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

EL SALVADOR

PROJECT PAPER

PEACE AND NATIONAL RECOVERY

AID/LAC/P-732

PROJECT NUMBER: 519-0394

UNCLASSIFIED

|                                                                                      |  |                                                                                                                                                                                                                                                                                                                                             |                                 |                                  |
|--------------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|
| <b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b><br><b>PROJECT DATA SHEET</b>             |  | <b>1. TRANSACTION CODE</b><br><input type="checkbox"/> A = Add<br><input checked="" type="checkbox"/> A<br><input type="checkbox"/> C = Change<br><input type="checkbox"/> D = Delete                                                                                                                                                       | <b>Amendment Number</b><br><br> | <b>DOCUMENT CODE</b><br><b>3</b> |
| <b>2. COUNTRY/ENTITY</b><br>El Salvador                                              |  | <b>3. PROJECT NUMBER</b><br>519-0394                                                                                                                                                                                                                                                                                                        |                                 |                                  |
| <b>4. BUREAU/OFFICE</b><br>LAC <input type="checkbox"/> 519 <input type="checkbox"/> |  | <b>5. PROJECT TITLE (maximum 40 characters)</b><br><input type="checkbox"/> Peace and National Recovery <input type="checkbox"/>                                                                                                                                                                                                            |                                 |                                  |
| <b>6. PROJECT ASSISTANCE COMPLETION DATE (PACD)</b><br>MM DD YY<br>0 4 3 0 9 7       |  | <b>7. ESTIMATED DATE OF OBLIGATION</b><br>(Under 'B', below, enter 1, 2, 3, or 4)<br>A. Initial FY <input type="checkbox"/> 9 <input type="checkbox"/> 2 <input type="checkbox"/> B. Quarter <input type="checkbox"/> 2 <input type="checkbox"/> C. Final FY <input type="checkbox"/> 9 <input type="checkbox"/> 4 <input type="checkbox"/> |                                 |                                  |

| 8. COSTS (\$000 OR EQUIVALENT \$1 = ) |               |               |               |                 |                |                |
|---------------------------------------|---------------|---------------|---------------|-----------------|----------------|----------------|
| A. FUNDING SOURCE                     | FIRST FY 92   |               |               | LIFE OF PROJECT |                |                |
|                                       | B. FX         | C. L/C        | D. TOTAL      | E. FX           | F. L/C         | G. TOTAL       |
| AID Appropriated Total                | 19,000        | 56,000        | 75,000        | 44,000          | 122,000        | 166,000        |
| (Grant)                               | ( 19,000 )    | ( 56,000 )    | ( 75,000 )    | ( 44,000 )      | ( 122,000 )    | ( 166,000 )    |
| (Loan)                                | ( )           | ( )           | ( )           | ( )             | ( )            | ( )            |
| Other 1.                              |               |               |               |                 |                |                |
| U.S. 2.                               |               |               |               |                 |                |                |
| Host Country                          |               | 15,000        | 15,000        |                 | 35,000         | 35,000         |
| Other Donor(s)                        |               |               |               |                 |                |                |
| <b>TOTALS</b>                         | <b>19,000</b> | <b>71,000</b> | <b>90,000</b> | <b>44,000</b>   | <b>157,000</b> | <b>201,000</b> |

| 9. SCHEDULE OF AID FUNDING (\$000) |                         |                      |        |                       |         |                                |         |                    |         |
|------------------------------------|-------------------------|----------------------|--------|-----------------------|---------|--------------------------------|---------|--------------------|---------|
| A. APPROPRIATION                   | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH CODE |        | D. OBLIGATION TO DATE |         | E. AMOUNT APPROVED THIS ACTION |         | F. LIFE OF PROJECT |         |
|                                    |                         | 1 Grant              | 2 Loan | 1. Grant              | 2. Loan | 1. Grant                       | 2. Loan | 1. Grant           | 2. Loan |
| (1) LES                            |                         |                      |        | -0-                   |         | 75,000                         |         | 166,000            |         |
| (2)                                |                         |                      |        |                       |         |                                |         |                    |         |
| (3)                                |                         |                      |        |                       |         |                                |         |                    |         |
| (4)                                |                         |                      |        |                       |         |                                |         |                    |         |
| <b>TOTALS</b>                      |                         |                      |        | <b>-0-</b>            |         | <b>75,000</b>                  |         | <b>166,000</b>     |         |

|                                                                     |  |  |  |  |  |                            |  |  |  |
|---------------------------------------------------------------------|--|--|--|--|--|----------------------------|--|--|--|
| 10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) |  |  |  |  |  | 11. SECONDARY PURPOSE CODE |  |  |  |
| 12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)    |  |  |  |  |  |                            |  |  |  |
| A. Code                                                             |  |  |  |  |  |                            |  |  |  |
| B. Amount                                                           |  |  |  |  |  |                            |  |  |  |

13. PROJECT PURPOSE (maximum 480 characters)

To promote the economic and social reactivation of the conflictive zones by restoring infrastructure and access to basic services and assisting the democratic reintegration of their population.

|                           |  |     |     |     |  |                                         |       |  |     |     |                                                                                                                                              |  |  |  |
|---------------------------|--|-----|-----|-----|--|-----------------------------------------|-------|--|-----|-----|----------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
| 14. SCHEDULED EVALUATIONS |  |     |     |     |  | 15. SOURCE/ORIGIN OF GOODS AND SERVICES |       |  |     |     |                                                                                                                                              |  |  |  |
| Interim                   |  | MM  | YY  | MM  |  | YY                                      | Final |  | MM  | YY  | <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (specify) |  |  |  |
|                           |  | 0 3 | 9 3 | 0 3 |  | 9 4                                     |       |  | 0 1 | 9 7 |                                                                                                                                              |  |  |  |

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

The Controller's Office concurs with the Methods of Implementation and financing proposed.

*Douglas W. Arnold*  
 Douglas W. Arnold, Controller

|                 |                                     |  |  |          |                                                                                   |  |  |  |
|-----------------|-------------------------------------|--|--|----------|-----------------------------------------------------------------------------------|--|--|--|
| 17. APPROVED BY | Signature <i>John A. Sanbrallo</i>  |  |  |          | 18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION |  |  |  |
|                 | Title Director<br>USAID/El Salvador |  |  |          | Date Signed<br>MM DD YY<br>0 1 1 7 9 2                                            |  |  |  |
|                 |                                     |  |  | MM DD YY |                                                                                   |  |  |  |

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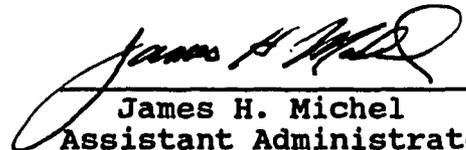
**PROJECT AUTHORIZATION**

**Name of Country** : El Salvador  
**Name of Project** : Peace and National Recovery  
**Number of Project** : 519-0394

1. Pursuant to Sections 103, 104, 105, 106, and 531 of the Foreign Assistance Act of 1961, as amended, and to Section 531 of the FY 91 Foreign Operations Appropriations Act, I hereby authorize the Peace and National Recovery Project involving a grant to the Government of El Salvador ("Grantee") in planned obligations not to exceed One Hundred and Sixty-six Million United States Dollars (\$166,000,000) in grant funds ("Grant") over approximately a forty-eight month period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is five years from the date of initial obligation.
2. The Peace and National Recovery Project ("the Project") consists of assistance to the Government of El Salvador to support its National Reconstruction Plan and the process of national reconciliation and economic stabilization by restoring basic humanitarian, social and health services, rehabilitating and rebuilding basic infrastructure, reactivating the economy in areas torn by the war, and by the reintegration of individuals and families affected by the conflict into productive, democratic society. Assistance will increase access to education, income-earning opportunities, credit to purchase land, and other services, complemented by \$84 Million in separately-authorized USAID development projects and ESF-generated local currency activities.
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to such terms and conditions as A.I.D. may deem appropriate.

V

4. Commodities financed by A.I.D. under the project shall have their source and origin in the United States except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Local procurement, in accordance with the Agency's Buy America policies, is permitted.

  
James H. Michel  
Assistant Administrator  
Bureau for Latin America  
and the Caribbean

March 25, 1992

Date

C

ACRONYMS

|              |                                                                                           |
|--------------|-------------------------------------------------------------------------------------------|
| AID (USAID)  | AGENCY FOR INTERNATIONAL DEVELOPMENT                                                      |
| ANDA         | NATIONAL WATER AND SEWER ADMINISTRATION                                                   |
| ANTEL        | NATIONAL TELECOMMUNICATIONS ADMINISTRATION                                                |
| APSISA       | HEALTH SYSTEMS SUPPORT                                                                    |
| BCR          | CENTRAL RESERVE BANK                                                                      |
| BFA          | AGRICULTURAL DEVELOPMENT BANK                                                             |
| CAM          | MICROENTERPRISE SUPPORT CENTER                                                            |
| CEL          | LEMPA RIVER ELECTRIC COMMISSION                                                           |
| CERPROFA     | ARMED FORCES REHABILITATION CENTER                                                        |
| CG           | CONSULTATIVE GROUP                                                                        |
| CNFPS        | CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR                                                  |
| CONARA       | NATIONAL COMMISSION FOR THE RESTORATION<br>OF AREAS                                       |
| CONADES      | NATIONAL COMMISSION FOR DISPLACED PERSONS                                                 |
| COPAZ        | NATIONAL COMMISSION FOR THE CONSOLIDATION OF<br>PEACE                                     |
| CREA         | CREATIVE ASSOCIATES                                                                       |
| DGR          | DIRECTORATE GENERAL OF RECONSTRUCTION                                                     |
| EC           | EUROPEAN COMMUNITY                                                                        |
| ESAF         | EL SALVADOR ARMED FORCES                                                                  |
| ESF          | ECONOMIC SUPPORT FUND                                                                     |
| FEDECCREDITO | CREDIT UNION FEDERATION                                                                   |
| FEPADE       | FOUNDATION OF ENTREPRENEURS FOR EDUCATIONAL<br>DEVELOPMENT                                |
| FIS          | SOCIAL INVESTMENT FUND                                                                    |
| FMLN         | FARABUNDO MARTI NATIONAL LIBERATION FRONT                                                 |
| FUNTER       | TELETHON FOUNDATION PRO-REHABILITATION                                                    |
| FUSADES      | EL SALVADORAN FOUNDATION FOR ECONOMIC<br>DEVELOPMENT                                      |
| GAES         | ECONOMIC AND SOCIAL ADVISORY GROUP<br>(MINISTRY OF FINANCE)                               |
| GDP          | GROSS DOMESTIC PRODUCT                                                                    |
| GOES         | GOVERNMENT OF EL SALVADOR                                                                 |
| HCC          | HOST COUNTRY CONTRACTING                                                                  |
| HCOLC        | HOST COUNTRY OWNED LOCAL CURRENCY                                                         |
| IBRD         | INTERNATIONAL BANK FOR RECONSTRUCTION AND<br>DEVELOPMENT (WORLD BANK)                     |
| ICITAP       | INTERNATIONAL CRIMINAL INVESTIGATIVE TRAINING<br>ASSISTANCE PROGRAM (US DEPT. OF JUSTICE) |
| IDB          | INTER-AMERICAN DEVELOPMENT BANK                                                           |
| IGN          | NATIONAL GEOGRAPHIC OFFICE                                                                |
| IMF          | INTERNATIONAL MONETARY FUND                                                               |
| INCAE        | CENTRAL AMERICAN BUSINESS ADMINISTRATION<br>INSTITUTE                                     |
| IPSFA        | ARMED FORCES SOCIAL ASSISTANCE INSTITUTE                                                  |
| IRC          | INTERNATIONAL RESCUE COMMITTEE                                                            |

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|          |                                                           |
|----------|-----------------------------------------------------------|
| ISDEM    | SALVADORAN MUNICIPAL DEVELOPMENT INSTITUTE                |
| ISRI     | SALVADORAN REHABILITATION INSTITUTE                       |
| ISTA     | SALVADORAN INSTITUTE OF LAND REFORM                       |
| MAG      | MINISTRY OF AGRICULTURE                                   |
| MDBs     | MULTILATERAL DEVELOPMENT BANKS                            |
| MEA      | MUNICIPALITIES IN ACTION                                  |
| MOE      | MINISTRY OF EDUCATION                                     |
| MOH      | MINISTRY OF HEALTH                                        |
| MOP      | MINISTRY OF PUBLIC WORKS                                  |
| NGOs     | NON-GOVERNMENTAL ORGANIZATIONS                            |
| NRC      | NATIONAL RECONSTRUCTION COMMITTEE                         |
| NRECA    | NATIONAL RURAL ELECTRIFICATION COOPERATIVE<br>ASSOCIATION |
| NRP      | NATIONAL RECOVERY PROJECT                                 |
| OIM      | INTERNATIONAL ORGANIZATION FOR MIGRATION                  |
| ONUSAL   | UNITED NATIONS OBSERVERS FOR EL SALVADOR                  |
| PAHO     | PAN-AMERICAN HEALTH ORGANIZATION                          |
| PDP      | PARTNERSHIP FOR DEMOCRACY AND DEVELOPMENT                 |
| PRESN    | NATIONAL ECONOMIC AND SOCIAL RECOVERY PLAN                |
| PROPEMI  | PROGRAM FOR SMALL AND MICRO ENTERPRISES                   |
| PVOs     | PRIVATE VOLUNTARY ORGANIZATIONS                           |
| RPRH     | LAND REGISTRY OFFICE                                      |
| SABE     | STRENGTHENING ACHIEVEMENT IN BASIC EDUCATION              |
| SETEFE   | TECHNICAL SECRETARIAT FOR EXTERNAL FINANCING              |
| SRN      | SECRETARIAT FOR NATIONAL RECONSTRUCTION                   |
| THE PLAN | GOES NATIONAL RECONSTRUCTION PLAN                         |
| NDP      | UNITED NATIONS DEVELOPMENT PROGRAM                        |
| UNHCR    | UNITED NATIONS HIGH COMMISSION ON REFUGEES                |
| UNICEF   | UNITED NATIONS CHILDRENS EDUCATIONAL FUND                 |
| USG      | UNITED STATES GOVERNMENT                                  |
| WFP      | WORLD FOOD PROGRAM                                        |
| WHO      | WORLD HEALTH ORGANIZATION                                 |

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**PEACE AND  
NATIONAL RECOVERY (No. 519-0394)  
PROJECT DOCUMENT**

**OUTLINE**

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PEACE AND NATIONAL  
RECOVERY IN EL SALVADOR  
PROJECT DOCUMENT

**I. SUMMARY AND RECOMMENDATIONS**

The formal signing of the Peace Accord on January 16 in Mexico City marks an historic turning point for El Salvador and ends nearly twelve years of armed conflict. While the negotiations have successfully brought an end to war, many problems must be addressed if peace is to endure -- security guarantees, social impediments to reintegrating ex-combatants and their families into society, access to land and jobs, lingering mistrust of official programs, and institutional weaknesses, to name just a few. To facilitate the healing process, the Government of El Salvador (GOES) has developed a National Reconstruction Plan to support the peace process and begin reintegrating the ex-combatants and their families, repatriate families and displaced persons back into Salvadoran society, rebuilding damaged and destroyed infrastructure, and reactivating the economy of the former conflictive zones.

The social and economic costs of the war have been enormous, and some of the conditions which gave rise to the conflict continue to afflict the country. If El Salvador is to build upon the good faith expressed by both sides in the peace negotiation process and dispel the lingering and deeply held mistrust, time is of the essence. While recent economic growth rates are the most promising of the past twelve years, continued limited employment opportunities, low incomes, scarce land, poor administration of justice, human rights abuses, and inequities in access to education and health services represent serious obstacles to a durable peace.

El Salvador's wrenching, divisive conflict has left deep wounds in the society and the economy. Given the unique U.S. involvement and commitment to El Salvador, the proposed \$250 million assistance package is critical to the success of El Salvador's \$1.0 billion National Reconstruction Plan (NRP) and warrants highest USG and other donor priority. This Mission and the USG should continue to encourage other donors (e.g. World Bank, Inter-American Development Bank, U.N., bilateral donors) to provide over \$750 million during the next five years. In addition to the proposed five-year USAID assistance package, other USG resources will be needed for activities such as international agency contributions for peace-keeping and demobilization of combatants, assistance to a new civilian-controlled police force and land mine clearing.

The USG's long-standing commitment to El Salvador is about to enter an important transition period for which energies must be redoubled to support reintegration and recovery efforts. At the same time, it is essential that other donors contribute significantly to the national recovery process. Indeed, we have strongly encouraged, and the GOES has effectively pursued, a

Consultative Group process to provide a framework within which other donors can contribute. Nevertheless, there is no realistic alternative to strong USG leadership and support in the early stages given the time required for other donors to initiate their programs. Thus, we believe that the USG response will be critical at the upcoming Consultative Group meeting in encouraging other donors to contribute to El Salvador's reconstruction program and its efforts to consolidate peace and bring about national reconciliation.

The goal of the Project is to support El Salvador's National Reconstruction Plan (NRP) in consolidating the peace process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The purpose of the Project is to promote the economic and social reactivation of the conflictive zones by restoring infrastructure and access to basic services and assisting the democratic reintegration of their population.

The Project consists of the following major components:

- 1) Immediate Conflictive Zone Relief - Humanitarian relief/safety net assistance, documentation for repatriates and displaced persons, as well as a public awareness initiative to reduce the number of accidents from explosives in conflictive areas;
- 2) Assistance to Ex-combatants - social/economic reintegration counseling and university scholarships;
- 3) Social and Economic Reactivation in the Conflictive Zones - Municipalities In Action program, restoration of health and education services, and productive enterprise development -- including investment promotion, credit programs (micro-enterprise, small business and agricultural) and vocational/technical training which will be available to ex-combatants as well as the conflictive zone population in general;
- 4) Land Transfer Mechanisms - assistance for the purchase of land, titling and gaining membership to agricultural cooperatives;
- 5) Infrastructure Service Restoration - feasibility studies, emergency repair programs, and infrastructure reconstruction and restoration; and
- 6) Program Audit/Management.

Project assistance will contribute to an end-of-project-status in the conflictive zones characterized by: restored health and education facilities serving the population; reduced infant mortality rates; a higher percentage of land in sustainable production; a greater percentage of eligible voters who have cartas electorales which permit participation in local and national elections; open town meetings being held and people participating; an increased number of municipalities participating in the Municipalities in Action (MEA) program; a decline in out-migration from the conflictive zones; a significant increase in permanent employment opportunities; and per capita incomes approximating national levels.

This \$250 million USAID funding package is composed of (a) projectized ESF (\$130 million); (b) contributions from ten on-going and planned USAID projects (\$35 million); (c) the Demobilization and Transition Fund (\$50 million); and (d) GOES-owned local currency (\$35 million). A summary Project budget is included below.

**SUMMARY PROJECT BUDGET**  
(US\$ millions)

| <u>Component</u>                                                 | <u>Projectized<br/>ESF</u> | <u>Ongoing &amp;<br/>Planned AID<br/>Projects</u> | <u>Demobiliza-<br/>tion &amp; Tran-<br/>sition Fund</u> | <u>GOES<br/>Local<br/>Currency</u> | <u>TOTAL</u> |
|------------------------------------------------------------------|----------------------------|---------------------------------------------------|---------------------------------------------------------|------------------------------------|--------------|
| 1. Immediate Conflictive<br>Zone Relief                          | 0                          | 2.0                                               | 0                                                       | 2.0                                | 4.0          |
| 2. Ex-combatant Assis-<br>tance                                  | 0                          | 0.4                                               | 7.5                                                     | 0.1                                | 8.0          |
| 3. Social & Economic<br>Reactivation in the<br>Conflictive Zones | 100.2                      | 12.6                                              | 14.5                                                    | 29.7                               | 157.0        |
| 4. Land Transfer<br>Mechanisms                                   | 15.0                       | 0                                                 | 0                                                       | 0                                  | 15.0         |
| 5. Infrastructure Service<br>Restoration                         | 9.8                        | 20.0                                              | 23.0                                                    | 3.2                                | 56.0         |
| 6. Program Audit &<br>Management                                 | 5.0                        | 0                                                 | 5.0                                                     | 0                                  | 10.0         |
| <b>TOTAL</b>                                                     | <b>130.0</b>               | <b>35.0</b>                                       | <b>50.0</b>                                             | <b>35.0</b>                        | <b>250.0</b> |
| Other Programs <u>1/</u>                                         | ---                        | ---                                               | ---                                                     | ---                                | (120.0)      |

1/ Non-AID program funding requirements for U.N. peacekeeping, support to the National Civilian Police, land mine clearing, etc.

The Mission believes that the \$250 million level is justified for the following reasons:

- The El Salvador Peace Accord represents one of the most significant events in modern Central American history. It signifies a major USG foreign policy victory. The American people have responded generously and decisively to other similar events (e.g., the long and bloody civil war, the San Salvador earthquake, the return to democracy in Nicaragua and Panama). Can the USG afford to do any less after having invested so much in El Salvador for so long?

- During the past 12 years, the USG invested well over \$4 billion in economic and military assistance to support Salvadoran democratic forces. The real return on this investment will be realized in 1992-96 as El Salvador now attempts to win the peace. To consolidate the peace and national reconciliation process, significant support from the USG will be required in the form of both leadership and funding throughout the five-year National Reconstruction Plan and especially during its initial phases.

- The Salvadoran National Reconstruction Plan will require at least \$1.0 billion in international funding. The Mission proposes that USAID finance about 25 percent of this total with other donors (e.g., IBRD, IDB, UNDP, bilaterals) hopefully providing the remaining 75 percent. This represents a substantial reduction in USG funding when compared to the 1980s. In the past decade the USG regularly provided well over 90 percent of El Salvador's international aid requirements.

- It is unlikely that other donors will respond positively and decisively to the GOES National Reconstruction Plan if they do not see a significant "up-front" USG commitment to this Plan. USG leadership will be especially important at the upcoming Consultative Group meeting.

- The Mission proposes funding 80 percent of the USAID contribution to the National Reconstruction Plan from El Salvador's projected AID funding levels. Reprogramming additional economic assistance beyond this \$200 million will severely undercut the Mission's ability to support major GOES reform and development objectives as outlined in the Country Development Strategy Statement (CDSS), and undermine the progress the GOES continues to make in areas of both economic and democratic reform. It would likely also send a message to other donors to take similar reprogramming actions, thereby further diverting resources from long-term reform and development programs in El Salvador.

- Despite significant economic reforms by the Cristiani administration, the GOES is still confronting serious fiscal imbalances. Budgetary problems will limit the GOES's ability both to finance recovery and reconstruction requirements and to increase funding for the social sectors and other critical areas such as the justice sector.

- The IMF's Board has just approved a 1992 Stand-by Agreement. The IMF is anticipating that most financing for the National Reconstruction Plan will be provided from external sources. It expects to renegotiate Stand-by targets once funding is better defined. USAID expects that GOES compliance with IMF stabilization targets will place severe restrictions on GOES budgetary expenditures that could greatly slow down implementation of key NRP activities unless external funds are provided, especially on a grant basis.

- Much of the funding of the NRP will have to be provided from harder-term IDB/IBRD ordinary capital loans to cover what are war-related damages, since El Salvador does not qualify for concessionary resources from these MDBs. Significant levels of grant funding from the USG, UNDP and other bilateral donors are a major way to reduce the overall economic impact of the harder-term MDB loans. Grant funds also offer greater implementation flexibility.

- One of the centerpieces of the USAID-supported program is Municipalities in Action (MEA). Even prior to the development of the National Reconstruction Plan, MEA was experiencing some funding cutbacks due to GOES fiscal deficit problems. MEA addresses all of the GOES/USG objectives (economic, social, political) and now has a proven track record. It is critical that MEA be implemented and expanded during the five-year NRP

implementation period. The Mission believes that it is extremely important that MEA be continued and expanded within GOES programs. The best way to ensure that this occurs is to provide an independent source of dollar funding.

- Other unique components include assistance to ex-combatants and the Land Bank. Both are critical for early implementation and other donor funding is not likely. Our project includes USAID-dollar funding to cover at least initial costs of these activities to ensure their rapid and flexible implementation.

- The \$250 million in USAID funding requirements was derived based on an extensive review of cost estimates for activities in the current USAID program which are similar to those being proposed under the NRP. A review of the absorptive capacity of the various implementing institutions selected was also factored into our proposed funding level.

#### **Recommendations**

Based on the analyses contained in this Project Document, it is recommended that: a) \$50 million be provided from the Demobilization and Transition Fund to support Salvadoran national reconciliation and reconstruction and to supplement \$150 million in USAID funds that will be redirected from its ongoing and planned program; b) \$50 million from the 150 account be added to the El Salvador ESF totals in FYs 92-93 to permit full funding of the Project; c) the Peace and National Recovery Project be approved and authorized at the level of \$166 million funded from \$116 million in projectized Mission ESF and \$50 million from the Demobilization and Transition Fund; d) an amendment to the Health Systems Support project be approved and authorized to increase life-of-project funding by \$8 million in projectized ESF; e) an amendment to the Strengthening Achievement in Basic Education project be approved and authorized to increase life-of-project funding by \$6 million in projectized ESF; and f) a waiver of full and open competition be approved under the El Salvador Public Services Improvement project to expedite the contracting of critical technical assistance.

## **II. PROJECT BACKGROUND AND RATIONALE**

### **A. BACKGROUND**

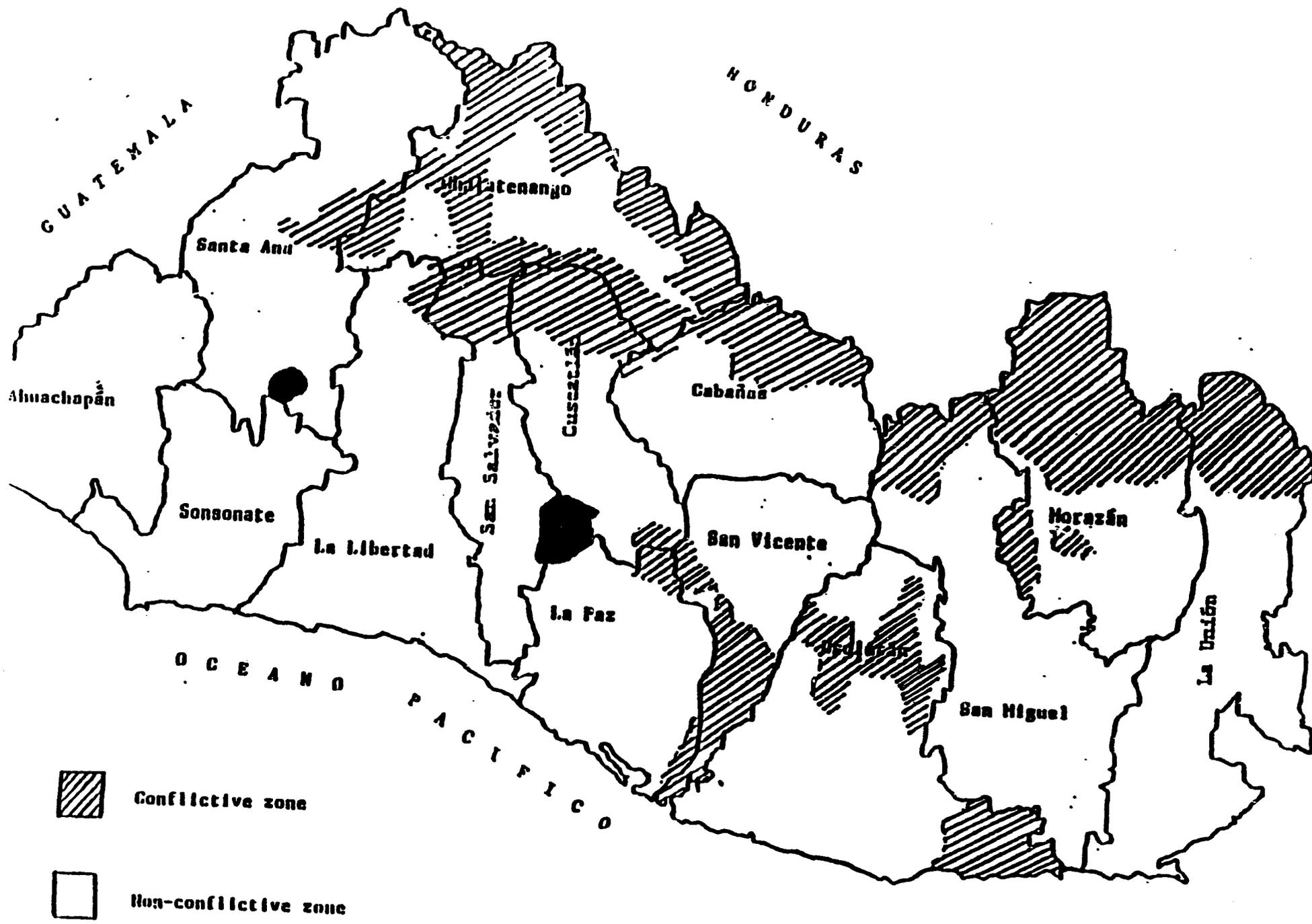
#### **1. Social and Economic Impact of the War**

Despite substantial infusions of USG economic aid, the nearly twelve years of civil war have exacted a heavy social and economic cost. The high levels of resources diverted from fundamental social services to support the war, the continuous repair of infrastructure, and the decade of decreased economic growth have all served to reduce government revenues destined to improving the economic well-being of the nation and the standard of living of the population. In early 1990, the U.S. Embassy estimated the value of damage due to the conflict to be approximately \$2 billion, including direct, indirect and economic costs through 1989.

The estimated number of war deaths is over 75,000. More than 500,000 persons were displaced from their homes and communities by the mid-1980s because of armed conflict in their home areas. The current estimate of displaced persons is approximately 38,000 -- the reduction is due in significant part to USAID support for programs for the displaced. Half of them are children; 60 percent of the heads of households are women. Approximately one million Salvadorans have emigrated to the United States during the war years -- the equivalent of about 20 percent of the country's current population. Data available on working street children in San Salvador indicate that 47,000 under the age of 18 have migrated from the conflictive zones. The repatriated population, comprised mainly of exiles returning to the country from refugee camps along the Honduran border, is currently estimated to be 30,000. In addition, over 800,000 residents (excluding returning excombatants, displaced persons and repatriates) of the conflictive zones (see map) are severely affected by the lack of services and basic infrastructure as well as the general social and economic upheaval.

Another dramatic statistic related to the civil strife is the 15 percentage point decline (from 81.9 percent to 66.5 percent) in the number of people in rural areas employed on a year-round basis between 1978 and 1987. One of the critical needs of the country in the immediate post-hostilities period, therefore, will be productive employment for a significant number of ex-combatants, returning displaced persons and other un- or under-employed persons living in the conflictive zones. The economic conditions in those areas, while permitting some remunerative activities such as farming, marketing, and services, are insufficient to sustain anything approaching an adequate standard of living for a large percentage of the population. The full reintegration of resident and returning citizens into the economy will not be immediate and will, in large part, depend upon the restoration of public services and the ability of the GOES to foster higher levels of private sector activity and employment.

Economic reactivation and the renewal of basic social services in the postwar period will be severely hampered by the lack of public infrastructure. Damage and losses occurred both directly through violence and indirectly from power outages, insufficient maintenance and replacement, and normal deterioration. Many repairs have been postponed and expenditures were especially limited in the conflictive zones. The investment necessary to extend and upgrade the infrastructure was simply not available. Now the backlog of reconstruction and new construction needs is enormous. A recent USAID-financed report estimates infrastructure reconstruction and rehabilitation costs during the postwar period to be \$1.3 billion. For example, the electric transmission and distribution systems have been attacked repeatedly and damaged severely during the period of hostilities. Roads in many areas could not be maintained and major new construction was largely postponed. Telephone service to the conflictive zones is sharply limited due to damage which has closed thirty-four telephone centers. The potential health problems associated with unsafe water and sanitary disposal are acute, given the serious damage to the National Water and Sewage Authority's (ANDA's) water systems. Also, as of 1989, over 550 schools and 22 health posts had been closed.



## **2. Status of Peace Talks**

On December 31, 1991, the GOES and the FMLN signed a document in New York which states that definitive agreements have been reached which, combined with previous accords signed in San José, Mexico and New York, bring to a close the negotiations on all of the items included in the "Caracas Agenda" and the September 25, 1991, New York Agreement. The execution of these accords will "result in a definitive conclusion to the Salvadoran armed conflict."

The document signed by both sides in New York established February 1, 1992, as the formal initiation of a nine-month ceasefire. Follow-on discussions resumed on January 6 to negotiate an implementation schedule for the various elements of the Peace Accord and the modality for dismantling the FMLN's military structure and reintegrating its members into country's civil, political and institutional life. These discussions culminated in the Peace Accord signed on January 16 in Mexico City. The Peace Accord includes provisions relating to Armed Forces reductions (50% over a 22-month period), abolishment of forced recruitment, supervision by UN peacekeeping forces of the FMLN demobilization (in fifteen enclaves), the creation of a National Civilian Police within two years, a heavy UN police monitoring role in the conflictive zones, steps for establishing legal land tenure status for those presently occupying land in the conflictive zones, and agreement by the GOES to continue the process of distributing land under Phase II of the agrarian reform and land currently held by the State.

## **3. GOES Recovery Plan**

Conscious of the enormous tasks to be accomplished in a transition from war to peace, President Alfredo Cristiani designated the Minister of Planning to lead the effort to formulate a postwar recovery strategy. In July, the Minister established, with funding from the United Nations Development Program (UNDP), a National Reconstruction Committee (NRC) to work with government agencies and private organizations in preparing a National Economic and Social Recovery Plan. A preliminary version of the Plan was completed immediately prior to President Cristiani's talks with the FMLN at the United Nations in September. The Plan was subsequently revised and presented to an informal donors meeting in San Salvador on November 21. An early January draft of the Plan calls for a \$926 million recovery program to reintegrate ex-combatants and restore basic services and economic activity in the formerly conflictive zones. The GOES has indicated that the Plan is being revised and will increase further as discussions continue with the individual implementing institutions. Also, over \$100 million already planned in the GOES investment budget is directly related to the reconstruction process. Thus, the GOES estimates that the final National Reconstruction Plan will require more than \$1.0 billion in external funding.

The Plan is to be implemented over a five-year period (1992-96). It includes an immediate humanitarian, disaster relief emphasis in the conflictive zones; activities which address basic needs of the target population and the repair (including that of a temporary nature) of basic small-scale infrastructure in those areas most affected by the conflict; and activities emphasizing economic and social reactivation in the conflictive zones and the restoration of infrastructure services.

The overall objective of the Plan is to establish a basis for national reconciliation by creating the necessary economic and social conditions to reintegrate into society those persons most directly affected by the conflict. The Plan targets approximately 800,000 persons: a) ex-combatants from both sides in the conflict; b) displaced persons; c) repatriated persons; and d) those inhabitants of zones most affected by the conflict. The conflictive zones include a total of 99 municipalities identified by the GOES, 19 of which have received little GOES assistance over the past decade. Three main categories of programs and projects are included in the Plan: (1) restoration of basic social services; (2) employment generation and productive sector support; and (3) infrastructure reconstruction and rehabilitation.

The details of how the Plan will be implemented are being prepared and should be approved shortly. A three-tiered organizational structure will utilize mechanisms and institutions already in place to execute the Plan. This will permit both proper accountability and a quick, efficient channeling of resources. The first tier will be responsible for setting overall policy for national recovery, taking its direction from the President of the Republic.

The second tier will involve the newly established Secretariat for National Reconstruction (SRN), charged with serving as the Plan's executive directorate to determine funding allocations in accordance with the objectives of the Plan and the policy direction it receives. Working closely with a wide range of public and private voluntary implementation entities, the SRN will coordinate the preparation of action plans prior to initial disbursement of funds. The Technical Secretariat for External Financing (SETEFE) will support the SRN in reviewing action plans and overseeing procurement and financial management procedures. This mechanism has proven quite efficient in administering large sums of PL-480- and ESF-generated local currencies in recent years. The SRN will be responsible for monitoring the implementation of national reconstruction program activities. The GOES is working to obtain special regulations which will permit the National Reconstruction Fund to operate under more flexible procurement and financial management procedures, the most important of which will avoid the major delays caused by Court of Accounts interventions during the contracting phase.

The third tier will consist of institutions responsible for actual implementation of the Plan -- e.g. the National Commission for the Restoration of Areas (CONARA), which has been incorporated into the SRN, various Ministries, PVOs, and municipalities. Many of these institutions are already far along in developing recovery programs, which in most cases constitute an extension of activities in which they are currently involved and have considerable experience and expertise. For those activities which will be new, e.g., public awareness campaigns regarding land mines and reintegration counseling for ex-combatants, technical assistance will be obtained from international PVOs or individuals with applicable experience.

#### **4. USG Contributions to Recovery Plan Preparation**

Both the UNDP-funded staff of the small reconstruction planning committee and the U.S. Mission have provided active support to the GOES in the preparation of the Recovery Plan. Among specific U.S. contributions to preparation of the Recovery Plan, three reports are particularly important. First, USAID contracted with Creative Associates International, Inc., to suggest program alternatives for reintegrating ex-combatants into civilian society from the ranks of the military and insurgents. This report included a review of reintegration programs in Nicaragua, Zimbabwe, Colombia, and the United States as well as the assimilation of military personnel into the security forces of Panama. Second, a team of consultants was contracted to assist the GOES perform an infrastructure restoration/reconstruction assessment for the National Reconstruction Plan, based in part on 1990 infrastructure damage assessments. Third, the Milgroup and USAID collaborated on preparing an ex-combatant assistance strategy to integrate soldiers from both sides back into Salvadoran society (see 91 San Salvador 7597).

In addition to these reports, we have sponsored visits to Nicaragua and Colombia to observe first-hand the experience these countries have had with reintegration programs. In early December, the Central American Business Administration Institute (INCAE), with USAID funding, conducted a series of 5 inter-sectoral policy dialogue seminars on the NRP with leaders from the business community, the armed forces, labor, government, the religious community, academia and a cross-section of local and international NGOs, in order to inform them of the commitment of the GOES to peace and equity, to receive their input and to foster a national consensus. The response was favorable and served to broaden considerably understanding and support for the program.

#### **B. RATIONALE FOR USG SUPPORT TO PEACE AND NATIONAL RECOVERY**

##### **1. USG Foreign Policy Objectives**

Major USG objectives for El Salvador are a peaceful resolution of the war, building a strong democracy and economic growth with equity. The insurgency, fed by past economic, social and political injustices, has resulted in nearly twelve years of economic and social chaos which will not be ended immediately by a peace agreement. The causes of the insurgency, both real and perceived, are rooted in basic societal failings, and many of these problems remain.

It is in the USG's interest to support a national reconstruction plan that will consolidate the peace negotiation process, help resolve societal unrest, and avoid sowing seeds of future discontent. During the crisis years of the 1980s, much was accomplished toward democracy and economic stabilization, but these thin foundations for progress must now be made permanent by the continued nurturing of institutions of economic and political freedom. The economic and democratic gains are fragile. El Salvador now has to demonstrate that the expectations of democracy are well founded, and that an elected government, with market-based economic policies, can work in practice for the benefit of all segments of society. If not, desperate people may again resort to violence.

## 2. Overall USG Development Rationale

The goals of the USG's economic assistance program to El Salvador are to promote broad-based economic growth, strengthen incipient democratic institutions and processes, and create a political environment conducive to sustainable growth with equity. To achieve these objectives, USAID/El Salvador has a portfolio targeted at: democratic initiatives and the administration of justice; the economy and the productive sectors; the social sectors, especially education, health and essential infrastructure; the environment and natural resources; and support for U.S. policy initiatives in areas such as drug abuse prevention.

In December 1991, USAID undertook an internal exercise to formulate its strategic objectives and establish a Program Performance Assessment System for the key programmatic areas of its portfolio. As a result of this exercise, USAID identified national recovery as one of its five strategic objectives. Specifically, this strategic objective calls for "the economic reactivation of the conflictive zones, restoring their access to basic services, and the democratic reintegration of their population." The national recovery strategic objective relates most directly to the LAC Bureau objective of responding to specific challenges, in this case the disaster brought about by the war. However, activities within this strategic objective will also support the LAC Bureau objectives of broad-based sustainable growth and the evolution of a stable, democratic society.

Over the past ten years, nearly \$3 billion of USG economic assistance to El Salvador has helped ameliorate the social and economic impact of the war on millions of Salvadorans. In spite of the war, social indicators have in most areas improved. The economy has begun to transform itself and a democratic system is beginning to take hold. Now, with the signing of the Peace Accord, U.S. Government economic assistance has a vital role to play in healing Salvadoran society, institutionalizing democracy, helping the GOES maintain its economic reform program and assisting El Salvador reach its growth potential.

It has been argued alternatively that (a) economic reactivation is the most important element for successful postwar reintegration and that a costly recovery program might well jeopardize the GOES economic program by rapidly expanding expenditures; and (b) the overriding USG interest in El Salvador is consolidating the peace and, therefore, support for other, longer-term development objectives should be subordinated to the achievement of peace. The proposed assistance package described herein subscribes to neither alternative.

First, while the Salvadoran economy has responded well to major policy reforms undertaken by the government of President Cristiani, these recent gains are only fragile beginnings, the continuation of which is by no means assured. Private investment and exports, for example, still have not returned to their prewar levels. Private investment was 17.6% of GDP in 1978 before falling to 6.1% in 1980, and by 1991 it had recovered only to 10.7%. The 1991 export figure of \$621 million is far below the 1979-80 average of \$1,104 million, especially in real terms. Furthermore, while we believe that

a cessation of hostilities is likely to result in major increases in investment over the medium to long term, potential investors will likely be cautious over the short-term.

Second, ensuring and consolidating the peace through support to national recovery is undoubtedly the USG's top priority, requiring immediate attention and an intensive assistance effort. It would be short-sighted, however, to substitute national recovery and reintegration for continued progress in building the basis for democracy and long-term economic growth. Both approaches, mutually reinforcing, are necessary to achieve a lasting peace. Additional resources will clearly be needed to effectively support national recovery activities in the short- to medium-term and to avoid undermining our longer-term development objectives.

### 3. USG Comparative Advantage and Strategy

The guiding principles for the USG assistance package are an immediate response capability, simplicity and flexibility. We want to demonstrate support for what is clearly a Salvadoran recovery program by helping to meet immediate needs and funding gaps, especially in the critical start-up phase. Unlike the recent cases of Panama and Nicaragua, the USG has an advantage in planning postwar assistance to El Salvador. As opposed to other donors in El Salvador, we have a program already in place and possess considerable experience with Salvadoran institutions. Finally, and perhaps most important, we can use our leadership position to encourage additional, accelerated funding support for the Plan from other donors.

Equally significant, the USG has already initiated several small-scale pilot efforts that can serve as models and learning experiences for the postwar reconstruction period. The Santa Marta initiative (Santa Marta is a repatriate community closely associated with the FMLN) demonstrates the types of local-level, small-scale community development activities that will be implemented in the conflictive zones through the Municipalities in Action (MEA) program and other GOES implementing mechanisms such as the Land Bank. MEA activities in Santa Marta include rural roads, electrification and latrines. This initiative has also helped us to become aware of many FMLN adherents' deep concern about continued access to land after the war. These contacts and resultant benefits for the community should contribute to building confidence between at least these elements of the parties to the conflict. The overall Santa Marta experience has proven very valuable. In fact, several FMLN-associated PVOs have contacted us for assistance as a result.

### C. RELATIONSHIP TO OTHER DONOR ACTIVITIES

After a decade of absence, other donors have begun their return to El Salvador. By the mid-1990s, the USG will likely cease to be the largest single donor. The International Monetary Fund (IMF) signed a stand-by arrangement with El Salvador in August 1990, and its Board approved a follow-on stand-by in January 1992. The International Bank for Reconstruction and Development (IBRD) has signed nearly \$100 million in loans for structural adjustment, and for the social and energy sectors. It is planning additional

loans in the agricultural and housing sectors and a follow-on Structural Adjustment Loan. The Inter-American Development Bank (IDB) is rapidly expanding its activities via such major new projects as a \$33 million Social Investment Fund, a \$60 million Multisector Credit Program, a \$44 million rural roads loan, and a planned \$120 million Transport Sector Program. During 1992-1994, a total of \$200-250 million a year is programmed for lending for activities in vocational education, agriculture, housing, energy, and microenterprise credit as well as for the investment sector, more multisector credit, potable water and sewage, and possible support for the National Reconstruction Plan.

It is hoped that other donors -- the World Bank, IDB, UNDP and bilateral donors -- will be major contributors to the National Reconstruction Plan; however, it is unlikely that their contributions will begin to flow until mid-1993. While other donors have expressed some interest in participating, they are not yet preparing program and project documentation to translate these intentions into action. For example, the UNDP and some European donors are especially concerned that, as yet, there has been little FMLN involvement in the development of the National Reconstruction Plan. We estimate that it will take the World Bank and IDB at least 12-18 months to develop new programs in this area. All donors have been unwilling to commit themselves until after a peace agreement has been signed.

Informal discussions with the other major donors indicate a willingness to consider recovery program assistance, including holding a second Consultative Group (CG) meeting -- a possible pledging conference -- in late March in the context of a series of Central American country specific meetings prior to a regional session. Informal donors meetings have been held in Washington on September 23, 1991, and with the GOES in El Salvador on November 21, 1991. Another is planned for January 23, 1992 in Washington.

In support of encouraging donor mobilization, the Washington interagency review of the Concept Paper asked that a donor coordination group be established to work on an action plan for getting the IDB and World Bank to move forward in El Salvador quickly after a cease-fire and to undertake a concerted effort to increase and accelerate participation by other bilateral donors. The group will work with State and Treasury representatives and meet with the MDBs and the EC in support of this objective. The January 1992 Partnership for Democracy and Development (PDD) plenary meeting in Ottawa will also be used to transmit this message to other donors.

#### **D. FISCAL WEARNESS AND OTHER MACROECONOMIC IMBALANCES**

The GOES still faces major fiscal pressures and will continue to do so throughout the NRP period. Although steady progress has been made in raising revenues over the last two years, the deficit of the consolidated nonfinancial public sector (CNFPS) was 3.5% of GDP in 1991 (see Annex IV, Table IV.1). This was an improvement over the 5.8% deficit in 1989, but a slippage from the 2.5% figure of 1990. The improvement since 1989 has been made to a large extent at the expense of capital expenditures, which are at a level too low to sustain a strong economic recovery, as well as a sharp decline in the real salaries of public sector employees. Public sector savings are still negative, although they should turn positive in 1992.

A number of pressures on the public finances will make it difficult for the government to achieve the target under its economic program for 1992 -- supported by a stand-by arrangement with the IMF -- of reducing the CNFPS deficit to 2.4% of GDP. These pressures, discussed in more detail in Annex IV, include the following:

- The fiscal effects of the reduction in military forces to be initiated in 1992 will be offset by severance payments.
- Reductions in civilian public-sector employment during 1992 will likewise be offset by severance and early retirement payments.
- Budgetary resources are likely to be needed to make up for shortfalls in the Armed Forces Social Assistance Institute (IPSFA).
- The creation of a new national civil police force, to replace existing police forces, will require start-up costs in 1992.
- One-time revenues from privatization of state enterprises in 1992 will be significantly lower than the €300 million originally anticipated because the planned pace of privatization was unduly optimistic.
- Interest payments on the internal debt have risen as a result of a debt consolidation.
- An overdue reversal of the sharp decline in public-sector real wages is likely to occur in 1992.
- Drought-related problems will continue to require extra expenditures for thermal-generated electricity until the next rainy season.

Under the terms of its stand-by arrangement with the IMF, the government will need to strictly limit credit to the public sector during 1992. At the same time, the USAID -- in diverting a significant portion of its existing portfolio to the NRP -- will no longer be providing support for other items in the GOES budget and generalized budget support will be reduced to an amount equivalent to about \$10 million in 1992. The GOES will thus need to find additional revenues to support these activities, discontinue them or reduce their scope, or shift resources from other parts of the budget.

Some of these fiscal pressures will continue beyond 1992. The military demobilization program, and the severance payments associated with it, will continue through 1993. Also, the shift in AID resources from non-NRP to NRP activities will have budgetary implications in 1993 and 1994 similar to those in 1992.

At the same time, the coming of peace has created hopes for significant increases in public investment and an expansion of social services to achieve a sustained, broadly-based economic recovery that will help secure the peace and strengthen democratic development. To a large extent, such increases will have to be financed by external sources. With the signing of the formal cease-fire, additional resources are likely to be forthcoming from the

international financial institutions and other donors. However, due to the long lead times for much of this assistance, little additional funding from these sources can be expected until 1993.

The expansion of social services and of physical infrastructure will create recurrent cost obligations that the GOES will need to finance with its own resources. The steady rise expected in GOES fiscal revenues will go to a large extent for these purposes. As a result, the fiscal deficit is not expected to be eliminated entirely during the NRP period, and holding it down to an average of about 2% -- with no domestic financing -- will be a major challenge requiring continued fiscal and monetary discipline. Therefore, while the Mission will encourage the GOES to make significant contributions of its own to the NRP, it realizes that GOES fiscal capabilities will be limited, especially in the early years of the NRP. Further economic analysis of the proposed project is included in Annex IV.

### III. PROJECT DESCRIPTION

#### A. GOAL AND PURPOSE STATEMENT

The goal of this five-year Project is to support El Salvador's National Reconstruction Plan in consolidating the peace process, helping resolve societal unrest, and sowing the seeds for future growth with equity and strong democracy. The purpose of the Project is to promote the economic and social reactivation of the conflictive zones by restoring infrastructure and access to basic services, and assisting the democratic reintegration of their population.

Project assistance will contribute to an end-of-project-status in the conflictive zones characterized by: restored health and education facilities serving the population; reduced infant mortality rates; a higher percentage of land in production; a greater percentage of eligible voters who have carnets to enable participation in local and national elections; open town meetings being held and people participating; an increased number of municipalities participating in the Municipalities in Action (MEA) program; a decline in out-migration; a significant increase in permanent employment opportunities; and per capita incomes approximating national levels.

Specific outputs of the Project will include: (1) restored access to basic services (electricity hook-ups, health posts, schools, roads); (2) an expanded capacity of factors of production (land, labor, capital) to respond to economic opportunities in the conflictive zones (people trained and subsequently finding productive employment, village banks started, productive credit made available, land purchases financed, land titles issued, temporary jobs created under the MEA program); (3) repair and restoration of electricity and transportation networks essential to national recovery; and (4) local-level democratic institutions established and civic participation enhanced (e.g. percentage of eligible persons on voter registration roles increased, municipalities holding open town meetings, PVOs channeling resources in the conflictive zones).

## B. BENEFICIARIES

Consistent with the objectives of the NRP, the Project will direct assistance towards a target group comprised of nearly 800,000 inhabitants of the conflictive zones, which include a total of 99 municipalities. This target group includes: (a) ex-combatants from both sides in the conflict; (b) displaced persons; (c) repatriated persons; and (d) those inhabitants of zones most affected by conflict.

Immediately after the war, there will be about 6,000 ESAF ex-combatants and about 5,500 from the FMLN. The ESAF numbers will increase per the scheduled reduction included in the Peace Accord. The current estimate of displaced persons is approximately 38,000. The repatriated population, comprised mainly of exiles returning to the country from refugee camps along the Honduran border, is currently estimated to be 30,000. According to the U.N. High Commission for Refugees (UNHCR), there are approximately 25,500 registered Salvadoran refugees living in other Central American countries and Mexico. The majority of these refugees have been living individually or in cooperative groups for some 10 years. It is estimated that approximately 8,500 refugees of this total will return to El Salvador.

## C. DESCRIPTION

The Project consists of the following major components:

1) Immediate Conflictive Zone Relief - Humanitarian relief/safety net assistance, documentation for repatriates and displaced persons, and a public awareness initiative to reduce the number of accidents from explosives in conflictive areas; 2) Assistance to Ex-Combatants - consisting of social/economic reintegration counseling and university scholarships; 3) Social and Economic Reactivation in the Conflictive Zones - Municipalities In Action Program, restoration of health and education services, and productive enterprise development -- including investment promotion, micro-enterprise, small business and agricultural credit programs and vocational/technical training for ex-combatants as well as the conflictive zone population in general); 4) Land Transfer Mechanisms - assistance for purchase of land, titling and gaining membership to agricultural cooperatives; 5) Infrastructure Service Restoration - feasibility studies, emergency repair programs, and infrastructure reconstruction and restoration; and 6) Program Audit/Management. Other programs (such as U.S. support to UN peacekeeping operations, possible assistance to the National Commission for the Consolidation of Peace - COPAZ - and to the new civilian police force, and targeted USIA programming) will require additional USG resources and would not be administered by USAID.

### 1. Immediate Conflictive Zone Relief

Activities to be supported under this component will begin immediately or as soon after the signing of the Peace Accord as possible and draw upon \$4.0 million in financing prepositioned by USAID from its existing program. Specific activities included under this component are as follows:

**(a) Documentation**

Tens of thousands of civilians in the conflictive zones, primarily repatriates and displaced persons, do not have a cédula, the basic government document which identifies an individual as a citizen of El Salvador. Without a cédula, or personal identification card, international travel, voting rights, access to certain government services and other civil rights are denied. Technical assistance to the municipalities in documentation requirements will be complemented by the provision of office equipment and supplies and additional resources for salaries of short-term personnel. ESF-generated local currencies have been programmed for this purpose and will be administered by ISDEM and the SRN.

**(b) Food Distribution**

During the initial period of resettlement, many displaced and repatriated families will lack resources for food until they have their first agricultural harvest or are otherwise economically productive. Limited food assistance will only be a temporary stop-gap assistance program. Logistic support for food distribution (with food donated by the World Food Program) will be provided under USAID's Displaced Persons Project. Food assistance will also be included within a basic humanitarian assistance "safety net" package administered by a variety of PVOs as described under activity (d) below.

**(c) Health Services Delivery**

The importance of a rapid and efficient delivery of medicines and basic health services to the target population upon the cease-fire cannot be overemphasized. The Ministry of Health will staff and stock health centers with necessary medicines and emergency medical supplies using existing USAID-supported project funds. Health facilities in the conflictive zones have been neglected and have deteriorated substantially during the period of hostilities. Under this component, those health facilities which do not need repair or reconstruction can be reequipped and resupplied under USAID's Health System Support Project (APSISA), 519-0308, with the Ministry of Health. This assistance will be complemented by basic health services to be provided under the USAID-supported Displaced Persons Project.

**(d) PVO Support**

Utilizing existing agreements with private voluntary organizations (PVOs), the Displaced Persons Project will extend humanitarian assistance as needed by means of a "safety net" as well as reintegration projects which, in addition to food and health services, provide short-term special assistance such as minimum shelter, temporary employment, productive projects and agricultural inputs. This range of short-term assistance has to date successfully enabled thousands of displaced families to become economically reintegrated into Salvadoran society. In addition to PVOs currently active under this project, it is anticipated that other PVOs, including ones acceptable to the FMLN, will participate in this immediate relief process.

**(e) Land Mine Public Awareness Campaign**

A critical need upon signature of a cease-fire agreement will be to minimize the hazard presented by thousands of land mines and unexploded ordnance scattered throughout the conflictive zones. The temporary dislocation of persons involved in the demobilization process, as well as the thousands of displaced persons wishing to return to their homes located in the conflictive zones, will be affected by this hazard. Neither the ESAF nor the FMLN have maps which show with precision where these devices are located, and it may take years for the military or national police to find and destroy them.

To reduce the number of accidents to returnees and to complement the work of authorities responsible for detecting and eliminating such explosives, a public awareness campaign will be indispensable. The objective of this campaign, accomplished through the dissemination of pamphlets, posters, newspaper articles, and radio broadcasts, will be to educate the general public, especially those returning to the conflictive zones, on the identification of land mines and other ordnance and to have them report them to the authorities.

Immediate funding for a comprehensive GOES mine awareness campaign will be provided under the ongoing Displaced Persons Project (519-0281) and will include the production of electronic media spots, newspaper ads, posters, pamphlets, and so on. ESF-generated local currencies will be programmed to assist in financing the implementation of this public awareness campaign.

**(f) Socio-demographic Profiles**

In order to gain a more precise understanding of the needs of the target population in the conflictive zones, the GOES, with technical assistance provided under the Displaced Persons Project, is designing a socio-demographic profile analysis which will be undertaken during the first several weeks following the signing of the Peace Accord. This analysis will serve as a useful input to refining the NRP and improving the design and targeting of assistance to be provided during the reconstruction effort. In addition, it will establish necessary baseline data upon which an evaluation/monitoring system can be structured to establish indicators and measure progress towards achievement of National Reconstruction objectives. These profiles will also complement national household survey data in assessing the social and economic reactivation of the conflictive zones vis-a-vis the rest of the country. ESF-generated local currencies have been programmed to assist the GOES in undertaking these profiles and establishing a program evaluation and monitoring system, with technical assistance to be provided under the Displaced Persons project.

**(g) SRN Administrative Expenses**

As described more fully in the institutional analysis (Annex VI), the SRN will require a limited amount of budget support and technical assistance in order to undertake the full range of program coordination, management and monitoring roles it has been assigned. Short- and long-term technical assistance costs will be financed under USAID's Technical Support,

Policy Analysis and Training (519-0349), and the Displaced Families projects (519-0281). ESF-generated local currencies have been programmed to cover a range of expenses including office supplies and equipment, vehicles, and personnel costs.

## 2. Assistance to Ex-Combatants

With the signing of the Peace Accord, thousands of ex-combatants from both sides will be thrust into civilian life with few resources and inadequate preparation to enable them to become responsible, productive citizens. (For purposes of this document, an "ex-combatant" is defined as a demobilized soldier who was in full-time service on February 1, 1992 - the beginning of the cease-fire.) The universe of potential ex-combatants is not difficult to define. It is difficult, however, to predict precisely the extent to which either group will want or need assistance and the level of demand for each specific type of assistance. Project estimates have been developed with a good measure of flexibility so as to best respond to reintegration needs as the demand for each specific option is determined.

Immediately after the war, there will be about 6,000 ESAF ex-combatants and about 5,500 from the FMLN. The soldiers are young (15-24 years), mostly from rural backgrounds, and have low literacy levels. In the first few months after the war, it is estimated that assistance will be sought by 7,000 ex-combatants. Difficulties associated with reintegration will vary depending on whether the ex-combatant was an officer or an enlisted person. ESAF enlistment is only for two years, and a large part of the army is demobilizing normally every year, i.e. about 17,000 soldiers, without any great social disruption. ESAF officers, however, have had reasonable assurance of a secure thirty-year career with progressive advancement. To partially address this situation, the Peace Accords provide for the GOES to issue severance payments equivalent to one year's salary and a staggered ESAF reduction scheduled over 22 months. FMLN officers are similar to their ESAF counterparts in that they generally have a higher academic education than enlisted personnel and have received military training in socialist countries. Having been in the hills fighting for so many years, their reintegration will be particularly difficult. They will mistrust society and many mainstream Salvadorans will view the FMLN officers with great bitterness.

For the majority of ex-combatants, after basic security guarantees and documentation needs are met, gainful employment will be the most important catalyst for a successful return to civilian life. Experiences in other countries indicate that the particularly disruptive period following a cease-fire requires specialized programs for those who cannot readily re-enter society gainfully. This is especially true for those choosing to reside in the conflictive zones, which have suffered the most intense effects of the war and have not benefitted from the country's economic revival in recent years.

A variety of means to facilitate ex-combatants' reintegration have been identified, including short-term (three to six months) labor-intensive public works projects, short- and long-term vocational/technical training, agricultural starter packages, job placement services, small and micro-enterprise credit and technical assistance, and agricultural credit and

technical assistance. These activities will be offered to the general population in the conflictive zones as well as to ex-combatants, and are described more fully below under component C (Social and Economic Reactivation in the Conflictive Zones). The services to be provided exclusively for ex-combatants under this component include social/economic reintegration counseling and university scholarships. Total funding requirements for this component amount to \$8.0 million.

#### **Social/Economic Reintegration Counselling**

As part of the demobilization process, ex-combatants will be given counseling aimed at providing them with coping skills necessary to begin their transition to civilian life. Counseling will feature guidance on such basic tasks as finding a place to live, applying for a job, setting up a small business, applying for a loan, and so on. A range of skills and information to accelerate the reintegration process will be included. Ex-combatants will also be provided with written information on what benefits are available and how to avail themselves of them. This \$500,000 activity will be addressed by a PVO under the Displaced Families Project with existing funds.

#### **University Scholarships**

The Peace Accord calls for a reduction in force of the ESAF officer corps, as well as disbanding of the FMLN's. All disbanded officers, both ESAF and FMLN, will be eligible for an up-to-five-year scholarship at a local university. This benefit will include tuition, books and a modest living allowance over the five-year period. To be selected for the scholarship, a one-time GI bill, the former officer must have a minimum of four years of service and must meet academic eligibility criteria.

No funding exists in the ongoing USG assistance program for this scholarship program. Additional resources, possibly converted Foreign Military Fund (FMF) resources, will be required. We are presently budgeting \$7.5 million for this component. This amount is an estimate which depends upon the number of officers who would choose the five-year university academic program rather than one of the other assistance programs open to them (e.g., technical training, business training, small business credit, credit for land purchase/agricultural activities, etc.). 1/

### **3. Social and Economic Reactivation in the Conflictive Zones**

To achieve a successful reintegration of the inhabitants of the conflictive zones, ex-combatants, and repatriates, a comprehensive approach to social and economic reactivation is required. The key elements of this approach, which will be supported by \$157 million in USG assistance are: (a) Community Infrastructure/Short-term Employment via the Municipalities in Action (MEA) Program; (b) Health and Education Services; and (c) Productive Enterprise Development.

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1/ These estimates are based on 900 scholarships at a cost per student of approximately \$8,300 (annual tuition of \$400 and a monthly basic maintenance allowance of \$140).

**(a) Municipalities in Action**

The Municipalities in Action (MEA) program is one of the centerpieces of USG support for the National Reconstruction Plan. The MEA program addresses immediate local, small-scale infrastructure construction needs at the municipal level, as identified by the communities themselves. It also creates employment opportunities in the conflictive zones. In terms of helping to ensure the long-term prospects of peace, the opportunity for ex-FMLN to participate in a grass-roots, democratic process is probably the most important benefit of this program.

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." Due to GOES fiscal deficit problems, however, the MEA program is experiencing funding shortfalls and cutbacks. One of the highest-priority activities for the National Reconstruction Plan is to implement MEA over the five-year recovery period. Years one through three will be funded at a level of \$20 million per year, whereas years four and five will include a phase-down of AID funding (\$12.5 million in year four and \$10 million in year five). This phase-down is intended to encourage the GOES to incorporate the MEA program into its budget as its fiscal situation improves, to encourage increased generation of revenues within the municipalities, and to allow for other donor support for this program in the later stages of NRP implementation.

With the help of SRN and the mayors, the initial needs of the inhabitants in 80 of the 99 municipalities in the conflictive zones have already been determined through open town meetings. In those cases, at least one project per municipality has been prepared for immediate contracting. Needs in the remaining areas will be established as soon as access can be gained. Experience under the MEA program indicates that the needs for basic infrastructure expressed by local citizens are very similar throughout the country (more than 620 open town meetings with more than 150,000 participants have been held each year to establish municipal priorities). A USAID-funded report on infrastructure requirements developed long lists of relatively simple, but locally important, basic infrastructure needs reflecting the years during which limited, if any, investment was made.

Essential recovery plan requirements include health and education services; water supply; and road and bridge access between cantons, cantons and municipal centers, and municipal centers and the national road network. Construction projects necessary to provide these services will be accomplished under the MEA program as long as the project size and scope fall within municipalities' capabilities. Larger projects will be executed by national authorities, either under force account or through contracts.

Initial needs identified by USAID-funded consultants include over \$130 million in small-scale infrastructure projects for implementation by municipalities. The proposed USG assistance package includes \$82.5 million for this purpose over five years. MEA experience has demonstrated a capacity by individual municipality to efficiently manage between \$200,000 and \$300,000 per year.

At the same time as intensified MEA activities are being targeted in the ex-conflictive zones, regular MEA activities throughout the country will be continued at normal levels so that equity is maintained. In order to institutionalize the benefits emanating from this program for the long term, GOES reform measures will be supported during this timeframe to begin shifting financial support for municipalities to the GOES' own resources, either as a central transfer, or--more likely--by establishing a property tax system the revenues of which would remain at, or be reallocated to, the municipalities. These domestic resources should be on line before the end of the Project and will be complemented by the planned FY 93 Municipal Development Project. This new project will strengthen institutional reforms and further deepen the municipalities' ability to generate resources locally and lessen their dependency on central government transfers and donor resources.

**(b) Health and Education Services**

USG-assisted programs to support the restoration of vital health and education services to the conflictive zones include: a vaccination campaign; maternal health and child survival interventions; equipping/supplying health service facilities and schools; rehabilitation of the physically, mentally and sensorially handicapped; the provision of prosthetics, orthotics and auxiliary equipment for those physically handicapped by the war; and helping the GOES meet its education staffing needs over the first two years of the national recovery period.

A series of three immunization campaigns will be necessary in the conflictive zones to protect children under five years of age from immuno-preventive diseases. The Ministry of Health, which estimates that there are approximately 70,000 such children, will conduct these immunization campaigns as well as stock 22 reopened health units and posts with necessary supplies, equipment and medicines. It is estimated that 83 new health service providers will be needed to reopen clinics closed in the conflictive areas over the past 12 years and to promote the Ministry's preventive health care programs in rural communities that long have been underserved.

The MOH has plans to add a total of 500 new promoters this year, 150 of which have been trained under the USAID-supported Health Systems Support Project. Maternal health and child survival activities will be expanded to permit private voluntary organizations to provide the following community-level activities in the conflictive zones: (a) extension of basic health services to communities identified as high risk by the Ministry of Health; (b) maternal/child health service delivery with a specific focus upon prenatal and perinatal care, diarrheal disease, respiratory infections, nutrition education, and immunizations; (c) training of community health promoters and traditional birth attendants; and (d) preventive health care education at the community level.

The Teleton Pro-Rehabilitation Foundation (FUNTER), a private voluntary organization, is providing, with USAID support, improved rehabilitation services to civilian amputees via a modern prosthetic laboratory. These services, plus prosthetic technician training and medical and social services including complementary psychological and physical therapy, will be expanded under the National Reconstruction Plan.

The Ministry of Education will require support in reopening the over 550 schools which have been closed because of the conflict. As is the case with health services, USG support for equipping schools, purchasing supplies, and hiring teachers is only a fraction of the total estimated cost included in the GOES National Reconstruction Plan. USG resources will fill an important gap at the initiation of the recovery period and until other donor support and/or the national budget can be activated to address these critical requirements.

In accordance with the GOES National Reconstruction Plan, we have allowed flexibility under this component for the expanded involvement of PVOs in related social/community development services to further facilitate the reintegration process. Funding is proposed for responding to unsolicited proposals which complement the various activities described above.

Without additional resources, our assistance would have to be limited to the most acute war-related needs while such needs as equipping and supplying schools and health facilities in conflictive zones could have to be delayed until such time as the Ministries of Health and Education are able to expand their services from their own restricted resources, or until other donors could provide such services.

#### (c) Productive Enterprise Development

The onset of peace will present a new set of challenges, especially with respect to the creation of new job opportunities and the need to enhance the ability of ex-combatants, repatriates and others affected in the conflictive zones to offer marketable skills. The most efficient way to achieve this objective is through appropriate short-term vocational training with existing institutions. Both public and private institutions offer a wide range of training courses from which beneficiaries can choose. It is expected, however, that popular courses would include carpentry, machinery repair and operation, sewing, electricity, data processing, basic business administration, and auto mechanics. Participation would be funded for up to three months, during which time the participant would receive a modest living allowance. CONARA and the Private Voluntary Foundation of Entrepreneurs for Educational Development (FEPADE) would identify appropriate training institutions for the participants and manage the activity. For eligible candidates, funds will also be provided for up to two years of full-time vocational (technical degree) studies, including tuition, books and a small living allowance. An important complement to this training will be a job placement program designed with private sector involvement. FEPADE has an excellent track record in job placement for trainees under its normal programs.

To complement vocational/technical training, tools and supplies will be provided to the trainees to further assist their transition to gainful employment. For those individuals in the repatriate and displaced-person communities who decide to farm for a living, agricultural starter packages containing seeds, fertilizers, EPA-approved pest control applications, and basic farming tools will be distributed. Expanded agricultural credit and technical assistance programs will be directed toward the conflictive zones through the Agricultural Bank (BFA) and the national credit union federation (FEDECCREDITO).

An estimated total of \$5.0 million will be available for this purpose from reflows under the Agrarian Reform Sector Financing (519-0307) project. These funds plus \$10 million in new resources provided by the Project will help address approximately 20 percent of the identified agricultural credit demand in the former conflictive zones.

Microenterprise programs in the target areas will also be expanded utilizing PVOs with which the USAID development assistance program has had experience in recent years. The village bank concept, while still new, is very promising. Village banks are relatively simple to initiate and, by targeting women directly, offer collateral benefits in terms of family health and nutrition improvement as well as increased incomes. Successful microenterprise programs being supported by USAID combine credit access with training and on-site technical assistance in business start-up, financial management, business plan development, organizational management and marketing. Since many ex-combatants, in particular, may choose to start their own businesses, access to programs that offer credit and training is important.

Under the existing USAID program, a variety of credit programs covering small business and agribusiness ventures are available nation-wide. Approximately \$10 million in resources available under these credit lines have been included in the Project budget for eligible projects in the conflictive zones. A special promotional effort will be conducted to advise residents of the conflictive zones of these opportunities and how to access them. Working through the Salvadoran Foundation for Economic Development (FUSADES), studies will be conducted on how to improve the investment climate in the conflictive zones and appropriate investment promotion activities necessary to generate new productive employment opportunities will be undertaken, using resources available under the Industrial Stabilization Recovery Project (519-0287). Assistance will also be provided to the GOES in preparing loan requests for productive credit programs to the other major donors.

AID-supported credit lines include the following:

#### **Agribusiness Development**

A \$10.0 million credit line through FUSADES was established to support the increased production and export of non-traditional agricultural products. This fund is fully available for eligible projects nationwide.

#### **Small Enterprise Program**

This program is being implemented by FUSADES' Program for Small and Micro Enterprises (PROPEMI). Under AID Project No. 519-0304, \$4.5 million was provided to increase profitability and promote the expansion of small enterprises. Although the project ends in August 1992, AID resources have been fully disbursed, and PROPEMI uses its reflows to continue the lending activities. PROPEMI provides its services nationwide through its offices in Santa Ana and San Miguel. A follow-on AID project to expand PROPEMI is currently being planned for FY 93. It is expected that this project will specifically target new activities in the conflictive zones, and a total of \$2 million in credit has been budgeted for this purpose.

#### 4. Land Transfer Mechanisms

Land reform has been associated with the armed conflict since its inception, albeit in contradictory ways. Initially opposed by the FMLN as a "counterinsurgency action," and by the right as a violation of property rights and threat to the oligarchy, agrarian reform later became a guerrilla rallying cry and was an important part of the Peace Accord. The FMLN's desire to retain control of land in conflictive zones occupied by its sympathizers during the war was met by GOES agreement to "honor present land possession arrangements in conflictive zones until legal land tenure could be established." The GOES promised to finance land on behalf of those occupying them in FMLN base areas or relocate occupants if landowners refused to sell. The FMLN agreed to provide an inventory of lands its supporters claim within 20 days of the signature of the accords, and the GOES promised to legalize the status of these lands within six months, including the provision of titles. It is believed that FMLN communities will seek to preserve the communal production schemes on these lands in order to maintain political support for the FMLN.

Even though both sides have committed themselves to a solution of the issue of occupied lands within a six-month time frame, it is highly unlikely that this will take place. After the FMLN has provided the GOES with a list and map of the land held by their followers within 20 days of the signing of the Peace, the GOES would then have to verify the list, negotiate with landowners, purchase the properties (if possible), and issue titles within what amounts to five months. Our experience under the Agrarian Reform Project would indicate that this process will take a minimum of 18 months if everything works smoothly--which it rarely does.

The GOES has also agreed to accelerate voluntary land transfers to small farmers through the Land Bank and other mechanisms, and enforce constitutional requirements to distribute what little land remains in plots larger than the Phase II limit (245 hectares). The GOES promised to respect the July 3, 1991, agreement between the GOES and small-farmer organizations allowing those who illegally occupied lands before that date to remain on the land. The GOES will also ensure that availability of credit and the inclusion of representative small farmer organizations in the design and implementation of agricultural credit programs. COPAZ will form a commission to monitor these agreements, confirm claims to land in conflictive zones, and arbitrate between claimants and landlords.

To address this issue, the National Reconstruction Plan will provide, where possible, assistance through existing GOES entities to provide land to, or credit for the purchase of land by, repatriated families and ex-combatants. The institutions which will receive direct assistance are the Land Bank, the Institute for Agrarian Transformation (ISTA), the Land Registry Office (RPRH) and the National Geographic Institute (IGN). The Project has budgeted \$15 million for these activities.

The Land Bank will be the institution primarily responsible for financing land in the vicinity of the repatriated villages. Under normal circumstances, the Land Bank acts only as a financing agent. That is, when the buyer and seller have agreed upon the terms of the transfer and the transaction meets the criteria, the Land Bank then provides credit. Under the National Reconstruction Plan, however, the Land Bank will take a more proactive role, identifying properties and property owners and actively negotiating with them on behalf of the beneficiaries.

Many commercial banks hold large parcels of privately-owned land as collateral for unpaid loans. Local banking laws prevent those lien holders from dividing the property and selling it to a number of different owners. In these cases, before taking title to the land, the Land Bank will survey the land, divide it into reasonable parcels that can be purchased by ex-combatants, small farmers, and the displaced, and have identified buyers for each specific subplot. When it takes title, the Land Bank will, in the same time frame, sell the land in return for a signed mortgage agreement. The Land Bank is acting essentially as the financing agent for the purchase. It will hold parcels only for whatever time period may be necessary to complete the sale transaction. This process is simply another way to make land available to the landless and to permit the Land Bank to ultimately finance the purchase of land that could not otherwise be bought by the target population.

It is estimated that there are approximately 8,000 families (40,000 people) currently settled on land which they may wish to purchase. Recent research shows that the cost of the land will be about \$1,300-\$1,400 per family plus an additional \$100 per family for surveying and registering the land. In addition to funding for credit, the Land Bank will require a modest amount of funding for office equipment and vehicles to handle the increased workload.

ISTA has in its possession several abandoned Phase I cooperatives which could be used to provide land to ex-combatants and repatriated families. It may also be possible to place some of the target group on existing cooperatives which have excess land in relation to the number of members. ISTA will be responsible for identifying cooperatives and carrying out the legal processes necessary to transfer abandoned properties to the target group. Where necessary, it also will negotiate with existing cooperative members to allow ex-combatants or repatriated families to join their cooperatives. Funding would be provided to ISTA to finance surveying activities and to cover salaries and additional office and field equipment required to carry out this work.

The RPRH is key to the successful transfer of land in El Salvador. This institution records the title transfer of all land sales, and no land transfer is legal if it is not registered in the RPRH. Based on USAID's experience with titling under Phases I and III of the agrarian reform, only limited financial assistance will be required to fund salaries and administrative costs of the RPRH to carry out titling activities.

As the RPRH is key to legal titling, the IGN is key to providing cadastral information from which the land to be purchased or transferred can be legally identified, described and measured. The IGN could assist the Land Bank and ISTA in identifying properties and property owners, and in measuring the land and developing cadastral maps essential to the title registering process. The IGN would require financial assistance for additional personnel, mapping supplies, and office equipment.

Peace will bring many benefits to El Salvador, but an end to the "land problem" is not one of them. Negotiated agreements will provide land to ex-combatants but leave tens of thousands of the rural poor still landless. Land in conflictive zones, including some not "claimed" by the FMLN, will be available for the first time, but there is simply not enough to go around.

## **5. Infrastructure Service Restoration**

The conflictive zones will not easily reenter Salvadoran society if infrastructure impediments are not overcome. A formidable barrier to reintegration, both physical and psychological, has been created due to more than \$1.0 billion of direct damage to, or indirect neglect of, the country's public service infrastructure, including electric power, water supply, telecommunications, highways, bridges, railroad system, airports and seaports. The inability to quickly address these needs will not only reinforce the political fractionalization of the country and the deep distrust of the central government by residents of the conflictive zones, but it will also hinder social and economic reactivation.

The Project will cover less than ten percent of the total financing needed to restore infrastructure services as identified in an AID-funded external consultant report. The major portion of infrastructure financing requirements must come from other donors. While our assistance will be essential if the GOES is to move quickly to meet the highest priority infrastructure needs, every effort must be made to encourage other donors, especially the multilateral development banks, to expedite their project preparation and review efforts. To that end, the Project will include two activities under this component designed specifically to address other donor concerns and facilitate a quick start-up of their programs: feasibility studies and institutional strengthening for the Directorate General of Reconstruction (DGR).

### **Feasibility Studies**

One method to facilitate other donor involvement will be to finance feasibility studies not only to justify programming decisions, but also to expedite the delivery of project assistance. To assure other donor acceptance of the studies, most will be carried out using host country contracting procedures, and the prospective other donor(s) will be invited to assist in developing, even writing, terms of reference and participating in proposal evaluations and progress reviews. Studies have been preliminarily identified for the following areas: transportation, power generation and transmission, secondary city water and wastewater systems (treatment, distribution and supply), and watershed management/siltation control (especially as it relates to hydroelectric energy reservoirs).

The GOES and donors suffer from the lack of a recent comprehensive national transportation study to guide future investment decisions. In the absence of such a study, it is difficult to understand relative need and priority and allocate future resources among competing transport subsectors (e.g. roads, railways, seaports and airports). Such a study will need to review needs and options from both national and regional perspectives, evaluate present policies and institutional arrangements, and recommend appropriate changes after taking into account the potential for greater private sector participation.

In addition to planned IBRD and IDB analyses of the power sector, the Project will fund studies of power generation and transmission needs and future interconnections with the Central American regional power grid. A total of \$10 million is being budgeted for feasibility studies under this component, to be partially funded under the Public Services Improvement project (519-0320).

### Technical Assistance for the DGR

The main GOES infrastructure institutions lack the capacity to process quickly and manage effectively a large program such as the NRP without massive outside technical assistance. In reviewing options for managing the infrastructure components of the NRP, the GOES in consultation with USAID selected the DGR as the most viable. Since its creation in 1987 to manage the government's earthquake reconstruction program, the DGR has developed a uniform and effective procedure for contract preparation, advertisement, evaluation, award and administration.

The strengths of the DGR are in its ability to coordinate a large number of GOES entities in the realization of large, complex infrastructure development projects; its hierarchy within the government under the Ministry of Planning; the fact that it has developed uniform procedures which offer controls and accountability; and its capability to comply with USAID requirements. Its personnel are trained, in place, and its workload will soon begin to decrease as USAID's \$100 million Earthquake Reconstruction project nears completion. To date, the DGR has executed several hundred infrastructure projects, such as schools, markets, roads, bridges, hospitals, water, lighting and sewerage systems as well as orchestrated the urbanization and construction of several thousand houses.

While USAID's experience with the DGR has been quite positive, the IBRD-financed element of the earthquake reconstruction program has suffered implementation delays. If other donors like the IBRD are to support the NRP in a significant way, they must be convinced that the DGR will ensure effective, prompt implementation of their infrastructure projects.

In coming weeks, the GOES, together with IBRD and IDB consultants, will review USAID's proposal for strengthening the DGR and jointly agree on the best approach for channeling external resources to address the infrastructure needs of the NRP. It is key that a GOES-major donor agreement be reached concerning the DGR prior to the Consultative Group meeting in early March. Informal contacts with IBRD and IDB staff suggest that both organizations will support USAID's proposal. Project assistance for strengthening the DGR (more fully described in Annex VI) will concentrate on establishing a management unit within the directorate responsible for coordination with the respective line ministries and semi-autonomous public service entities, establishment of clear priorities, quality control, donor coordination and overall paper flow. Technical assistance, personnel costs and other related support costs are expected to total approximately \$7.0 million. Funding for dollar costs under this activity will come from the Project. A waiver of full and open competition is required in order to provide these services as quickly as possible and assist in expediting other donor decisions regarding support for the NRP.

The focus of the Project's assistance for actual infrastructure service restoration will be on (1) emergency repair programs providing high visibility, high impact benefits in the target zones, including short-term employment generation; and (2) reconstruction and restoration of infrastructure inside and outside the conflictive zones. Priority attention

will be given to activities that have been identified as high priority at municipal open town meetings, but which are beyond the scope and capacity of the MEA program.

#### **Emergency Repair Programs**

Facilities of all agencies have suffered damage through the period of armed conflict. Some have been destroyed; others have deteriorated due to neglect and lack of repair. A major new construction effort will be required in all infrastructure sub-sectors, but of equal importance will be repair and performance of deferred maintenance on structures, utilities, roads and bridges. Following the cease-fire, accelerated repair and deferred maintenance programs by all the infrastructure agencies can have a high impact by putting additional people to work quickly; protecting existing investments from further deterioration; training temporary employees in various skills; and improving services to the general public in the conflictive zones. The programs will begin immediately and run concurrently with reconstruction and restoration activities.

All utilities and structures throughout the nation have suffered from severe war damage and deterioration. Thus emergency repair programs, such as those described below, can begin across the board immediately:

-- Power generation, transmission and distribution systems have been prime targets of insurgent attacks and most repairs to date have been provisional.

-- Rural roads of lower classification are known to be in deplorable condition. Many are on the national transport net. They are beyond the responsibility and capability of the municipalities to repair. Ministry of Public Works (MOP) department level engineers, however, can oversee their repair.

-- Many telephone centers are damaged and out of service. These are in addition to those which require complete or major reconstruction due to sabotage damage.

-- Rail lines need maintenance and repair because of repeated damage and the temporary nature of many repairs.

-- Ports and airports, including small outlying fields, have suffered from damage and deferred maintenance.

-- Many water systems have been damaged or have deteriorated as a consequence of the war and require early repair. They will need new and/or larger pumps and motors, leakage and losses should be reduced, and inoperative valves replaced. Repairs to public water points should reduce waste and improve service. Rural hand pumps will invariably need to be replaced or repaired.

-- Many medical and health facilities in the conflictive areas need roofs, windows, screens and repair. Some will need repairs to sanitary facilities and drainage. Many will need improved electrical systems.

The Project will assist all infrastructure agencies in formulating, presenting and implementing creditable maintenance programs. A total of \$10.0 million has been budgeted for this purpose, an initial portion of which can begin with existing funds under the Public Services Improvement project (519-0320).

#### **Infrastructure Reconstruction and Restoration**

The road, bridge, telecommunications, water and electric system reconstruction/restoration activities to be funded under this component have already been identified as priorities by the local people in open town meetings, but are beyond the purview of the MEA program. Work on these activities could begin quickly at the departmental level by MOP, the national electric utility (CEL), the National Water and Sewer Administration (ANDA), and the National Telecommunications Administration (ANTEL).

Critical reconstruction and restoration of lower-level rural roads and bridges will require \$5.0 million in Project financing. The 1991 inventory of damaged infrastructure funded by USAID stated that of a total of 2,400 kms. of roads in the conflictive zones, 800 kms. were in areas where security precautions did not permit a first-hand examination and another 500 kms. were described as impassable. These roads require immediate attention and will not be included in the two IDB road projects which focus largely on areas outside the conflictive zones. The \$5.0 million budgeted will permit the restoration of approximately 300 kms. of rural roads and a still unspecified number of bridges.

In the target area of 99 municipalities, 57 telephone centers have been damaged or destroyed: 30 are closed due to damage caused by the conflict and 27 have had a minimum of service restored. The cost of reconstruction and repair has been estimated at not less than \$24.0 million for modern equipment that is compatible with ANTEL's longer-term development plan. ANTEL proposes to perform essential maintenance on the partially restored systems and to install minimal new equipment in destroyed centers. In the current draft of the NRP, the GOES estimates that \$9.7 million will be required to perform deferred maintenance and repairs. Under the Project, \$6.0 million has been budgeted to expedite the repair and restoration of damaged switching and cable systems so that the availability and reliability of telephone service can be increased in the affected communities.

The reconstruction and restoration of water and waste water systems and electric distribution systems have also been identified by the target municipalities as being of highest priority. The electric power grid has been attacked almost continuously during the past decade, with several lines cut and/or poles and towers destroyed in a single night on numerous occasions. Past USAID funding has helped finance the provisional repair of electrical lines and spare parts to maintain the provision of this essential service. Most of these temporary repairs eventually must be replaced with permanent new construction. Under the NRP most reconstruction will be concentrated in areas that have been inaccessible. A few permanent repairs will be required outside the conflictive zones where damage has been so extensive as to create hazards to the public or an unacceptable level of service. Several badly overloaded

substations also must be replaced or increased in capacity because of overload due to population growth and relocation of population. A total of \$13.0 million has been budgeted under the Project for electricity generation, transmission and distribution system repair, reconstruction and restoration.

ANDA and other water systems have suffered serious damage during the years of civil strife. In late 1990, the direct damage totalled \$6.0 million. However, the indirect damage because of lack of access to some areas and insufficient funds for maintenance and replacement, amounted to \$52 million. While ANDA has been able to restore some damaged systems, the condition of others was steadily growing worse. The Project budgets \$5.0 million for repair and reconstruction of water and waste water systems operated by ANDA in the smaller district towns.

A total of \$56.0 million for infrastructure service restoration is budgeted. Most of these funds will be committed in the first two to three years of the NRP and expended over the five-year implementation period. If additional funding were not made available for the Project, this component would have to be scaled back to \$33.0 million. At this level of funding we could finance feasibility studies for other donors, help strengthen the DGR, and implement the emergency repair programs. Other repair and reconstruction activities would be entirely curtailed, except those to the telephone system.

#### 6. Program Audit and Management

In order to adequately manage this large and complex new project, the Mission is budgeting \$10 million to provide for (a) additional FSN and US PSCs deemed essential to assist in the Mission's management of the Project, (b) three scheduled project evaluations, (c) audits of project activities and contracting for necessary financial management services from U.S. CPA affiliated firms, (d) short-term TA for special assignments and development of special studies and project monitoring instruments, and (e) staff and TA support to the SNR and SETEFE.

a. Staffing: Many of the day-to-day management activities for various project sub-components will be handled by existing staff in the respective technical offices. The diversity and complexity of the Project, however, will require that overall coordination and monitoring be assigned to a single management unit to ensure that the Project moves forward on schedule in an integrated and coordinated manner. Because of this and the increased size of the mission portfolio, a new division will be created. This division, the National Reconstruction Division (NRD), will be located in the Office of Infrastructure and Regional Development (IRD). It will be charged not only with overall NRP oversight and management, but also with the specific activities to be carried out under the Infrastructure Service Restoration component. While some existing staff from other divisions will be transferred to this new unit, additional FSN and US PSCs will be hired.

b. Evaluations: This highly visible project will require more than the usual number of evaluations to keep the Project on track and identify existing or potential problems for correction. With this in mind, the Mission plans to conduct the first project evaluation 12 months after the start of the

Project, a second evaluation 24 months after project start-up, and a final evaluation in early 1997.

c. Audits: Under this sub-component, funding will be provided for project audits and technical assistance in the areas of financial management and associated administrative services for the Mission.

Financial monitoring of the revenues and expenditures of the program will be done on a periodic basis through a series of reports which will be developed jointly by SETEFE, the SRN and USAID.

Where necessary (i.e. new entities), USAID/El Salvador will conduct pre-award surveys of the proposed implementing entities, to assess their financial and administrative capabilities and related internal controls as is required by AID regulations. Should the review reveal any weaknesses, technical assistance will be provided to correct them in a timely manner. The assistance will be performed by a qualified local affiliate of a U.S. CPA firm.

Because of the complexity as well as the number and variety of implementing entities involved in the Project, USAID will consider contracting for financial management services to include financial monitoring of transactions carried out by the implementing entities, technical assistance to upgrade capability where needed, and concurrent audits if deemed necessary. The services would be carried out by pre-qualified U.S. CPA affiliated firms. On a periodic basis, a complete financial audit will be conducted by external auditors affiliated with U.S. CPA firms using GAO standards. A R.I.G.-supervised non-federal audit may be conducted upon completion of the Project.

d. Short-term Technical Assistance and Special Studies: In a project of this size and scope, it is essential that the Mission have both flexibility and a quick response capability in addressing problems or dealing with issues of a technical, management, administrative, or policy nature. For this reason, funding will be made available to provide for short-term TA to address specific issues or to develop identified special studies.

e. Staff and Technical Assistance Support to the SNR and SETEFE: The GOES management and coordination of the \$1 billion-plus National Reconstruction Plan will place major demands and responsibilities on the newly created Secretariat for National Reconstruction (SRN) and the Technical Secretariat for External Financing (SETEFE). GOES budgetary resources, already pressed to the limit, will be insufficient to adequately staff these two organizations to carry out their new mandates. This component of the Project, therefore, will provide funding for essential additional personnel as well as short-term technical assistance advisors in the two organizations. Among the types of long-term personnel and short-term advisors who will be required are professionals in the areas of management and administration, budget and finance, economics, management information systems, infrastructure development, community development, and community/public relations.

### **Other Programs**

Non-USAID, USG support may also be channeled to international agencies, other donors, the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) and other activities which would not be administered directly by the USAID Mission in El Salvador. Support for the creation of the new National Civil Police under separate civilian control, disarming and documentation certification of the ex-combatants, assistance to COPAZ (the National Commission for the Consolidation of Peace established by the September New York Agreement to oversee implementation of all political agreements) and support to the U.N. for monitoring the demobilization process represent only some of the possible areas requiring USG support. At a minimum, it is anticipated that USG support for these programs should be budgeted at \$120 million. The fluid nature of the negotiation process and an immediate postwar period of uncertainty argue for an openness to bridging critical gaps along the road to a sustainable peace.

### **Assistance to the New Civilian Police Force**

The Peace Accord endorses a very ambitious UN plan to create a new 6,000-man National Civilian Police within two years. Costs for training 100 police trainers and facilities alone are likely to exceed \$50 million. STATE/ARA estimates that the U.S. portion of this training through ICITAP will probably cost about \$20 million. Broad legislative authority may be required to permit ICITAP to provide this assistance. Both the Spanish and Venezuelan governments have also demonstrated interest in providing assistance.

### **D. DETERMINATION OF FUNDING REQUIREMENTS**

The \$250 million funding level proposed herein is the result of an in-depth and comprehensive exercise building from the ground up. The respective levels for the various activities were derived from extensive discussions and/or working groups involving key policy and technical level elements of the US Mission in El Salvador, representatives of the GOES, PVOs, members of the target beneficiary communities, officials of USG agencies in Washington, staff of multilateral organizations, and senior members of the organizations and respective governments involved with postwar reconstruction and reintegration in Nicaragua and Colombia. Principal documents and analyses utilized throughout this process included the GOES "Plan for National Reconstruction", the US Mission's "Ex-Combatant Strategy", the USAID-funded consultants report on postwar "Infrastructure Restoration/Reconstruction", the Creative Associates report entitled "Program Options for Reintegrating Ex-Combatants Civilian Life", and a number of USAID Project Papers, project evaluations and related documentation.

The first step in the design process was to study the GOES Plan for National Reconstruction with a view to answering a number of important questions. For example, of the activities proposed in the GOES Plan, which were most critical to help ensure a long-term peace after a final accord was signed? Of those activities, which were most urgent, i.e., likely to be essential before other donors could mobilize resources? Which GOES agencies,

other donor organizations, and PVOs were most capable and interested in carrying out reconstruction activities? What was the absorptive capacity (ours, GOES agencies, PVOs, private sector, other donors) to carry out the proposed activities and over what period of time given our, and others', experience with ongoing projects? Which of those activities proposed by the GOES were truly of a reconstruction/reconciliation nature directly related to the effects of the war which we should support in our reconstruction activities and which should more appropriately be considered a part of the National Development Strategy, major elements of which we are supporting in our ongoing program?

Having considered and answered most of these and other questions, a thorough review of our entire ongoing project portfolio was conducted to determine what resources could be made available for reconstruction activities. Taking the answers to the foregoing questions into account, \$35 million was identified within ten projects of our existing and planned portfolio to be made available for the reconstruction effort (see listing below). While this level arguably could have been somewhat higher, it is not for two major reasons. First, the ten projects identified have elements which are either identical or very similar to various activities proposed in the NRP. Furthermore, either uncommitted funding is available or geographic reprogramming of activities--where necessary--would not entail extraordinary time or effort to rapidly initiate reconstruction activities directed at the target population or in the target zones. The importance of being able to initiate selected activities in the shortest time possible in order to quickly establish credibility among the target population and set the framework necessary to achieve the desired longer-range impacts of peace and reconciliation cannot be emphasized too strongly. Each of the aforementioned ten projects permits just such a rapid delivery capability. To make funding available from other than these ten projects would, in the majority of instances, necessitate major amendments to either Project Papers, Agreements and/or Funding Authorizations, thus resulting in a significantly longer response time. Secondly, while making every reasonable effort to utilize existing project funding to support the NRP, the Mission feels it would not be responsible to go so far as to seriously disrupt or jeopardize our long-term, country-wide development program and, in so doing, rob Peter to pay Paul.

Once existing project resources were identified, a review of our ESF local currency and projectized ESF funding was undertaken to determine what could be made available for reconstruction efforts. In this exercise, one of the factors taken into account was to determine the maximum amount which could be made available without extremely serious disruption to our ongoing, and developmentally critical, policy reform efforts. This review identified \$35 million in ESF-generated local currency and \$80 million in projectized ESF funds which could be made available for essential reconstruction over the next several years, without serious damage to our policy reform program or ongoing projects which depend upon ESF-generated local currencies for a significant portion of host country contributions.

**EXISTING AND PLANNED PROJECTS  
CONTRIBUTING TO THE PEACE AND NATIONAL RECOVERY PROGRAM  
(\$ Millions)**

| <u>Project<br/>Number</u> | <u>Sources<br/>Title</u>                            | <u>Amount</u> |
|---------------------------|-----------------------------------------------------|---------------|
| 519-0281                  | Health and Jobs for Displaced Families              | 2.0           |
| 519-0308                  | Health Systems Support                              | 0.6           |
| 519-0315                  | Training for Productivity Competitiveness           | 0.5           |
| 519-0320                  | Public Services Improvement                         | 20.0          |
| 519-0346                  | Strengthening of Rehabilitation Services            | 0.4           |
| 519-0357                  | Education Quality Enhancement                       | 1.0           |
| 519-0358                  | CA Rural Electrification Support                    | 0.5           |
|                           | Ongoing Credit Lines *                              | 5.0           |
| 519-0287                  | Industrial Stabilization Recovery                   | 0.5           |
| PROPOSED                  | Small Enterprise Support                            | 2.0           |
| PROPOSED                  | Training for Productivity and<br>Competitiveness II | 2.5           |
| <b>TOTAL</b>              |                                                     | <b>35.0</b>   |

\* This includes existing credit lines for micro and small enterprise development under the Small and Microenterprise Program (519-0304), and agricultural credit under the Agrarian Reform Sector Financing (519-0307) and Agribusiness Development (519-0327) projects.

With the identification of a total of \$150 million of Mission resources which could be made available for funding of reconstruction activities, the Mission then focussed on what additional USG funding would be required to mount the type of reconstruction program felt necessary and appropriate to support essential elements of the GOES reconstruction effort. In this regard, the balance of identified urgent needs, particularly in the area of infrastructure reconstruction, exceeded the amount of \$100 million in additional funding called for in this Project Document. Based upon the application of the aforementioned criteria regarding our Mission focus, other donor support, the Mission's absorptive capacity, etc., a decision was made to limit the total project funding level (Mission resources and additional funding combined) to \$250 million. Furthermore, the Mission also feels the \$250 million figure to be the minimum amount required to convince other donors of our seriousness and commitment to the reconstruction effort and to encourage significant funding support from them for the GOES program.

In FY 90, \$33 million was disbursed through CONARA to the MEA communities, of which special programs in the conflictive zone averaged \$250,000 per municipality. Given the 99 municipalities in the target zone, the annual total funding requirements will be \$20 million for the first three years, with funding reduced to \$12.5 million in year four and \$10 million in year five. This level of funding for MEA, combined with an estimated \$15

million per year for the regular MEA program, will not overly tax CONARA's proven ability to effectively disburse such amounts of funding. As was noted in impact evaluations of MEA conducted in 1988 and 1990, the limiting factor in effectively/efficiently expending funding has never been one of the municipalities' or CONARA's absorptive capacity, but rather the amount of funding available.

Like Municipalities in Action, the Infrastructure Service Restoration component is essential not only to laying the groundwork for economic development, but for demonstrating that with peace comes a relatively rapid improvement in the quality of life (improvement of water systems, sewers, electricity, roads, etc.). (Significant other donor support will be required for larger projects in roads, electricity and telecommunications, as well as for railways, seaports and airports, the latter three areas not among those in which we envision mission involvement.) Despite the seemingly large sum of money involved -- \$56 million -- this represents only five percent of the required funding estimated in our Restoration/Reconstruction study for postwar infrastructure development. It is within this context, therefore, that our proposed level of activity should be viewed. This leads to perhaps the most important and critical rationale/justification for this component. Our funding will be directed to support two principal objectives, both of which are critical to the maintenance of peace in El Salvador. One, the activities will provide a partial response to several of the most serious infrastructure problems brought about by the war, thus providing concrete evidence of constructive activity until such time as other donors are able to commence significantly more ambitious activities in this sector. Two, our efforts will be geared to creating the conditions not only to encourage major other donor participation in the NRP, but also to make such participation as easy and rapid as possible. This will be achieved not only by funding and conducting feasibility studies, but also through the administration/management mechanisms established to carry out our own infrastructure activities. Thus, without the full level of funding proposed for this component, it could be safely assumed that critical other donor participation would be significantly diminished, with very negative consequences to the execution of the NRP and prospects for sustainable peace and economic development.

Fourteen other activities would also be affected were additional funding not to be made available. These sub-components include activities in health, education, agricultural and microenterprise credit, vocational education and training, land transfer, and mission management/administration, as well as a limited amount for contingency. Without additional funding, the combined total of these sub-components of the Project would have to be reduced by \$54.5 million. In the majority of cases (11), such a reduction in funding would necessitate a cut of 40%-60% in the level of activities which could be funded. In two instances, the loss of additional resources would result in the reduction of approximately 30% in proposed activities. In one sub-component, university scholarships for ex-combatants, the activity would not be funded at all if no additional resources were forthcoming. In all fourteen components aforementioned, the same criteria were applied in determining the activities to be carried out and the appropriate/necessary level of funding for each. Thus, while a certain level of activity could be undertaken in all but one of these necessary sub-components, utilizing

resources within the ongoing and planned USAID country funding levels, the lack of additional resources would jeopardize the economic and social well-being essential to reconciliation and a sustainable peace.

#### **IV. COST ESTIMATE AND FINANCIAL PLAN**

##### **A. FINANCIAL PLAN**

The following tables contain illustrative financial information. Table I contains a summary cost estimate and financial plan, including a breakdown of the foreign exchange and local currency requirements for the Project. Table II provides a summary cost estimate by component. Table III shows total obligations by funding source and fiscal year for the \$180 million in new funds to be authorized under the Project and the two amendments to USAID's health and education projects. Table IV presents a projection by sub-component and funding source. Table V contains a payment verification matrix which summarizes the proposed method of implementation and financing for each major category of inputs. Finally, Table VI provides a breakdown of total expenditures with funding source by year.

##### **B. FINANCIAL ANALYSIS**

During the planning stages of the NRP two major considerations were made in the programming of resources: funding requirements and funds availability and source. Total funding requirement estimates for the activities planned are \$250 million, of which \$130 million are ESF projectized funds, \$35 million existing and planned USAID project resources, \$35 million HCOLC, and \$50 million from the Demobilization and Transition Fund. It should be noted that \$14 million of this total under Component C will be obligated through amendments to the Strengthening Achievement for Basic Education (519-0357), \$6.0 million, and Health Systems Support (519-0308), \$8.0 million, projects.

With the \$130 million in ESF projectized resources, funding for components C (Social and Economic Reactivation, \$100.2 million), D (Land Transfer Mechanisms, \$15 million), E (Infrastructure, \$9.8 million) and F (Program Audit and Management, \$5 million) has been programmed for the five-year period of the NRP.

Existing project resources to be made available will provide the quick response for those areas with immediate demand. A total of \$35 million has been programmed which will fund Components A (Immediate Conflictive Zone Relief, \$2 million), B (Ex-Combatants assistance, \$400,000), C (Social and Economic Reactivation, \$12.6 million) and E (Infrastructure, \$20 million). The infrastructure component includes TA for the DGR, intensive maintenance, repair and reconstruction. Project 519-0320 will program funds for some of these activities. For other activities existing mechanisms such as the Displaced Persons project and PVOs will be utilized.

Host Country Owned Local Currency will provide a total of \$35 million to the NRP. Components financed under HCOLC are A (Immediate Conflictive Zone Relief, \$2 million), B (Ex-Combatants Assistance, \$100 thousand), C (Social and Economic Reactivation, \$29.7 million) and E (Infrastructure, \$3.2 million). HCOLC resources have been programmed in components with the largest impact on local communities such as the MEA program which will receive the majority of the funding (\$19.5 million).

**LOCAL CURRENCY AND DOLLAR EXPENDITURES  
NATIONAL RECONSTRUCTION PROJECT  
(\$000)**

TABLE I

|                                             | 1992          |               | 1993          |               | 1994          |              | 1995          |              | 1996          |              | TOTAL          |               | GRAND<br>TOTAL |
|---------------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|----------------|---------------|----------------|
|                                             | LC            | \$            | LC            | \$            | LC            | \$           | LC            | \$           | LC            | \$           | LC             | \$            |                |
| <b>A IMMEDIATE CONFLICTIVE ZONE RELIEF</b>  |               |               |               |               |               |              |               |              |               |              |                |               |                |
| Mines                                       | 400           | 100           | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 400            | 100           | 500            |
| Food                                        | 500           | 0             | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 500            | 0             | 500            |
| Health                                      | 0             | 400           | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 0              | 400           | 400            |
| PVO Support                                 | 500           | 500           | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 500            | 500           | 1,000          |
| Socio-Dem. Studies                          | 100           | 0             | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 100            | 0             | 100            |
| Documentation/cert                          | 200           | 0             | 50            | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 250            | 0             | 250            |
| SNR Administration                          | 700           | 0             | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 700            | 0             | 700            |
| Contingency                                 | 550           | 0             | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 550            | 0             | 550            |
| <b>TOTAL A</b>                              | <b>2,850</b>  | <b>1,000</b>  | <b>50</b>     | <b>0</b>      | <b>0</b>      | <b>0</b>     | <b>0</b>      | <b>0</b>     | <b>0</b>      | <b>0</b>     | <b>3,000</b>   | <b>1,000</b>  | <b>4,000</b>   |
| <b>B EX COMBATANTS ASSISTANCE</b>           |               |               |               |               |               |              |               |              |               |              |                |               |                |
| Counseling                                  | 500           | 0             | 0             | 0             | 0             | 0            | 0             | 0            | 0             | 0            | 500            | 0             | 500            |
| Scholarships                                | 2,000         | 0             | 3,000         | 0             | 2,000         | 0            | 500           | 0            | 0             | 0            | 7,500          | 0             | 7,500          |
| <b>TOTAL B</b>                              | <b>2,500</b>  | <b>0</b>      | <b>3,000</b>  | <b>0</b>      | <b>2,000</b>  | <b>0</b>     | <b>500</b>    | <b>0</b>     | <b>0</b>      | <b>0</b>     | <b>8,000</b>   | <b>0</b>      | <b>8,000</b>   |
| <b>C SOCIAL AND ECON. REAC. CONFL ZONES</b> |               |               |               |               |               |              |               |              |               |              |                |               |                |
| MEA                                         | 20,000        | 0             | 20,000        | 0             | 20,000        | 0            | 12,500        | 0            | 10,000        | 0            | 82,500         | 0             | 82,500         |
| Health/Education                            | 4,000         | 5,000         | 5,000         | 5,000         | 3,000         | 4,000        | 1,000         | 2,000        | 450           | 550          | 13,450         | 17,550        | 31,000         |
| Prod/Enterprise                             | 11,000        | 200           | 11,000        | 200           | 11,000        | 200          | 4,500         | 200          | 5,000         | 200          | 42,500         | 1,000         | 43,500         |
| <b>TOTAL C</b>                              | <b>35,000</b> | <b>5,200</b>  | <b>36,000</b> | <b>5,200</b>  | <b>34,000</b> | <b>4,200</b> | <b>18,000</b> | <b>2,200</b> | <b>15,450</b> | <b>750</b>   | <b>138,450</b> | <b>18,550</b> | <b>157,000</b> |
| <b>D LAND TRANSFER</b>                      | <b>3,000</b>  | <b>0</b>      | <b>3,000</b>  | <b>0</b>      | <b>4,000</b>  | <b>0</b>     | <b>3,000</b>  | <b>0</b>     | <b>2,000</b>  | <b>0</b>     | <b>15,000</b>  | <b>0</b>      | <b>15,000</b>  |
| <b>E INFRASTRUCTURE</b>                     | <b>6,000</b>  | <b>6,300</b>  | <b>10,500</b> | <b>6,300</b>  | <b>10,000</b> | <b>3,500</b> | <b>9,400</b>  | <b>1,000</b> | <b>2,500</b>  | <b>500</b>   | <b>38,400</b>  | <b>17,600</b> | <b>56,000</b>  |
| <b>F PROGRAM AUDIT AND MANAGEMENT</b>       | <b>2,500</b>  | <b>400</b>    | <b>2,000</b>  | <b>400</b>    | <b>2,000</b>  | <b>400</b>   | <b>1,000</b>  | <b>400</b>   | <b>600</b>    | <b>300</b>   | <b>8,100</b>   | <b>1,900</b>  | <b>10,000</b>  |
| <b>TOTAL</b>                                | <b>51,950</b> | <b>12,900</b> | <b>54,550</b> | <b>12,900</b> | <b>52,000</b> | <b>8,100</b> | <b>31,900</b> | <b>3,600</b> | <b>20,550</b> | <b>1,550</b> | <b>210,950</b> | <b>39,050</b> | <b>250,000</b> |

## ESTIMATED BUDGET

TABLE II

BY COMPONENT AND FUNDING SOURCE  
NATIONAL RECONSTRUCTION PROJECT

(\$000)

| COMPONENT                               | U S A I D          |                                  |                                   | G O E S<br>LOCAL CURRENCY | TOTAL<br>PROJECT |
|-----------------------------------------|--------------------|----------------------------------|-----------------------------------|---------------------------|------------------|
|                                         | PROJECTED<br>E S F | EXISTING AND<br>PLANNED PROJECTS | DEMOLITION AND<br>TRANSITION FUND |                           |                  |
| A IMMEDIATE COMPULSIVE HOME RELIEF      | 0                  | 2,000                            | 0                                 | 2,000                     | 4,000            |
| B EX-COMBATANT ASSISTANCE               | 0                  | 400                              | 7,500                             | 100                       | 8,000            |
| C SOCIAL AND ECONOMIC REAC. COMPL. HOME | 100,200            | 12,600                           | 14,500                            | 29,700                    | 157,000          |
| D LAND TRANSFER MECHANISMS              | 15,000             | 0                                | 0                                 | 0                         | 15,000           |
| E INFRASTRUCTURE                        | 9,800              | 20,000                           | 23,000                            | 3,200                     | 56,000           |
| F PROGRAM ACCT. AND MANAGEMENT          | 5,000              | 0                                | 5,000                             | 0                         | 10,000           |
| TOTAL                                   | 130,000            | 35,000                           | 50,000                            | 35,000                    | 250,000          |

TABLE III

**TOTAL OBLIGATIONS BY FUNDING SOURCE AND FISCAL YEAR \*  
NATIONAL RECONSTRUCTION PROJECT  
(\$ MILLIONS)**

| COMPONENT                                                               | 1992        | 1993        | 1994        | TOTAL        |
|-------------------------------------------------------------------------|-------------|-------------|-------------|--------------|
| <b>A. IMMEDIATE CONFLICTIVE ZONE RELIEF</b>                             |             |             |             |              |
| Projectized ESF                                                         | 0           | 0           | 0           | 0            |
| DTF **                                                                  | 0           | 0           | 0           | 0            |
| Sub-Total                                                               | 0           | 0           | 0           | 0            |
| <b>B. EX-COMBATANT ASSISTANCE</b>                                       |             |             |             |              |
| Projectized ESF                                                         | 0           | 0           | 0           | 0            |
| DTF **                                                                  | 7.5         | 0           | 0           | 7.5          |
| Sub-Total                                                               | 7.5         | 0           | 0           | 7.5          |
| <b>C. SOCIAL AND ECONOMIC REACTIVATION<br/>IN THE CONFLICTIVE ZONES</b> |             |             |             |              |
| Projectized ESF                                                         | 35.5        | 42.5        | 22.2        | 100.2        |
| DTF **                                                                  | 14.5        | 0           | 0           | 14.5         |
| Sub-Total                                                               | 50.0        | 42.5        | 22.2        | 114.7        |
| <b>D. LAND TRANSFER</b>                                                 |             |             |             |              |
| Projectized ESF                                                         | 7.0         | 5.0         | 3.0         | 15.0         |
| DTF **                                                                  | 0.0         | 0           | 0           | 0.0          |
| Sub-Total                                                               | 7.0         | 5.0         | 3.0         | 15.0         |
| <b>E. INFRASTRUCTURE SERVICE RESTORATION</b>                            |             |             |             |              |
| Projectized ESF                                                         | 3.5         | 2.0         | 4.3         | 9.8          |
| DTF **                                                                  | 23.0        | 0           | 0           | 23.0         |
| Sub-Total                                                               | 26.5        | 2.0         | 4.3         | 32.8         |
| <b>F. PROGRAM AUDIT AND MANAGEMENT</b>                                  |             |             |             |              |
| Projectized ESF                                                         | 0.0         | 4.5         | 0.5         | 5.0          |
| DTF **                                                                  | 5.0         | 0           | 0           | 5.0          |
| Sub-Total                                                               | 5.0         | 4.5         | 0.5         | 10.0         |
| <b>CUMMULATIVE SUMMARY</b>                                              |             |             |             |              |
| Projectized ESF                                                         | 46.0        | 54.0        | 30.0        | 130.0        |
| DTF **                                                                  | 50.0        | 0           | 0           | 50.0         |
| <b>TOTAL</b>                                                            | <b>96.0</b> | <b>54.0</b> | <b>30.0</b> | <b>180.0</b> |

\* This table does not include funds for Peacekeeping and the National Civilian Police. Does not include obligation schedule for \$70 million in ongoing and planned projects, and ESF generated local currencies.

\*\* Demobilization and Transition Fund

**ESTIMATED BUDGET  
BY SUB COMPONENT AND BY FUNDING SOURCE  
NATIONAL RECONSTRUCTION PROJECT  
(\$000)**

TABLE IV

|                                                 | EXISTING AND<br>PLANNED<br>PROJECTS | REF<br>PROJECTIZED | LO<br>GOES    | DEMobilIZATION<br>AND TRANSITION<br>FUND | TOTAL<br>FUNDING |
|-------------------------------------------------|-------------------------------------|--------------------|---------------|------------------------------------------|------------------|
| <b>A IMMEDIATE CONFLICTIVE ZONE RELIEF</b>      |                                     |                    |               |                                          |                  |
| Mines                                           | 100                                 | 0                  | 400           | 0                                        | 500              |
| Food distribution                               | 500                                 | 0                  | 0             | 0                                        | 500              |
| Health Services Delivery                        | 400                                 | 0                  | 0             | 0                                        | 400              |
| PVO Support                                     | 1,000                               | 0                  | 0             | 0                                        | 1,000            |
| Socio demographic studies                       | 0                                   | 0                  | 100           | 0                                        | 100              |
| Documentation/Certification                     | 0                                   | 0                  | 250           | 0                                        | 250              |
| SNR Administrative costs                        | 0                                   | 0                  | 700           | 0                                        | 700              |
| Contingencies                                   | 0                                   | 0                  | 550           | 0                                        | 550              |
| <b>TOTAL A</b>                                  | <b>2,000</b>                        | <b>0</b>           | <b>2,000</b>  | <b>0</b>                                 | <b>4,000</b>     |
| <b>B EX-COMBATANT ASSISTANCE</b>                |                                     |                    |               |                                          |                  |
| Socio Economic Reintegration                    | 400                                 | 0                  | 100           | 0                                        | 500              |
| University scholarships                         | 0                                   | 0                  | 0             | 7,500                                    | 7,500            |
| <b>TOTAL B</b>                                  | <b>400</b>                          | <b>0</b>           | <b>100</b>    | <b>7,500</b>                             | <b>8,000</b>     |
| <b>C SOCIAL AND ECONOMIC REACTIVATION</b>       |                                     |                    |               |                                          |                  |
| M.E.A                                           | 500                                 | 62,500             | 19,500        | 0                                        | 82,500           |
| Equipping/suppling of health posts              | 0                                   | 8,000              | 0             | 0                                        | 8,000            |
| Vaccinations                                    | 200                                 | 0                  | 0             | 0                                        | 200              |
| Rehabilitation of physically sensorally handcpd | 0                                   | 0                  | 3,000         | 3,000                                    | 6,000            |
| Provision of prosthetics and orthotics          | 400                                 | 1,900              | 0             | 0                                        | 2,300            |
| Provision mental health svcs children           | 0                                   | 3,300              | 0             | 0                                        | 3,300            |
| School supplies, equipment and furniture        | 1,000                               | 6,000              | 0             | 0                                        | 7,000            |
| Hiring additional teachers                      | 0                                   | 0                  | 1,200         | 0                                        | 1,200            |
| PVO support for social services                 | 0                                   | 2,000              | 2,000         | 0                                        | 4,000            |
| Microenterprise credit and TA                   | 2,500                               | 3,500              | 0             | 5,000                                    | 11,000           |
| Agricultural credit and TA                      | 5,000                               | 10,000             | 0             | 0                                        | 15,000           |
| Support for investment promotion                | 500                                 | 0                  | 0             | 0                                        | 500              |
| Agricultural and/or shelter starter pckg        | 0                                   | 0                  | 2,000         | 0                                        | 2,000            |
| Vocational/Technical Training                   | 2,500                               | 3,000              | 2,000         | 6,500                                    | 14,000           |
| <b>TOTAL C</b>                                  | <b>12,600</b>                       | <b>100,200</b>     | <b>29,700</b> | <b>14,500</b>                            | <b>157,000</b>   |
| <b>D LAND TRANSFER MECHANISMS</b>               |                                     |                    |               |                                          |                  |
| Credit for purchase of Land                     | 0                                   | 13,500             | 0             | 0                                        | 13,500           |
| Survey and administrative salaries/supplies     | 0                                   | 1,500              | 0             | 0                                        | 1,500            |
| <b>TOTAL D</b>                                  | <b>0</b>                            | <b>15,000</b>      | <b>0</b>      | <b>0</b>                                 | <b>15,000</b>    |
| <b>E INFRASTRUCTURE</b>                         |                                     |                    |               |                                          |                  |
| Feasibility Studies                             | 3,000                               | 7,000              | 0             | 0                                        | 10,000           |
| TA for DGR                                      | 7,000                               | 0                  | 0             | 0                                        | 7,000            |
| Emergency Repairs                               | 6,800                               | 0                  | 3,200         | 0                                        | 10,000           |
| Infrastructure Reconst. & Restoration           | 3,200                               | 2,800              | 0             | 23,000                                   | 29,000           |
| <b>TOTAL E</b>                                  | <b>20,000</b>                       | <b>9,800</b>       | <b>3,200</b>  | <b>23,000</b>                            | <b>56,000</b>    |
| <b>F PROGRAM AUDIT AND MANAGEMENT</b>           | <b>0</b>                            | <b>5,000</b>       | <b>0</b>      | <b>5,000</b>                             | <b>10,000</b>    |
| <b>TOTAL</b>                                    | <b>35,000</b>                       | <b>130,000</b>     | <b>35,000</b> | <b>50,000</b>                            | <b>250,000</b>   |

**METHODS OF IMPLEMENTATION AND FINANCING  
FOR PROJECTIZED ESF AND DEMOBILIZATION AND TRANSITION FUND  
NATIONAL RECONSTRUCTION PROJECT  
(\$000)**

**TABLE V**

|                                                  | ESF<br>PROJECTIZED | DEMOBILIZATION<br>AND TRANSITION<br>FUND | IMPLEMENTING ENTITY      | METHOD OF FINANCING  |
|--------------------------------------------------|--------------------|------------------------------------------|--------------------------|----------------------|
| <b>B EX-COMBATANT ASSISTANCE</b>                 |                    |                                          |                          |                      |
| University Scholarships                          | 0                  | 7,500                                    | MINISTRY OF EDUCATION    | HC REIMBURSEMENT     |
| <b>C SOCIAL AND ECONOMIC REACTIVATION</b>        |                    |                                          |                          |                      |
| M.E.A                                            | 62,500             | 0                                        | S R N                    | HC REIMBURSEMENT     |
| Equipping/suppling of health posts               | 8,000              | 0                                        | MINISTRY OF HEALTH       | HC REIMBURSEMENT     |
| Rehabilitation of physically sensorally handicpd | 0                  | 3,000                                    | INDIGENOUS P V O         | HC REIMBURSEMENT     |
| Provision of prosthetics and orthotics           | 1,900              | 0                                        | INDIGENOUS P V O(FUNTER) | DIRECT REIMBURSEMENT |
| Provision mental health svcs children            | 3,300              | 0                                        | INDIGENOUS P V O         | HC REIMBURSEMENT     |
| School supplies, equipment and furniture         | 6,000              | 0                                        | MINISTRY OF EDUCATION    | HC REIMBURSEMENT     |
| PVO support for social services                  | 2,000              | 0                                        | INDIGENOUS P V O         | HC REIMBURSEMENT     |
| Microenterprise credit and TA                    | 3,500              | 5,000                                    | F I N C A C A M          | DIRECT REIMBURSEMENT |
| Agricultural credit and TA                       | 10,000             | 0                                        | BFA                      | HC REIMBURSEMENT     |
| Vocational/Technical Training                    | 3,000              | 6,500                                    | FEPADE                   | DIRECT REIMBURSEMENT |
| <b>D LAND TRANSFER MECHANISMS</b>                |                    |                                          |                          |                      |
| Credit for purchase of Land                      | 13,500             | 0                                        | FEDECREDITO, LAND BANK   | HC REIMBURSEMENT     |
| Survey and administrative salaries/supplies      | 1,500              | 0                                        | S R N                    | HC REIMBURSEMENT     |
| <b>E INFRASTRUCTURE</b>                          |                    |                                          |                          |                      |
| Feasibility Studies                              | 7,000              | 0                                        |                          |                      |
| Infrastructure Reconst & Restoration             | 2,800              | 23,000                                   | TO BE DETERMINED         | TO BE DETERMINED     |
| <b>F PROGRAM AUDIT AND MANAGEMENT</b>            | 5,000              | 5,000                                    | U S A I D                | DIRECT PAYMENT       |
| <b>TOTAL</b>                                     | <b>130,000</b>     | <b>50,000</b>                            |                          |                      |

**TOTAL EXPENDITURES WITH FUNDING SOURCE**      **TABLE VI**  
**BY YEAR**  
**NATIONAL RECONSTRUCTION PROJECT**  
**(\$000)**

|                                                 | 1992          | 1993          | 1994          | 1995          | 1996          | TOTAL          |
|-------------------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>A IMMEDIATE CONFLICTIVE ZONE RELIEF</b>      |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 0             | 0             | 0             | 0             | 0             | 0              |
| EXISTING PROJECTS                               | 2,000         | 0             | 0             | 0             | 0             | 2,000          |
| DEMOBILIZATION/TRANSITION                       | 0             | 0             | 0             | 0             | 0             | 0              |
| GOES LOCAL CURRENCY                             | 1,950         | 50            | 0             | 0             | 0             | 2,000          |
| <b>TOTAL A</b>                                  | <b>3,950</b>  | <b>50</b>     | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>4,000</b>   |
| <b>B EX COMBATANTS ASSISTANCE</b>               |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 0             | 0             | 0             | 0             | 0             | 0              |
| EXISTING PROJECTS                               | 0             | 400           | 0             | 0             | 0             | 400            |
| DEMOBILIZATION/TRANSITION                       | 2,400         | 2,600         | 2,000         | 500           | 0             | 7,500          |
| GOES LOCAL CURRENCY                             | 100           | 0             | 0             | 0             | 0             | 100            |
| <b>TOTAL B</b>                                  | <b>2,500</b>  | <b>3,000</b>  | <b>2,000</b>  | <b>500</b>    | <b>0</b>      | <b>8,000</b>   |
| <b>C SOCIAL &amp; ECONOMIC REAC CONFL ZONES</b> |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 28,600        | 28,750        | 27,550        | 5,300         | 10,000        | 100,200        |
| EXISTING PROJECTS                               | 3,600         | 1,000         | 2,000         | 3,000         | 3,000         | 12,600         |
| DEMOBILIZATION/TRANSITION                       | 0             | 6,450         | 2,650         | 2,200         | 3,200         | 14,500         |
| GOES LOCAL CURRENCY                             | 8,000         | 6,000         | 6,000         | 9,700         | 0             | 29,700         |
| <b>TOTAL C</b>                                  | <b>40,200</b> | <b>42,200</b> | <b>38,200</b> | <b>20,200</b> | <b>16,200</b> | <b>157,000</b> |
| <b>D LAND TRANSFER</b>                          |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 3,000         | 3,000         | 4,000         | 3,000         | 2,000         | 15,000         |
| EXISTING PROJECTS                               | 0             | 0             | 0             | 0             | 0             | 0              |
| DEMOBILIZATION/TRANSITION                       | 0             | 0             | 0             | 0             | 0             | 0              |
| GOES LOCAL CURRENCY                             | 0             | 0             | 0             | 0             | 0             | 0              |
| <b>TOTAL D</b>                                  | <b>3,000</b>  | <b>3,000</b>  | <b>4,000</b>  | <b>3,000</b>  | <b>2,000</b>  | <b>15,000</b>  |
| <b>E INFRASTRUCTURE</b>                         |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 3,000         | 4,000         | 2,800         | 0             | 0             | 9,800          |
| EXISTING PROJECTS                               | 6,000         | 7,000         | 7,000         | 0             | 0             | 20,000         |
| DEMOBILIZATION/TRANSITION                       | 100           | 5,800         | 3,700         | 10,400        | 3,000         | 23,000         |
| GOES LOCAL CURRENCY                             | 3,200         | 0             | 0             | 0             | 0             | 3,200          |
| <b>TOTAL E</b>                                  | <b>12,300</b> | <b>16,800</b> | <b>13,500</b> | <b>10,400</b> | <b>3,000</b>  | <b>56,000</b>  |
| <b>F MANAGMENT/AUDIT</b>                        |               |               |               |               |               |                |
| PROJECTIZED ESF                                 | 2,500         | 2,000         | 500           | 0             | 0             | 5,000          |
| EXISTING PROJECTS                               | 0             | 0             | 0             | 0             | 0             | 0              |
| DEMOBILIZATION/TRANSITION                       | 400           | 400           | 1,900         | 1,400         | 900           | 5,000          |
| GOES LOCAL CURRENCY                             | 0             | 0             | 0             | 0             | 0             | 0              |
| <b>TOTAL F</b>                                  | <b>2,900</b>  | <b>2,400</b>  | <b>2,400</b>  | <b>1,400</b>  | <b>900</b>    | <b>10,000</b>  |
| <b>TOTAL EXPENDITURES</b>                       | <b>64,850</b> | <b>67,450</b> | <b>60,100</b> | <b>35,500</b> | <b>22,100</b> | <b>250,000</b> |
| <b>FUNDING SOURCE</b>                           |               |               |               |               |               |                |
| ESF                                             | 37,100        | 37,750        | 34,850        | 8,300         | 12,000        | 130,000        |
| EXISTING PRJ                                    | 11,600        | 8,400         | 9,000         | 3,000         | 3,000         | 35,000         |
| DEMOBILIZATION/TRANSITION                       | 2,900         | 15,250        | 10,250        | 14,500        | 7,100         | 50,000         |
| LC                                              | 13,250        | 6,050         | 6,000         | 9,700         | 0             | 35,000         |
| <b>TOTAL FUNDING SOURCES</b>                    | <b>64,850</b> | <b>67,450</b> | <b>60,100</b> | <b>35,500</b> | <b>22,100</b> | <b>250,000</b> |

The Demobilization and Transition Fund will finance Components B (Ex-Combatants Assistance, \$7.5 million), C (Social and Economic Reactivation, \$14.5 million), E (Infrastructure, \$23 million) and F (Program Audit and Management, \$5 million).

#### **C. EFFECT ON RECURRENT COSTS**

Recurrent costs of the GOES that will be funded to cover the activities for the Project are SRN administrative costs such as salaries and supplies, infrastructure maintenance such as roads, health posts and schools and additional personnel to operate them. Administrative costs for the SRN, estimated to be \$2.2 million, will gradually decrease as immediate assistance requirements have been met and conflictive areas have been restored to the levels envisioned under the Project. Costs for infrastructure maintenance will continue well beyond the life of the Project and are estimated to be about \$1.5 million per year for roads, and \$8.1 million per year for health posts and schools, including the salaries of teachers and health workers.

The MEA program would have recurrent costs in the form of GOES transfers to the municipalities if it is continued beyond 1996. These costs could be reduced by enabling municipalities to raise their own revenues. Expansion of public utility systems will also result in recurrent-costs which could be covered by user fees; but since utility tariffs are now subsidized, utility expansion will require higher subsidies.

#### **D. FINANCIAL MONITORING, ACCOUNTABILITY AND AUDIT**

Financial monitoring of the revenues and expenditures of the program will be done on a periodic basis through a series of reports which will be developed jointly by SETEFE, the SRN and USAID following the established disbursement explained in further detail in Section V.B. DISBURSEMENT PROCEDURES.

Where necessary (i.e., new entities), USAID/El Salvador will conduct Pre-award surveys of the proposed implementing entities, to assess the financial and administrative capabilities and related internal controls as required by AID regulations. Should the review reveal any weaknesses, technical assistance will be provided to correct them in a timely manner. The assistance will be performed by a qualified local affiliate of a U.S. CPA firm.

Because of the complexity as well as the number and variety of implementing entities involved in the project, USAID will consider contracting for financial management services to include financial monitoring of transactions carried out by the implementing entities, technical assistance to upgrade capability where needed, and concurrent audits if deemed necessary. The services would be carried out by pre-qualified US CPA affiliated firms. The funding for the services will be included under the Program Audit and Management Component of the Project. Funds have been budgeted under the project for audit and other financial management services. Responsibility for the audit of the HCOLC-financed activities rests with the GOES-SETEFE, with funds allocated for such purpose under the corresponding MOUs.

On a periodic basis, a complete financial audit will be conducted by external auditors affiliated with US CPA firms approved by the RIG. USAID will approve the scope of work before the GOES contracts the external auditors and may supervise the audit and review the draft reports. A financial audit of local PVOs shall be performed annually in accordance with generally accepted auditing standards, the U.S. Comptroller General's "Government Auditing Standards" and the A.I.D. "Guidelines for Financial Audits Contracted by Foreign Recipients". For U.S. PVOs, the organizations' annual worldwide audit shall be used to satisfy the requirements stated in AID Handbook 13 regarding audits of U.S. non-profit voluntary organizations. For Governmental entities (HB 3 grantees), an audit shall be performed every two years. This is in accordance with the new requirements being circulated in AID/Washington. In addition, a RIG-supervised non-federal audit may be conducted upon completion of the project.

#### **E. IMPLEMENTATION AND FINANCING METHODS**

Overall management of the Peace and National Recovery Project will be assigned to two GOES implementing entities with proven track records in the management of AID projects. Planning, approval and evaluation of project and program activities will be carried out by SRN, the successor agency of CONARA, which has a proven track record in the implementation of the MEA program. Finance and administration will be undertaken by SETEFE, which has demonstrated capacity to approve action plans, make disbursements, review liquidation records and contract for independent audits to verify the effective use of development resources under a projectized local currency program amounting to approximately \$100 million equivalent in colones per year. SETEFE is likewise responsible for funds management of AID's \$65 million Earthquake Reconstruction Project (519-0333), as well as other Development Assistance projects.

Implementation procedures call for preparation by the implementing entities of annual action plans which are reviewed and approved by the SRN, SETEFE and USAID. Once the action plans are approved, SETEFE, which is responsible for cash management of the Project, will release advances to the implementing entities. These advances are replenished on a monthly basis. Under these procedures, GOES implementing entities carry out project activities, either by force account, host-country contracting procedures, or through intermediate credit institutions.

A more detailed description follows of the SRN and SETEFE and their respective roles in project implementation.

#### **Secretariat for National Reconstruction (SRN)**

The SRN will be the focal point for project implementation. Proposals from line ministries, municipalities and PVOs will flow to SRN to be evaluated, prioritized and approved in accordance with the National Reconstruction Plan. SRN's personnel are experienced in AID operations. The Director and Deputy Director designate managed and directed CONARA previously. In fact, all of CONARA's existing personnel will be transferred directly to SRN to carry out the same activities they performed for CONARA. The flow of action plans from the various implementing agencies, including ministries, municipalities and PVOs is shown in Chart I.

### **Technical Secretariat for External Financing (SETEFE)**

SETEFE was created by the GOES in 1983 in direct response to questions raised by AID about GOES accountability issues. Since its creation, SETEFE has managed more than \$500 million in development activities. SETEFE has approximately 80 employees on its staff. An organization chart for SETEFE is included as Chart VI. In addition to SETEFE's proven record in managing and accounting for development resources, there are two other compelling reasons for selecting SETEFE to manage the Project's dollar resources. First, SETEFE has received a special dispensation from the GOES Court of Accounts. The dispensation allows SETEFE to make advances to implementing agencies on a quarterly basis, based on projected disbursement requirements, which in effect circumvents the GOES pre-control requirement usually imposed on every individual transaction.

The second compelling reason to assign financial management to SETEFE is a direct result of its ability to manage an independent audit process. Under its local currency program, SETEFE contracts audits for every local currency project every year. Its staff of 13 auditors contracts, supervises, evaluates and controls work performed by independent auditors. It is also successful at closing audit recommendations. SETEFE's role in the financial management of project implementation is shown in Charts III and IV.

Given the importance of preserving peace by responding rapidly to demands for reconstruction activities, the Project Design Committee has met with GOES counterparts to identify in advance actual or potential implementation bottlenecks. As a result of this meeting, specific problems and frustrations CONARA and SETEFE are currently experiencing, or expect to experience under the new Project, were identified.

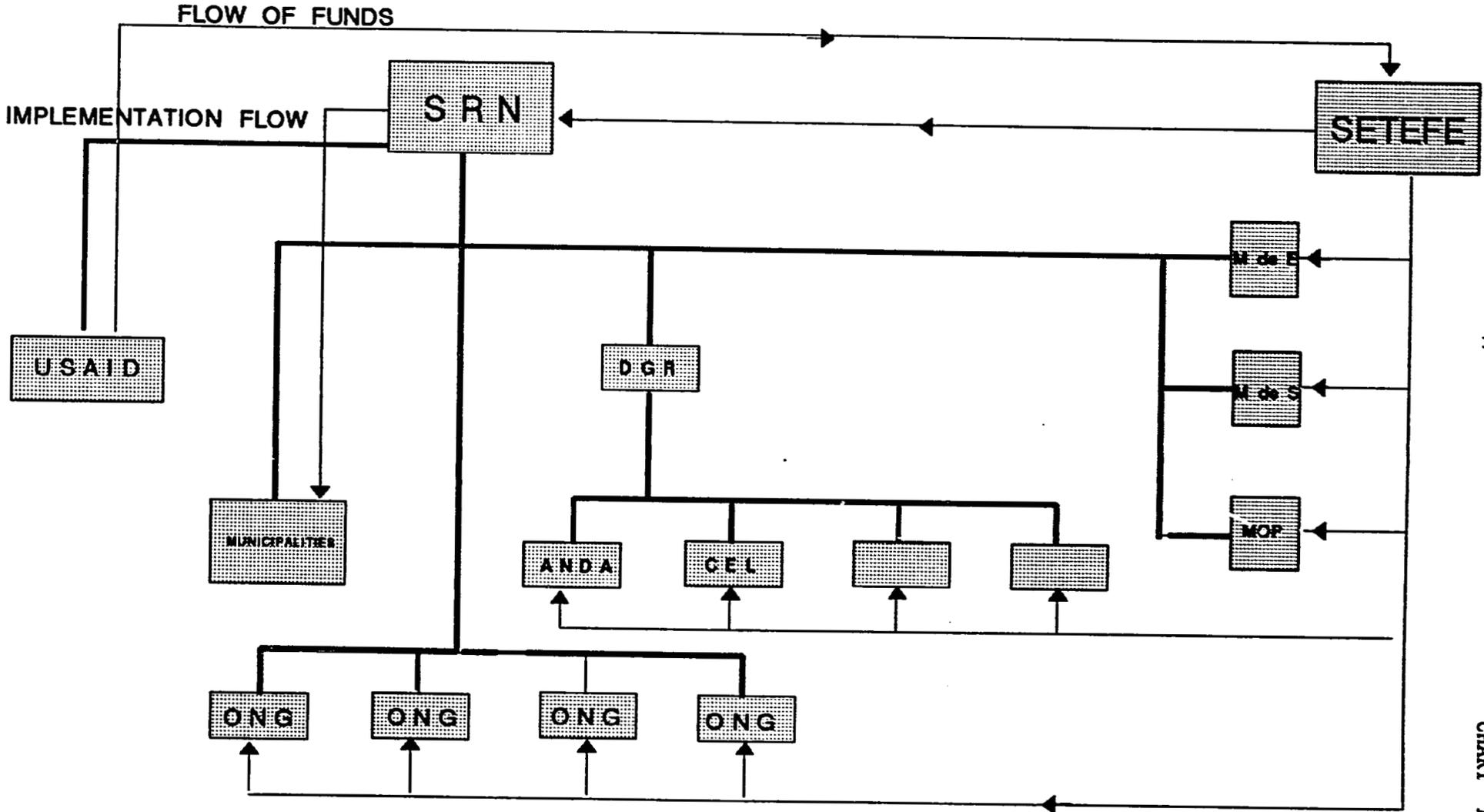
To address the problems, the Project Design Committee determined that:

1. For an initial 120-day start-up period the thresholds in formal and informal procurement established for the GOES by SETEFE may be increased from the currently approved ceilings to an amount to be agreed upon mutually by the GOES and USAID.
2. To facilitate Project implementation, AID will convert appropriated dollars to local currency through RAMC/Mexico and will advance funds to SETEFE in 90-day increments.
3. To speed the process and minimize transaction processing time, AID will explore with RAMC/Mexico the use of its electronic funds transfer facility.

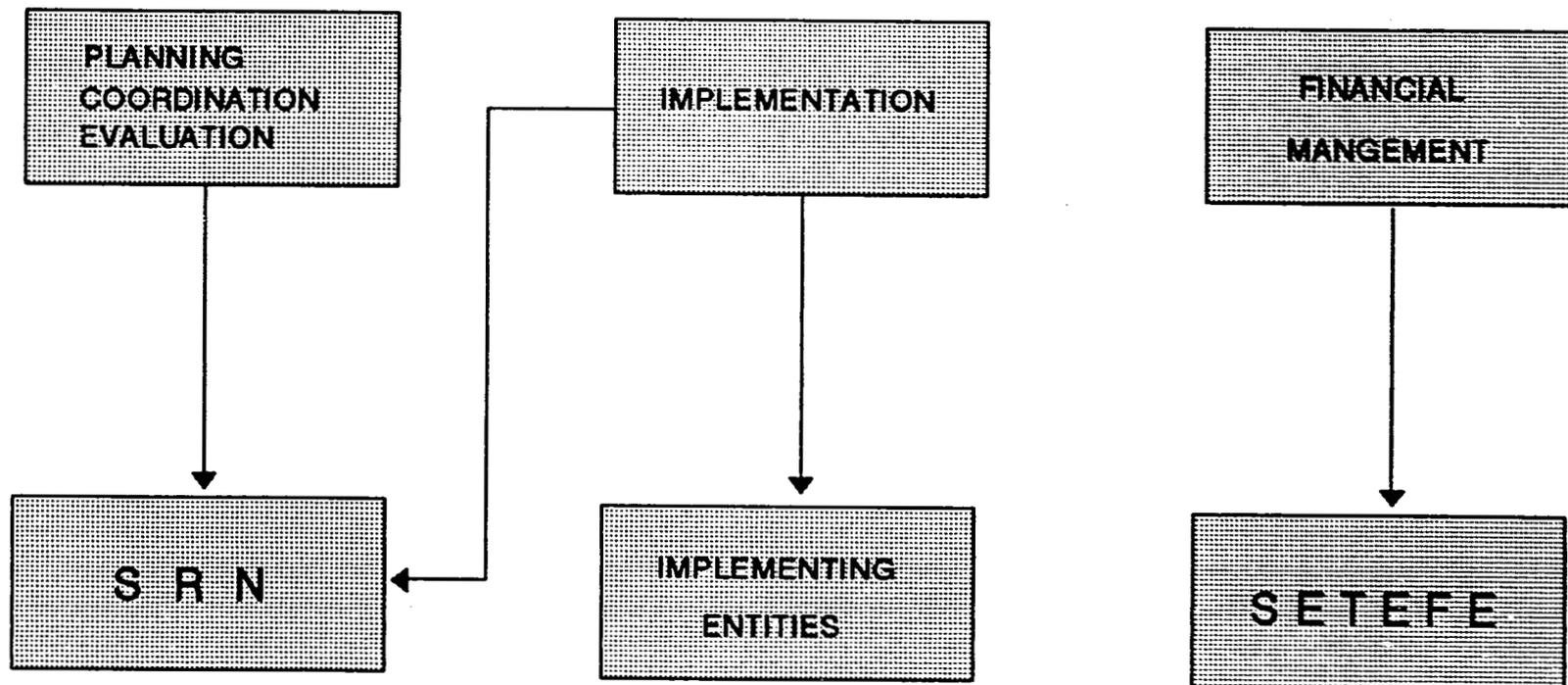
### **F. MORTGAGE ANALYSIS**

The estimated USAID contribution for National Recovery will place pressure on our DA, projectized ESF and local currency generation budgets under current OYB projections. Decreases in the ESF budget over the FY92-94 period will force us to alter obligation schedules for ongoing projects, delay or cancel new starts, and/or reduce counterpart contributions to Mission-GOES projects.

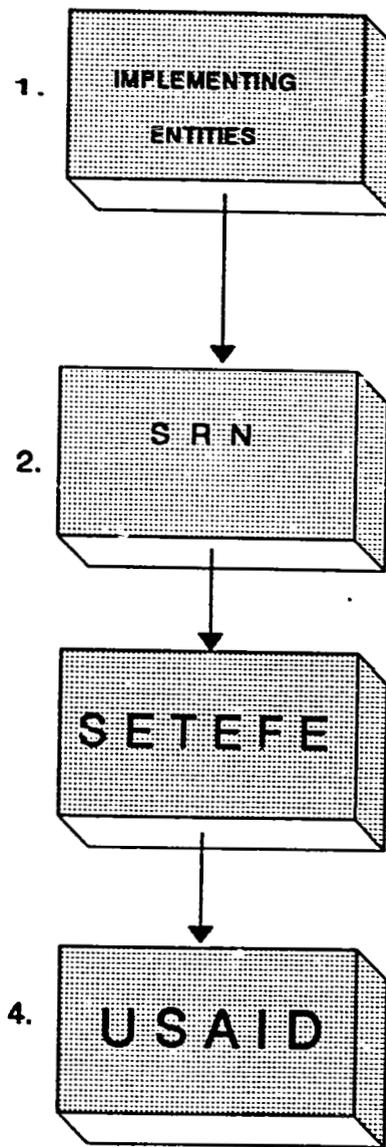
# IMPLEMENTATION AND FUNDING FLOW



# BASIC RESPONSIBILITIES



# ACTION PLAN APPROVAL PROCESS



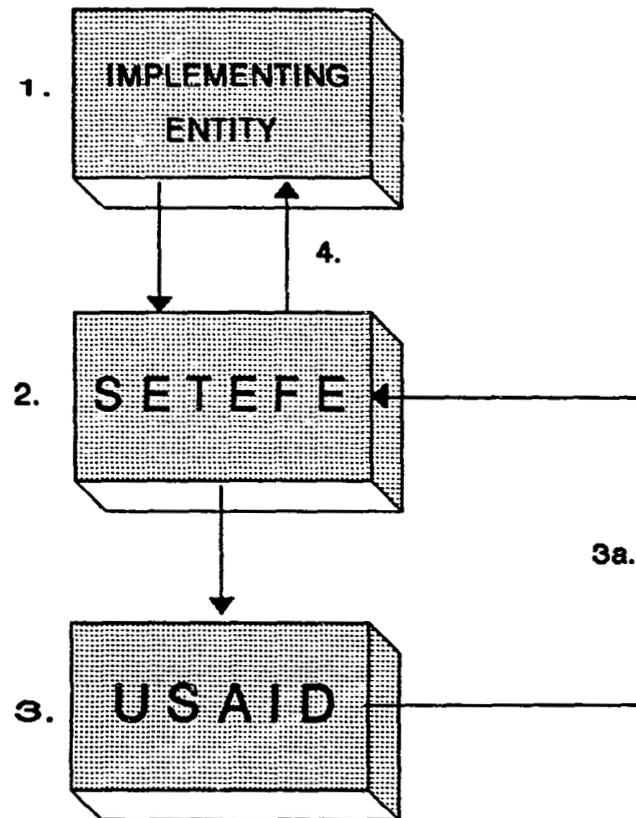
1. The implementing entities identify the needs, establish goals and develop individual Action Plans.

2. The SRN approves the Action Plan and submits it to SETEFE for review and approval.

3. SETEFE approves the action plan and submits it to USAID for approval.

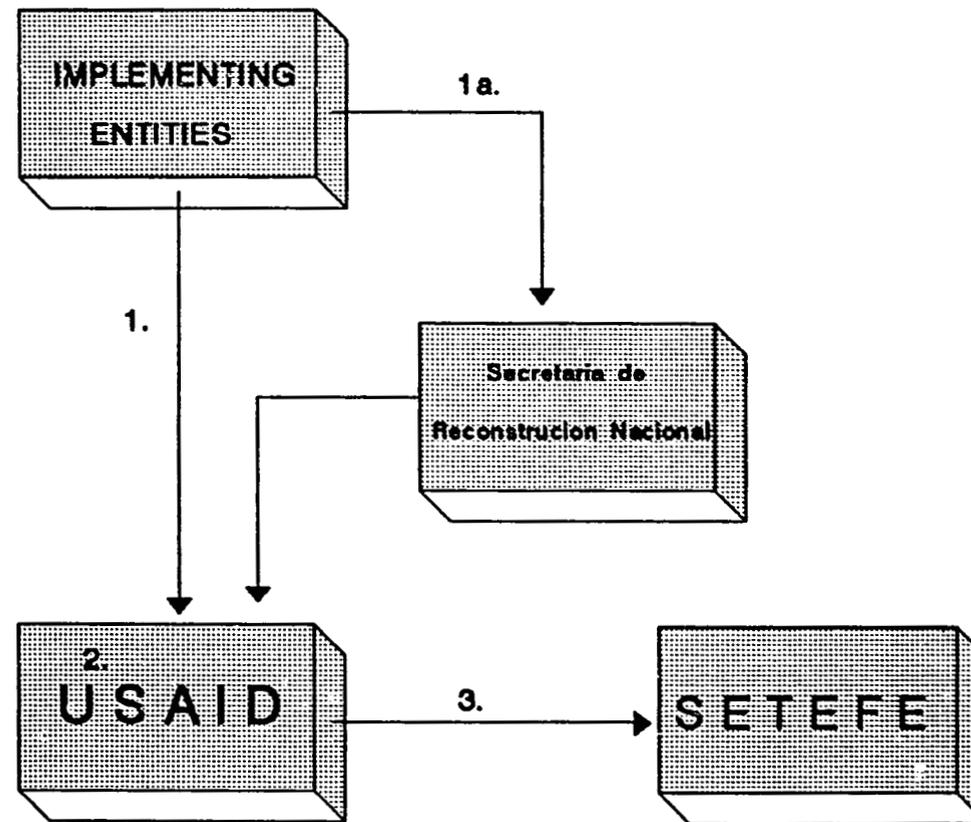
4. USAID reviews and approves Action Plan. Funds are committed for the activities approved.

# DISBURSEMENT PROCEDURES



1. The implementing entity submits its advance request for its immediate cash needs.
2. SETEFE examines the request and submits it to USAID for approval.
3. USAID reviews and approves the request.
- 3a. USAID issues a check to SETEFE for the approved amount.
4. SETEFE distributes the approved amount to the implementing entity.

# ADVANCE LIQUIDATION PROCEDURES



1. The implementing entities submit their advance liquidations to USAID.

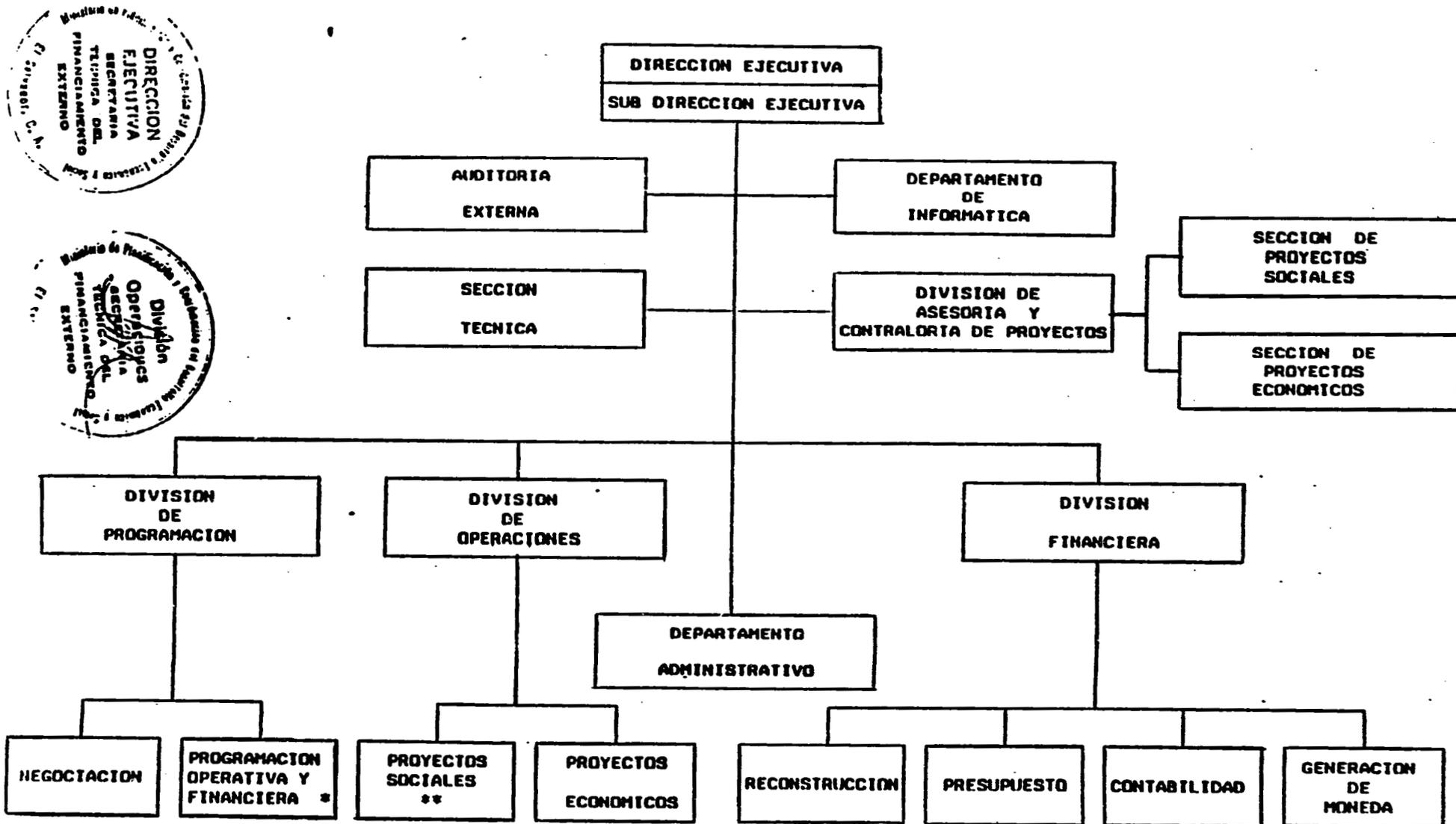
1a. Municipalities submit the advance liquidations to the SRN. The SRN reviews them and sends a consolidated liquidation to USAID.

2. USAID reviews the advance liquidations and registers the transaction.

3. USAID sends copies of liquidation vouchers to SETEFE.

**ESTRUCTURA ORGANIZATIVA DE SETEFE**

**1991**



\* INCLUYE LA UNIDAD DE ALIMENTOS, LA CUAL TIENE A SU CARGO LA COMERCIALIZACION E INTERACCION DE PRODUCTOS AGRICOLAS AMPARADOS EN EL CONVENIO PL-480.

\*\* INCLUYE LA UNIDAD DE PVO'S, DEDICADA A LA ATENCION DE PROYECTOS

The planned allocations over the next three years are as follows: FY92 - \$120 million ESF, \$55 million DA; FY93 - \$120 million ESF, \$55 million DA; and FY94 \$120 million ESF, \$50 million DA. In recent years, Congress has required the Mission to projectize 25 percent of ESF resources, or in the above cases \$30 million. The Mission does have the option to projectize a greater percentage, if desired. Any increase in projectized ESF reduces the local currency amount generated under the Cash Transfer Program.

While not taken into account in the analysis below, it is probable that the Mission OYB level will be reduced in coming years. Any reduction in the total ESF resources decreases both the amount available for projectized ESF and ESF-generated local currency; and decreases in DA amounts add additional pressure.

#### **Projectized ESF**

Entering FY 92, the Mission has six ongoing projects still with mortgages amounting to \$46.9 million. All but one would need to be fully obligated prior to or during FY94. The Mission plans three new starts in FY92 requiring the following amounts of ESF resources: Judicial Sector Strengthening - \$15 million; Electoral Assistance - \$3.5 million; and National Reconstruction - \$50 million. One new start requiring ESF resources is planned for FY93: Municipal Development - \$10 million. The new starts' obligation requirements add to \$78.5 million. According to current plans, both National Reconstruction and Electoral Assistance would need to be fully funded no later than the end of FY94 and FY93 respectively.

The obligation plans indicate that at a minimum over the FY92-FY94 period we would need approximately \$90-\$100 million. In the best of circumstances, i.e. we receive \$120 million in ESF each FY, the Mission would only have \$90 million available for obligation. The current situation illustrates a probable deficit position. Any cuts applied over the period will bring about even greater funding shortfalls.

#### **ESF Local Currency Generations**

Given optimistic assumptions, the ESF policy reform cash transfer program will generate the local currency equivalent of \$80 million per year, or \$240 million over the FY92-FY94 period. The local currency program currently finances counterpart for six AID/GOES projects. The funding requirements for those projects over the three-year period equals the equivalent of \$109 million. In addition, the National Reconstruction Program requires the equivalent of \$35 million, of which \$14.5 million has already been programmed, thereby leaving a mortgage of \$20.5 million. Over the period, the Mission will have to program approximately \$20 million for OE and Program trust funds activities. Programming for ordinary budget support, another key Mission priority, would amount to approximately \$90 million over the three-year period. Ordinary budget support basically serves as a means by which the GOES ameliorates the internal deficit. It enables the GOES then to free funding for other donor counterpart.

The foregoing analysis assumes that the Mission will no longer program resources for new project counterpart, nor for priority projects. If funds are programmed for new counterpart or priority projects, then the amount available for ordinary budget support will decrease by equal amounts.

#### **Development Assistance Funding**

Current plans call for development assistance (DA) funds to be attributed to National Reconstruction through ongoing Mission projects, i.e. the Mission does not contemplate independent DA obligations for the program. Given probable DA cuts across most functional accounts, the Mission would be unable to maintain the integrity of its ongoing and planned portfolio if these funds were redirected to cover National Reconstruction costs.

### **V. IMPLEMENTATION PLAN**

#### **A. IMPLEMENTATION RESPONSIBILITIES AND ADMINISTRATION**

##### **1. IRD/National Reconstruction Division (NRD)**

While every technical office within the USAID will be involved in the reconstruction effort, the overall responsibility for the National Reconstruction Project will be with the Office of Infrastructure and Regional Development (IRD). A new division, the National Reconstruction Division (NRD) within IRD, will be created to manage the postwar reconstruction activities. Another division responsible for the Displaced Families Project will be merged into NRD. An existing division, Regional and Urban Development (RUD) will handle the postwar activities which are implemented by the municipalities through the current Municipalities in Action Program (MEA). A new USDH will serve as supervisor of both RUD and NRD. This USDH will be the Mission's principal manager of the National Reconstruction Program (Mission-wide). The chief of NRD will be the Project Manager of the National Reconstruction Project. The National Reconstruction Division will be staffed by 2 USPSCs and 4 FSNs and will be charged with:

- Coordination with the Secretariat for National Reconstruction.
- Coordination of the Emergency Phase of the National Reconstruction Plan.
- Coordination of the Mission's National Reconstruction Program, i.e. with other technical offices and projects in the areas of education, health, municipal development, infrastructure, etc. related to National Reconstruction.
- Organizing the Mission's National Reconstruction Program Implementation Committee (NRPIC) meetings (to be chaired by the USDH identified above) and taking action on the resulting decisions.
- Overall selection, prioritization and approval of NRP activities that will result in the preparation of Implementation and Action Plans.
- Overall reporting on and monitoring of NRP activities.

- Assuring that project officers conduct relevant site and commodity inspections.
- Technical office authorization of NRP payment requests.
- A public awareness campaign related to National Reconstruction, including landmines and munitions issues.
- Coordination of resettlement and reconstruction activities in the conflict zones.
- Coordination with other donors on National Reconstruction issues.
- Coordination with direct A.I.D. NRP-contracted PVOs and contractors.

## **2. Relationship to other USAID Projects**

As described above, the new National Reconstruction Division within IRD will have a major coordinating role for many multi-disciplinary activities. It is not practical or the intention to establish an in-house expertise within NRD in all of the sectors that will be assisted. Rather, the National Reconstruction Project (NRP) will utilize elements of existing Mission projects' mechanisms and resources to attain national reconstruction goals. This will be achieved by establishing the Mission's National Reconstruction Program Implementation Committee (NRPIC), with representation from each of the technical or sector offices with projects that are involved.

As members of the NRPIC and project officers who have National Reconstruction support components in existing and ongoing sector projects, the Sector Project Officers will be responsible for:

- Maintaining close coordination with the NRPIC chairman on all issues related to National Reconstruction.
- Start up of sector activities under ongoing and NRP sector activities.
- Direct contact with sector entities under ongoing and NRP sector activities.
- Identification, selection and prioritization of sector needs under ongoing and NRP sector activities.
- Review and approval of sector Implementation and Action Plans for National Reconstruction components under ongoing sector projects.
- Preparation of project documents for National Reconstruction components under ongoing sector projects.
- Reporting and monitoring National Reconstruction sector activities under ongoing and NRP projects.

- Conducting site and commodity inspections for sector activities under ongoing and NRP projects.
- Technical office authorization of ongoing sector project payment requests.
- Calling meetings with sector implementing agencies to discuss National Reconstruction sector issues under ongoing sector projects.

#### B. DISBURSEMENT PROCEDURES

On a periodic basis, USAID will advance dollar funds to SETEFE based on the consolidated cash requirements of the implementing entities. SETEFE will in turn distribute the advance among the implementing entities based on their immediate disbursement needs. At the end of the first month and each subsequent month thereafter, the implementing entities will present a liquidation report showing the expenditures incurred during the month for which the liquidation has been presented. On a monthly basis, USAID will review the liquidation and the status of advances. For a graphic display of the project implementation and funding flow, please refer to Charts I-V.

The demand for funds at the very early stages of project implementation is such that quick and timely disbursement is required in order to satisfy expectations and to successfully initiate the complex process of reconstruction and normalization of conflictive areas. USAID will take the necessary measures to insure that fund accountability will be according to AID regulations as is explained in section IV.D. FINANCIAL MONITORING, ACCOUNTABILITY AND AUDIT.

#### C. PROCUREMENT PROCEDURES

Implementation of this Project is unusually complex because of the many activities to be carried out in several different sectors. Everything from providing technical assistance and credit for agricultural and microentrepreneurial activities, to construction for repair and upgrading of major infrastructure and increased support for social services, is contemplated under the umbrella of this Project. Given the uncertainties associated with the levels of funding and, therefore, the final structure of the Project, it is not possible to make definitive decisions regarding the procurement procedures to be followed for each activity currently contemplated.

Where the activities planned for National Reconstruction duplicate or have a direct relationship to those currently being carried out under existing projects, primary consideration will be given to refocusing or expanding the ongoing projects to subsume the new activities. The implementing contracts for these existing projects were awarded following full and open competition in which the solicitation advised all offerors that the contract would be for the life of the project with an extension or expansion of services if required to complete the project. Activities which fit within a specific project and which are to be financed with funds from that project may be added to the contract for that project without violating the terms and conditions under which the contract was competed and awarded.

Contracting for new activities which do not fit within an ongoing project will be carried out in a manner consistent with good project management and will be dependent upon the procedures of the implementing entity, i.e., host government agency, parastatal organization, indigenous PVO, or USAID Mission. Contracting, which will be done by the USAID Contracts Office, will be conducted following full and open competitive procedures to the maximum extent practicable for any activity in excess of \$100,000. Informal competitive procedures authorized by AIDAR 706.302-70(b)(2) will be used for activities not exceeding \$100,000. To the extent that Gray Amendment entities having the required expertise can be identified, competition will be limited to such entities. For activities in excess of \$100,000, less than full and open competition will only be used under the most exceptional circumstances in which an unusual and compelling urgency justifies the waiver of competition as specified in FAR 6.302-2. We foresee the need for such urgency only in the case of technical assistance for the DGR and a separate waiver has been submitted for the AA/LAC's approval.

The known components of this Project and the implementation procedures currently envisioned are as follows:

1. Major Infrastructure

Repair and reconstruction of major infrastructure in the areas of electricity, roads, telecommunications, water and sewerage systems are planned under this Project. These are identical in nature to ongoing activities under the Public Services Improvement Project (519-0320) from which \$20 million will support implementation of the National Reconstruction Project. Host country contracting (HCC) by several GOES entities (CEL, ANDA, Ministry of Public Works/Roads) is used for procuring equipment, supplies, and construction under the Public Services Improvement Project. These agencies have been certified by the Mission Director following an assessment of their capabilities to conduct host country contracting in accordance with AID Handbook 11.

If additional funding is made available for the Project, procurement for supplies and services to be financed with such funding will be conducted using the mechanism established for implementation of the Earthquake Reconstruction Project (519-0333). The General Directorate for Reconstruction (DGR), a separate organization created within the Ministry of Planning, has been responsible for contracting, oversight and disbursement for USAID- and World Bank-funded activities related to reconstruction following the 1986 earthquake. The vast majority of these activities involved design and construction services for the Ministries of Health and Education which had had little or no experience with contracting for such activities. After several years of experience under the Earthquake Reconstruction Project, the DGR now has an established and proven system for conducting procurement using competitive procedures in accordance with Handbook 11. As earthquake reconstruction activities begin to phase down (PACD of March 31, 1993, with all major construction activities scheduled to be completed by January 1993), the DGR will be realigned and strengthened to take on National Recovery activities, not only for the USAID project, but also for infrastructure activities funded by other donors.

Although the DGR is expected to manage the greater part of major infrastructure activities, the Mission is exploring the possibility of providing complementary assistance to other GOES agencies to assist them in developing specifications and cost estimates and in selecting appropriate mechanisms for procurement of goods and services as specific needs are identified.

## 2. Basic Infrastructure

Small-scale infrastructure activities at the local level are also planned, using the mechanism of the ongoing HCOLC-financed Municipalities in Action (MEA) program. The SRN (formerly CONARA) will help mayors to develop contracting packages, standardized to the extent possible, for such work as classroom or health clinic construction, and rural or feeder roads, which the mayors will contract locally following standardized procedures. Liquidation of funds and post-audit of accounts is carried out by the Court of Accounts, the GOES central fiscal oversight authority, and by project-funded audits. Given the small size of each procurement action and the oversight provided by the post-audit system, this procedure is considered adequate for the use of appropriated funds.

## 3. Other Commodities and Services

Approximately \$35 million from existing USAID projects will be refocused on National Reconstruction activities through existing implementation mechanisms, i.e., FUNTER, NRECA, FEPADE, the Displaced Families Project and the Public Services Improvement Project. In addition, the National Reconstruction Project will fund a series of activities which are identical to activities in existing projects in the USAID portfolio, target populations being the only difference. In two instances, existing project authorizations will be amended to increase the level of funding instead of absorbing the activities within planned funding levels. In both cases, significant commodity procurement is already a component of the project, a large part of which is the responsibility of the technical assistance contractor. Under APSISA (519-0308), USAID has responsibility for procuring pharmaceuticals and a few other medical supplies available through the Veterans Administration or GSA under Federal Supply Schedules. The remainder of the project-funded commodities are procured by Clapp and Mayne as the implementing contractor for the project. This is also true of the SABE Project (519-0357) under which the Academy for Educational Development has responsibility for procurement of education-related commodities. Contract amendments will levy responsibility on the respective contractors for the additional requirements resulting from the project amendments.

A large number of activities will be implemented by local private voluntary organizations, including vocational education, microenterprise credit, rehabilitation of the physically handicapped, provision of prosthetics and orthotics (other than FUNTER), provision of mental health care for child war victims, other support to social services. SETEFE will be responsible for reviewing and approving the procurement systems and procurement plans of these local PVOs, for advancing funds to them and for monitoring their use of the funds. Certain activities will be undertaken directly by the SRN, such as the

land mine public awareness program and documentation and certification of target populations. The SRN is proposing a system similar to that required by SETEFE for informal competition up to a certain value: three quotes from pre-qualified firms up to a second ceiling above which the implementing agency, PVO or SRN, would be required to issue a public IFB. Exact ceilings are being negotiated with USAID, balancing the need for fast flexible actions with the need for adequate monitoring and control. A number of U.S. PVOs which propose to expand their activities under National Reconstruction may receive additional grants or cooperative agreements in accordance with AID Handbook 13.

#### 4. Local Cost Financing

Identifiable activities requiring local cost financing include salaries and other administrative costs for some of the implementing agencies, including SRN, provision of credit, hiring of teachers, academic, vocational and technical education in local institutions, and the land mine public awareness campaign.

#### Procurement Plan

Detailed procurement plans for commodities, equipment, and technical assistance, including a schedule for first-year procurements, will be prepared before individual components are undertaken. The source, origin and nationality of all procurement will be AID Geographic Code 000, except for locally available items within the authorization provided by Chapter 18 of Handbook 1, Supplement B. Procurements under Handbook 13 grants and cooperative agreements will be in accordance with the Standard Provisions entitled "Procurement of Goods and Services" and "AID Eligibility Rules for Goods and Services."

#### D. SCHEDULE OF MAJOR EVENTS

| DATE       | EVENT                                                                                                   |
|------------|---------------------------------------------------------------------------------------------------------|
| 1992       |                                                                                                         |
| January 16 | Peace agreement signed with a schedule for demobilization of 1 February - 30 October 1992.              |
| January 17 | Issuance of decree creating the Secretariat for National Reconstruction.                                |
|            | Submission of Day One Action Plan by the Secretariat to SETEFE and USAID.                               |
|            | Project Document submitted to Washington for Inter-Agency review.                                       |
| January 27 | SETEFE and USAID review and approval of SRN's Day-One Action Plan using ESF-generated local currencies. |

January 31 Inter-Agency review of Project Document.  
IRD and EXO advertise scopes of work for IRD/NRP staff positions.  
Contract for TA to develop social/economic reintegration counseling for ex-combatants.

February 1 Beginning of cease-fire and demobilization process.

February-March GOES agencies/ministries and NGOs obtain approval of Day-One sub-action plans.

February 3 Day-One Action Plan commences.

February 14 Submission to National Assembly of Decree providing special authorities to the municipalities to register Salvadoran citizens and to issue cédulas to those without.

February 24 Reopen health facilities where reconstruction/repair not needed.  
Begin series of vaccination campaigns for target zones.

March 15 AA/LAC Authorization Project

March 23 Consultative Group Meeting.  
Baseline data available from socio-demographic studies and monitoring and evaluation system established.

March 25-31 Negotiate and sign ProAg.  
Issue PILs and amend technical assistance contracts for existing projects to support NRP.  
Contract for additional IRD/NRP staff.

March-July Major infrastructure projects identified, feasibility studies contracted.  
SRN subgrants to PVOs for social (health and special education) activities.

April Ex-combatant social/economic counseling program commences.

April 1 SRN Action Plan for remaining first-year activities prepared and approved.

April-December In concert with GOES and other donors, projects identified for pre-feasibility studies and scopes of work approved for host country contracts.

- Agricultural and microenterprise credit being extended into target zones.
- October 31 Demobilization of FMLN completed.
- Infrastructure Projects funded by other donors enter feasibility study or construction phase.
- November 15 SRN Action Plan for CY93 activities submitted to SETEFE and SRN.
- December 15 SRN CY93 Action Plan approved.
- 1993
- January Scheduled 50% reduction of ESAF forces completed.
- March Second-year obligations.
- After March 1993, all implementing agencies will carry on routine operations. Following are some significant milestones scheduled.
- July Interim evaluation/assessment, to permit early adjustment to Project activities and emphases.
- 1994
- November Impact evaluation, jointly with GOES and perhaps with other major donors.
- 1996
- November Final evaluation.

#### **E. MONITORING AND EVALUATION PLAN**

One of the initial activities to be conducted by the SRN in support of the NRP will be the establishment of an evaluation and monitoring system and the carrying out of socio-demographic profiles to provide essential baseline data. Using technical assistance available immediately under the Displaced Persons Project (519-0281), the SRN will develop a system which will permit a comprehensive monitoring of the NRP's impact in the conflictive zones over the five-year implementation period. The system will measure progress against a range of indicators for activities financed with both GOES and external resources. It may be necessary to include certain adaptations to the system to permit the tracking of those activities funded with USG resources. Given the sensitivity on both sides surrounding the reintegration and reconciliation process, objective measurement of the benefits received and the impact of the Reconstruction Plan will be extremely important.

The baseline data and beneficiary needs assessment to be obtained from the socio-demographic profiles (funded from currently available ESF-generated local currency) will form the basis for the monitoring and evaluation system. The information will also permit a more precise targeting of project beneficiaries under the various components and activities. The project design has factored in a good deal of flexibility so as to make adjustments as needed to tailor project assistance to the specific needs and aspirations of the target population, a good portion of whom could not be surveyed prior to the cessation of hostilities.

In addition, national household survey data currently being collected on a quarterly basis will be adapted to permit a comparative analysis of critical social and economic indicators (incomes, employment, diets, consumer information, etc.) between the conflictive zones and the rest of the nation. Over time, these data will permit a fairly reliable assessment of how successful the reintegration process has been.

The Mission has planned three formal evaluations of the Project which will be conducted by independent, outside consulting firms. The first of these, planned for March 1993, will provide the Mission with an opportunity to make mid-course corrections based on the initial implementation experience over the full range of project activities. The first anniversary date of the signing of the Peace Accord will also serve as an appropriate juncture to reassess basic assumptions concerning the reintegration and reconciliation process.

At the end of the second year of project implementation, an impact evaluation will be conducted to provide a careful analysis of the beneficiary group and once again test assumptions and recommend any corrective actions which may be necessary. A final evaluation has been scheduled for early 1997.

The formal evaluation and monitoring system to be established will draw upon semi-annual reports submitted by the individual implementing institutions to reflect activity progress, problem areas and solutions, and overall impact.

#### F. CONDITIONS AND COVENANTS

A Handbook 3 agreement will be signed between the GOES and AID for this Project, which will contain all required and standard terms and conditions. No special conditions to disbursement beyond the standard requirements are anticipated. The Mission requirements regarding pre-award surveys for new implementing entities, and a GOES commitments to address NRP recurrent cost implications in its ordinary budgets, for example, will be included in standard covenants of the agreement.

Handbook 3 terms and conditions include the standard clause prohibiting the use of dollar grant funds and local currency generated from appropriated funds for police or law enforcement purposes or for assistance to the military or paramilitary groups. This prohibition will preclude assistance to members of the FMLN while the FMLN remains a paramilitary force. The GOES is well aware of this restriction on AID funds and has agreed to comply fully with this restriction.

Although AID funds will not be used to provide severance payments to members of the armed forces, to ensure clarity, the agreement will include a clause consistent with the prohibition contained in Sec. 503 of the Appropriations Act. It will prohibit the use of appropriated funds and local currency generated from appropriated funds to pay pensions, annuities, retirement pay or adjusted service compensation for former members of the armed forces.

The Project Agreement will be negotiated immediately upon authorization of this Project. No delay in signing is anticipated. Project agreement amendments adding funds to the two dollar projects, SABE and APSISA, will be ready to be signed upon receipt of the respective amended authorizations.

PRJ/505

02-07-92

LOGICAL FRAMEWORK  
EL SALVADOR PEACE AND NATIONAL RECOVERY PROJECT  
(519-0394)

ANNEX I

LOP 5 years  
FY 92-97  
Total AID funding \$250 million

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE  
INDICATORS

MEANS OF VERIFICATIONS

IMPORTANT ASSUMPTIONS

Project Goal: To support El Salvador's National Reconstruction Plan in consolidating the peace process, helping resolve societal unrest, and sowing the seeds for future growth with equity and a strong democracy.

1. Termination of hostilities by both sides
2. Human rights violations demonstrate a marked decline.
3. Freely-held elections permitted and honored at National, departmental and municipal levels.

ONUSAL Reports.  
Elections Assistance Project Reporting.

- Definitive peace accord honored by both sides.
- Extremist groups do not emerge to reinstate hostilities and undermine recovery process.

Project Purpose: To promote the economic and social reactivation of the conflictive zones by restoring infrastructure and access to basic services, and assisting the democratic reintegration of their populations.

1. Population served by restored health and education facilities in the conflictive zones.
2. Reduced infant mortality rates in the conflictive zones.
3. Greater percentage of land in production in the conflictive zones.
4. Greater percentage of eligible voters who have carnets participating in local/national elections.

1. Ministry of Health and Ministry of Education statistics.
2. Ministry of Health Statistics.
3. ISTA, Ministry of Agriculture statistics.
4. National election records.

- Significant other donor assistance is forthcoming in support of the National Recovery Program.
- GOES economic liberalization measures maintained and strengthened.
- El Salvador's postwar climate conducive to new investment, particularly in the former conflictive zones.

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**NARRATIVE SUMMARY**

**OBJECTIVELY VERIFIABLE INDICATORS**

**MEANS OF VERIFICATIONS**

**IMPORTANT ASSUMPTIONS**

- 5. Open town meetings being held and people participating.
- 6. Number of municipalities participating in MEA increased.
- 7. Decline in out-migration of inhabitants of the conflictive zones.
- 8. Permanent employment opportunities significantly increased.
- 9. Per capita incomes in conflictive zones approximate national levels.

- 5. MEA program reports.
- 6. MEA program reports.
- 7. National census data.
- 8. FUSADES employment surveys.
- 9. Annual household survey data.

**OUTPUTS:**

**1. Access to basic services reestablished**

- electricity hook-ups installed - 1,300
- health posts restored, equipped and functioning - 22
- schools restored, equipped and functioning - 600
- roads repaired/reconstructed - 2,500 Kms.
- municipal buildings - 75
- Aqueducts, drains restored/installed - 800
- urban streets repaired/reconstructed - 150
- markets restored and functioning - 65
- Other construction (such as bridges) Projects - 75

**2. Expanded capacity of factors of production (land, labor, capital) to respond to economic opportunities in the conflictive zones**

- people trained and subsequently employed - People trained (\_\_\_\_ male  
\_\_\_\_ female)
- Employed (\_\_\_\_ male  
\_\_\_\_ female)

- IRD Project Reports.
- MEA, CEL and NRECA records.
- Ministry of Health records.
- Ministry of Education Records.
- MEA and MOP records.

- The newly established Secretaria Nacional de Reconstruccion effectively mobilizes resources to implement national Reconstruction plan.

5

| NARRATIVE SUMMARY                                                                                                       | OBJECTIVELY VERIFIABLE INDICATORS                                                           | MEANS OF VERIFICATIONS           | IMPORTANT ASSUMPTIONS |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|----------------------------------|-----------------------|
| - village banks started                                                                                                 | - _____ #                                                                                   |                                  |                       |
| - medium/long-term credit extended                                                                                      | - _____ \$                                                                                  |                                  |                       |
| - Land Bank transactions                                                                                                | - 24,000 Manzanas of land transferred through purchase financed by Land Bank.               | - Land Bank records.             |                       |
| - Land made available from abandoned cooperatives                                                                       | - 10,000 manzanas                                                                           |                                  |                       |
| - Land made available in underutilized cooperatives                                                                     | - 6,000 manzanas                                                                            |                                  |                       |
| - Land titles issued                                                                                                    | - 10,000                                                                                    | - ISTA, RPRH and IGN records.    |                       |
| - Temporary jobs created under the MEA program                                                                          | - 39,000 person-years                                                                       | - MEA Program records.           |                       |
| 3. Reconnect conflictive zone electricity and transportation networks to national grids                                 |                                                                                             |                                  |                       |
| - conflictive zone municipalities connected to national grids                                                           | - 70 municipalities.                                                                        | - IRD Project Reports.           |                       |
| -- electric grid                                                                                                        | - 60 municipalities.                                                                        | - IRD Project Reports.           |                       |
| -- national road system                                                                                                 | - 10-15 feasibility studies incorporated by other donors into support of National Recovery. | - USAID and other donor reports. |                       |
| - donor assistance programmed which can be directly linked to AID-financed feasibility studies for major infrastructure |                                                                                             |                                  |                       |

**NARRATIVE SUMMARY****4. Establish local level democratic institutions and increase civic participation**

- carnet/cedulas issued
- increased percentage of eligible persons on voter registration rolls
- municipalities holding open town meetings
- PVOs channeling resources in the conflictive zones

**OBJECTIVELY VERIFIABLE INDICATORS**

- 50,000 of carnets/cedulas issued.
- 20,000 increase in eligible persons on voter registration rolls.
- 262 municipalities holding open town meetings.
- # of PVOs channeling resources in the conflictive zones.

**MEANS OF VERIFICATIONS**

- MEA Reports, ISDEM Records.
- Elections assistance Project reporting.
- MEA Program Reports.
- SNR Records.

**IMPORTANT ASSUMPTIONS****INPUTS:****AID (\$280 millions)**

|                                                              |                  |
|--------------------------------------------------------------|------------------|
| - Immediate conflictive zone relief                          | 4.0              |
| - Ex-combatant assistance                                    | 8.0              |
| - Social and economic reactivation in the conflictive zones: | 157.0            |
| - Land transfer mechanisms:                                  | 15.0             |
| - Infrastructure:                                            | 56.0             |
| - Program Audit and Management:                              | 10.0             |
| - TOTAL:                                                     | <u>\$ 250.00</u> |

SL/ks  
02-07-92

**CERTIFICATION PURSUANT TO  
SECTION 611(e) of FAA**

**BACKGROUND**

The years of civil conflict and economic difficulties have created a wide range of problems for the people of El Salvador. Damaged and poorly maintained public infrastructure has reduced the provision of public services, especially in the conflictive zones, contributing to poor health and reduced economic productivity. Infrastructure restoration and expansion into conflictive zones is critical to achieving and maintaining economic and political stability. This Project will address the problems of lack of adequate water and sanitation facilities, the transportation network, and electricity, as well as smaller social infrastructure (schools, clinics) primarily in formerly conflictive zones.

**CERTIFICATION**

I, John Sanbrailo, Principal Officer of the Agency for International Development in El Salvador, having taken into account, among other things, the maintenance and utilization of projects in El Salvador previously financed or assisted by the United States, do hereby certify pursuant to Section 611(e) of the Foreign Assistance Act of 1961, as amended, that in my judgement El Salvador has both the financial capability and the human resources capability to effectively implement, utilize and maintain the resources of the El Salvador National Reconstruction Project, 519-0394.

This judgement is based upon the Project analysis as detailed in this Project Paper, and is subject to the conditions imposed therein.

  
John Sanbrailo  
Director  
USAID/El Salvador

  
Date

**TECHNICAL ANALYSIS**

The technical analysis does not attempt to discuss the feasibility of the entire range of activities contemplated under the Project. Since most activities parallel those being implemented under USAID's on going portfolio, we refer the reader to the technical analyses for the respective USAID projects. Discussed below are two major Project activities (MEA and Land Transfer Mechanisms) which are ESF-generated local currency activities for which no formal Project Paper feasibility analyses were required.

**A. Municipalities in Action Program**

The National Commission for the Restoration of Areas (Comisión Nacional de Restauración de Areas: CONARA) began in 1983 to coordinate various government efforts to search for non-military measures to combat the insurgency. Through trial and error, in 1986 it began the Municipalities in Action (Municipalidades en Acción: MEA) program. This was a modest program which provided grants to municipalities and associated rural communities to finance a carefully qualified list of small physical infrastructure works throughout the less conflictive areas of El Salvador. It has proved to be extraordinarily successful, popular, and an exemplary use of scarce economic resources.

In November 1988, an experiment was initiated in Chalatenango to intensify the MEA approach in the form of a special regional project in area which had suffered a prolonged and strong presence of the insurgency and which, even before the insurgency, historically had been relatively neglected by the central government. The thrust was to replicate the MEA procedures of project selection and implementation but with larger amounts of funding; and at the same time to involve the ministries and other public sector implementing service agencies for larger infrastructure projects. The national-level agencies complement local municipal efforts with credit and technical assistance. Upon implementation of 3 successive phases of the special approach in Chalatenango, the same approach was initiated in 1989 in the department of Morazan with an initial coverage of 18 municipalities.

Both the regular MEA program and the MEA Special Programs have had impact evaluations undertaken by the Research Triangle Institute (in 1988 and 1990, respectively) which serve as the basis for this section of the technical analysis.

The main findings of the 1990 Special Programs impact evaluation are that there have been significant changes in attitudes; that the economic and social outputs are extraordinarily high for a relatively low resource cost; and that the project identification and implementation process is promoting local participatory democracy in significant ways. In addition, basic changes in beneficiary attitudes have occurred since 1988. There is a rapidly growing level of community participation, appreciation for the infrastructure built and its employment and income effects, 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.

Among the principal conclusions and recommendations, the evaluation stated that:

"The special programs are a good use of economic resources and are superbly effective in promoting local democratic processes and social stabilization. They should be supported and expanded insofar as it is possible to do so."

"The experience with the special regional programs illustrates that a technically efficient program which is apolitical and which responds to peoples' perceived needs can induce impressive attitudinal changes in a remarkably short time. This is an important lesson learned from the evaluation."

#### The Cabildo Abierto and Project Priorities

The 1983 revision of the Municipal Code provides that each community will convene a cabildo abierto (open town meeting) at least once every three months. Citizens and representatives of groups of citizens present petitions for community projects at these public meetings. Proposed projects must be identified at a cabildo abierto in order to be eligible for financing under the special regional programs. Although the meetings cannot be held in all communities, because of security considerations, as often as stipulated in the Municipal Code, they are being held with greater and greater frequency. (The Municipal Code provides no sanction for not convening a cabildo abierto every 3 months.) More importantly, attendance at the cabildo abierto has increased as people have become aware of the usefulness of the meetings. They provide an exemplary opportunity to promote a sense of community participation and to hold municipal and national ministry and service agency officials accountable. The people are taking advantage of this opportunity. The evaluation team was impressed at the evident importance which people attach to the meetings. They do feel that they have a voice in project identification.

To some extent the cabildo abierto is becoming an exercise in representative democracy as contrasted with direct democracy. This is both effective and, given the difficulty and personal cost of attending the cabildo abierto, an efficient exercise in democratic process at the community level. A great deal of discussion in smaller neighborhood groups precedes the cabildo abierto. Asociaciones comunales and other ad hoc groups debate community needs and settle on the priority preferences to be voiced at the cabildo abierto. The actual public presentation of a petition may be by the representative of the smaller group or, on occasion, by a member of a community Board of Directors (Junta Directiva).<sup>1/</sup> This is an important step in project identification. It might be worthwhile to offer support to these groups, on the other hand, the process might disrupt it.

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<sup>1/</sup> The Junta Directiva is chosen by local community members to intercede on their behalf with (usually local) authorities.

Actual project selection is by the mayor and his Concejo Municipal, subject to the approval of CONARA. This is unavoidable because the number of subproject requests at a cabildo abierto far exceeds the resources available for subprojects. In one cabildo abierto, for example, there were requests for different subprojects. Resources were available to finance only 54 of them. One might argue that a mayor and his Concejo Municipal really are not limited in choosing subprojects by the cabildo abierto. It would be most unlikely that any subproject eligible for CONARA financing that might be wanted by the mayor and the Concejo Municipal would not be included on the cabildo abierto list. This probably would be an undeservedly cynical view.

A danger in this process of proposing subprojects in open town meetings is that the proponents of subprojects which are not chosen for implementation will be disgruntled. In the above example, one could imagine 50 unhappy subproject proponents for every 4 happy subproject advocates. This seems not to happen, a result no doubt due to hope and the art of mayoral politics and persuasion.

#### The Role of CONARA

CONARA has continued improving its organizational structure and operating procedures in the past 2 years and now is more effective and efficient than in the past. These improvements are due mainly to changes in attitudes and perceptions on the part of management and professional staff. Three examples briefly illustrate this proposition.

CONARA headquarters in San Salvador has delegated real responsibility to its special program regional offices. In the past, delegation was largely in appearance rather than in substance. The field offices were at most geographically deconcentrated extensions of the San Salvador centralized authority. Even minor substitutions of physical materials for a small subproject, for example, had to be approved by headquarters after a time-consuming, detailed scrutiny. Central approval now is largely a formality and often is agreed to on the telephone. It was a refreshing surprise to witness the CONARA regional representatives advance opinions and make decisions on the spot in the regional coordination meetings. Authority has been delegated.

There is further evidence that delegation of authority and responsibility is an attitudinal change and not just restricted to substituting one authority patron (San Salvador headquarters) with another (the regional CONARA representative). When the regional CONARA representative unexpectedly was recalled to San Salvador, his deputy stepped into the weekly coordination meeting and performed the role with confidence and authority. The point is that delegation apparently extends, at least in this instance, even to the next echelon. These are new and hopeful attitudinal changes in a traditional society.

A second illustration combines the changing attitudes of both CONARA officials and the mayors with whom they deal. At one of the regional coordination meetings, the CONARA regional representative responded to technical and administrative questions posed by the mayors, being helpful in resolving real

problems that had arisen in the course of implementing small infrastructure projects. The kinds of problems were basic -- how to balance a checkbook; how to write a receipt for a project input (sand) that included a second project budget item (transportation) without running into subsequent trouble with the Corte de Cuentas. The mayors did not hesitate to ask questions, and the response of the CONARA representative was to provide on-the-job technical assistance. The mayors also entered into the discussion, telling each other how they had dealt with similar problems. It was impossible to witness these exchanges without recalling the picture in 1988 of a CONARA representative lining up a dozen mayors like students in a classroom and delivering a 1-hour monologue without interruption.

The third example is a technical detail which goes to the heart of a philosophy of decentralization. CONARA used to finance most of the MEA subprojects, even very small ones, in two disbursements. The second disbursement was withheld until the Corte de Cuentas had approved the liquidation of the first disbursement. Two years ago, CONARA agreed to make single disbursements for projects costing no more than 50,000 colones. At present, all subprojects are financed with a single disbursement, even the largest projects in the special regional programs. The implications of this relinquishing of centralized control over finances are astounding. A central government agency actually delegates real control over finances to municipal authorities and leaves to them the problem and responsibility of settling accounts with the Corte de Cuentas. This degree of delegation of authority would have been inconceivable a few years ago.

#### The Role of Mayors

Mayors' attitudes toward the special regional programs are uniformly supportive. For the first time, they find themselves in charge of substantial grant resources which are used for popular infrastructure projects. As project administrators, they have considerable authority to choose local suppliers, hire local contractors, and approve the employment of local skilled and unskilled labor. Although normally constrained by the priorities expressed in the cabildos abiertos, in fact they have significant influence in project selection through their role in the Municipal Council (Concejo Municipal). All of this enhances their authority, prestige, and political popularity.

At the same time, the insurgents seem to have realized that their campaign of threatening, kidnapping, and murdering mayors was counterproductive. Far fewer mayors now are forced to live in exile outside their own communities than was the case 2 years ago. More and more mayors, accordingly, can participate actively in the special regional programs.

The attitude of mayors was reflected in the coordination meetings, in talking with them in their office, and during site visits to subprojects financed by the program. All of our contacts with the mayors indicate a growing sense of ability and pride of accomplishment. The enthusiasm of one mayor went a step further: he lamented the residue of apathy among the minority of citizens who still do not accept the new GOES approach as being for real. He urged that consideration be given to providing motivational

training for the people. This attitude is a far cry from the traditional obeisance and subservience of mayors to the central government.

In summary, the evaluation team expressed a clear sense that attitudes in the special program regions are undergoing rapid and fundamental changes, that something like the birth of grassroots democratic processes is well underway, and that these emergent attitudes can establish one of the essential prerequisites to long-term economic development.

#### Operations and Procedures

The MEA Operations Manual is one of the best designed set of guidelines for project selection that the members of the evaluation team had seen in any developing country. It is admirably simple and straightforward. It almost precludes the possibility that projects which meet the eligibility criteria will be uneconomic. Grossly wasteful investments are virtually impossible.

Beneficiaries exercise strong informal controls against misuse of project funds at the local level. They understand the amount of money involved, know the materials that are specified in the project agreement, and are effective local watchdogs (mayors are required by MEA rules to publically post such information).

It should be recognized that the special regional programs involve a dual or parallel implementation channel which differs from the regular MEA program. The difference is in the fact that ministries and national service agencies also are involved in the special regional programs. This can pose problems of coordination which cannot always be completely resolved at the weekly coordination meetings. The coordination meetings are invaluable; they cannot always be a complete answer.

Two examples illustrate the nature of the problems which can arise. In project implementation which has funding both from CONARA and from a Ministry, CONARA usually is responsible for funding both capital costs but recurrent costs usually are funded from the Ministry or service agency budget. This can result in completed classrooms being ready before teaching materials and teachers are available. Only perfect coordination could avoid such mistakes.

The second example concerns contingency allowances and the timing of project implementation. The CONARA manual provides for a 5-10% contingency allowance without making any distinction between physical and price contingencies. This is reasonable for MEA-type projects which are small and can be completed within a few months. Problems do arise, however, for larger infrastructure projects involving national service agencies. Normal agency delays in an inflationary environment (the CPI rose 31% in the 12 months ending May 31, 1990) can render an approved budget insufficient to meet higher costs. The budget then must be revised and resubmitted to SETEFE. This involves costly delays in project execution.

The problem would be mitigated if it were possible to provide for more realistic contingencies, distinguishing between physical and price contingencies. This would allow SETEFE to escape the role of bottleneck and delayer which it now all too often has to play.

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Finally, the evaluation commented that there is a perception that CONARA has become increasingly professional, technically competent, and apolitical in its approval of credit. The detailed description of the special program subprojects shows no political bias in the approval of credits to mayors.

## **B. Land Transfer Mechanisms**

### **Background**

Land Reform was one of the pillars, along with nationalization of banking and other key industries, of the 1979 "Progressive Coup" which opened the door to El Salvador's transformation from an authoritarian state dominated by the military and the economic elite to a struggling democracy. Concentration of land in the hands of a few was seen as a symbol, as well as a cause, of all that was wrong with this land-poor and people-rich nation. El Salvador's productive agricultural sector did little to alleviate rural poverty. The Civilian/Military Junta that took power in 1979 promised to redress inequitable land distribution and empower the rural poor. Land expropriation led to violent opposition, and after twelve years of war and the redistribution of more than one-fifth of El Salvador's farmland, agrarian reform remains a controversial issue. It symbolizes rejection of the country's oligarchic past to some, and a failed communal experiment to others.

The Agrarian Reform had important political and ideological elements as well as economic aims. Cooperativism is treated as an end in itself as well as a means to protect small-farmer interests. Promotion of communalism has a long tradition in El Salvador and was enshrined in the 1980 Agrarian Reform Decrees as well as the 1983 Constitution. The main opposition Christian Democratic Party (PDC) still considers cooperativism a logical extension of the social Christian philosophy on which the party was founded. Many on the left consider the unification of small farmers in coops or other organizations vital to prevent a return to the exploitative past; individual farmers could be pressured or cajoled into obeying larger economic interests and the agrarian reform unravelled. While production and marketing coops are common, many maintain that communal land tenure is vital to preserving peasant gains. Political and coop leaders also consider the role of cooperatives in political mobilization to be as important as their role in agricultural production. While conservative parties such as ARENA traditionally do well among small entrepreneurs, including farmers, cooperative organizations are an important base of support for the PDC and leftist parties. Purely economic discussions of productivity, incentives, efficiency, viability, etc. fail to address the devotion to cooperativism as a philosophy and as a political base, and the deep-seated mistrust between small-farmer leaders and El Salvador's elite.

### **Phase I of the Agrarian Reform**

Phase I of the 1980 Agrarian Reform expropriated all landholdings larger than 500 hectares (1,235 acres), turning them into cooperatives in the hands of former resident laborers. A total of 477 properties comprising over 500,000 acres of land were redistributed, forming 320 cooperatives. Over 30,000 families (approximately 180,000 persons) are members of Phase I coops, with an additional 7,000 families deriving the bulk of their subsistence from

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coop lands without being members. Some Phase I coops were abandoned due to the war, and others have been unable to exploit all of the land provided to them. The Salvadoran Agrarian Reform Institute (ISTA) was charged with administering Phase I and retains the right to settle landless peasants on unused Phase I land. Persons displaced by the war but not direct beneficiaries of the agrarian reform, repatriates, and the families of soldiers injured or killed in combat have been among the 3,000 families given Phase I land since 1988. Of the 320 coops, 195 have received legal title to the land but almost all have large debts tied to the amount of compensation the GOES paid to original owners. ISTA's oversight role for Phase I coops will likely continue at least until the agrarian debt issue is settled.

#### Phase II of the Agrarian Reform

The second phase of the 1980 reforms required landlords (except Phase I coops) to voluntarily divest themselves of lands in excess of 245 hectares (605 acres) or face expropriation. This limit was set in the 1983 Constitution, raising the original 100-hectare limit set in the 1980 Agrarian Reform Law. Since 1983, the left has demanded that the original limit of 100 hectares be restored and sought unsuccessfully to include this change in constitutional reforms agreed to between the GOES and FMLN in April 1991. Implementing legislation was delayed until 1987 for Phase II, under which no lands have been expropriated, leading some to charge that this program was never implemented. In fact, approximately 95 percent of landholdings over 245 hectares were voluntarily sold as early as 1985. Phase II was essentially self-implementing, with landlords preferring to avoid eventual expropriation. Most land exceeding Phase II limits which has not been sold is in conflictive zones or is otherwise impossible to sell.

#### Land To The Tiller

Phase III permitted peasant renters or sharecroppers to claim up to 7.5 hectares (17.3 acres) of land they had been working as their own property. A total of 240,000 acres of land were expropriated by the GOES and transferred to approximately 56,000 beneficiaries under this program. FINATA, the Agrarian Reform Finance Corporation, was charged with administering Phase III. Many landowners affected by Phase III were not wealthy and reacted strongly to the expropriations. Violence and forced evictions of beneficiaries were serious problems in the early 1980s. The deadline for filing claims under this provision was in 1984, but titling under Phase III continued into 1992. FINATA boasts that the small-landholder beneficiaries of Phase III produce more jobs per acre than their Phase I cooperative colleagues despite the fact that Phase I beneficiaries generally have better land and more access to credit and technical assistance. Coop leaders argue that the war and the denial of credit and technical assistance have hurt Phase I coops, while banks and the GOES give preference to small landowners. Small farmer-leaders do not depend on economics to defend cooperativism, however, arguing that the rural poor must stick together to avoid exploitation.

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### Beneficiary Rights

On April 12, 1991, the GOES passed a long awaited and controversial "Beneficiarios Rights Law" designed to "consolidate the Agrarian Reform and guarantee legal security of ownership." The USG supported the law's goal of giving beneficiaries of Phase I the right to choose land tenure options other than the collective farm model mandated when the reform was passed in 1980. The previous PDC government resisted USG suggestions along these lines, arguing that communitarism was part of the party's social philosophy and that beneficiaries were not sophisticated enough to make such a choice. The Duarte administration had favored a paternalistic system of "co-management" in which ISTA had a heavy hand in running the coops. The new law permits beneficiaries to choose whether to retain communal land tenure, divide the land into individual plots, have a mixture of individual and communal tenure, or retain collective ownership but with increased legal rights to coop members, such as the ability to trade coop shares.

Small-farmer organizations opposed the beneficiary rights legislation, charging the GOES with attempting to roll back agrarian reform. Free choice for peasants is the essence of the law, and the GOES has promoted individual land titling as part of efforts to improve agricultural production and reward individual initiative. As of October 1991, 56 coops had officially voted to determine which land tenure option they preferred; 37 chose individual land tenure, 17 chose a mixed system retaining some communal land, and 2 chose a system of share ownership called "real participation." Almost half of the coops voting so far have rejected complete parcelization, leaving little evidence the GOES is forcing parcelization on farmers as some coop organizations had claimed.

### The Land Bank

The Salvadoran Land Bank was designed to facilitate and finance the voluntary sale of properties to landless farmers in order to continue land reform without further expropriations. The Land Bank, with \$3.75 million in ESF-generated local currencies, was established in September 1991. To date it has financed the purchase of over 30 properties benefiting approximately 400 small-farm families.

### Land and the New York Peace Accords

Land Reform has been associated with the armed conflict since its inception, albeit in contradictory ways. Initially opposed by the FMLN as a "counterinsurgency action," and by the right as a violation of property rights and threat to the oligarchy, agrarian reform later became a guerrilla rallying cry and was an important part of the New York Peace Accords. The FMLN's desire to retain control of land in conflictive zones occupied by its sympathizers during the war was met by GOES agreement to "honor present land possession arrangements in conflictive zones until legal land tenure could be established." The GOES promised to purchase land on behalf of those occupying them in FMLN base areas or relocate occupants to nearby areas if landlords refuse to sell. The FMLN will provide an inventory of lands its supporters claim within 20 days of the signature of the accords, and the GOES promises to

legalize the status of these lands within six months, including the provision of titles. FMLN communities will seek to preserve the communal production schemes on these lands in order to maintain political support for the FMLN.

The GOES has also agreed to accelerate voluntary land transfers to small farmers through the land bank and other mechanisms, and enforce constitutional requirements to distribute what little land remains in plots larger than the Phase II limit (245 hectares). The GOES promised to respect the July 3, 1991 agreement between the GOES and small-farmer organizations, allowing those who illegally occupied lands before that date to remain on the land. The GOES will also ensure the availability of credit and the inclusion of representative small-farmer organizations in the design and implementation of agricultural credit programs. COPAZ will form a commission to monitor these agreements, confirm claims to land in conflictive zones, and arbitrate between claimants and landlords.

Peace will bring many benefits to El Salvador, but an end to the "land problem" is not one of them. Negotiated agreements will provide land to ex-combatants but leave tens of thousands of the rural poor still landless. Land in conflictive zones, including some not "claimed" by the FMLN, will be available for the first time, but there is simply not enough to go around. Some cooperative leaders hold to the argument that the shortage of land argues for more collectivism, since there are not enough "parcels" to go around. The ratio of land to families on many coops is very high, however, while thousands of non-coop members remain landless, some serving as laborers on the same haciendas they worked before agrarian reform. Productivity problems aside, agrarian reform cooperatives are benefiting far fewer peasants than the land could support.

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## ECONOMIC ANALYSIS

INTRODUCTION

The prolonged internal conflict in El Salvador has resulted in a sizeable accumulation of investment requirements because of (1) the war-related damage to the economy; (2) the loss of capital stock due to normal wear and tear and to lack of maintenance and repair; (3) the need for expanded coverage of social services to help reduce social and political tensions (as well as to facilitate long-run economic growth); and (4) the limited fiscal capacity of the GOES over the last dozen years to fund investment requirements with its own resources.

Although the economy experienced GDP growth of 3.4% in 1990 and 3.5% in 1991, and an expansion of up to 4.5% is projected for 1992, much of the investment needed to sustain and improve this encouraging macroeconomic performance in the short and medium runs will continue to require external financing, notwithstanding significant improvements in the GOES's public finances.

KEY MACROECONOMIC TRENDS

Before examining the government's National Reconstruction Plan for the period 1992-97, it is useful to look briefly at some key economic indicators for 1989-91, as well as projections for 1992. These are shown in Table IV.1. The improvement in GDP growth in 1990 and 1991, cited above, is attributable not only to growing expectations that the internal conflict would soon be resolved, but also to the sharp improvement in economic policy formulation after the current administration assumed office in June 1989. These policies enabled the government to obtain a 12-month stand-by arrangement with the IMF in August 1990, as well as a structural adjustment loan from the World Bank. The government made no drawings under the IMF stand-by, not because of non-eligibility but rather because the foreign exchange was not needed.<sup>1</sup> A new stand-by was approved on January 6, 1992, with the GOES likewise regarding it as precautionary, not expecting to make any drawings.

Household survey data show that the expansion of the economy over the last two years resulted in an increase in urban employment

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<sup>1</sup> All the December 1990 performance criteria were met, as were all March and June 1991 criteria except for the limitation on use of domestic bank credit by the nonfinancial public sector. The latter was not met only because disbursement of the first tranche of the World Bank structural adjustment loan was delayed, for technical reasons, from the first quarter of 1991 until August.

of 100,000, from 790,000 in 1989 to 890,000 in 1991.<sup>2</sup> The urban unemployment rate fell from 8.4% to 7.5%, while visible underemployment (the degree to which those wishing full-time work fall short of their target) fell from 12.% to 7.5%. The household surveys do not yet cover rural areas; but rural employment probably registered a strong gain in 1990, when agricultural production rose by 7.4%. In 1991, however, poor weather conditions resulted in an estimated decline in agricultural output of 0.3%.

One of the most encouraging results of the government's economic policies has been a significant reduction in the rate of inflation. On a December-to-December basis, consumer prices during 1991 rose by a relatively modest 9.8%, down from 23.5% in 1989 and 19.3% in 1990. This was facilitated by improvements in fiscal and monetary policies and by the recent stability of the exchange rate. The narrow money supply (M1), changes in which are only imperfectly reflected in price changes, grew only marginally in 1991 after rising by an average of 18.8% in the two previous years. The (more desirable) growth of quasi-money (time and savings deposits), which lagged well behind consumer price increases in 1989, outpaced inflation by an average of 18 percentage points in 1990 and 1991, a reflection of policy reforms that established positive real interest rates and attracted substantial reflows of Salvadoran capital from abroad.

Gross domestic investment, which dropped sharply to 11.8% of GDP in 1990 from a 1989 rate that was unusually high for the last ten years, began to recover in 1991, rising to 12.7%. Gross national savings, which fell from 6.0% of GDP in 1989 to 5.1% in 1990, recovered even more rapidly in 1991, to an estimated 7.2%.

The deficit of the consolidated nonfinancial public sector, which was 5.8% of GDP in 1989, fell to 2.5% in 1990. Most of the improvement, however, was due to a sharp cutback in capital expenditures, with adverse effects on medium-term growth prospects. Current expenditures also fell slightly as a percentage of GDP, while current revenues experienced a much-needed improvement. These positive revenue developments continued into 1991, although the gains were less than expected because of delays in implementing revenue measures. Also, expenditures were higher than anticipated because interest on the internal debt was underestimated, social safety net programs were expanded, and a serious drought caused expenditures by the electricity parastatal to exceed expectations.

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<sup>2</sup> The reported growth in employment may be overestimated, as it implies an annual increase in the labor force of 5.7%. While such a growth rate is possible, because of immigration and the return to the labor force of discouraged workers, an annual labor force growth rate of about 4.5% seems more likely. In this case the urban employment gain would be a still impressive 81,000.

Even so, the nonfinancial public sector deficit appears to have risen by no more than one percentage point to 3.5% of GDP.

In the balance of payments, exports rose significantly in both 1990 and 1991, but they remain at relatively depressed levels; the 1991 estimate of \$621 million is far below the 1979-80 average of \$1,104 million, especially in real terms. Imports grew even more in absolute terms (though at slower rates) with the acceleration of economic growth, and they remain more than twice as high as exports. On the positive side, recorded private transfers rose by \$202 million between 1989 and 1991, although the actual increase was less than this amount.<sup>3</sup> The capital account improved sharply in 1990, mainly because of a large inflow of private capital, a response to the better policy environment as well as the improved prospects for peace.

The balance of payments recorded increases in net international reserves of \$117 million in 1990 and \$45 million in 1991. This helped stabilize the exchange rate and -- in combination with generally prudent fiscal and monetary policies -- hold down the rate of inflation. At the same time, the combination of large remittance inflows and official transfers over a number of years has produced a "Dutch disease" effect on the exchange rate that has eroded the competitiveness of exports. This erosion does not yet appear to have become a major problem -- it has been partially offset by a depreciation of the dollar with respect to other major currencies -- but export competitiveness needs to be closely monitored.<sup>4</sup>

The projections for the economy in 1992 shown in Table IV.1 -- which exclude the impact of the National Reconstruction Plan -- show a GDP growth rate of 4.5%, inflation (December-to-December) of 9-12%, and continued increases in savings and investment rates. Banking system credit to the private sector is projected to grow in real terms for the third year in a row. The fiscal deficit is expected to fall to 2.4% of GDP, largely because of revenue gains. It is anticipated that a relative increase in capital expenditures will be offset by a relative decline in current expenditures, despite salary increases that begin to reverse the sharp real declines of recent years. No internal financing (actually negative financing) of the fiscal deficit is expected for the third year in a row. The balance of payments is projected to show another

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<sup>3</sup> Many of these flows had previously been recorded as short-term capital inflows or errors and omissions.

<sup>4</sup> Although prices rose very little over the last six months of 1991, this was due partly to seasonal factors. Salvadoran inflation in 1992 is still expected to be higher than inflation in the United States and Europe.

increase in reserves, of \$90 million, despite a projected private capital inflow of only \$7 million, which seems to be an unduly pessimistic assumption.

Full implementation of the NRP in 1992 would require about \$80 million. However, if most of the financing were provided by A.I.D. from currently available resources, as anticipated (see below), net additional foreign exchange inflows would be much less than this. The GDP growth rate would thus rise only slightly above the current projection of 4.5%.

## THE NATIONAL RECONSTRUCTION PLAN

### Overview

Given the significant progress during 1991 toward ending the country's internal conflict, the GOES began to prepare a National Reconstruction Plan (NRP) to facilitate and accelerate the process of economic recovery, particularly by reintegrating the conflictive zones into the national economy and society. The NRP seeks to ensure that economic growth will be broad-based by focusing on the most severely affected parts of the country, emphasizing democratic participation, and allowing local governments to exercise greater decision-making regarding investment programs and other activities in their communities. More than 800,000 people live in the targeted areas.

A preliminary version of the NRP was circulated in September, and revised drafts appeared in November and early January. The GOES is seeking to build up a national consensus in support of the NRP through discussions with, and feedback from, key groups in society such as private-sector organizations, labor unions, the church, and the political parties. The early January version calls for expenditures of \$926 million in three phases spanning five years:

|            |             |               |           |
|------------|-------------|---------------|-----------|
| Phase I:   | Immediate   | \$ 27 million | (1992)    |
| Phase II:  | Short-Term  | \$360 million | (1992-93) |
| Phase III: | Medium-Term | \$533 million | (1992-96) |

The final total is expected to exceed \$1 billion.

The Grupo Asesor Económico y Social (GAES) in MIPLAN assumes that Phases I and II of the NRP will be financed entirely by external grants, while Phase III would be financed by soft loans and, to a limited extent, from the GOES's own resources. Thus, although these expenditures will add to the fiscal deficit, other things being equal, they would be financed in a relatively noninflationary manner, as the GOES would not have to resort to

borrowing from the domestic banking system.<sup>5</sup> The principal fiscal concerns, then, become those of (1) absorptive capacity, where shortcomings would diminish the efficiency of current and capital expenditures, and (2) the recurrent-cost implications of planned investments, which would add to total expenditure requirements in future years. The absorptive capacity issue is addressed elsewhere in this document, but additional remarks on some aspects of the problem are in order in this Annex.

### Absorptive Capacity

The overall macroeconomic impact of the NRP program appears on first sight to be rather massive, creating not only absorptive capacity problems of a managerial/administrative nature but also a risk that rising domestic aggregate demand will put pressures on the balance of payments by raising non-NRP import demand to unsustainable levels.<sup>6</sup> However, when one considers that the NRP is to be spread out over a five- or six-year period, the impact appears to be more manageable. A macroeconomic model<sup>7</sup> prepared in November 1991 by the GAES -- which assumes a six-year implementation period and different time periods for the three phases -- calculates that expenditures under the NRP (assumed to be all capital expenditures) would average 1.4% of GDP in the first four years and 2.4% in the last two.<sup>8</sup> The jump in the size of NRP

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<sup>5</sup> Inflationary pressures will be minimized if increased expenditures from external grants are channeled largely into imports rather than into demand for domestic goods and services. The great bulk of external loans, presumably, will be used to cover foreign-exchange costs.

<sup>6</sup> In the short run, rising imports might be financed in part by higher inflows of remittances and private capital; but this would continue the "Dutch disease" phenomenon of an appreciating real effective exchange rate, with negative implications for exports, and even greater pressures on imports. Eventually, foreign exchange reserves would begin to fall.

<sup>7</sup> The model is a modified version of the World Bank's RMSM model.

<sup>8</sup> This is based on a total NRP of \$902 million, somewhat less than the January 1992 total of \$926 million. Assuming a final figure of somewhat over \$1 billion, these percentages would rise to 1.6% and 2.6%, respectively. The GAES hopes to have a revised version of the model, with updated NRP figures and macroeconomic aggregates, by late January or early February. The GAES figures, with their six-year time frame, are being used in this Annex because they provide more detail on projected annual investments under the NRP.

investments in 1996-97 would be offset, according to the assumptions of the model, by a decline in non-NRP public investment; but it is not clear why such a decline is being assumed, since it would take place from a relatively modest level and would affect long-term growth adversely.<sup>9</sup> The figures are as follows:

|      | <u>Fixed Capital Formation</u> |     | Other<br>Investment | Total Public<br>Investment* |
|------|--------------------------------|-----|---------------------|-----------------------------|
|      | Non-NRP                        | NRP |                     |                             |
| 1990 | 2.1                            | --- | 0.1                 | 2.2                         |
| 1991 | 3.3                            | --- | 0.2                 | 3.5                         |
| 1992 | 3.2                            | 1.2 | 0.1                 | 4.4                         |
| 1993 | 3.3                            | 1.4 | 0.3                 | 5.0                         |
| 1994 | 3.4                            | 1.3 | 0.2                 | 5.0                         |
| 1995 | 3.0                            | 1.6 | 0.2                 | 4.9                         |
| 1996 | 2.2                            | 2.3 | 0.2                 | 4.7                         |
| 1997 | 1.4                            | 2.4 | 0.2                 | 4.0                         |

\* Components may not add to total because of rounding.

From a macroeconomic standpoint, the ability of the economy to absorb total public investment levels of the magnitudes contemplated should not be a problem. Even after the modest upward adjustments indicated in footnote 8 -- as well as an upward adjustment to spread the investments over five years instead of six -- public investment rates would still be below those achieved in the 1970s. A more serious question is the GOES's ability to effectively administer and manage significant increases in public investment levels, especially given the disappointing experience with earthquake reconstruction programs several years ago. However, the new government has demonstrated better administrative and managerial abilities than its predecessor, and the devolution of some decision-making to local governments, monitored by local voters, should further improve the efficiency of public-sector investments. Even so, absorptive capacity problems are likely to be present, especially considering the large number of external donors who probably will contribute to the NRP.

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<sup>9</sup> This comment holds even after adjusting the investment rates upward to account for optimistic assumptions regarding GDP growth -- i.e. assuming that both NRP and non-NRP investment levels are the same but that GDP growth is overstated, the public investment rates would be somewhat higher. The GAES model assumes a sharp rise in private investment rates and capital-output ratios in the neighborhood of 3.0, thus yielding GDP growth rates averaging 6% during 1993-97. These are not implausible assumptions, but they are optimistic, especially if one anticipates some absorptive capacity problems.

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Several assumptions made by the GAES regarding the nature and funding of NRP activities might be discussed at this point. First, as noted above, the GAES model assumes that all of the NRP activities will be capital expenditures; but some of them are more appropriately considered as current expenditures. This is one reason why the GDP growth rate projections seem optimistic. Second, it is assumed that all of the Phase I and Phase II activities will be grant-funded, while all of Phase III will be financed by soft loans and the GOES's own contributions. In practice, some Phase II activities are likely to be loan-financed, and some Phase III activities grant-funded. Over the long run, this might have little effect on the big scheme of things<sup>10</sup>; but in the medium term the assumptions tend to underestimate the length of time that El Salvador will continue to depend heavily on external grants, especially if GDP grows slower than in the GAES projections. Although the percentage of total GOES public-sector expenditures financed by external grants has been declining, it remains significant and will continue to be so throughout the NRP period, notwithstanding the GAES projections reported below, which overstate the speed with which external donations can be phased out. The proportion of the central government's total consolidated expenditures financed by external grants was 17.8% in 1990 and an estimated 9.6% in 1991. For 1992-97, assuming full implementation of the NRP, the GAES projections show the following figures for external grants (in millions of colones and as a percentage of consolidated central government expenditures):

| Year | Non-NRP | NRP  | Total | Percent of Total Expenditures |
|------|---------|------|-------|-------------------------------|
| 1992 | 622     | 653  | 1275  | 16.6                          |
| 1993 | 300     | 907  | 1207  | 13.3                          |
| 1994 | 200     | 1023 | 1223  | 11.2                          |
| 1995 | 200     | 566  | 766   | 6.4                           |
| 1996 | 100     | ---  | 100   | 0.8                           |
| 1997 | 100     | ---  | ---   | 0.7                           |

#### Recurrent Cost Considerations

It is difficult at this time to address the recurrent-cost issue from the standpoint of the NRP as a whole. The GAES has requested recurrent-cost information for all components of the NRP, but it appears that little has been provided to date. For areas

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<sup>10</sup> This is largely because of two effects that may offset each other: harder terms for loans, but a higher percentage of grants, than the GOES appears to anticipate. Changes in the timing of external inflows, other things being equal, will have relatively little effect on long-term economic growth.

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such as health and education, where service delivery is to be expanded, recurrent-cost increases, other things being equal, will clearly be relatively significant. For other types of social infrastructure, such as water and sewerage systems, they are likely to be relatively modest. It is possible that some of the increases in recurrent costs might be borne by local governments or communities, thus easing pressures on central government finances. Moreover, both because of decentralization and for other reasons one would expect that central government administrative costs could be reduced, thus offsetting some of the increased outlays associated with the expansion of service delivery.

For investments in economic infrastructure (including electricity, roads, communications, and ports), maintenance and repair requirements will increase along with the size of the capital stock in these areas. On the other hand, the coming of peace should eliminate the need for frequent and costly repairs to economic infrastructure necessitated by wartime damage.

The net effect of these different forces on recurrent costs cannot be determined at this time; but such costs need to be monitored closely. This issue can be addressed through a covenant committing the GOES to making recurrent-cost estimates for all components of the NRP, whether financed by A.I.D. or by other donors.

#### A. I. D. AND GOES SUPPORT FOR THE NATIONAL RECONSTRUCTION PLAN

##### Overview

The proposed \$280 million USAID program will support approximately 28% of the total cost of the NRP. In the earlier years, however, that percentage will be much higher, since (1) most other donors will not be in a position to mobilize resources and implement programs as quickly as A.I.D., and (2) the GOES itself is not yet in a position to provide significant resources of its own.

The proposed year-by-year breakdown under the entire NRP is still under discussion within the GOES, but the December 11 estimates used by the GAES, based on a total NRP of \$902 million over a six-year period, may be used as a starting point to illustrate the impact of the proposed USAID program. These figures will then be multiplied by 1.12 to reach a total of just over \$1 billion, the anticipated size of the final NRP. The results are as follows (in U.S. dollars):<sup>11</sup>

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<sup>11</sup> Figures in colones in the GAES table are converted to U.S. dollars at the following exchange rates: 1992 - 8.7; 1993 - 9.2; 1994 - 9.7; 1995 - 10.0; 1996 - 10.4; 1997 - 10.7. The dollar figures for 1992-95 correspond to those reported above in colones.

| Year  | NRP<br>(GAES) | x | 1.12 | = | NRP<br>(Adj.) | A.I.D. Funding<br>Current Request | A.I.D. % Share<br>Current Request |
|-------|---------------|---|------|---|---------------|-----------------------------------|-----------------------------------|
| 1992  | 75.1          |   |      |   | 84.1          | 51.2                              | 60.9                              |
| 1993  | 98.6          |   |      |   | 110.4         | 41.2                              | 37.3                              |
| 1994  | 105.5         |   |      |   | 118.2         | 36.9                              | 31.2                              |
| 1995  | 141.7         |   |      |   | 158.7         | 9.7                               | 6.1                               |
| 1996  | 225.8         |   |      |   | 252.9         | 1.0                               | 0.4                               |
| 1997  | 255.7         |   |      |   | 286.4         | ---                               | ---                               |
| Total | 902.4         |   |      |   | 1010.7        | 140.0                             | 27.7                              |

These figures show that the USAID proposes to fund approximately 81% of the NRP budget in 1992; 61% could be provided from existing funds in this first year of peace and reconciliation, when it is important that those living in the former conflictive zones be given clear signs that their hopes for a better life can be realized.<sup>12</sup> But the USAID's ability to continue supporting the NRP will fall off sharply thereafter -- to about 37% of the total in 1992 and 31% in 1994, and very little in subsequent years -- without additional resources. It will be difficult enough for the GOES to mobilize \$730 million from other donors, and from its own resources, to complete the funding package for the NRP. Having to mobilize an additional \$140 million would be even harder.

Of the \$67.8 million that A.I.D. would provide in 1992 with expanded funding, an estimated 80% would comprise local currency costs. This probably is similar to the figure that would have prevailed had the \$51.2 million in existing resources been used for other purposes. Thus the additional \$16.6 million in A.I.D. resources in 1992 at the requested level will have only a small net positive effect on foreign exchange inflows.

#### GOES Funding Capabilities: How Large is the "Peace Dividend"?

With the cessation of hostilities, and the planned reduction of 50% in the number of military personnel over a 22-month period, it might be thought that the GOES will have significant resources of its own to devote to the NRP. That will not be the case, however, for at least several years. The reasons are the following:

- The reduction in military forces will take place gradually and will need to involve severance payments for officers

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<sup>12</sup> The A.I.D. funding figures used for these calculations assume an identity between obligations and expenditures. While there are likely to be some differences between the two, they will not be significant enough to affect the broad results.

and others whose careers are being cut short by this reduction in force. Agreement has been reached that these will amount to one year's salary. Thus, since all those leaving military service in 1992 will be on the payroll for at least part of the year, total military personnel costs this year will actually increase as a result of the reduction in force, unless a significant proportion of the severance payments is not paid until 1993.

- In addition, the armed forces have existing financial obligations to their personnel and their families -- incurred to a large extent as recruitment incentives -- which the Armed Forces Social Assistance Institute (IPSA) has insufficient resources to cover. The amount of these obligations has not been determined yet, but fulfilling them is likely to require contributions from general budget resources.<sup>13</sup>

- Even after the initial fiscal effects of a 50% reduction in force have run their course, the total military budget will not decline by 50%, since national defense involves a certain amount of fixed costs.

- The establishment of a new civil national police force will partially offset the savings from the reduction in military forces, especially in the short run, when one-time start-up costs will be incurred.

- A reduction in civilian public-sector employment of perhaps 6,000-8,000 is likely to occur in 1992, through voluntary separation and early retirement; but severance and retirement payments will mean net fiscal savings this year of only about \$0.9-1.2 million, based on assumptions made in a recent consultant's report. Beginning in 1993, annual savings, based on the same range of employment reductions, would be \$14.7-19.5 million. These savings, however, need to be applied to deficit reduction rather than the NRP.

- The privatization program was projected to yield one-time (sale) revenues of C/ 300 million (about \$37 million) in 1992; but the actual amount will be considerably smaller because of the program's unduly optimistic assumptions about the pace of privatization. Potential annual savings from the program (to the extent that the privatized enterprises would have incurred a combined deficit) appear to be quite small and in any case should be applied to overall deficit reduction rather than the NRP.

- The GOES has just signed a 12-month stand-by arrangement with the IMF that calls for policy discipline, including increased tax revenues, to reduce the fiscal deficit. The IMF will adjust

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<sup>13</sup> For a discussion of the nature of these obligations, see 91 SAN SALVADOR 14643 (November 22, 1991).

some targets to account for NRP spending financed with external resources; but it is unlikely to revise those targets to allow the GOES to finance NRP programs through internal borrowing. Indeed, the program calls for banking-system credit to the public sector to be negative. Fiscal and monetary discipline will need to be continued throughout the NRP period.

- Interest payments on the internal debt rose sharply in 1991 because of debt consolidation, arrears clearing, and prepayment of interest, and they are projected to average C/ 605 million in 1993-94 before falling to C/430 million by 1997.

- In diverting a significant portion of its existing portfolio to the NRP, the USAID will no longer be providing support to existing items in the GOES budget, either to specific activities or through generalized budget support (see below). The amount no longer available for these purposes averages about \$18 million annually over the next three years. This means that the GOES will either have to find additional noninflationary resources to support these activities, or the activities will have to be discontinued or reduced in scope. Although domestic revenues are rising -- from 10.3% of GDP in 1989 to a projected 13.0% in 1992 (see Table IV.1) -- it is difficult to expect them to rise at a faster pace in the current social and political environment.<sup>14</sup> Moreover, part of the increase is needed to raise non-NRP public investment from its very low 1990 level.

- It is not feasible for the GOES to continue finding additional resources by squeezing the real salaries of government employees, which have fallen sharply over the last several years. The anticipated modest reversal of this trend in 1992 is overdue.

- A temporary situation resulting in unplanned expenditures in 1992 is the continuing problem of electricity generation caused by the 1991 drought. The government will need to continue assisting CEL (the energy parastatal), until the May/June rainy season, to pay the higher costs of the thermal power now replacing hydroelectric generation. These extra costs could be in the vicinity of C/ 100 million (\$11.5 million).

In summary, the GOES budget can still be characterized as austere, with little scope for making any contribution to the NRP at this time without sacrificing other important programs. There is, however, one easily identifiable immediate peace dividend: resources that formerly were spent to repair or replace

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<sup>14</sup> The GAES projects that domestic revenues will continue to rise, reaching nearly 15% of GDP by 1996. A 1-point increase in revenues as a percentage of GDP, it might be noted, currently yields about \$60 million.

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infrastructure (especially electric power facilities and roads and bridges), damaged or destroyed as part of the conflict, can now be used to add to the capital stock rather than to maintain it. But since these resources have been provided by A.I.D., this is a peace dividend for the USG rather than the GOES.

#### The Shifts in A.I.D.'s Portfolio and Their Effects

The shift to the NRP of \$140 million in currently available A.I.D. resources over the next three years means that an equivalent amount of other activities will be foregone. In some cases, the shifts simply involve a change in beneficiaries, with the programs themselves remaining the same. One could argue that the net macroeconomic effects of such shifts are zero; but if improving living standards in the former conflictive zones does more to secure the peace than improving them in other areas, there should be a net economic benefit -- which defies easy measurement -- to the switch.

A similar rationale lies behind shifts from one type of activity to another. In principle, one can justify a switch out of an activity with, say, a traditionally-measured 15% internal rate of return, to one with a 12% return, if the latter is believed, unlike the former, to help prevent a resurgence of violence. The shift is economically justifiable if it prevents a (probability-based) stream of violence-related economic losses whose present value exceeds the differential between the present values of the 15% and 12% investment streams. The Mission is in fact implicitly making such judgments in deciding upon changes in the composition of its portfolio. Economists are not always in a good position to second-guess the implicit probability calculations involved in a decision to forego, say, a farm-to-market road in La Paz in favor of credit for land purchases or a land-mines awareness campaign.

Economists, nevertheless, can still help enhance the productivity of the new activities, e.g. by paying attention to cost-effectiveness issues in program design<sup>15</sup> and by helping to design and carry out impact evaluations. Such evaluations would be particularly helpful for the Municipalities in Action program, which is to receive more than one-third of the USAID's planned contributions to the NRP. Without necessarily questioning the basic validity of the judgment of two previous evaluations, which concluded that the program has been both an economic and a noneconomic success, it might be noted that the evaluations did little to examine the ex post economic impact of the specific investments on output, employment and income in local agriculture, manufacturing, and services, probably because an evaluation of these effects would have been premature. Such an impact evaluation

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<sup>15</sup> For example, might not on-the-job vocational training be better than full-time, classroom-based vocational training?

is desirable in the near future. It should specifically focus on communities in which multiple investments have been made, in order to arrive at some judgment about whether there appears to be a sharp drop in the marginal benefits of successive projects in a given community. This would be useful in helping to determine whether the scope of this program should be increased or decreased.

This section will conclude with some brief comments on the proposed reprogramming of resources from seven DA projects, and of local currencies associated with ESF programs. All seven DA projects will involve shifts in the geographic distribution of beneficiaries in favor of those living in the former conflictive zones. Some will also involve shifts in the composition of program activities. For example, the rural electrification project may devote more resources to installation and fewer to technical assistance; in the displaced persons project, the type of technical assistance may change; and the infrastructure repair project will no longer focus on putting back into service facilities damaged by insurgents. These shifts respond to the differing needs of the beneficiaries targeted under the NRP; but with the exception of the refocused infrastructure repair project -- identified earlier as a peace dividend -- the net macroeconomic impacts of the shifts in both activities and beneficiaries are not readily apparent. It is recognized, of course, that these activities have important noneconomic dimensions, the impact on which needs to be monitored along with the economic impacts.

The USAID's proposed contribution to the NRP also calls for shifts in the use of local currencies. Of the \$65 million in ESF-related local currencies being reprogrammed over four years -- \$23.25 million of this amount in 1992 -- approximately \$50 million will no longer be available for generalized budget support to the GOES, while the remaining \$15 million or so will be unavailable to fund specific projects. Thus it is up to the GOES to decide how to allocate necessary budget reductions and/or to raise additional revenues, either externally or internally (in a relatively noninflationary way), in order to meet the targets under the economic program agreed to with the IMF. It is difficult to predict what specific actions the GOES will take and the extent to which they might jeopardize the goals and objectives of the NRP. Clearly, it will be important for the USAID to track such changes.

#### Recurrent Costs

Given the tightness of the government's fiscal position, both now and over the medium term, it is important that more attention be paid to the recurrent-cost implications of the USAID's proposed contribution to the NRP, as well as those of the NRP as a whole. Over the medium term, the reduction in the size of the military forces will provide a peace dividend that would be most effectively used to expand social services that improve the quality of the country's human capital. But expansion in these areas should not

proceed faster than the GOES's ability to finance such programs with its own resources over the long run. The GOES cannot count on high levels of external assistance for such purposes indefinitely into the future.

A review of the six components of the USAID's proposed program reveals the following recurrent-cost effects:

1. Immediate Conflictive Zone Relief: None, except possibly some relatively minor elements of health services delivery which it may be desirable to transfer to permanent health programs.

2. Ex-Combatants Assistance: None.

3. Social and Economic Reactivation in the Conflictive Zones. If the Municipalities in Action program continues to receive high marks, it should become a permanent program, albeit at a lower level of funding, perhaps in the neighborhood of \$12-15 million per year. The source of funding should be gradually transferred from A.I.D. to the GOES, and then from the GOES to the municipalities themselves, a process that will take a number of years. Given the importance of this activity for meeting GOES and USAID objectives, it would be unwise to terminate it abruptly after A.I.D. resources run out in 1996 (or 1994 without additional resources). Therefore it would be appropriate for the GOES gradually to increase its own funding for the program over the NRP period, and for the municipalities to be given the authority to begin raising their own revenues.

Under the Health and Education Services sub-component, activities with recurrent-cost implications are: equipping and supplying health posts and clinics; vaccinations; school supplies, equipment, and furniture; and hiring additional teachers. Additional annual maintenance costs for health posts and schools, including salaries of teachers and health workers, are estimated to total \$8.1 million, or approximately 1.1% of currently estimated public-sector expenditures in 1992 without the NRP.

4. Land Transfer Mechanisms: None.

5. Major Physical Infrastructure: The expansion of water and sewer systems, electricity generation and distribution, and road networks will add to the costs of administrative overhead and create additional requirements for maintenance and repair. For roads, additional maintenance and repair costs are estimated at \$1.5 million per year. In principle, additional recurrent costs for water and sewerage services, and for electricity generation/distribution, can be covered by user fees. However, these fees are now underpriced, requiring government subsidies in one form or another. Thus they need to be raised to avoid additional budgetary outlays on a recurring basis.

6. Program Audit and Management: While the USAID's requirements in these areas will eventually end, the GOES should be encouraged to develop its own programs, funded by its own resources.

The USAID will work closely with the GOES during the NRP period to identify the recurrent-cost requirements of NRP activities -- including those financed by other donors -- and to plan for their ultimate financing entirely with the GOES's own resources.

TABLE IV

## KEY ECONOMIC INDICATORS, 1989-1992

|                                                         | 1989  | 1990  | 1991 <sup>e</sup> | 1992 <sup>p</sup> |
|---------------------------------------------------------|-------|-------|-------------------|-------------------|
| GDP Growth Rate (%)                                     | 1.1   | 3.4   | 3.5               | 4.5               |
| Urban Employment                                        |       |       |                   |                   |
| Thousands of Persons                                    | 790   |       | 890               |                   |
| Unemployment Rate (%)                                   | 8.4   |       | 7.5               |                   |
| Visible Underempl. (%)                                  | 12.8  |       | 7.5               |                   |
| Inflation (CPI; %)                                      |       |       |                   |                   |
| Annual                                                  | 17.6  | 24.0  | 14.4              | *13.7             |
| December-December                                       | 23.5  | 19.3  | 9.8               | *12.0             |
| Money Supply Growth<br>(Dec.-Dec.; %)                   |       |       |                   |                   |
| Money (M1)                                              | 15.3  | 22.3  | 0.5               | 17.0              |
| Quasi-Money*                                            | 9.0   | 32.0  | 33.6              | 16.7              |
| Net Domestic Assets<br>(% change, Dec.-Dec.)            | 15.5  | 7.0   | 10.9              | 15.7              |
| Credit to public sector                                 | 85.0  | -2.1  | 14.8              | 0.8               |
| Credit to private sector                                | -2.6  | 25.9  | 17.3              | 16.5              |
| Gross Domestic Investment<br>(% of GDP; current prices) | 16.2  | 11.8  | 12.7              | 13.7              |
| Gross National Savings<br>(% of GDP; current prices)    | 6.8   | 5.1   | 7.2               | 8.8               |
| Consolidated Nonfinancial<br>Public Sector (% of GDP)   |       |       |                   |                   |
| Current Dom. Revenues                                   | 10.3  | 11.1  | 11.9              | 13.0              |
| Current Expenditures                                    | -11.8 | -11.4 | -12.0             | -11.5             |
| Current Acct. Savings                                   | -1.5  | -0.3  | -0.1              | 1.5               |
| Capital Expenditures                                    | -4.3  | -2.2  | -3.4              | -3.9              |
| Overall Deficit                                         | -5.8  | -2.5  | -3.5              | -2.4              |
| Financing                                               |       |       |                   |                   |
| Donations                                               | 1.6   | 2.2   | 1.4               | 1.1               |
| External (net)                                          | 1.6   | 1.3   | 2.5               | 1.5               |
| Internal (net)                                          | 2.6   | -1.0  | -0.4              | -0.2              |

(continued)

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TABLE IV.1 (continued)

|                               | 1989  | 1990  | 1991 <sup>e</sup> | 1992 <sup>p</sup> |
|-------------------------------|-------|-------|-------------------|-------------------|
| Balance of Payments (\$m)     |       |       |                   |                   |
| Exports, FOB                  | 497   | 580   | 621               | 706               |
| Imports, CIF                  | -1161 | -1262 | -1365             | -1470             |
| Services, net                 | -39   | -23   | -21               | 5                 |
| Private Transfers             | 237   | 345   | 439               | 460               |
| Current Acct. Balance         | -466  | -360  | -326              | -299              |
| Official Transfers            | 282   | 223   | 179               | 260               |
| Private Capital, net          | -67   | 231   | 125               | 7                 |
| Official Capital, net         | 150   | 1     | 64                | 76                |
| Banking Capital, net          | 7     | 0     | -164              | 46                |
| Capital Acct. Balance         | 90    | 232   | 25                | 130               |
| Overall Balance               | -94   | 95    | -122              | 90                |
| Chg. in Arrears (decr. -)     | 71    | -104  | 0                 | 0                 |
| Rescheduling                  | 60    | 126   | 167               | 0                 |
| Chg., Net Off. Res. (incr. -) | -37   | -117  | -45               | -90               |

<sup>e</sup> Estimate.

<sup>p</sup> Projection; excludes effects of the NRP.

\* Upper end of the projected range; the lower end for December-December is 9%.

\* Savings and time deposits.

**SOCIAL SOUNDNESS ANALYSIS****Beneficiaries**

Consistent with the objectives of the NRP, the Project will direct assistance toward a target group comprised of nearly 800,000 inhabitants of the conflictive zones, which include a total of 99 municipalities. This target group includes: (a) ex-combatants from both sides in the conflict; (b) displaced persons; (c) repatriated persons; and (d) those inhabitants of zones most affected by the conflict.

Immediately after the war, there will be about 6,000 ESAF ex-combatants and about 5,500 from the FMLN. The ESAF numbers will increase in accordance with the scheduled reduction included in the Peace Accord. The current estimate of displaced persons is approximately 38,000. The repatriated population, comprised mainly of exiles returning to the country from refugee camps along the Honduran border, is currently estimated to be 30,000. According to the U.N. High Commission for Refugees (UNHCR), there are approximately 25,000 registered Salvadoran refugees living in other Central American countries and Mexico. The majority of these refugees have been living individually or in cooperative groups for some 10 years. It is estimated that approximately 8,500 of these refugees will return to El Salvador.

**Municipalities in Action Program**

As a centerpiece of the NRP and a program which best represents the GOES's emphasis on a participatory, decentralized approach to national recovery, the MEA experience with respect to beneficiary attitudes and responses is particularly relevant. Two recent impact evaluations of MEA and MEA's Special Programs, conducted in 1988 and 1990 respectively, serve to underscore the level of involvement and participation by the direct beneficiaries.

Beneficiary attitudes and responses are key indicators of the extent to which MEA program objectives are being achieved. That is, the ultimate measure of program success cannot be calculated by adding up projects or establishing processes. Rather, projects and processes are successful only to the extent they serve to convince the population that the decision-making processes are opening up at the local level, that the government has become more responsive to local needs, and that, as a result, the GOES is more worthy of grassroots support.

Most of the projects visited and beneficiaries interviewed by the evaluation team were in relatively small municipalities and their cantones that had received support through the regular MEA program. Discussions with individual beneficiaries, municipal officials, and community leaders led to the following findings:

a. Every local population visited, whether municipality or cantón, was eager to participate in the MEA program. Initially members of the team thought that some communities might decline to participate, either out of fear that they would be punished by the guerrillas for accepting GOES aid or because opposition-party mayors might refuse to cooperate with a program controlled by the central government. The latter possibility was suggested by an opposition-party spokesperson based in San Salvador.

As members of the evaluation team spoke to military leaders, governors, mayors, and cantonal directors, no one expressed fear that the community would be punished for participation in the program. When that possibility was specifically suggested by team members it was always discounted by the person being interviewed. Moreover, the local leaders suggested that, in a sense, the guerrillas had been co-opted by the townspeople through close identification of the project with the community. The idea being expressed was that, given the guerrilla desire to cultivate supportive relationships with local populations, they could not afford to destroy projects that had been identified and implemented by the community.

b. Program impact has been most dramatic in small, rural cantones which, historically, have been ignored both by the central governments and urban-oriented municipal governments. Time after time the evaluators were told that the local CONARA project represented the first time that any level of government had done something positive for the area. While probably exaggerations, the statements reflected the feelings of cantonal residents.

c. Most beneficiaries stated that a positive change had taken place in their relationships with the municipal government, represented by the mayor. Many stated that for the first time their voices had been heard. These feelings were most often expressed in communities in which cabildos abiertos had been held.

d. All beneficiaries stated that the projects implemented in their jurisdictions reflected locally-established priorities. Most of the projects responded to deeply felt, long-identified needs that had not been attended to previously. For example, the president of a cantonal organization in Morazan stated that the electricity project implemented in his cantón had been a dream of the community for seventeen years, that his father had fought for the project for fourteen years and that he himself had pursued it for three years.

A groundswell of a rapidly increasing level of community participation in municipal affairs is evident throughout the areas of the MEA special programs as well. Cabildos abiertos are being held more often than 2 years ago, when many of the communities were just arranging to hold their first cabildo abierto. Although security considerations still make it impossible to hold a cabildo abierto at least once every 3 months as provided for in the Municipal Code, they are held regularly. CONARA records, for example, indicate that 570 cabildos abiertos were held during 1988-90.

Of equal or greater importance is evidence that attendance at the cabildos abiertos has grown. Average attendance increased from 143 participants in 1988 to 255 in 1990. Townspeople have recognized that these fora provide them

an opportunity to express their preferences for prioritizing community projects and, in addition, are an avenue whereby they can hold ministry and service agency officials as well as the mayor and his administration accountable for their actions.

The beneficiaries certainly feel that the cabildo abierto figures prominently in the process of project identification. Its psychological value cannot be overstated. The centuries-old tradition of the patron has not been eliminated in these few years. It has, however, been shifted back to the community level to an astonishing degree considering how short has been the time since the modern reintroduction of the cabildo abierto and the revision of the Municipal Code.

The special programs in Chalatenango and in the Eastern Region have fostered community organization and popular participation in local affairs. There is a widely expressed perception that a more democratic process has been initiated. Almost without exception, persons interviewed pointed to a growth of community organization as arguably the most important result of the special programs. There has been a burst of activity in establishing local neighborhood associations and project-specific, ad hoc groups; communities supply financial and sweat-equity contributions to projects; and they become involved in the supervision of works and participate in construction activities as well as in establishing infrastructure priorities.

All of these activities promote a growing sense of an ability to control local affairs to some extent. Appreciation was widely expressed for the fact that the government is actively helping out after a long history of inattention to the areas; and the benefits of the infrastructure works were almost universally acclaimed. The more fundamental value being stimulated, however, is the sense of local control over local affairs. Insofar as the projects engender a sense of self-responsibility and control, the special programs are establishing a basic attitudinal prerequisite for long-term economic development. This attitudinal change is the single most significant and rewarding finding of the evaluation team.

The evaluation team also encountered anecdotal evidence that the people recognize and are beginning to exercise their power to hold government officials and elected mayors accountable. At a regional coordination meeting in San Francisco Gotera, Department of Morazan, the official representing the Ministry of Education was questioned about delays in the promised delivery of schoolroom furniture; and the mayor pointedly conveyed the explanation and promise of early delivery to the teacher at the school in our presence that same afternoon.

A second example was touchingly symbolic of the incipient attitudinal changes. A local committee of village elders travelled to Usulután to complain to the Governor that their mayor was misusing project funds for purposes not chosen by the community as priorities in their cabildo abierto. They also expressed their complaints to the CONARA and USAID special program

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representatives who happened to be present. Without attempting to judge the merits of their complaint or commenting on their not realizing that the Governor no longer has the political clout traditionally inherent in the office, it struck the evaluation team as extremely significant that people are beginning to feel that they can influence their own affairs.

A recent statistical finding supports this contention. A March 1990 nationwide poll in El Salvador asked a sample of 1,274 people to whom they would go to seek help for various kinds of problems. The poll was conducted by a professionally experienced group, the Consultoria Interdisciplinaria en Desarrollo, S.A. (an affiliate of the Gallup Poll organization which is headquartered in San José, Costa Rica). Although it may have been predictable that people would think first of discussing health problems with medical authorities and educational problems with the local teacher, the mayor was the first choice overall for the whole gamut of community problems. For problems in general, 34.2% of the respondents would first approach the mayor. Another 6.1% would first approach the mayor's office. Another 9.9% would go first to their Board of Directors (Junta Directiva). That means that the first reaction of over 50% of the people is to go to their elected representatives. All other avenues of redress ranked far below. The next most used avenue cited was government authorities (7.1%) and the military commander (3.4%). One could not ask for clearer evidence that "something indeed is going on out there."

#### Displaced Families in El Salvador

The problem of displaced families <sup>1/</sup> in El Salvador should be viewed against the backdrop of factional violence and armed conflict that has been a fact of life in the country since 1979. The early years of the conflict (1979-82) were especially difficult ones for El Salvador's rural population. As the fighting expanded throughout the countryside, family members were assaulted, killed, or involuntarily conscripted by the guerrillas or the army. Crops were destroyed in the course of battle or by deliberate acts of terrorism. Families were forced to feed both sides. Large farms and haciendas were abandoned, making it impossible for day laborers (jornaleros) to find work. Many rural families had no alternative but to leave their farms and residences, thus becoming displaced (desplazados).

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<sup>1/</sup> The term "displaced" is used to refer to persons who migrated from their home communities to other areas of El Salvador due to conditions attributable to the conflict. This definition excludes persons left homeless as a result of the 1986 earthquake and foreign refugees, mainly from Nicaragua. Salvadorans who took refuge in Honduras or elsewhere become eligible for program assistance ("repatriates") once they have returned to El Salvador.

Most displaced families moved from the combat zones in stages, fleeing first to the municipal centers, then to departmental capitals, and in some cases on to San Salvador. Some moved as many as six times after their initial displacement, looking for a place to settle down. They squatted on vacant land in rural areas, settled along roadways or railroad tracks, occupied empty lots in towns and cities, and even moved into unoccupied buildings. A few fortunate ones were able to find accommodation with friends or relatives, or had the economic means to buy or rent land or blend into other communities; others left the country. Some families were attracted to settlement camps made available by local governments, churches, or private relief agencies.

These institutions did their best to respond to the emergency, but the displaced population grew so rapidly that its needs soon exhausted local resources. Recognizing the extent of the problem and the need for coordination and control, the Government of El Salvador (GOES) established the National Commission for Assistance to the Displaced of El Salvador (CONADES) in 1981 to coordinate all local and foreign assistance being furnished to displaced persons. The GOES also set up a number of emergency camps to provide needy displaced families with temporary shelter and other basic services.

From an estimated 25,000 persons in 1979, the size of the known displaced population rose to about 85,000 in 1980 and to between 165,000 and 200,000 in 1981. By 1982, some 250,000 persons had been registered by CONADES as displaced, and there were undoubtedly many more who had left the combat zones but had not identified themselves as displaced persons for fear of reprisals by the military, or who were receiving assistance from private organizations without going through CONADES.

After three years of widespread terrorism and counter-terrorism, the complexion of the conflict began to change in 1983 as the military became better able to contain guerrilla activity and control the abuse by its troops of noncombatants. By 1985, the guerrillas had abandoned their strategy of mounting large-scale offensives on departmental population centers and had broken up their forces into smaller units trained to attack targets of opportunity (including military installations) and disrupt economic activity by destroying power lines and other infrastructure. After the elected Duarte Government was installed in 1984, progress was made on a number of social and economic reforms which helped deflect the influence of right-wing extremists and instill confidence in the government's ability to control "death squad" activity and other human rights abuses. The guerrillas also began to show greater respect for the human rights of noncombatants in modifying their practices of involuntary conscription and forced payment of "war taxes."

The displaced population continued to grow through 1985, when it peaked at over 500,000 persons, more than 10 percent of El Salvador's population. The dramatic increases in registration that took place from 1983 to 1985 may have been due to a diminution in fear of reprisals against those registering rather than to an actual increase in movements out of the conflictive areas.

Since 1985, the number of displaced persons has declined significantly according to CONADES' figures -- to 230,000 in 1986, and approximately 40,000 as of December 1991. The current figure converts to about 8,000 families, excluding displaced families who receive assistance from other organizations but who have not registered with CONADES.

Generally speaking the Salvadoran armed forces have controlled the urban centers and more open rural areas of El Salvador, but the guerrillas operate from "secure" bases established in the northern mountains, on the upper slopes of the volcanoes, and in other broken terrain. It is estimated that the guerrillas still have at least partial control over one-quarter of the country. Areas of guerrilla strength are along the Honduran border, in the eastern region, and in some coastal areas.

The war has diminished in intensity during the past few years, and the rural population is now less subject to harm or harassment. At least some of the apparent decline in the number of displaced persons since 1985 can be attributed to this improved security situation, which encouraged a spontaneous return movement. Other families have been reintegrated into new communities, or have emigrated.

In El Salvador, the term desplazado is broadly defined to cover all persons who left their places of permanent residence as a result of the conflict and are in economic crisis. No differentiation is made to account either for the length of time a person has been displaced, or for his or her socioeconomic characteristics. However, an evaluation team in 1988 reported that in conversations with concerned parties and in the literature, distinctions typically are made among four categories of displaced persons, including:

- Dispersos, referring to displaced persons who have settled (whether temporarily or permanently) in dispersed locations throughout the country. Most dispersos now live in or near the departmental capitals and other urban areas. There are currently about 60 "areas of concentration" or colonias of displaced persons in El Salvador which are not formally-designated camps, but where at least 18 displaced families are living and where these displaced families account for at least 95 percent of all residents. Housing conditions for the dispersed range from makeshift dwellings without water or sanitation facilities to quite comfortable rented houses;
- Asentados, referring to displaced persons living in formally designated emergency camps or settlements, even though they may have been there for six or more years and may have no plans to leave in the foreseeable future. There are 15 formally-designated camps in El Salvador assisted by the GOES (12 camps) or non-governmental organizations (3 camps). Most government-assisted settlements have barracks-type housing; in other places housing may consist of small shacks made out of cardboard and tin sheets, with dirt floors.
- Reasentados, referring to displaced persons who are in the process of relocating permanently to new communities, in some cases under an arrangement making land available to them through the agrarian reform; and

- **Retornados**, referring to displaced persons who are in the process of reestablishing themselves in their original place of residence. Many families in this category are small property owners with an economic stake in their community.

Out of the group of **dispersos** and **asentados** come those families in the process of permanently relocating to new communities (**reasantados**) and those returning to their original homes (**retornados**). This activity has been limited by the availability of land in new communities for relocation and the security in areas for return. These families are assisted by the GOES and/or coordinating PVOs for up to two years to facilitate economic and social reintegration through housing, sanitation, water, income-generating projects and health and educational services. As stated above, the major obstacle for this reintegration has been the availability of land and/or the decrease of hostilities in conflictive areas. With the establishment of peace, and growth of confidence of the displaced in the security of ex-conflictive areas, the permanent reestablishment of displaced families will be eased significantly.

#### **Repatriates**

In the past two years, reflecting the increased interest on both sides to end the conflict, there have been negotiated mass movements of Salvadorans who had fled to neighboring countries and Panama, sheltered in refugee colonies and now returned to El Salvador. This mass repatriation activity has been typically worked out among the GOES, the host country, representatives of the emigrant communities and the UNHCR. The returnees have tended to remain together as communities in some 15 sites in or near zones under FMLN influence, relying heavily on their own support services and refusing GOES public services. In recent months this attitude of isolationism has diminished somewhat. CONADES has initiated sanitation and reforestation projects in two of these communities and, in coordination with the Ministry of Education, supplied teachers for five communities and evaluated and validated the studies of the children. Together with the Ministry of Public Works, CONADES has improved access roads into these five communities. In addition, CONADES has been actively assisting these families to obtain official documentation. After the peace accords go into effect, it is felt that the GOES will have increased success in providing government services to these communities.

#### **Candidates for Vocational Training**

A recent evaluation of FEPADE (519-0315), dated February 15, 1991, provides some data on which to build a profile of those who will be most interested in training, and what types of training will be in demand. It should be emphasized that this profile might be somewhat more positive than for the target groups under National Reconstruction, who can be characterized as having had relatively fewer educational and employment opportunities.

Priority sectors needing skilled workers are construction, energy, garment manufacturing, automobile service and industrial maintenance. Other areas include agriculture, including non-traditional agricultural exports. Project trainees also expressed interest in computers and residential electricity.

The age of trainees ranges from 14 to 66, with a median age of 28. The majority of those in technical training were in their twenties and thirties, while the majority of managers were in their thirties and forties. For technical trainees, over 62% had no children, and only 21% had over two children. Among technicians, 39% had no dependents at all. For management trainees, these rates were significantly higher, reflecting greater ages and increased incomes. Eighty percent of both management and technical trainees were from of households with one or two wage-earners, with another 10% from households of 3 wage-earners. Before receiving training, 39% received salaries of 1,000 colones per month or less, with another 31% receiving between 1,001-2000 colones, and the balance of 30% receiving more. Following training, the percentage of technical trainees employed increased from 59% to 62%, and the percentage who were students declined from 34% to 24%.

#### Handicapped

Little information is yet available on the handicapped population, and how much of the condition is war-related. In order to give a flavor of the civilian handicapped population, the evaluation of the FUNTER (519-0346) Project, presented in January 1991, gave statistics on numbers of amputees who had been provided prostheses under the project. Of those where the age was known, 4% were under 9 years of age, and over 20% were under 20. Another 37% were between the most productive ages of 21 and 39. Out of a total of 1,268 clinical cases, 152 (12%) were from the Western Region, 116 (9.1%) from the Middle Central Region, 559 (44%) from the Central Region (the most densely populated), and 386 (30%) from the Eastern Region. It should be noted, however, that FUNTER's efforts to survey the country has been somewhat hampered by inaccessibility to some areas of the conflictive zones.

**ADMINISTRATIVE/INSTITUTIONAL ANALYSIS****A. ANNEX OBJECTIVE**

The objective of this Annex is to explain how the GOES and USAID are structured to implement the National Reconstruction effort and to describe the response capabilities of principal institutions.

**B. OVERALL INSTITUTIONAL APPROACH****1. Introduction**

In line with the overall objective of the National Reconstruction Plan (NRP) to establish a basis for national reconciliation by creating the necessary economic and social conditions to reintegrate into society those persons most directly affected by the conflict, the GOES will use two governmental institutions to steer the Plan. The Secretariat of National Reconstruction (SRN) will provide direction, coordination, implementation and evaluation of the Plan. The Secretariat for External Financing (SETEFE) is responsible for financial management, financial coordination and funding disbursements. The implementing agencies for the NRP, besides the SRN itself, include PVOs, the Ministries of Health, Education and Public Works, ANDA, CEL, ANTEL, CEPA, and the municipalities. Through the control of resources, the SRN will have approval and oversight responsibility for activities undertaken by the implementing entities, who will present Action Plans through the system (SETEFE, SRN, donor). For major infrastructure, and depending on the particular needs of the donor involved, the SRN's role will also be one of coordination, providing a stamp of approval, while SETEFE retains its role in financial management, and the General Directorate for Reconstruction (DGR) takes on the principal implementation role.

**2. NRP Institutional Objectives Related to Donor Programs**

As the institution responding directly to the President for National Reconstruction matters, the SRN has been charged with coordinating the implementation of fund-raising and maintaining direct relations with the participating donors. The Ministry of Planning will retain through SETEFE its normal relationship with donors. Although the SRN has overall responsibility for implementation of the NRP, the GOES plans on using the DGR for major infrastructure activities, providing the needed assurance of dependability and confidence in the contracting and procurement process and of performing its functions in a clear and transparent manner. SETEFE's major NRP objectives are to provide financial management, to be responsive to financial obligations under the Plan, and to ensure transparency of financial transactions and accountability up to the standards required by international donors.

### **3. Institutional Functions and Capabilities**

#### **Secretariat of National Reconstruction**

The NRP and the Executive Decree creating the SRN describe its functions. The SRN will: 1) coordinate the design, implementation and ongoing evaluation of the NRP; 2) actively seek out internal and external resources to finance activities; and 3) encourage PVOs and community groups, as well as appropriate Government agencies, to participate in the implementation process. It is headed by a Secretary General with responsibility to plan, administer and evaluate the NRP. Three Directorates will report to the Secretary General to perform these tasks (see Table).

The SRN has assumed the ongoing functions of CONARA (coordinator of MEA activities), absorbed appropriate functions, personnel and inventory of CONADES (administrator of displaced persons assistance), and taken on other duties related to implementation of the NRP. The general structure of CONARA has been functionally preserved under the new SRN, since it has been an effective operation. Since they have the basic CONARA structure on which they can rely, the SRN can immediately respond to the Emergency Component of the NRP as well as the other two components. Field personnel under the old CONARA organization are well experienced in implementing the MEA program and are already making necessary preparations to launch the implementation of the NRP. This approach will provide a fast response to the Day One objectives.

When considering the SRN's capability, the discussion is principally about CONARA's past implementing record. CONARA has not implemented projects directly, but rather works through the municipalities and local contractors to reach all municipalities nationwide except those where access was restricted because of the insurgency. Based on experience with MEA to date, including special projects when certain regions have received significantly increased funds, there is more than adequate private contracting capacity and competition at the local level to undertake small infrastructure MEA activities.

A.I.D. has worked closely with the SRN in defining institutional tasks and has determined that limited short-term technical assistance is required in specific areas soon after project authorization: (1) Socio-demographic profiles: One of the first activities the SRN will start under its immediate action Contingency Plan is to conduct a demographic profile in the conflictive zones, which will include such indicators of need as basic food availability and health status. Technical assistance, consisting of two people for perhaps three months, would assist the GOES with designing and carrying out this survey, which will help to insure accurate targetting of assistance and provide baseline data for evaluation purposes. (2) Financial expertise: SETEFE and the SRN will be required to coordinate very closely on financial management activities and issues for a program which greatly adds to their current program responsibilities. In order to assist both the SRN and SETEFE to reorganize appropriately, adjust financial procedures, hire and train staff, three person-months of financial technical assistance will be

provided. (3) Infrastructure specialist: Under this Project there will be a mix of small-scale, basic infrastructure, and major infrastructure. The former will be the direct responsibility of the SRN to implement, through the municipalities. The latter will be the responsibility of the DGR, over which the SRN will have less direct responsibility and control. In order to reduce confusion and conflicting signals, an engineer will work with the SRN and DGR to prepare clear guidelines as to which types of work are most appropriate to the municipalities, and within their capabilities, and which should be undertaken by the DGR. The engineer will establish mechanisms for coordinating the large-scale activities. (4) Economic reactivation: The SRN has the least experience in this area. In order to orient SRN staff and not delay initial activities in this area, technical assistance from an employment generation/community development consultant will assist the SRN for approximately three person-months, advising and training staff concerning appropriateness of proposed activities, cost-effectiveness, feasibility, etc. (5) Mine public awareness campaign: The Salvadorans have the capacity and experience to do public relations campaigns, but less in the design and material development of a campaign about how to identify unexploded mines and ordnance, what to do, who to contact, etc. One person-month of technical assistance will be provided.

#### **Municipalities in Action**

The Municipalities in Action (MEA) program is one of the centerpieces of USG support in the NRP. The MEA program addresses immediate local, small-scale infrastructure construction needs at the municipal level, as identified by the communities themselves. It also creates employment opportunities in the conflictive zones through its small-scale infrastructure activities. In terms of helping to ensure the long-term prospects of peace, the opportunity the MEA provides for the FMLN to participate in a grass-roots, democratic process is probably the most important benefit of this program.

The SRN will continue to utilize the MEA structure where municipalities contract directly with local private entrepreneurs and contractors for the construction, or repair and reconstruction, of public infrastructure such as street, road and bridges, water and sanitation systems, schoolrooms and health posts. Where appropriate, ministries (Education or Health) coordinate to provide services to rebuilt facilities or, in some cases, manage actual construction.

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."

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### **Secretariat for External Financing (SETEFE)**

The relationship among the SRN, other implementing entities and SETEFE can be defined more clearly by describing the Action Plan approval process. It will build on the process already in place and being used by SETEFE and USAID for all ESF-generated HCOLC-financed activities. All activities undertaken by the special MEA program will continue to be implemented by the municipalities, and will be included in a yearly Action Plan prepared by the SRN, using the normal SETEFE-USAID review and approval process. PVOs will submit Action Plans either directly to the SRN or through their local municipality. The SRN then reviews and, if it is adequate and is within the scope of National Reconstruction, submits it to USAID for review and approval. A copy of the approved Action Plan is then sent from SRN to SETEFE. Ministries such as Health and Education and the DGR would also submit their yearly Action Plans to SRN.

Chart I in Section V.B. (Disbursement Procedures) entitled Flow of Implementation and Funding schematically illustrates how SRN and SETEFE will procedurally relate to USAID, the DGR, GOES ministries, municipalities and PVOs. The USAID Controller has worked closely with SETEFE to establish relationships that will allow the AID-financed dollar resources and local currency to move through the system as smoothly and expeditiously as possible.

In 1991 the USAID completed a General Assessment of Accountability and Vulnerability. The Assessment concluded that the Mission had an overall medium to high level of confidence in the budgeting and financial management systems of the GOES. A 1988-89 audit performed by RIG/A/T confirmed this finding by concluding that the Ministry of Finance has the capability to manage the HCOLC in the Ordinary Budget. SETEFE, which manages the Extraordinary Budget, is generally recognized as a capable organization. As noted earlier, the Mission works closely with SETEFE in all aspects of managing the local currency program: jointly programming local currency; approving program and financial reports; tracking Action Plan goals, purposes and activities; reviewing program and financial reports; and participating in the audit programs. As a result of this familiarity with SETEFE, the Mission has a high level of confidence in its overall capabilities.

### **General Directorate of Reconstruction (DGR)**

In general there is a lack of uniformity in contract advertising and award procedures in the different agencies of the Salvadoran Government, with the exception of the DGR. When considering the level of effort necessary to respond effectively to the demands that will be generated by the GOES National Reconstruction Plan, few if any line agencies (MOP, ANDA, etc.) will be able to process quickly and manage a large and accelerated reconstruction program without outside technical assistance. However, the DGR, created in 1988 to implement USAID and World Bank earthquake reconstruction activities, does have a uniform and effective set of procedures for the preparation, advertisement, evaluation, award and administration of contracts, with requisite financial controls, while maintaining coordination with various GOES agencies.

The DGR is composed of a relatively small staff that could be augmented with engineering and construction staff to assume reconstruction responsibilities in addition to the current earthquake work. For the purposes of the USAID-funded part of major infrastructure activities, we are satisfied that with this increase in staff the DGR is fully capable of handling the extra workload. However, in order to encourage other donors to cover the vast majority of major infrastructure reconstruction (approximately \$488 million), USAID proposes to fund a technical assistance team who would take on many of the functions of the USAID's Earthquake Division: to monitor, advise and provide quality control. During late January and early February the Mission intends to propose to other major donors the idea of expanding the mandate of the DGR to include major infrastructure under National Reconstruction. If other donors support the concept and agree to rely on the DGR to administer infrastructure activities which they finance, the Mission will complete the analysis required for strengthening it.

#### Private Sector

The role of the Salvadoran private sector in undertaking infrastructural improvements merits discussion, since its capacity is key to achieving NRP objectives. A recent consultant assessment for the Public Services Improvement Project concludes that the private sector in El Salvador is capable of responding to demands for new building construction but may have limited capacity for more sophisticated facilities such as hospitals, dams, power sub-stations and communications centers. The report estimates that the construction sector currently could handle up to \$50 million annually in road sector activities and has demonstrated an ability to organize financing resources quickly to expand its road-building capacity. In those areas of infrastructural improvement where the local contractors are not able to respond effectively, the GOES will encourage international contractors to participate.

#### USAID Mission

While every technical office within the USAID will be involved in the reconstruction effort, the overall responsibility for the National Recovery Project will be within the Office of Infrastructure and Regional Development (IRD), since the bulk of the new activities are identical or similar to projects managed in this Office. A new division, the National Reconstruction Division (NRD) within IRD will be created to manage post-war reconstruction activities. The Community Development Division, which currently manages Displaced Families activities, will be folded into this new Division. Another existing division, Regional and Urban Development (RUD), will handle the post-war activities which are implemented by the municipalities through the current Municipalities in Action (MEA) program.

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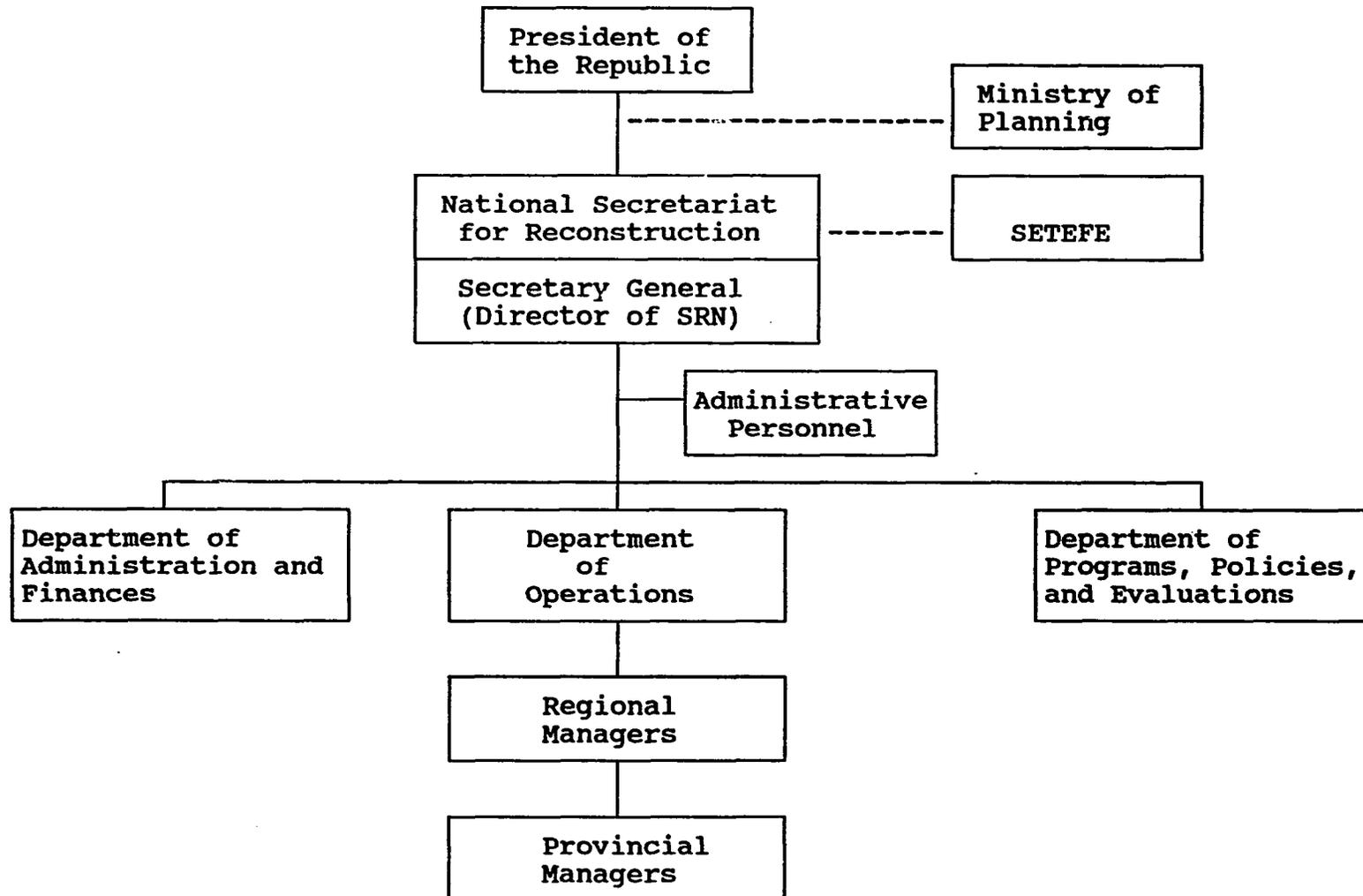
As described above, the new NRD within IRD will have a major coordinating role for many multi-disciplinary activities. It is not practical, nor is the intention, to establish an in-house expertise in NRD in all of the sectors that will be assisted during the national reconstruction. Rather, the NRP will utilize elements of existing Mission project mechanisms and resources to attain National Recovery goals. Adequate coordination will be set up by establishing a National Recovery Project Implementation Committee (NRPIC) with representatives from each of the technical or sector offices involved in NRP.

The Mission will establish a process for defining National Recovery operational responsibilities by first identifying all of the functions that need to occur. This will be followed by identifying the best way of doing them. By comparing National Recovery functions with related responsibilities, tasks and routine duties can be assigned to offices and individuals. Finally, this process will identify where human resources are needed, either through reassignment within the Mission, or additional to current levels.

#### Conclusion

Through the design process, the Mission has taken into account the capabilities of various implementing entities (MOP, CEL, ANTEL, ANDA, CEPA, MOH, MOE, municipalities, PVOs and community groups). Section III.D. in the Project Paper ties the level of proposed funding to activities that realistically can be implemented. Many of the potential implementing entities have been periodically assessed under other Mission projects over the years so that SRN and AID have realistic expectations in terms of their ability to achieve tasks. The SRN, SETEFE and DGR all have important coordinating roles and, with the assistance and modifications mentioned, will be able to implement the NRP.

**ORGANIZATIONAL  
CHART OF THE NATIONAL SECRETARIAT FOR RECONSTRUCTION  
(SRN)**



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**5C(2) - ASSISTANCE CHECKLIST**

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

**CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?**

**A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS**

**1. Host Country Development Efforts (FAA Sec. 601(a)):** Information and conclusions on whether assistance will encourage efforts of the country to:

(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Project will speed Economic stability and reconstruction, thereby increasing exports. Project directly supports private sector, private credit programs, and enhanced work skills.

**2. U.S. Private Trade and Investment (FAA Sec. 601(b)):** Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Assistance will help stabilize and reconstruct economy, which will attract and encourage U.S. investment. U.S. PVOs and U.S. suppliers of goods and services, including construction, will participate.

### 3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

N/A

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes, Financial Plan is being developed as part of PP. Engineering plans will be developed as specific reconstruction activities are identified.

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

Legislative action is not expected to be required. Assembly approval of prior AID agreements, when necessary, has been rapid.

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6. **Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

Yes, water and sanitation sub-projects will continue to follow all standards requirements.

7. **Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)):** Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

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

Yes, certification by Mission Director is included as an annex to the Project Paper.

9. **Multiple Country Objectives (FAA Sec. 601(a)):** Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

N/A. Primary objectives of this project are national in scope, although secondary impact may improve overall efforts within multiple country context.

10. **U.S. Private Trade (FAA Sec. 601(b)):** Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project will encourage PVOs, including U.S. It also provides opportunity for U.S. contractors to participate in major infrastructure development.

## 11. Local Currencies

a. **Recipient Contributions (FAA Secs. 612(b), 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

GOES contribution will be a minimum of 25% and may reach 50%.

b. **U.S.-Owned Currency (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No, USG has no excess Salvadoran currency.

c. **Separate Account (FY 1991 Appropriations Act Sec. 575).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

No, this is a project generating no local currencies. GOES counterpart, generated by prior-year agreements, meet all applicable separate account requirements.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

## 12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

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

N/A

15. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Yes, PVOs involved will either have provided all necessary documentation, or will be subgrantees.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Yes, PVOs receiving grant funds directly will meet this requirement.

16. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

N/A

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

Yes

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extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes, given the effects of the civil war, and the nature of the project, women will be significant beneficiaries. As heads of households they will receive resettlement packages, they will also have increased access to training, credit and health services.

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby for abortion?

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Yes, agricultural credit will be increased to the Salvadoran cooperative system.

## 22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

USG has no excess foreign currencies available.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

## 23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes, standard IFB language will encourage the participation of U.S. small business.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible

No, all such services will be U.S. or Salvadoran

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

----- No other federal agencies are expected to be utilized.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes

2 of 3

**j. Consulting services**  
(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting services through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes

**k. Metric conversion**  
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

Yes

**l. Competitive Selection**  
Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

## 24. Construction

**a. Capital project (FAA Sec. 601(d)):** If capital (e.g., construction) project, will U.S. engineering and professional services be used?

Yes, in accordance with latest Buy America guidance.

**b. Construction contract (FAA Sec. 611(c)):** If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Yes

**c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?**

N/A

**25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?**

N/A

**26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?**

Yes

**27. Narcotics**

**a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?**

Yes

**b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?**

Yes

28. **Expropriation and Land Reform (FAA Sec. 620(g)):** Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes
29. **Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
30. **CIA Activities (FAA Sec. 662):** Will assistance preclude use of financing for CIA activities? Yes
31. **Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes
32. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes
33. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes
34. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
35. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

No, on the contrary, this Project's aim is to increase access of all members of the population to the democratic and civic life of the country.

37. Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No

38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

**B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY**

**1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):** If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Only ESF assistance will be provided and, for this reason, the remainder of Sec. B, relative to Development Assistance only, is not included.

**2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"):** Will DA funds be used for tied aid credits?

**3. Appropriate Technology (FAA Sec. 107):** Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

**4. Indigenous Needs and Resources (FAA Sec. 281(b)):** Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

**C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY**

**1. Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes, a main purpose is to maintain economic and political stability to ensure peace after a 12-year civil war, by improving access to health and education, increased opportunities in agriculture and productive enterprises.

**2. Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes?

No

**3. Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

**4. Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

N/A

**5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)).** If assistance is in the form of a cash transfer:

N/A. This is projectized assistance. However, GOES counterpart contributions generated from prior-year programs meet all requirements for separate account management.

**a. Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Congress will be notified prior to authorization of this Project.

DRAFTER:GC/LP:EHonnold:4/11/91:2169J

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

LAC-IEE-92-08

**ENVIRONMENTAL THRESHOLD DECISION**

Project Location : El Salvador  
Project Title : Peace and National Recovery  
Project Number : 519-0394  
Funding : \$280 million  
Life of Project : Years (FY 92-96)  
IEE Prepared by : Peter Gore, Environmental Officer  
USAID/El Salvador  
Recommended Threshold Decision : Positive Determination  
Bureau Threshold Decision : Concur with Recommendation  
Comments : Project consists of 6 major components: immediate conflictive zone relief; ex-combatant assistance; social and economic reactivation in the conflictive zones; land transfer mechanisms; infrastructure service restoration; and other programs. Funding comes from a mix of reprogrammed monies from existing projects, existing local currency, new local currency and new dollar funds. Each project component was subject to separate environmental review.

Based on this review, some of the components were found eligible for Categorical Exclusions. These include: Documentation Activity; Landmine Public Awareness Campaign; Demographic Studies; Social Reintegration and Counseling; University Scholarship; Mental Health and Related Services for Children; School Teacher Hiring; Vocational/Technical Training; Survey and Administrative Support for Land Transfers; Feasibility Studies for Major Infrastructure Activities, and Technical

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**ENVIRONMENTAL THRESHOLD  
DECISION, cont'd****Assistance for the DGR.**

Other sub-projects are expansions of existing Projects which have existing Initial Environmental Examinations or Environmental Assessments and for which the only required action is ensuring that the mitigations already identified are expanded to cover all new activities: Food and Distribution activity; Health Services Delivery; Equipping/supplying of Health Posts/Clinics; Vaccination Campaign, Maternal Health and Child Survival, and Equipping and Supplying Clinics and Schools; Rehabilitation of Handicapped Persons, and provision of Prosthetics and Orthotics; School Supplies, Equipment and Furniture; and Microenterprise credit.

Some sub-projects contemplate activities similar to those of existing projects with approved IEEs and Environmental Assessments. For these, per Mission request, and given similarities and applicability of EA recommendations to the new sub-projects, approval is granted to expand and link these previously approved EAs to the following sub-projects: PVO Support Activity; Agricultural Credit and Technical Assistance Activity; {subject to implementation of recommendations set forth in Environmental Assessment for Basic Grains Sub-Program (519-0281, approved 1/31/92), including hiring pest management coordinator should this activity be expanded significantly under the combined program}; Agricultural and/or Shelter Starter packages activity, and Credit for Purchase of Land Activity. Concurrence subject to monitoring by Mission Environmental

**ENVIRONMENTAL THRESHOLD  
DECISION, cont'd**

Officer of compliance with EA recommendations and inclusion of a section in sub-project evaluations reviewing appropriateness and applicability of these EA recommendations to these sub-projects and detailing results achieved through implementation of EA recommendations.

Finally, new Environmental Assessments are required for the Road Building and Electrification activities supported under the Municipalities in Action component. Environmental Assessments will be carried out, focusing on activities identified in the IEE and EA Scoping Exercises for these two activities. All other project components are hereby approved, subject to incorporation of appropriate mitigative measures as noted above.

John O Wilson Date FEB - 3 1992

John O. Wilson  
Deputy Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

Copy to : John Sanbrailo, Mission Director  
USAID/El Salvador

Copy to : Mike Deal, PDO  
USAID/El Salvador

Copy to : Peter Gore, USAID/El Salvador

Copy to : Wayne Williams, REA/CEN

Copy to : Mark Silverman, LAC/DR/CEN

Copy to : Lorraine Simard, LAC/CEN

**ENVIRONMENTAL THRESHOLD  
DECISION, cont'd**

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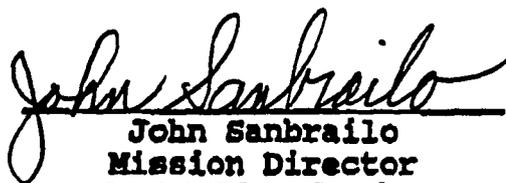
INITIAL ENVIRONMENTAL EXAMINATIONBASIC PROJECT DATA

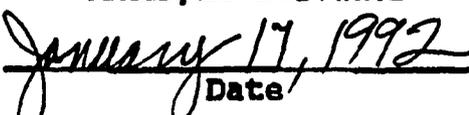
**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Funding:** \$280 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore *PG*  
 USAID/El Salvador  
 Environmental Officer  
**Recommended  
 Threshold Decision:** Positive Determination  
**Mission  
 Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new projects, or for new components added during project revision or amendment that were not previously subject to environmental review. Analysis of the Concept Paper for the Project indicated that a number of the components and/or sub-projects proposed contained activities for which an environmental assessment is required. The attached package presents a detailed analysis of the environmental status of each of the proposed sub-projects with a corresponding recommendation. Based on the information above and contained in the attached analyses, USAID/El Salvador recommends a Positive Threshold Decision for those parts of the Project with significant environmental impacts. Further environmental analysis will be performed as required and/or appropriate linkages formed with existing Environmental Assessments.

Concurrence:

  
 John Sanbrailo  
 Mission Director  
 USAID/El Salvador

  
 Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**PEACE AND NATIONAL RECOVERY IN EL SALVADOR PROJECT**  
**(519-0394)**

**I. Project Description**

The Project is for \$280 million, \$140 million from new funds and \$140 million from current and programmed USAID funds. The Project consists of assistance to the Government of El Salvador to support its National Reconstruction Plan directed toward increasing economic opportunities, attacking poverty, and improving the quality of life for individuals and families affected by the conflict.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Project consists of the following major components: (a) immediate conflictive zone relief; (b) ex-combatant assistance; (c) social and economic reactivation in the conflictive zones; (d) land transfer mechanisms; (e) infrastructure; and (f) other programs.

Each of the components of The Peace and National Recovery Project proposed by USAID for El Salvador has a number of sub-projects and activities. Funding for the Activities will be a mix of reprogrammed monies from existing projects, existing local currency, new local currency, and new dollar funds. The overall National Recovery Plan Project number will be 519-0394.

In order to consider the environmental implications of a Project with so many elements, each of the sub-projects was considered separately and a determination made about its potential environmental impact which is included in the attached package.

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Some of the sub-projects are eligible for Categorical Exclusions: Documentation Activity, Landmine Public Awareness Campaign, Socio-Demographic Studies Activity, Social Reintegration Counseling Activity, University Scholarship Activity, Mental Health and Related Services for Children Activity, School Teacher Hiring Activity, Vocational/technical Training Activity, Survey and Administrative support for Land Transfers, and Feasibility Studies for Major Infrastructure Activities.

Other sub-projects are expansions of existing Projects which have existing Initial Environmental Examinations or Environmental Assessments and for which no additional action is required: Food and Distribution Activity; Health Services Delivery Activity; Vaccination campaign, maternal health and child survival, equipping and supplying clinics and schools Activity; Rehabilitation of handicapped persons Activity, Provision of prosthetics and orthotics Activity; and School supplies, equipment and furniture; Microenterprise credit and technical assistance Activity.

Some sub-projects contemplate activities similar to those of existing projects with approved IEEs and Environmental Assessments and for which a close linkage with these approved assessments is recommended: PVO Support Activity; Equipping/supplying of health posts/clinics Activity; Agricultural Credit and Technical Assistance Activity; Agricultural and/or shelter starter packages Activity; and Credit for Purchase of Land Activity.

Additional Environmental Assessments will be required only for the major physical infrastructure projects subject to section 216.2(d).

## II. Recommendations

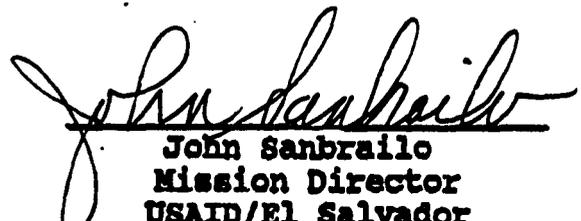
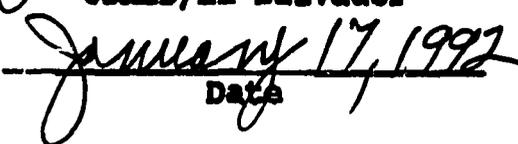
In view of the above examination of the environmental issues of this Project, it is recommended that a Positive Determination be made and that the appropriate mitigative measures be incorporated into each of the applicable sub-projects as prescribed by either the current Environmental Assessments covering them or new ones if necessary.

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INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

**Project Location:** El Salvador  
**Project Title:** FVO Support for Education and Health Services  
**Project Number:** 519-0281 (Amendment)  
**Funding:** \$1 Million (LOP)  
**Life of Project:** 1 year  
**IEE Prepared by:** Peter Gore  
USAID/El Salvador  
Environmental Officer  
**Recommended Threshold Decision:** Positive Determination  
**Mission Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
  
Date

**PVO Support for Education and Health Services  
in the Conflictive Zone, under an  
Amendment to Emergency Program: Health and Jobs  
for Displaced Persons, 519-0281**

**AMENDMENT TO  
INITIAL ENVIRONMENTAL EXAMINATION OF 1984  
AND ENVIRONMENTAL ASSESSMENT OF JUNE 1991**

The PVO Support for Education and Health Services as a new Activity under an Amendment to Emergency Program: Health and Jobs for Displaced Persons, 519-0281 has a planned life of 1 year with planned obligations not to exceed \$1 million.

The goal of the Activity is to improve the quality of life for displaced persons in the conflictive areas. The Activity purpose is to enable residents of the conflictive zone to become more readily incorporated into the general society.

The Activity consists of providing residents of the conflictive zone with food and health services, minimum shelter, temporary employment, productive projects, and agricultural inputs.

The Ministry of Health will staff and stock field hospitals and health centers with necessary medicines and emergency medical supplies using ESF-generated local currencies already programmed for the National Recovery Plan. This assistance will be complemented by other health services to be provided under the USAID-supported Displaced Persons Project 519-0281.

Utilizing existing agreements with private voluntary organizations (PVOs), the Displaced Persons Project can extend humanitarian assistance by means of a "safety net" which, in addition to food and health services, provides special assistance, such as minimum shelter, temporary employment, productive projects and agricultural inputs. In addition to PVOs, currently active under this project, it is anticipated that other PVOs including those supportive of the FMLN, also will participate in this immediate relief process.

Project 519-0281 already has an approved Environmental Assessment for the activities contemplated in this Activity: "Environmental Assessment of Pesticides Proposed for Use in USAID/El Salvador Emergency Program: Health and Jobs for Displaced Families (Basic Grains Program) (AID Project No. 519-0281) and General Relief Program (PL-480, Title II), (AID Project No. 519-620)."

In addition, to the extent that the PVO support activities provide health and education services (such as water supplies and sanitation facilities) similar to those provided by the PROSAMI Project 519-0367, they will be covered under the Environmental Assessment for 519-0320, Public Services Improvement Project approved on 10/16/90 as stipulated in the IEE for 519-0367 dated 2/15/90.

RECOMMENDATION FOR THRESHOLD DECISION

Based on the information above, we recommend a positive Threshold Determination for the Activity. However, since the Activity contemplates only activities already approved under 519-0281 and 519-0320, no additional Environmental Assessment will be performed and activity participants will be instructed to follow the same mitigative and precautionary steps recommended in the Environmental Assessments prepared for those projects.

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INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

Project Location: El Salvador  
Project Title: Peace and National Recovery  
Project Number: 519-0394  
Activity Title: Equipping/supplying Health Posts/clinics  
Activity Funding: \$8 Million (LOP)  
Life of Project: 5 years  
IEE Prepared by: Peter Goye *PG*  
USAID/El Salvador  
Environmental Officer  
Date Prepared: January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new projects. Analysis of the Concept Paper for the Project indicated that this activity should be covered by the same negative determination which Project 519-0308 received on 4/23/91 (LAC-IEE-91-36)

Based on the information above, we recommend a negative determination for the Threshold Decision for the Activity.

Concurrence:

*John Sanbrailo*  
\_\_\_\_\_  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
*January 17, 1992*  
\_\_\_\_\_  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**EQUIPPING/SUPPLYING HEALTH POST AND CLINICS ACTIVITY**  
**(519-0394)**

**I. Project Description**

The Activity is for \$8 million, \$4 million from new funds and \$4 million in funds reprogrammed from existing projects. The Activity is similar to the Health Systems Support Project 519-0308 whose aim is to support and strengthen the capacity of the Ministry of Public Health to deliver basic health services..

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of supplies and equipment acquisition and management in order to reopen health posts and clinics that were closed because of the conflict. Unlike Project 0308 which received a positive Threshold Decision because it proposed the use of pesticides to control malaria bearing mosquitoes, this Activity does not contemplate any malaria control. This Activity therefore should be covered by the same negative determination which Project 519-0308 received on 4/23/91 (LAC-IEE-91-36)

**II. Recommendations**

In view of the above examination of the environmental issues of this Activity it is recommended that a negative determination be made for this Activity.

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Activity Title:** Agricultural Credit and Technical Assistance  
**Activity Funding:** \$15 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore  
USAID/El Salvador  
Environmental Officer  
**Recommended  
Threshold Decision:** Positive Determination  
**Mission  
Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

  
\_\_\_\_\_  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
  
\_\_\_\_\_  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**Agricultural Credit and Technical Assistance Activity**

(519-0394)

**I. Project Description**

The Activity is for \$25 million, \$10 million from new funds and \$5 million in funds reprogrammed from existing projects. The Activity is similar to the Rural Financial Markets Project 519-0307 whose aim is to increase the availability and productive use of credit in the reform agricultural sector. The new Activity will make credit available through the BFA and FEDECREDITO.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of expanded agricultural credit and technical assistance programs for residents of the conflictive zones. Unlike Project 519-0307 which received a negative Threshold Decision because it did not propose the financing of pesticides, this Activity may finance agricultural inputs including pesticides. If this Activity does finance the acquisition of pesticides, it will be under the same conditions as required and approved under the Environmental Assessment for the Agricultural Starter packages of Project 519-0281 which received approval on / / .

**II. Recommendations**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Project Agricultural Credit Activity indicated that it should be covered by the same Environmental Assessment which was performed for Project 519-0281.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity and the further determination that the Environmental Assessment performed for Project 519-0281 is sufficient to cover the actions contemplated by the new Agricultural Credit Activity. We recommend that no further environmental study be undertaken for this Activity.

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AMENDMENT TO  
INITIAL ENVIRONMENTAL EXAMINATION OF 1984  
AND ENVIRONMENTAL ASSESSMENT OF JUNE 1991

BASIC PROJECT DATA

**Project Location:** El Salvador  
**Project Title:** Agricultural and/or Shelter Starter Kits  
**Project Number:** 519-0281 (Amendment)  
**Funding:** \$2 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore *PG.*  
USAID/El Salvador  
Environmental Officer  
**Date Prepared:** January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Those individuals in the repatriate and displaced person communities who decide to farm for a living, will be given agricultural starter packages containing seeds, EPA-approved fertilizers, pest control applications, and basic farming tools. As an expanded activity of Project 519-0281, the Agricultural starter packages should come under the recent EA performed for pesticide use in basic grain production by CICP in June 1991. There will be no new uses of pesticides and all of the safeguards proposed by the EA will be observed.

Based on the information above, we recommend a positive Threshold Determination for the Activity. However, since the Activity contemplates only activities already approved under 519-0281, no additional Environmental Assessment will be performed as the pesticide uses are covered under the CICP EA of June 1991.

Concurrence:

*John Sanbrailo*  
\_\_\_\_\_  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
*January 17, 1992*  
\_\_\_\_\_  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**BASIC PROJECT DATA**

**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Activity Title:** Agricultural Credit for Land Purchase  
**Activity Funding:** \$13.5 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore  
USAID/El Salvador  
Environmental Officer  
**Recommended  
Threshold Decision:** Negative Determination  
**Mission  
Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

  
\_\_\_\_\_  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
\_\_\_\_\_  
January 17, 1992  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**PEACE AND NATIONAL RECOVERY**

(519-0394)

**Agricultural Credit for Land Purchase Activity**

**I. Project Description**

The Activity is for \$13.5 million, \$5 million from new funds and \$8.5 million in funds reprogrammed from existing projects. The Activity is similar to the present ongoing Land Bank Project funded with local currency whose aim is to provide land to, or credit for the purchase of land by, repatriated families and ex-combatants where possible. The institutions which will receive direct assistance are the Land Bank, Institute for Agrarian Transformation (ISTA), the Land Registry Office (RPRH) and the National Geographic Institute (IGN).

The Land Bank will be the institution primarily responsible for financing land in the vicinity of the repatriated villages. Under normal circumstances, the Land Bank acts only as a financing agent. That is, when the buyer and seller have agreed upon the terms of the transfer and the transaction meets the criteria, the Land Bank then provides credit. Under the National Recovery Program, however, the Land Bank will take a more proactive role, identifying properties and property owners and actively negotiating with them on behalf of the beneficiaries.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of expanded agricultural credit for land purchase through the Land Bank by residents of the conflictive zones. In order to assure that credit is not extended for the purchase of land which may be inappropriate for agriculture, the Land Bank should initiate a system of land use categories to evaluate the types of land it is purchasing. Such a system already exists and has been applied to certain of the Agrarian Reform properties. The use of such a system would assure that obviously inappropriate lands such as gullies and wetlands are not financed with this Activity.

## **II. Recommendations**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Plan Agricultural Credit Activity indicated that it should receive categorical exclusion under Section 216.2(c)(x), "Support for intermediate credit institutions...." Nevertheless, in order to assure that lands financed by this project are appropriate for agricultural uses, this IEE was prepared recommending the institution of a land use categorization system for the Land Bank.

Based on the information above, we recommend a negative determination for the Threshold Decision for the Activity and that no further environmental study be undertaken for this Activity.



**INITIAL ENVIRONMENTAL EXAMINATION**

**Peace and National Recovery**  
**(519-0394)**

**Municipalities in Action**

**I. Project Description**

The Activity is for \$100 million, \$40 million from new funds and \$60 million in funds reprogrammed from existing Projects. The Activity is an expansion the present ongoing Municipalities in Action Project funded with local currency whose aim is to address immediate local, small-scale infrastructure construction needs at the municipal level, as identified by the communities themselves.

With the help of CONARA and the mayors, the initial needs of the inhabitants in 63 of the 82 municipalities in the conflictive zones have already been determined through open town meetings. In those cases, at least one project per municipality has been prepared for immediate contracting. Needs in the remaining areas will be established as soon as access can be gained. Experience under the MEA program indicates that the needs for basic infrastructure expressed by local citizens are very similar throughout the country and fall into five major categories of activities: access roads 36%; electrification 16%; schools/education 15%; water and sewer 12%; health and community centers 11%.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The National Recovery Project Municipalities in Action Activity consists of providing health and education services, water supply, and road and bridge access between cantons, cantons and municipal centers, and municipal centers and the national road network.

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The water supply activities are covered under the Environmental Assessment performed for the 519-0320 Public Services Improvement Project which was approved on 10/16/90. The rural roads which were constructed under 519-0320 had individual assessments on site to ensure that there were no negative effects because of the construction activity. The construction of health and education buildings will be on a small scale, but also fall under the negative determination granted an IEE prepared for the Rural Primary Education Expansion Project 519-0190.

## II. Recommendations

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Plan Municipalities in Action Activity indicated that it should receive an Initial Environmental Examination because the project contained elements that had potential environmental impacts. Although the impacts are likely to be of a minimal nature because of the scale of the Activities and some are covered by Environmental Assessments which have been performed for similar Projects supported by the Mission, some negative environmental effects may be caused by the road building and electrification Activities.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity and that an Environmental Assessment be performed for the Road Building and Electrification components of the Municipalities in Action Activity.

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

Project Location: El Salvador  
 Project Title: Peace and National Recovery  
 Project Number: 519-0394  
 Activity Title: Road Repair and Reconstruction  
 Activity Funding: \$11 Million (LOP)  
 Life of Project: 5 years  
 IEE Prepared by: Peter Gore *P.G.*  
 USAID/El Salvador  
 Environmental Advisor

Recommended  
 Threshold Decision: Positive Determination  
 Mission  
 Threshold Decision: Concur with Recommendation  
 Date Prepared: January 16, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the Project indicated that this activity is not covered by the Environmental Assessment for Project 0320 and should therefore have a new Environmental Assessment performed.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity.

Concurrence:

*John Sanbrailo*  
 \_\_\_\_\_  
 John Sanbrailo  
 Mission Director  
 USAID/El Salvador

FEB - 3 1992

\_\_\_\_\_  
Date

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INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

Project Location: El Salvador  
Project Title: Peace and National Recovery  
Project Number: 510-0394  
Activity Title: Intensive Electric Grid Maintenance  
Activity Funding: \$30 Million (LOP)  
Life of Project: 5 years  
IEE Prepared by: Peter Gora *P.G.*  
USAID/El Salvador  
Environmental Advisor

Recommended  
Threshold Decision: Positive Determination

Mission  
Threshold Decision: Concur with Recommendation

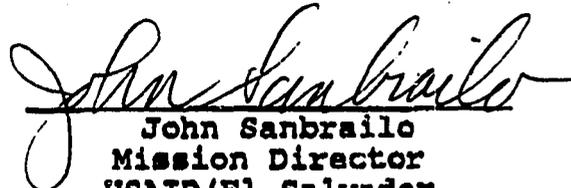
Date Prepared: January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the Project indicated that this activity is not covered by the Environmental Assessment for Project 0320 and should therefore have a new Environmental Assessment performed.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity.

Concurrence:

  
John Sanbrailo  
Mission Director  
USAID/El Salvador

FEB - 3 1992

Date

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**Documentation Activity, supported by  
ESF generated Local Currency**

**Categorical Exclusion**

The Documentation of Civilians in the conflictive zones Activity supported by funds reprogrammed from existing resources has a planned life of 1.5 years with planned obligations not to exceed \$.250 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of a documentation campaign to provide residents of the conflictive zones with national identity cards, cedula, so that they can participate more fully in national life.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(v), "Documentation and information transfer...." of 22CFR.

**Landmine Public Awareness Activity, under an  
Amendment to Emergency Program: Health and Jobs  
for Displaced Persons, 519-0281**

**Categorical Exclusion**

The Landmine Public Awareness Activity under an Amendment to Emergency Program: Health and Jobs for Displaced Persons, 519-0281 has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of an educational campaign and as such qualifies for categorical exclusion under Section 216.2(c)(2)(i) of 22CFR, "Education, technical assistance and training..." In addition, the Activity will have a positive environmental impact in that serious threats to man and his works will be eliminated through the successful use of the information that this campaign will disseminate.

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**Socio-Demographic Studies Activity, supported  
by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Socio-Demographic Studies Activity supported by funds reprogrammed from existing resources has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of a socio-demographic study which will be carried out by interviews with residents of the conflictive zones to determine their current status and needs.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(xiv), "Studies, projects or programs to..." of 22CFR.

**Social Reintegration Counseling Activity, supported  
by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Social Reintegration Counseling Activity supported by funds reprogrammed from existing resources, has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of setting up counseling services in various locations in the country to provide educational, vocational, and job availability information to former members of the El Salvador Armed Forces and the FMLN.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs....," of 22CFR.

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**University Scholarship Activity, supported  
by funds from the 519-0394 Project**

**Categorical Exclusion**

The Activity to provide university scholarships for ex officers of the ESAF and commandantes, supported by funds from the new 0394 Project, has a planned life of 5 years with planned obligations not to exceed \$7.5 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of providing tuition, books, and a monthly stipend to officers who have been demobilized from both sides so that they can obtain a university education.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." of 22CFR.

**Mental Health and Related Services for Children Activity,  
supported by funds from planned Mission resources  
and additional USG funds**

**Categorical Exclusion**

**Mental Health and Related Services for Children Activity  
supported by funds planned Mission resources and additional USG  
funds  
has a planned life of 5 years with planned obligations not to  
exceed \$3.3 million.**

**The goal of the Project is to support El Salvador's National  
Reconstruction Plan in consolidating the peace negotiation  
process, helping resolve societal unrest, and sowing the seeds of  
future growth with equity and a strong democracy. The Project  
purpose is to promote the economic reactivation of the  
conflictive zones by helping to restore their access to basic  
services and assisting the democratic reintegration of their  
population.**

**The Activity consists of staffing a number of clinics and  
schools to provide mental health counseling and related services  
to children affected by the war so that they can lead more normal  
lives.**

**Since the actions contemplated will not have an effect on the  
natural or physical environment, the Activity qualifies for  
categorical exclusion under Section 216.2(c)(2)(xiv), "Studies,  
projects or programs to..." of 22CFR.**

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**School Teacher Hiring Activity, supported  
by funds planned Mission resources  
and additional USG funds**

**Categorical Exclusion**

The Activity to hire additional teachers to staff schools in the conflictive zones, supported by funds from planned Mission resources and additional USG funds, has a planned life of 3 years with planned obligations not to exceed \$1.2 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of hiring additional school teachers to staff the schools that are being rehabilitated in the conflictive zones in order to make education available to the maximum number of children possible..

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs...", of 22CFR.

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**Vocational/technical Training Activity, supported  
by funds from planned Mission Resources  
and new USG funds**

**Categorical Exclusion**

The Activity to support vocational and technical training to residents in the conflictive zones, supported by funds from planned Mission resources and new USG funds, has a planned life of 5 years with planned obligations not to exceed \$14 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of giving residents skills so that they can become employed by providing vocational/technical Training as an expansion of the ongoing local currency funded project with CONARA and FEPADE. This vocational training project is similar to the Microenterprise Development Project 519-0315 which received categorical exclusion from an IEE on 8/31/90. Funding will be from planned Mission resources and new USG funds.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." of 22CFR.

**Survey and Administrative support for Land Transfers,  
supported by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Activity to support survey and administrative salaries/supplies for land transfers, supported by funds reprogrammed from existing resources, has a planned life of 5 years with planned obligations not to exceed \$1.5 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of provide legal status to landholders in the conflictive zones by supporting the Institute for Agrarian Transformation (ISTA) for surveying activities and logistical and administrative support, the Land Registry Office (RPRH) for salaries and administrative costs, and the National Geographic Institute (IGN) for personnel, mapping supplies, and office equipment. Funding will be from planned Mission resources.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)2(v), "Document and Information transfers." of 22CFR.

**Feasibility Studies for Major Infrastructure Activities,  
supported by funding from existing project  
and planned Mission resources**

**Categorical Exclusion**

The Feasibility Studies for Major Infrastructure Activities, supported by funds from an existing Mission Project and new USG funds, has a planned life of 3 years with planned obligations not to exceed \$10 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of carrying out a series of design feasibility studies for major infrastructure activities in the conflictive zones.

Since the studies contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(xiv), "Studies, projects or programs to..." of 22CFR.

**Support for Investment Promotion, supported  
by new USG funding**

**Categorical Exclusion**

The Activity to support Investment Promotion in the conflictive zones, supported by new USG funds, has a planned life of 5 years with planned obligations not to exceed \$1 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of the preparation of studies to identify opportunities for investment in the target areas; identification of/proposing solutions to impediments to such investment; and development of appropriate promotional materials.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(v), "Documentation and information transfer...", of 22CFR.

**TECHNICAL ASSISTANCE FOR THE DIRECTORATE GENERAL  
OF RECONSTRUCTION (DGR) SUPPORTED BY FUNDS FROM PLANNED  
MISSION RESOURCES AND NEW USG FUNDS**

**Categorical Exclusion**

The Activity to provide technical assistance for the Directorate General of Reconstruction (DGR) supported by funds from planned Mission resources has a planned life of 5 years with planned obligations not to exceed \$7 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of strengthening the DGR by establishing a management unit responsible for coordinating with the respective line ministries and semi-autonomous public service entities, establishing clear priorities, quality control, donor coordination, and overall paper flow.

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| COMPONENT                                                                                                                | Proposed USG Support<br>(\$000) | Funding Source                                 |                                                | Implementing Institution/Organization |
|--------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------|------------------------------------------------|---------------------------------------|
|                                                                                                                          |                                 | From USAID/ES Current Budget (By type) (\$000) | Additional to Existing USAID Resources (\$000) |                                       |
| <b>A. Immediate Conflictive Zone Relief:</b>                                                                             |                                 |                                                |                                                |                                       |
| 1. Mine (explosives) awareness program                                                                                   | 0.500                           | 0.500                                          | 0.000                                          |                                       |
| 2. Food and distribution                                                                                                 | 0.500                           | 0.500                                          | 0.000                                          |                                       |
| 3. Health Services Delivery (Supplies and equipment)                                                                     | 0.950                           | 0.950                                          | 0.000                                          |                                       |
| 4. PVO Support                                                                                                           | 1.000                           | 1.000                                          | 0.000                                          |                                       |
| 5. Socio-demographic studies                                                                                             | 0.100                           | 0.100                                          | 0.000                                          |                                       |
| 6. Documentation/certification of target population                                                                      | 0.250                           | 0.250                                          | 0.000                                          |                                       |
| 7. SHR Administrative Costs                                                                                              | 0.700                           | 0.700                                          | 0.000                                          |                                       |
| <b>Sub-Total Component A</b>                                                                                             | <b>4.000</b>                    | <b>4.000</b>                                   | <b>0.000</b>                                   |                                       |
| <b>B. Ex-combatants Assistance:</b>                                                                                      |                                 |                                                |                                                |                                       |
| 1. Social/economic reintegration counseling                                                                              | 0.500                           | 0.500                                          | 0.000                                          |                                       |
| 2. University Scholarships (officers and commanders only)                                                                | 7.500                           | 0.000                                          | 7.500                                          |                                       |
| <b>Sub-Total Component B</b>                                                                                             | <b>8.000</b>                    | <b>0.500</b>                                   | <b>7.500</b>                                   |                                       |
| <b>C. Social and Economic Reactivation in the Conflictive Zones</b>                                                      |                                 |                                                |                                                |                                       |
| <del>1. Community Development</del> (for participatory democracy, small-scale infrastructure, and employment generation) | 100.000                         | 60.000                                         | 40.000                                         |                                       |

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| COMPONENT                                                       | Proposed USG Support<br>(\$000) | Funding Source                                       |                                                   | Implementing Institution/Organization |
|-----------------------------------------------------------------|---------------------------------|------------------------------------------------------|---------------------------------------------------|---------------------------------------|
|                                                                 |                                 | From USAID/ES Current Budget<br>(By type)<br>(\$000) | Additional to Existing USAID Resources<br>(\$000) |                                       |
| <b>2. Health and Education Services:</b>                        |                                 |                                                      |                                                   |                                       |
| a. Equipping/supplying of health posts/clinics                  | 8.000                           | 4.000                                                | 4.000                                             |                                       |
| b. Vaccinations                                                 | 0.200                           | 0.200                                                | 0.000                                             |                                       |
| c. Rehabilitation of physically sensorially handicapped         | 6.000                           | 3.000                                                | 3.000                                             |                                       |
| d. Provision of prosthetics and orthotics                       | 2.300                           | 1.100                                                | 1.200                                             |                                       |
| e. Provision of mental health and related services for children | 3.300                           | 2.000                                                | 1.300                                             |                                       |
| f. School supplies, equipment and furniture                     | 7.000                           | 4.000                                                | 3.000                                             |                                       |
| g. Hiring additional teachers                                   | 1.200                           | 1.200                                                | 0.000                                             |                                       |
| h. PTO support for social services                              | 3.000                           | 2.000                                                | 1.000                                             |                                       |
| <b>3. <del>Small Business Development</del></b>                 |                                 |                                                      |                                                   |                                       |
| a. Microenterprise credit and technical assistance              | 10.000                          | 4.000                                                | 6.000                                             |                                       |
| b. <del>Administrative and technical</del>                      | 15.000                          | 5.000                                                | 10.000                                            |                                       |

| COMPONENT                                                                                               | Proposed USG Support<br>(\$000) | Funding Source                                       |                                                   | Implementing Institution/Organization |
|---------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------------|---------------------------------------------------|---------------------------------------|
|                                                                                                         |                                 | From USAID/ES Current Budget<br>(By type)<br>(\$000) | Additional to Existing USAID Resources<br>(\$000) |                                       |
| c. <del>Agricultural and/or related activities</del><br><del>such as fertilizer, pesticides, etc.</del> | 2.000                           | 2.000                                                | 0.000                                             |                                       |
| d. Vocational/technical training                                                                        | 14.000                          | 6.000                                                | 8.000                                             |                                       |
| Sub-Total Component C                                                                                   | 172.000                         | 94.500                                               | 77.500                                            |                                       |
| <b>D. Land Transfer Mechanisms:</b>                                                                     |                                 |                                                      |                                                   |                                       |
| 1. Credit for purchase of land                                                                          | 13.500                          | 8.500                                                | 5.000                                             |                                       |
| 2. Survey and administrative salaries/<br>supplies                                                      | 1.500                           | 1.500                                                | 0.000                                             |                                       |
| Sub-Total Component D                                                                                   | 15.000                          | 10.000                                               | 5.000                                             |                                       |
| <b>E. <del>Water Management Infrastructure</del></b>                                                    |                                 |                                                      |                                                   |                                       |
| 1. <del>Water Management</del>                                                                          | 10.000                          | 4.000                                                | 6.000                                             |                                       |
| 2. <del>Electricity</del>                                                                               | 30.000                          | 12.000                                               | 18.000                                            |                                       |
| 3. <del>Energy</del>                                                                                    | 11.000                          | 5.000                                                | 6.000                                             |                                       |
| 4. Feasibility Studies<br>(to hasten other donor financing)                                             | 10.000                          | 5.000                                                | 5.000                                             |                                       |
| Sub-Total Component E                                                                                   | 61.000                          | 26.000                                               | 35.000                                            |                                       |

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| COMPONENT                                                     | Proposed USG Support<br>(\$000) | Funding Source                                       |                                                   | Implementing Institution/Organization |
|---------------------------------------------------------------|---------------------------------|------------------------------------------------------|---------------------------------------------------|---------------------------------------|
|                                                               |                                 | From USAID/IS Current Budget<br>(By type)<br>(\$000) | Additional to Existing USAID Resources<br>(\$000) |                                       |
| <b>F. Program Audit and Management</b>                        |                                 |                                                      |                                                   |                                       |
| 1. Additional management and implementation staff in USAID/IS | 2.000                           | 1.000                                                | 1.000                                             |                                       |
| 2. Audits and evaluations                                     | 8.000                           | 4.000                                                | 4.000                                             |                                       |
| <b>Sub-Total Component F</b>                                  | <b>10.000</b>                   | <b>5.000</b>                                         | <b>5.000</b>                                      |                                       |
| <b>G. Contingency:</b>                                        | <b>30.000</b>                   | <b>15.000</b>                                        | <b>15.000</b>                                     |                                       |
| <b>Grand Total</b>                                            | <b>300.000</b>                  | <b>155.000</b>                                       | <b>145.000</b>                                    |                                       |

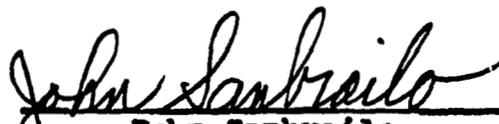
INITIAL ENVIRONMENTAL EXAMINATIONBASIC PROJECT DATA

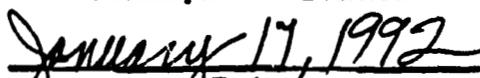
**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Funding:** \$280 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore *PG*  
 USAID/El Salvador  
 Environmental Officer  
**Recommended  
 Threshold Decision:** Positive Determination  
**Mission  
 Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new projects, or for new components added during project revision or amendment that were not previously subject to environmental review. Analysis of the Concept Paper for the Project indicated that a number of the components and/or sub-projects proposed contained activities for which an environmental assessment is required. The attached package presents a detailed analysis of the environmental status of each of the proposed sub-projects with a corresponding recommendation. Based on the information above and contained in the attached analyses, USAID/El Salvador recommends a Positive Threshold Decision for those parts of the Project with significant environmental impacts. Further environmental analysis will be performed as required and/or appropriate linkages formed with existing Environmental Assessments.

Concurrence:

  
 John Sanbrailo  
 Mission Director  
 USAID/El Salvador

  
 Date

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**INITIAL ENVIRONMENTAL EXAMINATION**

**PEACE AND NATIONAL RECOVERY IN EL SALVADOR PROJECT**  
**(519-0394)**

**I. Project Description**

The Project is for \$280 million, \$140 million from new funds and \$140 million from current and programmed USAID funds. The Project consists of assistance to the Government of El Salvador to support its National Reconstruction Plan directed toward increasing economic opportunities, attacking poverty, and improving the quality of life for individuals and families affected by the conflict.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Project consists of the following major components: (a) immediate conflictive zone relief; (b) ex-combatant assistance; (c) social and economic reactivation in the conflictive zones; (d) land transfer mechanisms; (e) infrastructure; and (f) other programs.

Each of the components of The Peace and National Recovery Project proposed by USAID for El Salvador has a number of sub-projects and activities. Funding for the Activities will be a mix of reprogrammed monies from existing projects, existing local currency, new local currency, and new dollar funds. The overall National Recovery Plan Project number will be 519-0394.

In order to consider the environmental implications of a Project with so many elements, each of the sub-projects was considered separately and a determination made about its potential environmental impact which is included in the attached package.

Some of the sub-projects are eligible for Categorical Exclusions: Documentation Activity, Landmine Public Awareness Campaign, Socio-Demographic Studies Activity, Social Reintegration Counseling Activity, University Scholarship Activity, Mental Health and Related Services for Children Activity, School Teacher Hiring Activity, Vocational/technical Training Activity, Survey and Administrative support for Land Transfers, and Feasibility Studies for Major Infrastructure Activities.

Other sub-projects are expansions of existing Projects which have existing Initial Environmental Examinations or Environmental Assessments and for which no additional action is required: Food and Distribution Activity; Health Services Delivery Activity; Vaccination campaign, maternal health and child survival, equipping and supplying clinics and schools Activity; Rehabilitation of handicapped persons Activity, Provision of prosthetics and orthotics Activity; and School supplies, equipment and furniture; Microenterprise credit and technical assistance Activity.

Some sub-projects contemplate activities similar to those of existing projects with approved IEEs and Environmental Assessments and for which a close linkage with these approved assessments is recommended: PVO Support Activity; Equipping/supplying of health posts/clinics Activity; Agricultural Credit and Technical Assistance Activity; Agricultural and/or shelter starter packages Activity; and Credit for Purchase of Land Activity.

Additional Environmental Assessments will be required only for the major physical infrastructure projects subject to section 216.2(d).

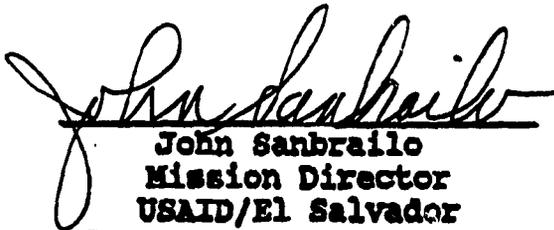
## II. Recommendations

In view of the above examination of the environmental issues of this Project, it is recommended that a Positive Determination be made and that the appropriate mitigative measures be incorporated into each of the applicable sub-projects as prescribed by either the current Environmental Assessments covering them or new ones if necessary.

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

**Project Location:** El Salvador  
**Project Title:** FVO Support for Education and Health Services  
**Project Number:** 519-0281 (Amendment)  
**Funding:** \$1 Million (LOP)  
**Life of Project:** 1 year  
**IEE Prepared by:** Peter Gora  
USAID/El Salvador  
Environmental Officer  
**Recommended Threshold Decision:** Positive Determination  
**Mission Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
  
Date

**PVO Support for Education and Health Services  
in the Conflictive Zone, under an  
Amendment to Emergency Program: Health and Jobs  
for Displaced Persons, 519-0281**

**AMENDMENT TO  
INITIAL ENVIRONMENTAL EXAMINATION OF 1984  
AND ENVIRONMENTAL ASSESSMENT OF JUNE 1991**

The PVO Support for Education and Health Services as a new Activity under an Amendment to Emergency Program: Health and Jobs for Displaced Persons, 519-0281 has a planned life of 1 year with planned obligations not to exceed \$1 million.

The goal of the Activity is to improve the quality of life for displaced persons in the conflictive areas. The Activity purpose is to enable residents of the conflictive zone to become more readily incorporated into the general society.

The Activity consists of providing residents of the conflictive zone with food and health services, minimum shelter, temporary employment, productive projects, and agricultural inputs.

The Ministry of Health will staff and stock field hospitals and health centers with necessary medicines and emergency medical supplies using ESF-generated local currencies already programmed for the National Recovery Plan. This assistance will be complemented by other health services to be provided under the USAID-supported Displaced Persons Project 519-0281.

Utilizing existing agreements with private voluntary organizations (PVOs), the Displaced Persons Project can extend humanitarian assistance by means of a "safety net" which, in addition to food and health services, provides special assistance, such as minimum shelter, temporary employment, productive projects and agricultural inputs. In addition to PVOs, currently active under this project, it is anticipated that other PVOs including those supportive of the FMLN, also will participate in this immediate relief process.

Project 519-0281 already has an approved Environmental Assessment for the activities contemplated in this Activity: "Environmental Assessment of Pesticides Proposed for Use in USAID/El Salvador Emergency Program: Health and Jobs for Displaced Families (Basic Grains Program) (AID Project No. 519-0281) and General Relief Program (PL-480, Title II), (AID Project No. 519-620)."

In addition, to the extent that the PVO support activities provide health and education services (such as water supplies and sanitation facilities) similar to those provided by the PROSAMI Project 519-0367, they will be covered under the Environmental Assessment for 519-0320, Public Services Improvement Project approved on 10/16/90 as stipulated in the IEE for 519-0367 dated 2/15/90.

RECOMMENDATION FOR THRESHOLD DECISION

Based on the information above, we recommend a positive Threshold Determination for the Activity. However, since the Activity contemplates only activities already approved under 519-0281 and 519-0320, no additional Environmental Assessment will be performed and activity participants will be instructed to follow the same mitigative and precautionary steps recommended in the Environmental Assessments prepared for those projects.

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

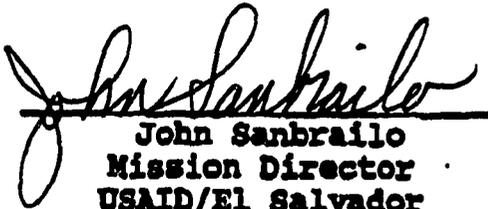
Project Location: El Salvador  
Project Title: Peace and National Recovery  
Project Number: 519-0394  
Activity Title: Equipping/supplying Health Posts/clinics  
Activity Funding: \$8 Million (LOP)  
Life of Project: 5 years  
IEE Prepared by: Peter Gove  
USAID/El Salvador  
Environmental Officer  
Date Prepared: January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new projects. Analysis of the Concept Paper for the Project indicated that this activity should be covered by the same negative determination which Project 519-0308 received on 4/23/91 (LAC-IEE-91-36)

Based on the information above, we recommend a negative determination for the Threshold Decision for the Activity.

Concurrence:

  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
January 14, 1992  
Date

INITIAL ENVIRONMENTAL EXAMINATION

EQUIPPING/SUPPLYING HEALTH POST AND CLINICS ACTIVITY  
(519-0394)

I. Project Description

The Activity is for \$8 million, \$4 million from new funds and \$4 million in funds reprogrammed from existing projects. The Activity is similar to the Health Systems Support Project 519-0308 whose aim is to support and strengthen the capacity of the Ministry of Public Health to deliver basic health services..

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of supplies and equipment acquisition and management in order to reopen health posts and clinics that were closed because of the conflict. Unlike Project 0308 which received a positive Threshold Decision because it proposed the use of pesticides to control malaria bearing mosquitoes, this Activity does not contemplate any malaria control. This Activity therefore should be covered by the same negative determination which Project 519-0308 received on 4/23/91 (LAC-IEE-91-36)

II. Recommendations

In view of the above examination of the environmental issues of this Activity it is recommended that a negative determination be made for this Activity.

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**INITIAL ENVIRONMENTAL EXAMINATION**

**BASIC PROJECT DATA**

**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Activity Title:** Agricultural Credit and Technical Assistance  
**Activity Funding:** \$15 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore *PG*  
USAID/El Salvador  
Environmental Officer  
**Recommended  
Threshold Decision:** Positive Determination  
**Mission  
Threshold Decision:** Concur with Recommendation  
**Date Prepared:** January 10, 1992

*John Sanbrailo*  
\_\_\_\_\_  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
*January 17, 1992*  
\_\_\_\_\_  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**Agricultural Credit and Technical Assistance Activity**

**(519-0394)**

**I. Project Description**

The Activity is for \$15 million, \$10 million from new funds and \$5 million in funds reprogrammed from existing projects. The Activity is similar to the Rural Financial Markets Project 519-0307 whose aim is to increase the availability and productive use of credit in the reform agricultural sector. The new Activity will make credit available through the BFA and FEDECREDITO.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of expanded agricultural credit and technical assistance programs for residents of the conflictive zones. Unlike Project 519-0307 which received a negative Threshold Decision because it did not propose the financing of pesticides, this Activity may finance agricultural inputs including pesticides. If this Activity does finance the acquisition of pesticides, it will be under the same conditions as required and approved under the Environmental Assessment for the Agricultural Starter packages of Project 519-0281 which received approval on / / .

**II. Recommendations**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Project Agricultural Credit Activity indicated that it should be covered by the same Environmental Assessment which was performed for Project 519-0281.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity and the further determination that the Environmental Assessment performed for Project 519-0281 is sufficient to cover the actions contemplated by the new Agricultural Credit Activity. We recommend that no further environmental study be undertaken for this Activity.

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AMENDMENT TO  
INITIAL ENVIRONMENTAL EXAMINATION OF 1984  
AND ENVIRONMENTAL ASSESSMENT OF JUNE 1991

BASIC PROJECT DATA

**Project Location:** El Salvador  
**Project Title:** Agricultural and/or Shelter  
Starter Kits  
**Project Number:** 519-0281 (Amendment)  
**Funding:** \$2 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore *PG.*  
USAID/El Salvador  
Environmental Officer  
**Date Prepared:** January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Those individuals in the repatriate and displaced person communities who decide to farm for a living, will be given agricultural starter packages containing seeds, EPA-approved fertilizers, pest control applications, and basic farming tools. As an expanded activity of Project 519-0281, the Agricultural starter packages should come under the recent EA performed for pesticide use in basic grain production by CICP in June 1991. There will be no new uses of pesticides and all of the safeguards proposed by the EA will be observed.

Based on the information above, we recommend a positive Threshold Determination for the Activity. However, since the Activity contemplates only activities already approved under 519-0281, no additional Environmental Assessment will be performed as the pesticide uses are covered under the CICP EA of June 1991.

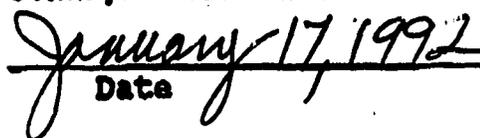
Concurrence:

*John Sanbrat*  
\_\_\_\_\_  
John Sanbrat  
Mission Director  
USAID/El Salvador  
*January 17, 1992*  
\_\_\_\_\_  
Date

**INITIAL ENVIRONMENTAL EXAMINATION**

**BASIC PROJECT DATA**

**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Activity Title:** Agricultural Credit for Land Purchase  
**Activity Funding:** \$13.5 Million (LOP)  
**Life of Project:** 5 years  
**IEE Prepared by:** Peter Gore  
USAID/El Salvador  
Environmental Officer  
  
**Recommended  
Threshold Decision:** Negative Determination  
  
**Mission  
Threshold Decision:** Concur with Recommendation  
  
**Date Prepared:** January 10, 1992

  
John Sanbrailo  
Mission Director  
USAID/El Salvador  
  
Date

INITIAL ENVIRONMENTAL EXAMINATION

PEACE AND NATIONAL RECOVERY

(819-0394)

Agricultural Credit for Land Purchase Activity

I. Project Description

The Activity is for \$13.5 million, \$5 million from new funds and \$8.5 million in funds reprogrammed from existing projects. The Activity is similar to the present ongoing Land Bank Project funded with local currency whose aim is to provide land to, or credit for the purchase of land by, repatriated families and ex-combatants where possible. The institutions which will receive direct assistance are the Land Bank, Institute for Agrarian Transformation (ISTA), the Land Registry Office (RPRH) and the National Geographic Institute (IGN).

The Land Bank will be the institution primarily responsible for financing land in the vicinity of the repatriated villages. Under normal circumstances, the Land Bank acts only as a financing agent. That is, when the buyer and seller have agreed upon the terms of the transfer and the transaction meets the criteria, the Land Bank then provides credit. Under the National Recovery Program, however, the Land Bank will take a more proactive role, identifying properties and property owners and actively negotiating with them on behalf of the beneficiaries.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of expanded agricultural credit for land purchase through the Land Bank by residents of the conflictive zones. In order to assure that credit is not extended for the purchase of land which may be inappropriate for agriculture, the Land Bank should initiate a system of land use categories to evaluate the types of land it is purchasing. Such a system already exists and has been applied to certain of the Agrarian Reform properties. The use of such a system would assure that obviously inappropriate lands such as gullies and wetlands are not financed with this Activity.

## **II. Recommendations**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Plan Agricultural Credit Activity indicated that it should receive categorical exclusion under Section 216.2(c)(x), "Support for intermediate credit institutions...." Nevertheless, in order to assure that lands financed by this project are appropriate for agricultural uses, this IEE was prepared recommending the institution of a land use categorization system for the Land Bank.

Based on the information above, we recommend a negative determination for the Threshold Decision for the Activity and that no further environmental study be undertaken for this Activity.

**INITIAL ENVIRONMENTAL EXAMINATION**

**BASIC PROJECT DATA**

**Project Location:** El Salvador  
**Project Title:** Peace and National Recovery  
**Project Number:** 519-0394  
**Activity Title:** Municipalities in Action (NEA)  
**Activity Funding:** \$100 Million (LOP)  
**Life of Activity:** 5 years  
**IEE Prepared by:** Peter Gore *PG*  
USAID/El Salvador  
Environmental Officer

**Recommended  
Threshold Decision:** Positive Determination

**Mission  
Threshold Decision:** Concur with Recommendation

**Date Prepared:** January 10, 1992

*John Sanbrailo*  

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John Sanbrailo  
Mission Director  
USAID/El Salvador  
*January 17, 1992*  

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date

**INITIAL ENVIRONMENTAL EXAMINATION**

**Peace and National Recovery**  
**(819-0394)**

**Municipalities in Action**

**I. Project Description**

The Activity is for \$100 million, \$40 million from new funds and \$60 million in funds reprogrammed from existing Projects. The Activity is an expansion the present ongoing Municipalities in Action Project funded with local currency whose aim is to address immediate local, small-scale infrastructure construction needs at the municipal level, as identified by the communities themselves.

With the help of CONARA and the mayors, the initial needs of the inhabitants in 63 of the 82 municipalities in the conflictive zones have already been determined through open town meetings. In those cases, at least one project per municipality has been prepared for immediate contracting. Needs in the remaining areas will be established as soon as access can be gained. Experience under the MEA program indicates that the needs for basic infrastructure expressed by local citizens are very similar throughout the country and fall into five major categories of activities: access roads 36%; electrification 16%; schools/education 15%; water and sewer 12%; health and community centers 11%.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The National Recovery Project Municipalities in Action Activity consists of providing health and education services, water supply, and road and bridge access between cantons, cantons and municipal centers, and municipal centers and the national road network.

The water supply activities are covered under the Environmental Assessment performed for the 519-0320 Public Services Improvement Project which was approved on 10/16/90. The rural roads which were constructed under 519-0320 had individual assessments on site to ensure that there were no negative effects because of the construction activity. The construction of health and education buildings will be on a small scale, but also fall under the negative determination granted an IEE prepared for the Rural Primary Education Expansion Project 519-0190.

## **II. Recommendations**

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the National Recovery Plan Municipalities in Action Activity indicated that it should receive an Initial Environmental Examination because the project contained elements that had potential environmental impacts. Although the impacts are likely to be of a minimal nature because of the scale of the Activities and some are covered by Environmental Assessments which have been performed for similar Projects supported by the Mission, some negative environmental effects may be caused by the road building and electrification Activities.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity and that an Environmental Assessment be performed for the Road Building and Electrification components of the Municipalities in Action Activity.

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

Project Location: El Salvador

Project Title: Peace and National Recovery

Project Number: 519-0394

Activity Title: Road Repair and Reconstruction

Activity Funding: \$11 Million (LOP)

Life of Project: 5 years

IEE Prepared by: Peter Gore *P.G.*  
 USAID/El Salvador  
 Environmental Advisor

Recommended  
 Threshold Decision: Positive Determination

Mission  
 Threshold Decision: Concur with Recommendation

Date Prepared: January 16, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the Project indicated that this activity is not covered by the Environmental Assessment for Project 0320 and should therefore have a new Environmental Assessment performed.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity.

Concurrence:

*John Sanbrailo*  
 \_\_\_\_\_  
 John Sanbrailo  
 Mission Director  
 USAID/El Salvador

FEB - 3 1992

\_\_\_\_\_  
Date

INITIAL ENVIRONMENTAL EXAMINATION

BASIC PROJECT DATA

Project Location: El Salvador  
Project Title: Peace and National Recovery  
Project Number: 519-0394  
Activity Title: Intensive Electric Grid Maintenance  
Activity Funding: \$30 Million (LOP)  
Life of Project: 5 years  
IEE Prepared by: Peter Gore *P.G.*  
USAID/El Salvador  
Environmental Advisor  
  
Recommended  
Threshold Decision: Positive Determination  
  
Mission  
Threshold Decision: Concur with Recommendation  
  
Date Prepared: January 10, 1992

RECOMMENDATION FOR THRESHOLD DECISION

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects. Analysis of the Concept Paper for the Project indicated that this activity is not covered by the Environmental Assessment for Project 0320 and should therefore have a new Environmental Assessment performed.

Based on the information above, we recommend a positive determination for the Threshold Decision for the Activity.

Concurrence:

  
John Sanbrailo  
Mission Director  
USAID/El Salvador

FEB - 3 1992

Date

**Documentation Activity, supported by  
ESF generated Local Currency**

**Categorical Exclusion**

The Documentation of Civilians in the conflictive zones Activity supported by funds reprogrammed from existing resources has a planned life of 1.5 years with planned obligations not to exceed \$.250 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of a documentation campaign to provide residents of the conflictive zones with national identity cards, cédulas, so that they can participate more fully in national life.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(v), "Documentation and information transfer...." of 22CFR.

184

**Landmine Public Awareness Activity, under an  
Amendment to Emergency Program: Health and Jobs  
for Displaced Persons, 519-0281**

**Categorical Exclusion**

The Landmine Public Awareness Activity under an Amendment to Emergency Program: Health and Jobs for Displaced Persons, 519-0281 has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of an educational campaign and as such qualifies for categorical exclusion under Section 216.2(c)(2)(i) of 22CFR, "Education, technical assistance and training..." In addition, the Activity will have a positive environmental impact in that serious threats to man and his works will be eliminated through the successful use of the information that this campaign will disseminate.

185

**Socio-Demographic Studies Activity, supported  
by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Socio-Demographic Studies Activity supported by funds reprogrammed from existing resources has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of a socio-demographic study which will be carried out by interviews with residents of the conflictive zones to determine their current status and needs.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(xiv), "Studies, projects or programs to..." of 22CFR.

186

**Social Reintegration Counseling Activity, supported  
by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Social Reintegration Counseling Activity supported by funds reprogrammed from existing resources, has a planned life of 1 year with planned obligations not to exceed \$.500 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of setting up counseling services in various locations in the country to provide educational, vocational, and job availability information to former members of the El Salvador Armed Forces and the FMLN.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." of 22CFR.

181

**University Scholarship Activity, supported  
by funds from the 519-0394 Project**

**Categorical Exclusion**

The Activity to provide university scholarships for ex officers of the ESAF and commandantes, supported by funds from the new 0394 Project, has a planned life of 5 years with planned obligations not to exceed \$7.5 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of providing tuition, books, and a monthly stipend to officers who have been demobilized from both sides so that they can obtain a university education.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." of 22CFR.

13

**Mental Health and Related Services for Children Activity,  
supported by funds from planned Mission resources  
and additional USG funds**

**Categorical Exclusion**

**Mental Health and Related Services for Children Activity supported by funds planned Mission resources and additional USG funds has a planned life of 5 years with planned obligations not to exceed \$3.3 million.**

**The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.**

**The Activity consists of staffing a number of clinics and schools to provide mental health counseling and related services to children affected by the war so that they can lead more normal lives.**

**Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(xiv), "Studies, projects or programs to..." of 22CFR.**

- 189

**School Teacher Hiring Activity, supported  
by funds planned Mission resources  
and additional USG funds**

**Categorical Exclusion**

The Activity to hire additional teachers to staff schools in the conflictive zones, supported by funds from planned Mission resources and additional USG funds, has a planned life of 3 years with planned obligations not to exceed \$1.2 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of hiring additional school teachers to staff the schools that are being rehabilitated in the conflictive zones in order to make education available to the maximum number of children possible..

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs...", of 22CFR.

**Vocational/technical Training Activity, supported  
by funds from planned Mission Resources  
and new USG funds**

**Categorical Exclusion**

The Activity to support vocational and technical training to residents in the conflictive zones, supported by funds from planned Mission resources and new USG funds, has a planned life of 5 years with planned obligations not to exceed \$14 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of giving residents skills so that they can become employed by providing vocational/technical Training as an expansion of the ongoing local currency funded project with CONARA and FEPADE. This vocational training project is similar to the Microenterprise Development Project 519-0315 which received categorical exclusion from an IEE on 8/31/90. Funding will be from planned Mission resources and new USG funds.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." of 22CFR.

191

**Survey and Administrative support for Land Transfers,  
supported by funds reprogrammed from existing resources**

**Categorical Exclusion**

The Activity to support survey and administrative salaries/supplies for land transfers, supported by funds reprogrammed from existing resources, has a planned life of 5 years with planned obligations not to exceed \$1.5 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of provide legal status to landholders in the conflictive zones by supporting the Institute for Agrarian Transformation (ISTA) for surveying activities and logistical and administrative support, the Land Registry Office (RPRH) for salaries and administrative costs, and the National Geographic Institute (IGN) for personnel, mapping supplies, and office equipment. Funding will be from planned Mission resources.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)2(v), "Document and Information transfers." of 22CFR.

**Feasibility Studies for Major Infrastructure Activities,  
supported by funding from existing project  
and planned Mission resources**

**Categorical Exclusion**

The Feasibility Studies for Major Infrastructure Activities, supported by funds from an existing Mission Project and new USG funds, has a planned life of 3 years with planned obligations not to exceed \$10 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of carrying out a series of design feasibility studies for major infrastructure activities in the conflictive zones.

Since the studies contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(xiv), "Studies, projects or programs to..." of 22CFR.

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**Support for Investment Promotion, supported  
by new USG funding**

**Categorical Exclusion**

The Activity to support Investment Promotion in the conflictive zones, supported by new USG funds, has a planned life of 5 years with planned obligations not to exceed \$1 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of the preparation of studies to identify opportunities for investment in the target areas; identification of/proposing solutions to impediments to such investment; and development of appropriate promotional materials.

Since the actions contemplated will not have an effect on the natural or physical environment, the Activity qualifies for categorical exclusion under Section 216.2(c)(2)(v), "Documentation and information transfer...", of 22CFR.

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**TECHNICAL ASSISTANCE FOR THE DIRECTORATE GENERAL  
OF RECONSTRUCTION (DGR) SUPPORTED BY FUNDS FROM PLANNED  
MISSION RESOURCES AND NEW USG FUNDS**

**Categorical Exclusion**

The Activity to provide technical assistance for the Directorate General of Reconstruction (DGR) supported by funds from planned Mission resources has a planned life of 5 years with planned obligations not to exceed \$7 million.

The goal of the Project is to support El Salvador's National Reconstruction Plan in consolidating the peace negotiation process, helping resolve societal unrest, and sowing the seeds of future growth with equity and a strong democracy. The Project purpose is to promote the economic reactivation of the conflictive zones by helping to restore their access to basic services and assisting the democratic reintegration of their population.

The Activity consists of strengthening the DGR by establishing a management unit responsible for coordinating with the respective line ministries and semi-autonomous public service entities, establishing clear priorities, quality control, donor coordination, and overall paper flow.

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