

PD-ABC-503

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ACTION PLAN

FY 1992 - 1993

USAID/EL SALVADOR

FEBRUARY 1991

ACRONYMS

AIFLD	- American Institute for Free Labor Development
ANDA	- Water and Sewer Authority
APSISA	- Health Support Project
BCR	- Central Reserve Bank
BFA	- Rural Development Bank
BIT	- Bilateral Investment Treaty
BOP	- Balance of Payments
CAPEL	- Center for Electoral Assistance and Promotion
CAPS	- Central American Peace Scholarship Program
CCE	- Central Elections Council
CDC	- Coordinating Development Committee
CDSS	- Country Development Strategy Statement
CENTREX	- GOES "One Stop" Export/Import Center
CENITEC	- Technological and Scientific Research Center
CENTA	- MAG's National Center for Agricultural Technology
CLASP II	- Caribbean and Latin American Peace Scholarship Program
CLUSA	- Cooperative League of the United States
COEXPORT	- Corporation of Exporters
COMURES	- National Association of Mayors
CONADES	- National Commission for Displaced Persons
CONARA	- Commission of National Reconstruction
CORELESAL	- Revisory Commission for Salvadoran Legislation
CPA	- Certified Public Accountant
DP	- Displaced Persons
E/NR	- Environmental and Natural Resources
EAI	- Enterprise for the Americas Initiative
ENA	- National School of Agriculture
ESF	- Economic Support Fund
FEDECCREDITO	- Federation of Credit Unions
FEPADE	- Private Sector Foundation for Educational Development
FIDEX, S.A.	- Private Development Bank
FIPRO	- Industrial Foundation for the Prevention of Occupational Hazards
FMLN	- Farabundo Marti National Liberation Front
FTZ	- Free Trade Zones
FUNDASALVA	- Anti-Drug Foundation of El Salvador
FUNTER	- TELETON Foundation Pro-Rehabilitation
FUSADES	- Salvadoran Foundation for Economic and Social Development
GATT	- General Agreement on Tariffs and Trade
GAO	- General Accounting Office
GDP	- Gross Domestic Product
GOES	- Government of El Salvador
GTZ	- German Technical Assistance
HCOLC	- Host Country Owned Local Currency
IBRD	- World Bank
IDB	- Interamerican Development Bank
IFAD	- International Food and Agriculture
ILD	- Institute for Liberty and Democracy
IMF	- International Monetary Fund

INCAE	- Central America Institute of Business Administration
IRA	- Institute for the Regulation of Provisions
ISAM	- Salvadoran Municipal Institute
ISDEM	- Municipal Development Institute
ISIC	- National Coffee Research Foundation
ITCA	- Central America Technical Institute
MAG	- Ministry of Agriculture and Livestock
MSC	- Microenterprise Service Center
MCH	- Maternal Child Health
MEA	- Municipalities in Action
MIPLAN	- Ministry of Planning
MOE	- Ministry of Education
MOH	- Ministry of Health
MPW	- Ministry of Public Works
NGO	- Non Government Organization
NIT	- Tax Payer Identification Number
NRECA	- National Rural Electrification for Central America
NTB	- Non-Tariff Barriers
NTAE	- Non-traditional Agricultural Exports
PROPEMI	- Small and Microenterprise Program (FUSADES)
PVO	- Private Voluntary Organization
RENARM	- Regional Environment and Natural Resources Management
ROCAP	- Regional Office for C.A. and Panama
RTAC II	- Regional Technical Aids Center II
SABE	- Strengthening Achievement in Basic Education
SDA	- Salvadoran Demographic Association
SETEFE	- MIPLAN's Technical Secretariat for External Financing
SIU	- Special Investigation Unit
TIFA	- Trade and Investment Framework Agreement
UNOC	- National Union for Campesino Workers
USDA	- US Department of Agriculture
USG	- Unites States Government

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I. RELATIONSHIP OF THE BUREAU OBJECTIVES AND COUNTRY STRATEGY

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I. RELATIONSHIP OF THE BUREAU OBJECTIVES AND COUNTRY STRATEGY

A. Background Statement

Despite all the publicity about the peace talks, underway for more than a year now, the civil war continues in El Salvador. The intensity varies but, as seen by the FMLN's mini-offensive of November 1990 and the introduction of surface to air missiles, it remains a cruel fact of life. Yet, this last year has also witnessed the strongest performance of the Salvadoran economy since before the war began eleven years ago. So while it is true that the war restricts the country's ability to achieve even greater economic growth, performance over the last year has been impressive.

While some of the approximately three percent growth in GDP attained in 1990 may be attributable to good fortune, such as good weather for agriculture, clearly it was the Cristiani government's comprehensive economic policy reform program, strongly supported by A.I.D., and the government's steadfastness in managing the program, which deserves the major credit for a very successful year. The economic program's success and the GOES' commitment to it have been recognized now by all the major multilateral donors as well as ourselves. This was made manifest over the last year by the IMF's approval of an upper tranche agreement with El Salvador, a new Paris Club rescheduling, a recently approved IBRD SAL of \$75 million and active new loan development work by the IBRD and the IDB.

The GOES success in stimulating growth and the resultant new jobs and increased income for thousands of Salvadorans has been paralleled over the year by increased social program activity on the part of the Cristiani administration. The GOES increased funding for social programs to cushion the anticipated short-term effects of the economic policy reforms and, furthermore, has undertaken to improve the efficiency, quality and reach of programs benefitting the country's lowest income groups.

Progress in building El Salvador's young democracy, a central USAID objective, had mixed results in 1990. Legislative and local government elections scheduled for March 10 are expected to go smoothly. USAID-supported Public Defender activities have resulted in more people being released promptly, unless properly charged, and the Mission's activities in democracy strengthening programs continued to expand. However, progress in the judicial sector was disappointing and, in fact, has led to our withholding assistance until we see a new commitment to progress in developing a fair and competent judiciary.

B. USAID Goals and Strategy and New LAC Bureau Objectives

As stated in the Mission's FY 1990-FY 1994 Country Development Strategy Statement (CDSS), the goals of the USG's economic assistance program to El Salvador are to: (1) promote economic and social stabilization and economic growth; (2) facilitate broad participation throughout the society in the benefits of growth; and (3) enhance the maturation of incipient democratic institutions and processes and create a political environment conducive to growth with equity. These USAID goals are consistent with the new LAC Bureau objectives of: broad-based sustainable economic growth, support for the evolution of stable, democratic societies, and responding to needs for international cooperation in addressing specific challenges.

The Mission's overall strategy is focused on five critical sub-strategies paralleling the new LAC Bureau sub-objectives. The first sub-strategy focuses on: enhancing the country's capacity to efficiently allocate scarce resources, a reliance on market forces to determine investment decisions, increased participation of the private sector as a catalyst for economic growth, and modernizing agriculture with emphases on diversification and exports. Second, in the social sectors, our sub-strategy promotes: improved efficiency and accountability in public administration, decentralization of and community participation in public sector service delivery, and increased participation of the private sector to improve quality of primary education, preventive health services and essential infrastructure (i.e., potable water). Environmental/Natural Resources is our third sub-strategy. It encourages public and private sector cooperation to attack problems such as: poor public awareness of E/NR deterioration; weak, poorly organized institutions; policy deficiencies; and a lack of action programs to reverse E/NR degradation. To build a more stable, more democratic El Salvador, our fourth sub-strategy emphasizes the strengthening of the judicial and legislative systems, protection of individual rights, spread of participatory democracy, and empowerment of local governments. In the area of international cooperation, our fifth sub-strategy seeks to bring about the return of major multilateral donors to El Salvador; and encourages El Salvador to participate in addressing regional concerns, such as drug abuse and the environment. Consistent with U.S. foreign policy initiatives, this sub-strategy also encourages the public and private sectors to address problems of the resettlement of displaced persons and earthquake recovery.

C. Progress in the Mission's Policy Dialogue Agenda

Briefly, here are some highlights of our policy dialogue achievements and shortfalls during 1990.

Economy and Productive Sectors

In order to efficiently allocate resources, rely on market forces, increase private sector participation and modernize agriculture, beginning in mid 1989 and continuing thru 1990, the GOES has carried out, with A.I.D. support and encouragement, a comprehensive economic stabilization and adjustment program. The program has targetted policies which would eliminate the anti-export bias in the old policy regime, reform the structure and administration of public revenues, and improve the functioning of the financial sector. Major policy initiatives have included: adopting a flexible exchange rate, eliminating nontariff barriers and reducing and compressing import tariff rates; simplifying tax structures; and raising interest rates to positive real levels. These macro-level changes have been supplemented by sectoral and institutional reforms, e.g., passing three major laws constituting enabling legislation to reform and privatize the banking system, removing price controls from hundreds of products and opening competition for basic grains and coffee marketing.

The results have been impressive. In 1990, inflation dropped from 23.5 percent to 19.3 percent; traditional and non-traditional agricultural exports increased substantially by 24.2 and 61.4 percent respectively; the overall central government deficit fell from 4.9 percent to 3.1 percent of GDP;

drawback assembly exports grew by at least 50 percent; basic grain production increased up to 30 percent, depending on the crop. This has brought significant benefits in the form of job opportunities and higher incomes, especially for groups like small basic grain and coffee farmers, and workers in the drawback industries. In 1991 and beyond, further structural adjustments and continued sectoral policy and institutional reforms will be required to solidify and extend the gains achieved to date.

Social Sector Efficiency, Decentralization and Privatization

In the social sector, a new General Education Law was passed in 1990 which strongly supports: decentralization of services, and increased participation of the private sector and local communities in the education process. Accordingly, the Ministry of Education (MOE) has begun to: modernize its organizational structure and supervisory system to transfer more administrative responsibility to regional and local levels; privatize two national post-secondary, vocational-technical training institutes; and, encourage the opening of more private schools. USAID, along with other donors, is supporting these changes as well as other GOES efforts to improve the MOE's financial and administrative systems and the efficiency and quality of the basic education system.

The highly centralized Ministry of Health (MOH) is gradually delegating more authority, responsibility and voice in budget allocations to regional and municipal levels. The MOH has begun to: modify internal administrative practices, primarily in personnel management and commodity procurement; encourage service delivery units to charge more for their services and allow them to keep a larger percentage of the receipts from the sale of medicines and other supplies; and encourage private participation in service delivery by actively involving PVOs. There is growing appreciation in the MOH that its role should be increasingly more one of coordination rather than provision of health services.

Another notable change, given El Salvador's population problems, has been the increased priority the GOES has given to family planning. Under the Cristiani Administration, a separate family planning unit has been created in the MOH and given its own budget for 1991.

As noted in a recent GAO report, improvements in health statistics during the 1980's are principally due to U.S. economic aid. Malaria incidence has been reduced from 96,000 cases in 1980 to 9,300 in 1990, infant mortality rates have declined from 75/1,000 in 1980 to 48/1,000 in 1990, contraceptive prevalence is up to 49 percent from 47.5 percent in 1988 while the population growth rate has declined from 3.0 percent in 1980 to about 2.5 percent in 1990.

During the year, the Ministry of Public Works (MPW) and the National Water Authority (ANDA) also took action to regionalize and privatize services: MPW is regionalizing its heavy equipment department; ANDA is cooperating with the MOH on rural potable water projects at the community level, using local promoters and water committees; and MPW projects have increased rentals of equipment and purchases of asphalt from private entities.

Environment and Natural Resources

In 1990, the GOES and the private sector, with Mission support and encouragement, began to formalize a policy agenda for Environmental/Natural Resource Management matters. Public and private sector leaders have begun working together to produce a comprehensive, national environmental strategy. President Cristiani created an Environmental Commission, headed by the Minister of Agriculture and composed of other GOES and local PVO community representatives. Initial results of their analysis show that priority constraints requiring near-term action include: lack of public awareness; obsolete E/NR policies; inadequate enforcement of existing conservation laws; weak institutional capabilities; and a quickly deteriorating coastal zone region. A consensus has formed to begin addressing these constraints, while continuing to study other priority E/NR problems.

While national level recognition of environmental problems has led to increased attention, the challenge is great. New policies must be formulated and internalized; and, appropriate structures and funds must be in place for sound enforcement. Bureaucratic infighting between government officials and local PVOs must be reduced. The GOES must provide more of their scarce resources for E/NR activities. Some important agricultural lands and major watershed areas are not accessible because they are in conflictive zones. Nevertheless in 1990, GOES and private sector political will emerge, and this Action Plan period should witness strong, tangible progress.

A More Stable, More Democratic El Salvador

Achievement of lasting democracy, notably the spread of, and greater confidence in participatory democracy, a stronger and more responsive judicial system and National Assembly, and increased protection of individual rights, must be recognized as a long term, and difficult process. Nonetheless, Mission efforts during 1990 were successful on some fronts. An impact evaluation of our municipal development activities identified basic changes in beneficiary attitudes, an emerging local control over the community's own affairs, and growing evidence of citizens exerting their rights to hold public officials accountable for their actions and proper stewardship of public resources. The electoral process has been strengthened through A.I.D.-financed technical assistance, which coupled with the presence of numerous teams of election observers, have resulted in greater confidence in the fairness of the process. The Assembly has recognized the need to expand its analytical capability through the establishment of a unit similar to the U.S. Congressional Research Service. With A.I.D. support, the GOES has also taken steps to expand protection of individual rights through expansion of the Public Defender's program and the development of a better trained, more effective Commission on Human Rights.

Unfortunately, progress in judicial reform has not matched Mission expectations. The Supreme Court continues to be unduly influenced by powerful interest groups, and the three branches of government have been unable to agree on a range of possible reforms that would both depoliticize the judicial system and increase the protection afforded to individuals in criminal and civil proceedings. As a result, our 1991 ESF Balance of Payments Program will link assistance to specific, measurable progress in judicial reform.

Moreover, the Mission's projectized ESF assistance in this sector will be broadened to include public awareness activities and increased public debate on judicial reform. These initiatives will be designed to begin to address underlying attitudinal and cultural constraints that have impeded greater progress.

International Cooperation and U.S. Policy Initiatives

The Mission's efforts, together with substantial support from the LAC Bureau, to attract other donors back to El Salvador, yielded impressive results in the last year. Our working relationships with the Fund, IBRD and IDB have been close and effective, with these institutions consistently adopting the Mission's strategy and recommendations in their macroeconomic assistance, and sector and project leading as well. The proposed World Bank-led Consultative Group meeting, tentatively scheduled for May 1991, is the next step in this increasingly critical strategy to attract other donor financing for El Salvador. Our assistance levels have already fallen to half what they were three years ago, and will likely continue to decline, albeit at a hopefully slower pace.

Another beneficial result of the return of the international donor community is that it contributes to assuring El Salvador's participation in Presidential initiatives such as the Enterprise for the American Initiative (EAI). The IMF Standby, IBRD SAL and the strong economic policy performance of the GOES has put El Salvador well on the way towards EAI eligibility. We continue to encourage the GOES in this direction, including the pursuit of debt-for-nature swaps which support another area of strategic importance to our program -- E/NR.

Actions over the past year at the regional and national level have also served to buttress GOES efforts in the environmental and drug abuse areas. These include El Salvador's participation in the Central American Commission on the Environment, designation of a National E/NR Commission, and development of a national E/NR strategy. To help counter a growing drug abuse problem, the Mission began implementation of a \$2 million Drug Awareness and Abuse Prevention project with a Salvadoran PVO and will support GOES efforts to promulgate new substance abuse laws and regulations. While drug and alcohol abuse are not yet massive problems in El Salvador, they are growing concerns. Our strategy is to call national attention to these problems now and help Salvadoran institutions to effectively combat them.

The Mission's efforts to address other U.S. foreign policy concerns such as the resettlement of displaced persons led to progress this past year toward the GOES taking over the Displaced Persons (DP) program as a GOES rather than a donor effort by 1993. A.I.D. assistance has already contributed to a dramatic reduction in the DP population and by 1993 that population will be less than one-fourth what it was three years ago.

II. PERFORMANCE RELATED TO LAC BUREAU OBJECTIVES

A. TABLE II: LAC COUNTRY PERFORMANCE INDICATORS FOR EL SALVADOR

Country	Overall Perform Ranking	Overall Perform (100%)	Macro Policies (50%)	Social Services (20%)	Environ Mgt. (10%)	Dem & HR Commit (20%)
El Salvador	9	70.2	40.7	12.0	5.0	12.5

Category	Performance Indicator	CALENDAR YEAR FOR BASELINE DATA											
		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
I. Macroeconomic (Policies 50%)	A. Macro Reform Program	--	--	--	--	--	--	--	--	--	--	--	9
	B. Domestic Financing of Deficit (LAC points)	--	--	--	--	--	--	--	--	--	--	3	8.2
	C. Domestic Financing of Deficit	--	--	--	2.0	0.7	0.6	1.1	-1.1	0.3	--	--	1.8
	D. Exchange Rate (LAC points)	--	--	--	--	--	--	--	--	--	6	--	9
	E. Private Investment (%GDP)	--	--	--	7.5	8.1	7.5	10.7	9.7	9.9	--	--	--
	F. Business Regulatory Environment (LAC points)	--	--	--	--	--	--	--	--	--	--	--	2
	G. Trade Regime (LAC points)	--	--	--	--	--	--	--	--	--	3	--	9
	H. Market Pricing (LAC points)	--	--	--	--	--	--	--	--	--	3	--	7
II. Social Services (20%)	A. Primary School Enrollment (Gross rate) LAC points	74	61	74	69	70	70	--	70	--	--	--	6.6
	B. Contraceptive Prevalence (% women 15-49 yrs. in union practicing contraception) LAC points	--	--	--	--	--	47.5	--	46	--	(48)	(49)	2.3
	C. Infant Vaccination (1 year and under) LAC points	--	--	--	--	--	--	--	--	--	--	62.3	3.1
	D. Infant Mortality (Per 1,000 live births)	--	--	70	--	--	--	--	55	--	--	--	48
III. Environmental Management (10%)	(LAC points)	--	--	--	--	--	--	--	--	--	3	5	
IV. Democracy and Human Rights (20%)	(LAC points)	--	--	--	--	--	--	--	--	--	6	7	

Comments: USAID has found little to question in the macroeconomic section of this exercise. The system of scoring now takes into account improvement on the margin and thus reflects recent improvements. One exception however

is the new business regulatory environment rating which the Mission argues should be a 3.5 given recent macroeconomic and policy improvements and efforts to attract investment in El Salvador. A fuller discussion of this issue is found in Annex D. The Mission has however provided additional information, shown in parenthesis, upon which revised scoring can be made. Specifically, for Contraceptive Prevalence indicators Mission is presently using figures from the 1985-88 Demographic/Health Survey performed by the Salvadoran Demographic Association and CDC Atlanta. This survey indicated a 47 percent contraceptive prevalence in 1987. 1989-90 figures are projections based upon survey data. The Mission fails to understand the apparent dropping of the infant mortality indicator as part of this exercise given the high priority of child survival. This indicator is among the most well understood and most often followed. We have therefore included data on this indicator derived from the aforementioned SDA/CDC study.

B. TABLE III: USAID EL SALVADOR OBJECTIVES

<u>LAC Objective</u>	<u>Mission Strategic Objectives 1/</u>	<u>Mission Indicators 1/</u>
OBJECTIVE I - Support the Achievement of broadly-based sustainable economic growth.		
SUB-OBJECTIVES		
A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.	<ul style="list-style-type: none"> - GOES economic reform program with liberalized exchange and trade regimes, fiscal and financial reform programs, and removal of price controls and other barriers to investment in manufacturing and agriculture, fully implemented. 	<ul style="list-style-type: none"> - Growth in real GDP achieves 4-5 percent rate annually by 1994. - Annual inflation rate reduced to 10 percent by 1994. - Deficit of consolidated non-financial public sector reduced to equivalent of 2 percent of GDP by 1994. - Allocation of productive resources improved by 1994 as follows: reduction in price controls from over 26 categories to five. - Gross domestic savings up to 13 percent of GDP.
B. Encourage a vigorous response by the private sector to a favorable policy environment.	<ul style="list-style-type: none"> - Public sector trading in goods and services reduced. - Agricultural marketing, trade and pricing policies that constrain growth and limit small farmer income reformed. 	<ul style="list-style-type: none"> - State trading by GOES parastatals eliminated and 3 parastatals abolished. - Electric power distribution reprivatized. - Increase the value of non-traditional agricultural exports by an average 25 percent per year. - 72,000 small farmers will derive higher incomes from the increase in NTAE as a result of increased production incentives, better marketing opportunities and technological improvements in production techniques.

1/ Unless otherwise indicated, these objectives and indicators are for current CDSS time frame, i.e., FY 1990-1994.

- Processing and export firms provide technical assistance to small producers, including agrarian reform land holders and co-operatives.
 - Approximately 20,000 small coffee producers benefit from technology transfer from public and private sector institutions.
 - 40,000 coffee farmers and some 600,000 farm laborers will benefit from increased production resulting from policy changes.
 - 50,000 basic grains producers will receive credit and extension services.
- Establish systems to promote efficiency and productivity in agrarian reform sector and that allow self-determination among beneficiaries.
- Passage of agrarian reform beneficiary rights and responsibilities legislation which eliminates the government imposed management and communal ownership pattern in force at present.
 - A voluntary land bank organized and operating in a self-sustaining manner.
- Jobs increased, especially in the areas of small and micro enterprises and non-traditional exports.
- Creation of 75,000 jobs in export industries and free zone operations from 1990 to 1994.
 - Increase employment in small and microbusiness sub-sector by 32,000 jobs from 1990 to 1994.
- Private sector investment increased.
- Private sector investment increased to equivalent of 14 percent of GDP.
 - Private banking assets as a percentage of total banking assets.

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- Management and vocational training strengthened.
 - Marketing information dissemination networks strengthened.
 - Access to primary health services improved.
 - Population Growth Rate reduced.
 - Access to potable water improved.
 - Access to electricity and basic infrastructure maintained and increased.
 - 35-50,000 workers and management have their job skills developed or enhanced from 1990 through 1994.
 - Processing and export firms provide technical assistance to small producers.
 - By 1994, infant mortality is down to 42 and child mortality is down to 22.
 - By 1994, 2,880,000 poor people receiving improved health services.
 - Population growth drops to 2.2 percent by 1994.
 - By 1994, 1,000 potable water systems, serving approximately 500,000 people, will be repaired or installed in rural towns and villages.
 - An average of 400,000 people a year will benefit from municipal development infrastructure projects.
 - Approximately 200,000 people in rural areas will be provided electricity by 1994.
 - Improve rural access by repairing some 1,600 kilometers of secondary and tertiary roads.
 - Sustain the capability of the Salvadoran public services to rapidly repair sabotaged water, electricity and public infrastructure.
- C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

D. Encourage preservation and sustainable use of the natural resource base.

- Increased access to improved primary education.

- Number of teaching years required to produce sixth grade graduate drops to 8 years by 1994.
- Access to improved primary education provided to 850,000 primary school aged children annually by 1994.

- Deterioration of soil, air, water slowed.

- By 1994, nationwide 120,000 additional hectares are farmed under improved environmental practices.

- Sustainable use practices adopted in ecologically vulnerable areas.

- The GOES adopts a natural resources management plan and begins to implement it by 1992.

- Environmental education strengthened.

- Comprehensive policy agenda with support laws being implemented, eight local PVOs executing activities and coastal zone regions beginning to stabilize by 1994.

- Economic policies negatively affecting sustainable use of natural resources reformed.

OBJECTIVE II - Support the evolution of stable, democratic societies.

SUB-OBJECTIVES

A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens and investors.

- Increased independence and efficiency of judiciary.

- An upgrading in the quality of judges, as a result of training, merit selection and judicial career laws, and a general upgrading of the standards of lawyers and the bar association.
- Improved administration of the court system, particularly the management of cases.
- Greater expectations on the part of Salvadoran society that the judicial system can and must operate more effectively and fairly.

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E. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.

- Increased protection of individual rights.
- Increased effectiveness of legislative branch.
- Local and municipal government strengthened.
- Ability to administer free, fair and open elections strengthened.
- Civilian participation in democratic decision making process increased.
- Strengthening of the Attorney General's Office, strengthening of Public Defender's functions, with resulting improvements in defense of the poor.
- Continued cooperation of the GOES in incidents of reported human rights abuses and improved capability of the GOES to respond.
- Assist the legislature to acquire the capacity to independently analyze and draft legislation, and, thus, to assume a role equal to that of the executive in the functioning of the government.
- Role of municipalities clarified and strengthened by additional revenue generating authority.
- 1991 and 1994 national elections are free and open with good voter turnout.
- Citizen participation in open town meetings to select basic infrastructure projects continues to average more than 100 participants per project.
- Civic education introduced into public school curriculum and 15,000 teachers and supervisors trained in methods that support democratic institutions and attitudes.
- 2000 Salvadorans with improved leadership and technical skills using those skills to promote democratic government via CAPS/CLASP and participant training.

- Free and democratically oriented unions strengthened.

- Annual number of students completing basic education, a fundamental for a participatory democracy, increased from 75,000 to 90,000.

- Improvements in the working relationship between labor and management.
- Ability of the democratic labor unions to provide for the needs of their members increased and a parallel weakening of the non-democratic labor movement.

OBJECTIVE III - Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies.

SUB-OBJECTIVES

A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular concern, such as drugs, terrorism, and environmental degradation.

- Promote drug abuse education.

- By 1994 national substance abuse prevention campaign reaching 90% of Salvadoran population.
- By 1994 substance abuse programs exist in 50 communities.

- Improve regional cooperation in dealing with effects of environmental degradation.

- El Salvador is an active participant in regional environmental efforts by 1994.

B. Support USG foreign policy initiatives that can benefit from A.I.D. resources and expertise, such as disasters, epidemics and resettlement of displaced persons.

- Help El Salvador recover and reconstruct after the devastating Oct., 1986 earthquake.

- By 1993 successfully complete reconstruction of 15 public markets, 1,766 classrooms, 9 health facilities, 56 housing sites, 18 community facilities, 9,937 houses, 14 mi. of highway, reestablish 100% water services, and provide 5,124 loans for housing, small businesses and social services.

- Encourage the GOES to effectively resettle Salvadorans displaced from their homes by the civil war.
- Encourage and facilitate GOES participation in the Enterprise for the Americas Initiative.
- Encourage other donor participation in development activities.
- By 1993 displaced population is less than 90,000.
- Mission is discussing with GOES. Targets will be identified as appropriate.
- IMF, World Bank, IDB with significant development programs by 1992.
- World Bank led consultative group formed and meets by the end of 1992.

C. Performance Summary Narrative

Objective I: Support the achievement of broadly-based sustainable economic growth.

Sub-Objective A: Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.

When the administration of President Cristiani took office in June 1989, it was determined to address the root causes of the stagnation that had plagued the Salvadoran economy since 1983. The new government had confidence that the private sector, under more liberal market conditions, could stimulate improved economic conditions to benefit the majority of Salvadorans.

In July 1989, the GOES initiated a comprehensive economic adjustment program. A set of measures was adopted to create a free market environment in which price distortions would be removed allowing investment to flow to the sectors offering the highest return. These economic policies effectively dismantled the incentives to invest in inefficient import substitution industries and instead fostered investment in a wide range of efficient domestic and export activities.

The first task was to attack the anti-export bias inherent in the old import substitution framework. These policies were creating a large and growing imbalance in foreign trade which was becoming progressively more difficult to finance and was impeding economic growth. Accordingly, the Administration implemented a sweeping liberalization of foreign trade: it adopted a flexible exchange rate regime; it eliminated most nontariff barriers (NTBs) and adjusted import tariff rates; and it negotiated El Salvador's accession to the GATT.

The second priority was to initiate a reform of the structure and administration of public revenues. First, the tax structure underwent a limited reform. The stamp tax was simplified; a uniform rate of 5 percent was levied, and most exemptions were eliminated. The income tax for individuals and corporations was adjusted. Several excise taxes whose yields were low relative to the costs of administration were eliminated. Finally, the GOES began to increase its efforts to enforce tax collections.

The final task was to improve the policy environment in the financial sector. Interest rates on deposits and loans were raised to positive real levels in order to stimulate financial savings, improve profitability in the banking system, and allocate credit in a more rational manner.

Overall, the foregoing policy changes have had a significant impact on the Salvadoran economy.

- The foreign trade sector has begun to operate more efficiently. The flexible foreign exchange market is more responsive to domestic and international economic conditions. The real exchange rate has experienced a devaluation of an estimated 20 percent through September 1990. With the new 5-35 percent range of nominal import tariff rates and the abolition of many

NTBs, the average effective rate of protection has fallen from 47 percent to 33 percent. These changes have not only exposed domestic production to the healthy effects of international competition, but have significantly increased incentives for investment in a wide range of profitable export activities.

- As a result of the fiscal measures, central government tax revenues increased in real terms by some nine percent in 1990 allowing a reduction in the overall deficit from the equivalent of 4.9 percent of GDP in 1989 to 3.1 percent in 1990.
- The most visible impact of reforms in the financial sector has been a substantial increase in financial savings.

Macroeconomic performance in 1990 mirrored these structural improvements. Available data on production, transportation, exports, imports and tax receipts through September 1990 indicate that the economy likely grew in real terms by about three percent in 1990 compared to less than one percent in 1989. The most notable improvement was in agriculture as plantings sharply increased in basic grains, coffee and sugar. Furthermore, inflation dropped from 23.5 percent to 19.3 percent including a third quarter rate of minus 1 percent. Non-traditional agricultural exports increased by some 61 percent, the largest annual increase since the late 1970s.

The GOES realizes that its accomplishments in 1989-90 must be followed by further adjustments. The following actions have already been the focus of USG-GOES negotiations and Mission-financed technical assistance:

- Reform of the trade regime will continue. The range of nominal import tariffs will be sequentially compressed to the goal of 10-20 percent by 1993. The remaining nontariff barriers will be abolished.
- The GOES will initiate in 1991 a multiyear program to improve the administration of all tax collections, and strengthen the process of budgeting and expenditure control.
- Following on the adjustment of interest rates in 1989, the GOES has agreed with the World Bank to implement in 1991 a policy of flexible interest rates in which the loan and deposit rates will adjust to market conditions. Now that the GOES has prepared, and the National Assembly passed, three laws establishing legal basis for a private financial system, the GOES will initiate a program to restructure the portfolios of problem banks and S&Ls, divest itself of ownership in these institutions, and develop a strong and independent financial system supervisory and regulatory body.

Sub-Objective B: Encourage a vigorous response by the private sector to a favorable policy environment.

The economic adjustment program created a policy environment conducive to higher rates of economic growth. However, other obstacles stood in the path of increased private sector participation in the productive sectors of the Salvadoran economy. Therefore, to complement the policies in the macroeconomy, the GOES began to eliminate state intervention in the Salvadoran

economy thereby relieving a wide range of sectoral and institutional constraints to investment in industry and agriculture.

- Price controls were lifted from 230 products.
- The importation of petroleum products was privatized.
- The marketing of coffee was opened to private brokers.
- In order to maintain producer and consumer price stability, a price band for corn was implemented and operations of the basic grains market board (IRA) were halted.
- Beneficiary rights legislation for the Phase I Agrarian Reform Cooperatives was introduced to the Legislative Assembly.
- Three laws were passed -- portfolio clean-up, privatization, and banking regulation and supervision -- to implement comprehensive reform in the financial sector.

The private sector responded quickly to the macro and sectoral reforms.

- In 1989-90, there was a 15.3 percent growth in agricultural output (compared to a -1.0 percent decrease during the previous year). Crop loans, a proxy for investment, increased approximately 2.5 times over the previous year and more than 40,000 new manzanas were planted adding an additional 3,000,000 man days of employment. Traditional agricultural exports rose 24.2 percent, with the largest increases in coffee and sugar. Melon acreage in 1990-91 increased 25 percent and the acreage planted in sesame, blackeyed peas, okra and cucumbers were also up significantly. Non-traditional exports (sesame, melons, vegetables, flowers, etc.) increased by 11.4 percent over the previous year with much of the production coming from agrarian reform cooperatives.
- In basic grains -- the mainstay for 1.5 million small farmers -- bean production increased by 30 percent and corn production by 4.7 percent over last year's record crops. There was an 11 percent real price increase at the farmgate for corn, the first time since 1979 that real producer prices have not declined.
- The industrial and small/microenterprise sectors also showed positive gains in 1990. New investment in export industries increased to approximately \$12.0 million, more than what had been accomplished in the previous five years and led to the creation of 6,000 additional jobs. In the GOES-operated Free Zone, two companies undertook major expansions and four new companies opened operations, filling the existing Free Zone to 98 percent capacity. Under the Mission-supported Free Zone Development Project, three investor groups are advanced in their plans to develop new, private Free Zones. The drawback assembly industry improved exports by at least 50 percent to a total between \$80-\$100 million. Under the Urban Small Business Project over 800 loans were approved, helping to create 1,500-2,000 new jobs.

Continued efforts need to be taken in order to build upon the successes of 1989-90.

- The GOES will follow the success of the price band on corn with a price band on rice, and possibly one for sorghum, before the end of 1991.
- The GOES and the Mission will concentrate much of their effort on improving the institutional framework supporting the agricultural sector. The beneficiary rights legislation will be passed in 1991. The land bank for voluntary sales of agricultural land will begin operations. The GOES will seek to privatize: the agricultural training center (ENA), the coffee research and extension institute (ISIC), the silos and warehouses of the grain marketing agency (IRA), and the non-banking functions of the Agricultural Development Bank (BFA).
- The Mission will continue to address existing constraints even with an improved policy and institutional environment. These include: lack of administrative, management and financial capabilities of small businessmen, particularly outside of San Salvador; technological deficiencies reducing the productivity and quality of coffee; obsolete industrial technologies; and inefficient farming techniques by independent small farmers.

Sub-Objective C: Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

Education has been cited by the Cristiani government as a high priority sector. At the same time, the government recognized the need for improved efficiency and quality if increased numbers of Salvadorans were to be given an effective fundamental education. With A.I.D. encouragement, the GOES has moved to improve the policy framework, stressing decentralization, community participation in primary education and private sector options. The recently passed General Education Law formalizes this GOES commitment to quality and efficiency in primary education. To support the GOES efforts in the sector, the Mission and the GOES designed and have now begun implementation of the \$53 million Strengthening Achievement in Basic Education (SABE) Project.

Other ongoing educational activities include:

- Training for Productivity and Competitiveness Project (FEPAGE) which complements our private sector initiatives by providing vocational and technical training for workers needed in key domestic and export industries. Over 1,000 individuals were trained in 1990.
- The Central American Peace Scholarship Program (CAPS) provided U.S. training and exposure to American democratic values and traditions to 95 long-term and 99 short-term Salvadoran participants in 1990.
- The Regional Technical Aids Center II (RTAC II) Project distributed 23,400 textbooks and 200,000 pamphlets through 17 university bookstores and other outlets.

In 1990, the Ministry of Health adopted a five-year national health strategy which calls for decentralization, greater community involvement, improved

accountability and greater fiscal responsibility through cost recovery initiatives. As a consequence, the delivery of basic health services should improve, especially in the rural and marginal urban areas where there will be more community health programs providing vaccinations and family planning services, and health units with adequate supplies of basic medicines. Gradually, the traditionally highly centralized MOH is passing more authority to regional and municipal levels, partly as a result of Mission and World Bank encouragement.

In family planning, contraception delivery expanded, largely through private sector providers, reaching an estimated 49 percent of couples using contraception -- up from 47.5 percent in 1988. One notable change in attitude about family planning services occurred this past year when the MOH, long reluctant to fully engage in provision of services, created and funded a separate family planning unit.

During 1990, the Mission's health/population portfolio expanded with the authorization of two major new private sector projects. The Mission health program now features the following:

- The ongoing \$48 million Health Systems Support (APSISA) Project which provides commodity and institutional support to the country's public health system. It will be amended in 1991 to further emphasize decentralization, locally-based service delivery and cost recovery. A 1990 evaluation concluded that: "the project has definitely contributed to the improved delivery of health/child survival services and can claim at least some credit for the reduction in infant/child maternal mortality and the reduction of third level malnutrition".
- The new \$25 million Maternal/Child Survival Project which will support up to 50 local PVO health care providers' efforts to expand their coverage, thus bringing basic health services to some 350,000 additional rural Salvadorans.
- The new \$22 million Family Health Services Project which will expand the existing non-governmental family planning service system and add select maternal/child health services via the Salvadoran Demographic Association. It will increase the total number of families using modern family planning methods from 120,000 to 200,000 and provide an additional 1,550 rural communities access to family planning and maternal/child health services.
- The ongoing \$3.3 million Strengthening Rehabilitation Services Project with FUNTER (Teleton Foundation) which will be amended in FY 91 to assist disabled Salvadorans still needing rehabilitation services. During 1990, 900 prosthetic devices were produced/repared; 310 new amputees were identified, placed on the national amputee registry, and medically evaluated; and 350 rural promoters were trained in care of handicapped patients.

Complementing activities in education, health and family planning are the major continuing efforts to rehabilitate infrastructure basic to the increased productivity and efficiency of the Salvadoran economy and to the health and employment of the disadvantaged. Mission-funded programs are assisting the GOES to repair and rehabilitate power transmission systems, bridges, roads and

water systems as well as to improve their own capacity to do so through technical assistance and training. Major efforts include:

- The \$135 million (A.I.D. and counterpart funds) Public Services Improvement Project to restore and preserve vital public services which during 1990: provided 1,012 repairs to power lines and transmission stations; repaired three damaged bridges; began work on the maintenance/rehabilitation of 112km of rural roads serving 204,000 beneficiaries; and planned new potable water and sanitation systems in 50 communities serving 22,500 beneficiaries.
- The \$10 million NRECA Rural Electrification Project to improve delivery and end-use of electricity in rural El Salvador for 26,000 consumers. It is early in the Project's implementation but in 1990 training and technical assistance efforts resulted in a three percent increase in access and a reduction of rural electrification construction costs by nine percent.

Building on these achievements, 1991-92 program highlights feature efforts to improve efficiency and accountability, decentralize, and increase private sector participation.

- In primary education, an improved instructional program will be established for the first two years of primary school (some 270,000 students); teacher supervision will be further decentralized; community and parental involvement will improve for school maintenance and to provide a more supportive learning environment; and new construction will provide classroom access to 3,000 additional rural students.
- Vocational/technical training will increase, through A.I.D., IDB, GOES, and private sector efforts managed by FEPADE, with up to 3,000 students receiving skills and technical training in industry, agriculture and management.
- Several hundred additional CAPS/CLASP participants will be trained, swelling the ranks of the returned population to close to 2,000, many of whom will be playing leadership roles in their communities.
- Primary health care services in rural and marginal urban areas will improve for some 100,000 families. MOH, World Bank and A.I.D. collaboration will result in more effective regional health supervision and resource management. Community involvement in preventive health activity will increase noticeably. Ten new local PVO primary health service delivery programs for marginal communities will have been initiated.
- Family planning and contraception services, through both public and private delivery systems, will reach 51 percent of couples - a 4 percent increase since 1988.
- Ten of thousands of people will benefit from improved roads, water and electricity, including thirty communities (15,000 people) who will for the first time have potable water and sanitation facilities.

Sub-Objective D: Encourage preservation and sustainable use of the natural resource base.

In 1990, with continued encouragement from the Mission, the GOES took some positive steps to move problems of environmental and natural resource degradation up on the chart of national priorities and began to address the area more systematically. A Presidential-level Environmental Commission was established and President Cristiani underlined his commitment to Environment/Natural Resource Management concerns in his state of the union address. Reinforced by this higher level interest, a Mission-financed action plan setting forth a conceptual framework for further analysis and development of a national E/NR strategy was approved. The GOES and private sector groups working together have begun to formulate a national E/NR strategy for adoption by the Commission. Paralleling these actions, USAID has prepared its initial E/NR strategy and has begun design of its first major E/NR project.

Meanwhile, jointly programmed local currency has financed a pilot project for achieving sustainable production by hillside farmers, and a reforestation and environmental education campaign; and the GOES has adopted more stringent controls on pesticide use.

In the private sector, the Mission's Water Management and Agribusiness Development Projects with FUSADES have designed and delivered Integrated Pest Management training, will shortly begin constructing a quality assurance lab to help ensure Salvadoran agricultural exports meet U.S. and European import standards, and will train farmers in proper pesticide usage.

Now that GOES studies and Mission analyses have identified a series of constraints, in late FY 1991 the Mission and GOES will initiate the \$30 million Protection of Salvadoran Natural Resources Project, which will incorporate policy formulation and implementation, institutional development, environmental education and coastal zone management activities. Finally, the continuing local currency-funded pilot Sustainable Agricultural Production Project will form a basis for the planned FY 93 Intensified Sustainable Farming Practices Project.

Objective II: Support the evolution of stable, democratic societies

Sub-Objective A: Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.

Achievement of democratic reforms requires shifts in underlying attitudes, cultural values and organizational behavior, a long process under any conditions. Since the mid 1980's, the Mission has encouraged, via policy dialogue and program interventions, increased fairness and efficiency in the administration of justice, a more professional legislative branch, and increased protection of individual rights. In 1990, the results of these efforts were significant but less than desired in some key areas, particularly the administration of justice. Among 1990's performance results are:

- The Commission for Investigations continued its work on key human rights cases, including the Jesuit case and the recent murder of two American

military personnel. The Commission has also trained Public Defenders and prosecutors in the use of scientific, physical evidence. The return of eight forensic specialists from long-term training in the U.S. has also strengthened the Commission's investigative capacity. Furthermore, legislation is being drafted to make the Commission for Investigations a fully civilian organization.

- Preparations for the March 1991 legislative and municipal elections are well under way. Funding was provided for the Elections Commission, for numerous 1991 election observers under six grants with organizations including the OAS, and for election table workers training. With parties from the left on the slate for the second consecutive time, these elections mark a major step forward in integrating these groups back into the democratic political process.
- Agreement was reached with the Legislative Assembly and a new project agreement signed to improve the analytical capabilities of the Assembly, and make it a stronger, more independent branch of government. Initial technical support will aim to help the Assembly members and the political parties with analysis of issues and legislation, thereby improving informed debate.
- The Mission also signed a \$500,000 grant with the Inter-American Bar Foundation to assist the Salvadoran Federation of Lawyers in strengthening its capacity to act as a private advocate for an improved judiciary.
- The Attorney General's Office's ability to prosecute human rights crimes has been strengthened through the establishment of a special human rights unit. Training in 1991 will further enhance the Office's operation.
- Constitutional guarantees of defense have been translated into a reality for more poor Salvadorans with the expansion of the Public Defender's Office to nationwide coverage; another major expansion of the Office is planned for 1991, nearly doubling the number of public defenders and increasing the number of people served from 2,500 in 1990 to an estimated 4,000 in 1991. The expansion will be supplemented by a comprehensive training program.
- Over 5,200 visits by the Mission-supported Commission on Human Rights to military installations and jails, and nearly 1,350 independent investigations of potential human rights abuses served as added protection for individual rights and resulted in the freeing of 607 individuals in 1990.

In 1991 and beyond, a more stable, more democratic El Salvador requires a sustained effort to improve key institutions. Shortfalls in performance in 1990, particularly related to greater impartiality in the decisions of the Supreme Court, fundamental legal reforms to depoliticize the judicial system, and increased protection afforded to individuals, spotlighted the importance of renewed efforts in the judicial system. A strategic framework is now being completed to guide Mission efforts over the next five to ten years. In 1991, ESF policy conditionality related to specific progress in judicial reform, such as the selection process for judges, will complement and reinforce project assistance. A national level public awareness campaign will contribute to broad support for reform of the judicial system. A new unit

will be created within the Ministry of Justice to prepare a new legislative agenda and initiate a process of open debate on proposed legislation dealing with the administration of justice. The democratic process of open, informed debate of changes in national laws will be further enhanced by the stronger research and analytical capability in the Legislative Assembly.

Sub-Objective B: Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non-governmental bodies, including the press, community organizations, labor unions, and business associations.

The Mission continued in 1990 to emphasize expansion of opportunities for greater participation in Salvadoran society and democratic decision-making, through open town meetings as well as organized interest groups such as labor unions and professional associations. 1990 initiatives included support for: the Municipalities in Action (MEA) program, the Strengthening Democratic Processes Project with CENITEC, free trade union development, and leadership training and civic education. Thus, some segments of the Salvadoran populace have expanding opportunities to openly express their views, and local and community government's accountability to the people has clearly increased.

- The Municipalities in Action program, with local currency funding, carried out 2,400 basic infrastructure projects with the participation of 110,000 local citizens in 242 target municipalities. An August 1990 impact evaluation of this program found: "Basic changes in beneficiary attitudes have occurred since 1988. There is a rapidly growing level of community participation, . . . an emerging sense of local control over the community's own affairs, and growing evidence of an ability to hold local and national officials accountable to the people".
- Based on the success of CONARA's Municipalities in Action Program and renewed interest in local government by the GOES, USAID/El Salvador in 1990 funded assistance from INCAE to: 1) facilitate a dialogue process between the 262 municipalities and various GOES agencies to frame a municipal development strategy and, 2) assist the Mission in preparing its strategy for supporting the strengthening of local government. In FY 1992, the Mission will initiate a new project, Municipal Level Democracy Development, to assist municipalities in assuming their expanded role.
- CENITEC research and its companion seminar program has stimulated multi-partisan debate of current socio-economic and political issues facing the nation.
- Under AIFLD's Mission-funded union strengthening activities, Salvadoran unions carried out a national education and media campaign on land reform, participated in six round tables to discuss socio-economic issues and union members and leadership attended seminars on trade union organization, democratic processes, voter education, and inter-union relations.
- The Industrial Foundation for the Prevention of Occupational Hazards (FIPRO) carried out courses and on-site training for over 4,000 workers, and is working actively to improve management-labor-government cooperation to advance worker safety.

- With A.I.D. financing, the GOES has also embarked on the development of a pilot program to grant title to lands occupied by thousands of Salvadorans living in marginal urban areas and to establish a modern and efficient property registry system modeled after the work of the Institute for Liberty and Democracy in Peru. Legislation to establish a new land title agency has been drafted, and is being discussed with cross-sections of the Salvadoran population prior to action by the Assembly.
- The CAPS Project provided training in leadership skills to 194 Salvadoran leaders and gave them a chance to experience U.S. democratic institutions and on their return share their experiences.

In 1991/1992, Mission efforts will continue to focus on local government strengthening, as a major new project will be designed to strengthen municipal governments, enhance local services and facilitate citizen participation in decision-making. With our support, the GOES will adopt a sound municipal development strategy and will prepare legislation to greatly improve local government's authority to generate revenue. Efforts to encourage increased civilian participation and empowerment will continue through innovative programs such as the urban property registry system with the Institute for Liberty and Democracy (ILD) of Peru and CENITEC's seminar programs on major current Salvadoran socio-economic and political issues.

Objective III: Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies.

Sub-Objective A: Contribute to the formulation and implementation of USG strategies for dealing with issues of particular concern, such as drugs, terrorism, and environmental degradation.

In 1990, the Mission's continuing efforts to stimulate a policy environment conducive to increased activity by other major donors began to have considerable success. We are now in a position to capitalize on mutually reinforcing policy initiatives of both a macro and sectoral nature in support of shared objectives with the IMF, the IBRD and, increasingly, the IDB. For example:

- The structural adjustment programs of the IBRD and IMF complemented and built upon our successes in macroeconomic policy dialogue and incorporated important elements of fiscal reform and public sector efficiency that the Mission had promoted.
- In education, we are dividing labor in the primary grades with the IBRD, i.e., the Bank will fund capital improvements, vehicles and equipment at the local and regional levels, while the Mission will fund technical assistance and training, both in support of decentralization and greater private and local support.
- The IDB is also supporting a project, which A.I.D. strongly endorses, with the Central America Technical Institute (ITCA), and is collaborating with FEPADE and USAID in an initiative to privatize the National Agricultural School (ENA).

- In the health sector, we have agreed on complementary efforts with the IDB and World Bank on separate projects. In the water and sanitation area, we have divided the universe by community size (IDB in communities over 2,000 people and A.I.D. in smaller communities). World Bank is working with the MOH on personnel management, supervision and decentralization while we focus more on community participation, health education and promoter training.
- In agriculture, the IBRD and IDB initiated design work on a complementary sector loan totalling approximately \$40 million, due in part to progress toward privatization and institutional analyses assisted by A.I.D. funded technical assistance that helped fulfill pre-loan requirements.
- The World Bank, with active USAID encouragement, has recently begun to collaborate in developing policies, plans and regulatory frameworks for the energy sector which will set the stage for major IBRD and IDB loans.

A World Bank Consultative Group meeting on El Salvador has been tentatively scheduled for May 1991. At this formal meeting the Mission will continue to press for other donor participation in key areas.

These Mission and GOES efforts to attract other donors should also contribute to participation by El Salvador in the Administration's Enterprise for the Americas Initiative (EAI). Prerequisites to negotiations to reduce bilateral debt under the EAI are: the adoption of strong economic reform programs in conjunction with the IMF; the adoption of investment reform programs; and, if appropriate, the completion of commercial bank debt reduction programs. The presence of an IMF program, strong economic reforms under our program and a World Bank Structural Adjustment Loan containing specific sectoral conditions dealing with investment, should allow El Salvador to take advantage of this Initiative to reduce its bilateral debt.

In the area of environmental management, El Salvador participated in the formation of the Central American Commission on the Environment and has established a national counterpart to this regional body (see Sub-Objective D for E/NR accomplishments). The Mission has discussed environmental and natural resource management issues on several occasions with other donors and, although general agreement has been reached on its importance, other than some World Bank interest, little has emerged. Nevertheless, this will remain a priority area not only for the Mission's program but also in our dialogue with other donors during the Action Plan period.

A recent study by the Anti-Drug Foundation of El Salvador (FUNDASALVA) found clear evidence of a growing drug and alcohol abuse problem in El Salvador. The Mission's response to this growing problem is the new \$2 million Drug Awareness and Abuse Prevention Project with FUNDASALVA to strengthen national drug, alcohol abuse and awareness programs through activities in schools, communities and businesses. The GOES has prepared draft substance abuse legislation, which the Mission supports.

Sub-Objective B: Support USG foreign policy initiatives that can benefit from A.I.D. resources and expertise, such as disasters, epidemics, and resettlement of displaced persons.

In its continuing effort to assist El Salvador's recovery from the devastating 1986 earthquake, USAID is working with the GOES and the Salvadoran private sector under the Earthquake Recovery and Reconstruction Project to reconstruct and rehabilitate vital infrastructure, particularly where it benefits lower income populations. Specific accomplishments under this project in FY 1990 included: the construction of 426 classrooms, 3 public markets and 3 health facilities; development of 14 housing sites and construction of 2,729 houses; provision of potable water to three newly established communities where earthquake victims had been relocated; and, 801 loans for housing, small businesses and social services.

Since 1982, the Mission has provided assistance to over 25,000 families (approx. 125,000 people) displaced by the war, through a major economic reintegration effort under the Health and Jobs for Displaced Persons Project. Today there are approximately 120,000 displaced persons, down from a peak of over 400,000 nationwide in 1984. Within the next two years, the displaced population will be down to 90,000 barring major new movements resulting from conflict or natural disasters. The Mission is strongly encouraging the GOES to take control of these programs, which in the past have largely been handled by donors. By 1993, the Mission will turn over remaining program responsibility to the GOES National Commission for the Displaced (CONADES) and local NGOs.

Looking ahead toward the eventual end of hostilities, the Mission is studying the problem of how socially and economically to reintegrate ex-combatants from the ranks of the military and the insurgents. Studies are being completed which will give the Mission the bases for contingency plans for use when a post-war period begins.

Project and Program Evaluation

The Mission has an active system of project and program evaluation. This past fiscal year the Mission conducted 14 project evaluations and one program evaluation (the Local Government Improved Decision Making Impact evaluation). During the next two years, the Mission plans a major program evaluation of the performance of the comprehensive economic reform package, which began in 1989, and an impact evaluation of the Mission's efforts in Non-traditional Agricultural Export Development.

III. NEW PROGRAM INITIATIVES

III. NEW PROGRAM INITIATIVES

A. Summary Statement

Current plans call for the design of four new projects in FY 92 and three new projects in FY 93.

New Projects for FY 92

(\$000)

Small Enterprise Support	(519-0387) LOP - \$ 5,000 PSEE (G)
Municipal Level Democratic Dev.	(519-0388) LOP - \$15,000 PSEE/ESF (G)
Judicial Sector Strengthening	(519-0376) LOP - \$15,000 ESF (G)
Industrial Transformation	(519-0386) LOP - \$ 3,000 PSEE (G)

New Projects for FY 93

Intensified Sustainable Farming Practices	(519-0389) LOP - \$12,000 ARDN (G)
Training for Productivity and Competitiveness II	(519-0390) LOP - \$ 7,000 EH (G)
Electoral Assistance	(519-0391) LOP - \$ 3,500 ESF (G)

Projects scheduled to begin in FY 92 specifically target two key LAC Bureau and Mission Sub-Objectives: encourage a private sector response to the improved policy environment, and encourage the strengthening of competent civilian government institutions. The Small Enterprise Support Project will expand technical assistance and training to small businesses in urban areas other than San Salvador, which will result in more employment opportunities. The Industrial Transformation Project will provide technical assistance, training and marketing support for those companies requiring significant and swift reconversion to adapt to the new macro policy environment. The Municipal Level Democratic Development Project will build upon mechanisms developed in recent years, principally CONARA and the Municipalities in Action local currency funded program, to strengthen municipal government, enhance local services and facilitate citizen participation in decision-making. The Judicial Sector Strengthening Project will significantly expand technical assistance and training activities, and the provision of commodities to develop the judiciary as an independent, depoliticized and efficient branch of government. The latter two projects will be heavily dependent upon policy reform conditionality.

The projects planned for FY 93 also target the two aforementioned Sub-Objectives, as well as encouraging accelerated opportunities for and increased participation in the economy by the historically disadvantaged. The Training for Productivity and Competitiveness II Project will offer critical vocational skills training to meet the needs of new and expanding private sector operations. The Electoral Assistance Project will be a one year effort to strengthen the electoral system in preparation for the 1994 presidential, legislative and municipal elections. The Intensified Sustainable Farming Practices Project will provide technical assistance, training and commodity support through public and private sector organizations to independent, small farmers. The Project will help transfer techniques in irrigation, soil management and crop diversification.

IV. RESOURCE REQUIREMENTS

IV. RESOURCE REQUIREMENTS

A. Program Levels

DA, ESF and PL-480 resource levels required to carry out the Mission's ongoing program and proposed new activities for FY 1992 and FY 1993 are presented in detail in the Summary Program Funding Table (Annex V). Briefly, they are:

	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>
DA	54,984	55,000	55,000
ESF	128,000 <u>1/</u>	120,000	120,000
PL-480			
Title I	35,000	--- <u>2/</u>	--- <u>2/</u>
Title II	<u>3,300</u>	<u>3,000</u>	<u>---</u> <u>3/</u>
TOTAL	221,284	178,000	175,000

The levels and types of assistance are justified in the Mission's FY 1990-1994 CDSS. It is especially important that ESF levels be sustained to maintain GOES economic reform progress and to support new judicial reform initiatives and public administration reform efforts.

1. Mortgage Analysis

The current portfolio mortgage is approximately double the planned DA and ESF projectized obligations for FY 91. Recognizing that program levels will drop over the out years, the Mission has embarked on a strategy to reduce its mortgage. The strategy encompasses the approach outlined in last year's Action Plan, which is to limit the number of new starts and major amendments. For FY 91, the Mission plans two new starts and three major amendments, as opposed to the combination of nine carried out in FY 90. In FY 92, the Mission will undertake four new starts and no major amendments. The LOP funding for the new efforts is generally lower than most existing Mission activities. In FY 93, the Mission is considering three new starts and no major amendments.

The following table summarizes mortgages by functional account. All mortgage amounts for a given fiscal year, whether new start/major amendments or ongoing, represent the levels after the planned obligations for that fiscal year. A new start or major amendment in, for example, FY 91 becomes an ongoing mortgage in FY 92 and beyond. This table illustrates our strategy to significantly reduce mortgages over the coming years.

1/ Includes FY 90 Carryover.

2/ Based on new legislation, PL 480 is now managed by USDA.

3/ Title II Funds for FY 93 pending evaluation results.

Mortgage by Functional Account
(\$000)

<u>FUNCTIONAL ACCOUNT</u>	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
<u>ARDN.</u>			
New Starts/Major Amendments	38,250	---	8,000
Ongoing	11,504	34,519	23,519
<u>POP</u>			
New Starts/Major Amendments	4,000	---	---
Ongoing	4,100	2,900	---
<u>HE</u>			
New Starts/Major Amendments	10,000	---	---
Ongoing	20,018	19,500	8,500
<u>CS</u>			
New Starts/Major Amendments	---	---	---
Ongoing	6,100	800	---
<u>EH</u>			
New Starts/Major Amendments	---	---	3,000
Ongoing	15,450	7,750	4,750
<u>PSEE</u>			
New Starts/Major Amendments	2,500	8,000	1,500
Ongoing	8,047	4,500	1,000
 SUB-TOTAL DA	 119,969	 77,969	 50,269
<u>ESF Projectized</u>			
New Starts/Major Amendments	11,500	17,400	---
Ongoing	37,815	27,250	14,650
 SUB-TOTAL ESF	 49,315	 44,650	 14,650
 TOTAL DA/ESF	 169,284	 122,619	 64,919

2. Pipeline Analysis

Analysis of the Mission's pipeline indicates a slow down in pipeline liquidation rates from FY 89 to FY 90. The rate dropped from 41.0 percent to around 29.0 percent. The Mission had maintained the rate around 42 percent over the last five years. The principle causes of this downturn were the offensive and its lingering effects, since project implementation came to a standstill for three months and continuing guerilla activities in rural areas reduced operational efficiency. In addition, there was considerable implementation downtime, as many old projects ended and new ones began, in FY 1990 (a combination of nine new projects and major amendments started, mostly in the latter stages of the FY '90). With the reduction in the new project design effort over the Action Plan period, the Mission will focus increasingly on implementation, which should raise the liquidation rates to 40 percent and above again.

B. Management and Staffing

1. Portfolio Management

The Mission plans to continue the recent downward trend in the number of management units. For dollar funded activities, the USAID began FY 91 with 34 active projects but expects this number to decline slightly to 33 in FY 1992 and 31 in FY 1993. The Mission has reduced the number of active local currency management units from the over one hundred level of recent years to the 70-80 range currently. In CY 1991, the adoption of a new, more streamlined and efficient local currency project approval system should cut the number of units to the 40-50 range.

The Mission, however, continues to be chronically understaffed. The Mission's portfolio is comprehensive, complex and still evolving. For example, the heightened level of policy reform and institutional development work in the democratic initiatives and public sector reform areas noticeably increases the Mission's workload. In FY 1991, a major new emphasis on the environment and natural resources management will similarly create new demands on staff resources. In health and education, the Mission has shifted our emphasis from commodity support and reconstruction type activities to longer term institutional development, and policy reform activities which tend to be more labor intensive.

The heavy audit workload associated with assuring accountability both of appropriated dollars and host country owned local currency continues to strain Mission technical and staff offices. At the beginning of FY 1990, the Mission had 58 open audit recommendations on its dollar portfolio, to which an additional 65 were added, totaling 123. The Mission responded to the recommendations closing 65, leaving 58 open at the close of the year. In the local currency portfolio, the Mission closed 561 out of 782 recommendations during the year. Major achievements to be sure, but labor intensive ones. Unfortunately, audit coverage and intensity continue to grow and require more precious staff time, particularly with respect to HCOLC financial activities.

In conclusion, while the Mission continues its efforts to reduce portfolio size, its increasing complexity has required the full utilization of all available Mission staff, DH and PSCs, as well as the still increasing contracting of CPA firms.

2. Staffing

As shown above and noted by the State Department Assessment team (10/90), USAID/El Salvador has a heavy management workload and a chronic overload status. To design and implement our program and thereby achieve this Action Plan's objectives, we must retain our current work force levels. In FY 92 the Mission will have a reduced but still sizeable design burden for new initiatives responsive to Bureau and Mission strategic priorities. The Mission has sought to limit the new design load, while focusing staff effort on implementation of our large, diversified portfolio. The PPC review of the Mission's Management Profile revealed, we believe, that USAID El Salvador's management workload is among the highest in the world. Mission staff has been shorthanded since the expansion of the El Salvador program in the mid 1980's. This situation has had and still has serious ramifications for sustaining

morale and productivity. Furthermore, new Agency policy directives, e.g., Host Country Contracting and Buy America, generate increased work requirements in several Mission offices. Thus, at a minimum, maintenance of current staff size and composition per the staffing chart shown below is essential to keep personnel strength in line with Mission workload.

STAFFING CHART

	FY 1991	FY 1992	FY 1993
USDH (Full time)*	39	41	41
US/PSC	33	33	33
FSN/DH	43	43	43
FSN/PSC	168	166	166
TCN	<u>1</u>	<u>1</u>	<u>1</u>
TOTAL	284	284	284

* FY 91 level of 39 did not include 1 IDI and 1 part time position because these positions previously did not count against ceilings. FY 92 and 93 level of 41 includes 1 IDI and 1 part time position per AID/W instructions.

C. Operating Expenses/Trust Funds

OE dollar and Trust Fund levels needed to effectively implement the Mission's program during the Action Plan period are as follows:

Operating Expenses

	<u>Dollars</u>	<u>Trust Fund</u>	<u>Total</u>
FY 1991	3,230.0	5,570.0	8,800.0
FY 1992	3,686.0	5,342.6	9,028.6
FY 1993	3,599.5	4,500.0	8,099.5

The above represents the estimated annual Operating Expense needs at this point in time. An average exchange rate of 7.5 colones to 1.00 U.S. dollar was used in arriving at the Trust Fund dollar equivalent requirements for FY 1992 and FY 1993. The FY 1991 levels are Bureau provided. Since the exchange rate in El Salvador has fluctuated between 5 colones to 1 U.S. dollar and 8.7 colones to 1 U.S. dollar, over the past 1-2 years, these figures may prove inaccurate. For example, the FY 90 actual obligations of \$7.5 million reported at the end of the Fiscal Year would have been \$11 million had the exchange rate remained at the FY 89 level of 5 colones to 1 dollar. Until total dollar requirements are provided by AID/W, the use of reverse accommodation exchange transactions will be essential. The level of such transactions can only be forecast as accurately as the exchange rate fluctuations can be determined. The FY 1991 level of \$8.8 million shown above includes O.E. dollars earmarked for occupancy cost of the new A.I.D. Building on the Embassy compound. The level is tentative and may well prove insufficient to fund the total relocation costs. Any shortfall in FY 91 would have to be made up in FY 92.

A further deterrent to accurate budgeting is the unique situation in El Salvador, i.e., a state of war. Security costs are extremely high and difficult to predict from year to year. Offensive actions by the rebels such as those last year, resulted in an evacuation of employees and a number of significant unplanned expenses.

It is obvious that the Mission cannot afford to take further cuts in our estimated O.E. dollar level. With decreasing levels of ESF balance of payment resources, the ability to negotiate higher levels of O.E. Trust Funds becomes more difficult. As it is, the El Salvador Mission provides for 67 percent of its O.E. needs from Trust Funds. With no foreseeable reduction in program operations personnel, our dollar requirements will increase as inflation and pay adjustments continue. If AID/W does not increase the dollars and continues strict trust fund limits, the Mission will be required to severely restrict operations, perhaps, to a point where it would be unable to effectively carry out its program mandate.

D. Local Currency

Host Country Owned Local Currency (HCOLC) generations from the Balance of Payments/ESF and PL-480 agreements continue to be programmed bilaterally with the GOES. The objectives of the HCOLC program are to enhance the capacity of the Government of El Salvador to design, manage and support its economic and social development programs; and to further United States Government development and policy objectives in El Salvador. Over the past several years, HCOLC generations have been targeted to: (1) stabilizing a deteriorating economy, and a fragile social situation; (2) achieving recovery and sustained economic growth; (3) broadening the benefits of growth; and (4) strengthening democratic processes.

Given the success of stabilization efforts and consistent with the dollar program, the HCOLC program now funds activities for achieving broad-based sustainable economic growth, supporting the evolution of a stable, democratic society and responding to needs for international cooperation in addressing specific challenges. Although the local currency program supports all Mission Sub-Objectives, major emphasis is given to programs encouraging accelerated opportunities for increased participation in the economy by the historically disadvantaged and to the strengthening of competent civilian governmental institutions.

During 1990, efforts continued to improve the Mission/GOES operational management system for the design and implementation of HCOLC activities. As was discussed in the FY 1991-92 Action Plan, in 1989 the Mission revised operating procedures to clarify various program responsibilities. Although these changes improved local currency program management, still more sweeping changes were made this year to focus more attention on project impact, place more operational authority with GOES agencies and Mission technical offices and reduce review and approval time. Steps taken include: the HCOLC Action Plan format has been redesigned to stress purpose, objectives and activities (outputs) instead of inputs; Mission technical offices will take the lead in review and approval of incoming action plans, thereby reducing processing time and paperwork substantially; more audit accountability and responsibility is being directly placed on the Court of Accounts and SETEFE; and implementing

institutions can only submit one HCOLC Action Plan per program, thereby reducing the number of HCOLC Action Plans to approximately 45 and substantially reducing the subsequent number of financial reprogrammings.

ESF local currencies finance activities in five areas: (1) counterpart for A.I.D. projects, (2) specific GOES/Mission high priority activities such as PVO support fund, and municipal development projects; (3) general budget support to GOES development Ministries, such as health, education and agriculture and counterpart for other donor projects in those Ministries; and (4) A.I.D. OE trust funds; and (5) A.I.D. program trust funds. P.L. 480 local currencies fund activities in only the first two areas and those with a rural focus and will cease being available for programming after FY 1991.

The joint GOES-Mission programming exercise for FY 1990 ESF and PL 480 Title I local currency generations (of which the majority is actually expended in CY 1991) produced the following agreed uses: (1) GOES counterpart for A.I.D. projects, \$33.1 million (24 percent); (2) high priority activities, \$38.1 million (28 percent); (3) GOES general budget support, \$59.8 million (44 percent); (4) A.I.D. OE trust fund, \$5.1 million (3 percent); and (5) program trust, \$2.0 million (1 percent).

Projected uses for FY 1991 ESF and PL 480 Title I HCOLC generations are: \$40.0 million for GOES counterpart for A.I.D. projects; \$46.4 for high priority projects; and \$25.0 million for general budget support. The Mission's OE trust fund will receive \$5.6 million and the program trust fund \$8.0 million (\$3.0 million for PVO foundation working with AIFLD and \$5.0 million for Central America University/UCA; the latter requirement was included by Congress in the FY 1991 A.I.D. Appropriations Act). Note that the FY 1991 figures are illustrative only and subject to final setting of an OYB and negotiation with the GOES.

The Mission has also tentatively programmed funding levels for the FY 92-93 Action Plan period. The following levels are based on probable ESF BOP levels and reflect the fact that under the new P.L. 480 Law, either USDA will have responsibility for local currency generations or no joint programming will occur. In addition, the Mission will continue to move towards greater GOES responsibility in carrying out priority projects, as was done with other donor counterpart two years ago, by shifting generations to general budget support. The Mission will continue to program resources for counterpart to A.I.D. projects, and O.E. and program trust funds. Unless the new local currency policy guidance dictates otherwise, this approach should help to reduce Mission workload relating to HCOLC program implementation and auditing requirements.

Local Currency Programing

<u>Components</u>	<u>FY 1991</u> <u>amount</u> <u>million</u>	<u>FY 1992</u> <u>amount</u> <u>million</u>	<u>FY 1993</u> <u>amount</u> <u>million</u>
(1) GOES counterpart for A.I.D. projects	\$ 40.0	\$ 45.0	\$ 45.0
(2) High priority projects	46.4	0.0	0.0
(3) General Budget Support	25.0	32.2	40.5
(4) A.I.D. OE Trust Fund	5.6	5.3	4.5
(5) A.I.D. Program Trust Fund	<u>8.0</u> ^{1/}	<u>7.5</u> ^{2/}	<u>0.0</u>
TOTAL	\$125.0	\$ 90.0 ^{3/}	\$ 90.0

As in the past, all local currency received under ESF or PL-480 agreements will be placed in separate accounts at the Central Bank (BCR). Undisbursed balances of funds assigned to implementing agencies will remain in BCR project specific accounts. Implementing agencies, for projectized activities and for counterpart to A.I.D. projects, will receive local currency only in accordance with a HCOLC Action Plan approved by MIPLAN and A.I.D. The Mission will fulfill its monitoring responsibilities by analyzing and approving action plans, by requiring progress reports on activities carried out under action plans, and by requiring MIPLAN to conduct periodic audits and end use checks of resources. For the general budget support component, which is attributed to the national budget, A.I.D. and the Ministry of Finance will agree on subsectors to receive funding. The Ministry of Finance will provide A.I.D. periodic reports on expenditures. For funds used by the Mission under its Trust Fund arrangements, A.I.D. will report our uses of funds to the GOES.

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- ^{1/} \$3.0 million for PVO foundation working with AIFLD and \$5.0 million for Central America University/UCA.
- ^{2/} \$2.5 million for PVO foundation working with AIFLD and \$5.0 million for Central America University/UCA.
- ^{3/} Decrease due to shift of PL 480 Title I responsibility to USDA.

V. MISSION AND AID/W INITIATED ISSUES

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V. MISSION AND AID/W INITIATED ISSUES

A. Local Currency Accountability. The Mission has expressed concerns and reservations about the new draft guidance for the LC program (SS 14555 10/26/90). These concerns revolve around practicality, implementation, accountability, monetary sterilization, and workload. What is the status of the new guidance? We have already negotiated with the GOES and begun to implement procedures for the CY 1991 (GOES Budget Year) program. If new guidance, which implies substantive changes, should come out in the interim, the Mission would request a grandfather clause to allow any changes to be sorted out and put into place for CY 1992 to avoid significant disruption of this year's program.

B. New PL 480 Legislation. Recent changes in the PL 480 law have raised questions over the future use of PL 480 generated local currencies. The new law has eliminated A.I.D. involvement in the programming of Title I including seemingly local currency generations. Given USDA's lack of presence here, how will these local currency generations, if generated, be managed? Who will establish criteria, be accountable and assure adequate end use checks for them? How will their use be coordinated with A.I.D. programs given potential programmatic overlaps.

C. New A.I.D. Building in Embassy Complex. The Mission is scheduled to move to the new Embassy complex in Santa Elena about January, 1992. A series of problems have arisen concerning the new AID building: inappropriate internal office layouts; lack of adequate provision for USAID's motor pool operations; inadequate computer installation connections; FBO reimbursements for furniture and furnishings; payment for the sale of current AID building; the unavailability of telephone lines in the Santa Elena area. AID/Washington intervention with FBO may be required in the near future to help resolve some of these problems.

VI. ANNEXES

FY 92 New Project Description

PROJECT: Small Enterprise Support

PROJECT NUMBER: 519-0387

PROJECT FUNDING: (\$000) FY 92: \$2,500 LOP: \$5,000 (G)
over 3 years

FUNDING: DA, Private Sector, Energy, and Environment (PSEE)

A. Relationship to A.I.D. Country Strategy/Objectives: The Project will address the Mission's 1990-1994 CDSS strategy for achieving long-term, sustainable economic growth through providing credit, technical assistance and training to support and strengthen the small enterprise sector of El Salvador.

Despite ongoing efforts to privatize the financial sector, small and microentrepreneurs continue to experience difficulty in obtaining credit except from specialized credit institutions. Small loans are not considered profitable by commercial banks, and the banks are often intimidating to small and microentrepreneurs. The creation of the A.I.D.-supported Program for Small and Microenterprise Development (PROPEMI) in 1985, and the Microenterprise Service Center (MSC) in 1990, have provided valuable means for delivering credit to these two groups. The MSC is becoming a viable, and sustainable Salvadoran institution to provide increased access to financial and non-financial services exclusively for microenterprise operations nationwide, while PROPEMI has a five year record of providing technical assistance, training and credit to both small and microenterprises. PROPEMI has expanded lending to microenterprises and women by increasing the proportion of its total assistance portfolio to them by 15 and 20 percent respectively.

Although the trend in favor of microenterprises has been beneficial, small enterprises remain the largest employer and largest class of businesses in El Salvador. These small businesses experience the same exclusion from the formal credit delivery system as do microenterprises. PROPEMI is uniquely positioned to increase its support for the small business group. When its current funding for credit programs expires in June 1992, PROPEMI will have a small but viable credit program which can be sustained by interest income. The Microenterprise Development Project (MSC), by providing financial and non-financial services for the microenterprise sector, will free PROPEMI to expand and amplify its coverage to the relatively larger microenterprises as well as to a larger number of small businesses. This strategy is designed to ensure that both sectors continue to share in the benefits of broad-based, sustainable economic growth by having expanded access to both financial and non-financial services.

B. Relationship to Host Country and Other Donors: Assistance to small and microenterprises continues to be central to host country policy. The GOES has established positive real interest rates and has embarked on a major financial sector reform program. In an effort to eliminate a major drawback to lending to the small and microentrepreneur, the Central Reserve Bank, with

A.I.D. support, has established a credit guarantee fund for the sector. The GOES is presently developing an A.I.D.-funded pilot project with the Institute for Liberty and Democracy of Peru (ILD), which will provide assistance to enable the poor to formally register property and take other steps to enter the formal economy. This Project and the ILD effort will be mutually supportive. The IDB has also provided support for PROPEMI's program in the eastern region of El Salvador.

C. Conformance with Agency and Bureau Policies: This Project conforms with Agency and Bureau policies such as the Central American Strategy statement issued by the LAC Bureau in November 1990, which focusses on: the development of stable, democratic societies; the achievement of broad based, sustainable economic growth; and the attainment of effective regional cooperation. Small enterprises are the backbone of the Salvadoran economy, and efforts to increase their productivity and viability benefit a large number of Salvadorans, particularly women who make up about 65 percent of small and microenterprise owners. Furthermore the A.I.D. Policy Paper on Private Enterprise development states that assistance "should encourage social and economic development that promotes movement toward a democratic, free market society" and contribute to the "establishment of viable, competitive markets and the expansion of private enterprise".

D. Project Description: The purpose of the Small Enterprise Support Project, is to provide a responsive source of short and medium-term credit to small and micro entrepreneurs who have little or no experience with formal financial systems. The Mission's strategy for the Action Plan period calls for encouraging PROPEMI to expand provision of its services under the ongoing Small and Microenterprise Project to small enterprises located in urban centers outside of San Salvador. The Project will provide increased resources to enable PROPEMI to expand credit delivery, technical assistance and training to small businesses, widening its coverage of this important sector both quantitatively and geographically. Technical assistance and training will assist entrepreneurs in the areas of business management, accounting and marketing, particularly in urban areas outside of San Salvador. The Project will directly benefit some 2,750 small businesses of which 30-50 percent are women, and an estimated 22,000 employees and their families by providing \$4.5 million in credit for the sector.

Implementing Agencies and Methods of Obligation: The Salvadoran Foundation for Social and Economic Development (FUSADES), through its Program for Small and Microenterprises (PROPEMI), will implement the Project. Obligation will be effected through a Cooperative Agreement with FUSADES.

E. Mission Management: The Project will be managed by a senior FSN PSC with the support of an FSN PSC program assistant in the Mission's Private Enterprise Office (PRE).

F. PID and PP Approval: USAID/El Salvador requests that the Bureau authorize the Mission Director to approve the PID and PP at post.

G. Potential Issues: None.

H. AID/W TDY Support for Project Development: None.

I. PID Approval: 1/92 PP Approval: 5/92

FY 92 New Project Description

PROJECT: Municipal Level Democratic Development
PROJECT NUMBER: 519-0388
PROJECT FUNDING: (\$000) FY 92: \$6,000 LOP: \$15,000 (G)
over 4 years
FUNCTIONAL ACCOUNT: DA Private Sector, Environment and Energy (PSEE) and
Economic Support Funds (ESF)

A. Relationship to A.I.D. Country Strategy/Objectives: Strengthening democratic institutions, pluralism and civic participation have been identified as key objectives of the Mission's FY 90-94 CDSS. The Mission's portfolio has included a series of initiatives designed to achieve such goals (e.g., support for Municipalities in Action and the Salvadoran Institute for Municipal Development, the Strengthening Democratic Processes Project with CENITEC, and support for elections and free trade unions). These activities contribute to achievement of the LAC Bureau and USAID/El Salvador objective of supporting the evolution of stable, democratic societies and related sub-objectives of strengthening competent civilian government institutions and encouraging pluralism and tolerance of opposing views. Through these programs we have contributed to an awakening of various segments of the Salvadoran populace and a broadening of political space; interest groups now openly express their views and the accountability of government officials to their constituents at the local level has increased. Notwithstanding these improvements, local governments lack the legal and policy framework, technical skills and financial means to play a broader role in the country's democratic development. The technical assistance and operational support provided under this Project will contribute to enhancing local government autonomy and efficiency, including policy reform to stimulate increased revenue generation at the local level.

B. Relationship to Host Country and Other Donors: The Government's five year Economic and Social Development Plan identifies the existing centralization of power as a contributing factor to the government's lack of responsiveness to the citizenry's needs. Moreover, the Plan sets forth the Government's commitment to pursue decentralization through the increased participation of local government as a means for broadening participation in decision making and increasing the accountability of local officials. In support of this strategy, the GOES continues to allocate significant levels of local currency resources to the Municipalities in Action program administered by the National Commission for the Restoration of Areas (CONARA), as well as technical assistance, training and auditing of local governments conducted by the Salvadoran Municipal Development Institute (ISDEM). These initiatives have been key to increasing citizen participation in decisions (e.g., through the open town meetings which decide investment priorities), as well as to improving local level infrastructure. A.I.D. as well as the official German aid agency (GTZ) have provided support for these initiatives. The GTZ's support focusses on the establishment of technical capabilities within ISDEM

in municipal budgeting and accounting (including preparation of a draft law on locally generated municipal revenue sources) and establishment of a revolving loan fund for municipal infrastructure. No other donor has plans to assist in improving the legal and policy framework for greater municipal autonomy, nor to upgrade local government capacity for day-to-day administration of the municipality.

C. Conformance with Agency and Bureau Policies: Development of stable democratic societies in the countries of Central America constitutes the leading edge of A.I.D.'s strategy for the region. The Program Strategy includes two broad areas of focus: the strengthening of civilian government institutions to be more responsive to citizens and more democratic in operation; and the promotion of democratic values among citizens through greater participation. This Project's activities are fully consistent with the new thrust of LAC's Central America Strategy and Agency policies regarding local institutional development, and especially with the new LAC Bureau Objectives supporting the evolution of stable, democratic societies.

D. Project Description: The purpose of the Project is to enhance democratic processes and systems for effective citizen participation at the municipal level. The Project is planned to include two components: Policy Framework for Municipal Government, and Local Government Skills Development. The first component will provide technical assistance to the National Association of Mayors (COMURES) in the analysis of the policy framework governing municipal operations, to include, inter alia, revenue enhancement, establishing a municipal civil service as a protected career with prescribed entry-level training for certain positions, and reform of the electoral process to provide for multi-party representation on municipal councils. The second component will establish in-service training programs to strengthen local government capacity to plan and implement projects, develop and implement sound and equitable fee and tax structures, improve financial planning and accountability, and establish channels for citizen input into the decision making process such as continuation of open town meetings and formation of voluntary community associations. Institutions which may be contracted to develop and carry out such training programs include ISDEM, CONARA, the Salvadoran Municipal Institute (ISAM), and private consulting firms (both for profit and not-for-profit). In addition, operational support will be provided to improve the functioning of departmental level associations of mayors, where collaborative action may result in a higher level of service delivery. The Project's outputs include training for municipal officials, an improved policy framework, increased reliance on locally generated resources, and the strengthening of departmental associations of mayors.

The Project will directly benefit municipal officials through their participation in training programs and the receipt of technical assistance. More importantly, however, more Salvadorans will be given the opportunity to participate in decisions affecting the delivery of local services. Women are key actors in local government, and will benefit both through their participation in training programs and the opening of new channels for women to articulate the needs of themselves and their families.

The sustainability of project improvements will largely depend on political commitment and policy reform that lays the basis for increased revenue sharing and revenue generation. The Project will provide financing to ensure that these concerns are addressed early in the life of the Project.

Implementing Agencies and Methods of Obligation: The National Association of Mayors may be the grant recipient. Obligation will be made by a Handbook 13 Grant Agreement, with the procurement of goods and services being handled primarily by A.I.D. or the technical assistance contractor.

E. Mission Management: A U.S. PSC will serve as the project manager for this activity.

F. PID and PP Approval: USAID/El Salvador requests that the Bureau authorize the Mission Director to approve the PID and PP at post.

G. Potential Issues: (1) Current autocratic nature of the National Association of Mayors has impeded more active and broader participation of mayors in the Association's activity. Reforms to the bylaws are under discussion to address this problem, but may encounter resistance by those who now control the organization. (2) The Association now has a weak management structure and will require considerable technical assistance to implement the project. (3) Legislative reform related to revenue sharing and revenue generation, as well as electoral reforms, may meet with opposition for budgetary reasons as well as politics.

H. AID/W TDY Support for Project Development: No assistance contemplated at this time.

I. PID Approval: 10/91

PP Approval: 3/92

FY 92 New Project Description

PROJECT: Judicial Sector Strengthening
PROJECT NUMBER: 519-0376
PROJECT FUNDING: (\$000) FY 92: \$2,600 LOP: \$15,000 (G)
over 4 years
FUNCTIONAL ACCOUNT: Economic Support Funds (ESF)

A. Relationship to A.I.D. Country Strategy/Objectives: The Mission's CDSS for 1990-94 stresses the need for sustained U.S. efforts to strengthen democratic institutions in El Salvador. A cornerstone of democracy is the rule of law, applied equally and regardless of position, wealth or power. El Salvador's criminal justice system has been historically weak. Moreover, the population lacks a civic culture that attaches the highest importance to an impartial, responsive and independent judicial system. The result is a system in dire need of fundamental reform. The Mission's ongoing Judicial Reform Project is addressing some of the problems found in the system. Accomplishments to date include the establishment of a competent investigative unit and forensic lab, an expansion of the public defender's office and passage of a judicial career law. Additionally, A.I.D. has financed numerous training programs for court and legal personnel, and has just signed an agreement with the Inter-American Bar Foundation to strengthen Salvadoran bar associations. The FY 1991 Balance of Payments Program will advance the effort further, focussing on policy dialogue to obtain the GOES commitment and initiation of substantive reforms. Assuming success in obtaining these reforms, this Project will provide the continuing support required to institutionalize achievements made thus far. The Project will also seek to broaden awareness of the need for changes in the judicial system among the legal community and population in general, to foster a supportive climate for reforms. Finally, a cornerstone of the project will be efforts to begin building a tradition of critical debate within the Salvadoran legal community.

B. Relationship to Host Country and Other Donors: The commitment of the Salvadoran government and population in general to judicial reform has, at best, been of a sporadic nature, fueled considerably by pressure groups outside of the country. Salvadoran leaders have, however, now heightened their awareness of the need for reform. As a result, the GOES has, in agreeing to the 1991 Balance of Payments Program conditionality, committed itself to a serious judicial reform effort, one which will begin to attack the underlying systemic problems which result in the selective protection of basic rights and guarantees, and also seek to educate the Salvadoran populace on individual rights and responsibilities and the importance of individual action to protect these constitutional guarantees. At the present time, no other donors are involved in this sector. The support envisioned under this Project is essential to GOES efforts to overcome the institutional, financial, and attitudinal constraints that would otherwise slow or block reform efforts.

C. Conformance with Agency and Bureau Policies: Support for and development of stable democratic societies in the countries of Central America constitutes the leading edge of A.I.D.'s strategy for the region. Within this framework, the first objective of the U.S. assistance to the region is to enhance the administration of justice through increasing the independence, professionalism, and effectiveness of the judiciary and related organizations. This Project's activities are fully consistent with the new thrust of U.S. aid to Central America and the rest of the world.

D. Project Description: The purpose of the Project is to enhance the independence, professionalism and efficiency of the judiciary and related institutions. As now envisioned, the Project will have four components: Legislative Reform, Human Resources Development, Improved Court Administration, and Public Education and Awareness. The first component will provide continuing support for the analysis, public discussion and drafting of legislative reform proposals to improve the criminal justice system. Technical assistance, as well as limited grant funding, will be made available to government and private sector institutions to continue analyzing deficiencies in the existing legal framework and recommending changes to improve the administration of justice as required.

Under the Human Resources Development component, we will seek to upgrade the quality of legal skills shared by the Salvadoran legal community in general. This component will build upon activities under the current project designed to upgrade the quality of teaching in the law schools. However, it will go beyond current efforts and seek to establish a private "legal studies center". The center will be staffed initially with only internationally respected legal experts and professors, who may over time be replaced with Salvadoran or other graduates of the center. The center will concentrate on changing the existing approach to law and building a tradition of critical legal debate and thinking within the Salvadoran legal community -- the lack of which is a fundamental impediment to reform efforts. Post graduate scholarships to study abroad will be offered to the students of the center to complement their in-country training and to serve as an incentive for the best students to attend the center. The core group of young lawyers trained at the center are expected to become the catalyst for further judicial reform efforts over the medium and long term. On-the-job training of prosecutors and public defenders will also be continued under this component.

Assuming that difficulties with the Supreme Court are resolved, the Court Administration Component will resume activities begun under the ongoing Judicial Reform Project. Activities will include technical assistance and support to improve training programs for judges, court administrative and clerical personnel; modernization of case tracking and court administration practices; reorganization of court structures designed to improve the efficiency of the courts; improvements in legal research materials available to judges; and upgrading of physical facilities where necessary to improve the efficiency and functioning of the courts.

Finally, the public education and awareness component will provide continuing support for the development of educational materials and radio and television messages designed to inform Salvadorans of their rights and responsibilities as individuals under the Salvadoran Constitution, and to develop support for judicial reform efforts. As with the formation of the legal studies center, the objective of this component is to attack the underlying attitudinal constraints that have impeded greater accomplishments to date.

Outputs under the Project will include establishment of a legal studies center, the development and publication of didactic and reference materials, development and distribution of pamphlets and other informational material for the general public, and the training of approximately 1,000 judicial personnel, professors, and lawyers. The Project design will incorporate concerns regarding the sustainability of project improvements; however, increases in the operating budget of the judiciary and related institutions will be necessary in the short to medium term, particularly to cover higher salaries.

The Project will directly benefit judicial branch employees, law professors and individuals who are participants. However, if successful the longer-term impact will be to increase the efficiency and impartiality in the administration of justice in El Salvador, thereby benefiting Salvadoran society in general.

Implementing Agencies and Methods of Obligation: The Ministry of Justice and the Supreme Court will be the lead implementing organizations; they will be assisted by an expatriate technical assistance team contracted directly by A.I.D.. Obligation will be made by a Handbook 3 Grant Agreement.

E. Mission Management: A USDH in the Office of Democratic Initiatives will serve as the project manager for this activity, with support of the other USDH and PSC staff and one FSN project management assistant.

F. PID and PP Approval: USAID/El Salvador requests that the Bureau authorize the Mission Director to approve the PID and PP at post.

G. Potential Issues: (1) Willingness and ability of the GOES to increase funding to the judicial sector to cover recurrent costs; (2) ability of the judicial and executive branches of government to reach agreement on necessary legislative reforms; and (3) resolution of difficulties with the Supreme Court which currently impede activities with that branch.

H. AID/W TDY Support for Project Development: No assistance contemplated at this time.

I. PID Approval: 12/91

PP Approval: 5/92

FY 92 New Project Description

PROJECT: Industrial Transformation
PROJECT NUMBER: 519-0386
PROJECT FUNDING: (\$000) FY 92: \$1,500 (G) LOP: \$3,000 (G)
FUNCTIONAL ACCOUNT: Private Sector, Energy, and Environment (PSEE)

A. Relationship to A.I.D. Country Strategy/Objectives: The Mission's 1990-1994 CDSS strategy for achieving long-term, sustainable economic growth recognizes that the country needs to adjust its economy, placing increased reliance on nontraditional exports. This Project will contribute to achievement of this objective, as well as the new LAC Bureau Sub-Objective of encouraging a vigorous response by the private sector to a favorable policy environment, by providing technical assistance to industry to adjust processes and/or products produced in light of revised policy framework and more competitive market conditions.

B. Relationship to Host Country and Other Donors: The current Salvadoran government has laid the groundwork for stimulating foreign and domestic investment in the Salvadoran industrial sector. Before 1989, economic policies discouraged investment in manufactured exports. An over-valued exchange rate, quantitative controls on imports, price controls on a wide range of final and intermediate products, and high nominal import tariffs all distorted domestic prices so that investments in industry were simply not profitable to many potential investors. This Project will enable Salvadorans to take advantage of recent reforms in the exchange and trade regimes which have increased the profitability of a wide range of industrial activities.

The Project is consistent with other donor activities that promote economic adjustment in El Salvador. The IDB, through its Multi-sector Credit Project, will provide term financing for new capital formation.

C. Conformance with Agency and Bureau Policies: The Project is consistent with Agency and Bureau policies on economic development in general and private sector development specifically. The Central American Strategy Statement issued by the LAC Bureau in November 1990, stresses: the development of stable, democratic societies; the achievement of broad based, sustainable economic growth; and the attainment of effective regional cooperation. This Project will increase the industrial sector's capacity to produce a wider nontraditional product mix for export to regional and extra-regional markets. In doing so, the sector's contribution to sustainable economic development will be enhanced.

D. Project Description: The purpose of the Project is to provide assistance to Salvadoran manufacturers to improve their efficiency and thereby enable them to compete in an environment no longer protected by tariff and non-tariff barriers to competition. The Project will include assistance to targeted

industries to: (a) maintain domestic markets by improvements in efficiency; (b) maintain or enter regional or extra-regional export markets by improvements in production efficiency and/or improvements in the product; and (c) complete product changes and changes in the means of production to permit non-exporting firms to break into non-traditional export markets. Although the A.I.D. program has provided similar assistance to firms desiring to enter the extra-regional export market, this Project will specifically target those firms most adversely affected by the structural reform program initiated in 1989. The Project will consist of studies, technical assistance and training, supported by credit available through other efforts already underway. The Industrial Stabilization and Recovery Project, which provides external promotion and marketing assistance, will also complement Project activities.

The Project will benefit industry owners and workers, as employment opportunities continue to expand. Women will benefit, as they make up a substantial portion of the export-oriented workforce.

Implementing Agencies and Methods of Obligation: A Cooperative Agreement will be signed with the Salvadoran Association of Industrialists, a local PVO.

E. Mission Management: Responsibility for managing the Program will rest with the Mission's Private Enterprise Office (PRE). A senior FSN PSC in PRE will manage this activity with the support of an FSN PSC Program Assistant.

F. PID and PP Approval: USAID/El Salvador requests that the Bureau authorize the Mission Director to approve the PID and PP at post.

G. Potential Issues: Program scope. During design, Mission may decide to limit focus to one or a few selected sub-sectors, where credit is available and potential for successful transformation is great.

H. AID/W TDY Support for Project Development: None.

I. Estimated PID Approval: 12/91 PP Approval: 5/92
(PVO Proposal)

FY 93 New Project Description

PROJECT: Intensified Sustainable Farming Practices
PROJECT NUMBER: 519-0389
PROJECT FUNDING: (\$000) FY 93: \$4,000 LOP: \$12,000 (G)
over 5 years
FUNCTIONAL ACCOUNT: Agriculture, Rural Development and Nutrition (ARDN)

A. Relationship to A.I.D. Country Strategy/Objectives: The Mission's policy dialogue efforts have focussed on the creation of an improved policy framework as a prerequisite for increased farm earnings, particularly for the 250,000 small and subsistence farm families who produce basic grains. Having achieved a greatly improved policy framework, and with the experience of several years of a HCOLC funded project with hillside farmers, a technology transfer program targetted at these families is now justified. This Project will identify, develop and transfer the most appropriate technologies for intensifying the production of farmers while conserving and enhancing their natural resource base.

B. Relationship to Host Country and Other Donors: This Project will support GOES and private sector efforts to increase small farmer productivity through the use of modern, sustainable agricultural practices. The IDB and World Bank are assisting the Ministry of Agriculture to reorganize its technology development and transfer agencies to improve efficiency. The International Food and Agricultural Development Agency (IFAD) also has a pilot project producing data and experiences in three departments upon which this project can draw.

C. Conformance with Agency and Bureau Policies: This Project conforms with A.I.D. policies on agricultural diversification and promotion of sustainable uses and management of natural resources, especially soil and water conservation.

D. Project Description: The purpose of the Project is to improve incomes of small and medium-sized farm families through productivity increases from intensified, sustainable agriculture. The Project will facilitate the development and dissemination of technology to intensify production, such as irrigation, diversification and integrated production systems, while promoting stewardship of land and water resources. A range of transfer agents will be utilized, including CENTA (the Government's agricultural technology agency) and other MAG agencies, the Agricultural Diversification program of FUSADES, producer organizations, PVOs and processors. Technical assistance, training and other support will be allocated to these sources and agents, to develop their institutional capabilities and enable them to implement project activities. The Project will benefit tens of thousands of independent small and medium farmer families, many of which are headed by women.

Implementing Agencies and Methods of Obligation: The principal implementing agencies will be CENTA and other MAG agencies, PVOs, cooperatives or producer associations. Funds will be obligated via a Handbook 3 grant, with sub-obligations made using Handbook 13 agreements.

E. Potential Issues: Ccordination among the various implementing agencies.

F. PID Approval: 11/92 PP Approval: 4/93

FY 93 NEW PROJECT DESCRIPTION

PROJECT: Training for Productivity and Competitiveness II

PROJECT NUMBER: 519-0390

PROJECT FUNDING: (\$000) FY 93: \$4,000 (G) LOP: \$ 7,000 (G)
over 4 years

FUNCTIONAL ACCOUNTS: Education and Human Resources (EHR)

A. Relationship to A.I.D. Country Strategy/Objectives: The USAID's education strategy emphasizes, along with basic education, training to support export-led economic growth. This Project will continue support for the Foundation of Entrepreneurs for Educational Development (FEPADE), a Salvadoran PVO, which is helping to meet the training needs of Salvadoran enterprises, especially in the nontraditional export sector, through the establishment and/or strengthening of vocation-technical training programs.

B. Relationship to Host Country and Other Donor: The GOES 1989-94 Economic and Social Plan identifies the mismatch between the demand for labor and the skills of the workforce as a problem. Its strategy is to work with private institutions to improve the quality of vocational and technical training. The IDB will also support the privatization of two technical training institutes.

C. Conformance with Agency and Bureau Policies: The Project is consistent with A.I.D. policies on the transfer of technology, the strengthening of local organizations, and the use of PVOs. In addition, the LAC Central American Strategy Statement of November 1990 highlights assistance for sustainable vocational programs geared to productive private sector needs as a priority.

D. Project Description: The Project purpose is to develop or upgrade the human resources needed by the Salvadoran private sector for increasing production, productivity and competitiveness. This Project will provide four additional years of support for FEPADE to: (1) expand vocational-technical training opportunities available through the establishment of new programs in existing training institutes (including FEPADE); (2) improve the quality of existing vocational-technical training programs, through, inter alia, teaching fellowships and grants to purchase equipment or expand facilities; and (3) expand the geographic coverage of FEPADE's training activities around the country. In support of these objectives, FEPADE will also institutionalize an annual manpower assessment to identify emerging training needs in a formalized manner, especially in the export sector.

Implementing Agencies and Methods of Obligation: A Handbook 13 Cooperative Agreement with FEPADE.

E. Potential Issues: none.

F. PID Approval: 12/91

PVO Proposal Approval: 3/93

FY 93 New Project Description

PROJECT: Electoral Assistance
PROJECT NUMBER: 519-0391
PROJECT FUNDING: (\$000) FY 93: \$3,500 LOP: \$3,500 (G)
over 1 year
FUNCTIONAL ACCOUNT: Economic Support Fund (ESF)

A. Relationship to A.I.D. Country Strategy/Objectives: The November 1990 Central American strategy accords the highest priority to the strengthening of democratic institutions, including electoral processes. Election observers offer positive reinforcement to free and open elections; technical assistance to strengthen electoral processes is also essential, to ensure that the voting process proceeds smoothly and, in turn, builds citizen confidence in the process.

B. Relationship to Host Country and Other Donors: The Salvadoran Government is committed to free and open elections, as demonstrated by their support for electoral reforms designed to increase voter participation and turnout. No other donors provide assistance for election observers or electoral training.

C. Conformance with Agency and Bureau Policies: This Project conforms with A.I.D. policies concerning the strengthening of democratic institutions.

D. Project Description: This one year "Project" will in fact consist of a number of grants to U.S. and international public and non-profit organizations to organize and carry out election observer and electoral training activities, and, as judged appropriate and feasible by the Mission, voter education activities. The bulk of the activities supported under this umbrella will be directed at observing the electoral process itself, beginning in the early stages. An early and extensive presence is necessary to ensure that the registration and campaign stages, as well as the voting itself, are carried out fairly and without intimidation of the smaller parties. The presence of international observers was critical to the decision of the "Convergencia" to participate in the 1991 elections, and thus to continuing the reincorporation of the leftist opposition (begun with their participation in the 1989 elections) into the political process. The 1994 elections will again be important elections for the opposition parties, as they will include presidential, municipal and legislative assembly offices.

Additionally, for the past several elections CAPEL has provided training for the representatives of the Central Electoral Council (CCE) working at each of the voting sites. The training is directed at increasing the knowledge of the poll watchers and other temporary electoral personnel of the electoral code and procedures. This training is critical to their being able to perform their functions correctly, and thus to the credibility of the elections.

Implementing Agencies and Methods of Obligation: Obligation will be made through Handbook 13 agreements to U.S. and international organizations selected based on their unsolicited proposals..

E. Potential Issues: None

F. PID Approval: N/A Proposal Approvals: April-June 1993

TABLE I: IMPLEMENTATION WORKPLAN

IAC Objective	Mission Strategic Objectives	Priority Actions	
OBJECTIVE 1 - Support the Achievement of broadly-based sustainable economic growth.			
SUB-OBJECTIVES			
A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.	- GOES economic reform program with liberalized exchange and trade regimes, fiscal and financial reform programs, and removal of price controls and other barriers to investment in manufacturing and agriculture, fully implemented.	<ul style="list-style-type: none"> - Achieve fiscal deficit of 2.8 percent of GDP, BOP current account deficit of 5.5 percent of GDP and monetary targets consistent with 3% real GDP growth and 9-13 percent inflation. - Continued satisfactory progress in achieving macroeconomic targets. - Upward adjustment of electrical, water and port rates. - Begin the implementation of the action plan for improved fiscal administration. - Convert the current, specific tax on alcoholic beverages to an ad valorem basis. Eliminate remaining exemptions to tariffs and stamp taxes. Eliminate official paper tax. Improve tax administration, including raising penalty interest to market rates requiring banks to transfer tax proceeds to Treasury within 3 working days. - Complete an analysis of public sector employment and salary levels. Based on the analysis; prepare and discuss with all interested parties a plan for employment and salary adjustments. - Presidential Commission established for liquidation and privatization of state-owned enterprises; drafting and presentation of privatization law to Legislative Assembly; priorities set for privatization. - Submit Court of Accounts' law to Legislative Assembly. 	<ul style="list-style-type: none"> 3Q FY 91 1Q FY 92 1Q FY 92 3Q FY 91 1Q FY 92 3Q FY 91 3Q FY 91
B. Encourage a vigorous response by the private sector to a favorable policy environment.	- Public sector trading in goods and services reduced.	<ul style="list-style-type: none"> - Privatize the non-banking activities of the Agricultural Development Bank. - Co-sponsor with the IBRD and IDB, a seminar/workshop to develop a Salvadoran donor consensus regarding the privatization of the power sub-sector. - Privatize the first bank (Banco Cuscatlan). - Privatize the San Bartolo Free Zone. 	<ul style="list-style-type: none"> 2Q FY 92 3Q FY 91 4Q FY 91 2Q FY 92

	- Agricultural marketing, trade and pricing policies that constrain growth and limit small farmer income reformed.	- Implement price band for rice	4Q FY 91
	- Establish systems to promote efficiency and productivity in agrarian reform sector and that allow self-determination among beneficiaries.	- Extend and expand CIUSA non-traditional export activities (production, marketing and service cooperative development) to encompass approximately 30 additional agrarian reform cooperative.	3Q FY 91
		- Agrarian Reform Beneficiary Rights Legislation approved by the Salvadoran Assembly.	1Q FY 92
		- Establish a finance mechanism for voluntary sales of agricultural lands.	2Q FY 92
	- Jobs increased, especially in the areas of small and micro enterprises and non-traditional exports.	- Begin functioning of the Microenterprise Support Center which provides credit and technical assistance.	3Q FY 91
	- Private sector investment increased.	- Establish and begin operations of a privately-owned Free Zone, El Pedregal.	1Q FY 92
		- License and begin operations of the independent FIDEX, S.A. as a diversified development finance institution with \$10.0 million capital.	4Q FY 91
		- Establish and begin operating the Stock Market.	1Q FY 92
	- Management and vocational training strengthened.	- Create and start up the NGO, PROCAFE, which is financed by the coffee sector, to carry out the development and transfers of new coffee technologies; and abolish the GOES coffee research institute.	1Q FY 92
	- Marketing information dissemination networks strengthened.	- Form and begin operations of the National Export Investment and Development Commission.	3Q FY 91
C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.	- Access to primary health services improved.	- Initiate, in collaboration with other donors, a more comprehensive system of cost recovery in MOH clinics.	1Q FY 92
		- First ten sub-grants issued to PVOs for expanding rural/marginal health service delivery.	2Q FY 92
	- Population Growth Rate reduced.	- Support introduction of the new "Norplant" contraceptive via SIDA and private clinics. Train 10 physicians in implantation to serve an additional 500 women with this method.	1Q FY 92

	- Access to potable water improved.	- Expand access to potable water by installing 150 wells, organizing 50 water user associations in rural communities and serving an additional 15,000 people.	2Q FY 92
	- Access to electricity and basic infrastructure maintained and increased.	- Continue and improve activities to repair, rehabilitate and improve war damaged infrastructure.	FY 91-92
	- Increased access to improved primary education.	- Begin implementation of SABE strategy to secure community support for building schools and hiring teachers, and support the MOE reorganization and policy reform aimed at decentralizing MOE administration.	4Q FY 91
		- Train 200 regional and community level administrators, and leaders of the parent teacher organizations, through the CAPS program and the SABE project.	2Q FY 92
		- Complete construction of 108 classrooms in 40 schools in rural marginal area schools.	2Q FY 92
		- Complete installation of diagnostic testing procedures, improved teaching practices and additional materials to reduce failure/repetition rate in grades one and two, which will increase accessibility, without increasing overall costs.	2Q FY 92
D. Encourage preservation and sustainable use of the natural resource base.	- Deterioration of soil, air, water slowed.	- GOES and local PVOs begin implementation of a major environmental effort covering areas of policy formulation, institutional strengthening, environmental education and coastal zone management.	2Q FY 92
	- Sustainable use practices adopted in ecologically vulnerable areas.	- Construct quality control laboratory and initiate pesticide analyses and training.	1Q FY 92
	- Environmental education strengthened.	- Extend and expand activities under "Mi Arbol y Yo", environmental education and reforestation campaign.	3Q FY 91
		- Expansion of pilot activities to achieve sustainable agricultural production with hillside farmers.	3Q FY 91
	- Economic policies negatively affecting sustainable use of natural resources reformed.	- Distribute and discuss the principal draft of the National Environmental/Natural Resources Strategy.	1Q FY 92

OBJECTIVE II - Support the evolution of stable, democratic societies.

SUB-OBJECTIVES

- | | | | |
|--|--|--|---|
| <p>A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens and investors.</p> | <ul style="list-style-type: none"> - Increased independence and efficiency of judiciary. - Increased protection of individual rights. - Increased effectiveness of legislative branch. - Ability to administer free, fair and open elections strengthened. | <ul style="list-style-type: none"> - GOES begins a public process of heightening public awareness of the need for reform of the judicial system. - GOES carries out a study of the selection process and terms of office of key positions of the Judicial Branch. - Public hearings are organized to permit discussions of recommendations resulting from above study. - GOES submits legislation modifying the composition of the National Council for the Judiciary in order to broaden the representation of other interested groups in the selection of 1st and 2nd Instance Judges. - Public defenders office staff increased by 35. - Create technical support unit within the Ministry of Justice to prepare legislative agendas and initiate a process to permit public debate of proposed legislation. - Support the conduct of free municipal and legislative elections and the presence of various multilateral and private U.S. observer groups to ensure the cleanest possible March 1991 elections. | <p>3Q FY 91</p> <p>3Q FY 91</p> <p>1Q FY 92</p> <p>3Q FY 92</p> <p>2Q FY 92</p> <p>1Q FY 92</p> <p>2Q FY 91</p> |
| <p>B. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.</p> | <ul style="list-style-type: none"> - Civilian participation in democratic decision making process increased. | <ul style="list-style-type: none"> - Show the feasibility of establishing a modern and efficient property registry system, and simplifying government-wide administrative procedures and thus increasing GOES responsiveness to citizens' needs via the Institute for Liberty and Democracy (ILD) grant. - Citizen participation in open town meetings to select basic infrastructure projects continues to average more than 100 participants per project in municipalities all over the country. - Complete pilot-testing of the Supplementary Teacher Guide for Moral and Civic values, distribute guides to 25,000 basic education teachers, train at least one teacher from each school in methodology, and carry out pilot testing in six representative schools. | <p>2Q FY 92</p> <p>2Q FY 92</p> <p>4Q FY 91</p> |

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- Local and municipal government strengthened.

- Free and democratically oriented unions strengthened.

- CAPS will train 200 leaders of service clubs, Scouts, YMCA, YWCA, and environmental groups. 2Q FY 92

- Obtain agreement between GOES and local government officials on a municipal development strategy. 1Q FY 92

- GOES submits new law (Ley de Arbitrios) strengthening municipal level revenue raising capacity to Legislative Assembly. 2Q FY 92

- 30 seminars for union leaders on socio-economic and political issues such as democratic processes, water education and inter-union relations. 2Q FY 92

OBJECTIVE III - Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies.

SUB-OBJECTIVES

A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular concern, such as drugs, terrorism, and environmental degradation.

- Promote drug abuse education.

- Encourage passage of recently drafted drug legislation 2Q FY 92
 - FUNDASALVA substance abuse pilot programs completed in 8 schools and 2 private businesses. 1Q FY 92

- Improve regional cooperation in dealing with effects of environmental degradation.

- El Salvador representatives participate in meetings of Regional Environmental Commission. 4Q FY 91
 - Formalize a plan of action with IBRD and IDB regarding other donor investments in the energy sector. 4Q FY 91

B. Support USG foreign policy initiatives that can benefit from A.I.D. resources and expertise, such as disasters, epidemics and resettlement of displaced persons.

- Help El Salvador recover and reconstruct after the devastating Oct., 1986 earthquake.

- Earthquake reconstruction efforts will have reconstructed and/or rehabilitated 1,681 classrooms, 10 medical facilities, 15 public markets, 9,937 housing units and 24 km. of highway. 2Q FY 92

- Encourage the GOES to effectively resettle Salvadorans displaced from their homes by the civil war.

- Complete a comprehensive and dynamic register of displaced persons to assist in targeting the most needy displaced families. 2Q FY 91

- Encourage other donor participation in development activities.
- Encourage and facilitate GOES participation in the Enterprise for the Americas Initiative.
- Develop a strategy and implement a program for the social, political and economic reintegration of repatriated Salvadoran refugees. 2Q FY 91
- Reduce the number of displaced persons to below 90,000 2Q FY 92
- Encourage the IBRD and other donors to go forward with Consultative Group meeting for El Salvador. 3Q FY 91

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**TABLE VI: LISTING OF MISSION PROJECTS
GROUPED BY BUREAU OBJECTIVE AND SUB-OBJECTIVE**

<u>LAC Objectives</u>	<u>FY 1991</u>	<u>Mission Activities FY 1992</u>	<u>FY 1993</u>
Objective I. Support the achievement of broadly-based sustainable economic growth.			
A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.	519-0369 FY 91 Balance of Payments 519-0349 Tech Sup, Pol Anal Trng ESF Budget Support (HCOLC) PL-480 Title I	519-0378 FY 92 Balance of Payments 519-0349 Tech Sup, Pol Anal Trng ESF Budget Support (HCOLC)	519-0379 FY 93 Balance of Payments 519-0349 Tech Sup, Pol Anal Trng ESF Budget Support (HCOLC)
B. Encourage a vigorous response by the private sector to a favorable policy environment.	519-0287 Industrial Stabili/Recov 519-0303 Water Management 519-0304 Small & Microenter Program 519-0307 Agrarian Reform Sec Finan 519-0318 Microenterprise Develop 519-0323 Free Zone Development 519-0327 Agribusiness Development 519-0336 Private Sector Initiatives 519-0353 Natnl Coop Business Assoc 519-0362 Coffee Tech Enhancement 519-0371 Internatl Exec Serv Corps 519-0382 TECHNOSERVE Agrarian Reform Support (HCOLC) Agricultural Statistics (HCOLC)	519-0287 Industrial Stabili/Recov 519-0303 Water Management 519-0304 Small & Microenter Program 519-0315 Trng for Product Competit 519-0318 Microenterprise Develop 519-0323 Free Zone Development 519-0327 Agribusiness Development 519-0362 Coffee Tech Enhancement 519-0382 TECHNOSERVE 519-0386 Industrial Transformation 519-0387 Small Enterpr Support Agrarian Reform Support (HCOLC) Agricultural Statistics (HCOLC)	519-0287 Industrial Stabili/Recov 519-0318 Microenterprise Develop 519-0323 Free Zone Development 519-0327 Agribusiness Development 519-0362 Coffee Tech Enhancement 519-0382 TECHNOSERVE 519-0386 Industrial Transformation 519-0387 Small Enterpr Support 519-0389 Intensified Sustain. Farming Practices 519-0390 Training for Productivity and Competitiveness II

LAC Objectives

C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

D. Encourage preservation and sustainable use of the natural resource base.

Objective II. Support the evolution of stable, democratic societies.

A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders.

FY 1991

519-0094 Special Develop Activ
519-0308 Health Systems Support
519-0320 Public Services Improv
519-0337 El Salvador Peace Scholar
519-0346 Strengthen of Rehab Serv
519-0357 Strength Achiev Basic Educ.
519-0358 CA Rural Electrification Support
519-0361 Carib L/A Schol Prog
519-0363 Family Health Services/MCH
519-0364 Comm Based Integ Rural Dev
519-0367 Maternal/Child Surv Serv
519-0998 CA Energy Self-Sufficiency
PL-480 Title II
PVO Support (HCOLC)

519-0385 Natural Resources
Uplands Agr Services (HCOLC)
Natural Res and Environ Strategy
Support (HCOLC)

519-0296 Judicial Reform
519-0360 Leg Assembly Strength
519-0373 Federation of Bar Assoc
519-0383 Trans to State Depart-SIU
519-0384 Trans to St Depart-Police
Trng/Elections Monitoring
Human Rights Commission (HCOLC)
Election Observers Program (HCOLC)
Regional Development (HCOLC)
Municipal Development (HCOLC)

Mission Activities

FY 1992

519-0094 Special Develop Activ
519-0308 Health System Support
519-0320 Public Services Improv
519-0337 El Salvador Peace Scholar
519-0346 Strengthen of Rehab Serv
519-0357 Strength Achiev Basic Educ
519-0358 CA Rural Electrification Support
519-0361 Carib L/A Schol Prog
519-0363 Family Health Services/MCH
519-0364 Comm Based Integ Rural Dev
519-0367 Maternal/Child Surv Serv
519-0998 CA Energy Self-Sufficiency
PL-480 Title II

519-0385 Natural Resources

519-0296 Judicial Reform
519-0360 Leg Assembly Strength
519-0373 Federation of Bar Assoc
519-0376 Judicial Sec Strength
519-0388 Munic Level Democratic Dev

FY 1993

519-0094 Special Develop Activ
519-0308 Health Systems Support
519-0320 Public Services Improv
519-0346 Strengthen of Rehab Serv
519-0357 Strength Achiev Basic Educ
519-0358 CA Rural Electrification Support
519-0361 Carib L/A Schol Prog
519-0363 Family Health Services/MCH
519-0364 Comm Based Integ Rural Dev
519-0367 Maternal/Child Surv Serv
519-0390 Training for Productivity
and Competitiveness II
519-0998 CA Energy Self-Sufficiency

519-0385 Natural Resources
519-0389 Intensified Sustain Farming
Practices

519-0373 Federation of Bar Assoc
519-0376 Judicial Sec Strength
519-0388 Munic Level Democratic Dev
519-0391 Electoral Assistance

LAC Objectives

B. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.

Objective III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies.

A. Contribute to the formulation and implementation of USG strategies dealing with issues of particular concern, such as drugs, terrorism, and environmental degradation.

B. Support USG foreign policy initiatives that can benefit from AID resources and expertise, such as disasters, epidemics, and resettlement of displaced persons.

FY 1991

519-0337 El Salvador Peace Scholar
519-0349 Pilot ILD Project
519-0361 Carib L/A Schol Prog
519-0368 AIFLD
519-0372 Occupational Safety FIPRO
519-0375 CENITEC
AIFLD Foundation (HOOLC)

519-0349 Tech Sup, Pol Anal Trng
519-0377 FUNDASALVA
519-0385 Natural Resources
Natural Res and Environ Strategy
Support (HOOLC)

519-0281 Health/Jobs for Displ Fam
519-0333 Earthquake Reconstruction

Mission Activities
FY 1992

519-0337 El Salvador Peace Scholar
519-0361 Carib L/A Schol Prog
519-0368 AIFLD
519-0372 Occupational Safety FIPRO
519-0375 CENITEC
519-0388 Municipal Level Democratic
Development
AIFLD Foundation (HOOLC)

519-0349 Tech Sup, Pol Anal Trng
519-0377 FUNDASALVA
519-0385 Natural Resources

519-0281 Health/Jobs for Displ Fam
519-0333 Earthquake Reconstruction

FY 1993

519-0337 El Salvador Peace Scholar
519-0361 Carib L/A Schol Prog
519-0368 AIFLD
519-0372 Occupational Safety FIPRO
519-0375 CENITEC
519-0388 Municipal Level Democratic
Development
AIFLD Foundation (HOOLC)

519-0349 Tech Sup, Pol Anal Trng
519-0377 FUNDASALVA
519-0385 Natural Resources

519-0281 Health/Jobs for Displ Fam

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1. TABLE V: SUMMARY PROGRAM FUNDING
 Dollar Program by Functional Account
 (\$000)

	<u>FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
<u>Development Assistance</u>			
<u>ARDN</u>	15,566	15,612	15,000
<u>Health</u>	10,635	10,653	11,000
<u>Population</u>	6,642	5,200	4,000
<u>Child Survival</u>	3,885	5,300	5,000
<u>AIDS</u>	-0-	-0-	-0-
<u>Education</u>	10,036	7,186	7,000
<u>Private Sector Environment & Energy</u>	8,220	11,049	13,000
 SUBTOTAL DA	 54,984	 55,000	 55,000
 <u>Economic Support Fund</u>	 128,000 <u>1/</u>	 120,000	 120,000
 <u>P.L. 480</u>	 38,300	 3,000	 -0-
<u>Title I</u>	35,000	-0- <u>3/</u>	-0-
<u>Title II <u>2/</u></u>	3,300	3,000	-0- <u>2/</u>
 PROGRAM TOTAL	 221,284	 178,000	 175,000

1/ Includes FY 90 Carryover.

2/ Includes CIF value. FY 93 program pending evaluation.

3/ Based on new legislation, PL480 Title I is now managed by USDA.

2. TABLE IV: PROGRAM USES OF LOCAL CURRENCY
 (\$000)
 SOURCES

ANNEX D
 FY 1990

A.	USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
	HG BUDGET GENERAL <u>1/</u>	59,782	0	0	0	0		59,782
	HG BUDGET SECTOR	0	0	0	0	0		0
	HG CONTRIBUTION TO AID PROJ.	11,692	21,459	0	0	0		33,151
	HG CONTRIBUTION TO OTHER DONOR PROJ.	0	0	0	0	0		0
	HG MANAGED L/C PROJ. (GOVT OR PRIVATE)	19,358	18,741	0	0	0		38,099
	USAID MANAGED L/C PROJ.	0	0	0	0	0		0
	A.I.D. PROG. TRUST FUND <u>2/</u>	2,000	0	0	0	0		2,000
	A.I.D. OE TRUST FUND	5,128	0	0	0	0		5,128
	SECTION 108	0	0	0	0	0		0
	OTHER	0	0	0	0	0		0
	TOTAL	97,960	40,200	0	0	0		138,160
	B. CHANNEL FOR ASSISTANCE <u>3/</u>							
	PUBLIC SECTOR	89,860	36,200	0	0	0		126,060
	PRIVATE SECTOR <u>4/</u>	8,100	4,000	0	0	0		12,100
	T O T A L	97,960	40,200	0	0	0		138,160

1/ Funds attributed to the GOES' national budget are used for programs in the agricultural, education and health sectors.

2/ PVO foundation working with AIFLD.

3/ Determined by organization primarily responsible for managing the local currency resources and delivery of goods and services.

4/ These funds are for private sector credit lines (\$5.3 million) passed through the Central Reserve Bank (BCR) and FEDECCREDITO; private voluntary organizations (\$1.7 million), and A.I.D. OE trust fund (\$5.1 million).

2. TABLE IV: PROGRAM USES OF LOCAL CURRENCY
 (\$000)
 SOURCES

ANNEX D
 FY 1991

A.	USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
	HG BUDGET GENERAL <u>1/</u>	25,000	0	0	0	0	0	25,000
	HG BUDGET SECTOR	0	0	0	0	0	0	0
	HG CONTRIBUTION TO AID PROJ.	16,000	24,000	0	0	0	0	40,000
	HG CONTRIBUTION TO OTHER DONOR PROJ.	0	0	0	0	0	0	0
	HG MANAGED L/C PROJ. (GOVT OR PRIVATE)	35,400	11,000	0	0	0	0	46,400
	USAID MANAGED L/C PROJ.	0	0	0	0	0	0	0
	A.I.D. PROG. TRUST FUND <u>2/</u>	8,000	0	0	0	0	0	8,000
	A.I.D. OE TRUST FUND	5,600	0	0	0	0	0	5,600
	SECTION 108	0	0	0	0	0	0	0
	OTHER	0	0	0	0	0	0	0
	TOTAL	90,000	35,000	0	0	0	0	125,000
	B. CHANNEL FOR ASSISTANCE <u>3/</u>							
	PUBLIC SECTOR	78,400	35,000	0	0	0	0	113,400
	PRIVATE SECTOR <u>4/</u>	11,600	0	0	0	0	0	11,600
	T O T A L	90,000	35,000	0	0	0	0	125,000

1/ Funds attributed to the GOES' national budget are used for programs in the agricultural, education and health sectors.

2/ PVO foundation working with AIFLD and Central America University/UCA.

3/ Determined by organization primarily responsible for managing the local currency resources and delivery of goods and services.

4/ These funds are for private sector passed through private voluntary organizations (\$6.0 million), and A.I.D. OE trust fund (\$5.6 million).

2. TABLE IV: PROGRAM USES OF LOCAL CURRENCY 1/
 (\$000)
 SOURCES

ANNEX D
 FY 1992

A.	USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
	HG BUDGET GENERAL <u>2/</u>	32,200	0	0	0	0	0	32,200
	HG BUDGET SECTOR	0	0	0	0	0	0	0
	HG CONTRIBUTION TO AID PROJ.	45,000	0	0	0	0	0	45,000
	HG CONTRIBUTION TO OTHER DONOR PROJ.	0	0	0	0	0	0	0
	HG MANAGED L/C PROJ. (GOVT OR PRIVATE)	0	0	0	0	0	0	0
	USAID MANAGED L/C PROJ.	0	0	0	0	0	0	0
	A.I.D. PROG. TRUST FUND <u>3/</u>	7,500	0	0	0	0	0	7,500
	A.I.D. OE TRUST FUND	5,300	0	0	0	0	0	5,300
	SECTION 108	0	0	0	0	0	0	0
	OTHER	0	0	0	0	0	0	0
	TOTAL	90,000	0	0	0	0	0	90,000
	B. CHANNEL FOR ASSISTANCE <u>4/</u>							
	PUBLIC SECTOR	79,700	0	0	0	0	0	79,700
	PRIVATE SECTOR <u>5/</u>	10,300	0	0	0	0	0	10,300
	T O T A L	90,000	0	0	0	0	0	90,000

1/ Under the new legislation, P.L. 480 Title I either will not be generated or the Local Currency Program will be managed by USDA.

2/ Funds attributed to the GOES' national budget are used for programs in the agricultural, education and health sectors.

3/ PVO foundations working with AIFLD and Central America University/UCA.

4/ Determined by organization primarily responsible for managing the local currency resources and delivery of goods and services.

5/ These funds are for private sector passed through private voluntary organizations (\$5 million), and A.I.D. OE trust fund (\$5.3 million).

2. TABLE IV: PROGRAM USES OF LOCAL CURRENCY 1/
 (\$000)
 SOURCES

ANNEX D
 FY 1993

A.	USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
	HG BUDGET GENERAL <u>2/</u>	40,500	0	0	0	0	0	40,500
	HG BUDGET SECTOR	0	0	0	0	0	0	0
	HG CONTRIBUTION TO AID PROJ.	45,000	0	0	0	0	0	45,000
	HG CONTRIBUTION TO OTHER DONOR PROJ.	0	0	0	0	0	0	0
	HG MANAGED L/C PROJ. (GOVT OR PRIVATE)	0	0	0	0	0	0	0
	USAID MANAGED L/C PROJ.	0	0	0	0	0	0	0
	A.I.D. PROG. TRUST FUND	0	0	0	0	0	0	0
	A.I.D. OE TRUST FUND	4,500	0	0	0	0	0	4,500
	SECTION 108	0	0	0	0	0	0	0
	OTHER	0	0	0	0	0	0	0
	TOTAL	90,000	0	0	0	0	0	90,000
B.	CHANNEL FOR ASSISTANCE <u>3/</u>							
	PUBLIC SECTOR	80,500	0	0	0	0	0	80,500
	PRIVATE SECTOR <u>4/</u>	9,500	0	0	0	0	0	9,500
	T O T A L	90,000	0	0	0	0	0	90,000

- 1/ Under the new legislation, P.L. 480 Title I either will not be generated or the Local Currency Program will be managed by USDA.
- 2/ Funds attributed to the GOES' national budget are used for programs in the agricultural, education and health sectors.
- 3/ Determined by organization primarily responsible for managing the local currency resources and delivery of goods and services.
- 4/ These funds are for private sector passed through private voluntary organizations (\$5 million), and A.I.D. OE trust fund (\$4.5 million).

PROGRAM PERFORMANCE QUESTIONNAIRES

Pursuant to Bureau guidance, the following Annex provides the completed questionnaires on business regulatory environment and environment and natural resource management. This serves as an annex to Table II Country Performance found on page 7. Both of these questionnaires provide Bureau technical offices with information to reevaluate scoring in these areas. Specifically, the Mission requests that attention be given to the Business Regulatory Environment response and that this score be upgraded from a 2 to a 3.5 due to progress made in this area.

BUSINESS REGULATORY ENVIRONMENT

Questionnaire Response

- (a) Are private ventures permitted to compete on a fully equal footing with State Owned Enterprises or privileged groups? If not, what anti-competitive mechanisms are used?

In theory, private ventures are permitted and even encouraged to compete on a fully equal basis with State Owned Enterprises, except for telecommunication and postal services which, according to the "Bill of Rights" (Constitución Política), can be offered only by the State. Other basic utilities services may be provided by State owned enterprises, as it may deem necessary, or by private firms. However, in the latter case, special permits need to be obtained and the rates/fees are authorized by the State. The same principle of equal basis competition applies to "privileged groups". However, little competition has been shown in the past in some specific types of industry and services companies, such as beer brewing and air carrier services. This situation has changed in recent years, three U.S. carriers (Continental, American and Pan Am) started to fly to and from El Salvador within the past 1-1/2 years; and with the reduction in tariffs, several brands of imported beer can now be found in the market.

- (b) Does the country adhere to international standards for protection of intellectual property rights (e.g., patents, copyrights, processing and trade secrets)?

Yes, the Commerce Code, Arts. 586-599, provides for the general ruling in this respect, and the "Law for Patents" provides the specific regulations. In addition, El Salvador is an active member of the World Organization of Intellectual Property. Nevertheless, as in most Latin American countries, the control that can be exercised over any violation is limited.

- (c) Are foreign investors subject to any different treatment with respect to laws on ownership, employment, taxation, customs and judicial process than local businesses?

In general terms no. However, for agricultural land the "Bill of Rights" establishes that no foreigner can purchase land in El Salvador unless Salvadorans may do likewise in the country of origin of the foreigner. This does not apply to the purchase of land for industrial purposes. (There is no prohibition in the United States for Salvadorans to purchase land for agricultural purposes, consequently, U.S. citizens are allowed to acquire land in El Salvador). In addition, small and microenterprises cannot be operated by foreigners. Another restriction is with respect to employment, only 10 percent of the total salaries on a firm can be paid to foreigners.

On the positive side, the Government of El Salvador passed the Foreign Investment Promotion and Guarantee Law in March of 1988 with the purpose of promoting and guaranteeing foreign investment in the country. The law affords the following benefits to foreign investors:

- Unrestricted remittance of all net profits for investment in most sectors;
- Unrestricted remittance of net profits up to 50 percent of the registered foreign capital per year, when the capital is invested in commercial and service activities;
- Unrestricted remittance of funds obtained from the liquidation of a business in the proportion to the participation of foreign investment;
- Unrestricted remittance of both interest and capital on external loans properly registered as foreign obligations;
- Unrestricted remittance on the sale of foreign shares;

- (d) How much time/effort/money does it take for new corporations to be formed and licensed?

According to conversations with law firms, the average period of time required to establish a new corporation is one month. Work of an attorney and his/her assistant is required. This may vary depending on the type of business. The cost ranges between \$1,000 and \$1,200. (This cost includes the processing of the NIT, which is the tax payer identification number, establishment of the new corporation, and its registration in the commerce registry.

- (e) How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside FTZs)?

Time lapses may vary depending on the type of goods being imported into the country. However, based on conversations with a customs broker, the average times are as follows:

Air cargo:	1 - 2 days
Sea cargo:	2 - 3 days
Land cargo:	3 - 4 days

(problems with the customs at the various Salvadoran borders have been continuously reported, with GOES efforts to alleviate these reporting minimal positive results).

The minimum fee charged by a broker is \$50. In addition, the fee per container of 20 or 40 feet varies as follows:

Air Cargo:	\$ 140
Sea cargo:	\$ 250
Land cargo:	\$ 140

- (f) Is the country a signatory to a Trade and Investment Framework Agreement, Bilateral Investment Treaty and/or OPIC Agreement with the United States? How have these functioned?

El Salvador signed the OPIC Agreement in January 1960. Last year, El Salvador started negotiations with the U.S. Government to join both the Trade and Investment Framework Agreement (TIFA) and the Bilateral Investment Treaty (BIT). According to the Ministry of Economy, which is handling negotiations for the Salvadoran Government, 75 percent of the negotiation process on the TIFA has been completed, and the process on the BIT is in its initial stage.

- (g) Does the country have laws and/or policies which inhibit the free flow of capital internationally, including restrictions on capital and profit repatriation?

In general inflows of capital are welcomed in El Salvador. The inflow and outflow of foreign capital is regulated by the Foreign Investment Promotion and Guarantee Law (see paragraph c). Salvadorans, however, are regulated by the Law of International Transfer, and are required to provide a great deal of information and spend time and effort before a transfer of capital (for the purposes of investing abroad) is authorized.

- (h) Are labor unions significantly influenced/controlled/financed by political parties or other outside interest groups? Are labor disputes handled in a clear, predictable and transparent manner?

There is ample evidence that extreme left labor unions are influenced and to a certain extent controlled by the FMLN. Democratic trade unions such as UNOC and CGT may be influenced by outside groups, but are not controlled by them. Since the democratic trade union movement is in the maturing stage, it has not fully established a dues paying system and therefore unions reliant on financial support from other organizations (e.g. ALF-CIO). Because of ambiguities and discrepancies in the Constitution and the labor code governing labor-management relations, there is a climate of uncertainty surrounding labor conflicts. Thus, labor disputes are not normally handled in a clear, predictable, and transparent manner.

- (i) Are property rights of both men and women clearly and fairly protected? Are legal disputes handled in a clear, predictable and transparent manner?

Salvadoran law pertaining to property rights does not differentiate between men and women, furthermore, there appears no differentiation in the ability of males and females to benefit from the legal system. There is a perceived inequity in access to the legal process between the rich and poor, and in the public confidence in the legal system, which the Mission is addressing as part of its judicial reform project.

Discussion of Mission Rating

In August 1989 a consulting firm carried out a study with the purpose of comparing and contrasting selected factors that affect investment and non-traditional exports from El Salvador, Costa Rica, The Dominican Republic, Guatemala and Honduras. The analysis focused on six of the most important factors that help to determine a country's competitiveness in promoting investment in non-traditional exports: the macroeconomic policy environment; incentives legislation; free trade zones; administrative regulations/procedures; cost and operational considerations; and institutional support/promotion mechanisms. The study concluded that overall, El Salvador was on equal footing with Honduras, but was behind Costa Rica and the Dominican Republic.

The specific recommendations for El Salvador to improve its competitive position included: (a) adoption by the government of an explicit strategy to promote domestic investment in priority non-traditional export sectors; (b) engage in a strategic planning exercise to assess institutional strengths and weaknesses and to define roles and responsibilities relative to investment/export promotion; (c) establish an appropriate mechanism to engage the private sector as an active partner in investment and export promotion; (d) conduct an intensive review of bureaucratic procedures affecting exports with a view to expediting the process (CENTREX). Other recommendations dealt with macroeconomic policies such as exchange rate regime and credit and finance.

Improvements have been made in all of the above mentioned areas: in August 1990, after a series of meetings between key representatives from the public and private sectors a National Export Development Strategy was developed. In said Strategy, among other things, the roles of the public and private sectors are defined, five priority sub-sectors that contribute the most to the total exports of the country are identified, and the creation of a monitoring/coordinating mechanism is recommended: the National Commission for Exports and Investment, a top level commission, chaired by an influential person appointed by the President of El Salvador and reporting directly to him.

In late 1989, CENTREX, the one-stop export documentation center, was transferred to the BCR, and is now fully staffed and computerized, issuing export permits in two hours according to the Exporters Association (COEXPORT).

In addition, it is important to mention that the Government of El Salvador that took office in June 1989 has demonstrated its commitment to support the export-led development strategy (and therefore to welcome foreign investment) by adopting a broad range of politically difficult policy reforms including rationalization of the exchange rate, reforms to tariff, tax and incentive structures, and of the financial sector.

Based on the above, this Mission recommends that El Salvador's rating be upgraded from the 2 given by AID/W to a 3.5.

ENVIRONMENTAL QUESTIONNAIRE

Questionnaire Response

- 1 (a) Has the government established effective coastal zone management laws and programs that promote the sustainable development of this environmentally sensitive and economically important area?
- 2 (b) Are there forest management laws and programs that ensure sustainable use/production of forest resources and socio-economic benefits for local communities (e.g., extractive reserves)?
- 3 (c) Does the government address agrochemical use problems? Are pesticides subsidized? Is there a government or private quality assurance program in place to ensure that pesticide-residue limits are not exceeded on agricultural exports?
- 1 (d) Does the government have incentives for sustainable agricultural practices? Is land use planning used as a appropriate incentive (e.g., property taxes, water user fees, etc.) to promote intensive, rather than extensive use of prime agricultural land?
- 1 (e) Are environmental health issues being addressed by policies and programs that control water and air pollution, and that promote sanitation and sewerage systems? Are environmental monitoring programs (e.g., water quality monitoring) in place? Are water and sanitation programs linked to health and hygiene education? Is solid waste efficiently collected and disposed of in approved landfills?
- 1 (f) Are there programs/policies for watershed management, and are environmental assessments done to prevent watershed degradation? Are recommendations from such assessments effectively implemented?
- 3 (g) Are there environmental education programs, and are they provided for all educational levels?
- 3 (h) Has the government established areas for parks and for the conservation of the country's biological diversity?
- 3 (i) Is there a national environmental policy or conservation strategy? Does the public, including both men and women, participate in environment and natural resource management and planning activities? Are NGOs encouraged to be involved in environmental issues?
- 2 (j) Are there policies and programs to encourage efficient energy use (e.g., energy prices are not subsidized, private production is encouraged)?

Discussion of Mission Rating

The overall score of five on the environmental questionnaire reflects improvements in several areas. Forward progress was made in agrochemical use, environmental education and national strategy development. Regarding agrochemical use, the Government has adopted policies to ban prohibited pesticides and limit restrictive-use pesticides. The PVO, FUSADES, has begun a quality assurance program and works with the GOES on these issues. Thus far, we are not aware of any Salvadoran agricultural exports which have been denied entrance to the U.S. due to pesticide residues. In environmental education, the GOES implemented a massive reforestation campaign. Television and radio spots have filled the air on all environmental aspects including trash disposal, water quality and reforestation. The GOES and the local PVO community have initiated a "living" national strategy development, where as activities are identified as priorities they are carried out by these entities. Although some progress has been made in the other areas, we can not score higher due to either ineffective implementation or conflictive zones.