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USAID



USAID/EL SALVADOR

STRATEGIC OBJECTIVE No.1:

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

RESULTS PACKAGE No. 5

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

**DECENTRALIZATION AND
RURAL POVERTY REDUCTION
ACTIVITY No. 519-0442**

NEW ACTIVITY DOCUMENT

April 1, 1998

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DECENTRALIZATION AND RURAL POVERTY REDUCTION
New Activity Document Index

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LIST OF ACRONYMS AND TERMINOLOGY

ADS	Automated Directive System
ANTEL	National Administration for Telecommunications
ANDA	National Administration for Aqueducts and Sewerage Systems
BASIS CRSP	Broadening Access and Strengthening Input Market Systems, Collaborative Research Support Program
BOT	Buy-Operated-Transfer
CAMAGRO	Cámara Agropecuaria y Agroindustrial de El Salvador
CDC	Centro para la Defensa del Consumidor
CN	Congressional Notification
COMURES	National Municipal Association
CRECER	Equitable Rural Economic Growth
DEVTECH	Development Technologies Systems
DPC	Consumer Protection Division
DRPR	Decentralization and Rural Poverty Reduction
EDUCO	Education with the Community Participation
FISDL	Social Investment Fund for Local Development
FUNDAUNGO	Dr. Guillermo Manuel Ungo Foundation
FY	Fiscal Year
GDP	Gross Domestic Product
GOES	Government of El Salvador
HCD	Human Capacity Development
IDB	Interamerican Development Bank
IQC	Indefinite Quantity Contract
ISDEM	Salvadoran Municipal Development Institute
LOP	Life of Project
MEA	Municipalities in Action
MOST	Modernization of the State
NGOs	Non-governmental Institutions
RP	Results Package
SAIs	Small Assistance Instruments
SALSA	A Healthy Salvadorean
SIGET	Superintendencia General de Electricidad y Telecomunicaciones
SOAG	Strategic Objective Agreement
SO	Strategic Objective
SO1	Expanded Access and Economic Opportunity for Rural Families in Poverty.
SO2	More Inclusive and Effective Democratic Processes
SO3	Sustainable Improvement in Health of Women & Children Achieved
SO4	Increased Access by Rural Households to Clean Water
TF	Trust Funds
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USIA	United States Information Agency
VAT	Valued Added Tax

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I. INTRODUCTION

This New Activity Document contains a description of a five-year, \$4.0 million Activity that supports the USAID/El Salvador Economic Growth Strategic Objective through pursuit of related economic policy reforms. The Activity represents an important shift in the Mission's priorities and its approach to facilitating policy reform initiatives by Salvadorans.

For the past 15 years, USAID/El Salvador provided substantial support to the policy reform process in El Salvador, through a combination of cash transfer assistance conditioned on progress in reforming macroeconomic policy; technical assistance and training in policy reform areas, largely to government; and policy reform analysis and dissemination activities, involving both government and civil society. The results of this assistance were substantial: El Salvador has achieved macroeconomic stability and a sustainable growth process, and has undertaken groundbreaking structural reforms to the economy, including trade liberalization, pension reform and deregulation of key public utilities.

The U.S. granted financial assistance to this effort amounting to many hundred millions of dollars; today, however, the large-scale resources to support policy reform are provided as loan funds from the World Bank and Inter-American Development Bank. USAID's changed priorities -- now that macroeconomic stability is no longer at issue -- and our smaller scale of effort reflect a clear shift in direction. USAID's role in supporting the policy process will be more closely targeted to the policy reforms necessary for successful implementation of the Mission's rural poverty strategy.

Moreover, the present-day political landscape is changing, with the upcoming presidential elections and a greater diversity of viewpoints expressed in the National Assembly, local governments and the population at large. Because of this now more fluid political environment, a potentially valuable role for USAID assistance is emerging, namely to facilitate policy proposal development and discussion by a broader segment of the population than has been feasible in the past. USAID assistance, although severely limited by available funding, will endeavor to enrich

the national dialogue on policy reforms by providing technical expertise, training, and financial support to local government, local think tanks and NGOs working on policy reform issues. While USAID will continue to seek opportunities to assist the central government in the design and implementation of reform efforts, the scale of our support will be much smaller than in prior years.

II. PROBLEM STATEMENT

1) Background:

El Salvador has made important advances in terms of macroeconomic stability in recent years. Since the mid-1990's inflation has remained less than 10 percent, and in 1997 averaged about two percent. The fiscal deficit has been low (about 2 percent of GDP), the real growth rate has averaged about 5 percent, remittances have risen and poverty in urban areas has decreased.

Notwithstanding these achievements, poverty in rural areas has remained fairly constant and this persistence presents an urgent challenge. According to the annual Household Survey conducted by the Ministry of Economy, a consistent 65 percent of rural households were classified as poor throughout the 1990s, with an annual per capita income of less than \$360. During the same time-frame, urban poverty decreased by about 11 percent.

Barriers remain which prevent the benefits of the generalized growth process from reaching the rural poor. In 1995, the USAID Mission adopted a new strategy for its program in El Salvador whose principal focus is rural poverty reduction.

2) The Persistence of Rural Poverty:

Several factors explain the persistence of rural poverty, despite recent strong economic growth in El Salvador. Such factors include the urban bias in public sector spending, the lack of infrastructure in rural areas, and recent poor performance of the agriculture sector.

Urban Bias in Publicly Funded Services:

One explanation is the strong urban bias in public expenditure. Both publicly provided services, such as healthcare and education, and economic and social infrastructure have been concentrated in urban areas, especially in the San Salvador metropolitan area. The August 1997 World Bank El Salvador Rural Development Study¹ examined social service coverage of the poor

¹This study was co-financed by USAID/El Salvador.

rural population. The study's findings included:

- More than 40 percent of the rural poor population cannot read and write, as compared to less than ten percent of San Salvador's population.
- While high illiteracy in rural areas reflects *past* inequities in educational expenditures, the World Bank study found that the present-day EDUCO program is also not being targeted to the poorest rural school children. At present, nearly one in every three poor primary-aged children is out of school in the rural areas.
- As regards healthcare, there is little targeting of public health services for the poor in rural areas. Rural residents have the lowest access to public health services and the highest rates of illness. [A USAID study of the 1998 public sector budget found that about 58 percent of public healthcare spending will go for urban hospitals.]
- The main in-kind transfer program, school feeding, is not targeted to the poor.

As a result of past and present inadequate social spending in rural areas, the rural labor force possesses lower educational attainments and greater incidence of health problems than their urban counterparts. This disparity contributes to relatively lower incomes among rural households.

Lack of Basic Infrastructure:

As a related problem, El Salvador also has a history of neglect of infrastructure development in the rural areas. The World Bank study found that the rural poor are "severely underserved" by basic infrastructure. Household survey data analyzed by the World Bank show that for 1994, only fourteen percent of the rural poor had access to piped water, and only 35 percent had access to electricity. Only two percent had access to modern sanitation. In addition, the average distance to paved roads is highest in the poorest regions of the country.

These data demonstrate how public policy in El Salvador has neglected investments in infrastructure to improve roads and make potable water, electricity and telecommunications services available in rural areas. The recently ended civil war compounded the infrastructure deficit, in that security problems made it difficult to construct and maintain infrastructure in the largely rural conflictive zones.

The absence of basic infrastructure lowers the efficiency of rural producers, by isolating them from markets and technology, and by raising transport and input costs. For example, sixty-

three percent of the national road network is unpaved and in poor condition, with the worst roads found in rural areas². In fact, the lack of productive infrastructure in rural areas is probably the single most important contributor to rural poverty.

Poor Performance of the Agriculture Sector:

In recent years, the Salvadoran agriculture sector has experienced chronically low growth and productivity. This poor performance affects rural poverty, because agriculture provides employment to over 50 percent of the rural labor force. In fact, the World Bank study shows that the poorest Salvadorans are those whose income comes exclusively from agricultural day labor or farming.

In the decade 1987 to 1996, growth in the agricultural sector averaged only 1.5 percent, while manufacturing sector growth averaged 5.2 percent and non-traded goods (e.g., services) growth averaged 3.7 percent (See Table 1). The stagnation seen in agriculture results from both external factors and the low productivity of the resources dedicated to the sector. External factors discouraging growth in the sector include unfavorable international price trends for some of El Salvador's agricultural products; and a real exchange rate appreciation that is largely due to the strong inflows of remittances that the country enjoys. Because El Salvador has a relatively liberal trade policy, these external factors translate into a competitive environment for agriculture.

There are also domestic policy impediments that raise production costs and hamper yields. Domestic policy problems involve market constraints such as excessive concentration (monopoly) in input, storage, transport and marketing channels; lack of property and contract rights enforcement; and lack of information on prices and markets for producers. Agricultural productivity is also impeded by low educational attainment among the rural labor force and, as mentioned earlier, the lack of basic infrastructure.

Summary:

In sum, El Salvador has successfully implemented economic reforms resulting in low inflation and a sustainable growth process. Nonetheless, growth is not translating into proportional reductions in rural poverty. Complementary policy reforms to address barriers to economic growth in rural areas are needed.

The policy choices that serve to concentrate resources and development in urban areas reflect political decisions taken

²Ministry of Economy, 1996 Multipurpose Household Survey, April 1997.

without broad participation. There is a need to open up national debate on economic policy choices. Part of the process of reducing barriers to growth in rural areas lies in facilitating national discussion.

Activities now being implemented by the Policy RP address some of the constraints to rural poverty reduction indicated above. Efforts to improve agricultural policy and disseminate market and price information to producers are now supported by USAID's CRECER policy activity. The Mission's buy-ins to the BASIS CRSP research program in El Salvador will provide detailed information on poor rural households, and the input and output markets in which they participate.

The DRPR will complement the other activities of the Policy RP in assisting in the development, public debate and implementation of policy reforms that facilitate infrastructure investment and better provision of publicly funded services in rural areas. The activity will also promote competition in domestic input and output markets.

III. PURPOSE STATEMENT

The Decentralization and Rural Poverty Reduction (DRPR) activity will promote an economic policy environment supporting greater equity. The objective of the new activity is to assist in the reduction of poverty in rural areas which have not felt the benefits of recent economic growth. The purpose of the new activity is 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.

IV. RELATIONSHIP TO USAID/EL SALVADOR'S STRATEGY

The USAID 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. All four Mission Strategic Objectives address the different manifestations of rural poverty.

The Democracy SO (SO2), for example, pursues municipal development and civic participation oriented at helping rural populations strengthen their voice in national and local planning and decision-making. At the same time, SO2 is assisting Salvadoran institutions to strengthen the judicial sector, which in turn supports the protection of property and contract rights.

The Health SO (SO3) is working to expand access to basic health and family planning services in rural areas. As part of the new SALSA activity, SO3 plans to promote a more equitable allocation of public funds within the health sector.

Sustainable delivery of quality water resources is addressed by the Water SO (SO4). National reconstruction of basic rural infrastructure has been undertaken for the past five years by the Special Strategic Objective.

The Economic Growth SO (SO1) also implements activities to expand access by rural poor families to basic education, financial services, extension and marketing services, secure land titles and infrastructure. The DRPR activity supports these efforts, as well as those of the other SOs, in helping to improve the policy environment within which USAID is pursuing its rural poverty strategy. The DRPR activity intends to address fundamental policy weaknesses that seem to impede rural development and rural poverty reduction in El Salvador.

V. PROPOSED INTERVENTION

The components of the DRPR activity directly contribute to both RP5 sub-intermediate results: modernization of the state leads to economic growth and better rural services, and GOES adopts and implements a rural poverty strategy. DRPR will work within the GOES modernization of the state strategy, supporting elements that lead to improved infrastructure and expanded basic services in rural areas, as well as promotion of broadly-based economic growth. Policy reform development and public debate on issues such as competition, rural services and infrastructure finance will be key elements in the emergence of a national strategy for rural poverty reduction.

The three components of DRPR relate to (1) rural infrastructure and services, (2) promoting competition, and (3) other policies that broaden the participation of the rural poor in growth.

1. Rural Infrastructure and Services

As discussed earlier, the lack of infrastructure in rural areas derives from a combination of factors, none of which is easily resolved.

- The national budget for public investment is too small; El Salvador's low tax effort (11 percent) precludes expanded spending on infrastructure construction and maintenance.
- The infrastructure needs of rural areas are not taken fully into account when funds are allocated.

- Projects of international institutions that tend to give emphasis to rural areas are slow in their execution, both because of managerial incompetence in the Ministry of Public Works, and funding limitations for counterpart. The new focus of the FISDL may help overcome this problem, but the institution has neither the mandate nor the funding to cover all of the country's physical infrastructure needs.
- There is no legal provision in place that permits the GOES to grant concessions to the private sector to construct infrastructure, then recover costs by charging users (e.g., toll roads).
- The incentives to expand rural services contained in the recent deregulation of the telecommunications and power markets have not been made operational.

A parallel set of problems can be identified affecting the allocation of other publicly provided services, such as education and basic health care. Insufficient resources combined with overallocation in favor of urban areas leave rural areas underserved. Because the Health Policy and Education RPs do provide resources for policy studies and reform, however, the DRPR activity expects to emphasize issues relating to infrastructure.

The thicket of obstacles to infrastructure investment in rural areas will not be easily overcome. The DRPR activity has selected two areas where USAID assistance to policy reform can reasonably expect to have an impact in expanding access to publicly provided services and infrastructure in rural areas. These two areas are local government finance, and the development of mechanisms for private infrastructure investment.

a) Decentralization of Public Finance:

The argument in favor of decentralization of public expenditure and revenue-raising is that it brings decision power over the use of public resources closer to the customer. Moreover, decentralization in public finance offers an opportunity to redress regional differences in wealth, basic needs and resource endowments. Local decision-making over expenditure is more likely to reflect local preferences than decisions taken in the capital city. Other arguments in favor of decentralization include greater agility to respond to local needs, and closer accountability.

In the case of El Salvador, there is a trend toward greater decentralization of public finance. The seeds of this trend were laid in part by successful USAID interventions in municipal development, such as the Municipalities in Action (MEA) program, which has now been institutionalized by GOES. In the 1998 national budget, the Assembly approved revenue-sharing with

municipal governments amounting to six percent of the budget. With support of the IDB, the Salvadoran Social Investment Fund (FISDL) has expanded its mandate to support communities with small-scale projects, through local government. In addition, the municipal governments are moving to update and revise their tax systems. Both the Spanish and German bilateral aid agencies are offering assistance for local government development.

USAID also has extensive experience in working in municipal development through its democracy objective. Through this effort, the Mission is helping municipalities to upgrade their quality of service provision, internal management and revenue collections. The DRPR activity will supplement the SO2 work by offering technical assistance and training related to fiscal decentralization in the following areas:

- Specialized technical assistance related to tax policy for local governments.
- Assistance to fiscal institutions NOT assisted by SO2, such as the Ministry of Finance, in developing systems, regulations, and policy related to revenue-sharing and local revenue sources. In this regard, DRPR will help develop a better definition of roles and responsibilities among the different levels of government on public finance issues.
- Training for officials from both the municipalities and other fiscal institutions (Ministry of Finance, ISDEM, COMURES) on public infrastructure planning and finance.

While the primary focus will be on secondary cities and rural municipalities, the DRPR activity will also support targets of opportunity that arise which could have a demonstration effect or set a precedent for all municipal governments. For example, USAID provided assistance to the Municipality of San Salvador in its development of a proposal to simplify and eliminate regressivity from its municipal assets tax, as this effort, if successful, sets a standard for all municipalities.

All work will be closely coordinated with SO2, in order to avoid duplication and maximize results.

b) Private Provision of Infrastructure:

El Salvador has no legal framework permitting private investment in basic infrastructure such as toll roads. In 1995 and 1996, USAID provided assistance to the Commission for Modernization to draft a concessions law permitting buy-operate-transfer (BOT) arrangements. The Inter-American Development Bank (IDB) also provided assistance to this effort. The law did not go forward, among other reasons, over the concern about the political impact of introducing user charges for infrastructure. The GOES has

been looking at alternative solutions such as revising the government procurement law, establishing a "Fondo Vial" (roads fund) to facilitate road construction and maintenance, decentralizing ANDA water supply, and expanding the use of contracts by the Ministry of Public Works. There is also some potential to establish concession and contracting mechanisms at the local government level.

The importance of such measures is that they can expand the resources available for infrastructure development in El Salvador, and get around the institutional limitations of the Public Works Ministry. With resources of the DRPR activity, USAID will complement efforts of the IDB, and help to develop private financial mechanisms for infrastructure, by offering training, seminars and technical assistance. SO1 will also seek opportunities to collaborate with SO4, in efforts directed at water policy, decentralization and privatization of water delivery infrastructure. Expected work in the area of privatization and deregulation of power and telecommunications is described in a later section of this proposal.

2. Promoting Competition:

The World Bank Rural Development Study demonstrates that farmgate prices for many commodities in El Salvador have dropped during the 1990s, one of the factors behind the stagnation in the agriculture sector and lack of progress in reducing poverty. There are several factors explaining this finding, one of which is an apparent increase in the share of commodity prices taken by middlemen. The finding points to a potential problem of lack of competition in transport, storage and marketing.

Lack of competition is a problem endemic to small, developing countries. Small domestic markets size combined with concentration of economic power and influence, create impediments to competition. The result can be higher prices to consumers, lower prices to domestic input suppliers such as labor and farmers, and discouragement to development of new businesses. Uncompetitive local markets also make it more difficult for Salvadoran products to penetrate international markets, by raising production costs.

Public policy weaknesses that inhibit competition in El Salvador include, first and most obviously, the lack of a competition policy and a related legal framework (e.g., antitrust laws, laws defining and sanctioning predatory practices by firms). Hence, in El Salvador, large firms can legally collude, fix prices, divide markets and otherwise impede commerce. This is the type of problem suspected by the World Bank study to underlie the depression of farmgate prices received by small producers. Competition is also impeded by unnecessary licensing requirements, differential tax policy favoring larger established

firms, and barriers to trade. Interestingly, official tolerance of tax evasion and smuggling is an important obstacle to competition in El Salvador, as businesses which can evade VAT and border taxes are able to undercut tax-complying firms in local markets.

The most common recipe to introduce competition, trade liberalization, has been largely followed by El Salvador. Beyond trade reform, the solutions become enormously difficult, because they relate to local business practices. The World Bank Competitiveness Enhancement technical assistance project is attempting to address the lack of a national competition policy, although the area seems to be one of lower priority for the GOES. There are complementary activities that USAID can undertake in two areas: consumer protection and public utilities deregulation. A third area, financial services, in which the policy and microfinance RP teams will collaborate, is also discussed below.

a) Consumer Protection:

The benefits of competition are enjoyed by consumers; namely lower prices, higher quality and more choice. Hence, responding to consumer interests is one means to address competition policy.

In El Salvador, consumer protection is a largely untapped area. A new semi-autonomous government agency, the Institute for Consumer Protection and Competition, is being created by spinning off the existing Consumer Protection Division (DPC) of the Ministry of Economy. The World Bank is assisting in this process. The DPC has concentrated its efforts in responding to consumer complaints and publishing consumer information.

In countries where there now exist effective policies, laws, and institutions protecting consumer interests, such as the United States, the development of consumer protections arose out of civil society action. In El Salvador, the civil society component of consumer protection is weak and undeveloped. The one NGO that has experience in this area, the Centro para la Defensa del Consumidor (CDC), is largely ignored by policymakers.

USAID, in a pilot effort over the past year, has collaborated with an NGO interested in competition policy, FUNDAUNGO, in a study of private sector mechanisms for consumer protection. In the course of the study, the first opportunities for collaboration among FUNDAUNGO, the DPC and CDC emerged. This pilot activity also engendered a partnership between USAID and USIA in bringing information and contacts from the U.S. consumer protection institutions to Salvadoran counterparts. SO1 would like to build on this promising beginning, and allocate resources of the DRPR activity to further promote civil society mechanisms to promote consumer interests.

Potential activities to be supported under DRPR include:

-- Civil society collaboration with the Ministry of Education to include consumer issues in the public school curriculum, in order to develop an understanding of consumer rights and responsibilities among the Salvadoran population.

-- Work by NGOs to advance consumer issues that relate to competition problems, including institutional strengthening of El Salvador's nascent consumer advocacy groups, development of product testing, development of mechanisms for mediation and conflict resolution, support to participation by institutions representing consumer interests on policy-making bodies (e.g., the CAMAGRO-led group looking at agriculture policy), and training and exchanges with U.S. consumer advocacy groups.

-- Policy dialogue on competition and consumer issues of relevance to the Mission's rural poverty strategy; for example, development of the competition law, and use of competition policy and consumer protection laws to address competition problems in rural markets (e.g., development of protections analogous to the truth in lending provisions that apply to lending in the United States).

b) Regulation of Privatized Public Utilities:

El Salvador has recently adopted new regulatory frameworks in power and telecommunications, as part of its process of privatization in the two sectors. A regulatory agency, SIGET, was established to oversee both sectors. As part of the process, the four public sector power distribution companies were recently sold to private investors, and the national phone company, ANTEL, will be sold to a strategic investor in July of 1998.

The new regulatory frameworks, developed with both USAID/El Salvador and G-CAP support, are innovative and promote competition in both sectors. The logic of the model is to use competition among private suppliers to reduce electricity and telecommunications costs and expand access. The benefits to the country will include lower production costs, and the ability to attract private investment in these two infrastructure areas.

In other countries where similar reforms have been tried (e.g., Mexico, Ecuador), problems have arisen where national legal and judicial systems proved unable to defend the contractual rights of private investors against state or private efforts to impede competition. In the worst of such cases, private investors can end up withdrawing or engaging in costly lawsuits. There are signs that El Salvador could follow the same path; the National Assembly under both current and past leadership has shown a propensity to tinker with the "rules of the game" for public utilities, often without public discussion.

For example, in the weeks since the power distribution companies have been sold to private investors, customers complaints about billing problems have been filed by an asserted ten percent of the client base. This high rate of dissatisfaction reflects misunderstandings over the new tariffs, lack of familiarity by both firms and customers about the new regulations, and lack of an adequate rollout plan by the national power company. As a result, the public has become skeptical that deregulation will actually deliver the promised benefits. More problematic, the strong public outcry has led the national assembly to demand and receive continued subsidies for electricity rates, despite the fiscal harm such subsidies will cause.

The other pending issue relating to the recent deregulations involves rural access to services. While deregulation will expand access for easier-to-reach populations, in more remote and poorer areas of El Salvador, it is unlikely in the near term that private investors would find attractive opportunities. In view of this problem, the deregulation schemes contained provisions to promote rural access, in particular a fund for rural investment named FINET. Unfortunately, however, the experience to date suggests that the GOES has relegated rural services to a lower level of priority.

Rural poverty reduction depends both on successful implementation of El Salvador's deregulation efforts in telecommunications and energy, and on the implementation of special mechanisms to reach rural areas when the private sector finds the initial investment unprofitable. USAID has assisted the GOES in developing and implementing the new regulatory frameworks. Under the DRPR activity, USAID will continue its support to effective implementation of deregulation.

Possible activities include technical assistance for rural access mechanisms (with G-CAP and Global Bureau collaboration), training of regulators, and training legislators and the public in their roles in a deregulated public utilities environment. The activities under DRPR will be coordinated with the rural electrification activities implemented through SO1.

c) More Competitive Financial Markets:

SO1, through its microfinance activities, engages in policy discussions with the GOES and other donors, regarding barriers to entry and other impediments to the emergence of financial institutions serving smaller-scale and more rural clients. Worldwide, efforts to extend financial services more broadly tend to be more fruitful the more competitive the local financial system.

The financial system shares the same obstacles to competition seen more generally in the Salvadoran private sector. Pending

legislation to reform the regulatory framework for banks contains both positive and negative aspects, if the objective is greater access to services and more competition in the sector. It is expected that over the near term, however, the trend in El Salvador will be to formalize financial institutions that provide services in rural areas, such as NGOs and credit unions, and to bring them under the umbrella of supervision.

Both CRECER and the Rural Financial Markets activities are providing support to this effort. The DRPR activity may also offer assistance, in areas not covered by the microfinance portfolio, such as review of changes to banking laws, the role and independence of the Central Bank and the Superintendency of the Banking System, privatization of state-owned lenders, and other areas supportive of expanded rural finance.

3. Other Policies

Given the five-year horizon of the DRPR activity, it is not possible to fully project the policy reform opportunities that will arise, and for which USAID will seek involvement as a means to forward its rural poverty strategy. This section indicates other possible areas of work.

a) Fiscal Policy:

El Salvador is a country in need of better infrastructure, public education and health services, especially in rural areas. To finance its expenditures, the government must be able to efficiently raise revenues through its tax system. Improved tax administration is a critical challenge for El Salvador, particularly as there is a strong political preference by the population to be a low tax country.

Under USAID's MOST project, which ended in 1995, El Salvador acquired the systems and technology to effectively implement its major taxes. Among recent successes in the tax area are substantial simplifications of the tax regime, a reformed customs administration, and a growing reliance on value-added taxes. Hence there is no immediate need for a major donor intervention to help the Ministry of Finance upgrade its tax administration. Nonetheless, there remain clear shortcomings in tax policy and administration, generally with respect to income taxes, but also to a lesser extent with the value-added tax. While the international financial institutions are a source of technical assistance for El Salvador in the taxation area, it is conceivable that USAID will also wish to offer assistance if issues arise that would seem to be important to the Mission strategy.

A similar assertion may be made regarding the public sector budget. An improved budget planning and implementation

capability would support a more equitable allocation of national budget resources. USAID may find opportunities to assist the central government and the legislative assembly in improving budget compilation, analysis and execution.

b) Data Collection and Analysis on Rural Poverty:

USAID has contributed financial support and technical assistance for the Multipurpose Household Survey for many years. In FY 1998, the last planned component of such assistance will provide support to improvement of the survey sampling frame. The Inter-American Development Bank is now implementing a project to improve the household survey. For this reason, the Policy RP is not anticipating providing further assistance to the government for its survey.

Nevertheless, the GOES has chronically underfunded its household survey, and USAID has received periodic emergency requests for funding, without which the survey would not have gone forward. USAID plans to continue its dialogue, in coordination with the IDB, regarding the importance of good household survey data. The hope is that there will be no future emergency funding requests, but realistically, should the survey be endangered by lack of funding, USAID may decide it is in the Mission's interest to offer financial support, as a user of the data.

Moreover, during the electoral period, and in the early stages when the new government is preparing its initiatives, USAID may provide support to civil society organizations in the analysis of rural poverty, and in the development and dissemination of economic policy reform proposals.

c) Pension Reform:

El Salvador is in the process of privatizing its national pension system, following the Chilean model. The law establishing the new system was passed in December, 1996. Since that time, the Superintendency of Pensions has been created, and private companies who will manage individual pension accounts have been approved and have started operations. Salvadorans will begin transferring into the new system in April, 1998.

USAID has provided assistance to this effort since its inception. The fruits of pension reform will be important for the Salvadoran economy: the reform will expand private savings and investment, ultimately boosting national growth; contribute to greater fiscal solvency of the Central Government; and should expand coverage of the pension system to a larger portion of the population.

The 0349 activity, soon to end, has been the chief means of USAID support for pension reform. The Policy RP may elect to use DRPR funding, if needed for urgent tasks related to the successful

installation of the new system. In future years, there may be a possible role for DRPR to assist in expanding coverage of the pension system to uncovered target populations such as microentrepreneurs and members of cooperatives.

d) Other Barriers to Competition

The Mission's buy-in to the BASIS CRSP is contributing to analysis of competitive barriers in the input and output markets in which rural poor households participate. The research will focus initially on financial and land markets, but will also generate information on other input markets as well. Should the BASIS CRSP identify constraints relating to competition in rural markets not already addressed by SO1 activities, the policy team will evaluate the feasibility of adding policy activities relating to identified constraints to the agenda covered under the DRPR activity.

VI. ANALYTICAL AND 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 continuously exchange views with customers and partners, review activities' performance, and identify new foci of interest and problem areas. To accomplish these consultations, the Policy team has the following mechanisms:

- An SO1 Extended Team has been organized, which includes thirty members from different sectors and backgrounds (e.g., economic and social). They 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. This mechanism has been continued, and to date three 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.

All these mechanisms support the consultation process, and the Policy team is planning to continue to obtain feedback for the implementation of its activities.

In anticipation of the formal design of *Decentralization and Rural Poverty Reduction*, the RP presented a proposal to the SO1 Extended Team of the broad outlines of the new activity. This proposal was widely accepted and its recommendations have been taken into account in the design.

The consultation process has been supplemented with research and analysis of the causes of rural poverty. The chief study in which the USAID Mission collaborated was the World Bank rural poverty analysis, also supported by the local think tank FUSADES. The data for the World Bank study came from a rural poverty survey undertaken by FUSADES in February 1996 with financial support from USAID. This information base has informed the Mission strategy regarding the determinants of rural poverty.

Additional research on specific topics has been undertaken by USAID and other donors. For example, the CRECER activity has studied rural public service delivery, participation in financial services by credit union members, and needs for services by rural producers. UNDP has undertaken an important study disaggregating the Human Development Index by region, pointing to the serious disparities among different parts of the country.

VII. CONDITIONS PRECEDENT AND/OR COVENANTS

The funding for the new activity will be amended into the SO1 Strategic Objective Agreement. No additional conditions precedent or covenants will be required.

VIII. CUSTOMER SERVICE

SO1 assistance helps 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 strategic objective are designed to increase the efficiency and efficacy of public institutions; improve management of land and capital; promote greater access and quality in primary education; and expand access to agricultural and productive credit.

The Customer Service Plan describes the various methods used by team members to initiate contact and maintain ongoing communication with customers, to obtain feedback, monitor progress and keep them informed. While some communication, such as meetings 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 and activity level.

A variety of methods will be used by the RP team to initiate and maintain ongoing communications as well as to elicit feedback from customers, including workshops, seminars, meetings and focus groups. Input from the Multi-Purpose Household Survey, the monitoring and evaluation components of the DRPR activity and the research results of the BASIS CRSP will also enable the RP team to assess changes in needs as well as progress towards results. Where feasible, research, monitoring and evaluation activities will look at gender impacts.

The DRPR activity will have several counterpart institutions within the public sector, among these will be the Office of the Commissioner for Modernization, COMURES and ISDEM (the mayors' council and the public sector agency coordinating local government, respectively) and the Ministries of Finance and Economy. The activity will also work with NGOs interested in policy reform representing the full range of the political spectrum.

IX. HUMAN CAPACITY DEVELOPMENT STRATEGY

Changes in policy, and the implementation of policy reform cannot easily be achieved by outside players. Change is best implemented by insiders, who are committed to reform and who have the vision and leadership to oversee institutional change. For this reason, the results to be achieved under the new DRPR activity will require a substantial measure of training, for GOES officials, civil society representatives, local government officials and legislators.

To support training activities, the DRPR activity will "buy in" to the Human Capacity Development Activity (519-0432). The Policy RP already contributed \$200,000 to HCD in FY 1997. Using funding from the DRPR budget, it will provide up to an additional \$300,000 over the life of project. This funding will be used to cover the cost of courses, both in-country and abroad, relating to the reform areas described above. In addition, the policy 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. Every effort will be made to identify qualified female participants in training.

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 activity's results. Training re-engineering guidelines and best practices will be followed closely while implementing human capacity development activities. 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.

X. IMPLEMENTATION/MANAGEMENT PLAN

The DRPR activity will be implemented using four different implementation arrangements. They are:

- 1) Additional funding for the RP's contract with the 8a firm Devtech Systems,
- 2) Buy-ins to the SO1 Human Capacity Development activity,
- 3) Small assistance instruments (SAIs) to local Salvadoran organizations, and
- 4) Specialized technical assistance through Global Bureau buy-ins and IQC contracts.

The chart below indicates how this menu of implementation arrangements will be used in each of the technical areas in which DRPR will operate.

IMPLEMENTATION ARRANGEMENTS BY COMPONENT

	<u>Devtech</u>	<u>HCD</u>	<u>SAIs</u>	<u>Global</u>	
<u>Decentralization</u>		X	X		X
<u>Private Infrastructure</u>			X		X
<u>Consumer Protection</u>		X	X		
<u>Deregulation</u>			X	X	X
<u>Financial Markets</u>		X	X	X	
<u>Other</u>		X	X	X	X

Each of these arrangements will be described in turn.

a) Contract with Devtech Systems:

At the end of FY 1997, USAID received \$250,000 from the Global Bureau, and obligated it as initial funding into a three-year (with two option years) contract for short-term technical assistance activities with the 8a firm Devtech Systems. The contract operates through task orders which describe the technical services to be provided. The mechanism is flexible and responsive, especially for target-of-opportunity assistance requiring rapid turnaround. For this reason, a portion of DRPR funding projected at about \$1.7 million over the LOP will be used to fund work under the Devtech contract.

Devtech has demonstrated strong capability in the area of public finance, and will be called upon to undertake the work anticipated in the decentralization component of DRPR.

b) Human Capacity Development:

As described in Section IX. above, all training activities financed under the DRPR activity will be implemented through the Human Capacity Development activity within SO1. Approximately \$300,000 will be allocated for this purpose.

c) Small Assistance Instruments:

Particularly in the consumer protection, financial markets and deregulation areas, the policy reform objectives of DRPR can be facilitated by civil society analysis and action. The DRPR activity will advertise the general areas of policy interest on an annual basis, and solicit the submission of proposals for assistance. DRPR will also develop broad designs for research and policy studies, and compete the assistance instrument among interested local organizations. Finally, in the occasional case of provision of assistance to the GOES other than technical assistance, a direct contract or procurement action would be sought under DRPR. Approximately \$1.3 million in DRPR funds will be used through small assistance instruments.

d) Global Bureau Buy-Ins and IQCs:

Technical assistance to be provided in the areas of deregulation, and mechanisms for private provision of infrastructure is highly specialized. Some municipal finance issues may also required more specialized technical assistance. The Global Bureau pre-competed contracting mechanisms lend themselves well, in enabling the Mission to gain access to the highest quality experts. It is anticipated that roughly \$700,000 may be used to procure technical experts through Global Bureau contracting mechanisms. This amount also includes funding for a mid-course evaluation of the activity, to take place in FY 01.

XI. PERFORMANCE MONITORING PLAN

The SO1 indicators incorporate the areas of work contemplated under the new activity. The highest level indicator, the rural poverty elasticity of growth, will demonstrate progress over time in extending the benefits of growth to rural areas. The policy interventions sought in the DRA activity address this objective.

At the intermediate result level, the RP tracks progress toward a matrix of policy reform. The measures in the matrix include progress toward public utilities deregulation, private provision of infrastructure, pension reform and equitable allocation of the public sector budget. A second indicator, the percentage of the public sector investment budget spent in the poorest departments, also measures equity in the budget allocation process.

One additional indicator will be added for the RP when the DRA begins implementation. The indicator will relate to decentralization of public finance, and will be developed in consultation with SO2 and the contractor.

In addition to tracking performance measures, the RP team will also require workplans from all grantees, and will make use of activity reporting requirements to track progress toward results. An evaluation of the activity will be undertaken in FY 01. The timing of the evaluation gives sufficient opportunity for tangible policy reform results to be achieved and their impacts evaluated.

The annual audit requirements of the new activity will be carried out in accordance with "Automated Directive System (ADS) Chapter 591.3 Audits of U.S. For-profit Organizations; 591.5.4, Audits of Foreign For-Profit and Non-Profit Organizations and Foreign Host Government Entities, and Chapter 591.5.7, Pre-Award Audits. Funding for audits will be provided for in each implementing instrument, where required, as a separate line item. For Pre-Award Surveys or Audits, funds will be budgeted for under USAID/El Salvador Management Costs. For unsolicited proposals and/or small grants, the audit mechanism will be determined and budgeted during each individual activity approval process.

XII. FINANCIAL PLAN

The total amount to be obligated under this activity is US\$4,000,000. See Annex D for the planned obligation schedule and illustrative budget. The required counterpart contribution, for both GOES and NGOs, is approximately the equivalent of US\$ 1,334,000, which represents 25 percent of total resources.

Required host country (HC) counterpart contributions, consistent with statutory requirements, will be negotiated and included in

the SOAG, as related activities are identified and agreed-upon. With regard to cost-sharing contributions from NGOs, it is the policy of the Mission to negotiate and obtain as much cost-sharing contribution as possible to achieve maximum impact from its assistance. The HC contribution requirement is not applicable, as a matter of law, to nonprofit organizations, unless the activities, components or program, directly and substantially involve the Host Government. HC counterpart contributions and cost-sharing contributions are expended and accounted for by the institutions committing the funds. Reports for contributions are required every quarter and are followed up by Activity Managers.

XIII. ANNEXES

- A. Country and Assistance Checklists
- B. Congressional Notification
- C. Initial Environmental Examination
- D. Illustrative Budget

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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.

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ANNEXES

EL SALVADOR
FY 98 COUNTRY CHECKLIST

I. COUNTRY CHECKLIST

The USAID/W Country Desk Officer, in consultation with the Department of State Country Desk Officer, prepares the Country Checklist. It is normally prepared at the beginning of the fiscal year.

Listed below are the statutory and regulatory "country eligibility" criteria applicable to: (A) both Development Assistance ("DA") and Economic Support Fund ("ESF") assistance; (B) DA only; or (C) ESF only.

A. DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND

1. Narcotics Certification (FAA Sec. 490): If the recipient is a "major illicit drug producing country" (defined as a country in which during a year at least 1,000 hectares of illicit opium poppy is cultivated or harvested, or at least 1,000 hectares of illicit coca is cultivated or harvested, or at least 5,000 hectares of illicit cannabis is cultivated or harvested) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

N/A; El Salvador is not a major illicit drug producing or major drug transit country.

a. Has the President in the March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 30 calendar days, of a resolution disapproving such a certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (2) the vital national interests of the United States require the provision of such assistance?

N/A

b. With regard to a major illicit drug producing or drug-transit country for which the President has not certified on March 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there

N/A

has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

2. Indebtedness to U.S. Citizens (FAA Sec. 620(c)): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

We are not aware of any debts the Government of El Salvador owes to any U.S. citizen for goods or services that meet the criteria set forth in this section.

3. Seizure of U.S. Property (22 USC 2370a): If assistance is to a government, has it (including any government agencies or instrumentalities) taken any action on or after January 1, 1956 which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without (during the period specified in 2370a(c)) either returning the property, providing adequate and effective compensation for the property, offering a domestic procedure providing prompt, adequate, and effective compensation for the property, or submitting the dispute to international arbitration? If the actions of the government would otherwise prohibit assistance, has the President waived this prohibition and so notified Congress that it was in the national interest to do so?

No

4. Communist and Other Countries (FAA Secs. 620(a), and 620(f); FY 1998 Appropriations Act Secs. 507, and 523): Will direct or indirect assistance be provided to Communist countries such as China, Cuba, North Korea, Tibet, Vietnam? (b) Will direct or indirect assistance be provided to directly to Libya, Iran, Iraq, or Syria? or (c) Will direct assistance be provided to Sudan? If so, has the President made the necessary determinations to allow assistance to be provided?

No. El Salvador is not a communist country.

5. Mob Action (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? [Reference may be made to the "Taking into Consideration" memo.]

No

6. **OPIC Investment Guaranty (FAA Sec. 620(l)):** Has the country failed to enter into an investment guaranty agreement with OPIC? [Reference may be made to the annual "Taking into Consideration" memo.] No
7. **Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5):** (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? [Reference may be made to the annual "Taking into Consideration" memo.] No
8. **Loan Default (FAA Sec. 620(g); FY 1998 Appropriations Act Sec. 512 (Brooke Amendment)):** (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one calendar year on interest or principal on any U.S. foreign assistance loan? [note: Liberia was added to the list of country exceptions for FY 1998]. No
9. **Military Equipment (FAA Sec. 620(s)):** If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? [Reference may be made to the annual "Taking into Consideration" memo.] Yes. Taken into account by the Administrator at the time of approval of the FY 1998 OYB.
10. **Diplomatic Relations with U.S. (FAA Sec. 620(t)):** Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No
11. **U.N. Obligations (FAA Sec. 620(u)):** What is the payment status of the country's U.N. obligations? If the country is in arrears, was such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? [Reference may be made to the annual "Taking into Consideration" memo.] El Salvador's U.N. arrearages, both in general and for purposes of Article 19 of the U.N. Charter, were taken into account by the Administrator at the time of approval of the FY 1998 OYB.

12. International Terrorism

a. Sanctuary and Support (FY 1998 Appropriations Act Sec. 527; FAA Sec. 620A): Has the country been determined by the President to: (i) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (ii) otherwise supports international terrorism? If so, has the President has waived this restriction on grounds of national security or for humanitarian reasons? No

b. Compliance with UN Sanctions Against Iraq and Libya (FY 1998 Appropriations Act Secs. 534 and 582): Is assistance being provided to a country not in compliance with UN sanctions against Iraq (Sec. 534), or Libya (Sec. 582)? No

c. Governments That Aid Terrorist States. (FAA Section G, added by section 325 of the Antiterrorism and Effective Death Penalty Act of 1996, P.L. 104-132, April 24, 1996): Is assistance being provided to a government of a country that provides assistance to the government of another country which the SOS has determined is a terrorist government under section 620A of the FAA? If so, has the President made the necessary determinations to allow assistance to be provided? No

13. Export of Lethal Military Equipment (FY 1998 Appropriations Act Sec. 550; FAA Sec. 620H, added by section 326 of the Antiterrorism and Effective Death Penalty Act of 1996, P.L. 104-132, April 24, 1996): Is assistance being made available to a government which provides lethal military equipment to a country the government of which is a terrorist government under sections 620A of the FAA, 6(j) of the Export Administration Act (50 U.S.C. App. 2405(j)) or 40(d) of the Arms Export Control Act? If so, has the President made the necessary determinations to allow assistance to be provided? No

14. Discrimination (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No

15. **Nuclear Technology (Arms Export Control Act Secs. 101, 102):** Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? [FAA Sec. 620E(d) permits a special waiver of Sec. 101 for Pakistan.] No
16. **Algiers Meeting (ISDCA of 1981, Sec. 720):** Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? [Reference may be made to the "Taking into Consideration" memo.] No
17. **Military Coup (FY 1998 Appropriations Act Sec. 508):** Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No
18. **Exploitation of Children (FAA Sec. 116(b)):** Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? No
19. **Parking Fines (FY 1998 Appropriations Act Sec. 551):** Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of the date of enactment of the F 1998 Appropriations Act, November 26, 1997? FY 1998 obligations will be reduced by 110% of the amount of unpaid parking fines owed to the District of Columbia as determined by M/B. As of 11-26-97, El Salvador owed \$2,880.00.

20. Delivery of Humanitarian Assistance (FAA Sec. 620I, added by F 1997 Appropriations Act Sec. 559 562): Has the government prohibited or otherwise restricted, directly or indirectly the transport or delivery of United States humanitarian assistance? If so, has the President made the necessary determination to allow assistance to be provided? No

21. Nuclear Power Plant in Cuba (Sec. 111 of the LIBERTAD Act, P.L. 104-114, March 12, 1996): Has the country or any entity in the country provided on after the dates of enactment of the F 1996 Appropriations Act, January 27, 1996, or the LIBERTAD Act, March 12, 1996, assistance or credits in support of the Cuban nuclear facility at Juragua, Cuba. If so, has the overall assistance allocation of funds for that country taken into account the requirements of this section to withhold assistance equal to the sum of any such assistance or credits? No

22. War Criminals

a. Harboring War Criminals (FY 1998 Appropriations Act Sec. 561): Has the government of the country knowingly granted sanctuary to persons in its territory for the purpose of evading prosecution, where such persons-- No

(i) have been indicted by the International Criminal Tribunal for the former Yugoslavia, the International Criminal Tribunal for Rwanda, or any other international tribunal with similar standing under international law, or

(ii) have been indicted for war crimes or crimes against humanity committed during the period beginning March 23, 1933, and ending on May 8, 1945 under the direction of, or in association with (1) the Nazi government of Germany; (2) any government in any area occupied by the military forces of the Nazi government of Germany; (3) any government which was established with the assistance or cooperation of the Nazi government; or (4) any government which was an ally of the Nazi government of Germany?

b. Granting Sanctuary to Indicted War Criminals (FY 1998 Appropriations Act Sec. 573): Have the competent authorities of the country, entity or canton failed, as determined by the Secretary of State, to take necessary and No,

significant steps to apprehend and transfer to the International Criminal Tribunal for the former Yugoslavia, all persons who have been publicly indicted by the Tribunal?

If so, do any of the exceptions listed in Sec. 573(c) apply, and/or, has the Secretary of State specifically waived the application of the restrictions to bilateral or multilateral assistance, as provided in Sec. 539 (e)?

B. DEVELOPMENT ASSISTANCE ONLY

Human Rights Violations (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

C. ECONOMIC SUPPORT FUND ONLY

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No

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LAC/CEN:JSullivan/cklist.es/01/16/98:2-1063

Clearances:

LAC/CEN:JWeber	<i>[Signature]</i>	Date:	<i>1/27/98</i>
LAC/SAM:JStanley	<i>[Signature]</i>	Date:	<i>1/22/98</i>
LAC/GC:SAllen	<i>[Signature] SA</i>	Date:	<i>1/22/98</i>

LAC/CEN:JSullivan/cklist.es/01/16/98:2-1063

Clearances:

ARA/CEN:JFelley	(Draft)	Date:	01/22/98
State/IO/S/B:DLeis	<i>DL</i>	Date:	1/23/98
State/INL/P:LNavarro	<i>LN</i>	Date:	1/23/98
State/DRL/AAA:DTitus	<i>DT</i>	Date:	1/23/98
State/M/OFM/VTC:KAustin	<i>KA</i>	Date:	1/23/98

ANNEX A

III. ASSISTANCE CHECKLIST

Listed below are criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to: (A) both DA and ESF assistance; (B) DA only; or (C) ESF only.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? **YES, approved on 1/22/98**

A. DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND

1. Congressional Notification

a. **General Requirement** (FY 1998 Appropriations Act Sec. 515; FAA Sec. 634A): If the obligation has not previously justified to Congress, or is for an amount in excess of the amount previously justified to Congress, has a Congressional Notification been made? **SDO has prepared the CN which will be submitted to Washington.**

b. **Special Notification Requirement** (FY 1998 Appropriations Act, "Burma" and "NIS" Title II headings and Sec. 520): For obligations for NIS countries, Burma, Colombia, Haiti, Liberia, Pakistan, Panama, Peru, Serbia, Sudan or the Democratic Republic of Congo has a Congressional Notification been submitted, regardless of any justification in the Congressional Presentation? **N/A**

c. **Notice of Account Transfer** (FY 1998 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees? **N/A**

d. **Cash Transfers and Nonproject Sector Assistance** (FY 1998 Appropriations Act Sec. 532(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted? **N/A**

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

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

SOAG is expected to be amended by February-March. This activity will be part of such amendment.

4. **Water Resources** (FAA Sec. 611(b)): If the assistance is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? N/A

5. **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1998 Appropriations Act Sec. 532). If assistance is in the form of a cash transfer or nonproject sector assistance:

a. **Separate Account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? N/A

b. **Local Currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

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

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

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

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

6. Capital Assistance

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

b. (Jobs Through Export Act of 1992, Secs. 303 and 306(b)), P.L. 102-549, 22 U.S.C. 2421b and 2421d(b): If assistance is being provided for a capital activity, is the activity developmentally sound and will it measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? **YES**

7. Local Currencies

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

b. US-Owned Foreign Currencies

(1) **Use of Currencies** (FAA Secs. 612(b), 636(h)): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. **N/A**

(2) **Release of Currencies** (FAA Sec. 612(d)): Does the U.S. own non-PL 480 excess foreign currency of the country and, if so, has the agency endeavored to obtain agreement for its release in an amount equivalent to the dollar amount of the assistance? **N/A**

8. **Trade Restrictions - Surplus Commodities** (FY 1998 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? **N/A**

9. **Environmental Considerations** (FAA Sec. 117; USAID Regulation 16, 22 CFR Part 216): Have the environmental procedures of USAID Regulation 16 been met? **YES**

10. **PVO Assistance**

a. **Auditing** (FY 1998 Appropriations Act Sec. 549): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of USAID? **YES**

b. **Funding Sources** (FY 1998 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? If not, has the requirement been waived?

At this moment it has not been determined that a U.S PVO will be the implementor of this activity. If that is the case, then the PVO will have to comply with this requirement.

11. **Agreement Documentation** (ADS 350.5.5; Case-Zablocki Act, 1 U.S.C. Sec. 112b, 22 C.F.R. Part 181): For any bilateral agreement with an obligation of \$25 million or over, has the date of signing and the amount involved been cabled to State L/T immediately upon signing and has the full text of the agreement been pouched to State/L within 20 days of signing? **N/A**

12. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? **YES** Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? **N/A** Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? **YES**

13. **Abortions** (FAA Sec. 104(f); FY 1998 Appropriations Act, Title II, under heading " Development Assistance" and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options.) **NO**

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? **NO**

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? **NO**

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) **N/A**

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) **N/A**

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? **N/A**

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? **NO**

14. **Procurement**

a. **Source, Origin and Nationality** (FAA Sec. 604(a)): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with agency rules? **YES**

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

c. **Insurance** (FY 1998 Appropriations Act Sec. 529): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. insurance companies have a fair opportunity to bid for insurance when such insurance is necessary or appropriate? **N/A**

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

e. **Construction or Engineering Services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) **N/A**

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

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

h. **U.S. Air Carriers** (Fly America Act, 49 U.S.C. Sec. 1517): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? **YES**

i. **Consulting Services** (FY 1998 Appropriations Act Sec. 548): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? **YES**

j. **Notice Requirement** (FY 1998 Appropriations Act Sec. 546): Will agreements or contracts contain notice to the effect that it is the Sense of the Congress that, to the greatest extent practicable equipment and products purchased with funds appropriated under the FY 1998 Appropriations Act should be American-made? **YES**

15. Construction

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

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

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

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

18. Narcotics

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

- b. **Assistance to Narcotics Traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? **YES**
19. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? **YES**
20. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces (see exceptions in section 660) ? **YES**
21. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? **YES**
22. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? **YES**
23. **Export of Nuclear Resources** (FY 1995 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance, except for purposes of nuclear safety, the export of nuclear equipment, fuel, or technology? **YES**
24. **Publicity, Propaganda and Lobbying** (FY 1998 Appropriations Act Sec. 545; Anti-Lobbying Act, 18 U.S.C. § 1913: Will assistance be used to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? **NO**
25. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? **NO**

26. Impact on U.S. Jobs (FY 1998 Appropriations Act, Sec. 538):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? **NO**

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? **NO**

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? **NO**

B. DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1998 Appropriations Act Sec. 513(b)), as interpreted by the conference report for the original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; **NO**, or (b) in support of research that is intended primarily to benefit U.S. producers? **N/A**

2. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the activity with respect to which the assistance is to be furnished **Yes, the SOAG establishes a 25% contribution to be provided by the Gouvernement or local entities.** or is this cost-sharing requirement being waived for a "relatively least developed" country? **NO**

3. **Forest Degradation** (FAA Sec. 118):

a. Will assistance be used for the procurement or use of logging equipment? **N/A** If so, does the an environmental assessment indicate that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems?

b. Will assistance be used for: (1) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas **NO**; (2) activities which would result in the conversion of forest lands to the rearing of livestock **NO**; (3) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands **NO**; (4) the colonization of forest lands **NO**; or (5) the construction of dams or other water control structures which flood relatively undergraded forest lands? **NO** If so, does the environmental assessment indicate that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? **N/A**

4. **Deobligation/Reobligation** (FY 1998 Appropriations Act Sec. 510): If deob/reob authority is being used under section 510 in the provision of DA assistance, are the funds being obligated for the same general purpose and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? [Note: Compare to no-year authority under section 511.] **N/A**

5. **Loans**

a. **Repayment Capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. **N/A**

b. **Long-Range Plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? **YES**

c. **Interest Rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? **N/A**

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A

6. **CITIES -Convention on International trade in Endangered Species of Flora and Fauna. (New for FY 98)** (FY 1998 Appropriations Act, Title II under "Development Assistance" heading). Is the activity not in contravention of CITIES? YES

7. **Planning and Design Considerations.** Has agency guidance or the planning and design documentation for the specific activity taken into account the following, as applicable?

a. **Economic Development.** FAA Sec. 101(a) requires that the activity give reasonable promise of contributing to the development of economic resources or to the increase of productive capacities and self-sustaining economic growth. YES

b. **Special Development Emphases.** FAA Secs. 102(b), 113, 281(a) require that assistance: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; **YES** (2) encourage democratic private and local governmental institutions; **YES** (3) support the self-help efforts of developing countries; **YES** (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; **YES** and (5) utilize and encourage regional cooperation by developing countries. **YES**

c. **Development Objectives.** FAA Secs. 102(a), 111, 113, 281(a) require that assistance: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; **YES** (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; **YES** (3) support the self-help efforts of developing countries; **YES** (4) promote the participation of women in the national

economies of developing countries and the improvement of women's status; **YES** and (5) utilize and encourage regional cooperation by developing countries? **YES**

d. **Agriculture, Rural Development and Nutrition, and Agricultural Research.** FAA Secs. 103 and 103A require that: (1) **Rural poor and small farmers:** assistance for agriculture, rural development or nutrition be specifically designed to increase productivity and income of rural poor; and assistance for agricultural research take into account the needs of small farmers and make extensive use of field testing to adapt basic research to local conditions; **N/A** (2) **Nutrition:** assistance be used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; **N/A** (3) **Food security:** assistance increase national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution. **N/A**

e. **Population and Health.** FAA Secs. 104(b) and (c) require that assistance for population or health activities emphasize low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. **N/A**

f. **Education and Human Resources Development.** FAA Sec. 105 requires that assistance for education, public administration, or human resource development (1) strengthen nonformal education, make formal education more relevant, especially for rural families and urban poor, and strengthen management capability of institutions enabling the poor to participate in development; and (2) provide advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

YES



g. **Energy, Private Voluntary Organizations, and Selected Development Activities.** FAA Sec. 106 requires that assistance for energy, private voluntary organizations, and selected development problems may be used for (1) data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; **N/A** (2) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; **Yes** (3) research into, and evaluation of, economic development processes and techniques; **Yes** (4) reconstruction after natural or manmade disaster and programs of disaster preparedness; **N/A** (5) special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; **NO** (6) urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. **N/A**

h. **Appropriate Technology.** FAA Sec. 107 requires that assistance emphasize use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor. **N/A**

i. **Tropical Forests.** FAA Sec. 118 and FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act) require that:

(1) **Conservation:** assistance place a high priority on conservation and sustainable management of tropical forests and specifically: (i) stress the importance of conserving and sustainably managing forest resources; (ii) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (iii) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (iv) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (v) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (vi) conserve forested watersheds and rehabilitate those which have been deforested; (vii) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting,

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removal, and processing; (viii) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (ix) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (x) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (xi) utilize the resources and abilities of all relevant U.S. government agencies; (xii) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (xiii) take full account of the environmental impacts of the proposed activities on biological diversity. N/A

(2) **Sustainable Forestry:** assistance relating to tropical forests assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry. N/A

j. **Biological Diversity.** FAA Sec. 119(g) requires that assistance: (i) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (ii) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (iii) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (iv) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas. N/A

k. **Benefit to Poor Majority.** FAA Sec. 128(b) requires that if the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, it be designed and monitored to ensure that the ultimate beneficiaries are the poor majority. YES

l. **Indigenous Needs and Resources.** FAA Sec. 281(b) requires that an activity recognize the particular needs, desires, and capacities of the people of the country; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in governmental and political processes essential to self-government. YES

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m. **Energy.** FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act) requires that assistance relating to energy focus on: (1) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (2) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases. N/A

n. **Debt-for-Nature Exchange.** FAA Sec. 463 requires that assistance which will finance a debt-for-nature exchange (1) support protection of the world's oceans and atmosphere, animal and plant species, or parks and reserves; or (2) promote natural resource management, local conservation programs, conservation training programs, public commitment to conservation, land and ecosystem management, or regenerative approaches in farming, forestry, fishing, and watershed management. N/A

C. ECONOMIC SUPPORT FUND ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Does the design and planning documentation demonstrate that the assistance will promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAAYES YES

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? NO

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1998, this provision is superseded by the separate account requirements of FY 1998 Appropriations Act Sec. 532(a), see Sec. 532(a)(5).) N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1998, this provision is superseded by the separate account requirements of FY 1998 Appropriations Act Sec. 532(a), see Sec. 532(a)(5).) N/A

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**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.

ANNEX B

U.S. FINANCING (In thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unliquidated	
Through September 30, 1996	0	0	0	
Estimated Fiscal Year 1997	0	0	0	
Estimated Through September 30,	0	0	0	
		Future Year Obligations	Estimated Total Cost	
Proposed Fiscal Year 1998	750	3,250	4,000	

Devtech Systems, Non-Governmental Salvadoran Organizations and Global Bureau buy-ins and IQC contracts.

W



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

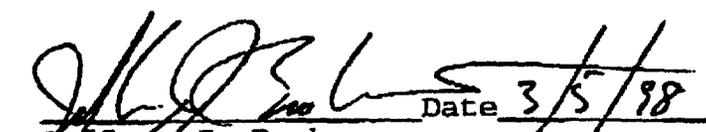
Recommended Threshold Decision: Categorical Exclusion

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

ANNEX C

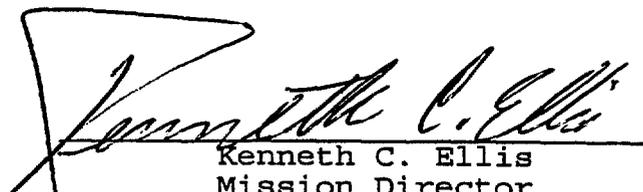
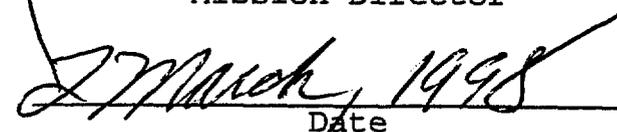


*Agency for International Development
United States of America A.I.D*
c/o American Embassy
San Salvador, El Salvador, C.A.

SO#4 Environment Office

CATEGORICAL EXCLUSION OF INITIAL ENVIRONMENTAL EXAMINATION

Activity Location: El Salvador
Activity title: Policy Development for Rural Poverty Alleviation
Project Number: 519-0442
Funding: \$4,000,000 (LOP)
PACD: September 30, 2002
IEE Prepared BY: Peter H. Gore
Environmental Officer
USAID/El Salvador
Recommended Threshold Decision: Categorical Exclusion
Mission Threshold Decision: Concur with Recommendation
Date Prepared: February 26, 1998


Kenneth C. Ellis
Mission Director

Date

CATEGORICAL EXCLUSION OF INITIAL ENVIRONMENTAL EXAMINATION

Policy Development for Rural Poverty Alleviation

(519-0442)

Background

This is a new activity under the Policy Results Package, "Policy Development for Rural Poverty Alleviation," which promotes an economic policy environment supporting greater equity. The main components for this activity are linked to address both sub-intermediate results of the package: modernization of the state, and GOES adoption of a rural poverty strategy.

I. Activity Description

The proposed activity has three components:

a) Institutional strengthening for the long-run economic policy

In order to foster more efficient tax collection and fiscal expenditures, the activity will support a few high priority, well-targeted technical assistance and training activities in the areas of tax administration and financial sector reform, all in support of maintenance of long-term economic stability.

b) Decentralization

The Policy team will coordinate with USAID's democracy strategic objective team and with other donors to improve fiscal coordination among different levels of government. Assistance will be provided to the Ministry of Hacienda, the National Assembly, FISDL, COMURES, ISDEM, and municipal and local governments.

A second action under decentralization will be to foster economic deconcentration in the country. USAID will offer technical assistance and training related to rural service provision within deregulated markets. The team will look for opportunities to incorporate labor force issues into policy related technical assistance activities and studies and to support educational reform and decentralization.

c) Strengthening competition policy and consumer protection.

USAID will offer assistance to both public and private sectors to design and implement reforms that promote greater competition in domestic markets. In addition, 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.

II. Recommendation

Since the actions contemplated under this activity will not have an effect on the natural or physical environment, this activity qualifies for a Categorical Exclusion of Initial Environmental Examination under Section 216.2(c)(2)(i), "Education, technical assistance, or training programs..." and (iii) "Analyses, studies, academic or research workshops and meetings," of 22CFR.

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ANNEX D

PLANNED OBLIGATIONS VRS PLANNED EXPENDITURES PER FISCAL YEAR

	98	99	00	01	02
Begining of the year Pipeline	0.0	600.0	650.0	550.0	400.0
(+) Planned Obligation	750.0	850.0	900.0	1,000.0	500.0
(-) Planned Expenditures	150.0	800.0	1,000.0	1,150.0	900.0
End of the year Pipeline	600.0	650.0	550.0	400.0	0.0

55

PLANNED OBLIGATIONS PER FISCAL YEAR

Activity Components	98	99	00	01	02	TOTAL
Small Award Instruments	300.0	250.0	280.0	280.0	160.0	1,270.0
Technical Assistance	400.0	525.0	575.0	570.0	280.0	2,350.0
Training	50.0	75.0	45.0	70.0	60.0	300.0
Evaluations	0.0	0.0	0.0	80.0	0.0	80.0
Activity Total	750.0	850.0	900.0	1,000.0	500.0	4,000.0

SUMMARY COST ESTIMATES AND FINANCIAL PLAN

Activity Components	USAID		TOTAL USAID	COUNTER PART	ACTIVITY TOTAL
	LC	FX			
Small Award Instruments	1,100.0	170.0	1,270.0	424.0	1,694.0
Technical Assistance	150.0	2,200.0	2,350.0	0.0	2,350.0
Training	125.0	175.0	300.0	100.0	400.0
Evaluations	0.0	80.0	80.0	0.0	80.0
GOES	0.0	0.0	0.0	810.0	810.0
Activity Total	1,375.0	2,625.0	4,000.0	1,334.0	5,334.0
			75.0%	25.0%	100.0%

METHODS OF IMPLEMENTATION AND FINANCING

Activity Components	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	TOTAL COST
Small Award Instruments	Grants, CAs or Contracts	Direct Payment	1,270.0
Technical Assistance	8a Firm Contract, IQCs, or buy-ins to Global Bureau	Direct Payment	2,350.0
Training	Buy-ins to HCD Activity	Direct Payment	300.0
Evaluations	IQCs or Contracts	Direct Payment	80.0
Activity Total			4,000.0