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REVIEW OF
USAID/EL SALVADOR'S
EXCHANGE RATE PRACTICES

Memorandum Report No. 1-519-86-07
February 13, 1986

MEMORANDUM FOR: USAID/El Salvador Director, Robin Gomez

FROM : RIG/A/T, Coinage N. Gothard

SUBJECT : Memorandum Report No. 1-519-86-07 Review of USAID/El Salvador's Exchange Rate Practices.

Background

This report presents the results of a limited scope compliance review of USAID/El Salvador's exchange rate practices. In those countries where AID provides assistance authorized under the Foreign Assistance Act and predecessor legislation, the Agency has negotiated Bilateral Agreements with host governments regulating the conditions under which AID operates in the recipient nations. According to the Regional Legal Advisor/Costa Rica, such documents are considered international agreements and their provisions supersede the jurisdiction and effect of local law or regulation. One provision commonly found in AID Bilateral Agreements has to do with the rate of exchange to be used when dollars appropriated to AID by Congress are brought into recipient countries to finance AID projects there. In the case of El Salvador, Article V of the General Agreement for Economic, Technical and Related Assistance between the Government of El Salvador and the Government of the United States of America, dated January 16, 1962, reads as follows:

> Funds used for purposes of furnishing assistance hereunder shall be convertible into currency of El Salvador at the rate providing the largest number of units of such currency per U.S. dollar which, at the time conversion is made, is not unlawful in El Salvador.

Further, AID Handbook 3, Appendix 6B-18 states that:

> "The 'Rate of Exchange' Section 7.4/8.4 is based on ProAg standard provision L. The 'except' clause will not be used if there is no SLC in Sec. 7.2/8.2, of course. Omit the section if Agreement is for Foreign Exchange Costs only. (The formulation of 'highest rate . . . which . . . is not unlawful' is used rather than 'highest legal rate' because the latter formulation in some countries may be equated with 'highest official rate.' The 'official rate,' in such country, may be lower than, e.g., prevailing and lawful business rate:) . . ."

Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) performed a limited scope review of USAID/El Salvador's practice of charging the official rate of exchange for its local currency (colones) disbursements as opposed to the more favorable parallel rate under its government-to-government projects. This review covered the period from August 9, 1982 through January 21, 1986. It was made in October/November 1985 and also in January 1986 (see Exhibit 1 for an exchange of correspondence between RIG/A/T and USAID/El Salvador on this issue).

Results of Review

Our review showed that, although the Government of El Salvador instituted an officially sanctioned "parallel" exchange rate on August 9, 1982, USAID/El Salvador continued to charge AID dollars used for local currency costs of bilateral projects at the "official" rate of US$1.00 = 2.50 Salvadoran colones. At the time the "parallel" rate was established, the exchange rate for dollars went to $1.00 = C.3.80. By August 1985, the "parallel" rate was $1.00 = C.4.85. During the three years since the establishment of the "parallel" rate, USAID/El Salvador charged $88.4 million at the "official" (1-to-2.50) rate.

The records of the U.S. Embassy Budget and Fiscal Officer disclosed that $88.4 million in prepositioned checks had been exchanged on AID's behalf by the Embassy Disbursing Officer at the "official" (1-to-2.50) rate since creation of the "parallel" exchange market in August 1982 through mid-August 1985. Thus, AID charged its projects $88.4 million at the "official" rate when only $56 million at the "parallel" rate would have sufficed. As a result, USAID/El Salvador's decision to continue using the "official" rate, when it had the right to obtain local currency at the higher "parallel" rate, cost the U.S. Government $32.4 million over the last three years (see Exhibit 2 for details). However, USAID/El Salvador believed it was justified in using the official rate (see Exhibit 1).

This situation arose because, when the parallel rate of exchange came into being, the then USAID Director felt there were good economic reasons why AID should not use the more favorable exchange rate. He put those reasons in a telegram (82 San Salvador 7318, Exhibit 3) and notified AID/Washington that he planned to continue using the lower "official" exchange rate. We were unable to find in the record of these proceedings any indication that AID/Washington replied to or even commented upon that message.

Conflicting Legal Opinions: Included in the former Director's telegram was a reference to certain consultations with the cognizant AID regional legal adviser (RLA) who later provided a memo to support the former Director's decision to continue using the less favorable exchange rate. That memo, which effectively conceded to the Government of El Salvador (GOES) the right to determine what exchange rate was applicable to AID transactions, was contradicted to a certain extent more than two years later by the next RLA. (Both memoranda are appended to this report as Exhibit 4.) The second opinion drew a distinction between the deposit of local currency by the GOES in connection with the Mission's large economic stabilization (cash transfer) program, and the exchange of AID dollars for local currency costs under its project activities. In the case of cash transfers, the current RLA held that the equivalent amount to be deposited in local currency did not constitute an "exchange" of dollars per se and therefore fell outside the scope of the AID Bilateral Agreement. In other words, the opinion held that the amount of such deposits was completely negotiable with the GOES. With respect to the exchange of dollars for local currency expenses under AID projects, however, the second opinion, while acknowledging the position the preceding RLA had taken in this matter, came to just the opposite conclusion. That is, the current RLA believes that AID should obtain the most favorable rate for such exchanges.

We are quite concerned over this wide divergence between the opinions and the fact that neither opinion was apparently sent to AID/Washington for review before or after it was delivered to USAID/El Salvador. It appears from the record that no office in AID/Washington was consulted about the opinions on this significant policy issue or interpretation.

Our own view of this matter is that both the language and intent of the standard exchange provisions found in AID Bilateral Agreements worldwide are quite clear. The intent of those provisions, in our opinion, is that AID, in its donor role, should determine what rate of exchange is to be used when resources appropriated by the Congress for foreign assistance purposes are converted into local currencies of recipient nations. These provisions are rooted in U.S. Treasury policy and regulations and are repeated in AID Handbook 3, Chapter 6, providing guidance for the preparation of AID loan and grant project agreements, which are also to contain the same provisions. We further view it to be a matter of fundamental importance that AID maintain and assert its right to determine the appropriate rate of exchange whenever the Agency has occasion to do so (regardless of what the final rate, equivalent deposit amount, amount of commodity sales proceeds, etc. ultimately turns out to be, depending on the nature of the AID resource transfer).

In consequence, we find ourselves opposed to the position taken by the former RLA (first opinion) in this matter because its effect was to relinquish control over the exchange process to the interpretation of local law or regulation by local officials. We would therefore concur with the interpretation of the second RLA, at least insofar as that opinion holds that the provisions of AID Bilateral Agreements supersede the jurisdiction of local laws.

Mission's Position Unchanged: Notwithstanding the second "opinion" issued in February 1985, USAID/El Salvador continued to charge dollars for local currency costs under its Development Assistance funded projects at the lower exchange rate. Between March and August 1985, USAID/El Salvador incurred an opportunity cost of about $3.8 million by continuing to use the official exchange rate.

In August 1985, however, the Embassy Budget and Fiscal Officer, acting upon instructions from the Departments of State and Treasury (see Exhibit 5), began exchanging prepositioned Treasury checks with a Salvadoran commercial bank at the parallel rate instead of with the GOES Central Bank at the official rate. It was some time before USAID/El Salvador learned of this change in procedure, but when it did, we were advised by the Mission that it continued to oppose using the more favorable rate, and would seek to have joint State/Treasury instructions to the Embassy Budget and Fiscal Officer reversed.

As of November 15, 1985, USAID/El Salvador had not advised the GOES of the change in exchange procedures. The GOES would not necessarily detect immediately that such a change had occured. All U.S. Government funds brought into El Salvador for local currency exchange purposes are exchanged by the Embassy Budget and Fiscal officer at a commercial bank and the proceeds deposited into one of two commingled local currency accounts at the same bank.

<u>Exchange Rate Unified</u>: Effective January 22, 1986 the GOES eliminated the parallel rate and made the official exchange rate for dollar-colon transactions US$1.00 = 5 Salvadoran colons. Although this resolved the continuing exchange rate problem, there remains to be resolved the problem caused by USAID/El Salvador's charges for local currency project costs at the prior official rate ($1 = 2.5 colons) during the period after the Embassy Budget and Fiscal Officer had discontinued making exchanges at that rate in accordance with State/Treasury instructions to him (29 July 1985 - 21 January 1986).

In order to address this issue, we briefly renewed audit fieldwork late in January 1986 at USAID/El Salvador and at the offices of the Department of State's Regional Administrative Management Center (RAMC) in Mexico City, where the Regional Disbursing Officer for several AID Missions in the area, including El Salvador, is located. We determined that between late July 1985 and late January 1986 USAID/El Salvador had charged about $30 million to its projects for local currency costs at the 2.5 colons = $1 rate. Of course, the GOES did not receive that amount of dollars because the Embassy Budget and Fiscal Officer had discontinued cashing prepositioned U.S. Treasury dollar checks at the GOES Central Bank. Instead, he cashed them at a commercial bank at the higher (4.85 = $1) parallel rate for all U.S. Government entities' transactions including AID's. We estimated that only about $15.5 million in prepositioned Treasury checks were cashed to cover AID's local currency requirements during the above period. We verified at RAMC/Mexico that, since assuming disbursement functions for USAID/EL Salvador in November 1985, the Regional Disbursing Office had recorded AID's charges at the rate used by the Mission (2.5 = $1), despite the fact that Salvadoran currency was actually being generated at almost twice that rate (4.85 = $1).

We were advised by the Embassy Budget and Fiscal Officer that no surplus local currency was generated because he exchanged only enough dollars to cover local currency requirements. This was also verified during our visit to RAMC/Mexico.

This situation contains two serious adverse impacts on USAID/El Salvador. First, the U.S. Treasury has charged AID's appropriations about $14.5 million too much for local currency project costs for the period in question because AID insisted on booking its costs at the lower official rate even though that rate was no longer in use by State/Treasury representatives. And second, USAID Controller reports to AID/W will incorrectly reflect those overcharges which effectively deauthorize the Mission's projects by a like amount. In other words, USAID/El Salvador's desire to assist the GOES by continuing to use the lower official rate will, unless corrected, have just the opposite effect.

As a result, we are making the following:

Recommendation No. 1

In order to avoid AID's being overcharged by the U.S. Treasury with respect to the incorrectly computed dollar cost of local currency charges made to USAID/El Salvador projects during the period 29 July 1985 through 21 January 1986, we recommend that USAID/El Salvador:

(a) revise its dollar charges for local currency costs during the above period;

(b) notify RAMC/Mexico and the Washington disbursing center as to which revisions pertain to each disbursing office and request that the corresponding charges to AID's appropriations be corrected to reflect the amount of actual dollar costs incurred; and

(c) review and revise its reports to the AID/Washington Controller so as to reflect the actual status of project disbursements under each project.

We have been advised by USAID/El Salvador that they concur in the above recommendation and have proceeded to implement same. As soon as we are notified that the Mission's corrective action has been completed, we shall close the recommendation.

EXHIBIT 1

Exchange of Correspondence between RIG/A/T
and USAID/El Salvador on the Subject
of the Mission's Exchange Rate Practices

AGE .T FOR INTERNATIONAL DEVELC MENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

U S MAILING ADDRESS
RIG/T
APO MIAMI 34022

TELEPHONES
32 0044 & 32 0092
also 32 3120/9, EXT 293 & 296

October 3, 1985

Mr. Robin Gomez
Director
USAID/El Salvador
San Salvador

Dear Mr. Gomez:

I understand from Audit Manager Edward Stonebrook that, as a result of his initial inquiries into the management of the Health Systems Vitalization Project at your Mission, he has learned that appropriated dollars being used to fund that activity are being converted at the "official" rate of 2.5 Salvadoran colones to the US dollar. Further inquiry has revealed that this practice is prevalent for all dollar exchanges in your Mission for projects with the Government of El Salvador. In light of the fact that uniform provisions worldwide in AID Bilateral Agreements (which I am given to understand are regarded as treaty commitments by our government) and standard loan and grant agreement language provide that dollars expended under AID projects be exchanged at the highest available rate that is not unlawful in the recipient nation, I find myself constrained to pose the following questions.

Insofar as you can determine:

A) How long has USAID/El Salvador been exchanging AID dollars under its projects at less than the most favorable rate that is not unlawful in that country? (I understand from Mr. Stonebrook that the "parallel" exchange rate currently stands at 4.85 colones to the US dollar.)

B) What were the program and policy considerations supporting the decision to accept the "official" dollar-colon exchange rate conversion?

C) How were the cost implications of accepting the "official" exchange rate estimated and factored into that decision? How long are you prepared to "stay the course" in accepting this rate in view of the continuing deterioration in the dollar-colon exchange rate?

D) What, if any, negotiations have taken place with the GOES on this issue and at what levels? Have such negotiations resulted in modifications to existing agreements or to standard agreement language? Are further negotiations contemplated?

E) What consultations took place concerning acceptance of the "official" exchange rate with AID/Washington or others, and what were the results of those contacts?

F) What documentation exists to support any or all of the items mentioned above?

G) In your view, what precedent does the decision to accept "official" exchange rate conversion establish for current and future AID projects in El Salvador?

H) Why are dollars converted at the parallel exchange rate for projects with private agencies and at the official rate for projects with public agencies?

Fred Kalhammer and/or I plan to come over to El Salvador in the near future. At the time of that visit we would like to discuss these matters with you further and receive your written replies to the questions posed above.

Thank you for your attention to this matter.

Sincerely,

Edward C. Stonebrook
for CNG

Coinage N. Gothard
Regional IG for Audit

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A I D MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY,
SAN SALVADOR, EL SALVADOR, C A

November 15, 1985

Mr. Coinage N. Gothard
Regional Inspector General For Audit
American Embassy
Tegucigalpa, Honduras

Dear Mr. Gothard:

Your letter of October 3, 1985 raises issues that this Mission has been debating internally for over a year. The issues involved in the application of a multiple exchange rate regime to differing forms of A.I.D. assistance are complex ones; legal, economic, and financial management questions, both A.I.D.'s and the host country's, are intertwined. In El Salvador, because of the size of the A.I.D. program in relation to the local economy and because of the multiplicity of U.S.G. objectives here, the issues and their consequences are magnified and the Agency must be especially careful in weighing the consequences of its course of action. Prior to responding to your letter's specific questions I would like to lay out, as we see them, the legal aspects of the exchange rate question, the economic and financial management issues involved, as well as the policy prescription which we believe will resolve the matter.

Legal Issues

The Mission is of the opinion that the legal issues surrounding the exchange rate questions are not clear cut ones. Until early this year, we were working with a legal opinion (which we understand has been preponderant in the Agency for the last eighteen years) that language in both our bilateral and project agreements referring to the "highest rate which is not illegal" applied to classes and types of transactions legally permitted by the host country when in a multiple exchange rate situation. In El Salvador, official debt is contracted and repaid at the official rate of exchange. Earlier this year, we asked for and received a somewhat different interpretation from our Regional Legal Advisor. This opinion, which may not be fully sustained upon review, focuses principally upon rates of exchange involved in non-project and PL-480 assistance and only refers in passing to project assistance. The opinion differentiates between different permissible rates of exchange according to forms of A.I.D. assistance, but does not draw logical consequences back to our overall Bilateral Agreement which presumably governs all forms of A.I.D. assistance except, perhaps, PL-480. It is our understanding that the General Counsel's Office is now looking into these differing opinions and may soon resolve these differences in interpretations. In any case, we view the legal issues, which were once clear, as having become less clear at the present time.

Economic Policy and A.I.D. Program Strategy Issues

The approved A.I.D. program strategy in El Salvador, with which all our programs and projects should be consistent, involve four objectives: (1) economic stabilization, (2) economic recovery, (3) broadening the benefits of growth, and (4) strengthening democratic institutions. These objectives derive directly from the NBCCA program which has been mandated by both the Executive and Legislative branches of our Government. The first of these objectives is a priority one because the achievement of the latter three depends on the attainment of the first. That is the reason why the bulk (75%) of our A.I.D. Project and Non-Project assistance is at present tied to that objective. The fact that there is a war going on here in El Salvador makes the attainment of at least a minimum of economic stability doubly important.

In order to accomplish the economic stabilization objective, we are attempting to help the GOES accelerate the rate of growth of GDP, assist it in bringing the fiscal and balance of payments needs in line with the resources available to finance them, and restrain the rate of inflation through both fiscal and monetary measures. If these policies and the war go well, we hope to be able eventually to eliminate the need for compensatory balance of payments financing that is costing the USG several hundreds of million dollars a year now.

The need for economic stabilization has strongly influenced our decision to continue to use the official exchange rate (₡2.5 to the U.S. Dollar) for converting local currency under our bilateral project assistance. The Salvadoran economy is an open economy so that its performance depends strongly on its capacity to import. With the precipitous decline in Salvadoran export earnings since 1979, it is necessary to provide significant amounts of foreign exchange to maintain imports and stabilize the economy. An economic analysis done in July, 1985 indicated, for example, that using an exchange rate of ₡4.0 would result in a reduction of dollar disbursements of approximately 37.5% with a resultant reduction in the rate of growth of about 1.4 percentage points (i.e. a projected growth rate of 2.5% would be reduced to 1.1%). Based on revised current estimates of disbursements and an exchange rate of ₡4.85 the reduction in the rate of growth is now estimated to be .71 percentage points. Such a negative effect on growth would be contrary to our overall economic stabilization strategy. We have therefore designed our projects to achieve both, project objectives and our program objectives utilizing the official exchange rate. Furthermore, it is doubtful that the objectives of our individual projects, be they in agrarian reform, displaced persons, health, or industrial recovery, could be achieved in the absence of a stable and, eventually, a growing economy. Our project assistance is of such a nature that project objectives will not be achieved in the absence of economic stability and growth, or that even if individual project objectives were achieved, it would not mean much. Both our project objectives and our broader program objectives must be met if we are to be successful in El Salvador.

Financial Management Issues

A.I.D.'s financial presence in El Salvador is so large that project assistance exchange rate issues, in the absence of a coherent policy to deal with them, could cause significant adverse consequences in the overall management of El Salvador's finances and the financial relationships between the GOES and its Central Bank. Disbursing millions of dollars of project assistance at an exchange rate twice as high as the rate at which the government is entitled to buy dollars for debt service (i.e., the official 2.5 rate) would not only result in a great windfall to the GOES treasury (and relax incentives for fiscal discipline) but could also result in exchange losses to the Central Bank (which would directly expand the monetary supply and inflation).

Policy Prescriptions

A.I.D. has been pushing exchange rate unification for some time in El Salvador. We believe that this will soon be achieved and that the matter of differing rates of exchange applying to different forms of A.I.D. assistance will soon be a moot one. We are presently engaged in the process of careful analysis of project portfolio in order to attempt to restructure it so that the higher unified exchange rate will have a minimum impact on overall economic stabilization objectives. Clearly, this process should be orderly and well thought out; both project and overall program objectives should be taken into account. To not do so could result in the USG shooting itself in the foot here in El Salvador.

We believe that that is happening here already due to a State-Treasury decision to force our Embassy B&F Officer to get the "highest legal rate obtainable" on all USG "currency exchanges". We, however, are supposed to be lending/granting dollars, not colones (the GOES can print all of these they desire). We intend to appeal the State-Treasury decision, which at first glance may appear to be "saving the taxpayers' money" but which we believe that if irrationally applied to A.I.D. disbursements could in fact end up costing considerably more in that more compensatory balance of payments financing would be eventually required.

With regard to your specific questions, the following are our responses:

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a) The parallel market rate has been in effect since August of 1982. The following were the parallel rates:

8/17/82	3.50
9/1/82	3.50
9/23/82	4.00
11/12/82	3.90
11/15/82	3.80
12/16/82	3.75
2/1/83	3.74
2/8/83	3.90
6/21/8'	3.95
2/7/84	3.85
4/30/84	3.95
12/7/84	4.00
3/18/85	4.05
6/17/85	4.50
7/8/85	4.53
7/23/85	4.63
7/30/85	4.70
8/13/85	4.80
8/19/85	4.85

b) The answer to this question is set forth above.

c) For the answer to the first part of this question, I am attaching a copy of the latest analysis prepared by the Mission Economist. The answer to the second part is that we anticipate that the GOES will go to a unified rate by the end of this year, thus obviating the problem. In the meantime we are reviewing our projects to assess the implications of a higher unified exchange rate and considering the possibility of an earlier utilization of the parallel rate.

d) No formal negotiations on the issue have taken place with the GOES although the question has been broached with the President of the Central Bank. No agreements have been modified.

e) There have been no formal consultations with AID/W concerning this subject. There have, however, been informal discussions regarding the program consequences of differing legal opinions. Furthermore, all project proposals have been justified at the "official" exchange rate.

f) All documentation mentioned above has been attached.

g) We do not think that any precedent has been established. The subject has been discussed informally with both GOES Ministry of Planning officials and with the Central Bank President. As indicated above the GOES is expected to move toward a unified exchange rate in the near future. Thus even if a precedent were perceived, the effect would be null and void once the unified exchange rate is in place.

b) Private agencies are not subject to GOES official capital flow laws and regulations and thus questions of appropriate legal exchange rates do not arise. In any case the amounts involved are not significant in terms of overall economic effect. We are, however, about to face exchange risk problems with private sector borrowers in which A.I.D. repayment is guaranteed but serious institutional survival or Central Bank exchange guarantee questions may arise.

As you can gather from the above, the overall ramifications of changes in the differing exchange rates relating to different A.I.D. assistance programs and the effects on the economy of El Salvador, as well as the effects on the attainment of our project and macro-economic ob ctives are not simple or clear cut. We welcome your interest in this matter and your forthcoming visit to discuss this complex subject more fully.

Sincerely,

Robin Gomez

Robin Gomez
Director

cc:Gail Lecce:RLA
Thomas Stukel:LAC/CEN
Irwin Levy:LAC/DR

absorptive capacity constraints, and that scale-up would not further burden the already strained Salvadoran Government budget. Second, AID could pick up a larger share of the local currency costs of projects whose scale is unchanged. This would have the merit of reducing the strain on the Government's budget, although it may run into constraints on the minimum contribution of the Government to development projects funded with U.S. economic assistance. Third, we could change the overall balance of the program, putting more dollar funds into ESF cash transfer and into projects that lend themselves to scale up or to our picking up a larger share of local currency costs.

A sensible approach probably would involve some mix of all three of these options, and perhaps some others that I have not thought of. To proceed, we need to go project by project and examine the opportunities for and constraints on scale up and/or picking up a larger share of local currency cost.

If I am correct in my perception of the problem and if a detailed analysis of the options is now in order, I would be happy to carry on.

Robin -
I believe that
a detailed review - project
by project - is in order.
We will have to move to the
parallel rate sooner or later (by end
of year) and should be considered
restructuring before then.
7-31-85

DATE: [illegible]

FROM: Robert Anderson: LDN

ATTACHMENT 1

SUBJECT: <u>Effect of Using an Exchange Rate of 4.00 Colones Per Dollar for Projects</u>

TO: Mr. Bastiaan Schouten: DDI

EXHIBIT 1
(Page 10 of 12)

As per your request, here is a rough analysis of the effects of using an exchange rate of 4.00 per dollar for projects.

The effects would be as follows.

1. <u>Dollar disbursements to support given domestic project costs would fall by 37.5 percent.</u> That is

$$\frac{\frac{C}{2.50} - \frac{C}{4.00}}{\frac{C}{2.50}} = .3750$$

2. <u>Imports would be reduced.</u> Holding constant all other items of the balance of payments, imports would fall by 37.5 percent of the previous level of dollar disbursements for domestic project costs. Letting L represent this latter quantity, imports would be reduced by 0.3750 L.

3. <u>Economic growth would be reduced.</u> Letting M be expected total imports in the absence of any change in rate, and letting ε represent the elasticity of GDP with respect to imports, the effect on growth of reduced import flows due to a change in the project exchange rate would be

$$g = -37.5\% \frac{L}{M} \epsilon$$

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using the average elasticity e = 1.574 (the elasticity we use in our balance of payments analyses), M = $1051.6 million (our current forecast of merchandise imports), and L = $66.7 million (a rough estimate of expected project disbursements to cover local currency costs in 1985, we estimate that a change of the project exchange rate could reduce growth by as much as 1.4 percentage points.

4. The pipeline would build. Letting K be the dollar absorptive capacity for projects, C be the dollar level of project obligations, and r be the project exchange rate, it takes

$$\frac{Cr}{K}$$

years to absorb one year's obligations.

The pipeline corresponding would be approximately

$$\frac{C^2 r}{K} - C$$

Clearly, the bigger r, the bigger the pipeline.

5. Inflation will increase due to the lower rate of real GDP growth in combination with an unchanged fiscal deficit. This could, depending upon the adjustment undertaken, put further pressure on the exchange rate, or could eventually speed up dollar disbursements - tending to eliminate the problem.

The conclusion that flows from the above is that, if the project exchange rate were increased, we should also do something to maintain the rate of dollar disbursement. Examples of possible steps would be increasing the amount of balance of payments assistance relative to project assistance, or broadening projects to include more local currency costs.

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EXHIBIT 1

[illegible]	[illegible] Development Activities	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	0	100	[illegible]	[illegible]	350
[illegible]	[illegible] Project Develop. & Support	IN	G	---	[illegible]	550	550	90	10	55	6	175
[illegible]	Education Prog. Develop./Support	EH	G	---	[illegible]	400	400	90	10	49	4	350
[illegible]	SDA Prog. Develop. & Support	SD	G	315	[illegible]	1,110	1,140	90	10	114	11	600
[illegible]	Health Program Develop./Support	HE	G	420	[illegible]	1,[illegible]	1,[illegible]	85	15	1[illegible]	23	300
[illegible]	Population Prog. Develop./Support	PN	G	---	200	200	200	90	10	20	2	200
[illegible]	Population Dynamics	PN	G	---	3,5[illegible]	3,5[illegible]	0	10	60	2,115	1,269	3,500
[illegible]	Small Producer Development	ES	G	---	5,000	5,000	818	2	98	4,900	4,002	---
[illegible]	Reform and Policy Planning	SD	G	---	.	0	2,818	24	36	0	0	1,500
[illegible]	Agrarian Reform Credit	FN	G	500	1,700	[illegible]	2,709	100	0	0	0	--
[illegible]	Agrarian Reform Credit	FN	L	--	11,500	11,[illegible]	15,[illegible]	12	88	10,154	8,975	---
[illegible]	Agrarian Reform Sector Support	FN	L	---	6,000	[illegible]	14,000	17	83	5,007	4,181	7,400
[illegible]	Agrarian Reform Sector Support	FN	G	1,500	2,500	4,[illegible]	2,5[illegible]	77	23	908	206	2,700
[illegible]	Salvadoran Demographic Assoc. OPG	FN	G	---	2,424	2,424	2,000	26	74	1,828	1,355	2,000
[illegible]	Public Services Restoration	ES	G	15,000	10,000	25,000		0	100	25,000		20,000
[illegible]	Emerg. Prog. for Displaced Familie	ES	G	6,500	11,000	17,500	11,251	8	92	16,184	14,967	8,000
[illegible]	Emerg. Prog. for Displaced Familie	HE	G	1,025	---	1,025	1,025	8	92	940	877	-
[illegible]	Emerg. Prog. for Displaced Familie	SD	G	14,185	8,000	22,185	20,000	8	92	20,517	18,774	12,290
[illegible]	Techoservice OPG	FN	G	---	650	650	2,000	53	47	306	144	650
[illegible]	Industrial Recovery	ES	G	3,500	3,000	6,500	3,000		100	6,500	6,500	4,500
[illegible]	AIFLD OPG	FN	G	--	2,000	2,000	1,4[illegible]	75	25	500	125	1,000
[illegible]	Health Systems Vitalization I	HE	G	80	10,225	10,305	12,078	91	6	572	32	---
[illegible]	Health Systems Vitalization I	HE	L	2,525	---	2,525	2,525	100	0	0	0	--
0245	Education Systems Revitalization	EH	G	2,250	8,725	10,975	2,500	60	40	4,390	1,756	7,975
[illegible]	Judicial Reform	ES	G	--	6,000	6,000	1,500	85	15	900	135	-
[illegible]300	Save the Children OPG	FN	G	---	600	600	750	19	81	408	396	750
[illegible]	Health Syst. Mgmt. Improvement	HE	G	---	--	0	0	95	5	0	0	12,000
[illegible]	Inter. Exec. Serv. Corps OPG	SD	G	500	-	500	250	[illegible]0	100	500	500	---
[illegible]	Water Management	F.	G	---	3,500	3,500	2,500	25	75	2,625	1,969	5,500
[illegible]	Urban Small Business OPG	SD	G	---	1,000	1,000	300	0	100	1,000	1,000	800
[illegible]	Development Bank	SD	G	---	--	0	0	10	90	0	0	6,960
[illegible]	Agriculture Land Financing	FN	G	---	.	0	0	10	90	0	0	9,000
[illegible]	Rural Financial Markets	FN	G	---	.	0	0	20	80	0	0	10,000
[illegible]	Private & Vol. Org. - OPG	SD	G	--	300	300	300	35	65	195	127	---
Reg.	Scholarship Program	EH	G	---	3,100	3,400	1,500	95	5	170	9	---
	TOTALS			48,300	1[illegible],014	15[illegible],314	1[illegible],193			106,414	68,694	117,000

Your figure.
– TERRY

USAID/El Salvador Disbursements Made and Costs

Incurred at the Official Exchange Rate

Period of Disbursements	$ Amount Disbursed at "Official" Rate 1/	$ Amount Required at "Parallel" Rate	$ Cost of Using "Official" vs. "Parallel" Rate	Parallel Exchange Rate
September 1982	$200,000.00	$131,578.95	$68,421.05	3.80
September 1982	$500,000.00	$328,947.37	$171,052.63	3.80
September 1982	$200,000.00	$125,000.00	$75,000.00	4.00
October 1982	$100,000.00	$62,500.00	$37,500.00	4.00
October 1982	$100,000.00	$62,500.00	$37,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
October 1982	$250,000.00	$156,250.00	$93,750.00	4.00
October 1982	$250,000.00	$156,250.00	$93,750.00	4.00
October 1982	$250,000.00	$156,250.00	$93,750.00	4.00
October 1982	$250,000.00	$156,250.00	$93,750.00	4.00
October 1982	$500,000.00	$312,500.00	$187,500.00	4.00
November 1982	$200,000.00	$125,000.00	$75,000.00	4.00
November 1982	$100,000.00	$62,500.00	$37,500.00	4.00
November 1982	$100,000.00	$62,500.00	$37,500.00	4.00
November 1982	$100,000.00	$62,500.00	$37,500.00	4.00
November 1982	$500,000.00	$312,500.00	$187,500.00	4.00
November 1982	$500,000.00	$312,500.00	$187,500.00	4.00
November 1982	$200,000.00	$131,578.95	$68,421.05	3.80

1/ AID prepositioned checks converted at the Official exchange rate of 2.50 colones to $1.00 by the Embassy's Budget and Fiscal Officer to satisfy AID local currency requirements for projects with the public sector.

December	1982	$100,000.00	$66,666.67	$33,333.33	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$100,000.00	$66,666.67	$33,333.33	3.75
December	1982	$200,000.00	$133,333.33	$66,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
December	1982	$500,000.00	$333,333.33	$166,666.67	3.75
January	1983	$100,000.00	$66,666.67	$33,333.33	3.75
January	1983	$100,000.00	$66,666.67	$33,333.33	3.75
January	1983	$100,000.00	$66,666.67	$33,333.33	3.75
February	1983	$200,000.00	$133,689.84	$66,310.16	3.74
February	1983	$200,000.00	$128,205.13	$71,794.87	3.90
February	1983	$500,000.00	$334,224.60	$165,775.40	3.74
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$100,000.00	$66,844.92	$33,155.08	3.74
February	1983	$100,000.00	$66,844.92	$33,155.08	3.74
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
February	1983	$500,000.00	$320,512.82	$179,487.18	3.90
March	1983	$200,000.00	$128,205.13	$71,794.87	3.90
March	1983	$100,000.00	$64,102.56	$35,897.44	3.90
March	1983	$100,000.00	$64,102.56	$35,897.44	3.90
March	1983	$200,000.00	$128,205.13	$71,794.87	3.90
March	1983	$500,000.00	$320,512.82	$179,487.18	3.90
March	1983	$500,000.00	$320,512.82	$179,487.18	3.90
April	1983	$100,000.00	$64,102.56	$35,897.44	3.90
April	1983	$500,000.00	$320,512.82	$179,467.18	3.90
April	1983	$500,000.00	$320,512.82	$179,487.18	3.90
April	1983	$100,000.00	$64,102.56	$35,897.44	3.90
April	1983	$100,000.00	$64,102.56	$35,897.44	3.90

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April	1983	$100,000.00	$64,102.56	$35,897.44	3.90
May	1983	$500,000.00	$320,512.82	$179,487.18	3.90
May	1983	$100,000.00	$64,102.56	$35,897.44	3.90
May	1983	$500,000.00	$320,512.82	$179,487.18	3.90
May	1983	$200,000.00	$128,205.13	$71,794.87	3.90
May	1983	$100,000.00	$64,102.56	$35,897.44	3.90
May	1983	$200,000.00	$128,205.13	$71,794.87	3.90
May	1983	$200,000.00	$128,205.13	$71,794.87	3.90
June	1983	$100,000.00	$63,291.14	$36,708.86	3.95
June	1983	$200,000.00	$126,582.28	$73,417.72	3.95
June	1983	$100,000.00	$64,102.56	$35,897.44	3.90
June	1983	$100,000.00	$64,102.56	$35,897.44	3.90
June	1983	$100,000.00	$63,291.14	$36,708.86	3.95
June	1983	$200,000.00	$126,582.28	$73,417.72	3.95
July	1983	$500,000.00	$316,455.70	$183,544.30	3.95
July	1983	$100,000.00	$63,291.14	$36,708.86	3.95
July	1983	$200,000.00	$126,582.28	$73,417.72	3.95
July	1983	$100,000.00	$63,291.14	$36,708.86	3.95
July	1983	$200,000.00	$126,582.28	$73,417.72	3.95
July	1983	$200,000.00	$126,582.28	$73,417.72	3.95
July	1983	$100,000.00	$63,291.14	$36,708.86	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$10,000.00	$6,329.11	$3,670.89	3.95
July	1983	$5,000,000.00	$3,164,556.96	$1,835,443.04	3.95
July	1983	$5,000,000.00	$3,164,556.96	$1,835,443.04	3.95
July	1983	$5,000,000.00	$3,164,556.96	$1,835,443.04	3.95
July	1983	$5,000,000.00	$3,164,556.96	$1,835,443.04	3.95
August	1983	$100,000.00	$63,291.14	$36,708.86	3.95
August	1983	$200,000.00	$126,582.28	$73,417.72	3.95
August	1983	$200,000.00	$126,582.28	$73,417.72	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95

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August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$5,000.00	$3,164.56	$1,835.44	3.95
August	1983	$10,000.00	$6,329.11	$3,670.89	3.95
August	1983	$10,000.00	$6,329.11	$3,670.89	3.95
August	1983	$10,000.00	$6,329.11	$3,670.89	3.95
August	1983	$10,000.00	$6,329.11	$3,670.89	3.95
August	1983	$100,000.00	$63,291.14	$36,708.86	3.95
August	1983	$200,000.00	$126,582.28	$73,417.72	3.95
September	1983	$500,000.00	$316,455.70	$183,544.30	3.95
September	1983	$200,000.00	$126,582.28	$73,417.72	3.95
September	1983	$100,000.00	$63,291.14	$36,708.86	3.95
September	1983	$200,000.00	$126,582.28	$73,417.72	3.95
October	1983	$500,000.00	$316,455.70	$183,544.30	3.95
October	1983	$500,000.00	$316,455.70	$183,544.30	3.95
October	1983	$500,000.00	$316,455.70	$183,544.30	3.95
October	1983	$5,000.00	$3,164.56	$1,835.44	3.95
October	1983	$500,000.00	$316,455.70	$183,544.30	3.95
October	1983	$10,000.00	$6,329.11	$3,670.89	3.95
October	1983	$10,000.00	$6,329.11	$3,670.89	3.95
October	1983	$10,000.00	$6,329.11	$3,670.89	3.95
October	1983	$10,000.00	$6,329.11	$3,670.89	3.95
October	1983	$65,000.00	$41,139.24	$23,860.76	3.95
October	1983	$200,000.00	$126,582.28	$73,417.72	3.95
October	1983	$200,000.00	$126,582.28	$73,417.72	3.95
October	1983	$20,000.00	$12,658.23	$7,341.77	3.95
October	1983	$20,000.00	$12,658.23	$7,341.77	3.95
October	1983	$50,000.00	$31,645.57	$18,354.43	3.95
October	1983	$50,000.00	$31,645.57	$18,354.43	3.95
October	1983	$500,000.00	$316,455.70	$183,544.30	3.95
December	1983	$145,000.00	$91,772.15	$53,227.85	3.95
December	1983	$120,000.00	$75,949.37	$44,050.63	3.95
December	1983	$200,000.00	$126,582.28	$73,417.72	3.95
December	1983	$100,000.00	$63,291.14	$36,708.86	3.95
December	1983	$10,000.00	$6,329.11	$3,670.89	3.95
December	1983	$10,000.00	$6,329.11	$3,670.89	3.95
December	1983	$10,000.00	$6,329.11	$3,670.89	3.95
December	1983	$10,000.00	$6,329.11	$3,670.89	3.95
December	1983	$20,000.00	$12,658.23	$7,341.77	3.95
January	1984	$5,000.00	$3,164.56	$1,835.44	3.95
January	1984	$5,000.00	$3,164.56	$1,835.44	3.95
January	1984	$5,000.00	$3,164.56	$1,835.44	3.95
January	1984	$5,000.00	$3,164.56	$1,835.44	3.95
January	1984	$10,000.00	$6,329.11	$3,670.89	3.95
January	1984	$20,000.00	$12,658.23	$7,341.77	3.95

January	1984	$20,000.00	$12,658.23	$7,341.77	3.95
January	1984	$200,000.00	$126,582.28	$73,417.72	3.95
January	1984	$100,000.00	$63,291.14	$36,708.86	3.95
January	1984	$100,000.00	$63,291.14	$36,708.86	3.95
January	1984	$100,000.00	$63,291.14	$36,708.86	3.95
February	1984	$100,000.00	$64,935.06	$35,064.94	3.85
February	1984	$200,000.00	$129,870.13	$70,129.87	3.85
February	1984	$100,000.00	$64,935.06	$35,064.94	3.85
March	1984	$500,000.00	$324,675.32	$175,324.68	3.85
March	1984	$5,000.00	$3,246.75	$1,753.25	3.85
March	1984	$20,000.00	$12,987.01	$7,012.99	3.85
March	1984	$100,000.00	$64,935.06	$35,064.94	3.85
March	1984	$200,000.00	$129,870.13	$70,129.87	3.85
March	1984	$100,000.00	$64,935.06	$35,064.94	3.85
March	1984	$100,000.00	$64,935.06	$35,064.94	3.85
March	1984	$100,000.00	$64,935.06	$35,064.94	3.85
April	1984	$500,000.00	$324,675.32	$175,324.68	3.85
April	1984	$500,000.00	$324,675.32	$175,324.68	3.85
April	1984	$500,000.00	$324,675.32	$175,324.68	3.85
April	1984	$50,000.00	$32,467.53	$17,532.47	3.85
April	1984	$200,000.00	$129,870.13	$70,129.87	3.85
April	1984	$100,000.00	$64,935.06	$35,064.94	3.85
April	1984	$500,000.00	$324,675.32	$175,324.68	3.85
April	1984	$500,000.00	$324,675.32	$175,324.68	3.85
April	1984	$100,000.00	$64,935.06	$35,064.94	3.85
May	1984	$5,000.00	$3,164.56	$1,835.44	3.95
May	1984	$20,000.00	$12,658.23	$7,341.77	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
May	1984	$200,000.00	$126,582.28	$73,417.72	3.95
May	1984	$200,000.00	$126,582.28	$73,417.72	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
May	1984	$100,000.00	$63,291.14	$36,708.86	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$50,000.00	$31,645.57	$18,354.43	3.95
June	1984	$120,000.00	$75,949.37	$44,050.63	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95

June	1984	$20,000.00	$12,658.23	$7,341.77	3.95
June	1984	$20,000.00	$12,658.23	$7,341.77	3.95
June	1984	$20,000.00	$12,658.23	$7,341.77	3.95
June	1984	$10,000.00	$6,329.11	$3,670.89	3.95
June	1984	$200,000.00	$126,582.28	$73,417.72	3.95
June	1984	$100,000.00	$63,291.14	$36,70[illegible]6	3.95
July	1984	$5,000.00	$3,164.56	$1,835.44	3.95
July	1984	$145,000.00	$91,772.15	$53,227.85	3.95
July	1984	$20,000.00	$12,658.23	$7,341.77	3.95
July	1984	$100,000.00	$63,291.14	$36,708.86	3.95
August	1984	$500,000.00	$316,455.70	$183,544.30	3.95
August	1984	$200,000.00	$126,582.28	$73,417.72	3.95
August	1984	$50,000.00	$31,645.57	$18,354.43	3.95
August	1984	$20,000.00	$12,658.23	$7,341.77	3.95
August	1984	$100,000.00	$63,291.14	$36,708.86	3.95
September	1984	$25,000.00	$15,822.78	$9,177.22	3.95
September	1984	$200,000.00	$126,582.28	$73,417.72	3.95
September	1984	$220,000.00	$139,240.51	$80,759.49	3.95
September	1984	$50,000.00	$31,645.57	$18,354.43	3.95
September	1984	$10,000.00	$6,329.11	$3,670.89	3.95
September	1984	$5,000.00	$3,164.56	$1,835.44	3.95
September	1984	$20,000.00	$12,658.23	$7,341.77	3.95
September	1984	$120,000.00	$75,949.37	$44,050.63	3.95
September	1984	$100,000.00	$63,291.14	$36,708.86	3.95
October	1984	$5,000.00	$3,164.56	$1,835.44	3.95
October	1984	$200,000.00	$126,582.28	$73,417.72	3.95
October	1984	$10,000.00	$6,329.11	$3,670.89	3.95
October	1984	$10,000.00	$6,329.11	$3,670.89	3.95
October	1984	$10,000.00	$6,329.11	$3,670.89	3.95
October	1984	$10,000.00	$6,329.11	$3,670.89	3.95
October	1984	$10,000.00	$6,329.11	$3,670.89	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$5,000.00	$3,164.56	$1,835.44	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95
November	1984	$500,000.00	$316,455.70	$183,544.30	3.95

November	1984	$200,000.00	$126,582.28	$73,417.72	3.95
November	1984	$200,000.00	$126,582.28	$73,417.72	3.95
November	1984	$10,000.00	$6,329.11	$3,670.89	3.95
November	1984	$200,000.00	$126,582.28	$73,417.72	3.95
November	1984	$120,000.00	$75,949.37	$44,050.63	3.95
November	1984	$25,000.00	$15,822.78	$9,177.22	3.95
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$300,000.00	$187,500.00	$112,500.00	4.00
December	1984	$150,000.00	$93,750.00	$56,250.00	4.00
December	1984	$500,000.00	$312,500.00	$187,500.00	4.00
December	1984	$25,000.00	$15,625.00	$9,375.00	4.00
December	1984	$20,000.00	$12,500.00	$7,500.00	4.00
December	1984	$5,000.00	$3,125.00	$1,875.00	4.00
December	1984	$152,000.00	$95,000.00	$57,000.00	4.00
December	1984	$152,000.00	$95,000.00	$57,000.00	4.00
December	1984	$116,000.00	$72,500.00	$43,500.00	4.00
February	1985	$5,000.00	$3,125.00	$1,875.00	4.00
March	1985	$500,000.00	$312,500.00	$187,500.00	4.00
March	1985	$120,000.00	$75,000.00	$45,000.00	4.00
March	1985	$120,000.00	$75,000.00	$45,000.00	4.00
March	1985	$220,000.00	$137,500.00	$82,500.00	4.00
March	1985	$500,000.00	$312,500.00	$187,500.00	4.00
March	1985	$500,000.00	$312,500.00	$187,500.00	4.00
March	1985	$500,000.00	$312,500.00	$187,500.00	4.00
March	1985	$200,000.00	$125,000.00	$75,000.00	4.00
April	1985	$25,000.00	$15,432.10	$9,567.90	4.05
April	1985	$152,000.00	$93,827.16	$58,172.84	4.05
April	1985	$25,000.00	$15,432.10	$9,567.90	4.05
April	1985	$25,000.00	$15,432.10	$9,567.90	4.05
April	1985	$300,000.00	$185,185.19	$114,814.81	4.05
April	1985	$150,000.00	$92,592.59	$57,407.41	4.05
April	1985	$500,000.00	$308,641.98	$191,358.02	4.05
May	1985	$500,000.00	$308,641.98	$191,358.02	4.05
May	1985	$500,000.00	$308,641.98	$191,358.02	4.05
May	1985	$500,000.00	$308,641.98	$191,358.02	4.05
May	1985	$500,000.00	$308,641.98	$191,358.02	4.05
May	1985	$500,000.00	$308,641.98	$191,358.02	4.05
June	1985	$10,000.00	$6,172.84	$3,827.16	4.05
June	1985	$108,000.00	$66,666.67	$41,333.33	4.05
June	1985	$116,000.00	$71,604.94	$44,395.06	4.05
June	1985	$120,000.00	$74,074.07	$45,925.93	4.05

June	1985	$220,000.00	$122,222.22	$97,777.78	4.50
June	1985	$500,000.00	$308,641.98	$191,358.02	4.05
June	1985	$5,000.00	$3,086.42	$1,913.58	4.05
July	1985	$104,000.00	$56,155.51	$47,844.49	4.63
July	1985	$120,000.00	$66,666.67	$53,333.33	4.50
July	1985	$200,000.00	$111,111.11	$88,888.89	4.50
July	1985	$500,000.00	$275,938.19	$224,061.81	4.53
July	1985	$500,000.00	$277,777.78	$222,222.22	4.50
July	1985	$502,000.00	$278,888.89	$223,111.11	4.50
July	1985	$200,000.00	$107,991.36	$92,008.64	4.63
		==============	==============	==========.===	
		$88,402,000.00	$56,020,969.69	$32,381,030.31	

TELEGRAM

072035Z
Sep 8

INDICATE
☐ COLLECT
☐ CHARGE TO

CONT

EXHIBIT 3
(Page 1 of 5)

FROM: SAN SALVADOR

CLASSIFICATION: UNCLASSIFIED

E.O. ~~11652~~ 12356: N/A

TAGS.

SUBJECT: Rate of Exchange for AID Official Transactions

ACTION. SECSTATE WASHDC PRIORITY

INFO: AMEMBASSY TEGUCIGALPA

UNCLAS SAN SALVADOR 007318

AIDAC

TEGUCIGALPA FOR RLA

REF: San Salvador 6954

USAID-5
AMB
DCM
POL
ECON
USICA
DAO
MILGRP
CHRON

1. The formalizing of the limited parallel foreign exchange market has led USAID to review the question of the exchange rate to be used in the purchase or generation of local currency attendant to implementation of the US economic assistance program in El Salvador. ~~The implications of this question [illegible] for the Salvadoran economy are potentially significant since projected disbursements of official capital represent some $350 million or 36 percent of the projected value of imports in 1982. As concerns the US economic assistance program, the~~

DRAFTED BY	DRAFTING DATE	TEL. EXT	CONTENTS AND CLASSIFICATION APPROVED BY
DIR:MVDagata/ea	9/3/82	317	DIR:MVDagata

CLEARANCES: ECON:BLincoln CONT:TGBebout

UNCLASSIFIED
CLASSIFICATION

The of this question / implications/are presently somewhat limited since they involve for the moment only dollar financing of local costs and the housing guaranty program. Nevertheless this is a significant source of foreign exchange, amounting to a projected \$30-\$50 million in 1982.

2. Concerning PL-480 and AID balance of payments support, since so-called priority imports (80 percent of total imports) including foodstuffs and imports attributed to AID balance of payments support come in at the official rate (2.50 colones to the dollar), local currency is generated at the official rate. If eventually these items ~~are~~ were moved over to the parallel market, the local currency generations would then be at the parallel rate.

3. The rate at which AID dollars financing local costs (including HIG dollars) should be exchanged is a matter of what is lawful under the present circumstances. There are also important economic (balance of payments, fiscal and price level) implications for El Salvador.

4. The ~~xxgx~~ Legal Question: The official rate of exchange remains 2.5 colones to the dollar. All

official transactions, as provided for in the IMF/GOES ~~pm~~ program, are at the official rate. Presently, donors are converting at the official rate. USAID purchases colones directly from the Central Bank for project financing.

The Central Bank has now authorized commercial banks and other financial institutions in El Salvador to purchase dollars at the parallel market rate from the following four sources:

- Receipts for non-traditional exports outside Central America and Panama.
- Personal remittances from abroad.
- Honoraria and commissions for personal services, and
- Funds from special foreign exchange accounts.

The last source (special accounts) according to Central Bank regulations, can be supplied only by foreign exchange obtained from the other three. While the Central Bank has informally authorized the exchange of dollars at the parallel rate for administrative expenditures, there is no provision for exchanging dollars at the parallel rate for official capital and we have been advised by Central Bank legal counsel that such transactions would be unlawful.

5. Economic Considerations: The AID dollars in question amount to $30-$50 million annually. They have been calculated in the Central Bank balance of payments program. On a monthly basis they would represent as much as 40 percent of present foreign exchange resources flowing through the parallel market and 11 percent of Central Bank foreign exchange availability for priority imports (food, medicines, energy, and intermediate goods for industrial production).

Given the present foreign exchange rate structure /the anticipated effect of a shift of these dollars to the parallel market would be a shift perforce of an undetermined amount of priority imports (up to the amount of dollars in question) to the parallel market with attendant price increases which would have to be passed through the economy. Local commercial bankers advise that the greatest demand for dollars in the parallel market is to finance travel (tourism, education, etc.). We would expect, absent further

Central Bank imposed limitations, continued strong demand for dollars for these purposes in competition with priority imports.

USAID is presently reviewing the project-by-project impact of local cost financing at the parallel rate. Our tentative conclusion is that project execution constraints (i.e., the assumption that the pace of project activity could not be significantly accelerated) and the severe limitations on increased GOES project financing which in some cases would be necessary to maintain the statutory 25 percent contribution, would combine to reduce the rate of dollar disbursements. At present, the rate of x inflation in El Salvador (some 12 percent) is not an important factor threatening successful project execution.

6. On the basis of the foregoing and consultations with RLA, we will continue to finance local costs at the official exchange rate. We will be alert to changes in Central Bank regulations or other factors that would permit our shifting to the parallel market.

HINTON

UNCLASSIFIED
Classification

memorandum

EXHIBIT 4
(Page 1 of 5)

DATE: December 10, 1982

REPLY TO ATTN OF: John Clyne, RLA John R. Clyne

SUBJECT: New Central Bank Regulations on the Parallel Market

TO: Mr. Martin V. Dagata, DIR

On December 10 Pat Buckles and I met with Mr. Joaquin Morazan, Acting President of the Central Bank, and the bank's lawyer. We requested clarification of paragraph 5 of the new Central Bank regulations concerning exchange rates. He stated that in his interpretation of the paragraph it did not pertain to international loans and grants but only to administrative and operating expenses of embassies, consulates, etc. From the documents he showed me, I personally was satisfied with his interpretation. At this time there appears to be no further reason to suspend disbursements. However, I strongly suggest that the ~~Fondo~~ Junta Monetario be requested to provide an opinion confirming that of the Central Bank. We asked the Central Bank to provide a written opinion. They stated that, although they understood the new regulation clearly, they could not officially interpret it for us. This would be an additional protection in case I am in error.

JClyne/ea

DATE: December 10, 1982

memorandum

EXHIBIT 4
(Page 1 of 5)

REPLY TO ATTN OF: John Clyne, RLA John R. Clyne

SUBJECT: New Central Bank Regulations on the Parallel Market

TO: Mr. Martin V. Dagata, DIR

On December 10 Pat Buckles and I met with Mr. Joaquin Morazan, Acting President of the Central Bank, and the bank's lawyer. We requested clarification of paragraph 5 of the new Central Bank regulations concerning exchange rates. He stated that in his interpretation of the paragraph it did not pertain to international loans and grants but only to administrative and operating expenses of embassies, consulates, etc. From the documents he showed me, I personally was satisfied with his interpretation. At this time there appears to be no further reason to suspend disbursements. However, I strongly suggest that the ~~Fondo~~ Monetario be requested to provide an opinion confirming that of the Central Bank. We asked the Central Bank to provide a written opinion. They stated that, although they understood the new regulation clearly, they could not officially interpret it for us. This would be an additional protection in case I am in error.

JUNTA

JClyne/ea

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-112

UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY.
SAN SALVADOR, EL SALVADOR, C. A.

February 11, 1985

RECEIVED BY OFFI
OF THE CONTROLL
'85 FEB 13 PM 3

MEMORANDUM

TO: Bastiaan Schouten, DDIR

FROM: Gail Lecce, RLA

SUBJECT: Legislation and Regulations Affecting Exchange Rates used for A.I.D. Project

Problem: (1) What limitations are there on calculating the amount of local currency that must be deposited pursuant to ESF cash transfers? (2) What rules apply to the rate used to exchange dollars for local currency under DA or ESF projects?

Discussion:

1. Calculating the Amount of Currency Deposited under ESF Cash Transfers
   A. Prior to Establishment of a Separate Dollar Account

The body of the standard project grant and loan agreements contain the following provision with respect to exchange rates:

> Section 7.4 (8.4 in the Loan Agreement) Rate of Exchange. Except as may be more specifically provided under Section 7.2(8.2), if funds provided under the Grant (Loan) are introduced into (name of country) by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee (Borrower) will make such arrangements as may be necessary so that such funds may be converted into currency of (name of country) at the highest rate of exchange which, at the time the conversion is made, is not unlawful in (name of country).

A similar provision is included in the Bilateral Agreement with El Salvador. Article V of the Bilateral states that:

> Funds used for purposes of furnishing assistance hereunder shall be convertible into currency of El Salvador at the rate providing the largest number of units of such currency per U.S. dollar which, at the time conversion is made, is not unlawful in El Salvador.

The standard provision applicable to exchange rates is not included in cash transfer agreements, including the 0267 agreement, however, because no funds are actually exchanged under a cash transfer. For the same reason, Article V of the El Salvador Bilateral is not applicable to cash transfers. The provision in the original 0267 agreement that is applicable to local currency is the following covenant (Section 7.b.):

That the GOES will cause the Central Reserve Bank, within two weeks following the disbursement of funds under this agreement, to deposit in a special account currency of the Republic of El Salvador equivalent in amount to the United States dollar disbursement made under the agreement for the purpose of helping to meet the financial requirements of its Agrarian Reform Program.

The original agreement also included a requirement that the colon equivalent of $20 million (the grant amount) be made available to meet the working capital credit requirements of the private sector in El Salvador during the twelve months following signature of the agreement.

A provision similar to the first, requiring that the GOES deposit into a special account the colon equivalent of the dollar grant, was included in each amendment to the agreement.

Because the provision of local currency under the ESF cash transfer agreements is a deposit and not an exchange, the provisions in the Bilateral Agreement and the standard provisions do not apply. Nor is there other legislation or A.I.D. regulations that are directly applicable. In fact, there is no specific requirement that this provision be included. The provision to deposit local currency, therefore, stands on its own, and the two parties to the agreement, USAID and the GOES, are left to determine what they meant by an "equivalent" amount of local currency.

The Amplified Project Description attached to the original agreement specified the amount of colones that was to be deposited pursuant to this covenant. That amount was determined by using the official exchange rate, 2.5. (I do not know what the status of the parallel market was at that time, however; maybe there was no question in 1980 about what was meant by an equivalent amount.) Later agreements do not specify what is meant by an equivalent amount, and it is up to the parties to decide whether the amount was to be calculated using the official or parallel rates. Either one is legally permissible, since the requirement is for a deposit of funds, not a direct exchange of dollars.

One provision of the FAA that should be taken into account when determining what is meant by "equivalent", however, is Section 609. Section 609 requires that when commodities are provided under an ESF grant (CIP), the recipient country must deposit in a special account local currency in an amount equal to the proceeds which accrue to the country from the sale of the commodities. By its terms, this provision does not apply to a cash transfer. However, some of the provisions that have been included in cash transfers are meant to replicate the provisions of a CIP, and thus obviate objections to not doing a CIP, while at the same time not applying all the more stringent requirements of a CIP and slowing down disbursements. I assume that the requirement to deposit local currency in an amount equivalent to the grant was meant to parallel the requirements of Section 609. At the very least, the same rationale was behind the requirement.

On that basis, an "equivalent" amount should be determined based on the actual rate the GOES uses to exchange the dollars. If 50% of exchanges are at the parallel rate and 50% at the official rate, the amount deposited into the special account should reflect that mix. Anything less (i.e., an equivalent amount based on the official exchange rate) may not satisfy the expectations of those who are interested in the program. Nevertheless, technically, FAA Section 609 does not apply to cash transfers, and there is no legal requirement to use the actual rate of exchange applied to the transactions using these dollars to determine the amount of local currency that must be deposited.

B. After Establishment of a Separate Dollar Account.

The FY 1985 Continuing Resolution required that the ESF dollars provided to El Salvador be deposited in a separate account in the Central Bank. The legislative history made clear, however, that the funds being provided were still considered a cash transfer, and that legislation applicable to commodity procurements did not apply. Under the Mission's arrangements for establishing this separate account, specific dollar transactions will be tracked against the dollars in the account.

The principles for determining an "equivalent" amount of local currency cited above continue to apply. Practically speaking, however, it becomes much more apparent exactly how much local currency is represented by these specific dollars, and more difficult to logically apply the official exchange rate in determining the amount of local currency that is "equivalent" to the dollars. The tracking system will clearly show that much more local currency is being generated with the amount of dollars that we are making available than we are requiring to be deposited, if we use the official exchange rate to determine the equivalent amount. It will be obvious that we are not duplicating the requirements under FAA Section 609. Nevertheless, legally, the Mission could continue to use the official rate to determine the equivalent amount. To avoid confusion and later second-guessing, the Mission may want to specify in the Agreement or in the Amplified Project Description the method that will be used for determining an "equivalent" amount of local currency once the separate dollar account is established.

2. Exchange Rate Applicable to Projects (ESF or DA)

The official rate of 2.5 is currently used to exchange dollars under A.I.D. projects. This seems to be based on the fact that the Ley del Regimen Monetario established this as the official and only legal rate except with respect to transactions for which the parallel rate is specifically permissible. The parallel rate has been made legal for "cuentas especiales de depósito en moneda extranjera, que les venian los depositantes" (See attached); however, the Junta Monetaria has interpreted this provision to permit A.I.D. to exchange at the parallel rate only for administrative expenses, not for project funds. The former RLA agreed with this interpretation.

As discussed above, the provision in the Bilateral Agreement regarding exchange rates applies to the exchange of dollars under projects. Additionally, each project agreement should include a provision stating that exchanges under that particular agreement will be made at the highest rate that is not unlawful.

There are two ways to interpret these provisions in the Bilateral and the project agreements. The interpretation that seems to have been used in the past is that they mean that the highest rate that is legal for these specific transactions should be used. Because the official rate is the only (and thus highest) rate established for these types of transactions under Salvadoran law, that is the rate which must be used.

The other way to interpret the exchange rate provisions in the Bilateral and the project agreements is that they require the GOES to exchange dollars provided under our projects at the highest rate that is legal for any transactions. That is, they cannot permit exchanges at a higher rate for any transactions without granting us the same rate. If the parallel rate is legal for any transaction, therefore, it should be applied to our funds.

Because the Bilateral Agreement has treaty status, it should take precedence over a general Salvadoran law applying the official exchange rate to all transactions except as exempted. Additionally, each time the legislature approves a project agreement containing the highest exchange rate provision, it can be deemed to have made such an exemption to the general law requiring application of the official rate. Under this line of thinking, we should be getting the parallel rate for exchanges under our projects. This second way of interpreting the exchange rate provisions in the Bilateral and the project agreements seems to me to be the more correct one.

Drafted by: GLacoe:RLA:dec
2/12/85
c.c: DBoyd, PRJ
RFiguerado, PRJ
TGBehout, CONT

2263B

11: 136

(U) ACTION AID5 INFO AMB DCM ECO ADM

EXHIBIT 5

VZCZCSN0762
PP RUEHSN
DE RUEHC #5902 2402152
ZNR UUUUU ZZH
P 282153Z AUG 85
FM SECSTATE WASHDC
TO AMEMBASSY SAN SALVADOR PRIORITY 6217
BT
UNCLAS STATE 265902

ACTION TAKEN ______
DATE ______
INITIALS ______

29-AUG-85
TOR: 21:53
CN: 64763
CHRG: AID
DIST: AID

FOR EMO FROM M/COMP/FO/FC - BESSER

E.O. 12356: N/A
TAGS: AFIN
SUBJECT: PURCHASE OF SALVADORAN COLONES

1. DEPARTMENT AND TREASURY HAVE DETERMINED THAT ALL AGENCIES SHOULD PURCHASE AT THE BEST RATE LEGALLY OBTAINABLE.

2. IN DEPARTMENT AND TREASURY'S VIEW STANDARD CLAUSE USED IN AID LOAN AGREEMENT DOES NOT CONSTITUTE LEGAL JUSTIFICATION FOR PURCHASING COLONES AT THE OFFICIAL RATE.

3. EMBASSY SHOULD PURCHASE COLONES AT THE HIGHEST LEGAL RATE AVAILABLE FOR QUOTE ALL UNQUOTE EXPENSES INCLUDING AID PROGRAM NEEDS.
WHITEHEAD
BT
#5902

NNNN

UNCLASSIFIED STATE 265902

37

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GC	1
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