

PD-ABQ-852



AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES OF AMERICA A I D MISSION  
TO EL SALVADOR  
C/O AMERICAN EMBASSY  
SAN SALVADOR, EL SALVADOR, C A.

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM Mary C Ott, SO1 *Mary C Ott*  
SUBJECT Project Assistance Completion Report of the Industrial Reconstruction Project No 519-0323

In accordance with ADS 203 (Managing for Results Monitoring and Evaluating Performance) and USAID/El Salvador Policy (Mission Operation Manual, Chapters 680 and 770), attached is the Project Assistance Completion Report (PACR) for the Industrial Reconstruction Project No 519-0323 The PACD was September 30, 1997

The PACR summarizes accomplishments of the Activity It includes Lessons Learned and Conclusions

**RECOMMENDATION.**

That you approve the attached Project Assistance Completion Report

Approved *Fannett C. Ellis*  
Disapproved \_\_\_\_\_  
Date *9 Oct 98*

Attachment PACR

Drafted by Roxana Blanco, SO1 *RB* *9/9/98*  
Cleared by ACMejía, SDO *ACM* *9/16/98*  
FBreen, CONT *FB* *10/06/98*  
CJennings, SDO *CJ* *9-16-98*  
LPizarro, OCG *LP* *10/07/98*  
DMcFarland, DDIR *DM* *10 8 98*

ID U \RBLANCO\DOCS\PACR

Office of the Controller  
**REVIEWED**  
*Mexico* *10/05/98*  
DATE *Ellis 10/08*

- 1 -

**PROJECT ASSISTANCE COMPLETION REPORT  
INDUSTRIAL RECONSTRUCTION PROJECT  
PROJECT No. 519-0323**

**I SUMMARY OF THE PROJECT**

The Free Zone Development Project was signed with the Government of El Salvador (GOES) on August 31, 1988, with an original PACD of September 1, 1993. The Project's original total funding was \$26.0 million, \$21.0 million to be implemented through a Grant Agreement with the GOES, and \$5.0 million through a Cooperative Agreement with the Salvadoran Foundation for Economic and Social Development (FUSADES). Additional funds in the amount of \$13.4 million were to be provided as counterpart contribution. Due to prohibitions contained in Section 599 of the Foreign Assistance Appropriation Act for FY'93, the Project's overall authorized funding was reduced to \$15,545,000 and on May 30, 1994 the Project was redesigned, becoming the Industrial Reconstruction Project with a new PACD of December 31, 1996. Because of delays in project implementation, a total of \$9,255,345 were deobligated in 1996: \$6,607,786 from the GOES Grant Agreement, according to Amendment No 4 dated July 31, 1996, and \$2,647,559 from the FUSADES Cooperative Agreement, according to Amendment No 12 dated August 1, 1996. The deobligation was due to the fact that by July 1996 the assistance being provided to one industrial park (Concordia Industrial Park) was still in the feasibility studies and design phase. Since the development of these type of projects implies a lengthy execution process, an extension of the Project for at least two years would have been required. In addition, after USAID/El Salvador defined its new strategy, industrial development was no longer an objective for the Mission.

**A First Phase of the Project (Free Zone Development Project)**

**Goal and Purpose**

The goal of the Project was to increase productive employment opportunities and foreign exchange earnings in the export sector, assisting the country's economic stabilization and recovery efforts.

The purpose of the Project was to develop private free zones in El Salvador through the establishment of a revolving credit facility for private free zones, and to improve the administration and services offered by the Government of El Salvador's (GOES) free zone at San Bartolo in order to increase productive employment, investment and foreign exchange earnings in the export sector.

## Project Components

The Project included the following major components 1) the Private Free Zone Development component provided long-term financing and technical assistance to Salvadoran investors to promote the successful establishment of private free zones, 2) Promotion and Marketing provided technical assistance, training and operational support to the Export and Investment Promotion Program (PRIDEX) at the Salvadoran Foundation for Social and Economic Development (FUSADES) to promote El Salvador's free zone program, both domestically and internationally, and 3) Infrastructure and Institutional Support designated to help improve operations and management of the San Bartolo Free Zone, to fortify the Government's information program and to assist in establishing an efficient regulatory framework for free zones development throughout the country. In addition, under this last component, counterpart funding was provided by the GOES to install the required external infrastructure for the private free zones

### B Second Phase of the Project (Industrial Reconstruction Project)

#### Goal and Purpose

The goal of the Industrial Reconstruction Project was to assist El Salvador make the transition from war to peace and to encourage equitable economic growth, through industrial development and job generation in the former conflictive zones

The Project purpose was to promote productive employment in the ex-conflictive zones through financing of infrastructure for industrial parks and provision of technical assistance to industrial park developers

#### Project Components

The Project consisted of two inter-related components 1) the GOES Component, which provided funds to finance the construction of external infrastructure for industrial parks in ex-conflictive zones, train public sector officials involved in the Project in areas related to industrial development and environmental protection, and provide institutional support for the Project Coordination Unit within the Ministry of Economy (MINEC), and 2) the Private Sector Component, which provided funds to FUSADES/PRIDEX to carry out pre-investment studies for private sector investors interested in developing industrial parks in ex-conflictive zones, to support the reform of export legislation and other measures directed at trade expansion, to promote the assistance available to developers under the Project, and to cover the operational costs of managing the Project

C Present status of the Project

The Industrial Reconstruction Activity officially terminated on December 31, 1996, and a nine-month no-cost extension (up to September 30, 1997) was approved for the completion of close-out audits for both components. After Project goals were reduced to the execution of the feasibility and design studies for only one industrial park and funds were deobligated, the GOES became responsible for the construction of the public services infrastructure of the Concordia Industrial Park. The GOES, through the Technical Secretariat for External Financing (SETEFE), is currently constructing the public services infrastructure of Concordia Industrial Park.

II **FINANCIAL STATUS**

A The following table summarizes obligations and disbursements under the Project No 519-0323

	<u>Obligations</u>	<u>Expenditures</u>
<u>Free Zone Development</u> <sup>1</sup>		
FUSADES Component	\$ 1,866,266	\$ 1,866,266
GOES Component	<u>\$ 8,863,931</u>	<u>\$ 8,863,931</u>
Sub-Total	\$10,730,197	\$10,730,197
 <u>Industrial Reconstruction</u> <sup>2</sup>		
<i>FUSADES Component</i>		
Technical Assistance to Industrial Parks	\$ 229,426	\$ 229,426
Promotion Program	\$ 16,166	\$ 16,166
PRIDEX Operational Support	\$ 113,666	\$ 113,666
Overhead	\$ 87,829	\$ 87,829
AID Project Management	\$ 424	\$ 424
Audit/Financial Review	<u>\$ 16,242</u>	<u>\$ 16,242</u>
Sub-Total	\$ 463,753	\$ 463,753
 <i>GOES Component</i>		
Project Coordination Unit	<u>\$ 67,374</u>	<u>\$ 67,374</u>
Sub-Total	\$ 531,127	\$ 531,127
Total	\$11,261,324	\$11,261,324

<sup>1</sup> After the redesign in May 30, 1994

<sup>2</sup> After the deobligation

B Summary of Counterpart Contributions**FUSADES Component**

<u>Description</u>	<u>Estimated Counterpart</u>	<u>Funds Disbursed by USAID</u>	<u>Actual Counterpart</u>
<u>Free Zone Development</u>			
TA Free Zone Developers	\$ 667,000	\$ 315,901	\$ 110,000
Training	40,000	38,079	8,200
Free Zone Promotion	- -	482,690	- -
TA to PRIDEX	- -	45,203	- -
Operational Support-PRIDEX	- -	186,789	- -
Capital expenditures (building)	- -	577,928	- -
Overhead	- -	125,497	- -
USAID Management Costs	- -	94,032	- -
Evaluation/Audit	- -	- -	- -
Contingencies	- -	148	- -
Sub-Total	\$ 707,000	\$1,866,267	\$ 118,200
<u>Industrial Reconstruction</u>			
TA to Industrial Parks	\$ 426,333	\$ 229,426	\$ 77,931
Sub-Total	\$ 426,333	\$ 229,426	\$ 77,931
Total	\$ 1,133,333	\$2,095,693	\$ 196,131

For the Free Zone Development Project, counterpart contributions were to be provided based only on funds disbursed for TA and training, and for the Industrial Reconstruction Project, based only on funds disbursed for TA. Total funds disbursed by USAID for the aforementioned activities are \$583,406, and total contributed by FUSADES is \$196,131. The actual counterpart contribution provided represents 25% of the total amount spent on these activities.

**GOES Component**

<u>Description</u>	<u>Estimated Counterpart</u>	<u>Funds Disbursed by USAID</u>	<u>Actual Counterpart<sup>3</sup></u>
<u>Free Zone Development</u>			
Private Free Zone Credit Facility <sup>4</sup>	\$ 6,600,000	\$ 8,825,278	\$ 7,048,860
Infrastructure (HCOLC)	\$ 6,000,000	- -	\$ 4,772,180
Training	- -	\$ 10,473	\$ - -
Project Coord Unit	\$ 132,000	\$ 27,402	\$ - -
Contingencies	\$ - -	\$ 778	\$ - -
Sub-Total	\$12,732,000	\$ 8,863,931	\$ 11,821,040
<u>Industrial Reconstruction</u>			
Infrastructure	\$ 3,085,636	\$ - -	\$ - -
Project Coord Unit	\$ 50,000	\$ 67,374	\$ 22,413
Sub-Total	\$ 3,135,636	\$ 67,374	\$ 22,413
Total	\$15,867,636	\$ 8,931,305	\$ 11,843,453

Of the \$21 0 million originally authorized for the Free Zone Development Project, USAID only disbursed \$8,863,931 through the GOES Component, and total counterpart contribution was \$11,821,040. The counterpart contributions made by the GOES and private investors surpassed total funds provided by USAID. In regard to the Industrial Reconstruction Project, counterpart contributions were to be provided based on funds disbursed by USAID for the Infrastructure and Project Coordination Unit Components. USAID did not disburse funds for the infrastructure component and funds were deobligated. USAID only disbursed funds for the Project Coordination Unit in the amount of \$67,374, and the Ministry of Economy provided in-kind contributions in the amount of \$22,413, representing 25% of total funds spent by the Coordination Unit.

**III PROJECT ACCOMPLISHMENTS****A Free Zone Development Project**

Before the passage of Section 599 of the Foreign Assistance Appropriation Act of 1993, the Project supported the development of three private free zones (El Pedregal, El Progreso and San Marcos) through funding of pre-investment studies, and technical assistance and training to free zone developers on free zone

<sup>3</sup> Based on audit to the Central Reserve Bank (BCR) carried out by Price Waterhouse for the period October 1 1990 to December 31, 1993

<sup>4</sup> Sub-borrower's contributions

assistance and training to free zone developers on free zone administration and operation, through FUSADES. In addition, construction of public services infrastructure, through the GOES. The Project also trained Government officials on credit analysis of free zone projects and on how to provide better support to export activities. As of December 1993 the Free Zone Development Project reported the following achievements:

10,200 new jobs (approximately 8,670 jobs benefitted women)<sup>5</sup>,  
 \$22.6 million in new exports<sup>6</sup>,  
 52,900 square meters of industrial space built,  
 35,000 square meters of industrial space rented, and  
 14 export firms operating in three free zones

#### B Industrial Reconstruction Project

Because of the decision taken by the Mission on July 30, 1996, to deobligate \$9,255,345 from the Project and to reduce its goals, the achievements were reduced to the performance of only the feasibility and design studies of Concordia Industrial Park. These studies were finished by December 1996 and are being used by SETEFE to build the public services infrastructure for the park.

### IV EVALUATIONS AND AUDITS

#### A Evaluations

Because there was no intention to continue with free zone development in the country, due to prohibitions contained in Section 599 of the Foreign Assistance Appropriation Act, a mid-term evaluation of the Free Zone Development Project that was scheduled for the last quarter of 1992, was cancelled. Since the Industrial Reconstruction Project goals were reduced, the Mission decided that a final evaluation was not needed.

---

<sup>5</sup> As of June 8, 1998 El Pedregal, El Progreso and San Marcos Free Zones have generated in total 15,255 direct jobs, and considering that each employment benefits in average 5 family members, these three free zones are currently benefitting approximately 76,275 persons. When El Pedregal reaches full capacity, total jobs generated by the three free zones would be approximately 30,727.

<sup>6</sup> The three free zones built with Project funds generated \$319.8 million in exports during 1997 and aggregated value for \$78.8 million (Source CENTREX, BCR March 1998).

## B Audits

### GOES Component

In 1996, an audit of the credit line financed by the Free Zone Development Project was carried out by Price Waterhouse for the period August 1988 to December 31, 1993. Audited funds totaled \$8,825,278 disbursed to free zone developers through the Central Reserve Bank. The audit revealed that the Central Reserve Bank has to improve its internal control procedures to assure an appropriate file system of documents related to Project implementation and that counterpart contribution provided by free zone developers was not well documented. All audit findings were completely resolved and closed on March 24, 1998 after a long process to document counterpart contributions provided. For the \$67,374 spent by the Industrial Reconstruction Project Coordination Unit at Ministry of Economy, a Financial Review was carried out directly by USAID/CONT in December 1997. The period covered by this review was January 1, 1995 to June 30, 1996. The financial review revealed that expenses made by the Ministry of Economy were well supported and the Ministry complied with the necessary internal controls, therefore, the Ministry of Economy managed the funds adequately and planned goals were met.

### FUSADES Component

Peat, Marwick and Mitchell & Co carried out the close-out audit of the FUSADES Component of the Industrial Reconstruction Project, covering the period of January 1 to December 31, 1996. Based on a memorandum from the Bureau for Management Office of Management Plan and Innovation (M/MPI) dated July 23, 1998, all audit findings are completely closed and no further action is necessary.

## V SUMMARY OF LESSONS LEARNED BY THE PROJECT

Considering that there are no Project evaluations, the following comments are based on USAID Project Management experience.

1. Since industrial development is one of the economic activities that generates employment more rapidly, the promotion of free zones and industrial parks could be a very good economic alternative for countries like El Salvador, where agriculture is hindered by geographic, financial and technological resources. Industrial development provides access to employment to less qualified labor, helping to increase their economic and social opportunities and thus lessening social political pressures.

- 2 The generation of employment in the formal sector of the economy, through industrial development, highly benefits labor by opening its economic and social opportunities through the access of housing facilities, the "Fondo Social para la Vivienda", and medical care and retirement program through the "Instituto Salvadoreño del Seguro Social"

## **VI CONCLUSIONS**

- 1 The Free Zone Development Project has contributed to promote the construction of four additional free zones, two already in operations -Export Salva and American Industrial Park-, which to date have generated 8,400 new jobs, and Lido and El Salvador which are going to start operations by November 1998
- 2 In spite that industrial development is not currently an area of interest to USAID, it is still an area that needs further development in El Salvador. The free zones have benefitted and continue to benefit an important portion of El Salvador's poor population and have also contributed to industrial development, therefore the development of technical expertise in this sector at different levels should be promoted

## **VII. POST-PROJECT AND FOLLOW UP ACTIONS**

No further monitoring and follow-up by USAID is foreseen