

UNCLASSIFIED

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

EL SALVADOR

PROJECT PAPER

INDUSTRIAL STABILIZATION and RECOVERY

AID/LAC/P-198

Project Number:519-0287

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete
Amendment Number: _____
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: EL SALVADOR

3. PROJECT NUMBER: 519-0287

4. BUREAU/OFFICE: LAC | 05 | Industrial Stabilization and Recovery

5. PROJECT TITLE (maximum 40 characters): Industrial Stabilization and Recovery

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY | 09 | 30 | 87 |

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
A. Initial FY | 84 | B. Quarter | 4 | C. Final FY | 85 |

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

A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(1,850)	(712)	(2,562)	(6,312)	(3,138)	(9,450)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country (ESF Counterpart)		870	870		5,171	5,171
Other Donor(s) (Part, Inst.)		147	147		699	699
TOTALS	1,850	1,729	3,579	6,312	9,008	15,320

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO-PRATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	730	840				3,000		9,450	
(2)									
(3)									
(4)									
TOTALS						3,000		9,450	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 874 | 920 | 740

11. SECONDARY PURPOSE CODE: _____

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code: DEL | PVON
B. Amount: 4,044 | 1,373

13. PROJECT PURPOSE (maximum 480 characters):
To develop the capacity of the private and public sectors to provide policy support and technical assistance, technology transfer and training services to Salvadorian exporters of non-traditional products.

14. SCHEDULED EVALUATIONS: Interim MM YY | MM YY | Final MM YY | 09 | 8 | 87

15. SOURCE/ORIGIN OF GOODS AND SERVICES (with some limited waivers to 941)
 000 941 Local Other (Specify) CAC

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17. APPROVED BY: Signature: Bastiaan B. Schouten
Title: Acting Mission Director
Date Signed: MM DD YY | 08 | 15 | 87

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

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

ASSISTANT
ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country/Entity: El Salvador
Salvadoran Foundation for Economic
and Social Development (FUSADES)
The Government of El Salvador (GOES)

Name of Project : Industrial Stabilization and
Recovery

Number of Project : 519-0287

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Industrial Stabilization and Recovery Project for El Salvador, encompassing a grant to the Salvadoran Foundation for Economic and Social Development (FUSADES) and a grant to the Government of El Salvador (GOES), and involving planned obligations not to exceed Nine Million Four Hundred Sixty Thousand United States Dollars (\$9,460,000) in grant funds over a three year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is 36 months from the date of initial obligation.

2. The project consists of technical and financial support to develop the capacity of El Salvador's private and public sectors to provide policy support and technical assistance, technology transfer, and training services to exporters of non-traditional products to extra-regional markets.

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

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States or in member countries of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States or the member countries of the Central American Common Market as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent to Disbursement

Except as A.I.D. may otherwise agree in writing:

(i) Prior to any disbursement, or the issuance of any commitment documents under the Agreement with FUSADES, FUSADES shall furnish in form and substance satisfactory to A.I.D.: (a) A statement by FUSADES which indicates that it has initiated or will initiate a reorganization of FUSADES to enable it to undertake an expanded program of activities; and (b) A statement by FUSADES which indicates that it has appointed or will appoint an Executive Director who can assume executive responsibilities for FUSADES' new, expanded activities.

(ii) Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement with the GOES to finance any discrete activity, the GOES shall furnish in form and substance satisfactory to A.I.D., a complete description of such activity which shall include, but not be limited to its budget and implementation schedule.

(iii) Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement with the GOES to finance any implementing entity for an approved activity(ies) under the project, the GOES shall furnish in form and substance satisfactory to A.I.D., a statement of the name of the person holding office in said entity and legally empowered to act for said entity with reference to the Agreement.

c. Covenants

The Cooperating Country and FUSADES shall each covenant that A.I.D. will be able to brief and debrief consultants, participants and invitational travelers financed under the Agreements and will be furnished copies of reports produced by such persons.

Victor M. Rivera

Victor M. Rivera
Assistant Administrator
Bureau for Latin America
and the Caribbean

9/17/84

Date

Clearances:

LAC/CEN:HWilkinson *RS* Date *9/10/84*

LAC/DR:DBJohnson *DBJ* Date _____

RM
GC/LAC:RMeighan:aep:(01200):09/06/84:ext. 29182

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A C R O N Y M S

ANEP	National Association of Private Enterprises
ASA	Association Strengthening Activities
ASEMI	Salvadoran Association of INCAE Master Graduates
BCR	Central Reserve Bank
BOS	Business Opportunity Survey
CACM	Central American Common Market
CBI	Caribbean Basin Initiative
COEXPORT	Salvadoran Export Committee
FENAPES	National Federation of Small Enterprises
FUSADES	Salvadoran Foundation for Economic and Social Development
GDP	Gross Domestic Product
GISO	General Information and Support Office
GOES	Government of El Salvador
MAG	Ministry of Agriculture and Livestock
MICE	Ministry of Foreign Trade
MIPLAN	Ministry of Planning
MOE	Ministry of Economy
MOF	Ministry of Finance
PID	Project Identification Document
SCIS	Salvadoran Society for Commerce and Industry
TIPS	Trade and Investment Promotion Services

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I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/El Salvador recommends the authorization of a \$9.45 million grant for the support of Export and Investment Promotion efforts to be made by the private and public sectors of El Salvador.

b. Summary

El Salvador's GDP expanded by an average 5.4 percent per year between 1960 and 1978. This growth was based primarily on investment and exports of traditional agricultural products to extra-regional markets and of manufactured goods to the Central American Common Market (CACM). After 1978, however, the worldwide recession reduced international prices for agricultural commodities and decreased demand within the CACM while the civil conflict resulted in the destruction of crops, and infrastructure.. From 1978 to 1983, El Salvador's per capita GDP and exports both decreased by approximately 35 percent, unemployment and underemployment rose to nearly 40 percent and the country experienced significant political and social unrest.

The new government elected in May, 1984 faces the challenge of reactivating the economy in the midst of a protracted civil conflict and an international economic situation which does not favor the bases upon which earlier Salvadoran prosperity had been built.

A broad consensus exists in the GOES and the Salvadoran private sector that the expansion of non-traditional exports to extra-regional markets is the best means of reactivating the Salvadoran economy and of establishing the basis for sustained future growth. The reorientation of the vigorous Salvadoran private sector to those markets, particularly to the U.S. market under the advantageous terms of the CBI, is one of the major objectives of the new Salvadoran government. This project provides support for the export and investment promotion efforts of the GOES and the Salvadoran private sector for industrial stabilization and recovery.

The project goal is to generate employment, income and foreign exchange for El Salvador.

The project purpose is to develop the capacity of the private and public sectors to provide policy support and technical assistance, technology transfer, and training services to Salvadoran exporters of non-traditional products.

Through policy development and technical and financial assistance, the project will support the GOES' effort to develop a strategy for export and investment promotion and activities related to implementation of that strategy. Included in these activities will be the revision of related laws and policies, the establishment of improved support mechanisms and the reactivation of the San Bartolo Free Trade Zone.

The project will also finance the creation of a trade and investment promotion service (TIPS) within the organization of the Salvadoran Foundation for Economic and Social Development (FUSADES), a non-profit private sector organization. This service will provide technical assistance at the enterprise level to specific export projects whose objective is generation of non-traditional exports to extra-regional markets. FUSADES will also provide export related information and technical assistance to businessmen through business associations and will perform studies related to economic reactivation through non-traditional export and investment promotion.

The Mission will sign a Project Agreement with the GOES and a Cooperative Agreement with FUSADES. The Ministry of Foreign Trade will be the primary implementing entity for the project's public sector component. However, in policy development, the Ministry of Planning will be the principal coordinating entity. FUSADES will have overall coordination and management responsibility for the private sector component.

The total cost of the Project is \$15.3 million. A.I.D. will provide \$6.9 million in project grant funds for the private sector component and \$2.6 million for the public sector component. An additional \$5.2 million in local currency from the USAID's Economic Support Fund (ESF) balance of payments program will be made available as counterpart to cover local currency costs of the public sector component, including costs related to rehabilitation and expansion of the free trade zone and implementation of organizational improvements in the Ministry of Foreign Trade. Participating institutions will provide an additional estimated \$0.7 million in local currency in the form of cash and in-kind contributions. The life of the project is three years.

II. BACKGROUND AND RATIONALE

A. El Salvador's Macro-Economic Situation

The Salvadoran economy has been badly shaken by a variety of internal and external political and economic factors during the past five years. Armed conflict, acts of terrorism, the world-wide economic recession, contraction of demand for exports within the Central American Common Market (CACM), the increased price of imports and the overvalued exchange rate are among the

principal reasons for the decline. Together, these forces have drained international reserves, reduced fiscal revenues, constrained bank credit and devastated the productive sectors. In addition, they have generated negative impacts in other important economic activities such as private investment, external credit availability, and other capital movements.

El Salvador's economy has traditionally been dependent on a few subsistence crops and the traditional export crops of coffee, sugar and cotton. The formation of the CACM in 1960 stimulated the creation of manufacturing enterprises based on import substitution and participation in the Central American Common Market. The strategy sought to attract private investment in industry by providing protective tariffs and other incentives. The industrialization strategy, together with the growth in traditional agricultural exports, was successful in fueling rapid economic expansion during the 1960's and 1970's. Real GDP increased an average of 5.4% per year between 1960 and 1978. Annual growth in the industrial sector was also rapid: it averaged about 9% during the 1960's and about 6% during 1970-1979.

Exports and investment were the main engines of growth. Investment grew faster than GDP, and the investment/GDP ratio increased from 14% in 1960-1962 to 23% in 1976-1978. Investment was financed mostly out of domestic savings which increased from 12% to 20% of GDP. While savings grew rapidly, per capita real consumption was restrained: the GDP share of private consumption declined from 78% to 68%. The other growth factor, exports, also increased its GDP share from 22% in 1960-1962 to 36% in 1976-1978. Manufacturing exports became significant--about one-third of total exports.

The positive macro-economic performance masked serious structural problems that were already undermining the future, including: a) the continued dependence on the export of a few traditional commodities; b) the gradual reduction of import substitution opportunities for finished goods; c) diminishing opportunities in agriculture as the country's limited territory and natural resources required higher levels of costly inputs to increase production; and d) the establishment of industries that are relatively inefficient and not well suited to compete in world markets, that rely heavily on imported inputs and are dependent for expansion on a growing regional (CACM) market.

During 1978-1981, however, the CACM became a shrinking market and El Salvador's economy experienced a serious setback as both private sector uncertainties and political violence increased. The 1981 GDP was at about the 1974 level, following an 18% decrease from its peak 1978 level. Both investment and exports experienced declines of about 60% and 17% respectively from their 1978 real levels. As a percentage of GDP, investment averaged 13% and exports averaged 33% during 1979-1981. Moreover, these ratios show a deteriorating trend; by 1981 investment was 12% and exports 26% of GDP. Consequently, between 1979-1982, exports dropped by about 25%.

Five principal factors--lower commodity prices, the overvalued colón, the impact of the agrarian reform on cotton and sugar production, the guerilla conflict, and trade difficulties within the CACM--adversely affected the performance of El Salvador's exports in recent years. Coffee exports reached a peak level of 207,000 metric tons in 1979 but declined afterwards, reaching about 150,000 metric tons in 1981, because of production problems and lower coffee prices. Cotton exports showed a sharp deterioration in 1979-1981 as production decreased, due to the impact of the agrarian reform and civil strife. Sugar exports had not overcome the negative impact of low international prices during the late 1970's when this activity experienced the impact of the agrarian reform (which affected most sugar mills), the nationalization of sugar exports, and violence. As a result, sugar production and exports dropped sharply. Manufactured exports have had difficulties because the CACM, El Salvador's principal market for these exports, became a contracting and unreliable market in recent years. The recession in the industrialized nations triggered a reversal in the terms of trade of El Salvador and its partners in the CACM and led to a reduction in demand for its non-traditional products to that market. Payment difficulties among the CACM partners and tensions in the region further disrupted the market, which was already exhibiting diminishing growth possibilities. Finally, the lack of financing, originating in the lack of foreign credits from foreign banks and suppliers, as well as private capital outflows, adversely affected El Salvador's manufactured exports.

The decline in exports resulted in further contraction of production and income and increasing open unemployment. Open and underemployment, estimated to be at least 40 percent, constitutes one of the most pressing problems for El Salvador at the present time.

B. Significance of Non-Traditional Exports to Economic Recovery

Agriculture continues to be important in El Salvador. This sector accounts for approximately one-fourth of GDP, employs over one-half of the economically active population, and generates roughly three-fifths to three-fourths of total export earnings. Agriculture's role as the mainstay of the Salvadoran economy is perhaps best reflected by the fact that historically the country's level of economic activity has been determined primarily by the price fluctuations and production shifts of its traditional commodity exports--coffee, cotton, and sugar. Currently, export crops are affected adversely by unrest, uncertainties about future land reform efforts, and low export prices.

For El Salvador, with a small open economy, export growth is the lifeline to economic stabilization and recovery. The economy, however, cannot continue to depend on traditional exports for generating and sustaining dynamic growth. It needs to increase and diversify exports, especially those of non-traditional goods. Industrial, agro-industrial, and non-traditional agricultural production and exports need to be generated. Because the CACM is no longer a viable growth market for non-traditional manufactured goods, new and more competitive markets will have to be penetrated. To do so, businesses will have to become more efficient in their production and marketing. In

order for this economic reorientation to happen, the necessary production and marketing know-how--commercial and market information, new technologies and techniques, linkages between producers and new markets--have to be developed and supported.

The Caribbean Basin Initiative (CBI) represents a great market opportunity for new non-traditional exports. However, Salvadoran industry is not in a position to turn easily to the export market in the U.S., in large part, because the required know-how and government policy support framework to make that happen is inadequate. The Government of El Salvador (GOES) and the country's productive private sector will require assistance to develop more favorable conditions for implementing a new, export-led growth strategy which can take advantage of new, extra-regional markets such as the U.S. through the CBI.

C. The Role of El Salvador's Industrial Sector to the Recovery Effort

USAID analysis of El Salvador's comparative trade advantages indicates that non-traditional exports to extra-regional markets are feasible. The analysis, discussed in depth in the Project Identification Document (PID), discloses that the nation's agro-industries, textiles, leather goods, and metal working manufactures have particularly strong comparative advantages. Promoting the production and export of such products is thus a practical approach to industrial stabilization and recovery.

The economic consequences of a non-traditional export-led recovery of the industrial sector would be highly beneficial. For example, the restoration of the 1979-1980 level of activity would create an estimated 7,000 to 8,000 new jobs and more than \$100 million in foreign exchange earnings.

The revitalization of the San Bartolo Free Trade Zone would constitute a significant impetus to new industrial activity. Established in 1974, the zone had attracted 14 firms by 1978. All but three were foreign-owned firms employing Salvadoran workers in labor-intensive drawback operations for export to the U.S. under the advantageous terms of Tariff Articles 806/807 of the Generalized System of Preferences. Today, only five exporting firms continue to operate in the zone.

The GOES has expressed an interest in improving and upgrading the zone to lay the basis for attracting new investments. At present, seven firms have requested or have shown interest in acquiring zone facilities. Not all of them, however, are interested in exporting to extra-regional markets. A strategy is needed for revitalizing the zone and attracting local and foreign private investment for expanding free-zone production for export, within the context of El Salvador's difficult circumstances. The large capital investment has already been made in land, infrastructure and buildings. Expansion of the zone, through new shell construction and basic infrastructure, could support employment of 13,000 to 15,000 people. The five companies in the zone today--which have lasted through the troubled years--are excellent endorsements for the advantages of both the zone and El Salvador as a location for industrial plants.

The presently poor climate for local and foreign investors precludes major industrial expansion in the immediate future. To promote growth in the medium term, however, a longer term development strategy must be initiated. Growth prospects beyond 1985 will depend, to a large extent, on significantly accelerating manufacturing growth for export to non-CACM countries, as a source of employment and foreign exchange. El Salvador's industrial sector, with its strong entrepreneurial tradition, can, with assistance, spearhead the new export drive. There are indications that businesses in El Salvador are already initiating expansion or exploring such activity. For example, despite ongoing tensions in the country, Texas Instruments and AVX Ceramics, which have plants in El Salvador, are gearing up to expand their operations. In addition, other small and large businesses are striving not only to maintain production but also to invest for improving productivity. In the three months that the International Executive Service Corps (IESC) started a program in country, 20 technical assistance projects have been initiated. This reflects a significant demand for technical services for improving and developing private enterprises. Thus, a program for providing assistance to El Salvador's industrial sector can and must begin now. This is particularly crucial given the present high unemployment, the expected growth of the labor force, and the limited growth prospects of the traditional export crops.

D. Constraints to the Expansion of Non-Traditional Exports

Constraints to the expansion of non-traditional exports to non-CACM markets include general or macroeconomic policy constraints and technical constraints at the firm level, and constraints imposed by the conflict. Principal among these constraints are lack of credit; lack of foreign exchange; an inadequate public policy framework for promoting exports and investment; and lack of access to technology, markets, and business development assistance.

1. Technical constraints

Under extreme adverse conditions, over \$440 million of industrial goods and services were produced by business in El Salvador in 1982. The sector's output is attributable to an estimated 60,000 to 75,000 individual enterprises.

During project development, a considerable number of entrepreneurs and local business groups were interviewed and discussions were held regarding the capability of the industrial sector to expand exports. It was found that some enterprises are well managed and developing efficiently. However, a large number of enterprises lack the managerial, information and other technical resources to grow and adapt to changing international market opportunities. Various groups and individuals have the financial and entrepreneurial capabilities to launch new activities but are inhibited by a lack of specific product and marketing assistance.

GOES programs and external donors currently offer some training, information, technical assistance, and market linkage assistance.

Consultants working with USAID on developing this project have found that confidence is low regarding the practical utility of these programs, because the available assistance does not address the specific needs of businesses. To take risks and organize change, enterprises require assistance that is specific to their particular industry and product.

Organizing and changing business systems, strategies, and products is a continuous process. Enterprises often need help in conceptualizing new ideas in a form that they can use to initiate investment in feasibility and market studies. Later in the process of new project development, firms need assistance in studying options for equipment, distribution channels, and operating systems. Installing new systems may require employee training and/or other guidance specific to that product grouping or industrial sub-sector. Finally, to develop and maintain competitiveness, firms must undertake ongoing product adaptations and productivity improvement. Product specific assistance is thus required for all stages in order to maintain commitment and positive development by the firm for the expansion activity.

The project proposes to help enterprises improve their planning and organization of new export activities by providing them with linkages to industry and product specific information, suppliers, licensors, buyers, and other business development assistance.

2. Macroeconomic Constraints

The Salvadoran private sector has historically acted with entrepreneurial vigor and success. In recent years, however, the national crisis has eroded the business community's willingness to take risk and invest in change and expansion. With new government directions emerging in support of private sector initiatives, the reactivation and reorientation of the industrial sector for export expansion can become a reality. Its attainment will require a new set of public policies to facilitate the process.

El Salvador's trade policy is implemented through a variety of means, including allocation of credit, the application of foreign exchange policies, and administration of fiscal incentives. The implementation of trade policies involves a number of different GOES agencies, such as the BCR, MICE, and the Ministry of Finance. Inter-ministry coordination is inadequate, and decisions often appear contradictory with stated policy. One of the first steps that must be taken is the formulation of an appropriate and coherent national export and investment development strategy. The strategy should address GOES policy constraints to expanding exports, and support mechanisms and programs have to be implemented more effectively.

Principal policy constraints that need to be addressed include: a) an outdated Export Development Law and a too narrowly focused Fiscal Incentives Law; b) an underutilized San Bartolo Free Trade Zone; and c) inadequate export and investment promotion capability to buttress private export initiatives.

The new GOES administration wants to define, develop, and implement a new export-led development strategy. An Inter-Ministerial Coordination Committee on Exports has been formed, and discussions between high level GOES officials and private sector leaders have ensued. This project will provide technical and financial assistance to the GOES to examine the policy framework and to carry out needed reforms. Credit assistance and foreign exchange needed by enterprises will not be provided under this project at this time, but rather through other efforts by USAID and other donors.

E. Relationship to CDSS and A.I.D. Policies

The USAID/El Salvador CDSS prepared in 1984 established economic stabilization and recovery as its highest objective for both the short and long run. One of the principal elements of the strategy designed to achieve that objective is recuperation of the industrial sector through among other processes, development of non-traditional exports to extra-regional markets, particularly to the U.S. under the CBI.

This project will provide technical assistance to firms involved in the production and marketing of non-traditional export products and the development of an adequate incentive structure to motivate businessmen to reorient their efforts to this sector.

The CDSS also makes specific mention of continued support for the Salvadoran Foundation for Economic and Social Development (FUSADES). This project will provide financial support for FUSADES to develop a trade and investment promotion service, a program to provide export related information and training through business associations and a program of economic studies related to non-traditional exports. It will also provide FUSADES with the resources to expand its organization to enable it to manage these new programs.

F. Relationship to the Current Mission Program

The Mission has provided large scale assistance to private industry indirectly through the balance of payments support program. The Program has provided substantial amounts of scarce foreign exchange that have been used to finance the import of intermediate and capital goods. These goods, in turn, have played a crucial role in keeping Salvadoran industries afloat. In addition, \$21 million from the above program was placed in a special structural working capital account in the central bank. Normally healthy firms which were experiencing cash flow difficulties due to exceptionally adverse economic circumstances were able to receive loans from the fund. With the proceeds, the enterprises were able to refinance their debts, lengthening the repayment period in the process.

G. Other Donor Complementary Activities

IBRD: The International Bank for Reconstruction and Development (IBRD) is in the latter stages of design for a project which will provide \$40 million to the Central Bank for industrial recovery and exports. The Project has the

following objectives: (i) to rehabilitate existing financially viable industries by providing foreign exchange financing for working capital and medium term investment needs; and (ii) to establish a more effective institutional framework for appraising investment projects and channeling long term development technical assistance to priority areas.

Approximately \$15 million in short term loans will be provided to exporters for financing inputs required for export production. Approximately \$25 million in long term financing for fixed assets investment and working capital will also be provided to both exporting firms and selected import substituting firms, provided they have a positive net impact on the balance of payments.

The long term investment funds will be channeled through the Fondo de Desarrollo Económico (FDE), a development fund currently operating within the Central Bank. The Fund has its own staff, financial resources and separate system of accounting for reviewing and approving investment projects submitted for financing through the banking system. With the IBRD Project, the FDE will be transformed into an autonomous entity with a Director who would be responsible directly to the President of the Central Bank.

IDB: The IDB approved an Industrial Recovery Loan for El Salvador amounting to \$40 million in December 1982 and another \$60 million in July, 1984. The loan provides short, medium, and long-term financing for the importation of raw materials, spare parts, and machinery by private sector manufacturing enterprises. Larger, rather than small and medium sized firms, have benefitted from the line because small and medium enterprises lack the technical expertise necessary to comply with application requirements.

This project will complement the above mentioned IBRD and IDB programs by making potential beneficiaries aware of the availability of the credit offered through those programs, making them aware of qualification requirements and giving them access to technical assistance which might be needed to fulfill those requirements. The project will be particularly useful in this regard to small and medium size businesses which have little experience in dealing with this type of credit and in preparing the project feasibility studies required for qualification.

III. DETAILED DESCRIPTION

A. Goal and Purpose

1. Goal: To generate employment, income and foreign exchange.
2. Purpose: To develop the capacity of the private and public sectors to provide policy support and technical assistance, technology transfer and training services to exporters of non-traditional products.

B. Project Strategy

This project seeks to support the efforts of the GOES and the private sector to reorient substantially the productive capacity of El Salvador in order to generate non-traditional exports to extra-regional markets. It is considered feasible because:

- . The GOES is committed to an extra-regional non-traditional export strategy as a new initiative for the future economic development of El Salvador.
- . The private sector of El Salvador will play a major role in the implementation of the export strategy for non-traditional products.
- . Domestic investment, complemented by foreign investment, will play a key role in the development of non-traditional exports to extra-regional markets.

Within the project USAID will support the GOES' efforts to formulate, articulate and implement a national strategy which will focus public and private efforts on increased Salvadoran non-traditional exports to extra-regional markets. The Salvadoran Ministry of Foreign Commerce (MICE) is the primary GOES agency responsible for government action in the area of exports and foreign investment.

The project will support MICE as the coordinator, facilitator, and promoter of private sector production and export marketing efforts. In the course of intensive review of this project, several GOES ministers expressed interest in development and/or strengthening of MICE's capacity to perform these functions. During the project implementation period USAID will, through policy development and financial support, assist MICE's efforts with the private sector.

The private sector component of the project will develop a new capability within FUSADES, an established private sector institution, to provide a dynamic trade and investment promotion service (TIPS) which will link Salvadoran firms interested in exports to necessary information, technical assistance, and possible foreign partners. The primary focus of TIPS' efforts will be improvement of production and marketing of non-traditional exports to extra-regional markets. Although a long term effort to attract foreign investment must begin now, it is expected to yield only limited results during the project implementation period. It is more probable that Salvadorans will invest in coventures with foreign partners to access markets and technology. These relationships will include licensing, production sharing, sub-contracting and technical assistance agreements. TIPS promotion will emphasize this type of investment.

FUSADES will simultaneously manage a program which will deliver information and training to potential exporters through business associations. The training provided by the associations will complement the TIPS program. One

element of the strategy will build skills and interest in export development while the other will supply the industry or product specific assistance required to move individual enterprises through the planning and organization of specific export projects which result in additional employment and foreign exchange for El Salvador.

Just as the project as a whole will attempt to facilitate the cooperation between the public and private sectors, the association strengthening component of the project will try to provide incentives for the various Salvadoran private sector organizations to work together toward the same goal.

FUSADES as a broad based, apolitical, private sector organization composed of key business leaders is in a position to work with the GOES as well as with all Salvadoran business organizations. FUSADES is a small and relatively new non-profit organization which has demonstrated its ability to use A.I.D. funds effectively to implement CBI related activities as well as programs of seminars and economic studies.

The private sector component of the project will focus principally on medium and large size companies and organized groups of small producers because of their export and employment generation capacity and their relatively sophisticated technical assistance needs. Projects in the agroindustrial, non-traditional agricultural, metalworking, artisan, leather goods, pharmaceutical and textile industries will be the primary targets of assistance to be provided by the project because of comparative advantage in world markets.

The principal target beneficiaries are companies which have established ties to the commercial banking system. It is recognized that access to credit is very important to the success of this project and to the GOES export strategy. At present supplies of credit and foreign exchange in El Salvador are limited and access to them are relatively difficult. The IDB has recently approved a \$60 million expansion of its Industrial Recovery program originally funded with \$40 million for short term working capital and investment credit. The Fondo de Desarrollo Economico of the Central Reserve Bank (BCR) has 77 million colones available from an IDB loan for working capital and investment credit for development projects. The BCR also has approximately 20 million colones in reflows available from the USAID funded structural working capital line of credit. Collateral and documentation requirements make access to all of these lines difficult.

USAID/El Salvador plans to make investment credit available in the second phase of this project. The credit program will be initiated in early 1985 following an in-depth analysis of the Salvadoran financial system and a credit demand analysis. Structural working capital will be provided as local currency becomes available for that purpose from the USAID balance of payments assistance program, and the Mission is taking measures to make access to this line easier.

The investment promotion efforts made under the project will be narrowly focused on well defined targets. It is improbable that foreign firms will consider major new investments in El Salvador until the conflict abates. It is more likely that early successes will be gained from efforts in promoting local investment in joint ventures with foreign companies through sub-contracting, licensing, production sharing or technical assistance agreements.

A targeted effort will be made during the project period to attract new investors to the San Bartolo Free Zone. This will be supported by policy development to maximize El Salvador's competitive position in world markets and financial resources to upgrade the San Bartolo Free Zone and expand it as demand requires.

Though most exports will be made by medium and large companies, there is also an opportunity to generate employment and foreign exchange from the export of products manufactured by small businesses. The project will assist in the organization of the production of small enterprises for export to extra-regional markets through specialized trading companies and other marketing intermediaries. The project will provide technical assistance to organized small producers and to Salvadoran trading companies to help make the necessary connection between producers of a specific product and the market.

C. Outputs and Inputs

The project consists of two components: (1) Private Sector Export and Investment Promotion; and (2) GOES Export and Investment Promotion. These components are mutually reinforcing.

The private sector component of the project supports the establishment of a private trade and investment promotion service (TIPS), the strengthening of Salvadoran business associations to enhance their ability to provide export related information and training to their members (ASA), the performance of private sector economic policy studies and the development of FUSADES' institutional capacity to manage these programs.

The public sector component of the project provides support to the development of a GOES export and investment strategy and mechanisms for its implementation with special emphasis on development of free zones. Support is also provided to the GOES for export related policy studies.

1. Private Sector Export and Investment Promotion

a) Outputs

1) Trade and Investment Promotion Services (TIPS)

This activity is designed to make available information, technical assistance, and business development services to Salvadoran enterprises through the

establishment of linkages between those enterprises and various sources of technical assistance and resources within and external to El Salvador.

The project will finance a trade and investment promotion service (TIPS), which will be established by FUSADES in El Salvador and complemented by a U.S. based support team aimed at aggressively facilitating private sector investment and trade. TIPS will promote non-traditional exports, will identify potential investors and exporters and will provide to them access to product or industry specific information and technical assistance, primarily from the U.S., which they require to implement their productive ventures successfully. TIPS will be the vehicle through which information and technical assistance needs of Salvadoran enterprises are identified and access to the necessary tailored support is provided. As defined in the Project Strategy, TIPS' primary objective will be development of non-traditional exports to extra-regional markets. Its investment promotion program will give priority to mobilization of local resources through providing access to the technical support required to enhance the viability of local efforts to produce and market non-traditional exports. Development of coventures linking local investors with foreign partners through licensing, production sharing, sub-contracting, or technical assistance agreements, will initially be the principal investment promotion activity of TIPS.

This will be the first time that a service like TIPS has been offered in El Salvador. Consequently there is no proven model which can be followed in its design and implementation. FUSADES will have to "learn by doing" which of the approaches and activities undertaken by TIPS are most effective in generation of non-traditional exports to extra-regional markets. The description of the outputs of TIPS must therefore be flexible enough to allow FUSADES to adjust the activities of TIPS to the results obtained during implementation. USAID/El Salvador will specify in its RFP for the TIPS contract the resources to be made available to TIPS and will evaluate the proposals received on the basis of their foreign exchange and employment generation capability. Quantitative goals will be set for the contractor.

An office staffed by five professionals will be set up in FUSADES to coordinate and manage TIPS, and an office staffed by three professionals will be established in the U.S. to provide technical support to TIPS.

The project will finance a business opportunity survey which will be completed during the initial phase of implementation of operation of TIPS. This survey will assess the range of capabilities of Salvadoran firms and key entrepreneurs in the local private sector.

It is anticipated that during the project implementation period approximately 75 to 100 technical assistance projects will be completed through TIPS. These will be targeted through the business promotion activities of TIPS directly to development of specific export and investment projects. Ongoing Salvadoran trading companies will be among the recipients of TIPS technical assistance.

Travel to and attendance at carefully selected trade-related events outside of El Salvador will also be financed under this component. During the life of project, the U.S. based TIPS support team will seek business opportunities for El Salvador in the U.S. and in third countries by establishing contact with

appropriate entrepreneurs and companies through trade fairs and other commercial events as well as through direct calls on individual firms. In addition, the project will finance trade missions by Salvadoran businessmen and GOES officials to the USA and to third countries.

ii) Association Strengthening Activities (ASA)

This activity is designed to provide short term technical assistance and training materials through FUSADES to Salvadoran business associations to improve their capacity to offer to their members the general information and training they require to upgrade skills in general management and production management for exporting.

FUSADES will develop a library of video tapes and other didactic materials for use by participant business associations. It is anticipated that during the project period FUSADES will co-sponsor with business associations approximately 20-30 seminars and workshops. The project will finance technical assistance, didactic materials and other support for this association strengthening and training activity.

In addition, project funds will be made available to FUSADES to support four to six special export awareness proposals developed by Salvadoran business associations during the project period. Priority will be given by FUSADES to proposals which promote CBI related activities.

FUSADES will set up an office staffed by two professionals to coordinate and manage ASA. A seminar will be held by FUSADES to introduce the ASA program to major Salvadoran business associations. FUSADES will also sponsor an association observation program which will finance travel of executives of Salvadoran business organizations to the U.S. and to third countries to observe operations of other business associations involved in providing export related information, training and other support to their members. The ASA staff in FUSADES, the ASA introductory seminar, and the association observation program will all be financed under the project.

iii) Policy Research and Development

This component will make funding available to FUSADES to enable it to undertake studies required to develop the conceptual and analytical basis for proposing recommendations to the GOES on policies or actions which are supportive of economic reactivation, trade, investment and export development. The studies will also support the implementation of TIPS and ASA.

An office staffed with two professionals has been established by FUSADES to coordinate and manage this activity. A series of studies related to economic reactivation based on non-traditional, export-led growth and investment will be financed by this project. The studies may include but will not be limited to the following topics:

Economic Reactivation

1. Strategic Alternatives for the Future Economic Development of El Salvador.
2. Agro-Industry: Prospects for Future Development.
3. Approaches for Management of Free Trade Zones and Development of Export Processing Zones.
4. Transportation: Its Relevance to the Non-Traditional Export Sector, Recommendations for Facilitating Growth.

iv) Project Coordination and Management

FUSADES is a broad based, apolitical private voluntary organization which during the past year has proven its ability to manage USAID funds efficiently through its use of a limited scope grant for CBI and private sector support. Under this project FUSADES will expand its economic studies activities and take on responsibility for the new TIPS and ASA programs. The project will provide financial support for the development of FUSADES' institutional capacity to manage these new programs.

Specifically, the project will finance the employment of an Executive Director, an accountant and secretarial and logistical support personnel for FUSADES during the project implementation period.

b. Inputs

The total cost of the Private Sector Export and Investment Promotion component is estimated at \$7.5 million. The \$6.9 million ESF dollar grant will fund:

- a. Some 15 person years of long term technical assistance for the TIPS contract team. An estimated six person years of that contract will be invested in the U.S. members of the El Salvador core team and about nine person years in the U.S. support team. (Approximately \$2.3 million).
- b. Short term technical assistance to be provided by U.S. PVO's, consultants and business representatives who will perform diagnostic studies, feasibility studies and systems and equipment needs analyses for Salvadoran businesses working with TIPS. (Approximately \$1.2 million).
- c. Travel by Salvadoran businessmen or business association representatives to the USA and third countries for trade missions and business association observational travel. (Approximately \$167,000).
- d. Short term training, consisting of seminars and workshops, for business associations and their members. (Approximately \$170,000).

- e. Financial assistance in support of special CBI-related activities undertaken by business associations. (Approximately \$250,000).
- f. An estimated 21 person years of FUSADES Salvadoran professional staff, including an Executive Director, three TIPS staff members, two ASA staff members, two economists, and an accountant. Secretarial and other logistical support staff will also be financed. (Approximately \$0.9 million).
- g. \$250,000 in assistance for policy studies.
- h. In-country transportation, office equipment, teaching aids and other costs of project coordination and management (approximately \$1.0 million); and contingencies for the component (\$625,000).

Counterpart contributions by participating institutions, including FUSADES and beneficiary enterprises and business associations is estimated at \$0.6 million in local currency equivalent. Of this amount, an estimated \$353,000 in local currency will be contributed by beneficiary institutions as a minimum 25% cash counterpart to the cost of services made available to them. As the value of the TIPS program becomes established, FUSADES will explore other cost recuperation formulas, such as charging beneficiary firms a percentage of their increases in exports. These counterpart funds will be utilized to increase FUSADES' endowment. The balance, approximately \$270,000 will be in-kind contributions, including salaries of project participants and of other FUSADES staff.

2. GOES Export and Investment Promotion

The situation in El Salvador with respect to economic policy decisions, planning, and administrative and managerial reform is very fluid and will likely remain so over the next three years. The new GOES administration will require some time to define its program and begin to implement it. The security situation will be of paramount concern for the indefinite future. The evolution of the Central American and world political and economic environment will exert important direct influences on El Salvador which GOES planners cannot control. This component of the project has been designed to provide the Salvadoran public sector with the resources and flexibility required to attack problems and to respond to specific needs as these arise within key areas which are critical to attaining the objective of expanding non-traditional exports and investment.

Project inputs will consist principally of technical assistance, both short and medium term, but primarily the former. Local currency resources from the USAID ESF balance of payments program will be programmed to provide other financial support for administrative improvements in MICE and for upgrading and expanding the San Bartolo Free Trade Zone.

The criteria for selecting activities under this project component are that they be critical to establishing and implementing economic policy, plans, and managerial and administrative improvements which support the export and investment expansion objective referred to above, and that they be activities of a short or medium term nature.

With respect to implementing a flexible program of this kind, A.I.D. will sign a Project Agreement with the Ministry of Planning (MIPLAN), which will be the primary GOES coordinating entity and co-signed by the Ministry of Foreign Trade which will be the principal implementing agency for the GOES component. Other GOES Ministries and Agencies expected to have direct responsibilities for recommending and implementing activities include the Central Bank, Ministry of Finance, Ministry of the Economy and Ministry of Agriculture, all of which will countersign the Project Agreement. The Project Agreement will provide for A.I.D. to directly implement selected activities where this is appropriate. Elaboration of specific project activities and implementation responsibilities will occur in the PIO's and in Memoranda of Understanding prepared under the project and signed by the entity directly implementing each particular activity. Implementation Letters may also be used to specify the scope and objectives of a given project activity, and the related implementation requirements and responsibilities.

The grant will finance a range of activities in four inter-related areas: Export and Investment Strategy Formulation; GOES Strategy Support Mechanisms; Policy Studies and Free Trade Zone Development; including a number of special activities to be implemented directly by A.I.D.

a. Outputs and Inputs

The activities described below are planned and illustrative. Because they will be undertaken on a selective basis, the exact inputs and outputs cannot be precisely defined. The project will thus provide assistance in a quick-response manner as priority policy-influencing opportunities arise. Approval of activities, through sub-obligating documents, will be made in accordance with availability of project funds and firm financial and implementation plans.

1) GOES Export and Investment Strategy Formulation

Through short term technical assistance and studies, formulate a strategy designed to promote non-traditional exports and investment. Essentially, the strategy will establish the policy framework and articulate the ground rules for the public sector role in supporting private sector initiatives to take advantage of the particular benefits bestowed upon the Caribbean Basin countries through the CBI trade provisions. This activity will also involve efforts to change economic policy or to bring about GOES administrative reforms in support of a new strategy. It will be distinguished from the other two categories by its degree of specificity.

During the course of project development, the Inter-Ministerial Coordinating Committee on Exports expressed agreement on the following fundamental elements of the strategy:

- . The GOES is committed to an extra-regional, non-traditional export strategy as a new initiative for the future economic development of the country.
- . The private sector of El Salvador will play a major role in the implementation of the export strategy for non-traditional products.
- . Domestic investment, complemented by foreign investment, will play a key role in the development of non-traditional exports to extra-regional markets.

The project will finance up to \$150,000 in technical assistance and studies directly related to formulating the GOES new export and investment strategy.

11) GOES Strategy Support Mechanisms

To assist the GOES implement the strategy for export and investment promotion, project resources will fund short term technical assistance and training to improve coordination of government policy and establishment of appropriate mechanisms at the ministerial and operational levels of the GOES.

Examples of activities which will be funded include the following:

- . Assistance to MICE in revising laws and regulations which affect the development of non-traditional exports and investments.
- . Assistance to MICE in assessing, planning, and carrying out a reorganization of the ministry in order to separate its regulatory functions from its promotional role and which allows private sector participation in the latter.
- . Assistance to MICE for the establishment of a One-Stop Investment Promotion Center and a Commercial Information and Trade Fair Development program within its new reorganization.
- . Technical assistance to MICE for establishing private and public sector coordination mechanisms to facilitate exports and investments.
- . Assistance to MICE in training selected staff members in the most up-to-date practices in export and investment promotion.

Project funds in the amount of \$425,000 will be earmarked for the technical assistance and training provided under this sub-component. In addition, \$500,000 have been budgeted for equipment, materials and program logistic support. Any additional resources required for local currency costs of the MICE operational activities estimated at a level of \$1.2 in local currency will be programmed from the ESF balance of payments program.

iii) Policy Studies

El Salvador's ability to recover from the economic crisis and to make the structural changes required to establish and maintain dynamic growth is dependent, to a significant extent, upon the availability of good economic and financial information and analyses. Such information is required not only to make rational, consistent decisions, but to assure the understanding and support of key policy makers in taking such decisions, and in implementing them over time.

The project will support the GOES in obtaining and disseminating such information and analyses as may be required to establish sound/financial policy and plans, and to manage this in an effective manner.

Activities in this area will consist of various studies and assessments aimed at providing information and recommendations, and activities required to generate awareness of policy problems especially as they relate to the promotion and facilitation of non-traditional exports and investment.

Potential activities to be financed include but are not limited to:

1. Assessment of El Salvador's Overall Competitiveness for Export: Products, Markets and Factors.
2. The Non-Traditional Export Sector: Fiscal and Other Incentives for Attracting Foreign Investors and Mobilizing Domestic Investment.
3. El Salvador's Export and Investment Legal Framework: An Assessment of the Extent to which Stabilization and Development is promoted or hindered by it.
4. National Export and Investment Strategy: Analysis and Recommendations.

The project will provide \$400,000 to finance activities under this sub-component and \$75,000 for dissemination of policy studies.

In addition to the activities outlined above, the project will provide \$400,000 for A.I.D. to contract for and implement selected studies including a project evaluation. The criteria for selecting these studies are that they be necessary to: 1) establishing and implementing economic policy related to non-traditional exports and investment; 2) developing plans and administrative improvements which support the National Export and Investment Strategy, and 3) that their scope be sensitive and controversial and therefore require an objective and unbiased third party assessment that neither the public nor private sectors is able to provide. The studies may include but not be limited to the following topics:

1. The CACM Tariff Structure: Salvadoran Efforts to Seek New Extra-Regional Export Markets, and Recommendations for Gradual Reduction of the Protective Structure Provided under the CACM.
2. El Salvador's Financial Institutions: An Assessment of their Role and Performance. Advantages and Disadvantages of Reintroducing Foreign Banks into El Salvador.
3. Monetary and Exchange Rate Policies: Their Effect on Non-Traditional Exports and Investment.
4. Tax Policies: Their Impact on Non-Traditional Exports and Investment

iv) Free Trade Zone Development

The project will provide technical assistance to the GOES to formulate and implement a plan for revitalizing the San Bartolo Free Trade Zone. ESF local currency resources will also be programmed for upgrading existing zone facilities, for which maintenance has been deferred, and for expansion of the infrastructure of the zone in accordance with demand. The plan will have policy implications in that it should be conducive to the development of a sufficiently attractive investment environment for El Salvador vis-a-vis other competitor free trade zones, particularly those in CBI countries.

The project funded technical assistance will assess the policy and operational alternatives for implementing the revitalization of the zone. Some alternatives which need to be carefully examined include:

- . The management alternatives for maximizing efficiency of zone operations and investor confidence.
- . The rental rate structure in San Bartolo and recommendations for balancing zone operating costs and investor attraction.

- . The utilization of existing facilities and a schedule for removing non-manufacturing and non-exporting entities from San Bartolo, including those of the GOES.
- . The feasibility of private sector participation in the management of the zone through long term leasing arrangements and/or ownership.
- . An implementation plan and budget for immediately upgrading the existing infrastructure of the San Bartolo Zone. Buildings have not been painted since 1979 and other maintenance is needed.

Project funds in the amount of \$225,000 will be made available for technical assistance to MICE to prepare the policy strategy and implementation plan for rehabilitating and promoting the zone. An additional \$150,000 will be provided for invitational travel/training and equipment for this purpose.

ESF local currency will be provided for upgrading existing facilities. Approximately \$1.5 million in colon equivalent will be needed to paint and repair buildings, to complete a new main entrance and road plus construction of a 24" sewer line.

As future demand warrants it, additional ESF local currency will be made available to expand the facilities in the zone. The first expansion phase calls for constructing about 170,000 square feet of factory space on lots that are already urbanized (approximately \$2.0 million in local currency equivalent). The expansion will be carried out according to the customer demand existing at the time.

The total cost of this component is \$7.8 million. A.I.D. will contribute \$2.56 million to finance the activities described in the foregoing sections (\$2.33 million plus \$0.24 million for contingencies). The GOES counterpart is estimated at \$5.2 million in local currency, most of which will be derived from ESF local currency resources. These will be programmed to finance costs of personnel (approximately \$0.5 million), equipment and materials (approximately \$0.5 million), and other program costs (approximately \$0.2 million) associated with GOES' institutional improvements for more effective implementation of its export and investment promotion strategy. The balance, approximately \$3.5 million, will be used to upgrade the free trade zone.

IV. COST ESTIMATES AND FINANCIAL PLAN

This project will total \$15.3 million, of which \$9.45 million (62%) will be an AID ESF grant, with the remaining coming from ESF local currency and participating institutions' counterpart contributions.

The life of project is three years, from FY 1984 through FY 1987. A.I.D. funding will be obligated in FY's 1984 and 1985. Annex 12 contains the financial tables for the project, including tables A, B, and C: Summary Cost Estimate and Financial Plan, Projection of Expenditures by Fiscal Year, and Summary Costing of Project Inputs and Outputs. These tables reflect projected costs by inputs, by cost elements within those inputs, and by foreign exchange and local currency.

The largest category, totalling \$ 5.6 million, or 37% of total project costs, is for technical assistance. Of this amount, 73% is allocated to the Private Sector Export and Investment Promotion component and 27% is for the GOES Export and Investment Promotion component. The technical assistance financed under the private sector component will consist principally of specific technical assistance needs of exporters or potential exporters of non-traditional goods to extra-regional markets. The technical assistance for the public sector component will be concentrated on the development of a more adequate policy support framework for private initiative in the non-traditional export sector. In the public sector component, policy and technical studies will be implemented by GOES entities, as well as by AID. \$400,000 has been earmarked for AID implementation of studies, the subject topics of which are too sensitive for either the Salvadoran public or private sectors to undertake.

The following is a summary breakdown of contributions to the project, and the specific inputs to which contributions will be made:

(In US \$ 000)

SPECIFIC INPUTS	AID		LC HOST COUNTRY PART.		TOTAL
	FX	LC	INST.	ESF	
Technical Assistance	4,601	628	340	-	5,569
Personnel	-	567	-	500	1,067
Equip. & Materials	370	100	-	500	970
Invit. Travel/Training	351	161	110	-	622
Dissemination Policy Studies	-	75	-	-	75
Assist. to Associations	100	150	63	-	313
Free Trade Zone Develop.	-	-	-	3,500	3,500
Logistic Support	300	-	-	200	500
Proj. Coord. & Mgt.	15	1,172	186	-	1,373
SUB-TOTAL	5,737	2,853	699	4,700	13,989
Contingency	575	285	-	471	1,331
GRAND TOTAL	6,312	3,138	699	5,171	15,320

The Project Coordination and Management budget line item will finance FUSADES' overall management and overhead costs attributable to taking on the new and larger program of activities envisioned in this project. The Logistic Support budget line item will be programmed with the GOES during project implementation to support the development of specific activities resulting from policy and technical study recommendations for promoting non-traditional exports and investment.

One in-depth evaluation has been scheduled in FY 1986. The evaluation will focus basically on the achievement of the project's purpose and the performance of the implementing entities. It is intended to yield recommendations for AID, the GOES, and FUSADES for possible continuation of project activities. The cost of this evaluation, estimated at \$ 50,000, is included in the technical assistance line item earmarked for AID implementation.

A budget line item of \$625,000 has been included for contingencies of the private sector component with FUSADES. This represents 10% of the estimated total AID contribution to this component. In addition, \$706,000 has been budgeted for contingencies of the public sector component with the GOES. This represents 10% of the estimated total component cost. No specific budget line item for inflation has been included, because it has been taken into account in the cost estimates of most project elements.

Expenditures under this project are expected to occur in the following manner:

(IN US \$ 000)

YEAR	(FX) AID	HOST COUNTRY (LC)			TOTAL	%
		PART. INST.	ESF			
1984	-	-	-	-	0	
1985	2,562	147	870	3,579	23	
1986	3,452	282	2,396	6,130	40	
1987	3,436	270	1,905	5,611	37	
TOTAL	9,450	699	5,171	15,320	100	
%						

The Methods of Implementation and Financing for this project as currently envisioned by the Mission are shown in Table D in Annex 12. As shown in that Table, the Mission proposes to utilize direct payment and direct reimbursement methods of financing for most project inputs, with the exception of commodity procurement requiring foreign exchange for which it proposes to use the direct letter of commitment method. There are several reasons for using the latter mechanism. First of all, neither the GOES nor FUSADES have hard currency to pay in advance for the goods. Moreover, because of the current situation in El Salvador, suppliers have been unwilling to extend credit without an A.I.D. guarantee of payment. The use of direct letters of commitment will permit A.I.D. to review documentation prior to disbursement and achieve greater accountability over payments. Use of this method of payment also minimizes the need for advances.

All A.I.D. appropriated funds for foreign exchange costs of the private sector component will be managed directly by A.I.D. FUSADES will be charged with the responsibility of sound cash management and fiscal control of all funds, including the detailed accounting and reporting on cash receipts, cash outlays and expenditures by obligating documents (any contract to which FUSADES is a party). Forms to be used and procedures to be followed by FUSADES for discharging its responsibilities will be those established by the Mission for local currency and U.S. dollars financing.

To provide senior responsible officials of FUSADES and AID with assurance that adequate financial management practices are exercised in handling resources provided under the project, an independent audit of FUSADES' financial records for the project will be carried out annually. The cost of these audits will be funded under the Project Coordination and Management budget element of this project.

All A.I.D. appropriated funds for foreign exchange and local currency costs of the GOES component will be subject to audits arranged by A.I.D. Such audits will be funded under the budget line item which is earmarked for A.I.D. implementation of studies.

All direct A.I.D. procurements funded under this grant will be handled by the Mission directly in the form and manner established by AID for such purposes.

With regard to the project's recurring costs, FUSADES has expressed to the Mission that it intends to increase its current C 1.0 million endowment fund by C 750,000 over the next three years through new membership recruitment. Moreover, the counterpart contributions by participating enterprises and business associations to technical services provided by FUSADES under the project will be used to augment FUSADES' endowment. The level of coverage of future recurring costs will depend on the level of technical assistance needs of private enterprises and business associations at the end of the project. By that time, beneficiary enterprises and institutions should be in a position to make larger counterpart investments in the trade and business promotion services offered by FUSADES. Should additional resources, including foreign exchange, be required beyond the life of the project, FUSADES will seek such

funding from AID or other donors. By that time, FUSADES will have developed the capacity to provide practical and useful services to El Salvador's non-traditional exporters. That capacity will be a critical asset for obtaining future assistance if it is required.

V. IMPLEMENTATION PLAN

A. Implementation Responsibilities and Administrative Arrangements

The \$9.45 million dollar grant will be obligated by means of two Grant Agreements. One Agreement will be signed with the Ministry of Planning, which will be the primary GOES coordinating entity and cosigned by the Ministry of Foreign Trade which will be the principal implementing agency for the GOES component. Other GOES Ministries and Agencies expected to have direct responsibilities for recommending and implementing activities include the Central Bank, Ministry of Finance, Ministry of the Economy and Ministry of Agriculture, all of which will countersign the Project Agreement. The second Project Agreement will be signed by FUSADES, which will have overall coordination and management responsibilities for the private sector component of the project.

1. GOES

Detailed budgets and implementation plans for activities to be implemented under GOES Ministries/Agencies will be approved by A.I.D., and the authorized representative(s) of the implementing entities. Such approval may be made by way of Memoranda of Understanding, countersigned Implementation Letters, or by A.I.D. and the GOES signing PIO/T's, PIO/C's or PIO/P's for the activity.

\$500,000 of the project's activities will be implemented directly by A.I.D. under authority to be included in the Project Agreement. In these cases, sub-obligating documentation need not be countersigned by the GOES.

In all cases, the specific objectives, budget, implementation requirements and responsibilities for each activity will be specified in the approval documentation related to that activity.

A USAID Project Review Committee will (a) periodically review existing and proposed resource allocation under the project, including any need to make major changes in it; (b) review obligating documents, and clear and/or make recommendations to the Mission Director according to normal Mission procedures.

2. FUSADES

Activities implemented by the Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES), will require A.I.D. approval when the cost of an

activity exceeds \$20,000. This organization may enter into subsidiary assistance agreements directly with recipient organizations according to the terms of its agreement with A.I.D.

FUSADES will be responsible for negotiating and managing contracts with local entities for conducting a variety of in-country training, technical assistance and research activities. Contracts for all U.S. assistance required by the TIPS program will be made by FUSADES in accordance with USAID regulations. USAID/El Salvador will rely on FUSADES to see that the activities of the U.S. contractor(s) are performed in a manner that is in the best interests of the composite program for which FUSADES is the overall coordinating agency.

FUSADES, through its professional staff, will maintain constant liaison with the participating El Salvadoran entities. The principal liaison between FUSADES and USAID will be performed by the FUSADES Executive Director and the USAID Project Manager.

a. Eligibility Criteria for Participation in TIPS and ASA Programs

The following general criteria will be utilized by FUSADES as guidelines for screening and approving assistance requests from enterprises and business associations:

- 1) Requests for assistance indicate the importance of that assistance to the development of non-traditional exports from El Salvador.
- ii) The type and level of assistance requested by enterprises/business associations are consistent with the project objectives.
- iii) Requests for assistance will indicate a degree of certainty that the assistance will be effectively utilized in its organization for a purpose that is consistent with the project objectives.
- iv) Enterprises/business associations wishing to obtain assistance indicate their willingness to contribute to the costs of assistance.

FUSADES will actively promote the TIPS and ASA programs. The availability of the services offered and requirements for eligibility will be made known through direct contact with potential beneficiaries and periodic announcements through appropriate media.

FUSADES has agreed to establish Project coordination and management units. The staffing for the units is discussed in the Administrative Analysis. The professionals working in those units will maintain close contact with the private sector, as well as the U.S. contractor who will be providing support services to FUSADES in the U.S.

B. Disbursement Procedures

A variety of standard A.I.D. disbursement procedures will be employed, depending upon the complexity of each of the approved activities. A.I.D. direct disbursement mechanisms will be normal under the project for financing most inputs and controlled at the Mission level. In addition, direct letters of commitment will be utilized for procurement of commodities requiring foreign exchange. The justification for using the latter method of financing is presented in the Cost Estimates and Financial Plan section of this paper.

C. Procurement Procedures

The selection of consultants and contractors, procurement of equipment and material, shipping and insurance will be done in accordance with standard A.I.D. procedures. For those ESF grant funded acquisitions for which FUSADES is responsible, terms and conditions will be specified in the Cooperative Grant Agreement and subsequent Implementation Letters. Project funded procurements for the GOES component will, in accordance with the Project Authorization, be done by the Mission or AID/W, except on an exceptional basis where it is determined that sufficient capability exists for a particular host country contracting action.

Gray Amendment: Project implementation plans call for completion of 75 to 100 short term technical assistance projects by TIPS. \$1,449,000 has been budgeted for this purpose. USAID/El Salvador will make an effort to identify competent minority, disadvantaged and woman-owned firms to provide these services. To that end, USAID/El Salvador has requested from the PRE office of Small and Disadvantaged Business Utilization (PRE/SDB) a list of potential contractors.

D. Schedule of Major Events

Disbursement of funds is scheduled over a period of three fiscal years. The Project Assistance Completion Date (PACD) will be 36 months from the date of signing of the Grant Agreements (planned for September 1984). Ratification by the El Salvador Legislative Assembly will be required for the GOES Project Agreement.

For the GOES component, an initial group of activities to be carried out under the project will begin upon ratification of the Project Agreement, expected to take two to three weeks, and completion of subordinate agreements and/or sub-obligating documents as specified in Section V.A.1 above. New activities will be started up until shortly before the PACD, while those started earlier terminate along the way. Activities will be of short or medium duration, most requiring less than six months. Each activity will have its own implementation schedule which will be detailed in the approval documentation pertaining to it.

For the FUSADES private sector component, the schedule of major implementation events is as follows:

<u>Date</u>	<u>Action</u>
<u>1984</u>	
September	AID/W PP Authorization Signing of Agreement Advertisement of TIPS Contracting Opportunity in Commerce Business Daily Issuance of REP for TIPS
October	FUSADES hires new Executive Director
November/December	Submission and review of Technical proposals for TIPS: contract awarded
<u>1985</u>	
January	Arrival of U.S. TIPS team leader and staff; FUSADES hires Salvadoran staff for TIPS and ASA programs.
February	FUSADES submits annual implementation plan and budget for A.I.D. approval. Business Opportunity Survey carried out.
March	ASA Introductory Seminar held. TIPS and ASA programs initiated.
September	Annual Review; FUSADES submits annual implementation plan and budget.
<u>1986</u>	
January/December	TIPS, ASA, and Policy Research activities continue.
September	In-depth evaluation completed.
<u>1987</u>	
September	Project terminates

In addition to the above schedule of major events, quarterly progress reviews will be held with the Mission.

VI. MONITORING PLAN

A. A.I.D. Project Monitoring Arrangements

Project monitoring will be exercised by a Project Manager assigned from USAID's Private Enterprise Office (PRE). The PRE Project Manager will work closely with FUSADES and GOES implementing entities to assure that project implementation plans and objectives are met.

In accordance with Mission policy, project review meetings will be held monthly to review and direct project implementation. The Deputy or Associate Director will chair the meetings. Representatives from the Private Enterprise Office, the Projects Office, the Program Office, the Management Office, and the Controller's Office will attend the meetings.

The PRE Project Manager will also call upon other Mission offices as needed. This will include:

1. The Projects Office (PRJ), which will monitor Project implementation to assure that the terms and conditions of the Project Agreements are met.
2. The Mission Controller, who will review disbursement and reimbursement requests for conformity with A.I.D. regulations and will ensure that adequate financial controls are exercised.
3. The Program Office (DPP), which will assist in carrying out AID/FUSADES project reviews and evaluations. Further, the Training Officer will assist FUSADES in certain A.I.D. administrative requirements for FUSADES participants in U.S. training.
4. The Economics Office (ECON), which will assist in preparation of terms of reference for economic studies or other special activities undertaken directly by A.I.D., as well as assist in reviewing terms of reference for policy studies proposed by the GOES and FUSADES.

B. Assessment of A.I.D. Monitoring Capability

It is expected that given the level of Mission staff, on-board and planned, that there will be no difficulty in carrying out Project monitoring responsibilities.

VII. SUMMARIES OF ANALYSES

A. TECHNICAL ANALYSIS

1. PRIVATE SECTOR EXPORT AND INVESTMENT PROMOTION SERVICES

USAID/El Salvador project analysis was supported by consultants from Price Waterhouse, Development Associates, Coopers and Lybrand, the International Executive Service Corps (IESC) and Investment Technology International. Over one hundred businessmen and GOES officials, most major business associations and business service organizations were interviewed. The following are some of the major issues which were analyzed during this process and the respective findings for establishing the technical feasibility of the proposed project activities.

a. Trade and Investment Promotion Services (TIPS)

- Is a major trade and investment promotion program warranted in El Salvador before the end of the civil conflict? Many of the consultants were surprised to see the interest of local Salvadoran entrepreneurs in investing in non-traditional export businesses. An agroindustrial trading company has been established, a handicraft trading company is in formation and many of the businessmen interviewed are looking for ways to get into the export market. IESC, El Salvador, in its first three months of operations has submitted twenty proposals for technical assistance, more than have been requested by any other country in the world during the initial phase of program activity. Eight SUSTAIN projects have been engaged during the past year and the USAID/El Salvador PRE office receives on an average five requests per week for assistance on specific non-traditional export projects. The consensus of the project analysis team is that there is significant local interest in investing in non-traditional export projects and that a program which links those Salvadoran entrepreneurs with foreign, particularly U.S, markets, technical assistance and technology would contribute significantly to the generation of new jobs and foreign exchange.
- Can TIPS succeed without a credit component? The consensus of the project analysis team was that the strategy established in the A.I.D., Washington guidance cable is sound. This approach recognizes the symbiotic relationship between credit and technical assistance in business development. Accordingly the first phase of this project will establish GOES and private sector export and investment promotion services. While these services are being created a comprehensive analysis of the Salvadoran banking system will be made to establish the basis for an investment credit program to begin shortly after the support services are initiated. In addition to USAID supported credit, there are IDB programs designed to support industrial recovery.

- Will TIPS substantially improve the ability of Salvadoran businesses to expand or will it merely extend the scope of existing technical assistance? The design team found that Salvadoran business support institutions presently lack the orientation and organizational capability or resources to provide aggressive and industry specific export and investment services required by local enterprises. TIPS will not focus on technical assistance per se nor on general technical assistance requirements of potential Salvadoran exporters. It will aggressively pursue the success of the specific commercial projects it supports by identifying the technical resources they require and providing timely access to them. The project analysis team concluded that this enterprise specific focused business promotion effort is required to create new export businesses in El Salvador and to expand existing ones.
- Should TIPS have "in-house" product specific technical assistance capability? The project analysis team recommended that the problem which TIPS should address is the access of a specific enterprise to product or industry specific information and technical support. Thus it was concluded that TIPS should have strong outreach capability to contact potential investors and exporters and to link them with the tailored resources they require to bring their projects to fruition.
- Should TIPS be product specific? Given that TIPS will not have in-house product specific expertise and that its activities are promotion and linkage, the design allows the TIPS team to develop an implementation strategy which focuses on sectors in which El Salvador has the greatest opportunities.
- Should TIPS be a trading company? The project analysis team found that product or sector specific trading companies have a very important role to play in the development of exports from El Salvador. Thus it would not be efficient for TIPS to be a general trading company and creating TIPS as a product specific trading company would drastically reduce its business development impact. Salvadoran entrepreneurs have begun to create product specific trading companies. TIPS can provide much needed technical assistance to these enterprises but should not compete with them.
- Should TIPS concentrate its efforts on reactivation of unused Salvadoran industrial capacity? The project analysis team concluded that reactivation of unused factory capacity can contribute to the reactivation of the Salvadoran economy but that greater opportunities exist in the creation of new industries, particularly agroindustries and in development of drawback industries. The TIPS design therefore does not exclude any of these vehicles for generation of employment and foreign exchange.
- Should the TIPS activity be performed by the GOES? The project analysis team feels that there is a consensus in El Salvador that production and marketing are private sector functions and consequently that it would be logical and most efficient to provide specific assistance to commercial projects through a private sector organization.

In addition to providing specific assistance to individual businesses TIPS will organize focused commercial missions to the U.S. and third countries to develop specific export and investment opportunities. These would include interested Salvadoran businessmen to negotiate specific contracts and a representative of the GOES to show government support for the mission and to provide guidance on the legal and policy environment in which exporters and investors operate in El Salvador.

- Should TIPS become a self sustaining program within FUSADES? The project analysis team recommended that in order to achieve the maximum business development impact during the project period, a higher level of effort must be made by TIPS than that which could be supported without any financial support from A.I.D. Thus the proposed design does not assume that TIPS will develop the capacity to pay for itself by the end of the third year. The design will, however, give FUSADES the institutional capability by the end of the third year to operate TIPS without assistance from an external contractor. This will be achieved by having three Salvadorans on the El Salvador core team and by having FUSADES directly responsible throughout the project for management of the TIPS contract.
- Can a contractor able to provide the services required by the TIPS program be found? The consensus of the project analysis team is that there will be few if any contractors who will be able to provide all of the required services through "in house" resources. The successful contractor will have to excel in the ability to offer direct access to existing networks through which Salvadoran entrepreneurs can be linked with technical assistance, markets and potential coventure partners. It is believed that computerized information networks will play a secondary role and that networks which involve U.S. and third country businesses directly will be the most effective instruments of providing the linkages required by the program. Thus a strong U.S. based team of professionals dedicated exclusively to development of business opportunities for El Salvador will be required to support the efforts of the El Salvador based core team working with FUSADES.

b. Association Strengthening Activities (ASA)

- How will the transfer of information, know-how and technology mentioned in the Industrial Stabilization and Recovery PID be coordinated with TIPS? TIPS will provide to individual entrepreneurs the technical assistance and information required for successful implementation of specific projects. By channeling the transfer of information, know-how and technology not related to a particular project through Salvadoran business associations, ASA helps prepare businessmen to take advantage of TIPS and reduces the demand on TIPS for general information which is necessary within the project but not directly contributory to fulfillment of the TIPS objective.

- Why assist Salvadoran business associations to provide better export related information and training to their members? The interviews which the project analysis team held with Salvadoran businessmen indicated that they do not rely on business associations for technical assistance and guidance and that the major role of these associations is defense of self interest in the public and private policy process. Most potential exporters are members of a business association and all business associations interviewed expressed interest in offering more relevant technical services to their members. The general information and training required to help businessmen consider entry to new export markets could be provided by business associations. Their involvement in this activity would have the positive side effect of bringing the private sector together in an apolitical effort to increase exports.
- Why provide assistance to Salvadoran business associations through FUSADES? The project analysis team confirmed the notion that FUSADES as a broad based apolitical private sector organization is uniquely qualified to work with all business associations. It also found that, due to the complementarity of TIPS and ASA, both programs will be strengthened by placing them under the management of the same organization. Interviews with many business associations indicate that they would accept USAID technical support channeled through FUSADES.
- What staff should ASA have? The project analysis team decided that ASA should be operated by a small staff at FUSADES with financial resources to develop technical materials and organize seminars and workshops. The idea of contracting a U.S. based materials development team was rejected because it was considered to be expensive and less flexible and efficient than short term technical assistance focused on a specific subject.

c. Policy Research and Development

- Why should A.I.D. fund private sector studies of policy issues, many of which are ultimately defined by the government? The project analysis team found that it is appropriate and consistent with healthy public policy development for the private sector to express to the government its views on economic issues of national importance. The Salvadoran private sector does not have the institutional resources to prepare objective and technically sound studies on these issues. It is therefore considered appropriate for A.I.D. to provide financial support for private sector studies performed to create the technical basis for policy recommendations to the GOES on economic issues.
- Why provide funds to FUSADES to perform economic studies? Though each member of FUSADES has his or her own personal political orientation the organization has proven by its actions that it is apolitical. It is therefore in a unique position among Salvadoran business associations to perform objective technical analyses of economic issues and when appropriate to present those studies to the GOES for policy

consideration. The project analysis found that such objective studies have the potential to help private and public sector leaders analyze the alternatives available to El Salvador.

- Should A.I.D. finance the creation of an economic studies unit in FUSADES? The project analysis team feels that FUSADES must have a core staff of two professionals to coordinate its economic studies program. This staff with the guidance of FUSADES management, would identify topics to be studied, would prepare the terms of reference for the studies and supervise their contracting and implementation. The team feels that creation of a larger full time staff to perform economic studies would create expensive overhead for FUSADES and reduce the versatility of its studies department by limiting its capability to that of its staff.
- Should the private sector studies to be financed by A.I.D. deal with short or long term issues? The project analysis team felt that subjects in both time frames could be appropriate for A.I.D.

2. GOES EXPORT AND INVESTMENT PROMOTION

The need for and appropriateness of the specific types of assistance proposed under this project have been established as a result of a number of studies by A.I.D., other donors, and Salvadoran Organizations. All of these studies have been aimed at analyzing the causes of the current Salvadoran economic crisis, the prognosis, and the steps required to address the situation. It is from such analyses that the Salvadoran CBI goals and objectives have been generated, and A.I.D. and other donors (IBRD, IDB) have served to identify required changes, and the areas in which A.I.D.'s contributions can best be made. Of special relevance in this analysis, is the area of El Salvador's foreign trade sector, particularly the need to develop a GOES strategy for increasing investments in and non-traditional exports from El Salvador. The need to provide in a period of economic restructuring the capacity to respond in a flexible and timely manner for policy analysis, planning, administrative and managerial improvement, and to selectively implement changes, is self-evident.

The project analyses confirmed the need for the type of assistance proposed under this component. The technical soundness was found to be predicated on an approach which retains flexibility, supports greater coordination between the key GOES agencies, fosters greater cooperation between the public and private sectors, and builds in access to local currency resources for operational implementation as the need and opportunities arise.

B. ECONOMIC ANALYSIS

1. Macroeconomic Implications

The economic analysis in the Industrial Stabilization and Recovery PID provided considerable evidence to support the conclusion that El Salvador possesses the potential to export to the U.S. and other developed countries 1/. To begin with, the present extent of idle capacity is such that manufacturing output could increase substantially with modest additional investment expenditure. A sizeable expansion would result in the creation of additional employment as well. With approximately 25 to 35 percent of the national labor force now unemployed, the expansion could be accomplished with no additional expenditures for training, whether on the job or otherwise. Finally, there is evidence that Salvadoran industry can compete in the international marketplace. A comparison of costs of production in El Salvador with prevailing world prices indicated that the country has significant comparative, or cost, advantages in the production of goods such as processed foodstuffs, beverages and tobacco; paper; metals; and chemicals.

The Project is designed to facilitate the export of non-traditional products to extra-regional markets. It will use a variety of methods to accomplish that objective. These include institution building as the major means to achieve the Project purpose.

From a methodological point of view, the economic consequences of projects of an institution building nature are especially difficult to quantify. In order to examine the macroeconomic effects of Project activities, therefore, the analysis begins with the assumption that there will be a permanent and

constant increase in non-traditional exports of 5 percent annually as a result of the Project. This assumption is considered to be a conservative assessment of the Project's potential payoff for the following reasons. First, it assumes that the institutionalized capacity to promote exports simply serves to maintain the 5 percent increase achieved during the life of the Project.

1/Cf. Industrial Stabilization and Recovery PID for the complete analysis, together with supporting data.

In practice, of course, it would be considered reasonable to assume that once installed, that institutional capacity would continue to result in successive annual increments in absolute terms in non-traditional exports. Secondly, the once and for all 5 percent increase in exports assumed is but a fraction of the historical performance for exports of manufactured goods. Between 1960 and 1978, for example, the latter grew at a compound annual rate of 14.1 percent.

Finally, it must be emphasized that the five percent increase assumed is a truly modest figure in both relative and absolute terms. In recent years non-traditional exports to extra-regional markets have accounted for approximately 7 to 8 percent of total exports. Five percent of the figure represented \$2.83 million in 1983.

Although moderate, the once only five percent assumption produces a highly favorable economic rate of return. The following analysis demonstrates that an increase in non-traditional exports of that amount would produce an internal rate of return of 32.5 percent.

Balance of Payments

Non-traditional exports to extra-regional markets totaled \$56.6 million in 1983. An increase of five percent attributable to the Project would raise that figure by \$2.83 million. Assuming fixed input coefficients, the additional output for foreign markets would require imported raw materials and intermediate goods equivalent to approximately one half of its F.O.B. value -46 percent- or \$1.3 million. The net increase in foreign exchange earnings generated would thus be about \$1.5 million.

Employment

The relatively labor intensive nature of most non-traditional industries implies that a five percent increase in exports would have a substantial effect upon employment. This is especially true given the strong backward linkages of agroindustrial and textile producers into the domestic economy. Based upon 1982 industrial sector data, and USAID estimates of labor productivity for the affected sectors, the mean average output per worker is about C22,500. An increase in output of \$2.83 million would thus imply the direct creation of 497 new full time positions at the parallel market exchange rate. As discussed in greater detail below, there would also be twice that many additional positions created indirectly. The total estimated employment effect would thus be 497 multiplied by three, or 1,491 new jobs altogether.

Income

Based upon 1978 survey results, the average manufacturing sector wage, including fringe benefits, and corrected for wage increases permitted subsequently by the GOES, would amount to approximately C6,750 per year. For all 497 positions created directly, the wage bill would amount to an estimated C6,453,000. The figure represents only about 30 percent of the

gross value of the increase in production. It would represent nearly 60 percent of total value added in the manufacturing sector by the increase in output, however.

Investment

Given the amount of excess capacity in the manufacturing sector at present, it would appear, at least on the surface, that an increase in the value of exports of the magnitude examined would not lead to additional investment. Recall the earlier discussion, however, concerning the structural deficiencies in the manufacturing industries promoted by the CACM. Given those shortcomings, not to mention the accumulation of five years with little maintenance of plant and equipment and even less new investment, it is the USAID's belief, after careful study, that the activities designed in the Project would require new investment. Indeed, it is estimated that new private sector investment in an amount approximately equal to the increase in exports, or \$2.83 million, would be required.

Indirect Effects

All of the above refer exclusively to the direct effects of a five percent increase in non-traditional exports. Providing that the increase is a net increase, there would be substantial indirect effects, as the increase in spending reverberates throughout the economy. As a rule of thumb, one could expect the total multiplier effects to approach, on the average, at least twice the amount of the direct effects. This would be especially true in the present illustration, given the relatively strong backward and forward linkages found in agroindustries, textiles and so forth.

Sensitivity Analysis

A sensitivity analysis of the economic rate of return to the project was carried out for each of the following adjustments to the assumptions cited above: 1) a three year delay in the stream of benefits, 2) a ratio of indirect to direct benefits of only 1:1, 3) export growth attributable to the project of only a 3% constant rate. For each of these cases, the rate of return exceeded 12%.

Summary and Conclusions

The precise impact of the Project on export performance during the next few years has only been roughly estimated. Agency experience with this kind of project is relatively recent and, for the most part, requires further evaluation before more meaningful estimates can be made. The purpose of the preceding, therefore, has been simply to illustrate that the Project's impact on non-traditional exports does not have to be very large, either absolutely or relatively, in order to produce acceptable results from the perspective of cost benefit analysis. The five percent increase in exports along the lines set forth in Table I would produce an IRR of 32.5 percent.

Table I
Cost Benefit Analysis of a Five Percent
Increase in Nontraditional Exports
(\$000's)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Annually</u> <u>1988-2004</u>
<u>I. Total Costs</u>				
A. USAID	2562	3452	3436	-
B. GOES	1017	2678	2175	-
C. Private Sector	-	2017	2620	2547
1. Operating <u>1/</u>	-	602	1225	2547
2. Investment <u>2/</u>	-	1415	1415	-
D. Total	3579	8147	8251	2547
<u>II. Total Benefits</u>				
A. Foreign Exchange Earned <u>3/</u>	-	708	1415	2830
B. Indirect Effect	-	1415	2830	5660
C. Total	-	2123	4245	8490
<u>III. Net Benefits</u>	-3579	-6024	-4006	5943

1/ Assumed to be 85 percent of II.A in 1986 and 1987 and 90 percent of II.A for each year between 1988 and 2004. The additional 5 percent after 1987 is for maintenance of new investment made in 1986 and 1987.

2/ One-half the U.S. dollar value of a total investment equivalent to \$2.830 million in years 1986 and 1987. Assumes that total investment for both years will equal the total value of the annual increase in exports.

3/ Assumes that foreign exchange earnings will be equivalent to 25 percent of the five percent increase in exports in 1986, 50 percent in 1987 and 100 percent thereafter.

The IRR is 32.5 percent.

2. Microeconomic Implications

Inability to determine a project's economic efficiency on cost benefit grounds requires the performance of the less rigorous cost effectiveness analysis. The latter requires the identification and costing of practicable alternative methods of achieving the project purpose. Exhaustive reviews of alternative means for accomplishing Project purpose in the present Salvadoran context at both the PID and PP stages of project development disclosed no viable alternatives to the Project as designed. This was especially true for the development of the information system, the strengthening of export incentives, policy studies and the transfer of technology. Indeed, while similar in design to several other Agency projects with the same purpose, there is reason to believe that the present project is a more cost effective alternative for El Salvador given the current state of the country's economy.

Every effort has been made to incorporate in the design of the project and in terms relevant to El Salvador's current situation the lessons learned from similar projects implemented in other countries.

C. SOCIAL SOUNDNESS ANALYSIS

1) Social Context

The social context within which this project will be implemented is one which is characterized by a vigorous private entrepreneurial class dedicated to industrial development and an industrious working class. The civil disturbance in the country has caused a number of businesses to close down, and the economic downturn has caused many firms to operate at less than full capacity (i.e. 35-50% of capacity.) In spite of the above, industries remain determined to regain their 1978 levels.

Salvadorans have historically placed great emphasis on education, formal or informal, as a means of social mobility. Both the labor and the entrepreneurial work force place an emphasis on hard work and advancement by means of learning new skills in order to raise the level of the job they are doing. It is a tradition of the Salvadoran private sector to be viewed as the "Taiwanese" of the CACM. This business aggressiveness can be harnessed under the A.I.D. project in order to expand exports.

2. Beneficiaries

The project activities will have an impact on managers and workers in the factories and enterprises that will increase their capacity due to exports of their product. Many of the workers in the manufacturing sector have traditionally been women. Small producers, who are either members of cooperatives, producer associations, or trading company clients will also be beneficiaries of the program. These producers, as suppliers of the raw materials for food processing plants and other industries, will be direct beneficiaries in that they will have new or alternative markets for their product. Other employees will also be indirect beneficiaries of this project. Those farms, firms, and jobbers that provide goods and services to the primary firms will expand their work force to meet this new demand.

The project will provide the resources (technical assistance, information and technology transfer) for these businesses to expand production and productivity, resulting in reduced unemployment and increased earnings. It will also provide the stimulus needed to create new jobs. The social implications of the employment and income impacts on beneficiaries and their families are high in a country experiencing very high unemployment and internal violence. The importance of saving jobs and creating net new jobs benefitting, in large part, the lower social strata (earning US\$120/monthly or less) representing some 90% of the population, cannot be overstated.

3) Impact

The project is both feasible and consistent with the social environment in which it will operate. The project provides needed services to several groups within the private sector, such as small, medium and large businesses involved in exporting. The increased export opportunities and services provided under this project will allow these industries to expand their production and exports or to initiate new productive ventures.

In addition, by assisting the entrepreneur to improve business efficiency and productivity the project will contribute to increasing his/her total income. Some of this increase will be reinvested in the business; some will be taken in the form of a "salary" increase. It is expected that a portion of increased business income will be passed on to employees in the form of higher wages as productivity increases.

Both for the entrepreneur and for the employee, higher incomes increase the ability to save and at some point invest in improving the basic conditions of life through improved housing, nutrition, clothing, education, or increased leisure.

D. ADMINISTRATIVE ANALYSIS

1. FUSADES

A. Organization

1. Legal Status

The Salvadoran Foundation for Economic and Social Development (FUSADES) is a Private Voluntary Organization (PVO), organized on May 9, 1983, under the laws of El Salvador. It is a not-for-profit, tax exempt organization under existing laws. The Executive Branch of the GOES approved FUSADES' bylaws on August 22, 1983, and the latter were published in El Salvador's Official Gazette No. 164, dated September 6, 1983.

The Certification of FUSADES as a PVO was signed by USAID on June 2, 1984.

2. Financial Status

FUSADES has authority from its General Assembly to commit its own funds and does not receive a direct subsidy or funds from the GOES budget. It can disburse funds without obtaining approval from other institutions, private or public. A copy of the Balance Sheet and Profit and Loss Statement as of December 31, 1983 was prepared by Peat, Marwick, Mitchell & Co. and certified to be made in accordance with generally accepted accounting principles.

3. Pattern of Organization

FUSADES is organized along a semi-collegial form of bureaucracy. In the Organization Chart presented as Annex 12, Institutional Background of FUSADES, the hierarchical descending order is as follows: first the General Assembly of Founding Members, then the Board of Directors, the President, the Executive Committee, the Executive Director, and following, the six "Permanent Areas of Interest" with a Commission in charge of each area and working groups in charge of each specific program within those areas. The personnel at FUSADES reports directly to the Executive Director, although some personnel may be permanently assigned to one of the areas.

The Commissions and Working Groups for the specific programs are formed by Voluntary Founding Members, special guests (non-members), external consultants and employees. The six "Permanent Areas of Interest" for FUSADES are as follows: a) Communications, b) Research, c) Economic Development, d) Social Development, e) Institutional Development, f) International Affairs. This is currently under review.

B. Management

The Board of Directors has delegated authority to the Executive Committee. The Committee has delegated authority to the President and the Executive Director. Partial delegation of authority has been given to the International Affairs Manager.

The competence level of FUSADES Management is high. Annex 12 presents a brief description of the educational background and work experience of the FUSADES executives and staff.

C. Staffing

FUSADES has been able to attract qualified staff support to implement the activities described in Section VII.D.1.A.3, above. In order to implement the activities contemplated under this project, FUSADES will have to restructure its organization and expand its staff. The FUSADES staff positions which would be financed with project resources include an Executive Director; three professionals for the TIPS program; two professionals for the ASA program; an Accountant; and secretarial and other logistical personnel. There is no shortage of qualified executives in El Salvador at this time. Furthermore, the salary levels that the Project will help to pay, are attractive enough to ensure that the best professionals in El Salvador become interested in working for FUSADES.

D. Conclusion

In order to help FUSADES develop the organizational structure and administrative systems and procedures necessary to increase the chances of successful implementation, one person month of technical assistance is being provided to FUSADES with PD&S funding. The objectives of this technical assistance are as follows:

- 1.- To formulate and implement an overall organization strategy and action plans for the short and medium term
- 2.- To train the members of the Executive Committee in matters relating to execution of programs in development organizations
- 3.- To analyze the present organizational structure of FUSADES and make recommendations for changes to enable it to undertake greater responsibilities; and
- 4.- To further define the qualifications of the new staff to be hired by FUSADES.

It is also important to note that during the past year FUSADES has done an excellent job in managing the \$185,000 Specific Support Grant Agreement called "CBI and Private Sector Support", and that all the members of FUSADES, including Directors, have demonstrated a high degree of commitment to their organization by devoting time and effort to FUSADES.

2. GOES

As indicated previously, various El Salvadoran public and private sector entities will be involved in the implementation of project activities. The Ministry of Planning (MIPLAN) will have the responsibility for coordinating the various public sector project activities. This role is consistent with that which it normally plays within the GOES. The Ministry of Foreign Trade will be the primary implementing agency for the GOES component of the project.

The GOES commitment to support the activities proposed under the project is indicated by the fact that they have established the implementation responsibilities and control required to undertake the activities thus far envisioned. For example, in order to support efforts to formulate and implement new export policy and plans, the GOES has established an Inter-Ministerial Committee composed of Dr. Fidel Chávez Mena (Minister of Planning)-Chairman; Lic. Manuel Morales (Minister of Foreign Trade); Lic. Alberto Benítez (President of the Central Bank)-Secretary; Dr. Ricardo González Camacho (Minister of Economy); Sr. Ricardo López (Minister of Treasury); and Ing. Aquilino Duarte (Minister of Agriculture). This group will be responsible for:

- Developing the necessary governmental measures to implement a program aimed at expanding the production of non-traditional products and their export to extra-regional markets.
- Proposing changes in the laws and regulations aimed at structuring the legal framework necessary for the development of private export trading companies for marketing non-traditional products.
- Monitoring the effective execution of all measures taken by the GOES aimed at increasing the export of non-traditional products.

Related both to the concern for overall economic policy and planning, and particularly to the need to attract investment and promote exports, the recently appointed Minister of Foreign Trade (MICE) Lic. Manuel Morales, has expressed his personal interest, and that of the GOES, to develop and coordinate a coherent and cohesive export and investment strategy and plans among GOES ministries and agencies, and between the GOES and the private sector.

Prior to the approval of any project-financed activity, the capacity of the implementing entity will be assessed in terms of its ability to provide the necessary level of management, and to process and act on recommendations. In the event that such capacity does not exist in a particular instance, A.I.D. may elect, under the terms of the Project Agreement, to directly implement an activity, such as a study or development of a plan.

VIII. CONDITIONS AND COVENANTS

Two separate agreements will be signed to obligate the project's funds. A Cooperative Agreement will be signed with FUSADES for obligating project funds for the Private Sector Export and Investment Promotion component. A Grant Agreement will be signed with the GOES for obligating project funds for the GOES Export and Investment Promotion component. The conditions and covenants to be included in each of the two obligating instruments are as follows:

A. Cooperative Agreement

1. Conditions Precedent to Disbursement

a) Conditions Precedent to Initial Disbursement

Prior to first disbursement of project funds under the Cooperative Agreement, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (i) A statement by the Board of Directors of FUSADES in which it names the person empowered in FUSADES to receive the funds provided under the Cooperative Agreement and of any additional representatives, together with a specimen signature of each person so designated.
- (ii) Evidence that FUSADES has established a separate colôn denominated bank account to control the receipt and disbursement of all project funds.
- (iii) A statement by FUSADES which indicates that it has initiated or will initiate a reorganization of FUSADES to enable it to undertake an expanded program of activities.
- (iv) A statement by FUSADES which indicates that it has appointed or will appoint an Executive Director who can assume executive responsibilities for FUSADES' new, expanded activities.
- (v) Evidence that FUSADES has established and will maintain, in accordance with generally accepted accounting principles and practices, consistently applied, books and records related to the Cooperative Agreement, adequate to show without limitation, the receipt and use of all goods and services acquired under the Cooperative Agreement. Such books and records will be audited annually, in accordance with generally accepted auditing standards and be maintained for at least three years after the date of last disbursements by FUSADES under the Cooperative Agreement.

b) Conditions Precedent to Subsequent Disbursements

Prior to any disbursement under the Cooperative Agreement for TIPS, ASA, or Policy Research and Development activities, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) An implementation plan and budget for the first year of the project's activities.

2. Covenants

- (1) FUSADES will agree to pay no more than reasonable prices for any goods and services financed in whole or in part under the Cooperative Agreement. Such items will be procured by employing fair and good commercial practices to assure the most effective use of the funds provided.
- (ii) In addition to FUSADES' submission to A.I.D. of the project's first year implementation plan and budget, FUSADES will submit to A.I.D. for approval subsequent annual implementation plans and budgets for project financed activities.
- (iii) FUSADES shall covenant that A.I.D. will be able to brief and debrief consultants, participants and invitational travelers financed under the Cooperative Agreement and will be furnished copies of reports produced by such persons.

3. Waivers

The Mission foresees the occasional need to grant a waiver from A.I.D. Geographic Code 000 eligibility for the procurement of technical assistance or training services, including observation trips, to facilitate the achievement of the project's purpose. The Mission thus proposed to grant such waivers to allow for services from A.I.D. Geographic Code 941 on a limited case by case basis.

B. GOES Grant Agreement

1. Conditions Precedent to Disbursement

- a) Prior to any disbursement of project funds, or the issuance of any commitment document under the Grant Agreement to finance any specific activity, the Grantee shall furnish in form and substance satisfactory to A.I.D., a complete description of such activity which shall include, but not be limited to its budget and implementation schedule.

- b. Prior to any disbursement, or the issuance of any commitment document under the Grant Agreement to finance any implementing entity for an approved activity(ies) under the project, the GOES shall furnish in form and substance satisfactory to A.I.D., a statement of the name of the person holding office in said entity and legally empowered to act for said entity with reference to the Agreement.

2. Covenant

A.I.D. will, upon request, be able to brief and debrief consultants, participants and invitational travelers financed under the project and will be furnished copies of all reports produced by such persons.

3. Waivers

The Mission foresees the occasional need to grant a waiver from A.I.D. Geographic Code 000 eligibility for the procurement of technical assistance and training services, including observation trips, to facilitate the achievement of the project's purpose. The Mission thus proposes to grant such waivers to allow for services from A.I.D. Geographic Code 941 on a limited case by case basis.

IX. EVALUATION ARRANGEMENTS

A. Evaluation Plan

1. Annual Reviews

The Mission will conduct two annual reviews with FUSADES and MICE to assess progress in achieving the project's objectives, weigh methods to improve performances and consider possible modifications to project implementation and design, as appropriate. The reviews, which may or may not include outside assistance, will be held towards the end of the first and second years of the project. Each review will thus serve as the basis for the subsequent year's implementation plan and budget.

2. In-Depth Evaluation

In addition to the annual reviews, USAID will undertake with project resources one formal, in-depth evaluation using AID/W assistance or independent contractors. The evaluation will carefully assess the appropriateness of the project design and methodology. This evaluation will take place at the end of the second year of the project and will examine the progress made by the GOES and by FUSADES toward achievement of the project purpose. The evaluation of the GOES component will give special attention to the efficacy of GOES policy and institutional systems for promotion of non-traditional exports and investment which have been developed or strengthened with project assistance.

The changes in levels of production for exports in the San Bartolo Free Zone which have occurred as a result of project assistance will also be assessed. The evaluation of the FUSADES component will focus on the institutional capacity of FUSADES and the U.S. contractor for the TIPS program to carry out the activities envisioned in the project. In addition, the evaluation will also review and assess, from a small sampling: (a) the changes in levels of productivity, job creation and exports which have occurred as a result of the results-oriented TIPS program; (b) the ability of producers to apply new information or skills within their respective businesses; (c) the utility of association strengthening activities to the producer members of associations assisted under the project.

The recommendations made in this in-depth evaluation will provide guidance to USAID, the GOES and FUSADES on whether ongoing project activities should be continued, modified or terminated and whether or not other activities will need to be incorporated. In the course of project implementation, should the Mission detect the need to accelerate the schedule for the formal evaluation, it will make the appropriate arrangements. Similarly, should the Mission desire to conduct an additional formal evaluation in response to presently unforeseen circumstances, it will proceed to do so using PD&S funds. This in-depth evaluation will determine the need for further evaluations.

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ANNEX 1
Page 1 of 8

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TAGS:
SUEJECT: INDUSTRIAL STABILIZATION AND RECOVERY (519-0287)
PID GUIDANCE

1. WE RECOMMEND THAT THE MISSION (A) MOVE AHEAD FOR AN FY 84 AUTHORIZATION OF THE PROGRAMS FOR STRUCTURAL WORKING CAPITAL CREDIT AND THE CREDIT FOR MICRO-ENTERPRISES; (B) SCHEDULE THE PROGRAM FOR CREDIT FOR SMALL AND MEDIUM SIZED FIRMS TO FOLLOW A COMPREHENSIVE ASSESSMENT OF THE PUBLIC BANKING SYSTEM; (C) RE-EVALUATE THE CONCEPT OF A PROGRAM FOR FOREIGN EXCHANGE FOR INVESTMENT CREDIT PROGRAM OF WHICH A.I.D. WOULD FUND AGRIBUSINESS, WITH A VIEW TO DEVELOPING PRIVATE OR PUBLIC SECTOR ALTERNATIVES; TO THE FONDO DE DESARROLLO ECONOMICO (FDE); AND (D) MOVE AHEAD WITH THE PROGRAMS FOR A GOES EXPORT AND INVESTMENT PROMOTION PROJECT, PRIVATE SECTOR EXPORT AND INVESTMENT OPPORTUNITY SERVICES, AND POLICY RESEARCH AND DEVELOPMENT FOR PRESENTATION IN EARLY FY 85, OR FY 84 IF SUCH A SCHEDULE IS FEASIBLE.

2. GIVEN THE COMPLEXITY OF THE ACTIVITIES PROPOSED AND THEIR DISPARATE NATURE, WE REQUEST THAT THE CREDIT AND THE INVESTMENT AND EXPORT PROMOTION ACTIVITIES BE PRESENTED IN SEPARATE PPS.

3. IN VIEW OF THE GENERAL NATURE OF THE PROJECT DESCRIPTION, AND THE LARGE NUMBER OF SUB-PROJECTS CONTAINED IN THE PID, ONLY A LIMITED DISCUSSION OF THE ISSUES WAS UNDERTAKEN. WE URGE THE MISSION TO REVIEW THE A.I.D. POLICY PAPERS WHICH RELATE TO THE PROJECT, PPS AND EVALUATIONS ON SIMILAR PROJECTS, AND THE AVAILABLE LITERATURE ON INVESTMENT AND EXPORT PROMOTION ACTIVITIES IT IS REQUESTED THAT THE MISSION CONSULT WITH THE BUREAU WHEN DEVIATIONS FROM POLICY NOT DISCUSSED AT THE DAEC ARE CONTEMPLATED.

4. AGRO-INDUSTRIAL CREDIT: THE INSTITUTIONAL ARRANGEMENTS FOR THIS PROGRAM APPEAR WEAK. THE PROJECT WILL APPARENTLY REQUIRE STAFF BUILD UP AND TRAINING THAT WILL DELAY IMPLEMENTATION. FURTHER, IT APPEARS THAT THE IFC HAS NOT FUNCTIONED WELL TO DATE; THUS, THERE MAY BE NO TIME PENALTIES IF OTHER ALTERNATIVES INCLUDING A PRIVATE

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SECTOR ALTERNATIVE ARE PURSUED. THE MISSION SHOULD RE-EXAMINE ALTERNATIVES FOR THIS PROJECT, PREFERABLY PRIVATE SECTOR ALTERNATIVES OR WORKING WITH SELECTED EXISTING BANKS, TO DEVELOP A PROGRAM TO SERVE AGRO-INDUSTRY. THE PID INDICATES THAT THE CLIENTELE WOULD BE LIMITED TO FIRMS DEALING WITH PHASE I FIRMS; THE MISSION SHOULD CONSIDER ALLOWING FOR A MORE DIVERSIFIED PORTFOLIO.

5. STRUCTURAL REFORM WORKING CAPITAL: DISCUSSIONS AT THE DAEC MEETING ILLUSTRATED THAT THE MISSION AND THE BANKING SECTOR HAS HAD EXPERIENCE WITH THIS TYPE OF CREDIT. IF THE DIFFICULT ISSUES SURROUNDING THE PROGRAM FOR THE PURCHASE OF STATE-OWNED INDUSTRIES WITH AGRARIAN REFORM BONDS CAN BE RESOLVED, THIS PROGRAM SHOULD MOVE QUICKLY. IN DESIGNING THE PROPOSAL, THE MISSION SHOULD WORK TO SPREAD THE RISKS OF THIS PROGRAM AS WIDELY AS POSSIBLE WITHIN THE BANKING SYSTEM.

6. CREDIT FOR SMALL AND MEDIUM SIZED FIRMS: FOR THIS ACTIVITY, WE ARE CLEARLY CONSIDERING A BROAD PROGRAM IN SUPPORT OF DOMESTIC INDUSTRY, NEARLY ALL OF WHICH WOULD FALL INTO THE CATEGORY OF SMALL OR MEDIUM BUSINESS. THE MISSION SHOULD TAKE A BROAD LOOK AT THE NEEDS OF THE PRIVATE SECTOR IN TERMS OF THE VARIOUS TYPES OF CREDIT, TA AND TECHNOLOGY AND DETERMINE THE MIX OF SUPPORT AND INSTITUTIONS TO BE UTILIZED. CAREFUL CONSIDERATION SHOULD BE GIVEN TO THE ROLE THE PRIVATE SECTOR CREDIT INSTITUTIONS WOULD PLAY AS WELL AS AREAS WHERE THE PUBLIC BANKING SYSTEM WOULD PARTICIPATE. WE WOULD VISUALIZE A STRONG ROLE FOR PRIVATE INSTITUTIONS IN DEVELOPMENT LENDING AND MERCHANT BANKING AS WELL AS HAVING ENTRY INTO COMMERCIAL BANKING OPERATIONS.

7. CREDIT FOR MICRO BUSINESS: AGENCY AND OTHER DONOR EXPERIENCE WITH SMALL AND MICRO-BUSINESS CREDIT PROGRAMS HAS BEEN DISAPPOINTING. WE SUGGEST THE MISSION CAREFULLY REVIEW A.I.D. AND OTHER DONOR PPS AND EVALUATIONS OF SUCH PROJECTS. WE HAVE LEARNED THAT INTEREST RATES AND INTEREST RATE SPREADS MUST BE HIGH ENOUGH TO GIVE FINANCIAL INSTITUTIONS AN INCENTIVE TO PARTICIPATE IN FINANCING. TECHNICAL ASSISTANCE IS REQUIRED, WHICH IS SIMPLE AND DIRECTED TOWARD ACCOUNTING, MANAGEMENT, AND SALES; AND COSTS SHOULD BE SHARED BY BENEFICIARIES. THERE SHOULD BE EARLY AND FREQUENT EVALUATIONS OF THE PROGRAMS. TA TO BE USED COULD COME FROM CONSULTANTS, RETIRED BUSINESSMEN, BUSINESS ASSOCIATIONS, AND LINKAGES WITH OTHER SMALL BUSINESSES.

8. INTEREST RATES: BUREAU POLICY IS THAT INTEREST RATE SPREADS MUST BE ATTRACTIVE TO THE FINANCING INSTITUTIONS,
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AND THAT INTEREST RATES BE POSITIVE IN REAL TERMS.

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THE CREDIT PROGRAMS TAKEN AS A WHOLE REPRESENT A SUBSTANTIAL INTERVENTION IN THE NATIONAL BANKING SYSTEM, REQUIRING IT TO DEAL IN A NUMBER OF NEW AREAS AT A TIME WHEN THE PORTFOLIO OF THE SYSTEM IS 44 PERCENT DELINQUENT OR REFINANCED. SUCH A PROGRAM WOULD HELP TO ENTRENCH THE NATIONAL BANKING SYSTEM AS A MONOPOLY AND THUS PRESENTS POLICY AND EFFICIENCY ISSUES. THEREFORE, BEFORE MOVING HEAD WITH THE PROGRAMS FOR SMALL AND MEDIUM BUSINESSES AND THE FDE LINE OF CREDIT, THE MISSION SHOULD ASSESS THE OVERALL EFFECTIVENESS OF THE PUBLIC BANKING SYSTEM, AND WHETHER THE SYSTEM CAN EFFECTIVELY TAKE ON THE PROPOSED PROGRAM IN ADDITION TO COMMERCIAL BANKING FUNCTIONS UNDER THE PRESENT CIRCUMSTANCES. IN MAKING THIS ASSESSMENT, THE MISSION SHOULD CONSIDER REQUESTING POLICY CHANGES WHICH WOULD REQUIRE THE BANKS TO OPERATE COMPETITIVELY AND EFFECTIVELY THESE COULD BE MEASURED BY PROFITABILITY, AND WHICH WOULD KEEP THE BANKING SECTOR OPEN IN A PRACTICAL SENSE TO THE ESTABLISHMENT OF PRIVATE SECTOR COMMERCIAL BANKS, FINANCIERAS, AND OTHER FINANCIAL INSTITUTIONS.

8. GOES EXPORT AND INVESTMENT PROPOSAL: IN DEVELOPING THIS PROJECT WITH GOES, THE MISSION SHOULD INITIATE A DIALOGUE WITH THE GOVERNMENT AND THE PRIVATE SECTOR ON OVERALL FOREIGN AND DOMESTIC INVESTMENT AND EMPLOYMENT GOALS IN ALL SECTORS OVER THE LIFE OF THE CRI; THIS WILL PERMIT THE ESTABLISHMENT OF GOALS FOR FOREIGN INVESTMENT PROMOTION ACTIVITIES. NOTE, IN THE KISSINGER COMMISSION RECOMMENDATIONS, WE ESTABLISHED AN OVERALL EMPLOYMENT GOAL

FOR C.A. (INCLUDING PANAMA) OF 250,000 JOBS A YEAR WITHIN SIX YEARS. THIS GOAL HAS CHALLENGING IMPLICATIONS FOR EL SALVADOR IN TERMS OF THE EFFORTS TO ATTRACT FOREIGN INVESTMENT AND STIMULATE LOCAL INVESTMENT, AND REPAIR OR EXPANSION OF BASIC INFRASTRUCTURE TO SUPPORT SUCH INVESTMENT. IN DEVELOPING THIS PROGRAM, THE MISSION SHOULD DEVELOP WITHE GOES & PRIVATE SECTOR GOALS FOR EMPLOYMENT GENERATION, INVESTMENT LEVELS, TOGETHER WITH THE COMPLEMENTARY POLICIES AND PROGRAMS REQUIRED TO ACHIEVE THESE GOALS. THE DIALOGUE AND THE PROJECT PAPERS SHOULD ADDRESS THE OVERALL ADEQUACY OF GOVERNMENT POLICY, REGULATIONS, ATTITUDES, TAX LAWS, PRICE CONTROLS, ETC., THAT AFFECT THE PRIVATE SECTOR AS WELL AS THE GENERAL PUBLIC ATTITUDE TOWARD PRIVATE SECTOR, AND SHOULD BE BASED ON A STRATEGY, INCLUDING CONDITIONALITY AS NECESSARY, TO PROMOTE PRIVATE SECTOR INVESTMENT AS THE BASIC TRUST OF ECONOMIC GROWTH. WHILE THE MISSION INDICATES THAT THE CONDITIONS DO NOT YET EXIST FOR PROMOTING FOREIGN INVESTMENT, ACTIVITIES PROPOSED FOR FINANCING UNDER THE PROJECT WILL LAY THE BASIC GROUNDWORK FOR A LARGE PROMOTIONAL PROGRAM. THUS, IN THE DEVELOPMENT OF THE PROJECT, CAREFUL ATTENTION SHOULD BE GIVEN TO IRISE AND EAST ASIAN (E.G. FCMB YONG, SINGAPORE) PROGRAMS IN INVESTOR SEARCH AND THEIR MODELS FOR ONE STOP INVESTMENT/EXPORT APPROVAL CENTERS. WITH REGARD TO INVESTMENT PROMOTION PROGRAMS, PROJECT FINANCING SHOULD BE DIRECTED TOWARD PROVIDING TRAINING, IN-COUNTRY TA, AND

U.S. CONSULTANT INVESTOR SEARCH AS OPPOSED TO FINANCING THE PERSONNEL COSTS OF GOVERNMENT PROMOTION OFFICES AND INVESTOR SEARCH ACTIVITIES.

11. PRIVATE SECTOR EXPORT AND INVESTMENT OPPORTUNITIES SERVICES: THE PROJECT HERE IS SEEN AS A HIGH PRIORITY FIRST STEP TO FOREIGN INVESTMENT PROMOTION. IN CONTRACTING FOR VARIOUS SERVICES UNDER THIS PROJECT, THE MISSION SHOULD CONSIDER PERFORMANCE CONTRACTING UNDER WHICH FIRMS WOULD COMPETE FOR THE CONTRACT ON THE BASIS OF METHODOLOGY PROPOSED FOR OBTAINING PRODUCTION CONTRACTS IN THE CASE OF CONTRACT PRODUCTION AND THE NUMBER AND TOTAL VALUE OF CONTRACTS IT MAKES COMMITMENTS TO OBTAIN, WITH AN EXTENSION OF CONTRACT AS AN OPTION IF RESULTS ARE ACHIEVED. IN CONTRACTING FOR THESE SEARCH ACTIVITIES, THE MISSION SHOULD CONSIDER ADVERTISING AND AWARDED THE CONTRACT IN SUCH A MANNER AS TO ALLOW FOR IT TO BE EXPANDED AND EXTENDED FOR INVESTOR SEARCH IF CONDITIONS WERE TO SO WARRANT. IN ANY EVENT THE MISSION SHOULD CONSULT WITH THE REGIONAL CONTRACTING OFFICER PRIOR TO DRAWING UP THE REQUEST FOR PROPOSALS.

12. POLICY RESEARCH AND DEVELOPMENT: THE POLICY RESEARCH AND DEVELOPMENT SUB-PROJECT WILL BE AN INVALUABLE TOOL FOR BRINGING POLICY AND PROGRAMS TO THE DECISION STAGE. WE SUGGEST THAT THE PROJECT INCLUDE A PSC FOR AN ECONOMIST(S) OR A CONTRACT WITH A DISADVANTAGED FIRM TO PROVIDE AN ECONOMIST TO COORDINATE PROGRAM, PREPARE SCOPES OF WORK, ETC.

13. ECONOMIC ANALYSIS: THE COMPLEXITY OF THE APPROACHES SUGGESTED IN THE PID ARE SUCH THAT WE REQUEST THE MISSION TO CONSULT WITH LAC/DR ECONOMIST PREPARATORY TO DEVELOPMENT OF THE ECONOMIC ANALYSIS SECTION, IN ORDER TO DISCUSS THE APPROPRIATE ANALYTIC APPROACH THAT MIGHT BE USED.

14. GRAY AMENDMENT: THE PP SHOULD DESCRIBE IN DETAIL OPPORTUNITIES FOR PARTICIPATION BY GROUPS COVERED BY THE
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GRAY AMENDMENT. IF THIS MATERIAL IS READY EARLIER THAN THE DATE OF SUBMISSION OF THE PP, IT SHOULD BE TRANSMITTED TO AID/W FOR DISTRIBUTION IN ADVANCE OF THE PP.

ANNEX 1
Page 5 of 8

15. PAYMENT VERIFICATION: THE MISSION IS REMINDED THAT ALL PROJECT PAPERS MUST FOLLOW THE PAYMENT VERIFICATION POLICY IMPLEMENTATION GUIDANCE PROVIDED ON DECEMBER 30, 1983 BY AA/M ROLLIS TO MISSION DIRECTORS. YOUR ATTENTION IS DRAWN PARTICULARLY TO PAGES 6-8, WHICH DEAL SPECIFICALLY WITH PPS AND PAADS. SHULTZ

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FOR LAC/DR

F.O. 12356: N/A
SUBJECT: INDUSTRIAL STABILIZATION AND RECOVERY
- (519-0287) PROJECT DEVELOPMENT STRATEGY

REF: 84 STATE 150840

1. BASED ON REFTEL, USAID IS PREPARING FOR PRESENTATION TO LAC/DR BY 8/15/84 AN INDUSTRIAL STABILIZATION AND RECOVERY (519-0287) PROJECT PAPER TO INCLUDE THE FOLLOWING COMPONENTS:

- PRIVATE SECTOR EXPORT AND INVESTMENT PROMOTION SERVICES
- GOES EXPORT AND INVESTMENT PROMOTION
- RELATED POLICY RESEARCH AND DEVELOPMENT.

IT IS EXPECTED THAT DOLS 3 MILLION WILL BE OBLIGATED FOR THIS PROJECT IN FY 1984.

2. USAID PLANS TO SEPARATE MICRO ENTERPRISE CREDIT AND TECHNICAL ASSISTANCE ACTIVITIES FROM EXPORT AND INVESTMENT PROMOTION. ACCORDINGLY, WE PROPOSE TO AMEND THE SMALL PRODUCER DEVELOPMENT PROJECT, A.I.D. NO. 519-0229 RATHER THAN INCLUDING A MICRO ENTERPRISE COMPONENT IN 519-0287. THE PROPOSED AMENDMENT WOULD INCLUDE SUPPORT FOR THE MICRO ENTERPRISE PROGRAMS OF THE BANCO DE FOMENTO AGROPECUARIO (BFA), SALVADORAN FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUSADES) AND FONDO DE FINANCIAMIENTO Y GARANTIA PARA LA PEQUEÑA EMPRESA (FIGAPE), AS WELL AS THOSE OF FEDECREDITO AND FEDECACES NOW COVERED BY THAT PROJECT. THE BFA MANAGED SUCCESSFUL MICRO ENTERPRISE PROGRAMS UNDER PROJECT 519-0251, AND FIGAPE HAS OBTAINED FUNDS THROUGH A CENTRAL BANK CREDIT LINE; FUSADES IS PREPARING A NEW MICRO ENTERPRISE CREDIT AND TA PROPOSAL; FEDECACES WOULD RECEIVE ADDITIONAL CREDIT SUPPORT ONLY AFTER SUBSTANTIAL REORIENTATION AND REORGANIZATION.

WE ESTIMATE THAT DOLS 3.5 MILLION FOR CREDIT AND DOLS 0.5 MILLION FOR TA FROM THE DOLS 7 MILLION earmarked FOR PROJECT 2287 WILL BE OBLIGATED IN FY 1984 UNDER THIS AMENDMENT TO PROJECT 519-0229.

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USAID WILL PERFORM A MICRO ENTERPRISE CREDIT GAP ANALYSIS, MAKE AN ASSESSMENT OF THE INSTITUTIONAL TA. REQUIREMENTS OF THE PARTICIPATING AGENCIES, AND DEVELOP A PROGRAM OF INSTITUTIONAL IMPROVEMENT AND MICRO ENTERPRISE CREDIT AND TA. THIS WILL BE CABLED TO LAC/DR IN MID AUGUST 1984 TO SUPPORT THE PROPOSED AMENDMENT OF THE SMALL PRODUCER DEVELOPMENT PROJECT 519-2229 ALONG WITH REQUEST FOR AID/W CONCURRENCE TO PERMIT USAID TO AMEND THE 519-2229 PROJECT AUTHORIZATION AND AGREEMENT. USAID WILL SUBMIT CN'S FOR BOTH THE INDUSTRIAL STABILIZATION AND RECOVERY, AND THE SMALL PRODUCER DEVELOPMENT PROJECTS SEPTEL.

ANNEX 1
Page 7 of 8

2. USAID PLANS TO DEFER SUPPORT FOR COMMERCIAL BANK MICRO ENTERPRISE CREDIT PROGRAMS UNTIL COMPLETION OF THE COMPREHENSIVE ASSESSMENT OF THE PUBLIC BANKING SYSTEM RECOMMENDED IN REPTEL. THIS ASSESSMENT WOULD BE MADE IN OCTOBER-NOVEMBER, 1984 AND WOULD CREATE THE ANALYTICAL BASIS FOR USAID SUPPORT OF MICRO, SMALL AND MEDIUM ENTERPRISE CREDIT TO BE PROVIDED THROUGH THE COMMERCIAL BANKS. THIS PROJECT WOULD BE DEVELOPED IN 1985 AND WOULD INCLUDE CONSIDERATION OF PRIVATE AND PUBLIC SECTOR INVESTMENT CREDIT ALTERNATIVES TO THE FONDO DE DESARROLLO ECONOMICO (FDE).

4. ALSO, AS RECOMMENDED REPTEL, USAID IS MOVING AHEAD WITH AN ASSESSMENT OF DEMAND FOR STRUCTURAL WORKING CAPITAL. THIS HAS BEEN A SUCCESSFUL MEANS OF REVITALIZING INDUSTRIAL ENTERPRISES AND WILL BE AN IMPORTANT PART OF USAID'S INDUSTRIAL STABILIZATION AND RECOVERY EFFORT AS SOON AS ADDITIONAL FUNDS ARE AVAILABLE. BLEAKLEY

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SUBJECT: INDUSTRIAL STABILIZATION AND RECOVERY PROJECT
(519-0237) DEVELOPMENT STRATEGY

INFORMATION COPY

REF.: (A) SAN SALVADOR 07483 (B) BOYD/KLASS TELCON
JULY 9 (C) STATE 22486

1. PER REFTELCON, BUREAU CONCURS WITH STRATEGY OUTLINED
IN REFTEL (A) FOR THE DEVELOPMENT OF A PP FOR THE SUBJECT
PROJECT TOGETHER WITH A PP SUPPLEMENT FOR THE SMALL
PRODUCER DEVELOPMENT PROJECT (519-2229) FOR OBLIGATION
THIS FISCAL YEAR.

2. WITH RESPECT TO THE SMALL PRODUCER DEVELOPMENT
PROJECT, WE SUGGEST THAT THE INSTITUTIONAL AND FINANCIAL
SITUATIONS OF THE IMPLEMENTING AGENCIES BE CAREFULLY
ANALYZED AND ATTENDED TO, IN LIGHT OF DIFFICULTIES
EXPERIENCED IN THE PAST BY ENTITIES MANAGING PROJECTS OF
THIS TYPE.

3. PLEASE SEND CN'S FOR THE PROPOSED ACTIVITIES AS SOON
AS POSSIBLE SO THAT WE MAY SUBMIT THEM TO CONGRESS UPON
READJOURNMENT ON JULY 23.

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<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATOR</u>	<u>MEANS OF VERIFICATION</u>	<u>ASSUMPTIONS</u>
<u>Goal</u>			
To generate employment, income and foreign exchange.	<ol style="list-style-type: none"> 1. Increased exports of non-traditional goods and services. 2. Increased employment in the industrial sector. 	<ol style="list-style-type: none"> 1. GOES data and statistics 2. Project reports and evaluations. 	<ol style="list-style-type: none"> 1. GOES formulates and implements appropriate policy environment and infrastructure. 2. Political, economic and social situation does not deteriorate further.
<u>Purpose</u>			
To develop the capacity of the private and public sectors to provide policy support and technical assistance, technology transfer and training services to Salvadoran exporters of non-traditional products.	<ol style="list-style-type: none"> 1. Improved GOES support systems are developed and operational. 2. TIPS and ASA are established and functioning in FUSADES. 3. Salvadoran businesses are utilizing new services provided by GOES and FUSADES. 	Mission, implementing entities and other contractor records, reports and evaluations of project.	<ol style="list-style-type: none"> 1.a. GOES continues to give high priority to export and investment promotion.

- 2.a. FUSADES maintains the good will with public and private sectors.
- b. FUSADES is able to adapt its organization to meet the requirements of the project financed activities.
3. Business have access to credit and foreign exchange required for expansion and/or development of new ventures.

Outputs

A. Private Sector Export and Investment Promotion Services

1. TIPS

- 1.a. 50 technical assistance projects completed
- b. 40 market access studies completed
- c. One Business Opportunity Survey completed
- d. 10 one-week missions by Salvadoran businessmen and GOES officials to USA completed

1. Periodic project reports
2. Contractor reports and vouchers
3. Project evaluations

1. Qualified and experienced contractors will be found to perform required services
2. CBIN functioning in FUSADES

- e. 10 one-week missions by Salvadoran businessmen and GOES officials to third countries completed
- f. U.S. based contractor attends 24 trade fairs or seminars in U.S. to seek business opportunities for El Salvador
- g. Technical assistance is provided to ongoing trading companies
- h. A 5 professional persons office is set up in FUSADES to coordinate and manage TIPS, and a 3 professional persons office is set up in the U.S. to provide technical support to TIPS.

2. ASA

- 2.a. FUSADES holds one seminar for associations to introduce ASA.
- b. 4 to 6 business associations engaged in export awareness activities for their members with FUSADES support.

FUSADES periodic project reports and project evaluations.

- 1. Salvadoran business associations are receptive to and interested in providing export-related services to their members.
- 2. FUSADES maintains the good will of Salvadoran business associations.

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- c. FUSADES co-sponsors 30 seminars and workshops with associations.
- d. FUSADES develops a library of video tapes and other didactic materials for use by associations.
- e. FUSADES sponsors an association observation program in the U.S. or third countries.
- f. FUSADES sets up a two professional persons office to coordinate and manage ASA.

3. Policy Research and Development

- 3.a. A series of studies related to economic re-activation based on non-traditional export-led growth and investment is completed.

FUSADES periodic project reports and project evaluations.

FUSADES maintains an interest in this area.

- b. A two professional person office in FUSADES is established to coordinate and manage this activity.

B. GOES Export and Investment

1. Export and Investment Strategy

1. GOES articulates export and investment strategy.

1. GOES documents/announcements and project documentation.

1. GOES continues to give high priority to export and investment promotion.

2. GOES Strategy Support Mechanisms

2.a. GOES revises laws and regulations which affect the development of non-traditional exports and investment.

2.a. GOES documents/announcements and project documentation.

2.a. Broad based support from legislative and executive branches of the GOES is given to revision of legal framework.

b. GOES establishes mechanisms to improve coordination of government policy and support for export and investment promotion at the ministerial and operational levels of government.

b. GOES official gazette, national budget, and project evaluations.

3. Policy Studies

3. A series of studies related to economic re-activation based on non-traditional export-led growth and investment is completed.

3. Project documentation and reports.

3. GOES maintains interest in this area.

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4. Free Trade Zone
Development

- | | | |
|---|--|--|
| 4.a. GOES articulates a policy framework that is conducive to the revitalization of the San Bartolo Free Trade Zone and the development of an attractive environment that maximizes El Salvador's competitive position in the world market. | 4.a. GOES documents/announcements and project documentation. | 4.a. GOES is receptive to enactment of a policy framework that maximizes the opportunities for attraction of investment. |
| b. Maintenance of existing facilities in the San Bartolo Free Trade Zone is completed. | b. Project reports and evaluations. | b. Sufficient demand will continue to exist for zone facilities. |
| c. Expansion of new physical infrastructure in the San Bartolo Free Trade Zone is initiated in accordance with demand. | c. Project reports and evaluations. | |

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<u>Inputs</u>	<u>Life of Project (\$000)</u>		
1. A.I.D.			
a. A.I.D. Grant	9,450	1. A.I.D. Records	1. A.I.D. makes available sufficient funds in FY 1984 and FY 1985.
2. <u>El Salvador</u>			
a. Participating Entities counterpart contribution	699	2. Implementing agency records, reports and audits	2. Financial situation of participating entities permits them to make their counterpart contribution.
b. ESF local currency	5,171		3. GOES makes available sufficient counterpart resources.

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(D).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

A Congressional Notification has been issued.

The Project is included within the Operational Year Budget.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,00, will there be

Yes.

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Legislative action will be required for the public sector component of the Project. Such action normally takes 2-3 weeks, and no difficulties are foreseen for its occurrence.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

The Project contemplates some construction. However, the financing for the construction will be provided by Government of El Salvador counterpart funds.

6. FAA Sec. 209. Is project susceptible to execution as part of region 1 or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. The Project is specifically designed to increase the flow of international trade, foster private initiative and competition, encourage the development of cooperatives and small producer associations, and improve the technical efficiency of industry and the non-traditional agricultural sector.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The Project's objective is to promote non-traditional exports and investment through policy support, technical assistance, technology transfer, and training services for the private sector of El Salvador. Trade and investment promotion services to Salvadoran enterprises will be provided via linkages with U.S. private enterprise.
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9. FAA Sec. 612(b), 635(h);
FY 1982 Appropriation
Act Sec. 507. Describe
steps taken to assure
that, to the maximum
extent possible, the
country is contributing
local currencies to meet
the cost of contractual
and other services, and
foreign currencies owned
by the U.S. are utilized
in lieu of dollars. The Project will primarily fund
foreign exchange costs. Most
requirements for local currency
will be met through host country
contributions.
10. FAA Sec. 612(d). Does
the U.S. own excess
foreign currency of the
country and, if so, what
arrangements have been
made for its release? No.
11. FAA Sec. 601(e). Will
the project utilize
competitive selection
procedures for the
awarding of contracts,
except where applicable
procurement rules allow
otherwise? Yes.
12. FY 1982 Appropriation Act
Sec. 521. If assistance
is for the production of
any commodity for export,
is the commodity likely
to be in surplus on world
markets at the time the
resulting productive
capacity becomes
operative, and is such
assistance likely to
cause substantial injury
to U.S. producers of the
same, similar or
competing commodity? No.
13. FAA 118(c) and (d).
Does the project comply
with the environmental
procedures set forth in
AID Regulation 16? Does Yes.

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the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and N/A
-

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? N/A

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? N/A

e. FAA Sec. 110(b).
Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (H.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

N/A

institutional development;
and supports civil
education and training in
skills required for
effective participation in
governmental processes
essential to self-government.

2. Development Assistance Project
Criteria (Loans Only)

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. N/A
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A
- c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? N/A

3. Economic Support Fund
Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic or political? Yes.
-

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.
- c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? No.
- d. FAA Sec. 509. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? No.

ROBERTO H. MURRAY MEZA
PRESIDENTE

San Salvador,
10 de agosto de 1984.

Señor
Robin Gómez
Director
USAID Mission to El Salvador
San Salvador, El Salvador.

Estimado señor Gómez:

El propósito de esta carta es el de solicitar a la A.I.D. un donativo por la cantidad de -- US\$6.9 millones para establecer un Servicio Privado de Promoción de Exportaciones e Inver-- siones que comprenda:

- 1) Un Servicio de Promoción de Exportaciones e Inversiones (TIPS), el cual provea asisten- cia técnica, información y asesoría específica a los empresarios salvadoreños; realice un sondeo de oportunidades de negocio y organice misiones de negocios a los Estados - - Unidos y otros países;
- 2) Una Actividad de Fortalecimiento de Asociaciones de Negocios que provea asistencia a las gremiales de empresarios/empresas en El Salvador, co-patrocine con las asociacio- nes talleres y seminarios relacionados con exportaciones e inversiones, desarrolle una bi- blioteca de cintas de video y material didáctico y realice un viaje de observación a - los Estados Unidos para las asociaciones; y
- 3) Un programa de estudios relacionados con tópicos concernientes al desarrollo de exporta- ciones no-tradicionales a mercados extra-regionales, y la atracción de inversión extran- jera y fomento de la inversión nacional.

De acuerdo a conversaciones sostenida con ustedes y en base a documentos suministrados, en- tendemos que la meta del proyecto consiste en generar empleo, ingresos y divisas para El -- Salvador. El propósito del mismo es el de desarrollar la capacidad de los sectores público y privado para proveer apoyo de políticas y servicios de asistencia técnica, transferencia de tecnología y entrenamiento a los exportadores salvadoreños de productos no-tradicionales.

Esperamos que nuestra solicitud reciba una respuesta positiva a manera de incrementar las - exportaciones no-tradicionales salvadoreñas a mercados extra-regionales, y de esta forma, - coadyuvar a la estabilización y recuperación de la economía de El Salvador.

Reciba usted Señor Director, las muestras de mi más alta consideración y estima.

Atentamente,



Roberto H. Murray Meza
Presidente



MINISTERIO DE COMERCIO EXTERIOR

San Salvador,
9 de agosto de 1984.

Señor
Robin Gómez
Director USAID Mission to El Salvador
Embajada Americana
San Salvador, El Salvador
Presente.

Estimado señor Gómez:

El propósito de esta carta es el de solicitar de la A.I.D., un donativo - por la cantidad de US.\$2.6 millones para asistir al GOES en desarrollar - una Estrategia Nacional para Exportaciones e Inversiones No-Tradicionales; identificar e implementar mecanismos de apoyo necesarios para apoyar la - estrategia; contratar e implementar estudios relacionados con el desarro- llo de políticas, planes y estrategias para promover exportaciones no- -- tradicionales; y reactivar y proveer mantenimiento a la Zona Franca de .. San Bartolo dentro de un marco de políticas que maximice la competitividad de El Salvador en relación al resto de países en desarrollo.

De acuerdo a conversaciones sostenidas con usted y en base a documentos - que nos han proporcionado, entendemos que la meta del proyecto es la de - generar empleo, ingreso y divisas para El Salvador. El propósito del mis- mo es el de desarrollar la capacidad de los sectores público y privado, - para proveer apoyo de políticas y servicios de asistencia técnica, trans- ferencia de tecnología y entrenamiento a los exportadores salvadoreños de productos no-tradicionales. El proyecto estará dividido en dos componen- tes principales: Promoción de Exportaciones e Inversiones del GOES y Ser- vicios Privados de Promoción de Exportaciones e Inversiones.

Esperamos una respuesta positiva a nuestra solicitud con el objeto de con- tribuir a la estabilización y reactivación Económica de El Salvador, y -- mejorar la calidad de vida de muchos salvadoreños.

Reciba usted, Señor Director, las muestras de mi más alta consideración y estima.



Atentamente,

Manuel I. Morales Ehrlich
Manuel I. Morales Ehrlich
Ministro de Comercio Exterior

INSTITUTIONAL BACKGROUND - MICE

1. The Ministry of Foreign Trade (MICE)

The Ministry of Foreign Trade (Ministerio de Comercio Exterior--MICE) was established early in 1981. The Ministry absorbed all of the functions of the Instituto Salvadoreño de Comercio Exterior (ISCE) and most of the foreign commerce functions of the Ministry of Economy. MICE was created as a means of rationalizing both the control and regulatory functions of the government as it pertained to foreign commerce. The Ministry was also given the export and investment promotion functions of the ISCE. As originally established, the Ministry's objectives were broadly viewed as a foreign commercial planning Ministry with both regulatory and promotional components.

1.1 Objectives and Functions of MICE

The objectives and functional responsibilities of MICE can be summarized as follows:

Regulatory

To reduce the effects on the local economy of fluctuations of international market prices

To eliminate the flight of capital by the undervaluation of exports and overvaluation of imports, as well as restricting indiscriminate imports

- Monitoring all financial and commercial enterprises of the country to determine adequate utilization of foreign know-how
- To monitor exports and determine if adequate prices are being paid to Salvadoran exporters
- Monitor and regulate all domestic or foreign enterprises that are involved in export and import trade
- Effect fiscal supervision and impose sanctions for infractions against any applicable laws for all individuals or corporations foreign or domestic, who are involved in foreign trade
- Authorize any persons or corporations not domiciled in the country to carry out industrial and commercial activity in the country
- Approve, regulate, and monitor the entry of foreign capital into the country as well as the approval and monitoring of all proposed repatriations of said capital.

Promotion/Coordination

- . Coordinate and orient the actions of the different government organizations to make certain said actions will be in consonance with the Government's foreign trade policy
- . Convert the Ministry of Trade to an agent of change by planning for the rational change of the foreign commerce sector of the country
- . Diversify the products and markets of the country in accordance with the strategic economic and development needs of the country
- . Work together with the Ministry of Planning, Economy and Agriculture to promote the orderly expansion of Salvadoran exports
- . Formulate, execute and evaluate the policies of the government oriented toward the rational expansion of foreign trade
- . Promote the development of credit and fiscal systems oriented towards the development of diversification of exports
- . Coordinate with other Ministries of the Government on bilateral and multilateral arrangements related to foreign trade
- . Participate in all government studies, plans and projects aimed at the economic integration of the country.

2. Description of the Ministry of Foreign Trade (MICE)

The government of El Salvador has established the Ministry of Foreign Trade (MICE) as the operational entity charged with the responsibility of monitoring and regulating foreign trade as well as the promotion of foreign trade.

The Ministry is headed by a Minister and a Vice Minister. It has three staff offices: legal counsel, general counsel, and public relations. The functions of these three units are briefly described as follows:

- . Legal Counsel--This office is charged with drafting and advising both the Minister and the Planning Director General on the negotiations of all legal agreements, bilateral and multilateral treaties, and product related agreements. This office also acts as a legal advisor to all staff and operational units of the Ministry.
- . General Counsel--Acts as a general advisor and consultant to both the Vice Minister and the Minister on the thrust and direction of the ministry.

Public Relations—This unit is charged with executing all functions dealing with domestic and foreign VIPs and the Ministry's relationship with the Press.

At the operational level the Ministry has four (4) General Directorates and two Divisions not currently linked with any Directorates. The four Directorates are as follows:

- . The Directorate of Development and Promotion of Export Trade
- . The Directorate of Investment
- . The Directorate of Planning
- . The Directorate of Export and Import

The two Divisions not linked to any Directorate are: the Division of Technical Services and the Administrative Division.

The general functions of these operational units of the Ministry can be described as follows:

3. Directorate of Development and Promotion of Export Trade

In its simplest form, this Directorate through its Internal Promotion Division is involved in providing technical assistance in the development of specific products for export. It is also involved in organizing product specific producers into export consortiums.

The External Division is currently in charge of the offshore offices and trade exhibits.

3.1 Internal Division (Directorate of Development and Promotion of Export Trade)

The Division is involved in preparing specific products for the export market. To summarize its fourteen functions, the Internal Division is involved in all facets of internal production development including: identifying specific products, preparing specific products for the export market, structuring the financial arrangement, providing technical assistance in financial administration, quality control, and the development of specific export projects.

This Division executes a substantially formidable task with an apparently small component of personnel.

The Department of Export Consortia, of the Internal Division seeks to group several companies to produce a like product so as to increase the export capacity of the total product grouping.

The Internal Division, in practice, appears to concentrate a great deal of effort in dealing with, what is known in El Salvador as the informal business sector. This sector includes the microproducer and other small business entities requiring substantial business enterprise development assistance.

3.2 External Division, Directorate of Development and Promotion of Export Trade

The External Division seeks to penetrate foreign markets, maintain its presence in said markets and develop the commercial infrastructure for such export.

In executing the above functions, the marketing department actually gets involved in facilitating the commercial transaction for a specific export function as a commission agent. In some cases the Division also executes a buy/sell function on a specific transaction.

Its external support department coordinates Salvadoran participation in fairs and expositions, commercial missions, and external market investigation.

The Department pays for three representative offices (in Miami, Germany and the Dominican Republic).

3.3 Division of Standards and Quality

This Division is being transferred as of July 15, 1984 from the Directorate for Exports and Imports as a Division to the Directorate of Development and Promotion of Export Trade. This unit is envisioned as a technical support unit of the Internal Division of the Directorate. It seeks to establish specific norms, standards and procedures for quality control of Salvadoran exportable products. It also advises specific enterprises on quality control procedures.

4. Directorate of Investment

This Directorate executes its functions through three Divisions: Division of Foreign Investment, Division of Promotion, and the Division of Free Trade Zone.

The objectives and functions of the three Divisions of the Directorate General of Investment are as follows:

4.1 Division of Foreign Investment

The Division has primarily a control and regulation function of all foreign investment. It works with the Overseas Private Investment Corporation (OPIC) of the U.S. in quantifying the foreign investment of a specific U.S. firm. It also defines for the foreign investor the precise rules and regulations affecting such investment. The Division also advises a local joint venture investor as to the interpretation of the law. The Division additionally defines indebtedness, trademarks, patents, and other intangible foreign inputs to a joint venture. The Division grants authorizations and regulates foreign capital in any of its forms as it relates to repatriation of profits, royalties or fees. It also issues resolutions relating to bilateral agreements on Guarantees of Foreign Investment.

4.2 Division of Investment Promotion

This Division is organized in two Departments:

4.2.1 Department of External Promotion

This department focuses on communicating Salvadoran's foreign investment opportunities. Its market is the foreign firm seeking to reduce its current labor costs and/or seeking to produce a specific product for a specific market using either Salvadoran labor and/or raw materials.

4.2.2 Internal Promotion Department

This Department encourages local entrepreneurs to invest in specific industrial projects that will produce a product for the extraregional non-traditional export market. This Department also administers the promotion of the San Bartolo Free Trade Zone.

4.3 Division of Free Trade Zone

The Free Trade Zone division has as its primary function the physical development and maintenance of the San Bartolo Free Trade Zone.

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5. Directorate of Planning

This Directorate essentially provides a staff support function to the Ministry. The Directorate operates through three divisions.

The functions and objectives of the three divisions can be summarized as follows:

5.1 Division of Economic Studies and Commercial Policy

The Division develops strategy for the Ministry of Foreign Trade within the Global Plan of the Government of El Salvador. Through the execution of specific studies, advises the Operational Units and the Ministry as to the specific commercial policies that should be followed by the government and the Ministry. The Division also studies the Government's foreign exchange policy as well as the use of Foreign Offices to represent the Ministry abroad.

5.2 Division of International Economic Negotiations

This unit of the Planning Directorate executes broad macroeconomic studies as well as microeconomic studies seeking to define specific products El Salvador should develop for export. It coordinates contact with International Organizations and prepares specific projects and programs of assistance to the Ministry, from International Organizations. It prepares the basic contractual understanding with international organizations and monitors the execution of such agreements.

5.3 Division of Economic Programming and Institutional Development

This unit focuses on internal budgeting and programming. It submits the Ministry's budgetary requests to the Budget Office of the Central Government. It also acts as a central unit rationalizing the budgetary allocation of the Ministry on Operational Unit basis.

6. Directorate of Exports and Imports

This Directorate executes a purely regulatory and administrative function for the Ministry. This Directorate issues both import and export licenses for controlled products.

The Directorate operates through two divisions.

6.1 Division of Exports

This Division separates its functions by type of product.

- Control and Monitors—Traditional Exports. This includes the statistical monitoring to define on a monthly basis the dollar and tonnage value of the traditional exports. This function also includes close monitoring of international market prices to determine that the value of exports is not undervalued as a means of expatriation of hard currency. This function also includes the issuance of export licenses for all the traditional export products except coffee which is handled independently by the National Coffee Institute (INCAFE).
- Non-traditional Exports. Through the issuance of export licenses it controls and monitors non-traditional exports. The review process in the issuance of the export license seeks to assure that:
 - The local market not be undersupplied
 - The value of the export is not undervalued

These two broad functions are administered by the Export Division. The Export Division has a current account on all products subject to an export quota. It also informs the Ministry and other related entities as to the balances on these quotas and maintains detailed records on world market prices on both traditional and non-traditional exports.

STAFFING
DIRECTORATE OF EXPORTS AND IMPORTS

<u>OFFICE</u>	<u>PROFESSIONAL</u>	<u>SECRETARIAL</u>	<u>GENERAL ASSISTANTS</u>
Directors Office	1	1	1
Division of Exports	5	1	0
Division of Imports	<u>5</u>	<u>1</u>	<u>0</u>
Total	11	3	1

6.2 Division of Imports

The Import Division essentially monitors and controls the issuances of import licenses per the policy of the Central Government. The Division regulates the import of 31 controlled products of industries protected under the Central American Common Market Agreement.

In summary, the Ministry operates through the operational Directories as described above. The Ministry additionally has two divisions operating as autonomous Divisions reporting directly to the Minister's office. These are the Administrative Division and the Division of Technical Services.

These two autonomous Divisions are described briefly as follows:

7. Autonomous Operational Divisions

7.1 Division of Technical Services (Operational Unit No. V)

This Division functions as the commercial library/information center of the Ministry. The Division has developed, within its budgetary limitations, an infrastructure of commercial information. It has also established a network of export trade information through the cooperation of the International Commerce Center (ICC), a U.N. organization based in Geneva. The Division organizes and identifies all commercial information received by product, country and function. It seeks to support three client systems:

1. El Salvadoran exporters and importers
2. The operational units of the Ministry of Foreign Commerce (MICE)
3. Other Governmental entities involved in foreign commerce including the ministry of agriculture, the ministry of economy and others

7.2 Administrative Division (Operational Unit No. VI)

This Division handles the administrative office management of the Ministry and also handles some of the current out-of-pocket expenses of the Ministry.

8. GOES Policy Support Mechanisms

8.1 Inter-Ministerial Commission on Non-Traditional Exports

Late in 1983 the Administration of President Alvaro Magaña issued a decree creating a National Coordinating Commission to promote the export of non-traditional products to extraregional markets. (See Attachment 3-1 at the end of this chapter). This Commission is made up of the Ministers of each of the following organizations:

The Ministry of Planning
The Ministry of Foreign Trade
The Ministry of Economy
The Ministry of Treasury
The Ministry of Agriculture
The Central Reserve Bank

The Commission also includes a representative of the National Association of Private Enterprise (ANEP).

The Commission is presided by the Ministry of Planning. The President of the Central Bank acts as the secretary of the Commission.

The Commission has the responsibility of:

- . Developing the necessary governmental measures needed to implement a program aimed at expanding the production of non-traditional products and the export to extraregional markets
- . Proposing changes in the laws and regulations aimed at structuring the legal framework necessary for the development of export trading companies of non-traditional products
- . Monitoring the effective execution of all measures taken by the Government aimed at increasing the export of non-traditional products

BRIEF BIO-DATA OF RELEVANT GOES MINISTERS

1. MINISTRY OF FOREIGN TRADE (MICE)

-Name: Manuel Morales Ehrlich
-Education: B.B.A., Pierce School of Business
M.B.A., Wharton School of Finance and Commerce
-Work Experience: Marketing Manager, ALDECA, S.A.
General Manager, ALMICIENTROS, S.A.
Secretary of Information, GOES

2. MINISTRY OF PLANNING (MIPLAN)

Name: Fidel Angel Chávez Mena
Education: L.L.D., National University of El Salvador
Work Experience: Attorney for the FOMA group of Companies
Minister of Foreign Relations, GOES
Counselor, City of San Salvador
Professor, National and UCA Universities

3. MINISTRY OF THE ECONOMY (MIECON)

Name: Ricardo González Camacho
Education: L.L.D., National University of El Salvador
Work Experience: Representative to GOES Constituent Assembly
Attorney for TEKAOO, McCormick, Texas Instruments,
AUX and others

4. MINISTRY OF AGRICULTURE (MAG)

Name: Carlos Aquilino Duarte Funes
Education: B.I.E., National University of El Salvador
Work Experience: Minister of Education, GOES

INSTITUTIONAL BACKGROUND - FUSADES

A. AREAS OF INTEREST AND PROGRAMS

FUSADES has six "Permanent Areas of Interest", with a Commission in charge of each area and working groups in charge of each specific program. Some programs are of a permanent nature while others are transitory, and are called "Special Programs". Following is a brief description of the programs, both permanent (P) and "special" (S):

<u>AREA</u>	<u>TYPE OF PROGRAM</u>	<u>DESCRIPTION</u>
1- <u>Communications:</u>	(P)	A series of monthly publications for FUSADES members and other Institutions. Topics: Economics, country specific problems and general interest topics.
	(S)	To develop an educational campaign of the economic principles of the free enterprise system.
2- <u>Research:</u>	(P)	To establish a data bank and library of economic and social subjects; and to analyze the technical information related to the state of the economy.
3- <u>Economic Development:</u>		To formulate and promote the execution of programs to cooperate in the economic reactivation of the country.
	(S)	A program of development of strategic alternatives to contribute to the economic reactivation of the country.
	(S)	To analyze and recommend alternatives in the use of "Agrarian Reform Bonds".
	(S)	A program for the reactivation of the agricultural sector.

- (S) To analyze and recommend strategic alternatives to achieve agricultural diversification in El Salvador.
- 4- Social Development (P) To analyze the variables that affect social development in El Salvador and to promote specific programs to address those variables.
- 5- Institutional Development (P) A promotion program to increase membership in FUSADES and to establish linkages with other institutions that can contribute to the achievement of FUSADES objectives.
- 6- International Affairs (P) To analyze the international economic and social tendencies that can affect El Salvador. Promote and collaborate with international assistance programs that contribute to the economic development of the country and that of the free enterprise system.
- (S) Taking advantage of the CBI. The program provides information for foreign investors and Salvadoran exporters, through publications, workshops and seminars.

B. FUSADES EXECUTIVES AND STAFF

The following is a brief description of the educational background and work experience of the FUSADES executives and staff:

<u>Name</u>	<u>Title</u>	<u>Education</u>	<u>Relative Work Experience</u>	
			<u>Years</u>	<u>Field</u>
Roberto Murray	President	BA Yale MS Middle- bury College MBA Harvard	14	President of a brewery Director of 15 Corpora- tions

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Eduardo Castaneda	Executive Director	BBA Houston U MBA Houston U	8	Gral. Manager and Director of a Specialty store
Mirna Liévano	Research Advisor	BRA U. Centro- americana MS La Sorbonne	8	Director at the Ministries of Planning and Economy Partner in a Consulting firm
Mario Cantizano		BA Tulane U.	1	Economic Research
José Angel Quirós		BBA George- town U.	1	International Affairs
José Morales		BS U. of El Salvador	41	Journalist

C. STAFFING

In order to implement the activities described in Section VII.D.1.A.3, FUSADES will have to restructure its organization and expand its staff. Based on the opinion of the IESC contractor that worked in the TIPS and ASA sub-components and FUSADES' own criteria, the following staff positions will be open:

1- TIPS

<u>No.</u>	<u>Title</u>	<u>Minimum Qualification</u>
1	Executive Director	Experienced executive presently employed at the President or Vice President level of a medium to large size corporation/organization
1	Business Development Advisor	Aggressive, well educated executive, presently employed at the Division Management level
1	Technical Assistance Advisor	Organized, diligent and dedicated executive, presently employed at the Project or Product management level

cfk

- 1 Information Advisor Good communicator, aggressive, experienced in working with a "State of the Art" communication technology, presently employed at an executive position

For all of the positions listed above, complete fluency in English and Spanish will be required.

2. ASA

- 1 Project Manager Experienced , organized and dedicated executive with solid background in business associations management
- 1 Assistant Project Manager Well educated, good communicator, aggressive executive with experience in public relations and training

3. GISO

- 1 Project Manager Experienced researcher and drafter of economic studies, solid academic background in Economics, currently employed in management position in development organization or research department of corporation
- 1 Research Advisor Experienced researcher and drafter, with experience in government affairs, solid academic background
- 1 Research Advisor Well educated, good communicator, ambitious college graduate with good background in economics
- 1 Information Advisor Good communicator, aggressive, experienced in working with "State of the Art" communication technology, presently employed at an executive level

4. CONT

1 Controller

Well trained, organized and
dedicated accountant, with solid
background in international
development organizations

TABLE A
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US \$000)

<u>PROJECT ELEMENTS</u>	<u>A. I. D.</u>		<u>LC HOST COUNTRY</u>		<u>PROJECT Total</u>
	<u>FX</u>	<u>LC</u>	<u>Part. Inst.</u>	<u>ESF</u>	
<u>I. Private Sector Export and Investment Promotion</u>					
A. Technical Assistance					
-Long Term	2,155	190	-	-	2,345
-Short Term	1,096	313	290	-	1,699
B. Personnel	-	567		-	567
C. Equipment & Materials	95	75	-	-	170
D. Invit. Travel, Observ. Study, Seminars & Workshops	201	136	85	-	422
E. Assistance to Associations	100	150	63	-	313
F. Project Coordination & Management (Exc. Proj. Funded Personnel)	15	1,172	186		1,373
G. Contingency	365	260	-	-	625
Total Component	4,027	2,863	624	-	7,514

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II. GOES Export and Investment
Promotion

A. Technical Assistance					
-Short/Med. Term (GOES)	950	125	50	-	1,125
-Short Term (A.I.D.)	400	-	-	-	400
B. Dissemination Policy Studies	-	75	-	-	75
C. Personnel	-	-	-	500	500
D. Equipment & Materials	275	25	-	500	800
E. Invit. Travel, Observ. Study, Seminars & Workshops	150	25	25	-	200
F. Program Logistic Support	300	-	-	200	500
G. Free Trade Zone Development					
-Facility Maintenance	-	-	-	500	500
-Construction, Infrastructure	-	-	-	1,000	1,000
-Construction, Factory Bldgs.	-	-	-	2,000	2,000
H. Contingency	<u>210</u>	<u>25</u>	<u>-</u>	<u>471</u>	<u>706</u>
Total Component	<u>2,285</u>	<u>275</u>	<u>75</u>	<u>5,171</u>	<u>7,806</u>
PROJECT TOTAL	<u>6,312</u>	<u>3,138</u>	<u>699</u>	<u>5,171</u>	<u>15,320</u>
Percent of Total	(62)		(38)		100

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TABLE B
SUMMARY COSTING OF PROJECT INPUTS AND OUTPUTS
(US\$000)

INPUTS/ELEMENTS	OUTPUTS	COST						
		FX	A. I. D.		LC HOST COUNTRY			PROJECT
			LC	TOTAL	PART. INST.	ESF	TOTAL	TOTAL
I. Private Sector Export and Investment Promotion								
A. TIPS								
Long Term Tech. Assist.	15 person years	2,155	190	2,345	-	-	-	2,345
Short Term Tech. Assist.	Approx. 133 p/mos.	896	263	1,159	290	-	290	1,449
Invitational Travel	Trade missions	140	-	140	35	-	35	175
Personnel	3 professionals, 2 others	-	258	258	-	-	-	258
Equipment & Materials	Various	60	30	90	-	-	-	90
Total TIPS		3,251	741	3,992	325	-	325	4,317
B. ASA								
Assist. to Associations	Spec. CBI-related Activ.	100	150	250	63	-	63	313
Short Term Training	Seminars & Workshops	50	120	170	43	-	43	213
Invitational Travel	Observation visits	11	16	27	7	-	7	34
Personnel	2 professionals, 1 other	-	156	156	-	-	-	156
Equipment & Materials	Various	25	25	50	-	-	-	50
Total ASA		186	467	653	113	-	113	766
Policy Research & Development								
Short Term Tech. Assist.	Economic policy studies	200	50	250	-	-	-	250
Personnel	2 professionals, 1 other	-	153	153	-	-	-	153
Equipment & Materials	Various	10	20	30	-	-	-	30
Total Policy R & D		210	223	433	-	-	-	433

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D. Project Coord. & Mgt.

Personnel	4 professionals, 9 other	-	352	352	186	-	186	538
Equipment & Materials	Various	15	15	30	-	-	-	30
Logistic Support	In-Country Travel, Publications, etc.	-	300	300	-	-	-	300
FUSADES Overhead (55% of TDL)	Office Space, utilities indirect labor	-	505	505	-	-	-	505
		<u>-</u>	<u>505</u>	<u>505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>505</u>
Total Proj. Coord. & Mgt.		<u>15</u>	<u>1,172</u>	<u>1,187</u>	<u>186</u>	<u>-</u>	<u>186</u>	<u>1,373</u>
<u>Total Private Sector Export and Investment Promotion</u>		<u>3,662</u>	<u>2,603</u>	<u>6,265</u>	<u>624</u>	<u>-</u>	<u>624</u>	<u>6,889</u>
<u>Contingency</u>		<u>365</u>	<u>260</u>	<u>625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>625</u>
<u>Project Sub-Total</u>		<u>4,027</u>	<u>2,863</u>	<u>6,890</u>	<u>624</u>	<u>-</u>	<u>624</u>	<u>7,514</u>

II. GOES Export and Investment
Promotion

A. Export & Investment Strategy
Formulation

Short Term Tech. Assistance	Policy studies	<u>150</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150</u>
Total Export & Investment Strategy Formulation		<u>150</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150</u>

B. GOES Strategy Support
Mechanisms

Short/Med. Term T.A.	Technical studies	300	-	300	50	-	50	350
Invitational Travel	Conf., obser. trips	100	-	100	-	-	-	100
Training	Seminars & Workshops	-	25	25	25	-	25	50
Personnel	Various-MICE reorgan.	-	-	-	-	500	500	500
Equipment & Materials	Various-MICE reorgan.	200	-	200	-	500	500	700
Program Logistic Support	Trade Fairs, One-Stop Investment, Trade Info.	<u>300</u>	<u>-</u>	<u>300</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>500</u>
Total GOES Strategy Support Mechanisms		<u>900</u>	<u>25</u>	<u>925</u>	<u>75</u>	<u>1,200</u>	<u>1,275</u>	<u>2,200</u>

AR

C. Policy Studies

Short Term T.A. (GOES)	Policy studies	300	100	400	-	-	-	400
Dissemination, Policy Studies	Publications, Seminars, etc.	-	75	75	-	-	-	75
Short Term T.A. (A.I.D.)	Studies & proj. evaluat.	400	-	400	-	-	-	400
<u>Total Policy Studies</u>		<u>700</u>	<u>175</u>	<u>875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>875</u>

D. Free Trade Zone Development

Short/Med. Term T.A.	Policy/feasib. studies	200	25	225	-	-	-	225
Invit. Travel/Training	Observation studies	50	-	50	-	-	-	50
Equipment & Materials	Various	75	25	100	-	-	-	100
Facility Maintenance	Repairs, painting of bldg	-	-	-	-	500	500	500
Construction, Infrastructure	Entrance road, sewer	-	-	-	-	1,000	1,000	1,000
Construction, Factory Bldgs.	Approx. 170,000 sq.ft.	-	-	-	-	2,000	2,000	2,000
<u>Total Free Trade Zone Development</u>		<u>325</u>	<u>50</u>	<u>375</u>	<u>-</u>	<u>3,500</u>	<u>3,500</u>	<u>3,875</u>
<u>Total GOES Export and Investment Promotion</u>		<u>2,075</u>	<u>250</u>	<u>2,325</u>	<u>75</u>	<u>4,700</u>	<u>4,775</u>	<u>7,100</u>
<u>Contingency</u>		<u>210</u>	<u>25</u>	<u>235</u>	<u>-</u>	<u>471</u>	<u>471</u>	<u>706</u>
<u>Project Sub-Total</u>		<u>2,285</u>	<u>275</u>	<u>2,560</u>	<u>75</u>	<u>5,171</u>	<u>5,246</u>	<u>7,806</u>
<u>Project Total</u>		<u>6,312</u>	<u>3,138</u>	<u>9,450</u>	<u>699</u>	<u>5,171</u>	<u>5,870</u>	<u>15,320</u>

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TABLE C

PROJECTION OF EXPENDITURES BY FISCAL YEAR
(US\$000)

<u>SOURCE/USE</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>TOTAL</u>
<u>I. A.I.D.</u>					
<u>A. Private Sector Export and Investment Promotion</u>					
Long Term T.A.	-	755	790	800	2,345
Short Term T.A.	-	235	600	574	1,409
Personnel	-	250	300	369	919
Equipment and Materials	-	100	50	50	200
Invit. Travel/Training	-	55	142	140	337
Assist. to Associations	-	40	125	85	250
Logistic Support (In-Country Travel, Publications, etc.)	-	100	100	100	300
FUSADES' Overhead (55% of 'TDL)	-	137	165	203	505
Sub-Total A.I.D.	-	<u>1,672</u>	<u>2,272</u>	<u>2,321</u>	<u>6,265</u>
Contingency	-	<u>170</u>	<u>225</u>	<u>230</u>	<u>625</u>
Total A.I.D., Private Sector Export & Invest. Promotion	-	<u>1,842</u>	<u>2,497</u>	<u>2,551</u>	<u>6,890</u>
<u>B GOES Export and Investment Promotion</u>					
Short/Med. Term T.A. (GOES)	-	300	390	385	1,075
Short Term T.A. (A.I.D.)	-	130	135	135	400
Policy Studies Dissemination	-	25	25	25	75
Equipment and Materials	-	30	150	100	300
Invit. Travel/Training	-	50	65	60	175
Program Logistic Support	-	100	100	100	300
Sub-Total A.I.D.	-	<u>655</u>	<u>865</u>	<u>805</u>	<u>2,325</u>
Contingency	-	<u>65</u>	<u>90</u>	<u>80</u>	<u>235</u>
Total A.I.D., GOES Export and Investment Promotion	-	<u>720</u>	<u>955</u>	<u>885</u>	<u>2,560</u>
Total A.I.D. (I. A + B)	-	<u>2,562</u>	<u>3,452</u>	<u>3,436</u>	<u>9,450</u>

II. HOST COUNTRY (LC)

A. Participating Institutions

Short Term T.A.	-	60	140	140	340
Counterpart Personnel	-	62	62	62	186
Assist. to Associations	-	10	30	23	63
Invit. Travel/Training	-	15	50	45	110
Total, Part. Inst.	-	<u>147</u>	<u>282</u>	<u>270</u>	<u>699</u>

B. ESF (LC)

Personnel	-	100	200	200	500
Equipment and Materials	-	100	200	200	500
Program Logistic Support	-	40	80	80	200
Free Trade Zone Develop.					
-Facility Maintenance	-	350	100	50	500
-Construction, Infrastructure	-	200	800	-	1,000
-Construction, Factory Bldgs.	-	-	800	1,200	2,000
Sub-Total ESF (LC)	-	<u>790</u>	<u>2,180</u>	<u>1,730</u>	<u>4,700</u>
Contingency	-	<u>80</u>	<u>216</u>	<u>175</u>	<u>471</u>
Total, ESF (LC)	-	<u>870</u>	<u>2,396</u>	<u>1,905</u>	<u>5,171</u>
Total Host Country (II. A+B)	-	<u>1,017</u>	<u>2,678</u>	<u>2,175</u>	<u>5,870</u>
Total Project	-	<u>3,579</u>	<u>6,130</u>	<u>5,611</u>	<u>15,320</u>

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TABLE D
METHODS OF IMPLEMENTATION AND FINANCING
(US\$000)

<u>Inputs</u>	<u>Implementation</u>	<u>Method</u>	<u>Financing</u>	<u>Approx. Amount</u>
<u>I. A.I.D. Grant</u>				
<u>A. FUSADES</u>				
Long Term T.A.	Profit making contractor	Direct Pay		2,345
Short Term T.A.	PSC	Direct Pay		1,409
Personnel	PSC	Direct Reimbursement		919
Commodities	Contract for Comm.	Direct L/Comm.		200
Invit. Travel/Training	Direct Placement	Direct Pay		337
Assistance to Associations	Basket of Sub-Projects	Direct Reimbursement		250
Other Costs (In-country travel, publications, etc.)	Non-Profit Contract	Direct Reimbursement		300
Overhead	Non-Profit Contract	Direct Reimbursement		505
Contingency	N/A	N/A		<u>625</u>
Total A.I.D. Grant/FUSADES				<u>6,890</u>

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B. GOES

Short/Med. Term T.A. (GOES)	PSC	Direct Pay	950
	PSC	Direct Reimbursement	125
Short Term T.A. (A.I.D.)	PSC	Direct Pay	400
Policy Studies Dissemination (Publications, Seminars, etc.)	Profit or Non-Profit	Direct Reimbursement	75
Commodities	Contract for Comm. Profit or Non-Profit	Direct L/Comm	275
		Direct Reimbursement	25
Invit. Travel/Training	Direct Placement	Direct Pay	175
Other Program Costs (Trade Fairs, etc.)	Profit or Non-Profit	Direct Reimbursement	300
Contingency	N/A	N/A	<u>235</u>
Total A.I.D. Grant-GOES			<u>2,560</u>

II. Host Country Counterpart

Counterpart GOES/FUSADES			<u>5,870</u>
Total Project			<u>15,320</u>

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INITIAL ENVIRONMENTAL DETERMINATIONBASIC PROJECT DATA

PROJECT LOCATION : El Salvador
PROJECT TITLE : Industrial Stabilization/Recovery Project
PROJECT NUMBER : 519-0297
FUNDING : FY 84 and 85/Grant \$50,000,000
LIFE OF PROJECT : Two Years
I/E PREPARED BY : C. Roberto Gavidia, Engineer and Environmental Coordinator, UCELS EL Salvador.
DATE : February 29, 1984
ACTION RECOMMENDED : Negative Determination

DESCRIPTION OF THE PROJECT

The purpose of the Project is to increase extra-regional exports, to assist existing firms in the non-traditional industrial sector to rehabilitate and reactivate their productive capacity and to increase the participation of small business in the economy.

The basic thrust of the proposed A.I.D. Project would be to stabilize the Salvadoran economy by increasing credit availability, increasing the level of employment, improving the balance of payments and supporting the private sector by establishing new export industries to non-traditional markets in non-traditional products. The stimulation of exports will increase the use of presently under-utilized industrial capacity, capitalize on the potential trade benefits of the CBI, generate additional foreign exchange and put the economy on an export-led growth path.

Best Available Document

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There are four project components:

- Financial Assistance
- Private Sector Trade and Investment Promotion Services
- GCES Export and Investment Promotion Services
- Policy Research and Development

III. IMPACT IDENTIFICATION AND EVALUATION

The project's resources will be used to provide credit, technical assistance and training. This project will help to assure that small and micro-businesses receive the technical/managerial and credit assistance which they need to continue to operate and expand their capacity. The project will provide the resources (both human and capital) for these businesses to expand production and productivity, resulting in reduced underemployment and underutilization of physical capacity and the creation of net new jobs. The social implications of the employment and income impacts on beneficiaries and their families will be high in a country experiencing 43% unemployment and internal violence. The importance of saving jobs and creating net new jobs under the circumstances, benefitting principally the laboring and lower-middle income groups of the population is of considerable economic and social significance.

Impact Areas and Sub-Areas

Impact Identification and Evaluation 1/

A. LAND USE

1. Changing the character of the land through:

- | | |
|---------------------------------|----|
| a. Increasing the population | L+ |
| b. Extracting natural resources | N |
| c. Land clearing | N |
| d. Changing soil character | N |

- | | |
|----------------------------------|---|
| 2. Altering natural defenses | N |
| 3. Foreclosing important uses | N |
| 4. Jeopardizing man or his works | N |
| 5. Other factors | N |

1/ The following symbols have been used:

- | | |
|----------------------------------|---------------------------------|
| N -No environmental impact | U -Unknown environmental impact |
| L -Little environmental impact | + -Beneficial impact |
| M -Moderate environmental impact | - -Negative impact |
| H -High environmental impact | |

B. WATER QUALITY

- | | | |
|----|--------------------------------|---|
| 1. | Physical state of water | N |
| 2. | Chemical and biological states | N |
| 3. | Ecological balance | N |
| 4. | Other factors | N |

C. ATMOSPHERIC

- | | | |
|----|-----------------|---|
| 1. | Air additives | N |
| 2. | Air pollution | N |
| 3. | Noise pollution | N |
| 4. | Other factors | N |

D. NATURAL RESOURCES

- | | | |
|----|---------------------------------------|---|
| 1. | Diversion, altered use of water | N |
| 2. | Irreversible, inefficient commitments | N |
| 3. | Other factors | N |

E. CULTURAL

- | | | |
|----|---------------------------------|---|
| 1. | Altering physical symbols | N |
| 2. | Dilution of cultural traditions | N |
| 3. | Other factors | N |

F. SOCIOECONOMIC

- | | | |
|----|---|----|
| 1. | Changes in economic/employment patterns | M+ |
| 2. | Changes in population | L+ |
| 3. | Changes in cultural patterns | L+ |
| 4. | Other factors | N |

G. HEALTH

- | | | |
|----|----------------------------------|---|
| 1. | Changing a natural environment | N |
| 2. | Eliminating an ecosystem element | N |
| 3. | Other factors | N |

H. GENERAL

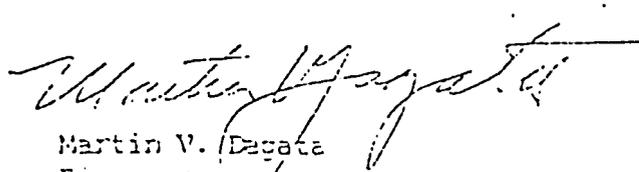
- | | | |
|----|------------------------|---|
| 1. | International impacts | N |
| 2. | Controversial impacts | N |
| 3. | Larger program impacts | N |
| 4. | Other factors | N |

1. OTHER POSSIBLE IMPACTS
(Not listed above)

- | | |
|--------------------------------------|---|
| 1. Introduction of new plant species | N |
| 2. Agricultural chemicals | N |
| 3. Other factors | N |

IV. RECOMMENDATION FOR THRESHOLD DECISION:

USAID/El Salvador finds that this project is not a major action, which will have a significant effect on the human environment and is, therefore, an action for which an Environmental Impact Statement or an Environmental Assessment will not be required. A negative determination is recommended.


Martin V. Dagata
Director
USAID/El Salvador