

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM : LAC/DR, Dwight B. Johnson

SUBJECT: El Salvador -- Balance of Payments Assistance Program
No. 519-0310 -- Authorization Amendment No.1

Action: Your approval is requested to amend the subject Program Authorization to allow for the reimbursement of approximately \$16.0 million to the Salvadoran Central Reserve Bank (BCR) for eligible import transactions financed with the BCR's own resources prior to the subject Program's authorization date of May 9, 1985 retroactive to October 1, 1984.

Discussion: The subject program was authorized in the amount of \$160 million to provide continuing balance of payments assistance to El Salvador necessary for economic stabilization and recovery. The program's strategy is to support the Government of El Salvador's (GOES) policies and programs designed to: (i) re-attain financial equilibrium and economic stability; (ii) engage the productive private sector in reactivating itself and in rebuilding the economy; and (iii) consolidate the agrarian reform.

Conditionality for the program requires agreement between A.I.D. and the GOES on those measures necessary to strengthen the economy and the agrarian reform. Principal areas of conditionality include treatment of the exchange rate and fiscal deficit questions, and acceleration of the consolidation of the agrarian reform.

To date, \$100 million of the authorized funds have been disbursed and the Mission reports that the GOES is closing on the satisfaction of additional conditions such that another \$30 million can be disbursed shortly. In planning for the disbursement of those funds, the BCR has asked that it be allowed to use a portion of them for reimbursement on approximately \$16 million worth of eligible import transactions which took place prior to the authorization of the subject program, retroactive to the beginning of the Fiscal Year.

Reimbursement for prior eligible transactions will have a number of positive results: (a) It will help the BCR in its efforts to clear the backlog of commitments to sell foreign exchange at the official rate of 2.50 colones to the dollar prior to unification around the end of the year; (b) It will help ease inflationary pressures that are expected to worsen in the coming months as a result of external debt repayments due in 1986; and (c) It will help to alleviate the foreign exchange

cash crunch resulting from reduced export levels and/or prices. Finally, approval of this action will enable the Mission to be forthcoming with the GOES at a critical point in time and thus strengthen our negotiating hand as we press on the exchange rate, fiscal, and agrarian reform questions.

All other terms, conditions, eligibility criteria and operating procedures will remain the same as before.

We have reviewed the request with the Mission and concur with the proposed strategy.

Recommendation: That you sign the attached PAAD facesheet permitting the reimbursement of \$16 million worth of eligible transactions financed with the BCR's own resources prior to the program's authorization date of May 9, 1985 retroactive to October 1, 1984.

Attachment

CLASSIFICATION:

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO.	519-0310 519-K-608 Amendment No. 1
		2. COUNTRY	El Salvador
		3. CATEGORY	Cash Transfer
		4. DATE	
5 TO:	AA/LAC, Dwight A. Ink	6. OYB CHANGE NO.	---
7. FROM:	LAC/DR, Dwight B. Johnson	8. OYB INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF:	\$	10. APPROPRIATION -	Economic Support Fund (ESF)
11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
<input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE		FY 85	
15. COMMODITIES FINANCED			

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: \$160,000,000
Limited F.W.: \$160,000,000	Industrialized Countries:
Free World:	Local:
Cash: \$160,000,000	Other: CACM including Panama, excluding Nicaragua, Code 941 for petroleum

18. SUMMARY DESCRIPTION

The purpose of this amendment is to authorize the use of \$16 million in ESF funds approved under the PAAD signed on May 9 to reimburse the Salvadoran Central Reserve Bank (BCR) for eligible foreign exchange transactions financed by the BCR prior to the PAAD signature date and retroactive to October 1, 1984. All other terms and conditions of the balance of payments program remain the same as before, and no changes in funding levels are required.

19. CLEARANCES	DATE	20. ACTION
LAC/CEN:TStukel <i>MS</i>	11/6/85	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
ARA/ECP:WBarmon <i>W</i>		
GC/LAC:GDavidson <i>G</i>	11/7/85	
LAC/DP:CZuvekas <i>CZ</i>	11/7/85	
LAC/DR:ILevy <i>IL</i>		
DAA/LAC:MButler <i>MB</i>		
		<i>Dwight Ink</i> 11-15-85
		AUTHORIZED SIGNATURE DATE
		Dwight A. Ink
		Assistant Administrator for Latin America and the Caribbean

CLASSIFICATION: