

UNCLASSIFIED

Annual Budget Submission

FY 1984

EL SALVADOR



June 1982

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED



EMBASSY OF THE
UNITED STATES OF AMERICA
San Salvador, El Salvador

June 12, 1982

Mr. Otto Reich
Assistant Administrator
Bureau for Latin America
and the Caribbean
Agency for International Development
Washington, D.C. 20523

Dear Otto:

In the absence of Ambassador Hinton, I have reviewed the basic documents of the attached FY 1984 Annual Budget Submission prepared by USAID/El Salvador. I concur fully in their thrust and in the program levels projected. In terms of El Salvador's projected needs over the next two fiscal years and what is at stake here for El Salvador, Central America, and U.S. interests, we can hardly accomplish our objectives with less.

The role of U.S. economic assistance has been critical to El Salvador's ability to weather the threats to its survival over the past two years and to reach a point where it is able to take its first steps toward return to a fully democratic system. As you well know, this significant beginning is also fragile and is likely to remain so until the country is in a position to hold general elections. This means that continuation of substantial U.S. economic support, at least through FY 1984, will be as critical to El Salvador's immediate future as it was to its immediate past. This is no time for faint hearts. There is too much at stake and there is every expectation that El Salvador has what it takes to come through. We saw a glimpse of Salvadoran determination on March 28 of this year.

While the immediate future is fraught with unanswered questions and some uncertainty, I believe that the program proposed is appropriately structured to meet what we now can envision to be El Salvador's most urgent and relevant assistance needs. It properly emphasizes economic stabilization and recovery via reactivation of the private sector and continued support to the Agrarian Reform as an important means for El Salvador to achieve domestic political stability and international credibility. In this context I call your attention to Embassy's recent telegram number 4751 which addresses the question of agrarian reform compensation. Consistent with that message, and in reviewing this ABS, I requested that the USAID include notationally in its ABS the requested amounts for agrarian reform compensation mentioned in 4751. This is based on our strong belief that the resolution of the compensation issue is basic to continued progress and ultimate success of the reform.

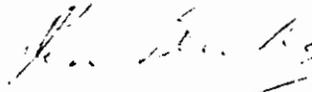
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Also I would like to call your attention to San Salvador 4869 which addresses AID's workforce requirements. I fully endorse the AID staffing levels requested in that message and which are also reflected in this ABS. Given the level, nature and importance of the U.S. economic assistance effort I would even state that the levels requested are modest and should be considered minimum.

Ambassador Hinton was out of country during final preparations of this ABS. I understand it is urgently needed in Washington and therefore we did not hold up its submission for his return. While I believe it is fully consistent with his views, its importance requires his earliest attention. We will cable immediately any substantive changes resulting from his review.

Yours truly,



Kenneth W. Bleakley
Chargé d'Affaires

ANNUAL BUDGET SUBMISSION
FY 1984
EL SALVADOR

PREFACE

PREFACE

The submission of USAID El Salvador's updated Strategy Statement (prepared in response to State 103573) will arrive after submission of the El Salvador FY 1984 Annual Budget Submission. This is due to several reasons, the most important of which is the fact that El Salvador's new Government of National Unity is little more than a month old and only now is beginning to reveal its complexion and policy objectives. Both the Strategy Statement and the ABS, therefore, had to be formulated on the basis of only a short experience with and brief knowledge of the new Government and its intentions. In the absence of the Strategy Statement, it seemed appropriate to summarize some of the Strategy Statement's main thrusts in order to put the ABS in a clearer perspective and to assist in its review.

The Strategy Statement which will closely follow this ABS submission confines its planning horizon to the next 18-24 months, the timeframe within which it is expected that El Salvador will hold national elections. The Strategy focuses the A.I.D. program over the next two years on five priority areas: policy development, economic recovery, agrarian reform support, population and family planning, and selected humanitarian assistance and social development activities. It assumes that these also will be high priority interests of the GOES.

Policy Development: In stating this area explicitly as a priority the Mission is formalizing as part of its strategy what has been an important aspect of its relations with the GOES for some time. As an evolving strategy concept and cutting across most of the proposed program, the Mission plans to focus more attention on and expand its dialogue with the GOES on a series of policy issues.

Included would be a series of activities that make it possible for the GOES to give more systematic attention to key policy areas. Initially, a re-orientation of the on-going Reform and Policy Planning Project will play a central role. While most of our policy dialogue will focus on economic issues, discussions at the macro level concerning the utilization of local currency offers another excellent opportunity to address basic policy issues. We also see an opportunity to lend assistance in helping the GOES improve selected aspects of its judicial system. This could be a modest but significant beginning in an important human rights policy area.

Reactivation of the Private Sector

This is the focal point of the Mission's proposed two-year Strategy. It will consume the biggest share of requested financial resources and will concentrate in the first instance on assisting the GOES in arresting the long and steep decline in the economy and in beginning the difficult process of economic recovery. Assistance in this area will be aimed on one level at helping to reduce the balance of payments deficit through essential import financing. At another level, this assistance will be channeled to and through the private sector in several ways in order to spur a reactivation of that devastated sector. This will take the form of import financing for essential raw materials, intermediate goods, capital goods, spare parts, agriculture inputs, basic foods and essential consumables. Sources of financing will be ESF, PL-480 Title I, CCC Guaranties, as well as a continuing HIG Program. Looking towards the economic recovery phase, the Mission in FY 1983 will initiate an activity that will have as its chief purpose the stimulation of

increased investment in the private sector in order to expand production, improve productivity and generate employment. While perhaps only marginal to this purpose, the Mission also plans to reorient its public sector employment project to contribute more towards improving production capacities. The same is true of Restoration of Vital Public Services through FY 1983. Other important aspects of this effort will be technical assistance aimed at improving the credit delivery expertise of the banking systems and fostering effective linkages between the Salvadoran private sector and the U.S. private sector, as well as between the public and private sectors of El Salvador.

Agrarian Reform Support

Beginning with a new project in FY 1983, the Mission plans to begin a long-term activity to assist the GOES in consolidating progress to date in the Agrarian Reform and put it on a more solid footing. The new activity will address the need for many improvements in the reformed sector but its central focus will be to help accelerate the legitimization aspects of the reform, e.g., adjudication, titling, compensation, amortization, etc., and also to concentrate heavily on improving the economic viability of the land and enterprises transferred to the reform's beneficiaries. In this, greater reliance will be placed on private sector concepts and approaches. This will involve efforts to decrease dependence on the State and place more reliance on private sector technical and financial resources. Establishment of a national federation of Phase I Cooperatives and stimulation of agro-industries will figure prominently in these efforts. Some attention

also will be given to improving the basic social services available to Agrarian Reform beneficiaries. The other major element of the Mission's planned support of the Agrarian Reform will be to assist in maintaining an adequate supply of production and medium-term supervised credit. Building on efforts begun in FY 1982, USAID will assist in expanding and improving the technical resources available to small, Phase III-type farmers as part of its agricultural credit programs.

Both the GOES and the Mission see the agriculture sector as the main vehicle for El Salvador to achieve economic recovery in the short term. While this part of the Strategy is labeled Agrarian Reform Support, activities under it will not be confined strictly to the reformed sector. Opportunities will be sought to make sure assistance in this area benefits selected aspects of the non-reformed sector as well. In addition to a series of agricultural policy issues, improvements in the Ministry of Agriculture's technical capacity will benefit the entire sector. The possible conversion of the National Agricultural School to a more private sector managed, private sector oriented school could have a significant impact on Salvadoran agriculture over the medium to longer term.

Population and Family Planning

The Mission is designating this area as one of its major priorities for many of the same reasons Policy Development is singled out as a separate priority, i.e., to give this very important variable in El Salvador's development more attention and prominence. With the rush of events over the past two years,

both the GOES and the Mission have neglected this fundamental problem area. The new Government has indicated a heightened interest in doing more in this area through both public and private sector institutions. The Mission believes the time is opportune to revive previously shelved plans as well as to design new approaches that put expanded programs on a solid footing for long-term continuance. In FY 1984, therefore, the Mission proposes to begin a second population activity aimed at transferring experience and skills from private sector institutions to public sector entities in order to broaden the coverage and increase the impact of family planning efforts. The population policy aspects of these efforts, of course, will figure prominently in the Mission's policy development activity and policy dialogue with the GOES.

Humanitarian Assistance and Social Development

A.I.D. activities under this fifth and last priority area will be selective and will concentrate on short-term emergency assistance to those displaced by violence and economic dislocation. This should require diminishing attention and resources beginning in FY 1984. The problem, however, breaks into two parts: assistance to displaced persons in the areas to which they have fled, and rehabilitation of areas devastated by violence or neglect from which they came and want to return. The new GOES appears prepared to give both aspects high priority attention. Highly important in both contexts are adequate health services. The Ministry of Health has a spotty record in terms of its ability to effectively deliver basic health services. A good part of this problem centers around lack of management, logistical and

maintenance expertise. The Mission believes that a well designed grant activity beginning in FY 1984 could help to make a significant difference in increasing the quantity and quality of basic health services. Also in a social development context, the Mission plans to continue an annual HIG element. The HIG serves three objectives: meeting a pent-up demand for low-cost housing, stimulating the depressed construction industry as well as generating employment, and helping to reduce the severity of the balance of payments problem. In the context of rural rehabilitation, the Mission also will be exploring ways in which HIG might be used to alleviate the severe shortage of adequate rural housing. It appears that this also will be a high priority of the new Government.

SUMMARY

The Mission is confident that its basic proposed Strategy is correct, despite the fact that the objectives, direction and operating style of the new Government are not yet all that clear. The problems that the Strategy and the FY 1984 ABS address are fundamental to El Salvador's political and economic survival as a democracy over the short term. While the tactics may have to be adjusted as the plans and programs of the new Government unfold, we doubt if the basic strategy will require substantial change. The big question is whether the USG can achieve a political and policy consensus to deliver the economic resources at the levels and times required to assure that El Salvador not only survives but grows politically and economically stronger as it moves along the difficult road towards full democratization and development.

FY 1984 ANNUAL BUDGET SUBMISSION

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FY 1984 ANNUAL BUDGET SUBMISSION

TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$ Thousands)

	Country/Office <u>EL SALVADOR</u>					
	FY 1982	FY 1983	FY 1984	PLANNING PERIOD		
	EST.	EST.	REQUEST	1985	1986	1987
<u>DEVELOPMENT ASSISTANCE</u>						
Agriculture, Rural Development and Nutrition	18,386	31,400	29,450	33,000	33,000	35,000
Grants	1,386	3,700	3,950	3,000	3,000	3,000
Loans	17,000	27,700	25,500	27,000	30,000	30,000
Population	1,870	2,450	3,532	4,000	4,000	4,000
Grants	1,870	2,450	3,532	4,000	4,000	4,000
Loans	-	-	-	-	-	-
(of which centrally procured commodities)						
Health	50	50	5,025	-	5,000	-
Grants	50	50	1,825	-	750	-
Loans	-	-	3,200	-	4,250	-
Education	-	50	50	5,000	-	5,000
Grants	-	50	50	750	-	750
Loans	-	-	-	4,250	-	4,250
Selected Development Activts.	14,662	1,922*	1,150*	1,300	1,300	1,300
Grants	2,162	1,922*	1,150*	1,300	1,300	1,300
Loans	12,500	-	-	-	-	-
SUBTOTAL FUNCTIONAL ACCOUNTS	34,968	35,872	39,207	40,300	43,300	45,300
Grants	5,468	8,172	19,507	9,050	9,050	9,050
Loans	29,500	27,700	28,700	31,250	34,250	36,250
Other DA Accts. (specify)	3,025	8,025	1,750	-	-	-
Grants (Disaster Relief)	3,025	8,025	1,750	-	-	-
Loans	-	-	-	-	-	-
TOTAL DA ACCOUNTS	37,993	43,772	43,897	40,957	40,300	45,300
Grants	8,493	16,197	12,257	9,050	9,050	9,050
Loans	29,500	27,700	28,700	31,250	34,250	36,250
ECONOMIC SUPPORT FUND	40,000	145,000	105,000	125,000	115,000	100,000
Grants	26,600	145,000	105,000	125,000	115,000	100,000
Loans	13,400	-	-	-	-	-
TOTAL DA AND ESF	77,993	188,897	145,957	165,300	158,300	145,300
PL-480 (non-add)						
Title I	27,400	30,000	32,000	20,000	15,000	10,000
(of which Title III)	(-)	(-)	(-)	(-)	(-)	(-)
Title II	1,800	(2,300)	(2,800)	3,300	3,800	4,300
Housing Guaranties (non-add)	15,000	10,000	15,000	15,000	15,000	15,000
TOTAL PERSONNEL						
USDH (workyears)	20	23	27	30	30	30
FNDH (workyears)	40	40	40	40	40	40

*Does not include regional funding: \$200,000 for Election Observers Project in FY 1982 and \$500,000 each year for FYs 1983-84

NOTES ON TABLE I

A. FY 1982. These levels, in accordance with the budget guidance, reflect the USAID OYB as of April 30, 1982. They do not, however, reflect current Mission needs which will be discussed in an upcoming cable to AID/W.

B. Economic Support Fund - FY 1983. The FY 1983 level of \$145 million is \$40 million higher than the authorized planning level. Because the balance-of-payments needs are likely to be higher and more critical in 1983 than 1984, we have modified and reversed the ESF planning levels for FY 1983 and FY 1984. Thus, the Mission proposes a shift of \$40 million from the FY 1984 authorized planning level into FY 1983.

The level includes funding for the Private Sector Support I, Industrial Recovery, Restoration of Vital Services, and Public Sector Employment projects, as well as for PD&S and a grant to AIFLD. Public Sector Employment has been included under this source of funding because the project also results in quick disbursing balance-of-payments support. We are requesting ESF PD&S to cover technical assistance, training, and other dollar costs which are essential to the development and implementation of the high ESF assistance levels programmed for El Salvador. We continue to believe that this makes eminent sense.

C. Economic Support Fund - FY 1984. The FY 1984 ESF level is now programmed at \$105 million. This is \$20 million lower than the \$125 million guidance level. This reflects the rationale for the shift of funds from FY 1984 to FY 1983 and begins what we hope can be the beginning of diminishing requirements for ESF-funded balance-of-payments support.

The FY 1984 ESF level represents a drop in the Private Sector Support project, reflecting the expectation that private foreign capital and supplier credits will begin to return to El Salvador. No funds are requested for Restoration of Vital Services because of our assumption that violence will not be a major threat to public services by that time.

D. Development Assistance - FY 1983. The DA program is principally devoted to the Agriculture sector, with nearly \$30 million of the \$36 million total programmed for the Agrarian Reform Credit and the Agrarian Reform Sector Support projects, as well as the Technoserve and ACIDI OPGs. Other DA funding covers the Salvadoran Demographic Association and Ministry of Health population activities, projects within the new priority of Policy Development, and final increments of OPGs, and PD&S.

The DA level for functional accounts is \$10.9 million above the \$25 million CP level in order to assure adequate support for Agrarian Reform Credit and also to expand attention to family planning. The credit project is needed because the monies obligated in FY 1982 are expected to be fully disbursed this fiscal year and sufficient resources need to be made available in time for the next planting season in order for agrarian-reform and other farms to maintain production levels. The population funds have been included because the new government has indicated a desire to make family planning a high priority and it would appear that the door is open to greater public and private sector cooperation in this important area.

E. Development Assistance - FY 1984. The program is essentially a continuation of the FY 1983 program except that it includes a new project in Health. This small loan project will be directed at improving the administrative mechanism of the GOES entities which administer basic health systems. In addition, the new Population Dynamics project will replace the MOH component of the Family Planning and Population project. The FY 1984 level is within the approved planning figure provided by AID/W.

F. Public Sector Employment Project. The Mission had originally intended to end this project in FY 1982. However, economic deterioration has continued and unemployment remains high. Moreover, there is much damaged physical infrastructure whose replacement and repair would complement efforts to revitalize the agriculture sector and the private sector as well. For FYs 1983 and 1984, we are planning a modification of the Public Sector Employment project which moves it toward stricter selection criteria for subprojects based on their value to reactivating the economy. We intend, of course, to make the provision of this assistance contingent upon a high counterpart contribution on the part of the GOES which would be funded from local currency generations. The dollars would be used to assure the availability of resources on a timely basis and to smooth project implementation.

G. Disaster Relief. The amounts shown in this category for Fiscal Years 1983 and 1984 will continue funding the Emergency Program project begun in FY 1982 and provide funding the voluntary agencies' displaced persons programs. Depending on the level of violence, emphasis may have to shift from emergency assistance to dislocated people to assisting these people return to their homes and places of origin.

H. Human Rights. For both FYs 1983 and 1984, the Mission is requesting, in addition to its own budget, regional human rights project funds for a modest initiative directed at making the judicial system more protective of the human rights of the Salvadoran citizenry.

I. Agrarian Reform Compensation. As discussed in San Salvador 4751, the Mission is requesting \$25 million in FY 1982 and FY 1983 to assist the GOES in this area. This funding would be over and above what is included in this ABS.

J. Local Currency Generations. A resource that is not reflected in the Table I totals is the ESF and PL 480 Title I local currency generations. At the dollar levels requested in this ABS, local currencies generated in FY 1983 and 1984 under the two programs will amount to almost \$225 million.

As part of our emphasis on policy development and policy dialogue, the Mission plans to work with the GOES to direct the use of the ESF and PL 480 Title I local currencies in such a way as to:

- (1) increase GOES counterpart contributions to high-priority areas, especially the private sector and the Agrarian Reform Credit, Agrarian Reform Sector Consolidation, and Public Sector Employment projects;
- (2) provide continued funding for small enterprise activities heretofore funded under the Small Producer Development project and the Micro-enterprises component of the Marginal Community Improvement project;
- (3) influence positive changes in key policy areas;
- (4) assure that other AID priority areas, such as natural resources management and coffee rust control, among others, are covered within the GOES budget.

J. The Outyears. What situations will be in El Salvador during the outyears is anyone's guess. Assuming, however, a reduction in violence, progress toward economic recovery, and a solidified democratic process, the Mission would expect the opportunity for some return to longer-term development beginning as early as FY 1984. In the outyears, the Mission plans to move increasingly in this direction. Even ESF-funded assistance to the private sector will be less short-term oriented and directed increasingly at helping El Salvador begin a solid transition from high economic dependence on the agriculture sector to increased industrialization. We will continue to focus Development Assistance on the Agriculture sector and, following on the initiative begun in FY 1984, will provide some assistance to strengthen the institutions which work in Health and Education, alternating assistance to those sectors in the years covered by this budget projection. During this time, the Mission will begin to work out a major strategy for making a transition from agriculture to industry to address the country's long-term employment problem.

We have only included minimal levels in the SDA account during the outyears because AID/W-provided ESF planning levels will cover all Mission requirements for private sector initiatives. If ESF funding does not materialize in adequate levels in the outyears, then our Development Assistance budget will have to be adjusted and the DA planning levels increased to meet private sector initiative requirements.

Finally, the Mission projects a phasing down and out of Title I assistance as economic recovery occurs in the outyears; and the continuation of a small Title II program through the period. We also project HIG levels to remain more or less constant due to the need and demand for low-cost housing.

FY 1984 ANNUAL BUDGET SUBMISSION
TABLE IV - PROJECT BUDGET DATA

Country/Office El Salvador

Proj. No.	PROJECT Title	G/L	Obliga- tion to Date	Life of Project Cost		Cum. Pipeline as of 9/30/81	FY 1982		FY 1983		Estimated U.S. Dollar Cost (\$000)					Item #	
				Auth.	Planned		OBL	EXP.	OBL.	EXP.	1984 AAPL	Unpled Mo/84	FY Obligations				Future Years
													1985	1986	1987		
	AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION																
0167	ARDN PD&S	G	74	-	-	125	250	240	250	250	-	-	-	-	-	6260	
0182	Nutrition Improvement	G	78	250	250	100	-	100	-	-	-	-	-	-	-	6272	
0184	Small Farm Irrigation	L	78	2,300	2,300	1,805	-	1,000	-	-	-	-	-	-	-	6273	
0197	Technoserve - OPG	G	78	800	2,450	300	-	300	575	500	9/84	575	-	-	-	6277	
0215	Save the Children - OPG	G	79	653	653	51	243	151	225	250	-	-	-	-	-	6283	
0222	La Leche League - OPG	G	80	481	481	57	143	200	-	-	-	-	-	-	-	6287	
0229	Small Producer Dev.	G	80	750	750	616	125	306	-	435	-	-	-	-	-	6289	
0229	Small Producer Dev.	L	80	9,000	8,000	2,534	-	1,500	1,000	2,000	-	-	-	-	-	6290	
0251	Marginal Comm. Improv.	G	80	350	350	265	-	265	-	-	-	-	-	-	-	6297	
0251	Marginal Comm. Improv.	L	80	7,000	8,000	1,300	-	1,300	-	-	-	-	-	-	-	6298	
0253	Health and Nutrition	G	80	276	175	137	-	87	-	50	-	-	-	-	-	6301	
0256	Public Sector Employment	L	80	11,500	11,500	4,649	-	4,649	-	-	-	-	-	-	-	6303	
0262	Ag Reform Organization	G	81	1,525	1,525	1,525	-	1,460	-	65	-	-	-	-	-	6310	
0262	Ag Reform Organization	L	80	11,750	11,750	10,213	-	6,850	-	3,363	-	-	-	-	-	6311	
0263	Ag Reform Credit	G	80	1,125	2,325	302	625	623	700	625	500	12/84	-	-	-	6312	
0263	Ag Reform Credit	L	80	28,100	64,600	2,600	17,000	15,332	19,000	19,000	17,500	12/84	-	-	-	6313	
0223	Overseas Educ. Fund-OPG	G	83	-	200	-	-	-	200	200	-	-	-	-	-	(
0265	Ag Reform Sector Support	G	83	-	5,375	-	-	-	1,500	1,000	2,375	9/85	500	500	500	6315	
0265	Ag Reform Sector Support	L	83	-	33,750	-	-	-	* 7,700	7,000	8,000	9/85	6,000	7,000	5,000	6316	
0284	AGDI - OPG	G	83	-	500	-	-	-	250	250	250	9/85	-	-	-	(
	GRANTS			6,210	15,034	3,478	1,386	3,732	3,700	3,625	3,950						
	LOANS			69,650	139,850	23,101	17,000	30,631	27,700	32,168	25,500						
	SUB-TOTAL ARDN			75,860	154,884	26,579	18,386	34,363	31,400	35,793	29,450						

* In addition to the level requested in the ABS for FY 1983, another \$15 million above the total Development Assistance Level may be required if the request in San Salvador 4751, relating to agrarian reform compensation, is approved.

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No.	PROJECT Title	C/L	Obliga- tion to Date	Life of Project Cost		Cum. Pipeline as of 9/30/81	FY 1982		FY 1983		FY Obligations				Item #		
				Auth.	Planned		OBL	EXP.	OBL.	EXP.	1984 AAPL	Funded Mo/Yis	1985	1986		1987	Future Years
POPULATION																	
0149	Family Planning & Pop.	C	66 82	8,859	9,716	2,228	1,730	1,484	600	2,874	-	-	-	-	-	6257	
0181	Population PD&S	G	79 C	-	-	-	140	124	50	66	32	Cont	-	-	-	6271	
0275	Salv. Demographic Assoc.	G	83 85	-	5,400	-	-	-	1,800	900	1,800	7/85	1,800	-	-	6325	
0210	Population Dynamics	G	84 86	-	5,100	-	-	-	-	-	1,700	7/85	1,700	1,700	-	7097	
	GRANTS			8,859	20,216	2,228	1,870	1,608	2,450	3,840	3,532						
	LOANS			-	-	-	-	-	-	-	-						
	SUB-TOTAL POP			8,859	20,216	2,228	1,870	1,608	2,450	3,840	3,532						
HEALTH																	
0178	Health PD&S	G	76 C	-	-	-	50	35	50	65	25	Cont	-	-	-	6268	
0209	Rural Water and Sanitat.	G	79 79	390	390	297	-	97	-	200	-	-	-	-	-	6281	
0253	Health and Nutrition	G	80 81	1,100	1,100	703	-	200	-	503	-	-	-	-	-	6302	
0285	Improv. of Health Resources Management	G	84 84	-	1,800	-	-	-	-	-	1,800	9/85	-	-	-	()	
0285	Improv. Of Health Resources Management	L	84 84	-	3,200	-	-	-	-	-	3,200	9/85	-	-	-	()	
	GRANTS			1,490	3,290	1,000	50	332	50	768	1,825						
	LOANS			-	3,200	-	-	-	-	-	3,200						
	SUB-TOTAL HEALTH			1,490	6,490	1,000	50	332	50	768	5,025						

FY 1984 ANNUAL BUDGET SUBMISSION

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No.	PROJECT Title	G/L	Obliga- tion to Date	Life of Project Cost		Cum. Pipeline as of 9/30/81	FY 1982			FY 1983			FY Obligations				Item #
				Auth.	Planned		OBL	EXP.	OBL.	EXP.	1984 AAPL	Funded Mo/Yrs	1985	1986	1987	Future Years	
<u>EDUCATION AND HUMAN RESOURCES DEVELOPMENT</u>																	
0168	Education PD&S	G	C	-	-	2	-	2	-	50	50	50	Cont	-	-	-	6261
0172	Basic Occ. Skills Trg.	G	78	280	100	94	-	73	-	21	-	-	-	-	-	-	6263
0190	Rural Primary Educ. Exp.	G	79	350	200	184	-	40	-	144	-	-	-	-	-	-	6274
0190	Rural Primary Educ. Exp.	L	79	4,200	4,200	4,200	-	1,300	-	2,900	-	-	-	-	-	-	6275
0260	Reform and Policy Plan.	G	80	500	400	97	-	97	-	-	-	-	-	-	-	-	6307
	GRANTS			1,130	700	377	-	212	-	215	-	50	-	-	-	-	
	LOANS			4,200	4,200	4,200	-	1,300	-	2,900	-	-	-	-	-	-	
	SUB-TOTAL EDUCATION			5,330	4,900	4,577	-	1,512	-	3,115	-	50	-	-	-	-	

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE IV - PROJECT BUDGET DATA

Country/Office El Salvador

No.	PROJECT Title	G/L	Obliga- tion to Date		Life of Project Cost		Cum. Pipeline as of 9/30/81	Estimated U.S. Dollar Cost (\$000)				FY Obligated No./Yrs	FY Obligations			Item #		
			Ini- tial	Fin	Auth.	Planned		FY 1982		FY 1983			1984	1985	1986		1987	Future Years
								OBL.	EXP.	OBL.	EXP.		AAPL					
	<u>SELECTED DEVELOPMENT ACTIVITIES</u>																	
0094	Special Dev. Activities	G	70	C	-	-	36	50	86	50	50	50	Cont	-	-	-	6256	
0177	SDA PD&S	G	76	C	-	-	147	276	300	72	150	100	Cont	-	-	-	6267	
0223	Overseas Educ. Fund-OPG	G	79	80	454	-	20	106	126	-	-	-	-	-	-	-	6288	
0242	Dev. of Local Govt. Serv.	G	82	82	-	750	-	750	100	-	650	-	-	-	-	-	6292	
0251	Marginal Comm. Improv.	G	80	81	600	-	387	-	262	-	125	-	-	-	-	-	6299	
0251	Marginal Comm. Improv.	L	80	80	4,000	-	21	-	21	-	-	-	-	-	-	-	6300	
0256	Public Sector Employment	G	80	82	655	-	121	530	150	300	675	-	-	-	-	-	6304	
0256	Public Sector Employment	L	80	83	15,930	-	199	12,500	9,063	-	3,636	-	-	-	-	-	6305	
0260	Reform and Policy Plan.	G	80	84	850	-	200	450	50	1,000	800	500	9/84	-	-	-	6308	
0282	Private Sector Action	G	83	85	-	1,500	-	-	-	500	400	500	7/85	500	-	-	()	
	Salvadoran Election Observer Program	G	82	82	(200)	(200)	-	(200)	(200)	-	(500)	-	-	7/85	(500)	-	()	
	Human Rights	G	83	85	-	(1,000)	-	-	-	-	-	-	-	-	-	-	()	
	GRANTS				2,559	6,709	911	2,162	1,074	1,922	2,850	1,150						
	LOANS				19,930	32,430	220	12,500	9,084	-	3,636	-						
	SUB-TOTAL SDA				22,489	39,139	1,131	14,662	10,158	1,922	6,486	1,150						
	GRANTS				20,248	45,949	7,994	5,468	6,958	8,172	11,298	10,507						
	LOANS				93,780	179,680	27,521	29,500	41,015	27,700	38,704	28,700						
	SUB-TOTAL DA				114,028	225,629	35,515	34,968	47,973	35,872	50,002	39,207						

FY 1984 ANNUAL BUDGET SUBMISSION
TABLE IV - PROJECT BUDGET DATA

Country/Office El Salvador

No.	PROJECT Title	G/I	Obliga- tion to Date	Life of Project Cost		Cum. Pipeline as of 9/30/81	FY 1982		FY 1983		Estimated U.S. Dollar Cost (\$000)				Item #		
				Auth.	Planned		OBL	EXP.	OBL.	EXP.	1984 AAPL	Funded Mo/Yrs	1985	1986		1987	Future Years
ECONOMIC SUPPORT FUND																	
0259	Technical Assistance	G	80	5,000	5,000	384	-	384	-	-	-	-	-	-	-	6306	
0262	Ag Reform Organization	G	80	2,600	2,600	1,267	-	1,267	-	-	-	-	-	-	-	6309	
0266	Transportation Restorat.	G	80	1,500	1,500	663	-	663	-	-	-	-	-	-	-	6317	
0256	Public Sector Employment	G	84	20,000	20,000	-	-	-	10,000	10,000	6/84	-	-	-	-	()	
0267	Private Sector Support I	G	81	209,300	209,300	-	25,000	25,000	102,000	70,000	9/84	62,300	-	-	-	6318	
0276	Indust. Recovery Program	G	84	56,000	56,000	-	-	-	26,000	18,000	8/84	30,000	-	-	-	7141	
0279	Restorat. of Vital Services	G	83	4,300	4,300	-	-	-	4,300	3,000	-	-	-	-	-	()	
0279	Restorat. of Vital Services	L	82	10,000	13,400	-	13,400	13,400	-	-	-	-	-	-	-	7098	
0279	Ag Reform Org (AIFLD)	G	84	5,600	5,600	-	1,600	1,600	2,000	2,000	12/84	2,000	-	-	-	()	
	ESF PD&S	G	83	-	-	-	-	-	700	700	Cont	700	-	-	-	()	
	GRANTS			29,100	304,303	2,314	26,600	28,914	145,000	103,700	105,000	105,000	-	-	-		
	LOANS			10,000	13,400	-	13,400	13,400	-	-	-	-	-	-	-		
	SUB-TOTAL E S F			39,100	317,700	2,314	40,000	42,314	145,000	103,700	105,000	105,000	-	-	-		
	GRANTS			49,348	350,249	10,308	32,068	35,872	153,097	114,998	115,507	115,507	-	-	-		
	LOANS			103,780	193,080	27,521	42,900	54,415	27,700	38,704	28,700	28,700	-	-	-		
	TOTAL DA + ESF			153,128	543,329	37,829	74,968	90,287	180,872	153,702	144,207	144,207	-	-	-		

PROJECT NARRATIVES

PROJECT NUMBER: 519-0265

PROJECT TITLE: Agrarian Reform Sector Support Project

PROPOSED FUNDING: (\$000) FY 83 L 7,700* G 1,500
 FY 84 L 8,000 G 2,375
 LOP L 33,700 G 5,375

FUNCTIONAL ACCOUNT: Agriculture, Rural Development & Nutrition

PROJECT PURPOSE

The project will continue to assist and to help consolidate the Salvadoran agrarian reform process through expanded support to activities aimed at enhancing economic viability and social responsibility, and at encouraging expanded private sector participation in the reformed sector's development.

PROBLEMS ADDRESSED

The project will support the efforts of implementing entities to identify and resolve administrative and socio-economic problems constraining the agrarian reform land transfer and titling process while at the same time assisting the Ministry of Agriculture to execute its mandate to provide technical assistance and training to agrarian reform beneficiaries. Special emphasis will be placed on developing as much reliance as possible on private sector technical and commercial resources.

The current on-farm management and accounting capabilities of agrarian reform cooperatives have been identified as a serious constraint to the effective implementation of Phase I of the reform. Through this project component, cooperatives will enjoy increased access to the private sector's

* In addition to the level requested in the ABS for FY 1983, another \$15 million above the total Development Assistance level may be required if the request in San Salvador 4751, relating to agrarian reform compensation, is approved.

accounting and farm management services and expertise. In addition to strengthening the cooperatives' viability, this project component will initiate a process of greater private sector participation in the agrarian reform while reducing that of the state.

Diversification of the country's agricultural base and the generation of increased rural sector employment opportunities are two expressed goals of the agrarian reform. In keeping with those goals, project resources will support efforts to identify feasible rural business opportunities including the provision of financial assistance for agro-industrial investment and development that complements efforts aimed at improving the economic viability of the reformed farms.

The organization of Phase I farms into viable and fully functioning private cooperative enterprises as well as measurable improvements in the Phase I and Decree 207 beneficiary populations' quality of life will be key objectives in the consolidation process. The project will make available to cooperating agencies and organizations the kinds of development resources that will strengthen the cooperative development process in the reformed sector as well as design and install cost-effective social service delivery systems such as health, education, housing, nutrition and family planning.

Agrarian reform implementation has placed a considerable strain on the public agricultural sector's capacity to respond to the technical needs of the country's agricultural producers in general and the reformed sector in particular. Nowhere is this more evident than the Ministry of Agriculture and Livestock's (MAG) research and extension programs. The Ministry was reorganized in early 1982 for the purpose of making the organization more responsive to the needs of the reformed sector. Despite an impressive beginning and valiant efforts, much remains to be done before MAG and other public sector entities supporting the reform's implementation are adequately

staffed, equipped, and technically backstopped to a level consistent with their mandate of serving the research, training, and extension needs of both the reformed and traditional agricultural sectors. An important component of the project will finance a rehabilitation and expansion of MAG's training and agricultural technology and transfer operations. Resources will be utilized to vastly improve ENA (National Agricultural School) as a source of qualified technical manpower critical to the agrarian reformed as well as non-reformed agricultural sector. One possibility in this respect is the conversion of ENA into a quality school along the lines of the Zamorano School in Honduras.

In addition to a rehabilitation and expansion of MAG's training and technology development and transfer functions, project funding will also be used to improve MAG's agricultural sector planning, policy formation, program coordination, and project monitoring functions. This project component will identify and install an optimal organization model in MAG's planning office and support its operation with personnel services, technical assistance, and training. The resulting institutional strengthening will enable MAG to more effectively manage the development of the agrarian reform process and other aspects of the agriculture sector.

HOST COUNTRY ENTITIES

The following Salvadoran entities will collaborate in the execution of this project: the Ministry of Agriculture and Livestock (MAG), the Salvadoran Institute of Agrarian Transformation (ISTA), the National Financial Institute of Agrarian Lands (FINATA), and the National Agricultural School (ENA), along with MAG's regional offices, its planning organization (OSPEPA), the Salvadoran Institute of Agricultural Research (ISIAP), the Salvadoran Institute of Training and Technology Transfer (ISCATT), and the Salvadoran Institute of Natural Resources (ISREN).

MAJOR ISSUES

The principal question related to project development is a continuing and well defined commitment on the part of the GOES to moving ahead with the agrarian reform process.

TARGET GROUP

The project beneficiaries will be the more than 50,000 families on the Phase I and pre-reform properties, the estimated 125,000 potential beneficiaries of Decree 207, and those rural families whose per capita income in 1976 was less than \$250,000 who will benefit from the new and more remunerative employment opportunities generated by agro-industrial employment investment activities. Also affected will be small farmers outside of the agrarian reform sector who will benefit from improved MAG services.

ADMINISTRATION'S MAJOR POLICY CONCERNS

Consistent with recent administration guidelines describing the effectiveness and efficiency of the free market as a vehicle to supply the goods and services needed to satisfy the basic human needs of the poor majority, this project will contain two components which will promote and facilitate an expanded participation on the part of the private sector in the country's agricultural development in general and the implementation of the agrarian reform in particular. The first will make available to Phase I cooperatives the resources that will enable them to acquire qualified farm management and accounting services, the effect of which will be the enhanced capacity of agrarian reform beneficiaries to plan and manage the operations of their cooperatives with a reduced or eliminated participation of the public sector. The second component will assist in the promotion of labor intensive agro-industrial business ventures which complement and support the agrarian reform.

The project will also address two additional policy concerns by sup-

porting the institutional development of Salvadoran entities promoting the innovation and transfer of agricultural technology, especially as it relates to crop diversification. Implementing entities will be availing themselves of the scientific, technological, and managerial expertise of the U.S. and international private sectors as well as the U.S. university community. The project will support the expansion of the GOES institutional capacity to analyze constraints to sustained and equitable economic growth in the agricultural technology transfer.

This project is designed to help build the institutional capability of the newly formed federation to increasingly offer vital services to the member cooperatives.

The project will finance technical assistance, the establishment of a national office and minimum local staff.

HOST COUNTRY ENTITIES

ACDI will coordinate with the Salvadoran Institute of Agrarian Transformation (ISTA), as appropriate.

MAJOR ISSUES

Final design of this OPG will be contingent upon the findings and recommendations contained in the proposed ACDI study of USAID's role in Phase I cooperative development.

TARGET GROUPS

The target group will be small farmers and small entrepreneurs, primarily members of cooperatives who will benefit through increased incomes, wider employment opportunities, and improved cooperative services.

ADMINISTRATION'S MAJOR POLICY CONCERNS

This project will address the Administration's concern for a bilateral assistance program that strengthens indigenous institutions to effectively promote and support the enhanced productivity of the private sector.

PROJECT NUMBER: 519-0275

PROJECT TITLE: Salvadoran Demographic Association (OPG)

PROPOSED FUNDING: (\$000) FY 83 L --- G 1,800

FY 84 L --- G 1,800

LOP L --- G 5,400

FUNCTIONAL ACCOUNT: Population

PROJECT PURPOSE

To increase access to a variety of family planning methods through continuation and expansion of ongoing Community Based Distribution, Commercial Retail Sales, and Mass Media Education/Information Programs and through the provision of technical assistance in evaluation and training to the GOES, as it assumes a greater role in distribution, education, training and evaluation activities.

PROBLEMS ADDRESSED

Population growth continues to be El Salvador's most fundamental long-run problem. The country's 1978 population was about 4.4 million, growing at over three percent yearly. While the average birth rate declined from 48 to 49 per 1,000 in the early 60's to approximately 40 in recent years, with 21% of women in fertile age for the country as a whole using modern means of contraception, birth rates of 46 to 47 have continued in rural areas, with less than 10% of fertile age women contracepting. Even under the most favorable assumptions regarding fertility declines, El Salvador's population is expected to be at least 1.6 times its present size by the year 2,000. A population of this magnitude will place severe pressures on agricultural land, water resources, and public services, and greatly in-

crease the demand for urban jobs. The new GOES has thus far expressed a high priority interest in expanding family planning activities through public and private sector entities.

To date, the area in which AID has placed its emphasis is that of services and supporting training. Services have been most effective in the urban area where contraceptive prevalence is estimated at nearly 30% compared to 9-10% in rural areas; although services are available in rural areas, they have not been widely accepted. Reasons for this include first, the fact that the rural male is a key element in the decision of a rural woman to use modern means of contraception, and second, rumors of side effects. Under the leadership of the Salvadoran Demographic Association, carefully designed and focused mass media and educational campaigns have attempted to address both of these problems. The Salvadoran Demographic Association has had a good deal of success in their programs. However, the enormous needs of the country require the continuous participation of the Government of El Salvador. To expand into these critical areas, the GOES requires training and technical assistance which the Salvadoran Demographic Association can provide. This in turn will tend to foster greater public/private sector cooperation in this important area of national development.

PROPOSED MEANS TO ADDRESS THE PROBLEMS

The Salvadoran Demographic Association has been active in El Salvador since the mid 60's and has always been included in AID projects in the population sector. The private sector organization has played a major role in training, evaluation, initiation of a Community Based Distribution Program, development of a mass media program, and expansion of a Commercial Retail Sales Program, initiated by Development Associates and at present under the SDA supervisory. This project will support continuation and expansion

of these activities. It will also support the transfer of SDA's experience in all of these areas to the GOES agencies (Ministry of Planning, Ministry of Education, Ministry of Defense and the Ministry of Labor through the Social Security Institute) involved in the national Population Planning Program.

HOST COUNTRY ENTITIES INVOLVED

The Salvadoran Demographic Association (SDA) and the Ministry of Health.

MAJOR ISSUES TO BE ADDRESSED

In the coming months, the USAID, in consultation with AID/W, will have to determine whether an OPG is, in fact, the best vehicle for this project. A major factor in this determination will be whether or not cost sharing becomes a requirement under the OPG mechanism. A projected \$5.4 million life-of-project cost makes this an unusually large candidate for an OPG. While SDA has demonstrated in the past that it can carry out a project of this magnitude with minimal support from the USAID, it would likely not be in a position to enter into a cost-sharing arrangement with us on a project of this size.

TARGET GROUP

The Project will benefit men and women of reproductive age, particularly in rural areas. It is expected that the information and education campaigns launched through the mass media will reach the entire adolescent and adult populations of El Salvador. In addition, GOES personnel working in family planning projects will benefit from SDA assistance in training.

ADMINISTRATION'S POLICY CONCERNS

This project is in full compliance with the Agency policy of promoting the indigenous private sector's participation in development. In addition, this project uses an indigenous private sector organization to provide institution-strengthening technical assistance to the public sector.

PROJECT NUMBER: 519-0210

PROJECT TITLE: Population Dynamics

PROPOSED FUNDING:	(\$000)	FY 84	L	---	G	1,700
		LOP	L	---	G	5,100

FUNCTIONAL ACCOUNT: Population

PROJECT PURPOSE

To assist the GOES in reducing the country's annual rate of population growth from the present 3.1 percent to 2.4 percent by 1986 through development of the institutional capability to plan and implement population planning activities and through financial support to carry out those activities which would provide urban and rural families with effective methods of contraception.

PROBLEMS ADDRESSED

1/ Population growth continues to be El Salvador's most fundamental long-run problem. The country's 1978 population was about 4.4 million, growing at over three percent yearly. While the average birth rate declined from 48 to 49 per 1,000 in the early 60's to approximately 40 in recent years, with 21% of women in fertile age for the country as a whole using modern means of contraception, birth rates of 46 to 47 have continued in rural areas, with less than 10% of fertile age women contracepting. Even under the most favorable assumptions regarding fertility declines, El Salvador's population is expected to be at least 1.6 times its present size by the year 2,000.

1/ The description of El Salvador population problems has been paraphrased from the October 1979 IBRD paper entitled: "El Salvador Demographic Issues and Prospects".

A population of this magnitude will place severe pressures on agricultural land, water resources, and public services, and greatly increase the demand for rural and urban jobs.

While the country has reached the stage where both birth and death rates have begun to decline, the legacies of decades of rapid population growth are a younger and progressively more dependent population and a potential, given the distribution of the population, for significant further additions to the number of people. In a high fertility economy, the proportion of persons of working age will be substantially lower with consequences for per capita income growth, patterns of resource use, the level of savings and investment attained, and income distribution.

Larger sized families incur higher consumption demands than smaller families, and in a stable income framework, this depresses savings and ultimately investment in the economy. Furthermore, low income families and rural families have higher fertilities and larger than average families. The diminution of potential savings is thus especially marked among the poor, who, precisely because their savings potential is reduced, cannot afford the complementary factors of capital which would enhance their productivity and incomes. This strengthens the expectation that household income distribution in the country will worsen as larger families continue to be concentrated among the poor.

Higher fertility rates will also effect government savings as greater proportions of scarce resources are required to educate, maintain health standards and house and feed the population. For example, a strongly declining fertility makes a striking difference to the educational outlays required to satisfy the targeted enrollment figures. The World Bank estimates that assuming only a 2.4% population growth rate, the country

could experience a savings of \$60 million per annum in the year 2,000. Unemployment is also exacerbated by high fertility rates. An increasing proportion of investment will be required to maintain the average stock of capital per worker to allow labor to produce its current average output. Although some of the expenditures, e.g., health and education, may be regarded as productive investment rather than consumption, increased numbers would represent a greater diversion of public resources away from a more direct and quick yielding augmentation of the economy's capital resources.

To date, the area in which AID has placed its emphasis is that of services and supporting training. Services have been most effective in the urban area where contraceptive prevalence is estimated at nearly 30% compared to 9-10% in rural areas. Although services are available in rural areas, they have not been widely accepted. Reasons for this include first, the fact that the rural male is a key element in the decision of a rural woman to use modern means of contraception and second, rumors of side effects. A carefully designed and focused mass media campaign has attempted to address both of these problems under the leadership of the private sector entity, the Salvadoran Demographic Association.

The least strong elements of the GOES population program are those of demography and policy. El Salvador has a lack of sound demographic data and demographic analytic skills making it difficult to aim programs specifically to target areas. Policy has been limited to making services available and to strengthening demand through the use of mass media. But the effect of programs in other sectors such as education, urbanization, and adolescent fertility has been largely ignored.

PROPOSED MEANS TO ADDRESS THE PROBLEMS

The Population Dynamics Project will take a tri-focal approach to the population problem involving: 1) an expansion of existing family planning services and access to them; 2) stronger efforts to motivate the hard-to-reach rural sector to adopt family planning; and 3) improved planning, coordination, and evaluation of activities directed toward reduction of fertility rates. A newly formed unit within the Ministry of Health (MOH) responsible for implementing and administering the country's family planning program will be assisted in developing staff, training promoters, and the establishment of functioning evaluation, supervision, delivery, and marketing systems drawing upon the experience and assistance provided by the Salvadoran Demographic Association. As a result, the GOES will take on a greater burden of the responsibility for expansion of the country's Community Based Distribution Program, and population, education, evaluation, and training activities. Linked with the Population Technical Committee through the management information system, the population activities of the MOH and the Social Security Institute will be monitored to determine the impact of current population programs by quantifying socio-economic benefits.

HOST COUNTRY ENTITIES INVOLVED

The GOES Ministry of Health, Ministry of Planning, Ministry of Education, Ministry of Defense and the Social Security Institute.

MAJOR ISSUES TO BE ADDRESSED

None

TARGET GROUP

The project is directed towards men and women of reproductive age, particularly in rural areas. An estimated 350,000 families will benefit from contraceptive services by the end of the project in 1986. It is expected that the information and education campaigns launched through the mass media will

reach the entire adolescent and adult population of El Salvador.

ADMINISTRATION'S POLICY CONCERNS

One of the project's emphasis areas is consistent with the Agency's special emphasis on institutional development. At the moment, the GOES' capacity is not commensurate with the population problem confronting it. Yet the problem is of such magnitude that it cannot be overcome without government support. While this project will provide funding for services and commodities, its major long-term impact will be through its institutional development effects.

This 3-year project would provide technical assistance, training and some budget support to the MOH in the areas of Management/Planning, Logistics, Maintenance, Supervision and Continuing Education.

In the areas of Management/Planning, the project will reinforce the capacity of managerial levels of the MOH to improve the linkages between planning and implementation of programs, thereby increasing the efficiency and effectiveness of these programs. The planning process, budgetary allocation and management information systems will be improved by means of technical assistance and electronic data processing equipment.

In Logistics and Maintenance, the project will assist the MOH in the organization of a more efficient support system for its health programs at all levels, but emphasizing the primary health care level. Areas of administrative re-organization, development of policy and procedures, training of personnel and upgrading of maintenance workshops and warehouses will be addressed.

Supervision and Continuing Education are closely linked. Supervision is "one-on-one" continuing education but it can also serve as a means of identifying priority areas for continuing education. The project will assist the MOH in devising and testing a simple, effective supervision model which will be closely linked to the design of competency-based continuing education activities.

HOST COUNTRY ENTITIES

The Ministry of Health will be the GOES implementing entity, particularly its Planning, Administration, Logistics and Maintenance, and Human Resources Divisions.

TARGET GROUP

Clients of the health care system are the ultimate beneficiaries of the project, as a direct result of improved support systems for health care providers. The project itself, however, only addresses the strengthening of MOH's capacity to manage its financial and human resources more effectively.

ADMINISTRATION'S MAJOR POLICY CONCERNS

The project is in full compliance with the Administrator's focus on institutional development.

It is directed totally at institutional strengthening, emphasizing technical assistance and training and allowing for some resource transfers provided for budget support.

PROJECT NUMBER: 519-0286

PROJECT TITLE: Private Sector Organization and Planning

PROPOSED FUNDING: (\$000) FY 83 L - G 500
 FY 84 L - G 500
 LOP L - G 1,000

FUNCTIONAL ACCOUNT: Selected Development Activities

PROJECT PURPOSE

To increase the private sector capacity to promote investment and economic recovery to generate employment.

PROBLEMS ADDRESSED

The past three years in El Salvador have seen a dramatic downturn in all aspects of the economy. The Gross Domestic Product has declined by 20%. Industrial output alone has declined by over 30%. At least 60 factories have closed and over 1,000 other plants of all sizes are either operating at reduced levels or are on the verge of closing. Approximately 18,000 workers have lost their jobs as a result of closures. The best estimate on the overall unemployment situation is that 30% of the productive workforce is either out of work or only working part time. This represents an increase of 20% in unemployment levels since 1978. Finally, private investment has dropped by 69% since 1978.

The challenge facing the Salvadoran private and public sectors is how to arrest and then reverse the negative trends outlined above. Short and long-term strategies must be developed which will bring productive subsectors of the economy such as industry, construction and tourism, out of their catatonic states. To do that, those strategies will have to focus on creating a business climate conducive to renewed and eventually additional, capital investment, increased production and increased employment.

The challenge to A.I.D. is in working with Salvadoran businessmen and their government to develop and implement economic rehabilitation strategies to the point where sustained growth is possible without substantial external assistance.

The Project will form one part of the Mission's overall response to the problems outlined above as it moves to implement the Caribbean Basin Initiative in El Salvador. Project funds will be used to strengthen the capability of the Salvadoran private sector to attract investment to the country and rehabilitate labor-intensive enterprises in the private sector. Specific activities to be carried out will include provision of technical assistance and training in management and organization techniques to businessmen from the main and private sector organizations and from the private sector at large. Particular attention will be given to the development or improvement of planning and communication capabilities within the several major business organizations extant in the sector. Lastly project beneficiaries will also work with public sector representatives and members of the U.S. business community to develop industrial recovery and trade, investment and export promotion programs.

HOST COUNTRY ENTITIES

Preliminary conversations regarding this Project have already been conducted by the Mission with representatives of all the major business organizations in El Salvador, including the Salvadoran Chamber of Commerce and Industry, the Association of Salvadoran Industrialists, the National Association of Private Business and the Federation of Small Businessmen.

MAJOR ISSUES

A major issue to be addressed is the question of whether and to what extent a Salvadoran group can be formed that represent a wide spectrum of business interests and political orientations, including businessmen who are not affiliated with the major organizations.

TARGET GROUP

The target group for this Project is the Salvadoran private sector which is estimated to comprise 10,100 individual businessmen and owners who employ another 190,000 in private sector workers, excluding basic agricultural production which is estimated to employ some 450,000 workers throughout the year.

ADMINISTRATION'S MAJOR POLICY CONCERN

This Project is consonant with the major policy concerns of the present Administration in several areas. The Project will impact directly and positively upon the indigenous private sector and should result in increased investment and jobs if all goes well. The Project will also sponsor the transfer of technology and management techniques by financing the technical assistance of consultants and the cooperative assistance efforts of voluntary U.S. business groups, such as Chambers of Commerce.

Fundamental to the achievement of the new government's goals is the strengthening of the rule of law. The legal and judicial system, never strong, have been severely weakened by years of political violence. Might is right has been the rule rather than the exception.

The former Attorney General submitted a proposal to the USAID several months ago for technical assistance and training leading toward the creation of an Institute for Criminal Investigation. More recently, the new Attorney General has also expressed and demonstrated strong personal interest in the proposal and in exchanging ideas with the USAID on improving aspects the judicial systems. The existing proposal, which is still being evaluated by the USAID and AID/W, is not likely to be the exact course the Agency wishes to support, but the GOES is willing and indeed anxious to pursue some avenue which we could support, that would better enable their legal system to protect the human rights of Salvadorans. The Mission believes this will and interest represent an important opportunity to begin a modest but highly relevant assistance effort in this area of profound importance and significance to El Salvador. Hence, USAID's own staff, assisted by AID TDY or outside consultants, will in the next months be studying alternative ways in which AID might assist the GOES in carrying out its stated policy goal.

MAJOR ISSUES

However AID attempts to assist the legal and judicial system in the protection of human rights, there exists the potential for being in conflict with Section 660 of the Foreign Assistance Act which prohibits AID funding of assistance to policy or law enforcement agencies. Any definite programming will have to carefully address this issue. The final form of AID's assistance must, therefore, be carefully defined and directed to avoid

being nullified by this emotional minefield. The choice of advisors and consultants in this area will be critical and the Mission therefore, requests that AID/W lend as much assistance as possible in getting this effort off to the right start.

TARGET GROUP

While it is assumed that all of the citizens of El Salvador would benefit from improved human rights, the special target of this assistance will be the rural and urban poor who have suffered most from the climate of violence and the rule of force.

ADMINISTRATION'S MAJOR POLICY CONCERNS

The project simultaneously addresses two Agency policy priorities: (a) it is directed at encouraging the Government to undertake policy reforms which are conducive to social development and (b) it will provide support for the rebuilding and reshaping of an institution. Looking more specifically at the Salvadoran situation, the project also supports one of the major U.S. foreign policy thrusts here, improvement of human rights.

TABLE V - FY 1984 PROPOSED PROGRAM RANKING		Country/Office		EL SALVADOR		
RANK	PROGRAM ACTIVITY DESCRIPTION	ONGOING/ NEW	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING (\$000)	
					INCR	CUM
	<u>New and Ongoing Projects</u>					
1	519-0167 Private Sector Support I	0	G	ESF	62,300	62,300
2	519-0263 Agrarian Reform Credit	0	L	ARDN	17,500	79,800
3	519-0263 Agrarian Reform Credit	0	G	ARDN	500	80,300
4	----- PL-480 Title I				(32,000)	80,300
5	519-0276 Industrial Recovery	0	G	ESF	20,000	100,300
6	519-0283 ESF PD&S	0	G	ESF	700	101,000
7	519-0275 Salvadoran Demo. Association-OPG	0	G	POP	1,800	102,800
8	519-0262 Agrarian Reform Org. (AIFLD)	0	G	ESF	2,000	104,800
9	519-0265 Agrarian Reform Sector Support	0	G	ARDN	2,375	107,175
10	519-0265 Agrarian Reform Sector Support	0	L	ARDN	8,000	115,175
11	519-0167 ARDN PD&S	0	G	ARDN	250	115,425
12	519-0210 Population Dynamics	0	G	POP	1,700	117,125
13	519-0181 POP PD&S	0	G	POP	32	117,157
14	----- (PL-480 L/C Generations -\$32 mil.)					117,157
15	----- (ESF L/C Generations - \$62.3 mil.)					117,157
16	519-0256 Public Sector Employment	0	G	ESF	10,000	127,157
17	519-0281 Disaster Relief - Emerg. Program				(250)	127,157
18	----- Disaster Relief - Volags				575	127,732
19	519-0197 Technoserve - OPG	0	G	ARDN	250	127,982
20	519-0284 ACDI - OPG	0	G	ARDN	(15,000)	127,982
21	----- Housing Investment Guaranty					127,982
22	519-0260 Reform and Policy Planning	0	G	SDA	500	128,482
23	519-0276 Industrial Recovery	0	G	ESF	10,000	138,482
24	598-XXXX Human Rights Improvement				(500)	138,482
25	519-0282 Private Sector Organization	0	G	SDA	500	138,982
26	----- Title II - CARITAS				(2,800)	138,982
27	519-0177 SDA PD&S	0	G	SDA	100	139,082
28	519-0285 Improvement of Health Res. Mgt.	N	G	HE	1,200	140,282
29	519-0285 Improvement of Health Res. Mgt.	N	L	HE	3,800	144,082
30	519-0178 HE PD&S	0	G	HE	25	144,107
31	519-0168 Education PD&S	0	G	EHR	50	144,157
32	519-0094 Special Development Activities	0	G	SDA	50	144,207

TABLE V - NARRATIVE

Since the October 1979 coup, U.S. aid to El Salvador has been critical to the nation's economic and political survival. Our assistance was a key element in bringing the country to open, honest elections which exceeded all expectations regarding turnout. But the elections were only a first step in the stabilization process. The country still faces a serious political threat and its economy is entering its worse phase yet. The proposed FY 1982 CBI resources and the proposed FY 1983 ESF levels are absolutely vital to El Salvador's chances to arrest its economic decline and to begin the process of recovering during 1983 and 1984.

U.S. assistance will also be critical to assuring continuation of progress in the agrarian reform area. This should be viewed as a long-term U.S. commitment extending through and beyond FY 1984. The rationale for these high levels over the next two years are spelled out in greater detail in the "Updated Strategy Statement".

Focussing on FY 1984 the Mission is requesting a combined ESF/DA level of \$144 million for FY 1984. Of that level, \$103 million is devoted to reactivation of the private sector, the most immediate and highest priority among the strategy's five emphasis areas, as the major vehicle to carry the country towards economic recovery. All assistance activities within this category support short-term, balance-of-payments goals via the private sector, especially the Private Sector Support I project, the PL-480 Title I and HIG Programs (two of which are shown as non-add items in Table V). The achievement of these goals are requisite to helping arrest economic decline. The

Industrial Recovery and to some extent the Public Sector Employment projects, as well as the HIG are geared to expanding productive investment and output, and thus employment, cover the short and medium term.

The next priority among the emphasis areas is agriculture development, which is directed primarily but not exclusively at the agrarian reform sector. This sector will receive \$31.2 million of the ESF/DA proposed budget (80% of the DA budget). Continued progress in the agrarian reform sector is considered crucial to several objectives: political stability, levels of popular support for U.S. assistance, and recovery of the agriculture sector.

Population is another priority emphasis area. Population growth is at the very base of many of the country's economic and political social problems. The Mission is proposing to help deal with it through a large OPG to the Salvadoran Demographic Association and through the Population Dynamics (Ministry of Health) project. Population is ranked third among the priorities because its goals are long-rather than short-term.

The humanitarian assistance emphasis area is in the finest tradition of U.S. willingness to aid others in difficult circumstances. Included in this category is Disaster Relief assistance for the displaced persons. The requested level of \$1.75 million reflects our expectation that the need for assistance in this area will have phased down significantly by FY 1984. Also included in this category is a new project in the health sector to provide institution-strengthening assistance to the Ministry of Health in support to its health programs, especially primary health care, and PL 480 Title II food aid for orphans and maternal/child feeding.

Our final priority emphasis area is Policy Development. The policy development objective is central to this Mission's entire portfolio. Projects specifically listed in this category are intended to provide additional support for policy development beyond that which will be addressed under the projects falling within the other emphasis areas.

Table V is not based solely on a ranking of priorities in terms of their importance to U.S. objectives, though that is the first consideration. Another consideration is the timing and phasing of financing. The ranking takes into account that some projects disburse more rapidly than others, that some projects need funding in place at specific times, and that some projects can rely on the local currencies generated by ESF and PL 480 Title I programs to carry them through if dollar resources are short. For example, the Agrarian Reform Credit project is given priority over the Agrarian Reform Sector Support project. This reflects the need to have credit funds available at the beginning of the planting season. The consolidation project does not have this constraint and will disburse over a longer time frame, and thus is more susceptible to partial local currency financing. Similarly, the Salvadoran Demographic Association OPG, with its longer-term development objectives has been given priority over some agrarian reform projects because the organization absorbs and utilizes its funds effectively and rapidly. Nonetheless, because of the importance of maintaining momentum in all the emphasis area, the ranking is structured to assure that all priority areas receive some if not total funding.

The total level requested is considered minimum, in terms of AID's ability to support U.S. policy objectives in El Salvador. Reductions, particularly

above the Item 22 level, would seriously jeopardize accomplishment of these objectives.

WORKFORCE

As recently discussed in the USAID Director's cable to the LAC Bureau's Assistant Administrator (San Salvador 4869), USDH workforce ceilings are inconsistent with the level and type of program being carried out by this Mission.

At over \$200 million in one fiscal year, the program is the largest in the Hemisphere and one of the largest in the world. In addition, the planned program involves the design and implementation of almost every instrument of economic assistance available ESF, DA, PL-480, HIG and CCC. None of these are simple check-writing programs. They require, some more than others, hands-on USAID involvement. Moreover, the spotlight under which the El Salvador program operates; the rising demand for accurate, timely information; and the number of high-level official visitors to this Post cause major additions to an already excessive workload.

The Mission estimates that from 25-30 positions could be fully justified and the barest minimum of no less than 23 are required in FY 1983 to manage the program effectively. The level should be no less than 25 in FY 1984.

The Mission therefore urges AID/W in the strongest possible terms to provide staffing levels which are more consistent with our workload than the levels currently contemplated.

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

	FY 1982				FY 1983			
	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	1223		1130	20	1402		1326	23
F.N. DIRECT HIRE	529		0	40	589		0	40
CONTRACT PERSONNEL	114		0	XXXXX	120		0	XXXXX
HOUSING EXPENSES	241		0	19	406		0	19
OFFICE OPERATIONS	553		0	XXXXX	644		0	XXXXX
TOTAL	2660		1130	XXXXX	3161		1326	XXXXX
RECONCILIATION	1130		1130	XXXXX	1326		1326	XXXXX
MISSION ALLOWANCE	1530		0	XXXXX	*1835		0	XXXXX

Mission has not received AID/Wash. estimates for FAAS.
 No amount is included in above figures for FY 1982/1984.

* Ref. STATE 132818, 5/15/82.
 Total amount of dollar funded local
 currency costs included in budget \$1080.
 Exchange Rate 02.50 to \$1.00

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

FY 1984 PROPOSED				
	TOTAL.	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	1577		1353	27
F.N. DIRECT HIRE	604		0	40
CONTRACT PERSONNEL	127		0	XXXXX
HOUSING EXPENSES	370		0	19
OFFICE OPERATIONS	468		0	XXXXX
TOTAL	3146		1383	XXXXX
RECONCILIATION	1383	XXXXX	1383	XXXXX
MISSION ALLOWANCE	1763	XXXXX	XXXXX	XXXXX

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

	FY 1984 MINIMUM				FY 1984 CURRENT			
	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	1451		1273	25	1514		1328	
F.N. DIRECT HIRE	604		0	40	604		0	
CONTRACT PERSONNEL	127		0	XXXXX	127		0	XXXXX
HOUSING EXPENSES	370		0		370		0	
OFFICE OPERATIONS	468		0	XXXXX	468		0	XXXXX
TOTAL	3020		1273	XXXXX	3083		0	XXXXX
RECONCILIATION	1273		1273	XXXXX	1328		1218	XXXXX
MISSION ALLOWANCE	1747		0	XXXXX	1755		0	XXXXX

PL-480 NARRATIVE

PL 480 assistance is a crucial element of the U.S. economic assistance effort in El Salvador. At a time when the country is struggling for economic and political survival, PL 480 resources are in large part making the difference between a continuation of the flow of basic food commodities and food shortages. This food-importing country was once able to pay for its food imports from its own foreign exchange earnings. With the devastation to its economy and practically negative foreign exchange reserves, PL 480 assures an adequate flow of basic foods to El Salvador. PL 480 assistance is also providing emergency food to the poorest elements of the population, particularly those persons who have been forced from their homes as a result of the violence here. Finally PL 480 is also, through the local currencies it generates, assuring that at least some long-term development activities in the agriculture and humanitarian assistance areas continue, even though the country's most immediate focus must be on short-term, emergency concerns.

In FY 1982, PL 480 Title I has been authorized at a level of \$27.3 million. It may go slightly higher as a result of current discussions regarding exact levels of commodities requirements. Consistent with Washington guidance, Title I is being programmed at \$30 million in FY 1983, \$32 million in FY 1984, and \$34 million in FY 1985. These levels are in accord with the Mission's own projection of requirements for those years. As economic recovery takes place, the Mission sees a diminishing need for PL 480 Title I support beginning in FY 1986 or perhaps earlier.

The total Title II level for FY 1982 is presently estimated at \$7.4 million, including the World Food Program assistance to displaced persons, the Emergency Feeding Program targeted at residents of marginal communities, and the CRS/CARITAS Maternal and Child Health and Other Child (orphans) Feeding programs.

We expect a continuation over the next two years of the need for emergency programs, but according to AID/W guidance, the request for FYs 1983, 1984, and 1985 only includes regular feeding programs. Thus the levels are \$1.8 million, \$2.3 million, and \$2.8 million, respectively for the three years. For the outyears, the levels cover the same type of programs with levels adjusted upward for inflation.

PL 480 Title I

The commodities being requested under the FY 1983 and 1984 programs are wheat, edible vegetable oil, and yellow corn. The commodities and levels were determined after giving full consideration to their potential impacts on domestic production, marketing and consumption patterns. Wheat is not produced domestically in El Salvador. Because of the economic crisis there, the country must rely almost totally on concessional imports. These purchases will flow through normal marketing channels once they enter Salvadoran ports. With regard to edible oils and fats, El Salvador satisfies approximately 50 percent of its demand through imports. The deficit between the domestic supply and demand for edible oils will in all probability widen as the national production of cotton seed, the only locally produced source of edible oil, decreased in the 1981-1982 crop year and projections for the next crop year do not indicate any compensatory increases in production. With regard to yellow corn, production

in El Salvador is not sufficient to meet internal demand for that commodity. The estimated 45,000 M.T. and 48,000 M.T. required to satisfy internal demand in FY 1983 and FY 1984, respectively, will be covered by either commercial imports or by the PL 480 Title I sales.

The GOES has made the reactivation of the agrarian economy one of its principal priorities. It recently issued a policy statement fully intended to promote increased production and productivity in the form of an initial agricultural sector plan. The plan calls for increasing the area under cultivation, especially that which can be planned with basic grains; expanded access to credit and technical assistance; and an improved administrative capacity for the country's grain and marketing organization. With respect to yellow corn, this policy will entail market interventions intended to markedly reduce or eliminate the price differential between yellow and white corn. The intended outcome of this action is not to substitute yellow corn production for that of white, but rather to bring additional acreage into production, especially for the production of yellow corn. The process will take several crop years during which time El Salvador will be dependent upon imports to meet its internal demand for yellow corn.

The GOES has undertaken a number of projects to increase food availability and expand agricultural productivity. Its current portfolio includes: Agricultural and Industrial Training (GOES-IBRD), Small Farm Irrigation System (GOES-AID), Agricultural Services Center (GOES-W. Germany), Agricultural Credit (GOES-IDB), Agrarian Reform Credit (GOES-AID), Construction and Improvement of Basic Grain Storage and Supply Centers (GOES-OPEC), and the Zapotitán Valley Irrigation Development Program (GOES).

The local currencies generated from the sales of Title I commodities are supporting AID priority areas. For example, the cost of implementing the agrarian reform has proven to be substantial, involving not only land transfer, but also the provision of credit, production inputs, management services, and technical assistance to the reform cooperatives, as well as individual beneficiaries. Local currency generations are being used to support the reform process by financing agricultural credit, training, extension, and community development activities in the reformed agricultural sector. They are simultaneously contributing to the employment generation effort and agriculture and social needs by helping to finance infrastructure activities in the areas of small farm irrigation, reforestation, soil conservation, and potable water. They are also providing credits to small and micro rural productive enterprises.

In FY 1983 and FY 1984, we expect that local currency generations will continue to assist GOES efforts in these areas, and to be increasingly supportive of U.S. development efforts in the country.

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE XI

P.L. 480 TITLE I/III REQUIREMENTS
(Dollars in Millions, Tonnage in Thousands)

COMMODITIES	FY 1982		Estimated FY 1983		Projected FY 1984		Carry into FY 1985 \$ MT
	Agreement \$ MT	Shipments \$ MT	Agreement \$ MT	Shipments \$ MT	Agreement \$ MT	Shipments \$ MT	
<u>Title I</u>							
Wheat	19.6 110	19.6 110	19.8 100	19.8 100	21.8 110	21.8 110	- -
Oil (bulk)	3.8 6	3.8 6	5.3 9	5.3 9	5.8 12	5.8 12	- -
Yellow Corn	3.9 30	3.9 30	4.9 32	4.9 32	4.4 29	4.4 29	- -
<u>Total</u>	27.3 146	27.3 146	30.0 141	30.0 141	32.0 151	32.0 151	- -
<u>Of which</u>							
<u>Title III</u>							
<u>Total</u>							

COMMENT:

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE XII

Country/Office El Salvador

PL 480 TITLE I/III

Supply and Distribution
(000 Metric Ton)

<u>STOCK SITUATION</u>	<u>FY 1983</u>	<u>Estimated FY 1984</u>
<u>Commodity - Wheat</u>		
Beginning Stocks	30	30
Production	-	-
Imports	120	130
Concessional	100	110
Non-Concessional	20	20
Consumption	120	130
Ending Stocks	30	30
<hr/>		
<u>Commodity - Edible Oil</u>		
Beginning Stocks	3	3
Production	7	7
Imports	13	15
Concessional	9	12
Non-Concessional	4	3
Consumption	20	22
Ending Stocks	3	3
<hr/>		
<u>Commodity - Yellow Corn</u>		
Beginning Stocks	-	-
Production	-	-
Imports	45	48
Concessional	32	29
Non-Concessional	13	19
Consumption	45	48
Ending Stocks	-	-

Comment:

PL 480 Title II

PL 480 Title II has been one of AID's primary mechanisms for providing humanitarian assistance in El Salvador.

PL 480 Title II resources have been filling an urgent humanitarian need through the food donations channelled through the World Food Program and CRS to some 200,000 people who were forced to flee their homes as a result of political violence.

The political violence has also had an indirect effect on residents of marginal communities in the form of massive unemployment and increased commodity costs. Under the July 1981 Transfer Authorization for 7301 M.T. of commodities, the GOES is carrying out a food-for-work emergency feeding program which is presently reaching 55,000 beneficiaries in the marginal communities of the three main Salvadoran cities (San Salvador, Santa Ana, and San Miguel) and will soon be reaching over 60,000. The Emergency Feeding Program also has a development impact. The program encourages members of these communities in self-help activities. For example, after learning skills through the program, some community residents are forming micro enterprises and applying for credit make available through other programs. The program also promotes community development, family planning, and health and nutrition education.

While these emergency programs are expected to continue to be needed over the next two years, the budget shows no funding for them because their emergency nature places them in a separate Agency budget category. Thus for FYs 1983 and 1984 we are only requesting assistance to support the maternal and child

health and other child feeding programs of CRS/CARITAS which is reaching some 120,000 beneficiaries.

As a result of the budget reduction for Title II programs for FY 1983, the Mission has modified the CRS/CARITAS AER by replacing WSB and rice with soy-fortified cornmeal which is nutritious and less expensive.

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE XIII

PL-480 TITLE III. Country El SalvadorSponsor's Name Catholic Relief Services (CRS)A. Maternal and Child Health..... Total Recipients 120,000

<u>No. of Recipients by Commodity</u>	<u>Name of Commodity</u>	<u>(Thousands)</u>	
		<u>KGS</u>	<u>Dollars</u>
<u>125,000</u>	<u>SFCM</u>	<u>2700</u>	<u>759</u>
<u>125,000</u>	<u>BULGUR</u>	<u>2040</u>	<u>534</u>
<u>125,000</u>	<u>NFDM</u>	<u>1365</u>	<u>150</u>
<u>125,000</u>	<u>OIL</u>	<u>675</u>	<u>675</u>
<u>Total MCH</u>		<u>6780</u>	<u>2118</u>

B. School Feeding..... Total Recipients NoneC. Other Child Feeding..... Total Recipients 10,000

<u>No. of Recipients by Commodity</u>	<u>Name of Commodity</u>	<u>(Thousands)</u>	
		<u>KGS</u>	<u>Dollars</u>
<u>10,000</u>	<u>SFCM</u>	<u>272</u>	<u>70</u>
<u>10,000</u>	<u>BULGUR</u>	<u>206</u>	<u>55</u>
<u>10,000</u>	<u>NFDM</u>	<u>138</u>	<u>15</u>
<u>10,000</u>	<u>OIL</u>	<u>68</u>	<u>61</u>
<u>Total Other Child Feeding</u>		<u>684</u>	<u>201</u>

D. Food for Work..... Total Recipients NoneTotal Food for WorkE. Other (Specify)..... Total Recipients None