

PD-ABQ-550



USAID/EL SALVADOR

Strategic Objective # 1:

***"Expanded Access and Economic
Opportunity for Rural Families in Poverty"***

Results Package No. 5

***"Economic Policy Environment
Supporting Greater Equity"***

Results Package Document

March, 1998

**Economic Policy Environment Supporting Greater Equity
Results Package Document Index**

	Page No.
I. INTRODUCTION	
II. PROBLEM STATEMENT	1
A. Background - Economic Progress and Challenges	1
B. The Persistence of Rural Poverty	2
III. RELATIONSHIP TO USAID/EL SALVADOR'S STRATEGY	4
A. Modernization of the State	4
B. GOES Adopts and Implements a Rural Poverty Strategy	5
IV. ANALYTICAL/CONSULTATION PROCESS	7
A. Critical Assumptions	7
B. Consultation Process	8
V. SUMMARY OF ACTIVITIES/EXPECTED RESULTS	10
A. Current Activities	10
B. New Activities	12
1. Decentralization and Rural Poverty Reduction	12
2. Mission Buy-in to BASIS CRSP	16
VI. FEASIBILITY ANALYSES	16
VII. CUSTOMER SERVICE	17
VIII. HUMAN CAPACITY DEVELOPMENT STRATEGY	18
IX. IMPLEMENTATION AND MANAGEMENT PLAN	19
A. Results Package Team	19
1. USAID El Salvador Results Package Team	19
2. Extended Team	22
B. Activity-level Responsibilities	23
1. Primary Implementing Mechanisms	23
2. Performance Measuring and Reporting	23
X. FINANCIAL PLAN	24
XI. PERFORMANCE MONITORING PLAN	25
ANNEXES	
A. RESULTS FRAMEWORK	
B. USAID STATUTORY CHECKLIST	
C. CONGRESSIONAL NOTIFICATIONS	
D. INITIAL ENVIRONMENT EXAMINATION	
E. PERFORMANCE INDICATORS/EXPECTED RESULTS	
F. POVERTY RATES	
G. DESCRIPTION OF CURRENT ACTIVITIES	

LIST OF ACRONYMS AND TERMINOLOGY

ANEP	National Association of Private Enterprise
BASIS CRSP	Broadening Access and Strengthening Input Market Systems, Collaborative Research Support Program
CENTA	National Technology Center
CN	Congressional Notification
CONT	Controller's Office
CRECER	Equitable Rural Economic Growth
DGEA	General Directorate of Agricultural Economics
DOA	Delegation of Authority
ENA	National School of Agriculture
ESF	Economic Support Funds
FIDA	International Fund for Agricultural Development
FISDL	Social Investment Fund for Local Development
FUNDAUNGO	Dr. Guillermo Manuel Ungo Foundation
FUNDE	Economic Development Foundation
FUSADES	Salvadoran Foundation for Economic & Social Development
FY	Fiscal Year
GDP	Gross Domestic Product
GOES	Government of El Salvador
ICEG	Institute for Contemporary Studies and Economic Growth
IDB	Interamerican Development Bank
IICA	Inter-american Institute for Agricultural Cooperation
IR	Intermediate Results
LOP	Life of Project
MAARDs	Modified Acquisition and Assistance Request Documents
MINED	Ministry of Education
MOP	Ministry of Public Works
NGOs	Non-governmental Institutions
OAPA	Ministry of Agriculture Planning Office
PACD	Project Assistance Completion Date
RP	Results Package
SAFI	Integrated Financial Management System
SDO	Strategic Development Office
SO	Strategic Objective
SO1	Expanded Access and Economic Opportunity for Rural Families in Poverty.
SO2	More Inclusive and Effective Democratic Processes
TF	Trust Funds
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USAID/W	USAID/Washington
GTZ	German Technical Cooperation Corporation

- 1 -

RESULTS PACKAGE DOCUMENT

Strategic Objective #1:

**Expanded Access and Economic Opportunity for
Rural Families in Poverty**

Results Package #5:

**Economic Policy Environment
Supporting Greater Equity**

I. INTRODUCTION

This Results Package (RP) document outlines the basic framework and implementation mechanisms for Result #5, "Economic Policy Environment Supporting Greater Equity," under Strategic Objective No 1, "Expanded Access and Economic Opportunity for Rural Families in Poverty." The document also introduces briefly a general description for the new activity starting in 1998, "Decentralization and Rural Poverty Reduction."

II. PROBLEM STATEMENT

A. Background - Economic Progress and Challenges

El Salvador's achievement of macroeconomic stability sets the stage for sustainable reduction of poverty. By 1997, the rate of inflation had been reduced to below three percent¹, the fiscal deficit was around two percent, the real rate of growth was around four percent, and remittances were continuing to rise. The growth process has contributed to declining rates of poverty in the principal urban areas. Notwithstanding these achievements, poverty in rural areas has not significantly decreased and remains an urgent challenge.

The last published Household Survey (1996) showed poverty in the rural areas to have increased by 6.5 percentage points from 1995 to 1996 (see Table 1.1 Annex F). Of the total rural population surveyed in 1996, 64.7 percent were poor (divided between extremely poor, 31.4 percent, and relatively poor, 33.3 percent).² These figures should be interpreted with care, because the 1996 increase in poverty seemed to reflect a temporary spike in some basic food

¹In 1997 this rate has decreased to U.S. level of 2-3%.

²Where poverty is defined as annual per capita income of \$360, and extreme poverty \$180 annual per capita income.

prices. Early information from the 1997 survey suggests that the rural poverty rate moved downward to approximately 1995 levels, again because of basic grain prices. Nonetheless, rural poverty indicators do seem consistent with agricultural growth, which was slower in 1996.

Rural poverty in El Salvador is not merely a phenomenon of low incomes, but has other dimensions as well. Rural residents tend to have less, even little, access to infrastructure and publicly provided services, when compared with the urban population. Rather than observing income only, USAID/El Salvador measures progress in reducing rural poverty by using the following economic and social indicators: a) rural population with access to potable water; b) rural population with access to the formal financial system; and c) access to schooling by rural children aged 7-10. Indicators of the policy results, targets and available actual figures from 1996-2002, are listed in **Annex E**.

There are other constraints to rural poverty reduction, in addition to education and infrastructure. Increasing access to basic financial services and technology through private service-providers will also contribute, *inter alia*, to increased productivity, standards of living, and income for El Salvador's rural poor families. Hence, the Policy Team coordinates its effort with SO#1 RP Teams working in Microfinance and Technology. In sum, El Salvador's rural residents face numerous constraints to raising incomes and access to services, many of which are related to the country's policy framework. (See **Annex A**).

B. The Persistence of Rural Poverty

Several factors explain the persistence of rural poverty in El Salvador.³ First, the economic system -- based largely in plantation agriculture for coffee and other traditional crops, an itinerant labor force, and urban industrialization -- has served to concentrate resources and economic activity in urban areas, especially in the San Salvador metropolitan area. Years of civil war fought largely in the rural areas exacerbated this tendency, as the conflict contained investment around "safe" urban centers, and impeded the extension of infrastructure and public services such as education into the rural areas.

Secondly, there is low growth and productivity in the dominant sectors where rural households generate income and jobs (e.g., agriculture). Agriculture provides employment to over 50 percent of the rural labor force; however, for

³In this document, the terms poverty alleviation and poverty reduction will be used interchangeably.

years the growth in this sector has lagged behind that of other sectors (See Annex F, Table 1.3). Poor performance is attributed principally to low productivity and profitability, due mainly to unfavorable international prices, domestic market constraints, an exchange rate appreciation in real terms and lack of basic infrastructure in rural areas.

Lastly, public policy has neglected investment in infrastructure to improve the poor condition of roads and the lack of potable water, electricity and telecommunications. This neglect has isolated the rural areas, and raises the costs of production and marketing factors, explaining much of the slow progress in rural areas.

Taking the example of rural roads, a FUSADES survey found that the average distance of agricultural products transported from an unpaved road to a paved road was 5.8 km. Unpaved roads represent 63 percent of the national road network. Most of these unpaved roads are in bad condition. In fact, USAID rural customers ranked infrastructure at the top of the list regarding their most pressing needs. The main reasons for the poor maintenance of the road network include: inefficiency in planning and implementation of infrastructure projects in MOP; lack of funding; and lack of understanding of the impact of bad roads on transport costs related to economic development.

Policies discouraging competition appear also to impede economic activity in rural areas. Lack of marketing outlets reduce farmgate prices, and lower incentives for production. Some agricultural inputs are marketed by only a very small number of suppliers. Policies restraining entry in the financial sector repress competition and give formal financial institutions little reason to seek customers in rural areas. Many problems result from too little competition, but there is also evidence of unfair competition. [Example: firms which pay taxes find themselves unable to compete with tax evaders.] A World Bank-FUSADES survey shows that 59 percent of firms experienced problems with unfair competition.⁴

⁴World Bank, El Salvador Meeting the Challenge of Globalization, p. 48, 1996.

III. RELATIONSHIP TO USAID/EL SALVADOR'S STRATEGY

In line with the analysis and figures presented in section II and **Annex F** respectively, there is a general agreement among the GOES, USAID/El Salvador and other international development institutions, that reducing poverty in rural areas is a key objective.

For this reason, the USAID/El Salvador Mission Strategy for the period 1997-2002 states that "one of the USAID's main strategic objectives is to expand access and economic opportunities for rural families in poverty." A necessary condition for rural poverty reduction is to encourage and facilitate rural households' participation in El Salvador's economic growth. To that end, the USAID Economic Growth Office has designed a six-year strategy to: a) better educate and train rural residents; b) improve use of land; c) expand equitable access to financial, technological and marketing services by the rural poor; d) provide better rural productive infrastructure and e) establish an economic policy environment supporting greater equity. These areas of interest correspond to the five intermediate results, which provide the organizational structure and strategy for addressing the constraints to alleviating poverty in rural areas. This document supports RP #5, Economic Policy Environment Supporting Greater Equity.

The Economic Policy RP plays a key role in encouraging and supporting national efforts to implement fundamental reforms --changes to promote economic growth that is deeply rooted, broadly-based and more sustainable. In the Economic Policy area, the higher level intermediate result of achieving an **economic policy environment supporting greater equity** is addressed through the following two main areas of concern:

A. Modernization of the State.

Modernization of the State is a broad heading under which falls a lengthy menu of reforms. The core concern is realignment of the functions of government in El Salvador, to promote efficient and cost-effective provision of essential services, and to remove the state as a player from areas better left to the private sector.

The GOES roadmap for Modernization of the State sets out the following as among key reforms needed in government: expanding the proportion of government expenditure devoted to provision of social services such as basic education, reducing state intervention in the functioning of private markets, increasing the transparency of government operations, closing the loopholes for corruption, enhancing public accountability, promoting efficiency and expanding

equality of economic opportunity. For example, improving the quality of public expenditure--thereby reducing unproductive expenditure--will free up resources which could be budgeted for investment in human capital and basic infrastructure.

Modernization of the State offers a means by which essential public services can be provided to currently underserved rural sectors within the constraints of the Salvadoran public sector budget. This benefit is not automatic; there remains the issue of political will to use budgetary savings for rural services. USAID's primary interest in assisting the GOES with modernization activities stems from our strategic direction which promotes more equitable access to basic social services, especially among the rural poor population.

Other reforms covered under the Modernization of the State rubric promote the efficiency of the economy. An important example is trade liberalization. Lowering barriers to trade is an important element for achieving greater economic efficiency, boosting export markets, and advancing the goal of reducing poverty in rural areas. A low more uniform level of protection, together with participation in multilateral trading arrangements, will create demand for El Salvador's export products and jobs for its labor force, especially in the rural areas.

El Salvador has moved rapidly to open its economy. The process of tariff reform began in 1989. Since then, tariffs have been reduced from 0-290 percent to 0-18 percent and the number of individual rates from 25 to 3. The GOES aim is to continue reducing tariffs to reach a spread of 0-15 percent by 1999. Nevertheless, the structure of tariffs still reflects significant anti-trade biases. For example, producers of final manufactured products enjoy a level of protection higher than that available to most producers of agriculture products. As the principal economic activities of the rural poor relate to agriculture, GOES efforts to make tariff rates lower and more uniform would support its rural poverty reduction efforts.

B. GOES Adopts and Implements a Rural Poverty Strategy.

It is clear from section II that poverty reduction in rural areas remains an urgent challenge. Rural households need greater access to employment and income opportunities, education, basic services (such as health, clean water and sanitation), and productive infrastructure. While there are piecemeal initiatives by both public and private sectors to address different aspects of rural poverty, the effort would be far more powerful and effective, in the view of USAID and

its partners, if the GOES were to adopt an official posture that rural poverty reduction is a national priority.

A national poverty reduction strategy must include many elements, whose implementation must be coordinated among the agencies of the central and local government, as well as with donors and NGOs. An efficient, growing agricultural sector should be an indispensable element in any strategy to alleviate rural poverty, because of the critical importance of agriculture to the rural economy.

At present, the GOES' poverty reduction strategy has been implemented mainly through the Social Investment Fund for Local Development (FISDL). The FISDL has largely concentrated on delivering basic social and physical infrastructure to poor communities, improving access to social services, especially basic education, and providing a social safety net. Complementing the work of FISDL has been a top-to-bottom reform in basic education. The education reform, based on decentralization, expanded access and improved quality, has had impressive results. Higher educational attainment and better quality of education for rural children will be key to assuring higher incomes for this next generation of Salvadoran workers.

Although the GOES' efforts to provide direct interventions in support of rural poverty reduction are important, a rural poverty reduction strategy must also include other elements. For example, a broad-based economic growth strategy that encourages higher incomes in both the agricultural and non-agricultural rural sector is also essential. USAID will contribute to efforts by the broad political spectrum to achieve consensus on the elements of such a strategy.

The Policy RP Strategy supports the objectives of the GOES five-year development plan (1994-1999). One of the key means to achieving rapid and equitable growth, as well as poverty reduction, is by increasing El Salvador's competitiveness in international markets through greater efficiency in domestic production. The GOES development plan views competitiveness as being accomplished through two strategic thrusts.

First, poverty must be reduced by implementing policy reforms supportive of outward-oriented private-sector-led growth. Growth, in turn, depends on accelerating investment, and exports. One constraint to this objective, however, is the country's persistent security concerns. Improved legal and judicial systems are among the reforms that must be undertaken as complements to the GOES growth strategy. Otherwise, El Salvador runs the risk that security issues will raise production costs and thus discourage domestic and foreign investment.

Security issues and economic concerns are intertwined, however. At the root of the civil conflict were both economic and social problems, and in particular, lack of access to land and income opportunities. Only a combination of economic growth and implementation of policies specifically addressing economic access and opportunities in rural areas will ensure continued social peace.

The second target of the GOES development plan is to create a small and competent state which, rather than intervening in private markets, supports private sector commerce and investment. The GOES has introduced deregulation in the power and telecommunications sectors, and is in the process of privatizing the national pension system.

IV. ANALYTICAL/CONSULTATION PROCESS

A. Critical Assumptions

The chief critical assumption behind the SOI strategy is continuing macroeconomic stability and sustained economic growth. El Salvador has made substantial progress in the policies leading to sustainable growth and achieving macroeconomic stability. There is no sign that commitment to macroeconomic stability would falter in future years, hence, the Policy RP does not anticipate devoting resources to short-term macropolicy issues.

A second critical assumption is that USAID's work will be a collaborative effort in concert with other donors. USAID resources for policy work are small; the Mission's ambition is to complement the efforts of the international financial institutions as they relate to modernization of the state and rural/local development. There is a broad agreement among donors that poverty in rural areas deserves special attention.

It is difficult to see how a growing and dynamic rural sector could be achieved without simultaneously addressing an effective provision of basic infrastructure, i.e., roads, safe water, electricity, and telecommunications. Another critical assumption is that the GOES will assure the adequate provision of such services through its efforts at modernizing the state, and by budgeting sufficient resources for expansion of infrastructure into rural areas, either directly, through local government transfers, and through efficient implementation of donor-funded infrastructure projects.

The main partners in the area of policy reform to reduce poverty are the Inter-American Development Bank, the United Nation Development Program (UNDP), the World Bank, and the

bilateral cooperation programs of the governments of Germany and Spain.

The IDB major program in the area of policy to reduce rural poverty assists in local and municipal development through the Social Investment Fund for Local Development (FISDL)⁵. The goal of this program is to improve equity and efficiency in the investment of resources for local development and create private mechanisms for local economic and social development. Specifically, the strategy is to promote local development outside the San Salvador metropolitan areas and redirect resources toward marginal groups and rural areas. The German government through the German Technical Cooperation Corporation (GTZ) is working along the same lines. The Government of Spain is providing assistance for development of a local property tax.

Modernization of State is also an area shared with other donors, mainly the World Bank and the Inter-American Development Bank (IDB). Given the amount of funding from the international financial institutions for modernization, the Policy RP activities in this area will address niches of interest given USAID's strategy, which are not funded under other assistance programs.

The RP maintains regular contact with other donors to ensure complementarity of economic policy initiatives. Together with the IDB, USAID has cofinanced a survey on the quality of public services. USAID is working closely with technical experts of the other donors on issues related to financial sector reform, particularly as relates to institutions serving small and rural customers. USAID has been instrumental in helping the Agricultural Chamber form a donor steering committee, with participation of the GOES and local producers' organizations, to study needed directions in agricultural policy.

B. Consultation Process

Since October 1995, USAID Missions and Offices, as part of the Agency's reengineering, started the process of customer service planning, participatory mechanisms, and teamwork. In this context, the Policy RP members are continuously exchanging views with customers and partners, reviewing activity performance, identifying new foci of interest and problem areas. To accomplish a broadly-based consultation

⁵Recently the GOES created a new local development institution, the new FIS-DL to finance social and productive investments in coordination with local governments, community organizations, and the private sector.

process, the Policy team has the following mechanisms:

- An SO1 Extended Team, which includes thirty members from different sectors and backgrounds (both economic and social). The members are individuals who are sensitive to poverty and gender, and have the ability to represent the concerns of our customers. During the first meeting, the constraints and the strategy to reduce the poverty levels in the country were presented, and the assumptions and hypotheses inherent in the activities proposed were discussed and reviewed. To date three extended meetings have been held.
- A periodic partners/contractors meeting has been implemented for work plan revisions and to receive feedback.
- A customer service plan is a tool utilized by the Mission to identify probable customers (beneficiaries) and their needs, coordinate activities with partners and other donors, and increase participation of customers and partners in the process of planning, implementing, monitoring and evaluating activities. The SO1 customer service plan sets out the consultation process as related to economic growth activities.
- The RP team also consults with virtual team members in USAID/Washington's Global Bureau and in the regional G-CAP Mission.

All these mechanisms support the consultation process, and the Policy team continuously seeks feedback from partners and customers as an important element of the implementation of its activities.

For example, as part of the development of the proposed new activity, Decentralization and Rural Poverty Reduction, the RP presented to the SO1 Extended Team a proposal for the new activity. The proposal was widely accepted and its recommendations have been incorporated in the design of the activity.

V. SUMMARY OF ACTIVITIES/EXPECTED RESULTS

In recent years El Salvador, supported by the USAID program, has made important policy decisions designed to promote macroeconomic stability and nourish sustained economic growth. Various indicators of progress, such as GDP growth and access to basic services (e.g., potable water, school attendance), showed a strong degree of success in the urban areas, and moderate improvements in the rural areas. To embark upon more fundamental reforms and achieve sustainable growth, it is imperative that USAID continue to encourage and support GOES' efforts conducive to an **economic policy environment supporting greater equity**. For this reason, USAID/El Salvador's efforts in this area focus on promoting access and equality of economic opportunity for poor rural families and encourage their participation in local economic growth.

A. Current Activities

The current activities to achieve the expected results are the following three:

Technical Support, Policy Analysis and Training (519-0349).

PACD	-	September 30, 1998
LOP Resources	-	\$35.50 million
Counterpart	-	\$11.80 million

Rural Equitable Economic Growth, Policy Component (CRECER).

PACD	-	May 30, 2000
LOP Resources	-	\$5.43 million
Counterpart	-	\$1.00 million.

Economic Reform and Civil Society, with funding from the Emerging Market's Support for Economic Growth and Institutional Reform (SEGIR) Activity No. 936-4212.

Completion Date	-	October 5, 1999
LOP Resources	-	\$250,000.00
Counterpart	-	0

(Activity purposes and descriptions are found in **Annex G**.)

The first activity concentrates on supporting the modernization of the state. In this context, efforts have been aimed at increasing the efficiency and cost effectiveness of public institutions; improving public sector accountability; assisting the GOES on policy formulation; and promoting greater access to basic services in order to maximize social welfare.

More specifically, some of the areas that have been supported are:

- Institutional strengthening, through investment in human capital and improvements in the information systems of the Ministries of Finance, Economy, Agriculture, Justice, Superintendencies of Financial System and Retirement Pension Funds, and in the Court of Accounts design and implementation of the Integrated Financial Management System (SAFI);
- Review of the legal and regulatory framework for the new pension system, reform and streamlining the tax system and improving tax collection and administration, and support for the privatization effort (e.g., telecommunications);
- Support for trade policy and the process of tariff reform has been provided through specialized training for the trade negotiation team, standardizing phytosanitary standards and advising on tariff reform policy;
- Assistance has also been given to encourage policy dialogue on the independence of the Central Bank and in strengthening bank supervision and regulation.

The second instrument/activity is the policy component of CRECER, centering its assistance on backing the Ministry of Agriculture's institutional and policy efforts to expand access and economic opportunity to rural poor families.

The policy component of CRECER works to strengthen the branches of the Ministry of Agriculture responsible for economic data and policy analysis. A series of studies have been carried out, presenting results and evidence of the beneficial impact of policy reform in stimulating rural economic growth. Furthermore, these studies have served as the basis for policy reform proposals that are either presently on the GOES agenda or have already been implemented. For instance, the trend towards reduction in tariff and non-tariff barriers in the agricultural sector was supported by the USAID activity. Actions are pending on the Ministry of Agriculture's proposed reforms on value added taxes, the export law, and hemp subsector. Proposals for policy studies in these areas were prepared with technical assistance provided under CRECER, which also helps influence the direction of changes toward freer and equitable markets.

The third activity, Economic Reform and Civil Society, has provided technical assistance to the public and private

sectors for the design, discussion and analysis of economic policy reform proposals. Under this activity, the Mission has assisted the Municipality of San Salvador with a tax reform proposal, and has responded to other ad hoc requests for technical assistance.

B. New Activities

1. Decentralization and Rural Poverty Reduction

The principal new activity under the Policy RP, "Decentralization and Rural Poverty Reduction" will begin in FY 1998.

PACD	-	2002 (est.)
LOP Resources	-	\$4.00 million
Counterpart	-	\$1.33 million

This activity promotes an economic policy environment supporting greater equity. The main components for this activity are linked to address directly both sub-intermediate results: modernization of the state, and GOES adoption of a rural poverty strategy.

a. Modernization of the State

In the first component, modernization of the state, the Policy team will continue to provide government and private organizations with technical assistance, training and support for dissemination for reform proposals. The team has identified three issues to address in its new activity:

i) Institutional strengthening for the long-run economic policy:

El Salvador is a country in need of better infrastructure, public education and health services, especially in rural areas. To accomplish this, the government must finance social investment with tax revenues, without reverting to the need to issue bond placements. Raising fiscal revenues by reducing tax evasion is a critical issue that needs to be addressed. It is essential that El Salvador fosters more efficient tax collection and fiscal expenditures through institutional capacity-building activities.

Moreover, recent events in El Salvador exposed the urgent need for reforms in the financial sector, especially in bank supervision and Central Reserve Bank independence. These reforms would assure macroeconomic stability as well as credibility and transparency within the Salvadoran financial system.

While macroeconomic stability is not a primary focus of Mission attention, the new policy activity will support a few high priority, well-targeted technical assistance and training activities in the areas of tax administration and financial sector reform, to support maintenance of long-term economic stability.

ii) Decentralization.

Effective rural development will require economic policy emphasis and resource allocation in support of rural areas. This implies creating conditions to attract investment in areas outside the three major cities. One key challenge is to stimulate industrial development and improve agriculture performance in rural areas. To achieve these objectives, the Policy team has identified two areas of special concern: Fiscal Decentralization, and Conditions for Successful Economic Deconcentration.

-- Fiscal Decentralization

The main purpose of fiscal decentralization is the search for efficiency and equity in the provision of public goods. The fundamental assumption is that decentralization of the public sector functions and responsibilities (e.g., tax collection and allocation of funds) would increase efficiency and equity in the allocation of resources, by bringing the providers of services closer to their consumers.

The Policy Team will coordinate with USAID's democracy strategic objective team and with other donors in providing assistance leading to better fiscal coordination among the different levels: Ministry of Hacienda, government institutions coordinating municipal level actions (Assembly, FISDL, COMURES, ISDEM) and local governments. In addition, the team will respond to specialized policy requests from municipal governments related to improved tax regimes, service provision and infrastructure finance.

-- Conditions for Successful Economic Deconcentration

Economic deconcentration refers to the need to reduce the disincentives to economic activity outside the three major cities, in order to help El Salvador achieve a more spatially balanced economic growth. There are several policy areas that require action:

- Development outside the major cities will require improved rural infrastructure, including roads, water, electricity and communications through private participation in providing infrastructure services. It

is especially important that the GOES monitor the impact of the deregulation of power and telecommunications markets, to ensure that rural service provision is not inadvertently dampened. USAID will offer technical assistance and training related to rural service provision within deregulated markets.

- The rural labor force must develop higher skill levels to enhance productivity. The lack of skilled workers and low productivity constitute the key bottleneck to accelerating growth and generating wealth in these areas, either through small business creation or for workers who migrate to urban areas. Continued commitment to education reform and decentralization, including at the secondary and vocational levels, will be important aspects. While the RP does not anticipate providing assistance to educational reform, there may be opportunities to incorporate labor force issues into policy related technical assistance activities and studies.

iii) Strengthening Competition Policy and Consumer Protection

Competition is valued in a market economy because it motivates efficiency, raises standards for production, and delivers lower prices and more choice to consumers. Competition is impeded within the Salvadoran economy in many ways, including price fixing, reduced margins at the retail level, market fragmentation (e.g. "thin markets" defined as two few players and oligopolistic factors), licensing requirements, and barriers to external trade. Typically in these situations the intermediation margin is high, especially for agricultural and manufactured products from rural areas. The income loss for both producers and consumers can be significant. Market fragmentation can be decreased by lowering transportation costs and improving market information and dissemination.

The current legislation is deficient and does not discourage efforts by producers to impede competition. USAID will offer assistance to both public and private sectors to design and implement reforms that promote greater competition in domestic markets.

Another area of interest is consumer protection. USAID has financed several small pilot activities, including a grant to a local NGO to study private sector consumer protection mechanisms and training for local consumer advocates. USAID will continue to work with civil society to explore and implement programs to educate consumers, and to create private sector consumer protection and mediation mechanisms.

b. GOES Adopts and Implements a Rural Poverty Strategy.

The second result established by the Policy Team relates to the shared recognition by Salvadorans that rural poverty reduction is a national priority. The expression of this result is that the government adopts and implements a Rural Poverty Strategy.

This component supports the development, dissemination and implementation of a rural poverty strategy that emphasizes the generation of employment and higher incomes from both agricultural and non-agricultural economic activities. The strategy should also address access by rural residents to basic public services.

The Policy Team will build on analytical work supported by the World Bank, USAID and the local think tank FUSADES, which undertook a comprehensive survey of rural residents. The study examined the characteristics of the rural poor, such as land ownership, educational attainment, and occupations. Through the Mission's BASIS activity, the rural poverty survey will be repeated on its second anniversary, with the same households interviewed, to track changes in poverty over time.

As a complementary effort, the new activity will provide assistance to the GOES in data collection related to measurement of poverty. USAID has traditionally supported the work of the Office of Statistics and Census of the Ministry of Economy. That office recently entered into a program of support with the IDB, and the Policy Team will offer occasional assistance where needed to complement data analysis relating to rural poverty.

In addition to providing assistance related to data collection, the Policy Team will also seek opportunities to strengthen the national dialogue process on issues related to rural poverty reduction. Opportunities for productive dialogue should grow during the preelectoral period.

A positive effort to provoke dialogue on the national vision and direction is contained in the document "Basis for a National Plan." While calling for a more equitable growth process and for actions to reduce poverty, the plan lacks a specific focus on the rural dimension of poverty. Nonetheless, the authors of the National Plan document are integrating their efforts with sector groups interested in national agricultural policy; there is promise that as the National Plan is fleshed out, that rural poverty issues will take on a greater prominence.

2. Mission Buy-in to BASIS CRSP

A second Policy RP activity to begin in FY 1998 is a buy-in to the Global Bureau BASIS (Broadening Access and Strengthening Input Market Systems Collaborative Research Support Program). The Mission initiated its involvement with the BASIS CRSP in FY 1997, with a small grant to FUSADES, the chief local collaborating institution, to conduct the second rural poverty survey.

PACD	-	2001
LOP Mission Contribution	-	\$200,000 (from PD&S and 0349)
Counterpart	-	TBD

The awarding of the BASIS CRSP was fortuitous for SO1 because the logic of the program was a virtual match with the SO1 strategy. The BASIS CRSP will call upon a consortium of U.S. universities, and a group of collaborating Salvadoran NGOs, to study land, water, labor and financial markets and their interactions, as they relate to the problem of rural poverty.

The Policy RP contribution to the BASIS CRSP leverages research funding from local institutions such as the Central Bank, from the Global Bureau core funding, and from the participating institutions. The research program will complement and inform SO1 RPs about trends, issues and best practices in the areas covered by the five SO1 results packages.

VI. FEASIBILITY ANALYSES

The design of each RP activity requires feasibility analyses to identify main areas to be addressed during the implementation period. In general, the feasibility analyses include the following:

519-0349 Technical Support, Policy Analysis and Training

- A. Institutional Analysis
- B. Technical Analysis
- C. Social Soundness Analysis
- D. Economic Analysis
- E. Environmental Analysis
- F. Cost Estimate and Financial Plan
 1. Financial Plan and Analysis
 2. Recurrent Cost and Sustainability Analysis

519-0397 Equitable Rural Economic Growth (CRECER)

- A. Social Soundness Analysis
 - 1. The Rural Sociocultural Setting
 - 2. The Target Population
- B. Economic Analysis
- C. Institutional Analysis
 - 1. Policy Analysis Unit (OAPA) Ministry of Agriculture
 - 2. General Directorate for Agricultural Economics (DGEA)
 - 3. Nongovernmental Organizations
- D. Technical Analysis
 - 1. Agricultural Sector
 - 2. Rural Enterprises and Organizations
 - 3. Rural Financial Services
- E. Recurrent Cost Analysis
- F. Detailed Budget and Financial Analysis

Decentralization and Rural Poverty Reduction

For this new activity, feasibility analyses include the following:

Existing analytical studies for El Salvador on rural poverty, including the World Bank/FUSADES/USAID Rural Poverty Study, recent project and strategy documents of the international financial institutions, and documentation on municipal development/local public finance developed by SO2, other donors and other USAID missions.

Consultations with key informants, including members of the SO1 extended team, GOES counterparts such as COMURES and the Office of the Commissioner for Modernization, and representatives of civil society.

VII. CUSTOMER SERVICE

SO1 assistance focuses on helping rural Salvadorans, individuals and families, to gain expanded access to basic services and economic opportunity in order to obtain a better quality of life. The activities under this objective are designed, *inter alia*, to increase the efficiency and efficacy of public institutions; improve management of land and capital; promote greater access and quality in primary education; promote greater access to agricultural and productive credit. The SO1 Customer Service Plan considers various methods to initiate contact and maintain ongoing communication with customers, to obtain feedback, monitor progress as well as to keep them informed. While some communications, such as meeting with the extended team and

partners, will take place at the SO1 level, most of the intercommunication, participation and close links will take place at the RP/activity level.

A variety of methods will be used in the RP to initiate and maintain ongoing communications as well as to elicit feedback from customers, including workshops, seminars, meetings and focus groups. Rapid rural appraisal and focus groups are among the more readily available cost effective techniques that will be used to address information gaps and identify priorities. Input from the Multiple Purpose Household Survey, the monitoring and evaluation components of various activities, workshops and key informants (e.g., the extended team) will enable this RP to assess changes in needs as well as progress towards results.

VIII. HUMAN CAPACITY DEVELOPMENT STRATEGY

The human capacity development strategy for this RP will focus on institutional strengthening and human capital investment for all Government of El Salvador entities, non-governmental organizations and other partners that are committed to promote and adopt its two important Results. These are: 1) Modernization of State Leading to Economic Growth and Better Rural Services; and 2) Government of El Salvador Adopts and Implements a Rural Poverty Strategy. More specifically, the training efforts will: a) increase investment in key human capital in Government of El Salvador and private sector institutions that are central to the policy decision-making process and/or provide quality basic services to rural families; b) improve information systems; c) develop institutions involved in long-term economic and agricultural policy formulation, fiscal and economic decentralization, competition policy and consumer protection; and d) support the design, dissemination and implementation of a rural poverty alleviation strategy as well as a training policy that will enhance productivity.

To ensure that the benefits of growth reach the rural residents and enhance productivity, the human capacity development activities will also be directed toward a critical mass of rural change agents, local community leaders, and rural resident workers in order to develop their technical and leadership capacities to respond effectively to private sector labor requirements for industrial development and more sophisticated agricultural techniques as well as to promote effective local decision-making. USAID will strive to serve rural men and women equally with customized training interventions that empower them to take advantage of new job opportunities and private sector initiatives in the rural areas to upgrade their living standards.

The mechanism to support these training activities for this RP is the Human Capacity Development Activity (519-0432). It will provide \$200,000 exclusively for this RP. The Decentralization and Rural Poverty Reduction Activity (519-0442) will also allocate an estimated amount of \$150,000 funds for this purpose for the life of activity. Moreover, the HCD Activity is expected to contribute an additional \$250,000 each fiscal year to support training activities across all the Strategic Objective #1 Results Packages. Additionally, the RP will take advantage of in-country training seminars on cross-cutting topics (e.g., leadership, empowerment skills, institutional strengthening, conflict resolution, self-esteem, strategic planning, total quality management, customer service, and sustainability approaches) financed from Human Capacity Development core funds that will be offered to all USAID El Salvador Strategic Objectives/Results Packages, their technical assistance contractors, partners, and customers.

All training activities will be coordinated/channelled through the HCD Activity and with the Mission's Training Team by developing and submitting annual training plans that respond to this RP's Results. Training re-engineering guidelines and best practices will be followed closely while implementing human capacity development activities for this RP. These include: agreements with stakeholders; change agent concept (leadership, training of trainers, action planning); training needs assessment for annual training plans; critical mass approach; multi-level training; and, group dynamics and participatory methodologies.

IX. IMPLEMENTATION AND MANAGEMENT PLAN

A. Results Package Team

The complete Results Package Team consists of two discrete representative groups: 1) the USAID El Salvador Results Package Team, from within USAID El Salvador, which is responsible for the planning and implementation of activities under the RP; and 2) the Extended Team, which is comprised of stakeholders, partners, customers and contractors who assist in RP implementation, strategic planning, monitoring, and evaluation. These groups are discussed in turn.

1. USAID El Salvador Results Package Team

The Results Package Team consists of approximately six core members from SO1. The Team also counts on approximately six additional members drawn from the Strategic Development Office, the Office of Contracts and Grants, the Controllers Office and the Democracy SO Team. They provide critical

support in financial, contractual, procedural, and regulatory aspects of the Results Package's activities.

Unlike other Mission teams which have a more fixed membership, the Policy RP Team includes the involvement of mission technical staff working in the areas of agriculture, microfinance, and macroeconomic analysis. This flexible membership and sharing of responsibilities ensures that policy issues that are raised within SO1 RP packages can find support from the activities of the policy RP.

All Results Package Team members meet regularly. Their additional responsibilities follow:

a) Advisor (SO1 Team Leader)

Oversees, guides and supports the RP; serves as the final authority for the RP before the Mission Director and Mission at large.

b) Results Package Team Leader and Activity Manager

As Results Package Team Leader, leads and coordinates the Results Package Team in a participatory manner; coordinates RP plans, tasks and training; submits quality RP products on time. Maintains regular contacts with high-level government officials, other private sector institution members, contractors and other donors. Advises Strategic Objective team leader on relevant economic, social and policy reform issues, helps orient Mission funds effectively. As Activity Manager, manages the Technical Assistance, Policy Analysis and Training Activity.

c) Mission Economist

Advises senior Mission management, Strategic Objective Team Leader, and Results Package team on economic developments, policy reform legislation and other trends affecting Mission program and strategies. Plans, coordinates and supervises institution-building support programs in various areas such as trade policy, banking system superintendency and consumer protection. Maintains an extensive range of high-level contacts in the public and private sectors. Assists and advises Results Package Team in developing customer surveys and indicators, as requested.

d) Agricultural Economist (Member of Ag. RP Team)

Develops and implements activities to forward growth and development of agriculture, especially for small-scale farms and cooperatives. Implements and manages agricultural policy analysis through a project with the Ministry of

Agriculture and Livestock; the consumer protection private mechanisms activity; the Equitable Rural Economic Growth policy component; and other Results Package activities.

e) Program Assistant

Assists the Results Package Team Leader in coordinating Results Package meetings, including the agenda preparation; coordinates Extended Team meetings; maintains Results Package Activity files. Drafts Project Implementation Letters, correspondence and MAARDs for the RP activities.

f) Financial Managers (2)

As the two Controller's Office representatives responsible for financial management of RP activities, participates actively in Team activities. Identifies potential financial problems and proposes solutions to them. Advises and assists team members, contractors and counterparts on various financial and accounting issues. Manages control of funds and assists in budget reprogramming. Develops and prepares special customized financial reports for interested parties. Documents, reviews and verifies financial data and presents information to the Strategic Objective team. Assists in preparing implementing documents for the RP. Observes activity implementation through field trips.

g) Office Contracts and Grant Representative

Guides and assists Results Package Team about contracting and procurement guidelines and requirements, including issues that might arise during contract performance. Suggests appropriate actions to obtain Team results, e.g., ensuring statements of work define Team needs adequately, determining the most appropriate contractual arrangement and bringing irregularities to the attention of the Results Package Team Leader with recommendations for corrective action. Coordinates implementation of the Annual Procurement Planning System and emphasizes its importance in order to meet required deadlines.

h) Strategic Development Office Representatives (2)

Updates the Policy Results Package Team on USAID and Mission policy, procedures and guidance, assisting and guiding the Team in their use to prepare activity design and implementation documentation correctly and on time; assists the Team's strategic and new activity design planning and coordinates its input to Mission program documents (e.g, the Results Review and Resource Request); reviews funding and other documents (as specified in Mission DOA) for quality, compliance with policies and procedures, and adherence to

the Strategic Plan; provides Semi-Annual Review guidance and ensures Team follow-through on Review decisions; guides programming and implementation, and budget coordination and obligation planning to achieve results; coordinates activity evaluations, guiding the overall RP monitoring and evaluation process as necessary; provides inter-Strategic Objective team coordination.

i) Human Capacity Development Representative

Advises and assists the complete Results Package Team on Human Capacity Development policies and current training guidelines, and monitors its compliance with them. Coordinates the development and implementation of various training plans for the Results Package's Human Capacity Development Program, in part by adapting and incorporating lessons learned and best practices from various sources. Monitors the development, implementation and impact of training, especially for rural residents, by gender. Reviews Human Capacity Development activity documentation for clearance. Monitors progress and follow-on to the training-related aspects of the RP, including impact and job performance data. Coordinates training component evaluations, ensuring that they contain all related information to training indicators and data. Verifies the results obtained through conducting field trips and attending multiplier effect training seminars.

j) Democracy Strategic Objective Representative

Advises RP Team on linkages between Democracy and Economic Growth policy activities, especially as relate to municipal development and rule of law. Coordinates actions of RP activities that interrelate with Democracy activities, and keeps Democracy SO Team leader informed of the direction and content of RP policy initiatives.

2. Extended Team

Composed of representatives of stakeholders, partners, and customers, the extended team provides the RP with overall strategic direction and a means for receiving input from a wide spectrum of Salvadoran society affected by its activities. The extended team meets twice a year, or as the need arises. USAID's extended team members include government and non-government representatives.

B. Activity-level Responsibilities

1. Primary Implementing Mechanisms

The following chart illustrates the implementing mechanisms and start/end dates for all present and planned activities within the RP. The Project Papers for each activity detail their own contractual arrangements.

ACTIVITY	IMPLEMENTATION MECHANISM	ACTIVITY START → END
519-0349 Technical Assistance, Policy Analysis and Training	Bilateral Agreement with the GOES, grant agreement with IICA	1988 → Sep. 1998
519-0397 (CRECER)	Bilateral Agreement with the GOES, contract with Chemonics International	1995 → 2000
936-4212 (SEGIR) Economic Reform and Civil Society with funding from the Emerging Market's Support for Economic Growth & Institutional Reform	Contract with Development Technologies Systems, Inc.	1997 → 1999
519-0442 Decentralization and Rural Poverty Reduction	Undetermined (Various)	1998 → 2002

2. Performance Measuring and Reporting

USAID will use various sources to obtain performance monitoring information including: The Multiple Purpose Household Survey, Cid Gallup Poll, the Official Gazette, National Budget, and various GOES reports and publications.

X. FINANCIAL PLAN

The USAID/El Salvador resources contributing to the objectives of the Economic Policy Result Package are as follows:

ACTIVITY	AUTHORIZED USAID/ES*	OBLIGATED USAID/ES*	MORTGAGE*	COUNTER- PART*	TOTAL* PACD
519-0349	\$ 35,500	\$ 34,772	\$ 728	\$ 11,840	\$ 47,340 09/98
519-0397	5,433	1,712	3,721	1,000	6,433 05/2000
936-421200	250	250	0	0	250 10/99

(*) thousands of US dollars.

In order to provide for correct implementation and management of USAID funds, the Mission provides follow-up of each Activity through the Activity Managers and the RP team members. In addition, recipients are required to carry out annual audits that meet generally accepted government auditing standards as promulgated by the United States General Accounting Office. Counterpart contribution reports are required every quarter and are followed up by the offices of SDO and CONT together with the Activity Managers.

For new starts under the RP, in order to determine if the prospective recipient is eligible to receive funding from USAID, a pre-award survey will be conducted by the Office of the Controller and the Office of Contracts and Grants, as applicable. With regards to counterpart contributions, it is the policy of the Mission to negotiate and try to obtain as much counterpart contribution as possible to obtain maximum impact from the assistance, subject to the minimum of 25 percent mandated by law or USAID regulations. This requirement is not applicable, as a matter of law, to non-profit organizations or to Economic Support Funds (ESF). However, USAID/El Salvador has administratively determined to apply this requirement whenever possible.

The obligation plan by fiscal year for the RP is the following (in US\$000):

ACTIVITY	FY-97	FY-98	FY-99	FY-00	FY-01	FY-02	TOTAL
BASIS	35	120	0	45	0	0	200
519-0349	272	0	0	0	0	0	272
519-0397	500	400	400	400	0	0	1,700
519-0442	<u>0</u>	<u>750</u>	<u>850</u>	<u>900</u>	<u>1,000</u>	<u>500</u>	<u>4,000</u>
TOTAL:	<u>807</u>	<u>1,270</u>	<u>1,250</u>	<u>1,345</u>	<u>1,000</u>	<u>500</u>	<u>6,172</u>

USAID Management Costs

As indicated in the table below, the total USAID management costs dedicated to this RP are estimated to be US\$ 157,750 per year, out of which US\$ 13,450 are financed from current activities under the RP, US\$ 48,650 are financed from Operating Expenses and the remaining US\$ 95,650 are financed from Trust Funds.

Org. Unit	Employee Type	Person/ Years	Source of Funding			COST PER YEAR
			RP	OE	TF	
SO1	FSN-PSC	1.00			X	\$22,000.00
SO1	FSN-PSC	0.60			X	26,600.00
SO1	FSN-PSC	0.50	X			13,450.00
SO1	FSN-DH	0.50			X	25,600.00
SO1	FSN-DH	0.15			X	6,650.00
SO1	US-DH	0.25		X		23,400.00
SO2	US-DH	0.25		X		16,250.00
SDO	FSN-PSC	0.15			X	3,200.00
SDO	US-DH	0.15		X		9,000.00
OJG	FSN-PSC	0.15			X	2,700.00
CONT	FSN-PSC	0.15			X	3,100.00
CONT	FSN-DH	0.15			X	5,800.00
TOTAL		4.00	0.50	0.65	2.85	\$157,750.00

Note: This workforce table represents USAID/El Salvador's estimate of its resources used in project management, and does not reflect any AID/W instructions in this regard.

XI. PERFORMANCE MONITORING PLAN
Economic Policy Results Package Indicators
Policy RP's Objective and Targets

The main goal of the Policy Result Intermediate Result is to create the economic policy environment supporting greater equity through the achievement of two lower level intermediate results: a) modernization of state leads to economic growth and better rural services; b) support the GOES to adopt and implement a rural poverty strategy.

Indicators

Progress toward these intermediate results could be measured through the following indicators:

For the upper level Intermediate Result "Economic Policy environment supporting greater equity" progress will be measured with the "growth elasticity of poverty", which is computed using the percent change in poverty/percent change in per capita

income. The average elasticity coefficient for El Salvador in the period 1991-1996 is - 0.61, which means that economic growth contribute to reduce poverty rate, but less than proportional. Annex E, Table XI.1 presents the growth elasticity of poverty by geographical area: urban and rural. Evidence in this table makes quite clear that the urban areas have benefit from economic growth in the 1990's. The coefficient of elasticity is -1, which means that when real percapita income increase by 1 percent will lead to 1 percent reduction in poverty. Unfortunately, in the rural areas the impact of economic growth on poverty reduction is much less. The poverty-growth elasticity is about - 0.02, which means that an increase of 1 percent in percapita income will reduce poverty in rural areas in only 0.02 percent. This is a very low number compared to the urban areas which is consistent with the persistence of poverty in rural areas despite a more rapid economic growth experienced in the 1990's. Thus, growth is leaving behind an increase pool of rural poor, which increase the high degree of income inequality in the country.

The fundamental assumption is that the USAID economic policy strategy will contribute to achieve a broad based economic growth i.e., economic growth that benefit both the urban and the rural sectors and that the implementation of these policies will increase the poverty-growth elasticity in the rural areas to the number of the urban areas. This will be achieved in a long period of time, say 5 to 10 years.

Targets and baseline will be estimated by the USAID Mission based on the data provide by the Multi-purpose Household Survey published by DYGESTIC.

On the lower level intermediate results, there are two indicators, one for each lower level intermediate results.

1. Progress of the first lower level intermediate result, Modernization of the state leads to economic growth and better rural services, is measure with the Index of Modernization of State, which includes eight weighted indicators (Annex E, Table XI.2a). The weights reflect roughly the importance of the reform item to the goal and resource allocation of the RP (Annex E, Table XI.2b)
2. As for the second lower level intermediate result, GOES adopts and implement a rural poverty strategy, progress is measure with the GOES investment budget in the poorest departments (Annex E, Table XI.3).

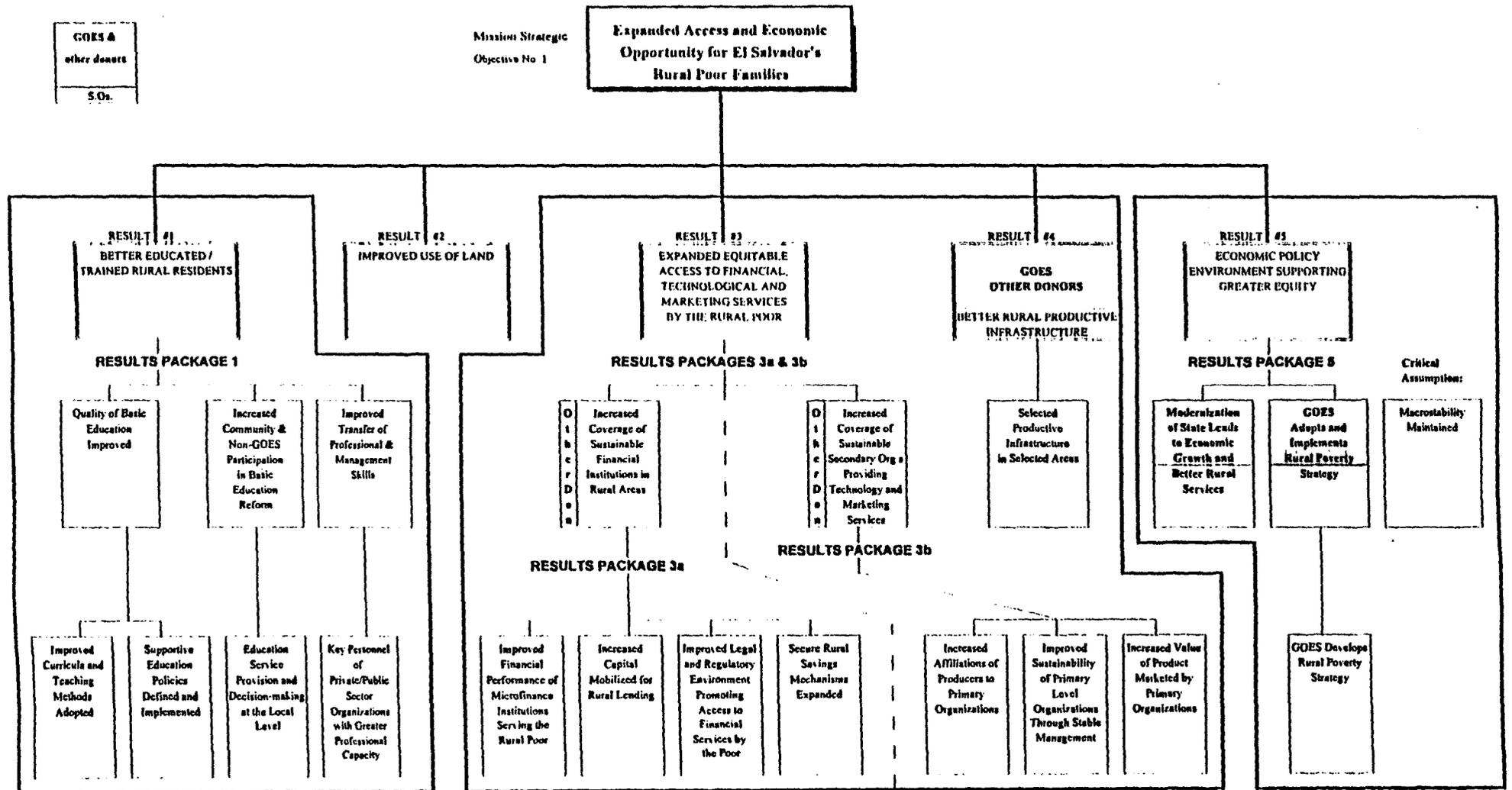
Targets and baseline data for the intermediate results (IR) have been established. For the GOES investment budget in the four poorest department, we will use the Ministry of Finance data. For the index of Modernization, we will use various sources including the official gazette and information provide by the responsible government institutions.

ANNEXES

ANNEX A

RESULTS FRAMEWORK S.O. No.1

Agency Goal No.1: Broad-based Economic Growth Achieved



BEST AVAILABLE COPY

ANNEX B

USAID STATUTORY CHECKLISTS

USAID Statutory Checklists will be prepared for all new activities supporting this RP. These Statutory Checklists will be incorporated in the Activity Documents prepared during the design of each new activity. All current ongoing activities supporting this RP have complied with such checklists requirements.

ANNEX C

Congressional Notification

Activity	Dates when CN expired
519-0349 Technical Support, Policy Analysis and Training	08/91 CN
519-0397 Equitable Rural Economic Growth (CRECER)	09/28/95 CN

PRJ

VZCZCSNI *
OO RUEHC
DE RUEESN #7470/01 155 **
ZNR UUUUU ZZP
C 032206Z JUN 88
FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASEDC IMMEDIATE
BT
UNCLAS SAN SALVADOR 07470
USAID/EL SALVADOR

CLASS: UNCLASSIFIED
CHRG: AID 05/31/88
APPRV: AMDPP:WKASCHA
DRTD: PRJ:SW:MMZ
CLEAR: 1. PRJ:PDELBOSQUE
2. DPP:RMILES
DISTR: AIL3 AMB ADCM

455 PM 4 06
'88 JUN 6

AIDAC

FCR LAC/LR

E.C.12356: N/A
SUBJECT: CONGRESSIONAL NOTIFICATION FOR TECHNICAL SUPPORT,
POLICY ANALYSIS, AND TRAINING (519-0349)

1. SUMMARY: THIS CABLE TRANSMITS TEXT OF CONGRESSIONAL
NOTIFICATION FOR THE TECHNICAL SUPPORT, POLICY ANALYSIS,
AND TRAINING PROJECT, A NEW PROJECT IN FY 1988. USAID
INTENDS TO OBLIGATE DOLLARS 2.0 MILLION IN ESF FUNDS THIS
MONTH, I.E. JUNE 88. AID/W ASSISTANCE IN EXPEDITING THE
PROCESSING OF THIS CN IS REQUESTED. PLEASE ADVISE WHEN CN
FORWARDED AND DATE OBLIGATION CAN BE INCURRED. END
SUMMARY.

RECEIVED BY OFFICE
OF PROJECTS
'88 JUN 7 AM 10 42
USAID/SAN SALVADOR

////////////////////////////////////
2. ADVICE OF PROGRAM CHANGE
////////////////////////////////////

COUNTRY: EL SALVADOR
PROJECT TITLE: TECHNICAL SUPPORT, POLICY
ANALYSIS, AND TRAINING
PROJECT NUMBER: 519-0349
FISCAL YEAR 88 NOT INCLUDED IN
CP REFERENCE: IN FY 88 CP
APPROPRIATION CATEGORY: ECONOMIC SUPPORT FUND (ESF)
LIFE OF PROJECT FUNDING: DOLLARS 15.0 M (ESF) GRANT
INTENDED FISCAL YEAR
88 OBLIGATION: DOLLARS 2.0 M (ESF) GRANT

THIS IS TO ADVISE THAT AID INTENDS TO OBLIGATE DOLLARS 2.0
MILLION IN GRANT FUNDS IN FY 1988 FOR THE TECHNICAL
SUPPORT, POLICY ANALYSIS, AND TRAINING PROJECT. THIS
PROJECT WAS NOT INCLUDED IN THE FY 1988 CP. THE LIFE OF
THE PROJECT WILL BE FIVE YEARS WITH TOTAL FUNDING OF
DOLLARS 15.0 MILLION OF ESF FUNDS.

BEST AVAILABLE COPY

THE PURPOSE OF THE PROJECT IS TO ENHANCE SALVADOREAN AND
USAID CAPABILITIES TO IDENTIFY AND ADDRESS PRIORITY
DEVELOPMENT PROBLEMS, AND TO PROVIDE TECHNICAL SUPPORT
SERVICES AND TRAINING NEEDED TO UNDERTAKE POLICY AND

STRATEGY REFORM AND IMPROVE PROGRAM AND PROJECT IMPLEMENTATION. THIS PROJECT WILL PROVIDE THE TECHNICAL SUPPORT AND TRAINING NEEDED TO IMPROVE STRATEGY FORMULATION, POLICY DEVELOPMENT, AND PROGRAM IMPLEMENTATION, INCLUDING ACCOUNTABILITY. OVER THE SHORT TERM, A CADRE OF TECHNICAL ADVISORS WILL BE USED TO SUPPLEMENT GOES AND AID TECHNICIANS TO IMPROVE IMPLEMENTATION AND PLANNING. TRAINING AND TECHNICAL ASSISTANCE PROVIDED UNDER THE PROJECT CONCURRENTLY WILL SERVE TO BUILD GOES CAPABILITY TO CONDUCT POLICY ANALYSIS, PREPARE STRATEGY DOCUMENTS, AND ADMINISTER DEVELOPMENT PROGRAMS OVER THE LONG TERM.

////////////////////
 3. ACTIVITY DATA SHEET
 //////////////////////

THE PURPOSE OF THE PROJECT IS TO ENHANCE SALVADORAN AND USAID CAPABILITIES TO IDENTIFY AND ADDRESS PRIORITY DEVELOPMENT PROBLEMS, AND TO PROVIDE TECHNICAL SUPPORT SERVICES AND TRAINING NEEDED TO UNDERTAKE POLICY AND STRATEGY REFORM AND IMPROVE PROGRAM AND PROJECT IMPLEMENTATION.

4. BACKGROUND: OVER THE PAST TWO YEARS, THE GOES HAS DEMONSTRATED A GREATER AWARENESS OF THE MAGNITUDE OF ITS ECONOMIC AND SOCIAL PROBLEMS AND A CONCOMITANT WILLINGNESS TO IMPLEMENT POLICY AND STRATEGY REFORM TO OVERCOME THESE DIFFICULTIES. NEGOTIATIONS BETWEEN THE USAID AND THE GOES ON THE 1987 ECONOMIC PLAN RESULTED IN AGREEMENT ON A NUMBER OF POLICY MEASURES TO REGAIN FISCAL AND MONETARY CONTROL AND PROVIDE NEEDED INCENTIVES TO EXPORT AND INVESTMENT. A LARGE NUMBER OF THESE MEASURES WERE IMPLEMENTED RESULTING IN A REVERSAL OF ECONOMIC TRENDS; NOTABLY A REDUCTION IN INFLATION AND AN INCREASE IN THE GROWTH OF GDP FROM 2.6 PER CENT IN 1986 TO 2.6 PER CENT IN 1987. THIS HAS ENCOURAGED THE GOES TO SET EQUALLY AMBITIOUS TARGETS FOR 1988, SUCH AS FURTHER REDUCTION IN THE INFLATION RATE AND A RATE OF GROWTH IN GDP OF 2.5-3 PER CENT. A NEW GOES ADMINISTRATION WILL BE IN PLACE IN MID 1989, AND IT WILL NEED TO HAVE A SOUND ANALYTICAL FOUNDATION AND A MORE SKILLED WORKFORCE TO FORMULATE DEVELOPMENT STRATEGIES AND CARRY OUT PROGRAMS WHICH WILL

GENERATE SELF SUSTAINING AND EQUITABLE GROWTH. REFORMS MUST ALSO BE IMPLEMENTED TO AVOID BOTTLENECKS IN PROJECT IMPLEMENTATION WHILE ALSO PROVIDING FOR GREATER ACCOUNTABILITY FOR FINANCIAL RESOURCES.

5. PROJECT DESCRIPTION: THIS PROJECT WILL ADDRESS THE SERIOUS CONSTRAINTS TO BROAD-BASED ECONOMIC AND SOCIAL GROWTH PRESENTED BY THE ABSENCE OF A SOUND DATA BASE AND STRONG MANAGERIAL AND TECHNICAL CAPABILITIES IN THE PUBLIC AND PRIVATE SECTORS IN KEY AREAS OF THE SALVADORAN ECONOMY. THE PROJECT INCLUDES THREE COMPONENTS: (1) PROGRAM DEVELOPMENT, INVOLVING TECHNICAL SUPPORT AND LONG AND SHORT-TERM TRAINING PROGRAMS TO STRENGTHEN THE GOES DATA COLLECTION, ANALYSIS AND PLANNING CAPABILITIES THROUGH SUCH ACTIVITIES AS CENSUS-TAKING, ADMINISTERING SOCIAL AND ECONOMIC SURVEYS, REVIEW OF TAX LAWS AND EXPORT AND CUSTOM REGULATIONS, AND IMPROVING INFORMATION SYSTEMS; (2) PROGRAM IMPLEMENTATION, PROVIDING TECHNICAL SUPPORT AND TRAINING TO ESTABLISH AND IMPLEMENT PROGRAMS CONSISTENT WITH THE USAID COUNTRY DEVELOPMENT STRATEGY AND ACTION PLAN OBJECTIVES AND TO ENHANCE GOES ADMINISTRATIVE, TECHNICAL AND MANAGERIAL SKILLS; AND (3) PROGRAM MONITORING AND CONTROL, PROVIDING TECHNICAL SUPPORT AND TRAINING TO IMPROVE THE FINANCIAL MANAGEMENT AND CONTROL SYSTEMS OF SECOND LEVEL INSTITUTIONS HAVING RESPONSIBILITY FOR MONITORING AND AUDITING THE USE OF GOES AND DONOR RESOURCES. THIS COMPONENT ALSO INCLUDES FUNDING TO STRENGTHEN THE FINANCIAL MANAGEMENT AND AUDIT SYSTEMS OF TECHNICAL MINISTRIES AS DEFICIENCIES ARE IDENTIFIED.

AT THE END OF THE PROJECT, THE GOES WILL HAVE AN IMPROVED DATA BASE ON WHICH TO BASE POLICY REFORM AND DEVELOPMENT PLANNING AND BOTH THE PUBLIC AND PRIVATE SECTORS WILL HAVE AN IMPROVED CAPABILITY TO DESIGN, IMPLEMENT AND MONITOR DEVELOPMENT PROGRAMS CONTRIBUTING TO BROAD-BASED ECONOMIC AND SOCIAL GROWTH.

6. RELATIONSHIP TO USAID POLICIES AND COUNTRY STRATEGY. THIS PROJECT IS CONSISTENT WITH AND SUPPORTIVE OF AID'S STRATEGY IN EL SALVADOR TO STABILIZE THE ECONOMY AND FACILITATE STRUCTURAL ADJUSTMENTS TO ACHIEVE RECOVERY AND BROADEN THE BENEFITS OF GROWTH.

7. HOST-COUNTRY AND OTHER DONORS: THE GOES WILL CONTRIBUTE TO PROJECT COSTS THROUGH THE PAYMENT OF SALARIES FOR LONG AND SHORT-TERM TRAINEES AND THROUGH THE PROVISION OF OFFICE SPACE, STAFF AND OTHER SUPPORT FOR MANY OF THE DATA COLLECTION, ASSESSMENT, AND IN-COUNTRY TRAINING ACTIVITIES.

8. BENEFICIARIES: THE DIRECT BENEFICIARIES OF THE PROJECT WILL BE THOSE PUBLIC AND PRIVATE SECTOR INDIVIDUALS WHO WILL UNDERTAKE THE LONG OR SHORT-TERM TRAINING PROGRAMS OR WHO WILL BENEFIT FROM ON-SITE TRAINING BY THOSE PROVIDING THE TECHNICAL SUPPORT EXPERTISE. SECONDARY BENEFICIARIES WILL INCLUDE ALL THOSE SALVADORANS AFFECTED BY HAVING A MUCH STRONGER PUBLIC AND PRIVATE HUMAN RESOURCE BASE IN PLACE AND ACTIVELY INVOLVED IN POLICY REFORMULATION AND

BEST AVAILABLE COPY

STRATEGY DESIGN IN THE AREAS OF SOCIAL AND ECONOMIC CONSTRUCTION.

9. MAJOR OUTPUTS	ALL YEARS
- NATIONAL POPULATION CENSUS	1
- ANNUAL HOUSEHOLD SURVEYS	5
- POLICY/PROGRAM DEVELOPMENT STUDIES	35
- SECTOR ASSESSMENTS	2
- GOES PERSONNEL TRAINED IN PROJECT IMPLEMENTATION AND TECHNICAL SKILLS	1,000
- ENHANCED USE AND ACCOUNTABILITY FOR DONOR FUNDS AND GOES-OWNED LOCAL CURRENCY	XXX
10. AID FINANCED INPUTS	LOF (DOLS. 000)
- TECHNICAL ASSISTANCE	3,500
- LONG-TERM TECHNICAL ADVISORS	5,000
- TRAINING	3,500
- PROJECT MANAGEMENT	2,250
- COMMODITIES	750

C UNCLASSIFIED S S 7470

- TOTAL 15,000

11. PER PARA 1, PLEASE ADVISE WHEN CN FORWARDED AND DATE
OBLIGATION CAN BE INCURRED. CCR

BT
#7470

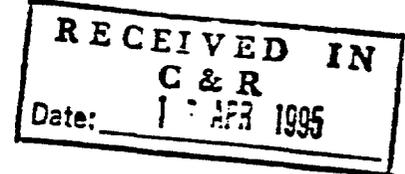
NNNN

C UNCLASSIFIED S S 7470

ORIGIN: AID-1
INFO: EXEC-0

INFORMATION COPY

DISTRIBUTION: AID
CHARGE: AID
APPROVED: A/DIR:MWILLIAMS
DRAFTED: PPD:RWHERRY
CLEARED: 1.PPD:PKRANSTOVER, 2.PRO:GSTRAUB



VZCZCSNI506
RR RUEHC
DE RUEHSN #2684/01 1011739
ZNR UUUUU ZZH
R 111739Z APR 95
FM AMEMBASSY SAN SALVADOR
TO SECSTATE WASHDC 5379
BT
UNCLAS SECTION 01 OF 02 SAN SALVADOR 002684

AIDAC

E.O. 12356: N/A
SUBJECT: CONGRESSIONAL NOTIFICATION FOR CRECER PROJECT
PROJECT (519-0397)

1. THIS CABLE TRANSMITS THE TEXT OF THE CONGRESSIONAL NOTIFICATION FOR THE EQUITABLE RURAL ECONOMIC GROWTH (CRECER) PROJECT. USAID INTENDS TO OBLIGATE THIS PROJECT IN MAY 1995. WE APPRECIATE LAC ASSISTANCE IN EXPEDITING THE PROCESSING OF THE CN.

2. ADVICE OF PROGRAM CHANGE

COUNTRY:	EL SALVADOR
PROJECT TITLE:	EQUITABLE RURAL ECONOMIC GROWTH - (CRECER)
-	519-0397
PROJECT NUMBER:	PAGE 221
FY 1995 CP REFERENCE:	DEVELOPMENT ASSISTANCE
APPROPRIATION CATEGORY:	DOLS 15,000,000 GRANT
LIFE OF PROJECT FUNDING:	DOLS 1,690,000 GRANT
INTENDED FY 95 OBLIGATION:	

THE GOAL OF THE PROJECT IS INCREASED EQUITABLE ECONOMIC GROWTH, USAID/EL SALVADOR'S STRATEGIC OBJECTIVE TWO. THE PURPOSE OF THE PROJECT IS TO REDUCE RURAL POVERTY. THIS WILL BE ACCOMPLISHED BY A MUTUALLY REINFORCING PROGRAM OF POLICY DIALOGUE AND REFORM, STRENGTHENING RURAL ORGANIZATIONS AND DIRECT ASSISTANCE TO SMALL FARMERS AND ENTREPRENEURS.

3. ACTIVITY DATA SHEET

A. PROJECT PURPOSE: THE PURPOSE OF THE PROJECT IS TO

UNCLAS

AIDAC

SAN SALVADOR 02684

REDUCE RURAL POVERTY BY POLICY DIALOGUE AND REFORM,
STRENGTHENING RURAL ORGANIZATIONS AND DIRECT ASSISTANCE
TO SMALL FARMERS AND ENTREPRENEURS. THE END OF PROJECT
STATUS INDICATORS FOR THIS FIVE-YEAR, 15 MILLION USD
UNCLASSIFIED

PROJECT ARE: A) SECTORAL POLICY ENVIRONMENT WHICH IS
CONDUCTIVE TO INCREASED RURAL INVESTMENT, LEADING TO
EMPLOYMENT AND INCOME GAINS FOR 430,000 POOR RURAL
HOUSEHOLDS; B) STRENGTHENED CAPACITY IN PUBLIC AND
PRIVATE SECTORS TO COLLECT AND ANALYZE DATA AND PROMOTE
POLICY AND REGULATORY CHANGES NECESSARY TO STIMULATE
PRODUCTIVE INVESTMENT IN RURAL AREAS; C) STRENGTHENED
RURAL FINANCIAL ORGANIZATIONS PROVIDING SAVINGS AND
LENDING SERVICES TO RURAL POOR; AND, D) STRENGTHENED
RURAL ENTERPRISE AND ORGANIZATIONS PROVIDING MARKETING
AND OTHER SERVICES TO SMALL FARMERS AND RURAL
ENTREPRENEURS.

B: BACKGROUND: THREE YEARS AFTER THE SIGNING OF THE
PEACE ACCORDS IN JANUARY 1992, EL SALVADOR CONTINUES ITS
SUCCESSFUL TRANSITION TOWARDS AN OPEN, PLURALISTIC
DEMOCRACY. HOWEVER, INDICATORS OF AGRICULTURAL ACTIVITY
AND RURAL LIVING STANDARDS HAVE YET TO RETURN TO PRE-WAR
LEVELS. EL SALVADOR IS A DENSELY POPULATED COUNTRY
WHERE ACCESS TO PRODUCTIVE RESOURCES IN RURAL AREAS IS
SKEWED TOWARDS THOSE PERSONS AND ENTITIES WITH
ACCUMULATED CAPITAL. MUCH OF THE POPULATION MAKES A
LIVING WITH SUBSISTENCE AGRICULTURE. IN ADDITION TO
NEAR-TERM ECONOMIC MISERY, POPULATION PRESSURE IS, OVER
THE LONGER TERM, NEGATIVELY AFFECTING THE QUALITY AND
QUANTITY OF SEASONAL WATER RESOURCES AS WELL AS
BIODIVERSITY. PERVASIVE POVERTY THREATENS SOCIAL
STABILITY AND UNDERMINES THE PROMISE OF ECONOMIC GROWTH
IN THE POST-WAR PERIOD.

C: PROJECT DESCRIPTION: THE EQUITABLE RURAL ECONOMIC
GROWTH PROJECT WILL SEEK A MORE EQUITABLE DISTRIBUTION
OF THE BENEFITS OF ECONOMIC GROWTH IN WHICH THE RURAL
POOR ALSO PARTICIPATE. THE PROJECT WILL ASSIST THE GOES
TO DEVELOP POLICIES WHICH WILL DIVERSIFY AND STIMULATE
INVESTMENT IN THE RURAL ECONOMY AND TO IMPLEMENT A
PARTICIPATIVE MODE OF PUBLIC POLICY FORMULATION. THE
PROJECT WILL ASSIST LOCAL AND NATIONAL LEVEL PRODUCER
GROUPS TO EXPAND PRODUCTION OF NON-TRADITIONAL CROPS FOR
EXPORT AND HELP RURAL, NON-FARM ENTERPRISES TO PROVIDE
EMPLOYMENT OPPORTUNITIES THROUGH INCREASED ACCESS TO
TECHNICAL AND MARKETING SERVICES. TO INCREASE PRIVATE
INVESTMENT, THE PROJECT WILL ASSIST 15 RURAL CREDIT
UNIONS AND TWO FINANCIAL NGOS TO MOBILIZE DOLS 4 MILLION
IN SAVINGS, PROVIDE CREDIT SERVICES THAT SUPPORT NTAE
PRODUCTION AND EXPAND ACCESS TO FINANCIAL SERVICES IN
UNCLASSI

FIELD

RURAL AREAS OF EL SALVADOR. INCREASED BUSINESS ACTIVITY AS A RESULT OF MORE EFFICIENT FINANCIAL INTERMEDIATION WILL INCREASE DEMAND IN THE LABOR MARKET BY APPROXIMATELY 20,000 JOBS. INCREASED NTAE EXPORT VOLUME ATTRIBUTABLE TO PROJECT IS EXPECTED TO ATTAIN DOLS 5 MILLION.

D: SUSTAINABILITY: THE PROJECT PROMOTES FINANCIALLY SELF-SUFFICIENT RURAL ENTERPRISES AND FINANCIAL INTERMEDIARIES WHICH WILL CONTINUE WITHOUT DONOR ASSISTANCE AT THE END OF THE PROJECT.

E: RELATIONSHIP TO USAID STRATEGY: THE CRECER PROJECT SUPPORTS THE GOES' EFFORTS TO REDUCE POVERTY IN RURAL AREAS UNDER THE MISSION'S STRATEGIC OBJECTIVE TWO, EQUITABLE ECONOMIC GROWTH, WITHIN THE LARGER FRAMEWORK OF THE MODERNIZATION OF THE SALVADORAN STATE.

F: HOST COUNTRY AND OTHER DONORS: THE MINISTRIES OF AGRICULTURE, PLANNING AND ECONOMY ARE THE GOES COUNTERPARTS. UNITS OF THE AGRICULTURE MINISTRY WILL BE INVOLVED IN IMPROVING EMPLOYMENT AND INCOME POSSIBILITIES IN AGRICULTURE AND AGRO-ENTERPRISE. THE MINISTRIES OF PLANNING AND ECONOMY WILL PARTICIPATE IN THE ACTIVITIES RELATED TO RURAL INDUSTRY.

MULTILATERAL DONORS ARE WORKING ON POVERTY ALLEVIATION BY ATTACKING THE HEALTH AND EDUCATION ASPECTS OF THE PROBLEM AS WELL AS BY ADDRESSING CONSTRAINTS TO THE PRODUCTIVE ECONOMY. THE WORLD BANK IS IMPLEMENTING A SOCIAL SECTOR REHABILITATION PROJECT AS US DOLS 26 MILLION AND AN AGRICULTURAL SECTOR REFORM AND INVESTMENT PROJECT AT US DOLS 40 MILLION. THE INTERAMERICAN DEVELOPMENT BANK HAS GRANTED A TOTAL OF US DOLS 60 MILLION TO THE SOCIAL INVESTMENT FUND (FIS). A MULTI-SECTOR CREDIT PROGRAM WILL ALSO BE IMPLEMENTED BY THE IDB IN 1995.

G: BENEFICIARIES: PROJECT BENEFICIARIES INCLUDE THE 430,000 FAMILIES WHICH LIVE BELOW THE GOES POVERTY LINE OF 2,000 USD ANNUAL CASH INCOME. TWO EXAMPLES: THE PROJECT WILL CREATE 14,500 FULL-TIME JOBS AND WILL INCREASE 6,000 AGRICULTURAL JOBS FROM PART-TIME TO FULL TIME. THE CLARIFICATION OF TENANCY OF FARMLAND, EITHER THROUGH LONG-TERM RENTAL OF FEE SIMPLE OWNERSHIP, WOULD DIRECTLY INCREASE THE NET WORTH OF 45,000 LANDLESS OR UNCLASSIFIED

NEAR-LANDLESS FAMILIES.

H: MAJOR OUTPUTS: THE PROJECT WILL HELP OVERCOME PROBLEMS ASSOCIATED WITH PRO INDIVISO LAND TENANCY; CHANGE IN AGRARIAN LEGISLATION TO PERMIT LONG TERM RENTAL OF LAND; AND HELP CONVERT FORMER ISTA COOPERATIVES INTO SERVICE COOPERATIVES. THE PROJECT WILL TRAIN GOES STAFF IN AGRICULTURAL DATA COLLECTION, POLICY ANALYSIS, AND PARTICIPATORY METHODS OF POLICY DEVELOPMENT. IT WILL STRENGTHEN FIFTEEN CREDIT UNIONS AND TWO NGOS AS SOURCES OF RURAL FINANCIAL SERVICES AND TWENTY RURAL ENTERPRISES WHICH PROVIDE MARKETING AND OTHER SERVICES TO SMALL FARMERS AND RURAL ENTREPRENEURS.

I. USAID FINANCED INPUTS	LIFE OF PROJECT DOLS (000)
ASSISTANCE TO THE GOES	5,900
ASSISTANCE TO COOPERATIVES	4,500
ASSISTANCE TO CREDIT UNIONS	4,600
 TOTAL	 15,000

FLANIGAN
BT
#2684

NNNN((((((((((((

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET**

PROGRAM: El Salvador

CP 81-05 (4-85)

TITLE Decentralization and Rural Poverty Reduction (DRPR)		FUNDING SOURCE DA	PROPOSED OBLIGATION (In thousands of dollars)		
			FY 98 DA 750	LIFE OF PROJECT (Auth.) 4,000	
NUMBER 519-0442 GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	NEW <input checked="" type="checkbox"/> CONTINUING <input type="checkbox"/>	PRIOR REFERENCE None	INITIAL OBLIGATION FY 98	ESTIMATED FINAL OBLIGATION FY 2002	ESTIMATED COMPLETION DATE OF PROJECT FY 2002

Purpose: To facilitate the adoption of policy reforms leading to improved publicly-funded services and better productive infrastructure in rural areas, and to foster competition in domestic input and output markets.

Background: El Salvador has made important advances in stabilizing the macroeconomic situation in recent years. The fiscal deficit has been low, real GDP growth has averaged about 5%, and poverty in urban areas has decreased. Notwithstanding these achievements, poverty in rural areas has not significantly diminished. According to the annual household survey conducted by the Ministry of Economy, a consistent 65% of rural households were classified as poor throughout the 1990s.

Activity Description: The main goal of the new activity is to support economic policy reforms that will contribute to reduced rural poverty. The chief reform areas are: policy problems that impede extension of public services and infrastructure in rural areas, weak local government resource mobilization, and barriers to competition in local input and output markets. The new activity will address infrastructure barriers by helping the central and local governments to develop private market mechanisms to finance infrastructure construction, such as concessions. Additionally, the new activity will promote the decentralization of public finance, so that local governments in rural areas can address needs in a more effective and accountable way. Finally, the activity will also support policy reforms that promote competition within domestic markets. Specific activities are expected to include: technical assistance to NGOs advocating legal changes to foster competition in financial and agricultural input markets, technical assistance to the government (both national and local) to adopt regulations permitting private provision of infrastructure, and help to local governments in rural areas rewriting their tax laws.

Sustainability: The activity will make the task of rural poverty

reduction more viable and sustainable by improving the policy environment within which USAID and other donor efforts operate. The project seeks to help rural municipal governments sustainably deliver services by helping them to improve revenue mobilization.

Relationship to USAID Strategy: The activity directly supports the achievement of the result "Economic Policy Environment Supporting Greater Equity" under the Strategic Objective "Expanded Access and Economic Opportunities for Rural Families in Poverty". USAID's strategy seeks to reduce poverty in El Salvador's rural areas, in this way reinforcing the country's progress in achieving sustainable growth and democracy.

Host Country and Other Donors: The host country is pursuing a program to modernize the state, thereby improving the quality and efficiency of service provision. This effort is complemented by projects of the Inter-American Development Bank and World Bank, and several bilateral donors. USAID has identified key reform areas in which no donors are working, and will direct its assistance toward important policy reform areas necessary to better provision of public services and market opportunities in rural areas.

Beneficiaries: The overwhelmingly poor rural population will enjoy greater participation in domestic markets through the reduction in competitive barriers. In addition, publicly provided services and infrastructure will reach a larger proportion of the rural poor.

Results:
Rural municipalities with improved tax laws.
Improved legal and institutional framework for local government finance.
Improved legal framework promoting domestic market competition.
Expanded investment in rural infrastructure, especially roads, power and telecommunications.

U.S. FINANCING (In thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unliquidated	
Through September 30, 1996	0	0	0	Devtech Systems, Non-Governmental Salvadoran Organizations and Global Bureau buy-ins and IQC contracts.
Estimated Fiscal Year 1997	0	0		
Estimated Through September 30,	0	0	0	
		Future Year Obligations	Estimated Total Cost	
Proposed Fiscal Year 1998	750	3,250	4,000	

OH



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-98-10

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location : El Salvador

Results Package : Economic Policy Environment
Supporting Greater Equity
(RP#5 under SO#1)

Project Numbers : 519-0349 (existing)
519-0397 (existing)
936-4212 (existing)
519-0442 (new)

Funding : see attached

Life of Project : see attached

IEE Prepared by : Peter Gore, USAID/El Salvador

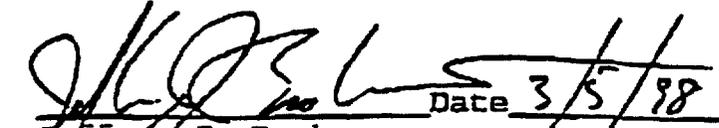
Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments

A Categorical Exclusion is issued to this Results Package, recognizing that only certain components of the existing activities are incorporated herein: Component 1 (Technical Assistance and Training) of 519-0349, (Categorical Exclusion, LAC-IEE-96-03), and the policy formulation and rural finance component of 519-0397 (Categorical Exclusion, LAC-IEE-97-04).

New Activity 519-0442 Policy Development for Rural Poverty Alleviation is issued a Categorical Exclusion under 22 CFR 216.2(c)(2)(i). (see attached IEE.)


Date 3/5/98
Jeffrey J. Brokaw
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to : Kenneth Ellis, USAID/El Salvador
Copy to : Peter Gore, USAID/El Salvador
Copy to : Tracy Parker, USAID/Guatemala, REA
Copy to : Cam Wickham, LAC/SPM-CAC
Copy to : Kathleen Smith, LAC/CEN
Copy to : IEE file

42



Agency for International Development
United States of America A.I.D
c/o American Embassy
San Salvador, El Salvador, C.A.

So4 - Environment Office

INITIAL ENVIRONMENTAL EXAMINATION

Activity Location: El Salvador

Strategic Objective Title: SO#1 Economic Growth

Results Package Title: RP#5 Economic Policy
Environment Supporting
Greater Equity

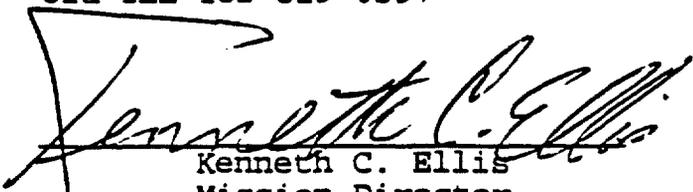
Results Package IEE Prepared by: Peter H. Gore
Environmental Officer
USAID/El Salvador

Recommended Threshold Decision: Categorical Exclusion

Mission Threshold Decision: Concur with Recommendation

Date Prepared: January 30, 1998

Attachments: Current Activities
Proposed Activities
Old IEE for 519-0349
Old IEE for 519-0397


Kenneth C. Ellis
Mission Director

30 Feb 1998
Date

Categorical Exclusion of Initial Environmental Examination

Strategic Objective Title: SO#1 Economic Growth
Results Package Title: RP#5 Economic Policy
Environment Supporting
Greater Equity

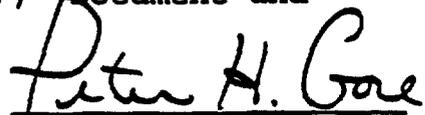
I. Results Package Description

The Package presently consists of the following activities: Technical Support, Policy analysis and Training (519-0349), Rural Equitable Economic Growth (Policy Component) (519-0397), and Economic Reform and Civil Society (SEGIR) (936-4212). The purpose of these activities is to enhance Salvadoran capabilities to identify and address priority development problems. A new activity entered design in 1997 to continue promoting an economic policy environment supporting greater equity.

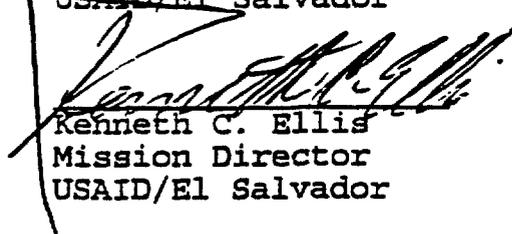
II. Recommendation

Based on the information attached which documents the current activities being implemented under this Results Package, and the description of proposed future activities, we recommend that this Results Package be given a Categorical Exclusion from the Initial Environmental Examination.

Since the actions currently being implemented under approved IEE Number LAC-IEE-997-04 do not have an effect on the natural or physical environment, and the activities proposed for the future will not have an effect on the natural or physical environment, this Results Package qualifies for a Categorical Exclusion under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs," (iii), "Analyses, studies, academic or research workshops and meeting," and (v), "Document and information transfers," of 22CFR.


Peter H. Gore
Environmental Officer
USAID/El Salvador

Concurrence:


Kenneth C. Ellis
Mission Director
USAID/El Salvador

Current Activities

Activity Title: Technical Support, Policy Analysis and Training

Activity Number: 519-0349

Funding: \$35.5 million (LOP)

PACD: September 30, 1998

Original IEE Number: LAC-IEE-96-03

Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision: Concur with Recommendation

Date Approved: July 1990

Activity Title: Rural Equitable Economic Growth (Policy Component)

Activity Number: 519-0397 (CRECER)

Funding: \$5.43 million (Policy Comp.)

PACD: May 30, 2000

Original IEE Number: LAC-IEE-97-04

Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision: Concur with Recommendation

Date Approved: February 1997

Activity Title: Economic Reform and Civil Society (SEGIR)

Activity Number: 936-4212

Funding: \$.25 million (Central funded)

PACD: March, 1998

Original IEE Number:

Recommended Threshold Decision:

Bureau Threshold Decision:

Proposed Activities

There is one new start proposed for this Results Package:

Policy Development for Rural Poverty alleviation, Activity No. 519-0442, to begin in FY1998.

This activity will continue promoting an economic environment which supports greater equity. The main components of this activity are linked to address directly both sub-intermediate results: modernization of the state leads to economic growth, and GOES adopts and implements a rural poverty strategy.

rpkg15.ies

ANNEX E

TABLE XI.1

CHANGES IN POVERTY AND PERCAPITA INCOME

	POVERTY RATIOS		REAL PERCAPITA INCOME		PERCENT CHANGE IN INCOME	PERCENT CHANGE IN POVERTY	POVERTY ELASTICITY
	1991	1996	1991	1996			
TOTAL	58.69	51.69	7,258	8,683	0.196335	-0.11927	-0.60852
URBAN	52.86	42.44				-0.1971	-1.0039
RURAL	65.04	64.80				-0.00369	-0.01879

Growth Poverty Elasticity:

- a) - 1 means that 1 percent growth in percapita income will lead to 1 percent reduction in poverty.
- b) < - 1 means that 1 percent growth in percapita income will reduce poverty less than proportional.

TABLE XI.2a

RESULT NAME: Economic Policy Environment Supporting Greater Equity: Modernization of the State leads to economic growth and better rural services			
INDICATOR No. 2: Modernization of the State Index			
UNIT OF MEASURE: Percentage of reforms achieved	YEAR	PLANNED	ACTUAL
<p>SOURCE: Programa Monetario y Financiero, Banco Central de Reserva de El Salvador; Official Gazette, IMF El Salvador reports; World Bank El Salvador reports; Newspapers and information provided by the Ministries of Finance and Economy; Financial Systems Superintendency and Pensions Superintendency.</p> <p>INDICATOR DESCRIPTION: This is an index based on eight weighted indicators. The weights were given taking into account the number of instruments and resources available to influence the different indicators.</p> <p>COMMENTS: The index is presented in Matrix of Modernization of the State Index. This includes the following components: 1) Privatization which includes power and telecommunications sectors and agricultural institutions; 2) Privatization of infrastructure construction + maintenance of services; 3) Modernization of financial public sector system; 4) Pension reform; 5) Fiscal deficit/surplus as percentage of GDP; 6) Social expenditures as percentage of budget; 7) Reform of key fiscal and monetary institutions such as the Financial System Superintendency, Central Reserve Bank and the Ministry of Finance; 8) Neutral incentives to trade sector.</p> <p>* In 1997, 21% of the modernization index was expected to be accomplished. In fact, 90% of that target was achieved, namely 18.9% of the modernization index.</p>	1996(B)	10%	10%
	1997	21%	18.9% *
	1998	34%	
	1999	48%	
	2000	54%	
	2001	72%	
	2002 (T)	85%	

TABLE XI.2b

INDEX OF MODERNIZATION

	Weight
1. Privatization	20
- Telecommunication	
- Power	
- Agricultural institutions	
2. Pension Reform	10
3. Private Provision of Infrastructure	5
4. Fiscal and Monetary Institutions	5
- Central Reserve Bank - Reform to the Central Bank law	
- Superintendency - Financial Independence 100%	
- Ministry of Finance	
5. Modernization of Financial Public Sector System	10
- % current expenditures	
- % capital expenditures	
6. Deficit/Surplus as percent of GDP	10
7. Social Expenditure as percent of Budget (50%)	20
8. Neutral incentives to traded sectors (nominal protection)	20

Assumptions:

Score will be proportional to accomplishments. For example:

Privatization

100% - 20
 50% - 10
 25% - 5

TABLE XI.2c

INDICATORS

INDEX OF MODERNIZATION
1997

1.	Privatization		0.15
2.	Pension Reform		0.05
3.	Private Provision of Infrastructure		0.05
4.	Fiscal and Monetary		0.04
5.	Modernization Financial Public Sector System		0.090
6.	Deficit	0.10 (1.8%)	
7.	Social Expenditure		0.20
8.	Trade		0.20
			<hr/>
			0.88

TABLE XI.3

RESULT NAME: Economic Policy Environment Supporting Greater Equity: Modernization of the State leads to economic growth and better rural services.			
INDICATOR No. 1: GOES investment budget allocated for poorest departments: Morazán, Cabañas, La Unión and Chalatenango			
UNIT OF MEASURE: Percentage	YEAR	PLANNED	ACTUAL
SOURCE: Ministry of Finance "Inversion Pública no Financiera 1996-1997 por Departamentos," 1997.	1995 (B)		2.8
INDICATOR DESCRIPTION:	1996	3.1	2.5
COMMENTS: Inadequate statistical coverage of state and local governments requires the use of central government data. This may understate or distort the allocation of resources for various purposes.	1997	3.4	3.2*
The poorest department were determined based on per capita income and on Human Development Index (HDI) level. See "Informe sobre Indices de Desarrollo Humano en El Salvador," GOES, UNDP	1998	4.1	
* The 1997 investment budget for the poorest departments: Morazán, Cabañas, La Unión and Chalatenango:	1999	4.5	
Actual, December, 1997 (colons)	2000	4.9	
Morazán 12.89 million	2001	5.5	
Cabañas 11.38 million	2002 (T)	6.0	
La Unión 31.25 million			
Chalatenango <u>60.01 million</u>			
TOTAL FOR POOREST DEPARTMENTS 115.52 million			
PERCENTAGE OF TOTAL 3.2%			
TOTAL INVESTMENT BUDGET 3,636.6 million			

ANNEX F

Table 1.1
Population Percentages for Poverty Rates, 1991-1996
(percentage of households surveyed)

Survey Period	URBAN			RURAL			NATIONAL		
	TOTAL	Relative	Extreme	TOTAL	Relative	Extreme	TOTAL	Relative	Extreme
1991-2	53.7	30.5	23.2	66.1	32.5	33.6	59.7	31.5	28.2
1992	52.9	31.0	21.9	65.0	31.0	34.0	58.7	31.0	27.7
1992-3	50.4	29.6	20.8	65.3	31.5	33.8	57.5	30.5	27.0
1994	43.8	27.5	16.3	64.6	29.8	34.8	52.4	28.5	23.9
1995	40.3	27.7	12.6	58.2	31.8	26.4	47.7	29.4	18.3
1996	42.9	28.2	14.7	64.7	33.3	31.4	61.7	30.3	31.4

Source: Ministry of Economy, Encuestas de Hogares de Propósitos Múltiples.

Table 1.2
 PERCAPITA INCOME BY DEPARTMENT
 (Average colones per month)

1995				1996			
Department	Total	AREA		Department	Total	AREA	
		Urban	Rural			Urban	Rural
Total	527.02	738.28	272.00	Total	563.30	803.16	273.96
Cabañas	231.00	435.85	123.38	La Unión	227.09	458.05	162.08
La Unión	241.74	538.94	164.63	Morazán	249.24	399.31	193.66
Morazán	251.87	494.83	174.74	Cabañas	267.92	472.85	159.17
Chalatenango	299.92	408.72	246.01	Chalatenango	288.51	393.32	239.81
San Vicente	356.05	461.85	275.66	San Vicente	332.31	517.00	198.84
San Miguel	382.84	547.88	192.45	Usulután	378.38	555.83	234.16
Usulután	383.84	567.56	235.20	La Paz	407.43	520.74	341.31
Cuscatlán	388.02	490.14	328.00	Cuscatlán	412.02	569.27	317.19
La Paz	399.61	541.43	317.37	Ahuachapán	415.57	696.10	305.74
Ahuachapán	404.60	728.13	281.58	Sonsonate	458.73	656.80	323.74
Sonsonate	433.27	574.53	324.08	San Miguel	474.07	679.52	215.26
Santa Ana	449.40	576.00	318.37	Santa Ana	484.34	676.94	289.03
La Libertad	663.99	1,005.52	358.01	La Libertad	687.19	1,057.28	335.04
San Salvador	781.69	860.11	329.22	San Salvador	857.25	942.86	359.91

Source: Ministry of Economy, Encuestas de Hogares de Propósitos Múltiples.

65

TABLE 1.3
Sectoral Growth Rate
Percentage

SECTORS	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	AVERAGE
Agricultural Sector (export oriented)	1.33	-1.02	-0.56	6.53	-0.30	8.00	-1.40	-2.40	5.10	2.0	-0.3	1.50
Manufacturing Sector (Import-competing oriented sector)	2.97	3.41	2.65	3.17	5.90	9.90	8.30	7.30	7.00	1.6	8.2	5.22
Non-traded Goods Sector*	2.71	2.15	0.82	1.99	5.50	5.84	4.08	6.00	5.87	2.2	3.6	3.7

Includes: Construction, electricity and water, mining, commerce, residential rents, personal services, public administration, financial services and transport.

54

ANNEX G

DESCRIPTION OF CURRENT ACTIVITIES

Technical Support, Policy Analysis and Training (Activity No. 519-0349)

PACD - 09/30/98

LOP Resources-\$35.50 million

Counterpart-\$11.80 million

ACTIVITY PURPOSE:

The activity purpose is to enhance Salvadoran capabilities to identify and address priority development problems. Specifically, the project attempts to improve government institutions' efficiency to design and implement development reforms, through technical assistance and training.

ACTIVITY DESCRIPTION:

The activity finances short and long-term technical assistance, formal academic and job-related training, economic research, sectoral studies and assessments, administrative costs related to these activities, and commodities related to the design, implementation, and monitoring of strategies and programs for the economic and social development of El Salvador.

It includes activities to increase the efficiency and efficacy of public institutions; improve public sector accountability; and promote greater access to basic services and infrastructure. The Activity has two components:

1. GOES Program Development and Implementation:

This component assists the GOES on Policy Formulation, especially on the monetary, fiscal and trade policy areas; as well as on Institutional Strengthening. The assistance has been implemented through Macroeconomic and Sectoral Studies, and a short-term Training Plan.

This component has assisted the Superintendency of the Financial System in creating a new regulatory framework and improving its supervision system. More recently, the activity also assisted the Superintendencies of Pensions and the Stock Exchange.

Moreover, this activity also supports the development of long-term policy institutions. Specifically, its purpose is to assist the GOES in creating the institutions for implementing its long-run policy. The main areas of focus are: 1) to assist the Central Reserve Bank reform into an independent Central Bank; 2) to assist the Ministry of Finance to create the budgetary institutions that will assure efficient tax collection and fiscal expenditures; 3) to assist the GOES in the process of fiscal decentralization to assure efficiency and equity in the provision of public services; 4) support GOES efforts conducive to a more effective banking supervision.

55

In addition, the activity also supports the GOES by strengthening Democracy, implemented by the "More Inclusive and Effective Democratic Processes" Strategic Objective.

2. GOES Financial Management and Accounting:

This component assisted the Ministry of Finance in reforming the Tax system and improving the administration of Tax collection.

Moreover, the activity supports the Ministry of Finance and the Court of Accounts in implementing the Integrated Financial Management System (SAFI) which unified the Financial System of the GOES, i.e., integration of the operations of Treasury, Budget, Government Accounting and Public Credit. The program consists of technical assistance and training to strengthen the capacity of the Ministry of Finance and all Public Sector Institutions in Public Finance and Management. This program is being monitoring by the "More Inclusive and Effective Democratic Processes" Strategic Objective.

PRAP ACTIVITY 519-0349

PACD - 3/31/98
LOP Resources - \$1.04 million

ACTIVITY PURPOSE:

Provides support to the MAG to strengthen its capability in policy and investment analysis. To this end, through Inter-American Institute for Agricultural Cooperation (IICA), technical assistance and training have been contracted for, and commodities will be provided for the development of agriculture policy, specifically the modernization of the information system on the agricultural sector and the design and implementation of a short and medium-term agricultural investment plan.

ACTIVITY DESCRIPTION

IICA, with the financial support provided by this grant agreement, will provide technical assistance, training, and commodities to MAG to support the policy analysis and agricultural sector investment. The project will improve the advisory and institutional capability of MAG to promote modernization of the agricultural sector through the formulation of coherent policy, increased investments, and improvement in agricultural information.

The activity has four components: a) Policy analysis, b) sectoral investment analysis, c) agricultural information, and d) privatization activities.

CRECER Activity 519-0397

PACD - 5/30/2000
LOP Resources - \$5.43 million
Counterpart - \$1.00 million

ACTIVITY PURPOSE:

The goal of the Rural Equitable Economic Growth project (CRECER) is the same as the USAID/El Salvador's Strategic Objective No. 1, i.e., expanded access and economic opportunity for rural poor families in poverty.

ACTIVITY DESCRIPTION

CRECER is divided into three components: 1) Productive rural enterprise and organizations; 2) Rural financial services; and 3) Rural Policy Formulation and Project management. Each component will be implemented by a separate project unit, comprised of expatriate and salvadoran personnel.

The rural policy formulation and project management component is designed to promote a policy environment that assures equitable growth, specially in rural areas. It is also designed to support policy research studies that analyze the most important rural subsectors, to identify policy constraints and involve producer groups and rural entrepreneurs in the reform process.

The activity will also strengthen the Ministry of Agriculture Planning Office (OAPA) and the General Directorate of Agricultural Economics (DGEA).

Through a planned series of rural fora, the rural poor target group will be engaged in the process of dialogue. Thus, the policy advocacy groups that represent the poor are primary participants in policy work. The OAPA and DGEA will be intensively involved in the conduct of studies and analyses of policy issues and in the formulation of recommendations to the Ministers of Agriculture and Economy for presentation to the Economic Cabinet to improve legal, regulatory and administrative procedures to enhance rural productivity and improve the employment and income possibilities in the agricultural and agroenterprise sectors. The policy agenda focuses on the following areas, which have a main objective to increase productivity and efficiency:

- Trade policy
- Marketing and competition policy
- Land and water
- Legal and institutional environment