part of this project, and it cannot be determined at this time what portion -- if any -- may be procured from the United States. The GOES has stated it will take every reasonable opportunity to procure loan-financed commodities directly from the United States.

In addition to the GOES/AID contributions to the project, the USPHS will provide two grant-funded technicians to work primarily in the four countries requesting AID loans, with the one-fourth of their cost attributable to this El Salvador project equalling \$12,000 annually or \$36,000 over the three years of the project; and UNICEF will provide the insecticides, drugs and equipment required, valued at \$760,000 over three years.

5. Other Considerations

a. Importance of Early Implementation and Commodity Procurement

Since the malaria program has been in process since 1955, the CNAP has the basic facilities and technical and administrative experience and capability to expand the program to include mass drug therapy for those areas where mosquitoes are resistant to residual insecticides. Early employment of new personnel and their training is important to rapid implementation of the program to prevent reintroduction of malaria into areas now in consolidation.

UNICEF has provided commodities in the past in the form of anti-malarial drugs, insecticides, vehicles, sprayers, etc. and will continue to do so for the next three-year period. The timing of arrival in El Salvador and the other Central American countries of these commodities is important to maintain program schedules. Therefore UNICEF is most anxious to know as soon as possible that the new technical plans have been approved and funding arranged for implementation so they can proceed with their programming for commodities in each of the countries.

b. Funding

The Project budgets for CY-1966, 1967 and 1968 together with proposed loan figures and contributions from PAHO and UNICEF are shown in the Financial Analysis. The loan agreement will require a schedule of contributions to the project from the GOES.

6. Technical Soundness

a. Program Planning

A Technical Operations Plan for a three-year period 1966-1968, has been prepared by CNAP with the assistance of PAHO and AID/W. The plan indicates clearly that the program has been adequately planned and the cost estimates are reasonable and sound. It is expected, however, that the program costs during the last year will depend upon the extent of reduction of

malaria transmission achieved during the first two years of the program. In any case they are not expected to exceed the present estimated level.

The work group for coordination established by the Minister of Public Health, CA/P, for malaria eradication in the region has held two meetings and documents have been prepared which set forth procedures and responsibilities of the Work Group to achieve regional coordination. In addition, the Work Group reviewed in detail each country's technical plans of operation and stipulated specific actions to be taken by each country, including the prevention of malaria transmission between countries. These documents clearly indicate the depth of the planning and the serious intent of the countries involved to eradicate malaria from their region.

b. Project Evaluation Study

In view of the amounts of money and personnel involved, and because of the importance to El Salvador and the other CA/P countries of eradicating malaria, which is now at a critical stage due to the increasing resistance of mosquitos to insecticides and to the increasing incidence of malaria in the face of present levels of program activities, the Ministers of Public Health, CA/P, have agreed that frequent periodic evaluations of the program are absolutely essential. These evaluations will be made by the Work Group for Coordination and experts of PAHO and A. I. D., jointly and/or independently.

c. Technical Evaluation

CNAP has prepared a detailed plan of operations for each of the three years for house spraying, mass drug treatment, epidemiological vigilance and other activities to carry out the malaria eradication program. The Plan, Supplement A of this loan paper, is sound and realistic and has been officially approved by PAHO/W and AID/W malaria experts. As described above, it is considered that the applicable provisions in Section 611 of the FAA have been fully satisfied.

7. Technical Implementation Plan

The present on-going program includes mass drug treat-
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ment, and in all problem areas, house spraying twice annually only in those areas where spraying is deemed effective and epidemiological surveillance and radical treatment of malarial cases found in areas of consolidation.

When funds become available for the program, the technical plan for operation will be amplified in the following manner:

- a. Additional personnel will be employed and given intensive training. These will consist largely of medicators, the persons who give anti-malarial drugs directly to people, dosage depending upon the age of the person. More than 80% of the population in the mass drug treatment must be reached on the time scheduled. Area supervisors also will be trained who will be responsible for program activities in specific sectors of the country.
- b. Transportation equipment and required supplies for medicators and supervisors (motorcycles and jeeps, drugs, etc.) will be obtained.
- c. UNICEF will provide anti-malarial drugs, insecticides and most transportation equipment.
- d. House spraying where residual insecticides are effective will be continued and intensified in specific cycles in attack areas together with larviciding where indicated.
- e. Epidemiological surveillance in all potential malarious areas will be intensified, with rapid appropriate attack initiated in all localities where and when malaria breaks out, utilizing house spraying, mass drug treatment and radical drug treatment of all known cases.
- f. The epidemiological and laboratory staffs will be increased and an accelerated program of taking blood specimens on all known fever cases for laboratory examination will be accomplished. Presumptive treatment will be given before laboratory results are known. Radical treatment will be given to all positive cases.

- g. Most of the malaria notification posts will be managed by volunteers. Supervision of these posts by government malaria personnel will be intensified. All health services (Hospitals, etc.) will be regularly stimulated by CNAP in order to get adequate notification.
- h. Public education will be intensified at all levels utilizing the phrase "War Against Malaria" ("Guerra Contra la Malaria").
- i. Reporting systems will be intensified in both quality and volume, so that there will be a continual evaluation of the program including progress made in terms of established targets (mass drug treatment, house spraying, larviciding) reduction of malaria cases, and elimination of foci of infection and spread of the disease.
- j. Program administration will be augmented and improved to assure flexibility in program activities and adequate logistic and administrative support in all field activities.
- k. The Pan American Health Organization (PAHO) will provide technical advisory services at both the country and the regional level as described under Technical Analysis of the Program. It is expected that PAHO will increase its regional technical staff when the new program is implemented.
- l. AID will provide technical advisors who will work with the Regional Programs under the general supervision of ROCAP's Chief Public Health Advisor. His responsibilities will be to monitor the program to assure proper utilization of funds, assess program progress in terms of established targets, identify technical problems that may arise, and report periodically to ROCAP.
- m. ROCAP's Chief Public Health Advisor will assist in monitoring the program, requesting TDY services of expert malariologists when he deems it

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necessary. He will collaborate with PAHO and the CA/P "Work Group of Coordination" in evaluation of the country's program, with assessment in terms of regional implications and the regional plan of coordination for eradication of the disease from the Isthmus. Also he will work with UNICEF to assure that equipment and supplies are available for program time schedules, and will report program status periodically to USAID/El Salvador and AID/W.

- n. USAID/El Salvador will make periodic audits and provide appropriate administrative backstopping to the program.

F. ECONOMIC ANALYSIS

1. General Economic Situation in El Salvador.

El Salvador has just completed three years of expanding economic activity, the end of which is not yet in sight, though the rate of expansion may be slackening for several reasons.

Generally reliable GNP estimates show an average annual increase of 9% a year for the past three years. Population increase is also rapid (in excess of 3% per annum). Official price indices show only negligible price increases during the past five years. These indices are believed to understate actual price movements only slightly, so that by far the major part of the indicated 6% per annum increase in per capita GNP is real.

This excellent economic performance was possible owing to the simultaneous operation of several important factors:

- Expanding agricultural exports
- Improved export prices
- Long-term private and public capital inflow
- Rapidly expanding regional trade
- Strong and sustained domestic private investment
- Sustained political stability
- Expanding industrial investment

Despite rapidly increasing industrialization, El Salvador is still an agricultural country, and a key element in the country's economic performance is the income from agricultural export crops—coffee, cotton, and sugar. These are all commodities which are in frequent or chronic world surplus supply and which are subject to rapid price fluctuations, apparently more often downward. Despite the ever-vulnerable situation of these products, El Salvador has fared relatively well during recent years.

Salvadorean coffee is of good quality and is efficiently produced, so that relatively little difficulty has been encountered in marketing it profitably. The anticipated 1965-66 Salvadorean coffee surplus problem did not materialize, owing to less-than bumper yields and a quota waiver granted at the November 1965 London meeting. Some of the benefit of the waiver could still be lost if prices drop below the target level. The prospects for equally successful marketing of the 1966-67 crop are less favorable. A large crop is predicted, and a higher quota or continued waivers are far from assured. If a sizeable unmarketable surplus should result, a problem of fairly serious proportions will result, since public and private capital would then probably be uneconomically employed in carrying the surplus.

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Cotton exports exceeded \$36 million in each of the past three years. Drought and insect problems reduced the 1965-66 crop to the extent that 1966 cotton exports are expected to be down by as much as one-third. The negative impact is not limited, however, to reduced foreign exchange earnings from cotton fiber exports. A flourishing vegetable oil and animal feed industry has arisen on the base of sustained high cotton production. Imports of crude cottonseed oil from Nicaragua will be needed in 1966 in order to keep oil plants running. In order to supply animal feed for the expanding dairy and beef industries, consideration is being given at present to importing up to 20,000 tons of soybeans from the U.S. In an attempt to dissuade farmers from shifting from cotton to other crops, the GOES has committed itself to provide massive financial assistance to permit hard-hit cotton farmers to roll over existing short-term debt and to finance the coming crop. The result of these developments will be reduced foreign exchange earnings in 1966 from cotton exports, increased foreign exchange expenditures for imported raw materials, and the tying up in cotton financing of bank credit which had been counted on to be available for more productive investment, both in the public and private sector.

Sugar production has expanded, on a profitable basis, in the past three years. Of the approximately 100,000 tons produced annually, approximately one-third is sold in the United States at higher than world prices. The bulk of the remainder is sold in the protected domestic market, leaving only a small portion to be sold at presently depressed world prices. Additional sugar mill capacity has been put in place in the past three years, and if cane plantings expand to permit the expanded industry to operate at capacity, a surplus problem could result.

Exports, which were stable at around \$156 million a year in the 1958-61 period, began a sustained expansion in 1962 and reached \$187 million in 1965. Although sales of manufactured goods in the Central American Common Market are expected to continue to increase, no continued expansion of traditional agricultural exports to world markets can be expected in 1966. The dynamic impulse of good volumes of coffee, cotton and sugar, which taken together provided the strongest single stimulant to the 1962-65 boom, can scarcely be expected to provide the same relative strength to the economy in the next year or two. Although important indicators such as retail sales and industrial production continue to expand, there is a feeling in the air that a pause is due.

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Imports, particularly of capital goods and raw materials, expanded at a slightly lower rate than exports until the end of 1963. In the past two years trade deficits of \$13 million a year have been incurred. The GOES became concerned over the trade deficit and tightened bank credit in 1965 in order to discourage unneeded imports. Long-term public and private inflow, however, has more than compensated for the modest trade deficits of the past two years. Net foreign exchange reserves of the Central Bank stood at \$51 million at the end of 1965, an increase of 27% over 1964. Reserves have continued to increase and stood at \$66.8 million on March 4, 1966, equal to 2½ months foreign payments requirements at the 1965 rate.

Total domestic revenues of the Central Government (excluding autonomous agencies and foreign borrowing) increased by 16% in 1964 but by only 6.7% in 1965. The May 1965 earthquake is believed to have reduced substantially personal and corporate income tax liabilities as well as to have resulted in a slowdown in collections. The GOES projects an increase of 11.4% in tax receipts in 1966. This estimate is believed to be somewhat inflated, and a more prudent estimate would be no higher than the 1965 rate of increase.

Expenditures have remained in line with revenues during recent years. In 1965 an estimated surplus of \$7 million was realized and carried into the 1966 budget. This large surplus results in part from slow utilization of funds earmarked for earthquake relief and reconstruction.

The traditionally conservative monetary and fiscal policies followed in El Salvador have held price increases to insignificant amounts even during the expansionary period of 1962-65. The official price indices, which may understate actual increases slightly, increased only 2% during the past five years. Wage increases have been relatively small. An increase in agricultural minimum wages of very moderate proportions in 1965 appears to have been absorbed without difficulty by employers. A minimum wage for industrial workers is under study, but even when implemented should have relatively slight impact on price levels already prevailing in progressive, expanding plants. Some spot wage increases have been granted to public employees, and raises for increase numbers of employees are more likely than not in the next year or two. Such increases may be politically necessary if concurrently the GOES increased salaries to middle and upper echelon personnel to the level needed to attract and hold competent people. Public sector wage increases are not expected to reach inflationary proportions, but a greater-than-planned portion of increasing tax revenues may be absorbed in such increases, leaving insufficient funds for capital contributions to new projects and for the increased operating expenses incident to development.

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The pattern of public expenditure outlined in the just-completed five-year plan (1965-69) clearly implies that pressures on the budget will be greater than in the past. Public investment in years prior to 1962 was heavily concentrated in infrastructure projects—e.g., roads and in self-liquidating projects in power and port development. Since 1962, public investment has shifted gradually into new areas, first largely self-liquidating industrial and housing lending, and to a lesser extent in investment in the social sector. The emphasis for the coming years is to be much stronger in the social sector. Over 50% of public sector investment in the five-year plan is scheduled for the social sector. Well-administered investments in health and education may well be more remunerative in the long run than industrial and infrastructure investments, but the former are not self-liquidating and place heavy demands, which the budget is ill prepared to meet, on public finances during the years of implementation.

At the beginning of 1966, El Salvador could contemplate with satisfaction the economic results of the past three years. Those results were achieved by mixture of generally good economic management, foreign public and private support, and some luck (e.g., agricultural export prices and volume). Realistic observers are at present unable to perceive the trends and forces which will make possible a continuation of sound growth at the rate of the past three years. Despite the excellent results so far achieved in some sectors, the basic problems of the country of excess population, lack of land, and other natural resources, malnutrition, ill health, poor housing, and illiteracy have barely been tackled.

2. Debt Repayment Capacity of El Salvador.

Foreign debt payments of interest and principal require only about 5% of El Salvador's export earnings at present. The total outstanding foreign debt at the end of 1965 was \$57 million, up from \$28 million at the end of 1962. This sharp increase in debt, however, is long-term debt taken on at conventional or concessional rates of interest. Short- and medium-term high-interest supplier credit has been avoided. If new additional debt continues to be available on average terms no more onerous than the post-1962 addition, a very large additional burden can be assumed without exceeding reasonably prudent debt servicing limits.

The developmental goals outlined in the five-year plan are quite modest in relation to needs. The investment required can nowhere near be met by domestic revenues, which only increase

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arithmetically, while capital input requirements and increased operating expenses associated with rapid development increase geometrically. El Salvador has no choice but to assume greatly increased foreign indebtedness if developmental goals are to be achieved in substantial measure. The favorable side of this picture is that the prudent fiscal management of the past and present permits the assumption of increased debt without violating the canons accepted by foreign lenders.

3. Local Cost Financing.

Virtually all of the A.I.D. component of \$1,635,000 and of the GOES contribution of \$1,800,000 will be for local costs. Most of the small foreign exchange costs will be borne by PAHO and UNICEF, neither of which agencies can pay local costs. The A.I.D. portion will amount to 36% of total costs and 47% of estimated local costs. The justifications for A.I.D. financing of this percentage of the total and local costs are simply (a) that the project is necessary, (b) that it is not likely to be carried out without A.I.D. assistance, and (c) that the cost of the project are necessarily mostly local costs.

This project, like many others which the GOES has presented in the past and will present in the future, is local cost-intensive. Projects are selected for presentation to A.I.D. and other lenders from the standpoint of priority, taking into account the optimal mix of resources available. Labor is plentiful and cheap; hence, projects using large labor inputs are favored by the GOES when such projects also meet tests of priority. Such projects are relatively cheaper in terms of total cost, since relatively plentiful resources are used to optimal advantage. The GOES is well aware that foreign cost-intensive projects have a built-in advantage from the tactical standpoint of loan negotiation, since the local currency issue does not arise in such projects to a critical degree. However, the GOES has avoided emphasizing such projects, even those which would be well short of meriting a white elephant label, and has concentrated, wisely we believe, on high priority projects.

Financing its portion of local currency costs presents real and difficult, though different, problems for the GOES, which can obtain local currency only from tax receipts and, to a very limited extent, from domestic borrowing. Domestic borrowing is virtually completely restricted to borrowing for self-liquidating projects administered by autonomous entities of proven administrative merit.

Planning, training and other preparation (i.e., the cadastral survey) indispensable to provide meaningful additional tax reform to supplement the pioneering tax reform measures of the present administration are expected to provide new tax breakthroughs and receive new impetus.

Meanwhile, optimal use of the limited domestic resources can best be achieved by selecting only the highest priority projects, regardless of the local cost percentage. From the standpoint of the GOES, it is immaterial whether GOES costs are in local currency or in foreign exchange, since in an open economy without inflation the GOES pays all of its expenses in the first instance in local currency.

A large and easily forgotten measure of self-help is provided through the GOES adherence to stable monetary policies, since as a result of such policies all foreign assistance can be utilized for productive investment without the necessity of diverting a portion of such assistance to supporting assistance which, even if successful, can at best only build a foundation upon which productive investment can then proceed.

In the case of El Salvador, AID financing of high percentages of local costs does not entail unfavorable effects on the U.S. balance of payments. U. S. exports' share of the Salvadoran market have been maintained in percentage terms, while increasing in absolute terms as total imports increase in response to the expanding economy. There is every reason to expect this trend to continue and perhaps to increase, as U.S. exporters learn how to take advantage of the changing though expanding opportunities to sell in the expanding CACM.

4. Place of Project in Program. The malaria eradication project was not specifically envisaged in the FY 1967 CAP, since it was, until recently, assumed that El Salvador would finance from its own resources its share of the four-nation regional malaria eradication program of which this project is a necessary and integral part. The regional project has and has had a high priority in the regional program. It became necessary for the GOES to seek AID financing for part of the project only when the GOES realized in the preparation of its CY 1966 and 1967 budgets that, despite a 62% increase in its appropriations for malaria eradication, its resources would be insufficient to carry the whole load alone.

5. Economics of Project

(a) Regional Significance of Malaria Eradication

Since 1942 the U. S. Government has been assisting other countries in their anti-malaria programs. During 1956 and 1957, such support reached a \$11.5 million annual level in Latin America. Under Section 420 of the Mutual Assistance Act, 1957-60, the U.S. Congress recognized that malaria "constitutes a major deterrent to the efforts of many people to develop their economic resources" and stated the U.S. policy of assistance to efforts to eradicate malaria. U.S. contributions to UNICEF, WHO, and PAHO assist these international agencies in malaria eradication in most of the 84 countries where anti-malaria activities are underway.

A statistical survey by WHO in mid-1963 estimated that 154 million persons on the American continents live in what once were malaria infested areas. This figures includes about 45 million in the United States where malaria has been eradicated.

In four countries of Central America (Guatemala, El Salvador, Honduras and Nicaragua) approximately 7 million people, or 65% of the total population, now live in areas that were originally at risk to malaria. Today in 83% of the population of these four countries there is either no malaria or it is under satisfactory control. The economic and social consequence in the way of increased agricultural and industrial production and reduced mortality rates is evidently substantial; however, as in the case of other public health activities, the direct economic benefits from malaria control and eradication are difficult to quantify.

Comparisons of agricultural production in West Pakistan between protected and unprotected malarial districts suggest that increased agricultural yields are directly correlated with anti-malarial activities. A WHO experiment in East Pakistan and other worldwide data suggest that agricultural yields may increase from 15-40% due to eradication of malaria. Such details suggest the importance to Central America's heavily agricultural economy of the anti-malaria program.

Considering the strong social and economic benefits of the project, it appears there is no alternative expenditure which would achieve the same results as malaria eradication.

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Between 1956 and 1964 the United States provided assistance to Central America in Grants and Technical Assistance. PAHO and UNICEF gave further assistance during this period. Costs shared by the four governments (excluding Costa Rica) and A.I.D. have totaled about \$28.4 million, with A.I.D. contributing \$7.2 million (25%) over the past eight years.

The proposed three-year eradication program, intended to cope with the residual problem areas 1 will cost an estimated \$14.3 million, of which the U.S. support, on a loan rather than a grant basis, would approximate \$4.8 million.

Added to the expenditures of the preceding period, the total eleven-year program would cost, by the end of 1967, \$42.7 million, an average annual cost of about \$3.9 million, of which the U.S. share would be, in grants and loans, about \$12 million, or 28%.

1 - Because of insecticide resistance the remaining 1.8 million population of the Pacific coastal areas present a special problem. The problem area population is estimated as follows:

	<u>Problem Area Pop.</u>	<u>Total 1964 Population</u>	<u>% of Total</u>
El Salvador	374,000	2,750,000	13.2%
Guatemala	491,000	4,300,000	11.4
Honduras	141,000	2,200,000	6.4
Nicaragua	<u>809,000</u>	<u>1,600,000</u>	<u>50.5</u>
	1,815,000	10,850,000	17.0%

The following table shows the approximate cost per person of the proposed three-year program based on the population of the problem areas and the total estimated expenditures from government contribution and United States loans:

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	Population Problem Area	Three-Year Cost (Millions)	Approximate Cost per Person	
			Three-Year Period	Per Annum
Guatemala	374,000	\$ 4.4	\$11.76	\$3.92
El Salvador	491,000	3.4	6.92	2.31
Honduras	141,000	2.3	16.30	5.43
Nicaragua	809,000	4.2	5.19	1.73
	<u>1,815,000</u>	<u>14.3</u>	<u>7.88</u>	<u>2.63</u>

The principal affected areas are the Pacific coastal lowlands. This strip along the Pacific, some 600 miles long and rarely as much as 100 miles wide, is the most densely populated area in Central America--about 20% of the total area of the region containing 60% of the population. This area of population concentration includes about one-third of Guatemala, all of El Salvador, the two Pacific Coast provinces of Honduras, and the urban areas of Nicaragua.

Postwar agricultural development of sugar and cotton bears a direct relationship to the reduction of human reservoir of malaria parasites. The Pacific Coast lowlands and plains were economically revitalized because of the war on malaria. In El Salvador alone the coastal population has doubled since 1958.

The economic importance of the Pacific Coast areas of Guatemala, El Salvador, Honduras, and Nicaragua is shown in the series of paragraphs (following) which give the percentage of major crops grown in the Pacific Coasts Departments of these countries compared with the country crop totals.

Guatemala: Seven Pacific Coast Departments comprise 17% of the land area and in 1962 contained 34% of the population. This area in 1962 produced 100% of Guatemala's cotton crop, 77% of its coffee, 74% of its sugar, 55% of its rice, 46% of its corn and 49% of its cattle.

Nicaragua: Four Pacific Coast Departments make up 12% of the total land area of Nicaragua and contain about 43% of the country's 1963 population. The area produces 94% of the country's cotton, 83% of its sugar, 35% of its rice and 31% of its cattle.

Nicaragua constitutes the principal problem area. When the program began in 1958 approximately 96% of the population was considered to live in a malaria area which consisted of 95% of the land. Eradication of malaria, principally in the most fertile regions where the sugar industries are located and where cotton and cereals are being cultivated, is considered imperative.

El Salvador: 67% of the total population of San Salvador live in eight Pacific Coast Departments. This land area produces 93% of its cotton, 71% of its corn, 68% of its sugar, 64% of its coffee and rice and 58% of its cattle.

Honduras: The problem area is in the tip on the Pacific lying between El Salvador and Nicaragua. In this area there are only two Departments containing 12% of the population. Consequently the economic importance of the area as compared with the other three countries is relatively small, as may be seen from the Tables. Only cotton is of real importance, with all of the country's production grown in these two departments.

Summary: The foregoing Pacific Coast summaries give a clear picture of the economic importance of malarial areas to the agricultural sector in these four countries. Needless to say, industry and commerce play an increasingly dominant role in the ports and adjacent towns where refineries, fertilizer plants, fisheries and coastal shipping are located. These too would be adversely affected in the event of a resurgence of malarial infection along the Pacific Coast area.

Success in eradication depends upon continuous and systematic operations over a minimum of seven years (starting from scratch) if the disease is to be completely eliminated. Therefore the costs of such programs appear superficially great in comparison to the derived economic benefits. There can be no question, however, of the tangible and immediate social and welfare benefits from malaria eradication. These will mean increased individual longevity and productivity.

Anti-malaria campaigns have contributed significantly to the economic and social development of the countries; these activities should be continued. Cessation or a sharp curtailment of the program in any country will result in a resurgence of malaria and the campaigns in contiguous countries could be affected adversely. If malarial infection is not effectively eradicated it could spread and oblige the agricultural population to retreat to the highlands. Ironically enough, the progress of Central American economic integration, with its enhancement of migratory movements by land and air, reduces the protection normally afforded by "island" isolation, and makes the need for malaria eradication and control even greater.

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In view of the assumption that the proposed malaria eradication program will go forward in Guatemala, Honduras, and Nicaragua, it is obvious that the results in those three countries would be short-lived unless concurrently similar eradication efforts are adequately implemented in El Salvador. Malaria would quickly be reestablished in newly malaria-free areas of the three neighboring countries if El Salvador remained an area of actual infestation. Movement of people among the three countries is already large and is increasing rapidly, so that eradicating malaria in only three countries would be similar to plugging only three of four holes in a foundering ship.

(b) Significance of Malaria Eradication to El Salvador.

Although much of El Salvador is susceptible to malaria, the present areas of infestation in the Pacific coastal lowlands present the greatest danger of reaching endemic proportions. It is in the coastal area that recent agricultural advances have been the most spectacular, as the completion of the litoral highway made more intensive cultivation of the area economically feasible. The maintenance and expansion of this economic advance could be jeopardized if malaria is not brought under control or eradicated.

The affected area is also the seat of the newly important shrimp industry. One important port city, Acajutla, has expanded rapidly in the past five years and is becoming an important industrial as well as port city. Present plans call for more intensive development of the area surrounding La Union, on the Gulf of Fonseca, in connection with regional development involving Nicaragua and Honduras. Industrial progress already achieved could be set back if malaria worsened in the area, and prospects for future Salvadoran and related Nicaraguan and Honduran development would be less favorable unless it is assumed that malaria in the region will be wiped out.

G. FINANCIAL ANALYSIS**1. Total Requirements**

The over-all cost of the three-year program is estimated at \$4,555,455, with the bulk of the expense, local-cost goods and services, to be underwritten by the GOES and A. I. D. Contributions of approximately \$360,000 will be received from PAHO (in technical advisors and special investigatory equipment and materials) and \$760,000 from UNICEF (in insecticides and related equipment). A summary cost analysis follows in tabular form.

COST SUMMARY: EL SALVADOR MALARIA PROJECT
(U. S. \$)

	1 9 6 6			1 9 6 7			1 9 6 8		
	GOES	A. I. D.	TOTAL	GOES	A. I. D.	TOTAL	GOES	A. I. D.	TOTAL
GOES & A. I. D. Loan Contributions:									
Personal Services	476,214	664,728	1,140,942	600,000	459,660	1,059,660	600,455	311,931	912,386
Equipment & Materials	95,906	--	95,906		84,280	84,280		70,200	70,200
Miscellaneous	27,880	--	27,880		24,200	24,200		20,000	20,000
TOTAL	600,000	664,728	1,264,728	600,000	568,140	1,168,140	600,455	402,131	1,002,586

Other Contributions:

UNCLASIFIED	OSP/OMS incl. 1/6 Regional Office costs		120,000		120,000			120,000
	UNICEF		280,000		280,000			200,000
	TOTAL		1,664,728		1,568,140			1,322,586

RECAPITULATION:

GOES & A. I. D.

Contributions:

	Totals' 1966 - 67 - 68		
	GOES	A. I. D.	TOTAL
Personal Services	1,676,668	1,436,320	3,112,989
Equipment & Materials	95,906	154,480	250,386
Miscellaneous	27,880	44,200	72,080
TOTAL	1,800,455	1,635,000	3,435,455

Other Contributions:

OPS/OMS (incl. 1/6 Regional Office Costs)			360,000
UNICEF			760,000
TOTAL			4,555,455

2. Financial Plan

The procurement of goods and services to be financed under this loan, from the GOES contribution, and from PAHO/UNICEF will be administered by the CNAP, an agency of the Ministry of Public Health and Social Assistance. As has been the procedure for administering A. I. D. Grant funds for malaria control in the past, the CNAP will request an advance of funds from US AID and will return suitable documentation to the US AID as the advance is drawn down. All advances will be subject to refund by the GOES, and the entire procedure will be subject to periodic spot checks by the US AID Controller.

In the light of the importance of beginning the eradication program promptly, and to provide continuity of operations preserving the benefits of previous malaria control programs, the first disbursement of loan funds may be expected immediately following satisfaction of the Conditions Precedent. The summary table and Annex II, Exhibit 8 indicate the anticipated annual disbursement rate of A. I. D. and GOES funds over the three years of the project.

3. Justification of Loan Terms

The project committee is of the opinion that the terms recommended (40-year repayment, including a 10-year grace period, at interest of 1% during grace and 2 1/2% thereafter) is reasonable. This conclusion is based on the following:

(a) El Salvador's present foreign debt burden does not now place a heavy burden on current exchange earnings. However, (1) it is essentially an agricultural country with a major reliance on two crops, coffee and cotton, whose price fluctuations on the international market could substantially affect the foreign exchange reserves, and (2) the government has committed its fiscal revenues to a balanced Five-Year Economic and Social Development Plan and, even if it were possible to reallocate resources within this plan, a deficiency would be created in another sector which would require compensating external financing. Loan terms other than the most concessional A. I. D. can offer could diminish the existing reserve position or require a sacrifice of other economic and social benefits in the country's development efforts.

(b) Much of El Salvador's external financial assistance has

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been in the form of medium to long-term loans and grants. All A. I. D. loans to the GOES have been made on the most concessional terms.

(c) This is a social-impact project and has no direct revenue producing capacity.

(d) Per capita annual GNP is approximately \$293.

4. Prospects of Repayment

The GOES in the past has demonstrated its credit-worthiness. Although present development efforts will increase the debt burden of the GOES, care is being taken to assure that the burden does not reach unmanageable proportions. The present low percentage of external public debt service requirements to gross foreign exchange earnings attests to this. The fact that El Salvador values its standing as a responsible member of the Central American Common Market is sufficient to conclude that there are reasonable prospects of repayment considering the liberal terms.

SECTION II - IMPACT ON U. S. ECONOMY

A. COMPETITION WITH U. S. ENTERPRISE

No competition with U. S. enterprise will arise from this project.

B. SOURCE OF PROCUREMENT OF GOODS AND SERVICES

The loan provisions will limit loan-financed procurement to the United States and the Central American Common Market. Substantially all of the loan will be used for costs of personal services procured in El Salvador.

SECTION III - COVENANTS AND CONDITIONS

In addition to the usual covenants and conditions, the following will be included in this loan:

- (a) Prior to the execution of the Loan Agreement PAHO/W and AID/W formally shall have approved the El Salvador technical plan and the regional coordination plan.
- (b) Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D. , in form and content satisfactory to A. I. D. , a schedule of its contributions to the project during the estimated disbursement period of three years from the date of execution of the Loan Agreement. The Borrower shall accompany that schedule with evidence satisfactory to A. I. D. that it will provide the contributions called for by the schedule.
- (c) Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D. , evidence that the contribution to the Project undertaken by UNICEF will be available on a timely basis.
- (d) Borrower shall covenant faithfully to carry out its national technical plan and the regional coordination plan, and to obtain the approval of A. I. D. and of PAHO before modifying its national technical plan or agreeing to a modification of the regional coordination plan.
- (e) Borrower shall covenant that, except as A. I. D. may otherwise agree, no funds made available to the Borrower by A. I. D. under the loan shall be used to pay the salary or related expenses pertaining to any position existing in the Borrower prior to January 1, 1966.
- (f) Borrower shall covenant to give full cooperation to such persons as A. I. D. shall nominate to monitor Borrower's performance under the Loan Agreement.

- (g) The Borrower shall covenant that it will maintain the National Anti-Malaria Campaign (CNAP) as separate administrative, logistic, and technical entity within the Ministry of Public Health and Social Assistance for the purpose of implementing the Project.
- (h) Borrower shall covenant to provide the resources necessary to achieve the eradication of malaria within its territory and to prevent the reappearance of malaria in that territory; and in furtherance of that undertaking Borrower shall covenant to consult periodically with representatives of A. I. D. , or such persons as A. I. D. may nominate, during at least the first five years after the last disbursement.

SECTION IV - IMPLEMENTATION PLAN

A. ACTION PRIOR TO EXECUTION OF LOAN AGREEMENT

1. PAHO/W and AID/W approval of the El Salvador technical plan and the regional coordination plan.
2. Drafting of the Loan Agreement and basic Implementation Letter by USAID/ES and ROCAP.
3. Negotiation and signature, which could be completed in June 1966.

B. MEETING CONDITIONS PRECEDENT

It is estimated that the Conditions Precedent can be met within thirty (30) days of execution of the Loan Agreement. Assuming GOES ratification within the same period, the first advance of funds may be effected by the end of July 1966.

C. TECHNICAL ASSISTANCE.

Arrangements for providing a U. S. Public Health Service Advisor (through a Grant-financed PASA) will be concluded immediately following execution of the Loan Agreement, with the Advisor expected to be in the field about one month later.

D. DISBURSEMENT OF THE LOAN

The loan will be disbursed by U. S. AID/ES in a series of advances, within appropriate documentation of expenditures returned to the U. S. AID/ES Controller for review and acceptance. It is estimated that the loan will be completely disbursed, as needed, within three (3) years. An estimated AID/GOES cumulative disbursement schedule follows as Annex II, Exhibit 6.

E. CONTROL, MONITORING AND REPORTING

Fiscal control of loan funds will be the responsibility of the U. S. AID/ES Controller, who will supplement his review of documents with occasional spot checks of the Ministry of Public

Health and Social Assistance and CNAP procedures, as appropriate. Certification of commodity procurement and personal services vouchers will be provided by the U. S. Public Health Service Advisor. The Controller will also be able to call on the ROCAP regional auditing staff for assistance, if needed.

Technical monitoring of the project will be the responsibility of the Chief Public Health Advisor (at ROCAP) assisted by the U. S. Public Health Service Advisor, who will be reporting on actual progress vs the detailed program.

Periodic progress reports will be submitted to U. S. AID/ES by the Ministry of Health, and will be forwarded to AID/W by the U. S. AID/ES Capital Development Officer. Evaluation of Borrower reports and compilation of supplementary reports on the project will be the responsibility of the U. S. AID/ES Capital Development Officer, assisted by the U. S. AID/ES Controller and ROCAP's Chief Public Health Advisor.

EL SALVADOR

MALARIA ERADICATION

CHECK LIST OF STATUTORY CRITERIA (ALLIANCE FOR PROGRESS)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1965.

App - Foreign Assistance and Related Agencies Appropriations Act, 1966.

(A statement should be given for each item given the summary information or conclusion requested and including a reference to the sections of the Capital Assistance Paper, or other clearly identified and available document, on which they are based.)

1. FAA Section 102. Precautions that have been or are being taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

Adequate control will be exercised to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

(Section I-E-3 and I-G-2)

2. FAA Section 102. Information on measures taken to utilize United States Government excess personal property in lieu of the procurement of new items.

Measures will be taken to utilize United States Government excess property as may be consistent with the requirements of the project and as may be available within a reasonable period of time, in lieu of procurement of new items.

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3. FAA Section 102. Information whether the country permits, or fails to take adequate measures to prevent, the damage or destruction by mob action of United States property.

Past actions of the country of El Salvador demonstrate its intent to take adequate measures to prevent the damage or destruction by mob action of United States property.

4. FAA Section 201(d). Information and conclusion on legality (under laws of country and U.S.) and reasonableness of lending and relending terms of the loan.

Loan funds are to be borrowed at rates of interest which are not unreasonable or illegal for the Borrower and are within the limits established by this Section.

5. FAA Section 251(a). Manner in which loan will promote country's economic development and contribute to the welfare of its people.

This loan financed project will promote the country's economic development and contribute to the welfare of its people through increased protection against malaria, primarily in the highly productive Pacific Coast agricultural area.
(Section I-B and I-F)

6. FAA Section 251 (b)(1). Extent to which country is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and extent to which country has demonstrated a clear determination to take effective self-help measures.

Account has been taken of the Borrower's adherence to the principles of the Act of Bogota and the Charter of Punta del Este, and the Borrower's responsiveness to the vital economic, political, and social concerns of its people. Past contributions by the Borrower to increasing the CNAP budgets of its Ministry of Health have been demonstrations of effective self-help measures in this field, and A.I.D. considers the proposed Host-Government contribution to this project to be sufficient.

7. FAA Section 251(b)(2). Information and conclusion on activity's economic and technical soundness.

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This activity has been found economically and technically sound.
(Sections I-B, I-E and I-F)

8. FAA Section 251(b)(3). Information and conclusion on activity's relationship to and consistency with other development activities, and its contribution to realizable long-range objectives.

This activity has a basic significance for all Borrower's development activities, and will play an essential part in the realization of long-range objectives.
(Section I-F)

9. FAA Section 251(b)(4). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus.

This activity will have no significant direct effect on the U.S. economy, and no competition with U.S. enterprise will result directly from it.

10. FAA Section 251(b). Information and conclusion on availability of financing from other free world sources, including private sources within the United States.

Financing for this activity is not available from other free world sources, including private sources within the United States, on feasible terms.

11. FAA Section 251(b). Information and conclusion on capacity of the country to repay the loan.

It appears reasonably certain that the Borrower will be capable of repaying the loan.
(Sections I -F and I-G)

12. FAA Section 251(b). Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.

The Borrower has consistently followed policies that encourage the repatriation of capital invested in other countries by its own citizens.

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13. FAA Section 251(b). Information and conclusion on reasonable prospects of repayment.

It appears reasonably certain that the Borrower will be willing and able to repay the loan.

14. FAA Section 251(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.

Borrower has made a formal application for loan-funded assistance in this activity, and A.I.D. has received sufficient information and assurance to indicate reasonably that funds will be used in an economically and technically sound manner.

(Sections I-B-6, I-E and I-F)

15. FAA Section 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

This project is not directly related to the promotion of the cooperative movement in Latin America.

16. FAA Section 252(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 procurement from private sources.

All loan funds are being made available to the Host Government; a small portion of the loan will be used for commodity procurement from private enterprises.

(Section I-G)

17. FAA Section 601(a). Information and conclusions whether loan 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.

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The benefits of the project will encourage efforts of the Borrower through increased agricultural production, to increase the flow of international trade, foster initiative and competition, and improve the technical efficiency of agriculture.

18. FAA Section 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including U.S. private trade channels and the services of U.S. private enterprise).

Private sector participation in this project will be limited to provision of commodities.

19. FAA Section 601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U.S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.

Procurement of engineering or professional services financed under this loan will be limited to the United States or the Central American Common Market.

20. FAA Section 602. Information and conclusion whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.

American small business will be able to participate in the furnishing of loan-financed goods and services wherever practical.

- + 21. FAA Section 604(a), App. Section 108. Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements.

Equipment, materials, and services (except marine insurance) financed under the loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. U.S. dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures, and shall be used only for procurement in the United States.

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22. FAA Section 604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U.S. at time of purchase.

Any commodities financed by this loan and purchased in bulk will be purchased at prices no higher than prevailing U.S. market prices.

23. FAA Section 604(d). Compliance with requirement that marine insurance be purchased on commodities if the host country discriminates, and that such insurance be placed in the U.S.

If the Host Country discriminates against any U.S. marine insurance company, any commodities purchased with loan funds shall be insured against marine risk with a company authorized to do business in the U. S.
(Section II-B)

24. FAA Section 611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.

Necessary technical and financial plans have been completed, and a reasonably firm estimate of the cost to the United States of the activity to be financed has been obtained.
(Section III)

25. FAA Section 611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.

Host Country ratification of the loan is expected promptly following execution of the Loan Agreement.
(Section IV)

26. FAA Section 611(b), App. Section 101. If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.

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27. FAA Section 611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.

The loan agreement will provide for observation of this requirement.

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

To the maximum extent possible the Borrower is contributing local currencies to meet the cost of contractual and other services, and the United States owns no local currency that could be used for this project.
(Section I-G-3)

29. FAA Section 619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate.

NOT APPLICABLE

30. FAA Section 620(a), App. Section 107(a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964 to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance to Cuba.

No assistance will be furnished under this loan to the present Government of Cuba, nor does the Borrower furnish assistance to the present Government of Cuba. The Borrower has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.

31. FAA Section 620(b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist movement.

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The Secretary of State has determined that the Borrower is not controlled by the international communist movement.

32. FAA Section 620(c). If assistance to the government of a country existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debts is not denied or contested by such government or the indebtedness arises under an unconditional guaranty given by such government.

The Borrower is not known to be indebted to any U. S. citizen for goods or services furnished or ordered where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by the Borrower or the indebtedness arises under an unconditional guaranty of payment by the Borrower.

33. FAA Section 620(d). If assistance for any productive enterprise which will compete in the U.S.. with U.S. enterprise, existence of agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan.

NOT APPLICABLE

34. FAA Section 620(e)(1). If assistance to the government of a country, extent to which it (including government agencies or sub-divisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or 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 appropriate steps to discharge its obligations.

The Borrower (including government agencies or subdivisions) has not taken steps since January 1, 1962 to repudiate or nullify contracts or 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 appropriate steps to discharge its obligations as specified in this Section.

35. FAA Section 620(f); App. Section 109. Compliance with prohibitions against assistance to any Communist country.

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Assistance provided under this loan will not be furnished to any Communist country.

36. FAA Section 620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.

Assistance provided by this loan will not be used to compensate for expropriated or nationalized property.

37. FAA Section 620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interest of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

Assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects or activities of the Communist bloc countries.
(Section I-E-3 and I-G-2)

38. FAA Section 620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts.

The President has not determined that the Borrower is engaging in or preparing for aggressive military efforts.

39. FAA Section 620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U.S. will exceed \$100 million, identification of statutory authority.

NOT APPLICABLE

40. FAA Section 620(l). Compliance with prohibition against assistance after December 31, 1966, for the government of a country which fails to institute investment guaranty program.

A bilateral agreement between the United States and the Government of El Salvador, relating to the guaranty of private investments, was signed at San Salvador January 29, 1960 and entered into force April 8, 1960.

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41. FAA Section 620(w); App. 107(b). Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Vietnam.

The Borrower has taken appropriate steps to prevent ships or aircraft of its registry from transporting any equipment, materials or commodities to or from North Vietnam.

42. FAA Section 620(o). If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance.

The Borrower has not seized, or imposed any penalty or sanction against any U.S. fishing vessel on account of its fishing activities in international waters.

43. FAA Section 621. Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Such technical assistance as is provided from loan funds will utilize to the fullest extent practicable goods and professional and other services from private enterprise on a contract basis. It is possible that several specialists from the U.S. Public Health Service will be used as technical consultants.

They are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

44. App. (Section Unnumbered). Use of funds to carry out FAA Section 205, which pertains to IDA.

NOT APPLICABLE

45. App. Section 102. Compliance with requirement that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to Congress.

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Obligations of funds in excess of \$25,000 for architectural and engineering services on this project will be reported to Congress.

46. App. Section 104. Compliance with bar against funds to pay pensions, etc., for military personnel.

Funds obligated by the loan and local currency generated thereby will not be used to pay pensions, annuities, etc. as prohibited in this Section.

47. App. Section 106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, application which will be made in negotiations of contrary principles as expressed by Congress.

It appears reasonably certain that the Borrower will not attempt to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally.

48. App. Section 111. Compliance with existing requirements for security clearance of personnel.

The Borrower will comply with existing requirements for security clearance of personnel.

49. App. Section 112. Compliance with requirement for approval of contractors and contract terms for capital projects.

A.I.D. will approve any firms providing services for the project and financed under the loan and the terms of any contracts under which such services are provided.

50. App. Section 114. Compliance with bar against use of funds to pay assessments, etc., of U. N. member.

Loan funds will not be used to make any payment to the U. N.

51. App. Section 115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964, (Regulation 7).

Regulation 7 will be complied with.

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52. App. Section 401. Compliance with bar against use of funds for publicity or propaganda purposes within U. S. not heretofore authorized by Congress.

Loan funds will not be used for publicity or propaganda purposes within the United States.

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ANNEX II

TECHNICAL DATA

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PERSONNEL REQUIREMENTS FOR 1965 AND PROPOSED 3 YEAR PROGRAM CNAP-EL SALVADOR-C.A.

	<u>General Program</u>				<u>Drug Therapy</u>				<u>PROGRAM TOTAL</u>			
	1965	1966	1967	1968	1965	1966	1967	1968	1965	1966	1967	1968
Director CNAP	1	1	1	1	-	-	-	-	1	1	1	1
Physicians	1	1	1	1	2	5	5	5	3	6	6	6
Engineers	1	1	1	1	-	-	-	-	1	1	1	1
Administrators	1	1	1	1	-	-	-	-	1	1	1	1
Asst. Administrators	1	2	2	2	3	5	5	5	4	7	7	7
Auditors	1	1	1	1	-	-	-	-	1	1	1	1
Warehousemen	2	2	2	2	-	-	-	-	2	2	2	2
Asst. Warehousemen	2	2	2	2	-	-	-	-	2	2	2	2
Entomologist	1	1	1	1	-	-	-	-	1	1	1	1
Asst. Entomologist	10	10	10	10	-	-	-	-	10	10	10	10
Asst. Statisticians	3	6	6	6	3	5	5	5	6	11	11	11
Secretaries	6	6	6	6	-	-	-	-	6	6	6	6
Chief Microscopist	1	2	2	2	-	-	-	-	1	2	2	2
Microscopist	25	31	31	31	-	5	5	5	25	36	36	36
Lab. Helpers	1	2	2	2	-	-	-	-	1	2	2	2
Field Auxiliary	3	8	8	7	3	5	5	5	6	13	13	12
Chiefs of Groups	10	35	35	30	4	10	6	4	14	45	41	34
Chiefs of Districts	-	-	-	-	25	65	51	40	25	65	51	40
Chiefs of Brigades	2	51	51	26	-	-	-	-	2	51	51	26
Sprayers	10	210	210	105	-	-	-	-	10	210	210	105
Evaluators	60	150	150	150	-	-	-	-	60	150	150	150
Medicators	-	-	-	-	117	308	189	112	117	308	189	112
Medicators Helpers	-	-	-	-	29	60	37	22	29	60	37	22
Investigators	-	-	-	-	19	28	65	89	19	28	65	89
Investigators Helpers	-	-	-	-	3	6	13	18	3	6	13	18
Health Educators	1	1	1	1	4	5	5	5	5	6	6	6
Chief Transportation	1	1	1	1	-	-	-	-	1	1	1	1
Chauffeurs Auto	22	45	45	34	15	30	30	30	37	75	75	64
Chauffeurs Boats	1	1	1	1	1	2	2	2	2	3	3	3
Mechanics	5	9	9	8	3	5	5	5	8	14	14	13
Asst. Mechanics	7	11	11	9	-	-	-	-	7	11	11	9
Office Workers	3	5	5	5	-	-	-	-	3	5	5	5
Draftsman	2	2	2	2	-	-	-	-	2	2	2	2
Porters - Messengers	4	4	4	4	3	5	5	5	7	9	9	9
Laborers	2	4	4	4	-	-	-	-	2	4	4	4
Others	13	18	18	18	6	15	15	15	19	33	33	33
TOTALS	203	624	624	474	240	564	448	372	443	1188	1072	846

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EL SALVADOR MALARIA CAMPAIGN BUDGET
(EXCLUDING COLLECTIVE TREATMENT)
(U. S. \$)

	<u>1966</u>	<u>1967</u>	<u>1968</u>
<u>Salaries and others</u>			
<u>Personnel Services</u>			
Direction and Administration	\$ 24,816	\$ 24,816	\$ 24,816
Spraying Operations	188,647	188,647	128,341
Epidemiological Operations	268,645	278,645	278,645
Transportation	<u>76,166</u>	<u>76,166</u>	<u>60,428</u>
<u>Operating Costs</u>	76,868	60,623	50,722
<u>Contingencies</u>	<u>4,832</u>	<u>14,032</u>	<u>14,356</u>

Total:

Three-Year Total \$1,840,211

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CNAP EL SALVADOR

COLLECTIVE TREATMENT BUDGET
(U. S. \$)

	<u>1966</u>	<u>1967</u>	<u>1968</u>
<u>Salaries and others</u>			
<u>Personnel services</u>			
Chief Doctor	\$ 28,800	\$ 28,800	\$ 28,800
Field Auxiliary	10,950	8,760	6,570
Administrative Assistants	7,300	7,300	7,300
Statistical Assistants	4,380	4,380	4,380
Chief of group	16,060	10,512	7,008
Chief of District	81,394	72,708	58,108
Medicators	277,008	178,850	105,996
Medicators helpers	35,040	21,608	12,848
Investigators	31,682	73,438	101,032
Investigators helpers	5,256	11,388	15,768
Health Educators	8,760	8,760	8,760
Microscopist	4,380	4,380	4,380
Chauffeur Autos	30,660	30,660	30,660
Chauffeur Boats	600	600	600
Mechanics	4,380	4,380	4,380
Others	3,504	3,504	3,504
Epidemiological Auxiliary	14,600	15,184	15,184
	<u>\$564,754</u>	<u>\$485,212</u>	<u>\$415,278</u>
<u>Operating Costs</u>	<u>60,000</u>	<u>40,000</u>	<u>30,000</u>
Total:	<u>\$624,754</u>	<u>\$525,212</u>	<u>\$445,278</u>

Three-Year Total: \$1,595,244

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KEY PERSONNEL-EL SALVADOR MALARIA ERADICATION CAMPAIGN

1. Dr. Benjamín Interiano
Ministro de Salud Pública y Asistencia Social
Minister of Public Health and Social Assistance
2. Dr. J. Antonio Zaldaña
Sub-Secretario de Salud Pública y Asistencia Social
Sub-Secretary of
3. Dr. Tomás Pineda Martínez
Director General de Salud
Director General of Health
4. Dr. Carlos Díaz del Pinal
Director CNAP
5. Dr. Oscar N. Rebollo
Jefe Servicio Operaciones Epidemiológicas y
Sub-Director CNAP
6. 5 Medical Zone Chiefs
Dr. Alfredo Castro Quezada
Dr. Jorge Edjundo Osorio
Dr. Inf. Tito Castillo
2 positions vacant
7. Ing. Carlos A. Sasso
Chief of Spraying Operations
8. Sr. Ricardo Rodríguez C.
Chief of Administrative Services
9. Sr. Carlos Orlando Clara
Chief of Departmental Administration
10. Sr. Mario Rivera
Chief of Accounting Department
11. Profesor Mauricio Vásquez Pérez
Chief of Health Education
12. Sr. Carlos Alfredo Parada
Chief, Entomological Section

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13. Sr. Jorge Barahona
Chief, Training and Evaluation Laboratory
14. Sra. Mercedes de López
Chief, Central Examination Laboratory
15. Sr. Ricardo Espinoza
Chief, Voluntary Collaborator Network
16. Sr. Emilio Castillo
Chief, Transport Services

PAHO FIELD OFFICE:

1. Dr. Carlos Hernández Aguirre
Chief Consultant
2. Dr. Alfredo Jauregui M.
Consultant
3. Sr. Carlos Bobba Bonatti
Inspector
4. Sr. Teófilo Partida
Inspector
5. Sr. Joseph Austin
Acting Chief AMRO-0209
6. Sr. Milton Moura Lima
Entomologist AMRO-0209
7. Guillermo Ruiz Oyanguren
Entomological Assistant

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COST ANALYSIS-PAHO CONTRIBUTION

(U. S. \$)

	1966	1967	1968	Total
El Salvador Office (4 people) and Amro 0209 (Estimates)	120,000	120,000	120,000	360,000
Regional Office and M. E. Washington	unknown	-----	-----	-----

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A.I.D. ASSISTANCE - MALARIA ERADICATION PROGRAMS - 1958 THROUGH 1968

(\$ U.S.; 000 omitted)

Country	GRANT								ler. Sub-Total	LOAN			20. Sub-Total	Grand Total
	1958	1959	1960	1961	1962	1963	1964	1965		1966	1967	1968		
Guatemala	-	350	485	485	517	585	140	250	2812	650	650	250	1550	4362
El Salvador	-	-	-	-	-	200	200	150	550	664	568	402	1635	2185
Honduras	150	550	345	248	410	410	116	150	2379	675	378	118	1171	3550
Nicaragua	100	200	200	300	433	430	335	335	2333	1000	784	280	2064	4397

HOST - GOVERNMENT BUDGET - MALARIA ERADICATION PROGRAMS - 1958 THROUGH 1968

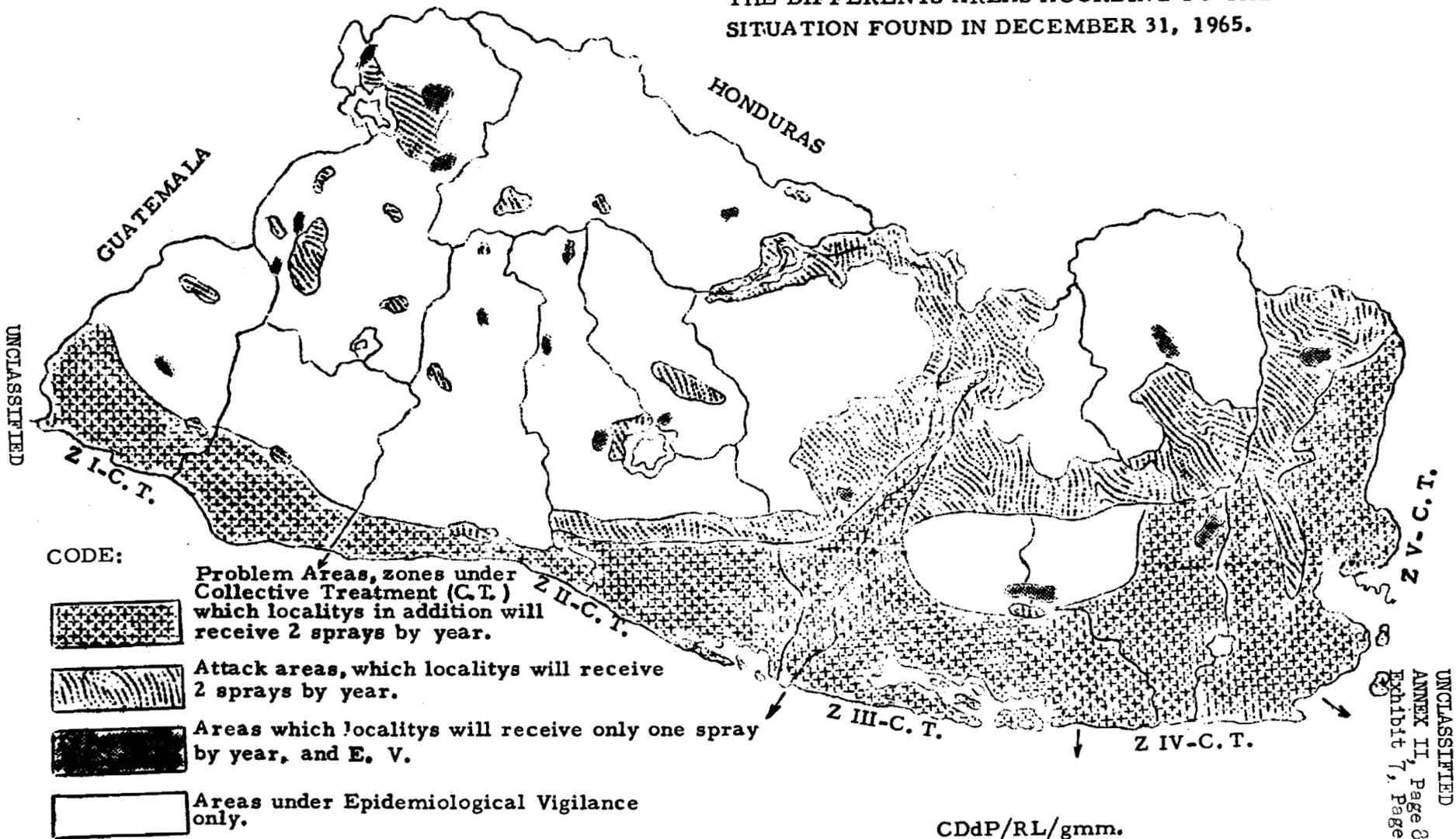
(\$ U.S.; 000 omitted)

Guatemala	682	401	423	416	573	702	500	750	4447	945	945	945	2835	7282
El Salvador	515	542	488	564	466	366	366	370	3677	600	600	600	1800	5477
Honduras	134	292	138	279	300	300	300	300	2043	300	380	490	1170	3213
Nicaragua	232	330	330	330	330	453	453	465	2923	474	696	900	2070	4993

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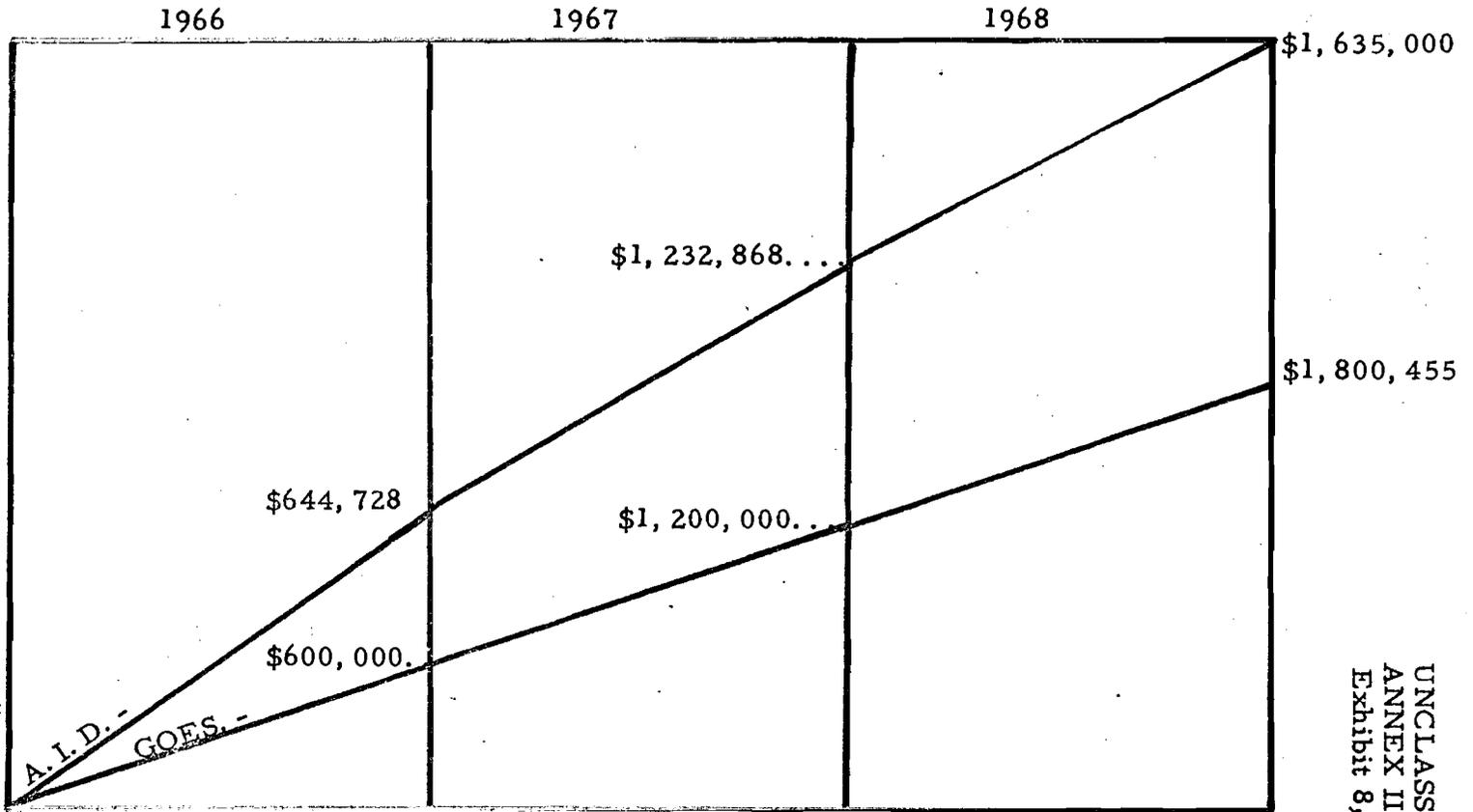
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MAP OF (SCHEMATIC) EL SALVADOR SHOWING THE MEASURES WHICH CNAP WILL APPLY IN 1966, IN THE DIFFERENTS AREAS ACORDING TO THE -- SITUATION FOUND IN DECEMBER 31, 1965.



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CUMULATIVE DISBURSEMENT SCHEDULE: A. I. D. /GOES FUNDS



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TABLE 4
FINANCING OF THE NATIONAL ANTI-MALARIA CAMPAIGN FROM 1955 TO 1968

YEARS	GOVERNMENT		UNICEF (Estimates)	OSP (Estimates)	AID	TOTAL
	ALLOTED	SPENT				
1955	¢ 598.439.00	¢ 598.439.00	¢ -----	¢ -----	¢ -----	¢ 598.439.00
1956	" 1.067.539.00	" 1.067.539.00	" -----	" -----	" -----	" 1.067.539.00
1957	" 1.225.420.00	" 1.225.420.00	" -----	" -----	" -----	" 1.225.420.00
1958	" 1.287.639.00	" 1.287.639.00	" 475.000.00	" -75.000.00	" -----	" 1.837.639.00
1959	" 1.356.350.00	" 1.356.000.00	" 475.000.00	" 75.000.00	" -----	" 1,906,000.00
1960	" 1.223.592.29	" 1.220.500.00	" 727.500.00	" 144.250.00	" -----	" 2,092,250.00
1961	" 1.409.550.00	" 1.409.500.00	" 727.500.00	" 147.472.50	" -----	" 2.284.472.50
1962	" 1.164.380.00	" 1.164.120.00	" 767.500.00	" 218.287.50	" -----	" 2.149.907.50
1963	" 915.145.00	" 914.945.55	" 767.500.00	" 415.150.00	" 500.000.00	" 2,597,595.55
1964	" 915.145.00	" 915.145.00	" 557.500.00	" 328.175.00	" 500.000.00	" 2.300.820.00
1965	" 928.640.00	" 927.032.41	" 50.000.00	" 328.175.00	" 375.000.00	" 1.680.207.41
1er. Sub-total	" 12.091.839.29	" 12.086.279.96	" 4.547.500.00	" 1.731.510.00	" 1.375.000.00	" 19.740.289.96
1966	" 1.500.000.00	" -----	" 700.000.00	" 300.000.00	" 1.661.822.00	" 4.161.822.00
1967	" 1.500.000.00	" -----	" 700.000.00	" 300.000.00	" 1.420.352.00	" 3.920.352.00
1968	" 1.501.137.50	" -----	" 500.000.00	" 300.000.00	" 1.005.327.50	" 3.306.465.00
2o. Sub-total	" 4.501.137.50	" -----	" 1.900.000.00	" 900.000.00	" 4.087.501.50	" 11.388.639.00
Grand- total	¢ 16,592,976.79		¢ 6,447,500.00	¢ 2,631,510.00	¢ 5,462,502,50	31,128,928,96
In terms of U. S. \$	\$ 6,637,190.72		\$ 2,579,000.00	\$ 1,052,604.00	\$ 2,185,000.60	\$ 12,451,571.58

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OFFICIAL MINUTES OF IRR REVIEW BY CAEC

CAEC Meeting of March 14, 1966

LA-CAEC/M-66/32

1. EL SALVADOR - Malaria Eradication - IRR - \$1,635,000 (LA-CAEC/P-66/66)

CAEC approved the above-subject proposal for intensive review. The following should be considered during the intensive review and in the preparation of the final capital assistance paper and other loan documents:

- a. Include a detailed technical justification for a 3-year program, discussing the expected status of the malaria problem within 3 years and its projection thereafter.
- b. Define the uses of AID funds. They should be used only in areas that represent an expansion and intensification over prior activities. The loan should contain the following covenant: "Borrower shall covenant that, except as AID may otherwise agree, no funds made available to the Borrower by AID under the loan shall be used to pay the salary or related expenses pertaining to any position existing in the Borrower on the effective date of the Loan Agreement."
- c. The same conditions and covenants that are contained in the malaria loans for Honduras, Nicaragua and Guatemala should be applicable to El Salvador.

ISSUES RAISED IN IRR

IRR Dated February 21, 1966

A. Justification of Local Cost Financing

All or substantially all of the loan proceeds will be used for local currency financing. The public sector's expected fiscal revenues have been allocated for the next two years in social benefits, administrative services, and infrastructure investments in accordance with the priorities of its Five Year Economic and Social Development Plan. A reallocation of its resources to

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increase the Malaria Eradication budget even if this were possible, would create a deficiency in another sector of the development plan, and compensating external financing would be needed.

El Salvador's present external public debt servicing requirements do not at present place a heavy burden on current exchange earnings, and an ample margin exists to permit the foregoing borrowing required for the malaria eradication program without significantly affecting prudent limits of debt servicing ability.

Thus, the problem is one of supplementing the fiscal revenues of the next three years to preserve the progress made in past years and to accelerate El Salvador's Malaria Eradication program in coordination with the regional program.

The proposal should be reviewed solely upon the basis of its merits, inasmuch as the problem is not one of the type of currency but of the availability of total revenues.

B. Borrower's Ability to Execute the Project:

The National Anti-Malaria Campaign of the Ministry of Health has demonstrated sufficient capacity to implement a malaria eradication program in El Salvador and there are reasonable prospects of its being able to expand its activities to the anticipated level of the accelerated program needed to fulfill its part of the regional program.

C. Borrower's Contribution to the Program:

(1) At the time of drafting the FY 66-67 Country Assistance Program, it was estimated that GOES would need A.I.D. loan support in FY 66 to comply with its share of the regional malaria program.

(2) Subsequently, in the fall of 1965, the then Minister of Health informed A.I.D. that GOES would provide all necessary funds to carry out its part of the program. Therefore, a loan to El Salvador for this purpose was not proposed at the time loan applications were being processed for Nicaragua, Honduras and Guatemala.

(3) The Minister of Health, at various times during October, November and December, 1965, assured US AID that the necessary

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funds were requested as a part of the GOES' biennial 1966-67 budget and that there was every expectancy this would be approved as requested.

(4) At the same time, the Ministry of Health continued to meet all requirements of the regional program in 1965. GOES submitted its technical plan to PAHO and A.I.D. as required to assure them and participating countries of its intention and ability to fully participate.

(5) In late December 1965, just prior to the National Assembly's approval of the Ministry of Health's budget, an unforeseen crisis forced an increase in wages of all nurses in the country employed by the Government. This caused a reallocation of funds within the Ministry of Health's budget and cut back the originally proposed funds for Malaria. Failure to obtain the requested budget for Malaria Eradication was one of the reasons for the resignation of the then Minister of Health.

(6) Even after the cut in the proposed budget, the amount allocated to malaria eradication for 1966 is 63% more than was made available in 1965. However, this was not enough to comply with the acceleration required by the regional program.

(7) Thus, the GOES felt obliged to apply for a loan for this difference in order to uphold its regional commitment to the program.

DISCUSSION OF COVENANT SECTION III(e)

1. Minutes of the CAEC Meeting of March 14, 1966, included an instruction that the loan should contain the following covenant:

"Borrower shall covenant that, except as A.I.D. may otherwise agree, no funds made available to the Borrower by A.I.D. under the loan shall be used to pay the salary or related expenses pertaining to any position existing in the Borrower on the effective date of the Loan Agreement."
2. This covenant was intended to assure that the loan funds are not used to pick up any regular budget expenses of the Ministry of Health of the GOES.
3. However, in order to comply with its commitment to PAHO and A.I.D. in its Triennial Plan for malaria eradication and to avoid the consequences of program withdrawal, the GOES has, in good faith, initiated its accelerated malaria eradication campaign as of January 1966.
4. The GOES had 443 employees in its malaria program at the end of 1965. Since then, in the first three months of 1966, it has hired 270 additional employees for the spraying program and drug therapy program and will have employed still another 475 employees by June 30, 1966, thus bringing their malaria eradication staffing up to the full complement to which they are committed under the approved regional plan.
5. In the first three months of 1966 the GOES has disbursed \$184,000 from its own funds for the program. It expects that its entire 1966 budget of \$600,000 for this purpose will be expended by August 1966 at the new accelerated level.
6. Application of the referred covenant would thus have the effect of prohibiting A.I.D. funding of the new employees who were hired for the purpose of the program and would negate the intent of the loan.
7. Therefore, the Loan Committee and ROCAP Legal Counsel have recommended by the wording of Section III(e) that a change in this covenant be adopted making it read, ". . . any position in the Borrower prior to January 1, 1966" in order to express the intent of the loan.
8. Thus, while A.I.D. would not be paying for any costs incurred prior to the effective date of the Loan Agreement, it would be enabled to finance the costs, incurred after the effective date of the Loan Agreement, of positions existing in the Borrower created subsequent to January 1, 1966, for this specific malaria eradication program.

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LOAN AUTHORIZATION

Provided from: Alliance for Progress
EL SALVADOR: Malaria Eradication

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of El Salvador ("Borrower") of not to exceed one million six hundred and thirty five thousand United States dollars (\$1,635,000) to assist in financing the United States dollar and local currency costs of equipment, material, and services necessary for the conduct of Borrower's regionally coordinated national plan to eradicate malaria from its territory, this loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the loan to the Agency for International Development ("A. I. D. ") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period not to exceed ten (10) years. The Borrower shall pay interest to A. I. D. in United States dollars on the disbursed balance of the loan of one (1) percent per annum during the grace period and two and one half ($2\frac{1}{2}$) percent per annum thereafter.
2. Other Terms and Conditions
 - (a) Prior to the execution of the Loan Agreement PAHO/W and AID/W formally shall have approved the El Salvador Technical Plan and the Regional Coordination Plan.
 - (b) Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D. , in form and content satisfactory to A. I. D. , a schedule of its contributions to the project during the estimated disbursement period of three years from the date of execution of the Loan Agreement. The Borrower shall accompany that schedule

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with evidence satisfactory to A. I. D. that it will provide the contributions called for by the schedule.

- (c) Prior to the first disbursement or the issuance of the first commitment document under the Loan Agreement the Borrower shall furnish A. I. D. , in form and substance satisfactory to A. I. D. , evidence that UNICEF's contribution to the Project will be available on a timely basis.
- (d) Borrower shall covenant to provide the resources necessary to achieve the eradication of malaria within its territory and to use its best efforts to prevent the reappearance of malaria in that territory; and in furtherance of those understandings Borrower shall covenant to consult periodically with representatives of A. I. D. , or such persons as A. I. D. may nominate, during at least the first five years after the last disbursement under the loan.
- (e) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
- (f) United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States.
- (g) The loan shall be subject to such other terms and conditions as A. I. D. may deem advisable.

Deputy U. S. Coordinator

Date UNCLASSIFIED

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