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Central America and Mexico
FY 2003-2008*



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El Salvador Country Plan



In Support of the Regional Strategy for Central America and Mexico FY 2003-2008

The Country Plan for USAID/El Salvador was approved by the Agency on July 1, 2004. It sets forth the Agency's policy and strategic direction for assistance to El Salvador. Budget data contained in the Country Plan are estimates and do not represent a U.S. government commitment to provide a specific level of funding.

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**USAID STRATEGY FOR CENTRAL AMERICA, MEXICO and PANAMA (CAM):
COUNTRY PLAN FOR EL SALVADOR, 2004-2008**

I. RATIONALE FOR ASSISTANCE AND SUMMARY OF THE ASSISTANCE ENVIRONMENT

Overview

El Salvador stands at a crossroads. Real progress has been made since the 1992 Peace Accords. Politically, a series of free and fair elections have taken place at both the national and local level including last month's Presidential election, with a huge voter turnout (67%). In the last decade poverty levels have declined. Despite the impact of Hurricane Mitch and two massive earthquakes, El Salvador's 2% annual economic growth rates have been better than many Latin American countries. Its dollarized economy has created the lowest interest and inflation rates in the region, bolstering a dynamic banking and financial sector. Remittances (\$2.1 billion in 2003) have helped stabilize the economy and reduce poverty.

However, El Salvador continues to be challenged by poverty, especially in rural areas, and by a declining share of national income distribution for the poor. Although the delivery of educational services has improved, on average a rural child receives 3.6 years of schooling, inadequate preparation for a productive life. An undereducated workforce remains one of El Salvador's greatest challenges to increased economic growth and to increasing its competitiveness in global markets. Water is a scarce resource for consumption and economic growth. Only 21% of rural households have continuous access to potable water (4 hours/day-7 days a week) and the lack of sanitation facilities and adequate hygiene education has had a detrimental impact on the health of the rural poor. Also major differences exist between rural and urban infant and maternal health indicators, underscoring a need for improved allocation and more effective use of health resources.

The perceived failure of many Salvadorans to share in the benefits created since the Peace Accords is causing some to question the value of democracy itself. Confidence in key democratic institutions is fragile and citizens are skeptical of responsiveness and transparency of government. If participation in the benefits of socio-economic development is not more broadly shared, societal pressures could once again begin to build.

U.S. assistance programs have made a difference in the well-being of hundreds of thousands of Salvadorans and helped strengthen key development institutions. Economic growth and prosperity, based on open economies and trade, is ultimately the most effective way to address poverty. Trade-led economic growth will generate the revenues needed to fund vital public sector investments and services and will create more and better paying jobs. A major piece of this program was recently agreed to between the U.S. and the Central American countries in the form of CAFTA.

A. Summary of Proposed Country Plan and Relationship to CAM Regional Strategy

The Country Plan supports the CAM strategy's objectives, and contributes to the performance areas established in the Millennium Challenge Account. USAID/El Salvador will focus and concentrate its efforts on assisting the Government of El Salvador (GOES) and the private sector to exploit the macro-economic policy structure in place--in conjunction with the opportunities that CAFTA presents--to promote economic prosperity. USAID will build on activities we have been financing to improve the local business climate; increase the ability of the private sector, particularly small and medium-sized enterprises (SMEs) in manufacturing, service and agricultural sectors, to compete and prosper in both domestic and global markets which should lead to more jobs and

economic opportunities. Mission efforts in the areas of democracy and governance and in the social sectors will complement and reinforce the overarching focus on trade-led growth. The program will promote improvements in the application of the rule of law and increased use of alternative dispute resolution mechanisms, areas that affect the investment climate and the willingness of both foreign and domestic businesses to invest in El Salvador. Similarly, activities in health and education will not only address social sector concerns, but also lay the foundation for a healthier and better educated workforce that is critical to El Salvador's private sector being able to compete domestically, regionally and globally. In the context of scarce resources, our Country Plan has been designed to do less than before, but to do it better and contribute to significant results. To increase the impact of USAID's funding, we will strive to create alliances and leverage financing from the private sector and other partners to bring additional resources to bear on key issues.

Strategic Objective (SO) Summaries.

In the **More Responsive, Transparent Governance SO**, USAID will concentrate its efforts on strengthened rule of law by improving the transparency, efficiency and promptness of parts of the judicial system, and promoting increased use of alternative dispute resolution mechanisms--in particular, mediation. The program will focus on greater transparency and accountability of government by addressing and identifying measures to control corruption, which is central to good governance and economic growth. The Mission will promote anti-corruption measures and encourage more transparent and effective management of public resources and decision-making.

The **Open, Diversified, Expanding Economies SO** is central to CAM objectives. Given the importance of laws and policies in support of trade and investment, USAID will help the GOES to promote fiscal policies that lead to increased revenues for public services, while working with the private sector and the GOES to improve private sector competitiveness, strengthen the GOES' capacity to implement CAFTA and assist in removing key barriers to trade and investment.

In order to take advantage of a free trade environment, SMEs¹ should be competitive, market-oriented and capable of creating jobs. Therefore, USAID will help SMEs improve access to: technology, innovation and business skills, and financial services. The Mission will work with selected banks and non-bank financial institutions to increase lending to SMEs and to expand opportunities and mechanisms for savings.

As clean water access is important, USAID will help improve management and conservation of a critical watershed. By developing and strengthening watershed organizations as a management tool, natural resource conservation should improve with more clean water becoming available for economic growth. New financial mechanisms and resource mobilization will be promoted to increase investments in watersheds and USAID will try to identify public water policy advocacy mechanisms, and help governments institutionalize enforcement of local water regulations and ordinances.

To have a productive economy, El Salvador needs **Healthier, Better-Educated People**. USAID will help partners improve social sector investment through better planning and management of resources and more transparency and accountability of investment. In education we will focus on quality basic education in order to improve student performance in reading, writing and math skills by the end of the 6th grade, especially for poor rural children.

In the area of Improved Integrated Management of Child and Reproductive Health, USAID will build upon its prior work with the Ministry of Health (MOH) to strengthen nation-wide decentralization of

¹ SMEs include rural and urban micro, small and medium enterprises, artisans, agribusinesses, and high value agricultural producers

health services and will work with select NGOs to support delivery of high quality health services (consistent with CAM strategy practices) and improved health and nutrition practices, emphasizing primary healthcare. HIV/AIDS prevention activities will focus on high-risk and vulnerable groups.

Regional Hub. The relocation of the Regional Program and creation of a regional support service hub in El Salvador will affect the mission in the areas of staffing and organizational structure. USAID El Salvador will have three overarching functions: management of the bilateral program, provision of regional support services (financial, contracting and legal) to missions and management of the regional program plan. A key reason behind moving the program to El Salvador is to have a more focused program within the hub, operating with fewer people. We will integrate bilateral and regional programs into a single operation with our program office staff backstopping both programs. This likely will entail the retraining of some personnel in certain instances and the rewriting of job descriptions. We will migrate the regional program to El Salvador over a one-year period.

Crosscutting Themes. Water and good governance have been identified as crosscutting issues. Two working groups will be established to better promote synergism and stimulate creativity.

Water. Water links all plan objectives. Ruling Justly promotes decentralization and improved management of public resources at the local level, including water. Economic Freedom promotes watershed management and conservation that will lead to more water availability, and Investing in People emphasizes water and latrine use as a means of improving health and sanitation practices. Since the SOs promote increased access to and use of clean water--through improved management of systems, increased capacity of communities to manage water, or leveraging funds from non-USG sources for water and sanitation systems, we will explore how to use our combined expertise and experience in the design and implementation of programs to increase overall impact of the activities. During activity design, this team will decide whether to limit Plan activities to a geographical focus, or to reinforce each SO's efforts without a geographic focus or a combination of both.

Good Governance. Good governance also links objectives to one another. For example, Economic Freedom promotes better governance through commercial arbitration as a mechanism to resolve contract disputes outside of the court system. Promoting advocacy through civil society initiatives to reform national water use and improving local level management capacities can also contribute to better governance. Investing in People stresses governance and transparency by pursuing decentralization of public social services and supporting policy dialogue and better monitoring of public investment at the national, regional, and municipal levels. The teams will explore how to best complement each other and use their combined expertise and experience in the design and implementation of activities that will maximize overall program impact.

B. Foreign Policy Interests and Goals in El Salvador and Links to MPP

El Salvador's strategic location and strong historical and cultural ties to the United States makes its political and economic stability a vital U.S. interest. The political and economic liberalization that the U.S. encouraged and that El Salvador successfully adopted has made it a model for post-conflict developing countries. The U.S. is El Salvador's most important trading partner, receiving 67.3% of its exports and providing 50.1% of its imports. An estimated 2 million Salvadorans reside in the United States, many of them illegally. By promoting prosperity in El Salvador through USAID's targeted programming and mechanisms such as the CAFTA, the U.S. can help strengthen the Salvadoran economy, thereby reducing the flow of economic migrants to the U.S. and also reducing the country's vulnerability to trans-shipment of narcotics and trafficking in persons. USAID's program directly supports the key MPP strategic goals of economic growth and development, trade and investment, law enforcement and judicial systems and democratic systems and practices. This country plan contributes substantially to overarching priorities.

C. Overview of Country Needs and Development Challenges

Despite social, political and economic gains since the Peace Accords, El Salvador continues to face daunting development challenges. These range from high levels of rural poverty to an economy that falls short of providing enough good jobs to keep the population gainfully employed. In 1992, the wealthiest 20% of households earned 54.5% of the nation's income and the poorest 20% received approximately 3%. As of 2002 the wealthiest 20% increased its share to 58.3% and the poorest 20% received 2.8% of the nation's income. Poverty rates are close to 46% in the rural areas. There is a broad consensus across Salvadoran society and within the donor community that the critical short-term challenge is one of reducing polarization, stimulating job creation, and promoting broader participation of Salvadorans in the economic benefits of growth.

Although 12 years have passed since the Accords, polarization among key political parties is a significant issue, as demonstrated by the intense political campaign that ended in March. The leftist FMLN and the governing ARENA party are at a stalemate; the 2004 national budget has yet to be approved and the legislative agenda is rife with disagreement. Many citizens have begun to question whether democracy is worth the effort. Tony Saca will face the daunting challenge of how to govern and promote the benefits of economic growth with a hostile opposition.

Over the past few years, economic growth has averaged 2%, but inflation has been about 2.5%. Growth rates need to approach 5% to significantly reduce poverty over time. Tax collections need to grow from the current base of 11.6% of GDP if El Salvador is to adequately fund public sector investments and services for its people. El Salvador has to generate hundreds of thousands of new jobs over the next five years to reduce the temptation of illegally migrating to the U.S. Economic growth and jobs will come from expanding domestic and foreign private investment. To take advantage of opportunities for trade and investment, improvements need to be made in the legal and regulatory environment, productivity needs to increase, personal insecurity must be addressed, and enterprises must improve their strategies and operating practices.

Despite educational access gains, the education budget is one of the lowest in the region. Most LAC countries invest at least 4% of GNP in education. El Salvador invested 3.3% in 2003 and only 3% is in the 2004 budget. Scarce public resources are not used efficiently due to high repetition rates in early grades, early dropouts, and a lack of effective management. Equity in access to and completion of a quality basic education continues to be a problem. For example, the wealthiest 20% of the population has 70% of their children enrolled in pre-school compared with 27% of poor families. Nationwide the average number of years of schooling is 5.6, but only 3.6 in rural areas. 60% of children complete the 6th grade, but only 25% of the poorest children do.

Access to potable water, in sufficient quantity and quality, is a challenge. El Salvador can't provide adequate clean water for many because of the heavily degraded resource base, due in part to the lack of watershed management organizations and poor natural resource management practices, the lack of financing, effective regulations and incentives to develop and deliver safe water resources, and limited advocacy to raise the concern for and to address problems of water scarcity and quality.

Though major improvements in health have been made, problems persist. Serious inequities exist in health care access for the rural poor. Fertility rates are twice as high among the poorest in rural areas compared to the wealthiest, undercutting economic gains. Newborn deaths account for half of all infant deaths with a high proportion occurring to adolescent mothers. El Salvador's HIV infection rate among high-risk groups such as men who have sex with men is the highest in the region, calling for focused initiatives with this and other vulnerable groups. While the MOH has initiated

decentralization of health services to better respond to local health problems, improvements are needed to increase the efficiency and transparency of management systems. Overall, costs of curative care claim the largest share of the budget for many preventable diseases, pointing to an inefficient use of scarce resources.

D. Role of Donors in El Salvador

The donor community in El Salvador is an important partner in the country's development process. Salvadoran debt is comprised of 24% from bilateral sources and 76% from multilateral assistance. Multilateral lending institutions provide the largest share of development assistance to El Salvador. For example, in 2003 the Inter-American Development Bank (IDB) disbursed \$97.3 million to finance projects in public infrastructure, legislative strengthening, water and sanitation, agribusiness, local governance, education, health and nutrition; the Central American Bank for Economic Integration (CABEI) disbursed \$53 million for public infrastructure, rural development, health and agriculture; and the World Bank disbursed \$19 million for education and health infrastructure and services.

The U.S. is still one of the largest bilateral donors. In 2003 bilateral and multilateral donations totaled \$143 million. Major donations included: the United Nations systems/agencies (\$40.5 million) for rule of law, local development, population and health, education, economic reactivation and food assistance; the European Union (EU) (\$18.3 million) for health, education, civic participation, local governance and reconstruction (the EU also recently developed a 12 million EURO activity aimed at youth-at-risk); Germany (\$10 million) for health, local governance, small business development and reconstruction; Spain (\$10 million) for health, education, and judicial strengthening and reconstruction; Japan (\$7 million) for health, education, and the agriculture sector; and Canada (\$4 million) for health, water and sanitation, and local governance. USAID has been successful in encouraging some donors, like the IDB, World Bank and the UN to build upon its innovative programs in legislative strengthening, education and health and enterprise development.

II. STRATEGIC OBJECTIVES AND INTERMEDIATE RESULTS

A. SO 1: Ruling Justly: More Responsive, Transparent Governance

Development Challenge:

According to public opinion surveys Salvadorans are beginning to question the underlying principles of democracy and democratic government. Despite the recent consolidation of progress on numerous fronts, including creation of a civilian police force responsive to community needs, reformed criminal codes, smaller and de-politicized military and strong Public Defenders and Attorney Generals offices, there is a perception that the democratic process has failed to deliver promised economic and social benefits to many citizens. Confidence in key democratic institutions--including the court system and the rule of law--is fragile and citizens are skeptical of public sector responsiveness and transparency. To varying degrees, government institutions are non-responsive to citizens. The perception of corruption within the public sector is high but there is limited evidence of elevated levels of corruption. This is complicated by centralized and closed governmental and political party structures inaccessible to many Salvadorans. Political parties do not embrace basic democratic practices. Access to information on government operations and financing is limited. Funding for essential services is inadequate and poorly distributed, in part due to deficient national fiscal policies that do not admit public oversight and scrutiny. Building more responsive and accountable governance is vital to creating credible democratic systems, to promoting investment and job creation, and to improving the quality of life of the average Salvadoran.

A level legal playing field with clear rules to work by is essential to ensuring equity in access to justice and fair treatment in the system, however, the basic problems of restricted access and availability of justice for many is a problem. The inability of the justice system to respond to citizen needs--as well as the lack of transparency in court judgments--undermines confidence in the system. This is equally true for the criminal and civil systems, dissuading investment and business creation. Crime and violence continue to be negative factors that many parts of the population associate with the democratization process. Although the GOES has reduced crime rates and confidence in the National Civilian Police has increased, crime and violence, especially gang violence, remain key concerns across the nation. Lack of job opportunities and other productive outlets for rural and urban youth and young adults are at the root of this problem. The issue of youth-at-risk, as mentioned above, is a major problem; however, due to major investments planned by other donors, like the EU's 12 million Euro program, USAID does not plan to develop specific activities in this area. We will promote economic opportunities to complement these programs.

Development Hypothesis/Proposed Program:

Democratic and accountable states achieve greater growth and provide increased opportunities to improve their citizenry's quality of life. Dealing with the challenges of limited transparency and accountability and weak rule of law, which undercut faith in democracy, will be priorities under this program. Since the Peace Accords, El Salvador has established and consolidated many fundamental democratic institutions. However, the understanding of, access to, and broad use of key democratic practices by citizens, public institutions, political parties and other civil society actors, is still lacking.

Just and democratic governance in El Salvador will be achievable if: 1) governmental and political actors embrace more transparent and inclusive decision-making processes, including sharing and increasing access to public information; 2) the government decentralizes and delegates greater fiscal and service-provision authorities to the local level, where civilian oversight is more effective and 3) access and transparency of justice is improved. Only then will confidence in the tangible benefits of democracy grow and the foundation of the system be strengthened. USAID's program therefore is targeted to good governance practices and approaches, which should lead to a better and more stable investment and growth environment.

Results Framework Description:

We propose to work in both of the IRs in the Good Governance SO, Strengthened Rule of Law and Greater Transparency and Accountability of Governments. The principal results anticipated by the end of the strategy period are:

- Greater effectiveness of the courts and improved access to justice; and
- Improved responsiveness of key democratic institutions.

Intermediate Result 1.1: Strengthened Rule of Law

Activities will focus on increasing access to justice and equity by improving the transparency, efficiency and promptness of parts of the judicial system, with particular emphasis on increased access and use of alternative dispute resolution (ADR) mechanisms. This effort will build on USAID's successful introduction of mediation practices at the municipal level and with the public defender's office. Lack of transparency in the court system also requires a coordinated approach to open it up to scrutiny, and to introduce new transparent procedures. The Mission proposes to focus on two of the four Sub-IRs to support strengthening the Rule of Law. These are: Sub-IRs 1.1.1: *Improved transparency and efficiency of judicial processes, especially criminal* and 1.1.3: *Increased*

use of alternative dispute resolution mechanisms. These activities will complement the work of other donors. Illustrative activities include:

- Technical assistance and support to both civil society and the GOES to deepen and expand the understanding and use of ADR nationally, especially mediation (Sub-IR 1.1.3);
- Technical assistance and training to foster dialogue with judicial operators and promote greater transparency and less corruption in judicial processes, including support for defining greater clarity of roles and responsibilities among judicial institutions, such as introducing rules of evidence. (Sub-IR 1.1.1); and
- Technical assistance and training to GOES judicial sector institutions such as the National Judiciary Council and its judicial training school, the Supreme Court, and the Attorney General's Office, to help implement new civil codes, introducing new techniques, such as the use of oral arguments, within an adversarial system (Sub-IR 1.1.1).

Intermediate Result 1.2: Greater Transparency and Accountability of Government

Addressing corruption is central to good governance and economic growth and representative and responsive government is critical to citizens' belief in democracy. This IR will seek to further promote anti-corruption measures and encourage more transparent and accountable management of public resources and decision-making. Accountability of political parties, both internally and externally, will be heightened. If required by Washington agencies, transparent electoral processes may be promoted under the country plan. Policies that buttress civil society oversight and that devolve authorities to the local level will be pursued. Special focus will be on increasing local fiscal authorities, promoting accountable, public-private partnerships to provide basic public services, and placing resource decision-making closer to the public and citizenry's watchful eyes. We plan to work in three of the Sub-IRs, Sub-IR 1.2.2: *Increased devolution of responsibilities and resources to the local level resulting in greater responsiveness by local governments to citizens' needs*, sub-IR 1.2.3: *More opportunities for citizen participation in and oversight of national and local government decision-making*, and Sub-IR 1.2.4: *Accountability of elected and appointed officials improved*. Illustrative activities include:

- Technical assistance and support may be provided to selected political parties, party institutes, and civil society organizations to help democratize internal political party practices, such as decision-making and candidate selection processes, more inclusive, policy-focused platform development, and improved accountability through increased transparency in campaign financing and in the electoral process (Sub-IR 1.2.4);
- Technical assistance and support will be provided to key NGOs and the GOES to strengthen public ethics through public education on accountability, ethics and government operations, with a focus on helping institutionalize an office of public ethics or transparency as well as helping implement a soon to be approved ethics code. (Sub-IR 1.2.4);
- Technical assistance and support will be provided to foster policy dialogue to promote devolution of public services to the local level and to provide greater municipal tax authority; and to assist possible operational research activities to field test decentralized approaches that reinforce Mission objectives in areas such as health, education and/or water (Sub-IR 1.2.2); and
- Technical assistance and support will be provided to select civil society "watch-dog" groups and the GOES to explore mechanisms and strategies to promote greater information access to and knowledge of GOES operations through more transparent and open governmental reporting, and to strengthen civil society's ability to provide oversight for the same (Sub-IR 1.2.3).

Key Partners: Salvadoran justice sector institutions, Public Defender, Supreme Court, Ministry of Governance, Attorney General, National Judiciary Council, Office of Government Ethics and/or Transparency, Court of Accounts, Legislative Assembly, political parties, select NGOs and local

governments and local government associations, private sector partners, and other donors. USAID programs will be closely coordinated with other USG country team entities (State/INL, DRL, PA and DOJ).

Sustainability of Impact: Both active civil society participation and oversight as well as more responsive public sector institutions are critical to long-term accountability. Private sector involvement and the application of public-private partnerships are fundamental to financing and sustaining the activities outlined above. Helping local governments create broader revenue generating capacities and strengthening civil society oversight mechanisms will promote better governance mechanisms that can be sustained over time. We will also work closely with other donors to coordinate our programs and ensure that the revenue generation, public oversight and more transparent management practices are key policy dialogue objectives.

USAID/EI Salvador is committed to addressing gender differences in our programs. The Mission will focus on gender analysis and monitoring, as a necessary step, to ensure better understanding of this issue. We will incorporate some degree of gender awareness into the design of our program interventions.

Measuring Achievement: Preliminary Performance Management Plan: The Mission will measure progress at the Strategic Objective level through the CAM Regional Strategy Performance Indicators, which are under development. Proposed preliminary performance indicators at the SO-level include:

- Trial court performance (% cases reaching trial that are concluded and % that are concluded within stipulated time period); and
- Changes in user assessments/evaluations of the responsiveness/quality of service of key government agencies (targeted local government, Ministry of Health, Ministry of Education, Public Ministry, Courts, police) modeled after the American Services Satisfaction Index.

USAID/EI Salvador will develop a country-specific Performance Management Plan (PMP) with lower-level indicators, baseline data and targets within a year of Country Plan approval.

Estimate of Required Resources: \$20 million in DA over five fiscal years, starting in FY 2004.

SO Start and End Date: FY 2004 – FY 2009. FY 2008 will be the last year of obligation of funds. Program implementation will go through the end of FY 2009.

Hard Choices: USAID/EI Salvador has chosen to: (1) graduate the Legislative Strengthening project because the program has achieved many of its objectives; (2) discontinue unfocused civil society education programs and general civil society strengthening initiatives; (3) close general electoral strengthening activities; (4) end support in the area of human rights because human rights violations are much less a problem; (5) discontinue work with law schools to modernize curriculum and teaching methodologies; and (6) terminate general municipal strengthening activities that are not linked to national policy reforms.

B. Strategic Objective 2: Economic Freedom: Open, Diversified Expanding Economies

Development Challenge:

To create economic opportunities for its citizens and address poverty, EI Salvador needs to increase levels of growth from 2% to about 5% over time. While EI Salvador has developed a strong macroeconomic framework that has encouraged stability, allowed for dollarization and encouraged

lenders to make funding available, it has been unable to attract much investment, create new jobs, and make further inroads to reduce poverty. Despite gains made in tax collections, in part through USAID assistance, El Salvador still has one of the lowest tax bases in Central America, lacking the resources to adequately fund critical social sectors and infrastructure. Presently, the 2.4 million Salvadoran workforce is comprised of 750,000 in formal enterprises, 1.2 million in informal businesses and self-employed, and 450,000 in agriculture. While formal unemployment estimate average around 7%, underemployment in the non-formal sectors is significantly higher, ranging from 29.1% to 31.8% over the last five years. Thus the job creation challenge is twofold: the economy must not only create jobs in the formal sector, but also provide more employment opportunities in the non-formal sectors where the bulk of the work force is found. Most growth and employment will have to come from expanding capital investment above the current levels for domestic private sector investments and foreign direct investment. However, investment is constrained by low productivity, personal and commercial insecurity, and a low rate of economic activity.

Growth and job creation will likely come from private and public investments and the diversification and expansion of more competitive small and medium-sized enterprises in manufacturing, services, and agriculture. Hundreds of thousands of jobs need to be generated in the next five years to create economic opportunities that will help reduce illegal migration to the U.S. Job creation in the rural and urban sectors—particularly among small and medium-scale enterprises has to be an important focus. An emphasis on employment creation through the development of labor-intensive products and the creation of linkages between small-scale producers and large-scale marketing and processing firms will be critical to growth. While overall government policies are supportive of growth and investment, they tend to favor large businesses. Small and medium enterprises (SMEs) face significant start up and expansion barriers and micro-businesses do as well. Though the GOES successfully negotiated a CAFTA, it has to establish the capacity to implement key elements of the Agreement if the private sector is to take advantage of emerging trade opportunities. While interest rates have been declining, many enterprises can't obtain financing for start up and expansion, despite high levels of liquidity in the financial sector. If interest rates climb, SMEs may have an even more difficult time gaining access to financing over the next few years.

If the economy is to grow, increased access to water, in sufficient quantity and quality is needed. Few rural Salvadoran households have continuous access to clean water and basic sanitation and El Salvador's per capita water availability is the lowest in the region, resulting in clean water being a scarce resource for human needs and economic growth. El Salvador is not providing adequate water for rural consumers primarily because of the lack of watershed management and poor management of delivery systems that has led to contaminated surface and ground water and a depleting resource. The lack of clean water constrains some types of investments due to few effective regulations, poorly developed financial systems and incentives to deliver water resources, and limited public advocacy to solve water problems.

Development Hypothesis/Proposed Program:

For transformational development to take place, El Salvador must stimulate economic growth, expand job creation, reduce income inequities, expand its tax base and provide public services such as health, education, and clean water to its citizens. USAID will work with the GOES on trade and investment policy issues leading to improvements in fiscal policy and tax administration, particularly important as customs integration moves forward since import tariffs will be reduced under CAFTA. Economic growth stimulation will require increased local and foreign capital investments which will be supported by GOES and other donor efforts; improvements in SME productivity, business practices and competitiveness, access to innovation and new technology, stronger business linkages to consumer markets and buyers and increased lending to SMEs. More attention on firm level competitiveness, helping SMEs expand their businesses, increase sales and jobs by better

understanding markets and improving business practices is needed. In order to increase the prospect of liquidity becoming available to SMEs, the banking system will have to perceive that the risks of lending are reasonable. Finally to take advantage of new trade opportunities, the GOES must strengthen policies, regulations and administration. For example the Central Americans have committed to implement a customs union as part of economic integration and implementing rules of origin and meeting SPS requirements under a free trade environment will be critical.

Better watershed management will contribute to better water quality and supply for agriculture, industrial, and human consumption, while reducing health threats. A more reliable water supply is crucial for agricultural production and manufacturing. Uncontaminated water is important for growing export crops that need to meet SPS and food safety requirements. Reduced sedimentation from poor land-use practices will increase the life of hydropower facilities and reduce treatment costs for industrial use. Since energy costs are a major part of providing water, lower costs to deliver water for agriculture and industrial use can improve the country's competitiveness. With more potable water, El Salvador's work force will suffer fewer health problems, leading to increased productivity and lower health care costs.

Results Framework Description:

USAID programs will foster increased economic opportunities for small and medium enterprises that should lead to more jobs and economic opportunities. We will continue to fund trade capacity building programs with the GOES and the private sector to help them take advantage of trade opportunities. USAID will help partners strengthen the trade and investment policy framework and implement programs that stimulate more competitive, market-oriented small and medium-scale, private enterprises (domestic and export), help increase SME access to financial services and address key water issues in a critical watershed.

The principal results anticipated by the end of the strategy's five-year period are:

- Increased intraregional and global trade;
- Increased job-creation in both formal and non-formal sectors and economic opportunities leading to increased and more equitably distributed incomes; and
- Improved management of a critical watershed.

Intermediate Result 2.1: Laws, Policies, and Regulations that Promote Trade and Investment

Activities will strive to improve the policy and business environment in order to promote economic growth and job creation, while taking advantage of trade opportunities from CAFTA and other trade agreements. We will help the GOES and the private sector to 1) implement key requirements of CAFTA including administration of rules of origin requirements, establishing a capacity to monitor Sanitary and Phytosanitary (SPS) systems and environment linked to cleaner production and improved pesticide management; (2) remove barriers that are obstacles to expanding public and private sector investments and increasing exports. USAID will help the GOES promote fiscal policies that will lead to increased tax collections and administration; and (3) improve commercial laws and regulations so that they are consistent with sound commercial practices. El Salvador ranks low in international comparisons in establishing and being able to run a business because of problems with laws and regulations (Sources: World Economic Forum, World Bank). USAID will help the GOES to reduce bureaucratic procedures and costs of establishing a formal business and will promote use of commercial arbitration as an alternative mechanism for resolving contract disputes outside of the formal court system. We propose working in 3 Sub-IRs. Illustrative activities include:

- Technical assistance and support to upgrade the skills of key staff of selected GOES and private sector institutions to implement CAFTA in areas such as rules of origin and SPS requirements (Sub-IR 2.1.1);
- Technical assistance and support for the GOES to improve tax policies, collection and administration (Sub-IR 2.1.2);
- Technical assistance to the GOES and private sector associations to review laws and streamline regulations and procedures for opening and closing a business, including reducing the transaction costs and time to set up a new business. (Sub-IR 2.1.3); and
- Technical assistance and support to the Ministry of Economy (MINEC) and selected private sector associations, like the Chamber of Commerce, to expand the use and acceptance of commercial arbitration to resolve commercial and contract disputes (Sub-IR 2.1.3).

Intermediate Result 2.2: More Competitive, Market-Oriented Private Enterprises

More productive and competitive SMEs should be able to take advantage of trade opportunities. SMEs often have limited ability to manage efficiently and limited ranges of quality products and services. The lack of adequate management and planning skills also restricts SME's access to financial services and inhibits their ability to improve processes and expand sales in markets.

USAID will help selected SMEs with potential to expand and be more competitive by: (1) implementing more efficient management practices and improving business management skills; (2) strengthening access to and capacity to use market information and business contacts to improve product design and packaging, develop marketing strategies, and respond to market demand; (3) promoting innovation and access to technology to improve productivity through training and thru alliances with large companies and investors; and (4) helping promote business relationships between suppliers, producers, distributors and retailers to strengthen clusters, develop business opportunities, and form new business alliances. An interesting example of this linkage occurred under our agricultural diversification program. A major chip manufacturer, who had imported yucca from Honduras, is now working with USAID assisted yucca growers to supply the value added business operation locally. We hope to work in three Sub-IRs and we will seek to leverage funds through alliances with donors and the private sector to expand economic opportunities for SMEs.

Selected activities under this IR will be screened by an RLA to ensure compliance with statutory and Agency requirements, when appropriate, regarding potential impacts on U.S. jobs and internationally recognized workers' rights.

Illustrative activities include:

- Technical assistance and training to SMEs to improve business skills and management practices, improve plant process and production efficiencies, such as cleaner production and energy efficient procedures and technologies, and to increase sales. (Sub-IR 2.2.1 and 2.2.2);
- Export development assistance to provide access to market information and business contacts; analyze market and commodity trends and product requirements (sound agricultural practices, SPS, HACCP and others); promote participation in trade fairs to identify opportunities as well as increase sales (Sub-IRs 2.2.1);
- Leverage funds to help co-finance and expand SME investment in innovation and access to technology in conjunction with technical assistance efforts (Sub-IR 2.2.3); and
- Improve small-scale infrastructure in selected communities to facilitate access of trade to market and lower business transaction costs (Sub-IR 2.2.1).

Intermediate Result 2.3: Broader Access to Financial Markets and Services

There are 500,000 SMEs in El Salvador, generating one-third of the GDP. To increase sales and jobs SMEs need access to capital however only 45% have access to financial services. Risk-averse

lending practices, through high collateral requirements and interest rates, and short repayment periods, prevent many SMEs from accessing credit. While there is liquidity in financial institutions, SMEs are often seen as high risk because many operate informally and lack long-term budget and capital planning, cash flow management, and management capacity. USAID will help SMEs increase access to financial services by looking for ways to reduce lending risks and improving financial institutions' understanding of SME needs.

Other untapped SME financial resource pools are non-bank financial institutions (NBFIs) and remittances. USAID's work to strengthen 11 financial institutions to increase micro enterprise lending and become regulated institutions is nearly finished. USAID will complete this phase under the old strategy, but will provide limited support to help several NBFIs become regulated, capture savings, and borrow from commercial sources, thereby increasing their capacity to lend to SMEs. In 2003, Salvadorans received \$2.1 billion in remittances; a large portion was used for consumption and basic expenses (i.e., housing and education). USAID may explore ways of working with Home Town Associations and finance institutions to potentially leverage remittance flows as a possible source of SME investment capital. The Mission will be cognizant of the potential gender issues that could arise regarding who has control over these remittances. Sub-IRs 2.3.1 and 2.3.2 will contribute to achievement of this IR. Illustrative activities include:

- Technical assistance and training to regulated banks and NBFIs in risk evaluation methodologies, in development of new financial services, and in the possible introduction of DCA loan portfolio guarantee(s) targeting SMEs (Sub-IR 2.3.1);
- Technical assistance and training for no more than two NBFIs to become regulated financial institutions (Sub-IR 2.3.1); and
- Possible leveraging of funds through global development alliances to attract remittances for productive uses and/or increase formal financial institutions' participation in the remittance transfer market (Sub-IR 2.3.2).

Intermediate Result 2.4: Improved Management and Conservation of Critical Watersheds

Increasing local capacity to manage and conserve a watershed (like the Upper or Lower Lempa), is key to providing water for many Salvadorans. The watershed has economic value by providing water for hydropower generated electricity and/or provision of water for agricultural producers and manufacturing firms. Watershed organizations will be developed and promoted as a management tool to conserve watershed resources and provide cleaner and more abundant water. Financial mechanisms and incentives will be used to support watershed conservation. This may include the possible formation of public and private sector alliances, particularly of large water users, with local water associations and governments concerned with watershed conservation and municipal water regulation. USAID will not finance water and sanitation infrastructure but will try to mobilize other resources to do so and will encourage linkages with health education and hygiene initiatives. Given issues associated with the national water institution, USAID will explore whether support for advocacy of water management policy is feasible. We intend to work on two Sub-IRs. Illustrative activities include:

- Formation and strengthening of key organizations made up of municipal councils, large water users, and farmers to manage and improve water access and conservation (Sub-IR 2.4.1);
- Leverage donor funds and the private sector for potable water system and latrine infrastructure and consider the use of DCA loan guarantees as feasible (Sub-IR 2.4.1);
- Technical assistance and training to develop local capability in management, operation and maintenance of local water systems and services (Sub-IR 2.4.1);
- Technical assistance for municipalities to develop better enforcement mechanisms for ordinances (Sub-IR 2.4.3);

- Technical assistance and support for promotion of fee-for-service payments for environmental and conservation services provided (Sub-IR 2.4.1); and
- Possible advocacy to reform national water use and management policies (Sub-IR 2.4.3).

Key Partners: Public sector-private sector alliances will be sought. Other key partners include business and agribusiness associations, Ministry of Economy, Ministry of Finance, Ministry of Agriculture, Ministry of Environment and Natural Resources, Chambers of Commerce, ABANSA, local banks, ANDA, local and US private sectors, municipalities, water management organizations, international donors, and selected NGOs.

Sustainability of Impact: The objective of SO activities are to increase market-driven, trade led economic growth and job creation. Sustainability will be enhanced if a critical number of businesses invest in El Salvador, SMEs increase competitiveness and reach new markets, the GOES removes barriers to investment and trade and maintains a stable, transparent and fair economic and trade climate. By supporting legal, policy and regulatory reforms, improving the capacity of the GOES to administer trade agreements, promoting a public-private sector dialogue to facilitate business expansion, and increasing SME access to financial resources, many key constraints to business development will be removed and a long-term mechanism will be in place to continue to promote additional reforms. USAID will work closely with other key donors to coordinate policy efforts.

If Salvadoran SMEs can improve their productivity and competitiveness and adopt the skills to keep refining and diversifying their business products and services, they will grow, expand job opportunities and improve the business culture needed for long-term improvements. Establishing watershed management organizations and improved administration of water systems will be crucial to building the capacity to increase water availability as well as improve community access to water.

USAID/El Salvador is committed to addressing gender differences in our programs. The Mission will focus on gender analysis and monitoring, as a necessary step, to ensure better understanding of this issue. We will monitor the impacts of proposed interventions.

Measuring Achievement: Preliminary Performance Management Plan: The Mission will measure progress at the Strategic Objective level through the CAM Regional Strategy Performance Indicators, which are under development. Proposed preliminary performance indicators for the SO-level include

- Exports as a percentage of GDP; and
- Growth competitiveness index score.

USAID/El Salvador will develop a country-specific Performance Management Plan (PMP) with lower-level indicators, baseline data and ultimate targets within one year of approval of the Country Plan.

Estimate of Required Resources: \$69,500,000 in DA over 5 fiscal years

SO Start and End Date: FY 2004 – FY 2009. FY 2008 will be the last year of obligation of funds. Program implementation will go through the end of FY 2009.

Hard Choices: USAID funds will not be used to support (1) energy sector regulation and reform; (2) IPR training or labor law analysis, reform, and enforcement; (3) GOES procurement reforms; (4) financing of bank regulation and supervision; (5) broad-based institutional development in environmental policy and management, (6) capital grants to financial institutions for micro-enterprise

on-lending, (7) rural electrification activities; (8) direct financing of water and sanitation infrastructure and (9) financing of small-scale social infrastructure.

C. Strategic Objective 3: Investing in People: Healthier, Better Educated People

Development Challenge:

While progress has been made in the health and education sectors, quality health care and education are still challenges for El Salvador, especially in rural areas. Limited access to social services is due to budget restrictions, their inefficient use, and a weak policy framework for delivering quality social sector services.

Although health expenditures represented 8.1% of GDP in 2001, less than half was spent by the public sector. In addition, the health care program continues to emphasize curative rather than preventive care, creating inequities in access to basic health services by the rural poor, but particularly women and children. A GOES decision to eliminate public sector primary healthcare fees-for-service (based on political pressures from the health strike) has further undercut the quality and availability of health services. El Salvador's limited health budget, coupled with inefficiencies in the health system, inequities in service delivery between rural and urban areas, difficulties in access to quality services, and inadequate health practices by the poor negatively affect health outcomes. Women in rural areas have 1.5 more children than those in urban areas, while women at the bottom of the socioeconomic and educational ladder will have more than double the number of children than those at the highest level. The fertility rate is 44% higher for rural adolescents ages 15-19 than for their urban cohort. In addition, the maternal death ratio is unacceptably high. Newborn deaths represent half of all infant deaths, with low-birth-weight infants three times as likely to die during the first month of life as normal-birth weight infants. Progress in reducing child malnutrition has stalled, with malnutrition worsening in some areas. The public water authority has not been able to expand water and sanitation services to most rural areas. The HIV/AIDS problem is increasing, affecting high-risk populations such as commercial sex workers and men who have sex with men. HIV/AIDS is a concentrated problem with high rates of sero-prevalence found in these groups, but if unchecked has the potential to spread to the general population.

El Salvador has made progress in establishing a good framework and increasing children's access to education. Nevertheless the education budget is one of the lowest in the region. Most Latin American countries invest at least 4% of GDP in education, while El Salvador invested 3.3% in 2003 and only 3% is in the 2004 budget. To meet Millennium goals, at least 5% of GDP needs to be invested in education by 2015. Scarce budget resources are not well utilized due to inadequate and inefficient planning, distribution, and management. In addition, equity in access to and completion of a quality basic education continues to be problematic, especially for the poorest sectors. The average years of schooling are 5.6 nationally, but 3.6 in rural areas. Lower educational levels greatly limit life opportunities, especially for the poor. Basic education has been shown to improve productivity and quality of life-- studies show that a farmer with four years of basic education is 9% more productive than a farmer with no schooling, one additional year of a mother's schooling is associated with a reduction in infant mortality of 9 per 1000, and every additional year of school beyond grade 4 leads to higher wages. 60% of children complete primary school (6th grade), while only about 25% of the poorest children do so. Learning levels in primary school are low, especially in reading comprehension, writing, and math skills. Inadequate materials and teaching practices are the norm and are more prevalent in schools that serve poor, rural children.

Development Hypothesis/Proposed Program:

A country's ability to compete in the global economy is connected to a healthy and educated population, an essential element to a vibrant and competitive economy.

To improve the health of Salvadorans, particularly among the disadvantaged and rural poor, the health care system needs to increase investments in preventive health care and to become more accountable, transparent, equitable and efficient in providing health services. Once implemented, these changes will help improve the quality of health services and increase access to those services. To achieve these changes, USAID will support program interventions to: (1) continue to strengthen and expand the decentralization of the health care service system, that, in turn, will facilitate the efficient and effective allocation of scarce resources; (2) enhance the knowledge and skills, in primary health care, of health policy makers, managers and providers; and (3) strengthen community involvement in delivery of health services. There is also need to expand interventions to reduce maternal and newborn mortality, expand nutrition and hygiene practices, and support cost-effective HIV/AIDS behavioral changes among transmitter populations.

For El Salvador to have a better-educated workforce, children must successfully complete primary school and enroll in secondary school. They need to learn basic reading, writing, and math skills by the 6th grade. To improve basic learning, both USAID and the GOES' recent education analyses identified the need for a rural education program with improved teacher capacity and materials, particularly in reading, writing and math, increase parental involvement in their children's schooling, and regulations and policies that support rural educational development. This will help to reduce repetition and drop out rates in the primary grades, and make more resources available. By 2009 more children will be successfully completing primary school, especially in rural areas.

Results Framework Description:

We will focus on implementing policies and programs that will result in improvements in maternal, child and infant health, and primary school educational attainment, as well as strengthened responses to HIV/AIDS and other infectious diseases. Countrywide results achieved by the end of the strategy will include:

- Reduced infant mortality rates;
- Reduced total fertility rates;
- Increased primary education completion rates.

Intermediate Result 3.1: Increased and Improved Social Sector Investments and Transparency

To become more competitive, El Salvador must increase its investment in preventive health care and basic education, improve management of its public investments, and adopt new management strategies to ensure effectiveness, efficiency and coverage of basic health and education delivery services. To do this, USAID will (1) assist the GOES to increase investments in preventive health (reproductive and child health, and water and sanitation) and education by leveraging funds, forming alliances, demonstrating the economic and social returns on increased social investments, and improving efficiency through better planning and management of budgeted resources; (2) promote effective decentralization of public social services, through policy dialogue, expenditure tracking and monitoring of results at national, regional, municipal and community levels and (3) improve accountability and transparency of education and health services. Illustrative activities include:

- Technical assistance to improve capacity of the GOES and selected policy "think-tanks" to evaluate the cost effectiveness of health and basic education programs, analyze the added economic and social benefits of increased investments; provide support for civil society advocacy

for increased GOES social sector spending, and to develop communication strategies that make the case for more equitable investments in social programs (Sub-IR 3.1.1);

- Development and implementation of tools, such as school report cards and national and, where possible, local health accounts, that contribute to greater transparency, accountability, gender sensitivity and equity in social sector resource allocation and more efficient management for improved results (Sub-IR 3.1.4);
- Technical assistance to the Ministries of Health and Education to strengthen the movement towards greater decentralization, including support for civil society participation in local decision making in order to provide health service oversight (Sub-IR 3.1.2); and
- Technical assistance and support to central and selected local governments on how to leverage funding and technical “know-how” from IFIs, donors, private organizations, and sponsorship programs, Global Development Alliances and other sources to improve the quality of service delivery in health, education, and water and sanitation will be considered (Sub-IR 3.1.3).

Intermediate Result 3.2: Increased and Improved Basic Education Opportunities

The program will help improve the quality, efficiency and equity of basic education. Interventions will be focused on pre-school and primary education materials, curriculum, and teacher training, within the context of MINED Education for All goals. USAID will consider gender and disability training for teachers and school principals which is part of our existing program. The IR will help improve student performance in language and math skills by the end of 6th grade, especially in rural areas, by developing and extending an educational program for rural areas that focuses on achieving basic educational competencies among poorer students. We plan to work in two Sub-IRs. Illustrative activities include:

- Technical assistance and training to MINED to broadly implement the expansion of the rural education program by strengthening in-service education of teachers and principals in primary schools, emphasizing active teaching methods, curriculum planning, and evaluation of student performance, and promoting parent and community participation and a broadening of teacher/principal networks (Sub-IRs 3.2.1 and 3.2.2);
- Assist the MINED to develop improved reading, writing and math materials for teachers and students, adapted from successful programs such as CETT and EDIFAM, and provide training for proper use of the materials (Sub-IR 3.2.2); and
- Assistance and training to the MINED and education “think-tanks” to improve their capacity to use research and information for decision making; to assess the effectiveness of interventions; and to develop and refine policies that support rural education improvement (Sub-IR 3.2.1).

Intermediate Result 3.3: Improved Integrated Management of Child and Reproductive Health

USAID will assist the MOH and key stakeholders to support, strengthen and improve quality, access and practices related to reproductive health, child health, and nutrition, with a focus on the primary healthcare level. Programs will work at both the central and decentralized health system levels. Efforts will be coordinated with SOs 1 and 2 to include integrating health education and hygiene promotion related to access and use of water at the community levels. By the end of the strategy USAID’s support for contraceptives will have significantly decreased. Overall activities will lead to a reduction in infant and maternal mortality and a decrease in total fertility. Three Sub-IRs will contribute to the achievement of this IR. Illustrative activities include:

- Training, technical assistance, and information, communication and educational activities with the MOH to treat complicated births properly and in a timely manner by improving prenatal care, safe deliveries, postpartum and new born care, with a focus on under-served, low income groups in rural areas (Sub-IR 3.3.2);

- Strengthening and expanding family planning services to underserved populations, including assistance to provide for greater access to contraceptives. The MOH will purchase an increasing proportion of its total contraceptive needs and USAID support for contraceptives will drop (Sub-IR 3.3.1);
- Assistance to integrate and expand the successful Integrated Management of Childhood Illnesses and Nutrition Care strategies, emphasizing care for mother and child, with a focus on prevention, control and treatment of illness and health promotion (Sub-IRs 3.3.2 and 3.3.3); and
- Assistance to the MOH and key stakeholders to promote adoption of proper hygiene behaviors by poor communities. This includes areas such as disinfection, household maintenance of clean water supply, latrine use, and hand washing for all family members (Sub-IR 3.3.3).

Intermediate Result 3.4: HIV/AIDS and Other Infectious Diseases Contained

USAID activities will focus on HIV/AIDS prevention for groups with high HIV prevalence, such as commercial sex workers and men who have sex with men. Activities will be implemented through proven interventions--including research, media campaigns (which will be directed towards reaching the core transmitter groups), training, mentoring, and the ABC approach to prevention. One Sub-IR will contribute to the achievement of this IR. Illustrative activities include:

- Assistance for the expansion of voluntary counseling, testing services, and behavioral change interventions for high prevalence groups. USAID plans to provide bilateral HIV/AIDS funding to the regional HIV/AIDS program to augment regional HIV/AIDS interventions with high risk groups in El Salvador (Sub-IR 3.4.1); and
- *In addition to closely coordinating these efforts with the Regional Program, USAID staff will continue to participate as a key member of the Country Coordinating Mechanism of the Global Fund to Fight AIDS, TB and Malaria to ensure effective use of the Fund's \$23.5 million investment in HIV/AIDS and TB through FY 2008 for El Salvador (Sub-IR 3.4.1).*

In response to infectious diseases earmarks, USAID will work to reduce maternal and neonatal deaths related to health-facility-based infections and address, as needed, specific infectious diseases that are of significant public health importance.

Sustainability of Impact: As in the past, USAID will seek agreement from the GOES to fund from its regular budget specific improvements initiated with USAID funds (e.g., school materials, decentralization strategies, contraceptives provision, expansion of health promoters and tuberculosis control). Under the new plan, initiatives to increase and improve investments in the social sector will further improve the likelihood of sustaining the positive results of these programs and others. By promoting public-private partnerships, we will encourage long-term improvements in the sectors.

USAID/El Salvador is committed to addressing gender differences in our programs. The Mission will focus on gender analysis and monitoring, as a necessary step, to ensure better understanding of this issue. Gender related topics will be addressed in both education and health programs at the community level.

Key Partners: Ministries of Health, Education and Finance (including MOH decentralized health districts called SIBASIs); selected NGOs; key municipalities; new partnerships through alliances with public, private and donor entities.

Measuring Achievement: Preliminary Performance Management Plan: The Mission will measure progress at the SO level through the CAM Regional Strategy Performance Indicators, which are under development. Proposed preliminary performance indicators for the SO-level include:

- Infant mortality rate;
- Total fertility rate; and
- Primary education completion rates (MINED).

USAID will develop a country-specific Performance Management Plan (PMP) within one year of approval of the Country Plan. This plan will be prepared in consultation with USAID partners, so that the partners monitoring and evaluation plans consistently contribute to the measurement of agreed-upon indicators, results and targets.

Estimate of Required Resources: \$34,000,000 in CSH and \$16,000,000 in DA

SO Start and End Date: FY 2005 – FY 2009. FY 2008 will be the last year of obligation of funds. Program implementation will go through the end of FY 2009.

Hard Choices: USAID CSH funding will not be used for: (1) water system infrastructure; (2) Ministry of Health contracting of NGOs for direct provision of services; (3) prevention of cervical cancer; (4) management information systems; or (5) health clinic construction. DA funding will not be used for: (1) education for grades 7-12; (2) specific, separate programs in early childhood education (including for children up to age three); (3) education infrastructure; and (4) broad based education institutional development and reform. Funding will not be used for HIV/AIDS interventions with the general population or for care activities. USAID asks that the LAC, EGAT and GH Bureaus discourage directives to fund initiatives that do not directly contribute to El Salvador's focused SO 3 program.

D. Crisis Modifier

Pursuant to ADS 201.3.4.4, USAID/El Salvador incorporates the Crisis Modifier into its Country Plan. In the event of a major humanitarian crisis, the Mission will invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify its activities and reprogram funding to address the crisis. In order to use the Crisis Modifier, the Mission will submit to the Bureau a time-phased plan in accordance with the guidelines set forth in the current CAM Regional Management Agreement. This modifier applies to all of our Strategic Objectives, and appropriate "crisis modifier" language will be included--to the extent possible--in all grants, contracts, and agreements (including Strategic Objective Agreements) under these objectives. The Mission acknowledges that Congressional Notifications may be required to invoke the modifier and that account and earmark restrictions will remain in force.

Annex 4 outlines several potential disaster scenarios for El Salvador and the illustrative activities that we might pursue in the case the Crisis Modifier is invoked.

III. PROGRAM RESOURCES

The AA/LAC approved the USAID/El Salvador Country Plan Planning Parameters on September 23, 2003. The El Salvador Country Plan timeframe and funding period is FY 2004 through FY 2008. The Mission will begin its activities under the CAM Regional Strategy in FY 2004, "jumpstarting" the More Responsive, Transparent Governance and Open, Diversified, Expanding Economies SOs. As a result, the FY 2004 operating year budget will be split between the current and new strategy. The other SO will begin in early FY 2005.

Funding is distributed among the SOs over the CAM Regional Strategy period as follows²:

SO-1 Ruling Justly: More Responsive, Transparent Governance (519-021) (FY 2004-2008):

\$20,000,000 DA³

SO-2 Economic Freedom: Open, Diversified, Expanding Economies (519-022) (FY 2004-2008):

\$69,500,000 DA

SO-3 Investing in People: Healthier, Better Educated People (519-023) (FY 2005-2008):

\$16,000,000 DA
\$34,000,000 CSH

Training will no longer be financed under the economic growth objective as a centralized function but will be included under each of the strategic objectives within the new plan.

IV. PROGRAM AND OPERATIONAL MANAGEMENT

Under the CAM Strategy, USAID/EI Salvador will expand support services to all USAID missions and units in the region and will become responsible for regional program plan implementation. Currently, USAID/EI Salvador provides financial, contracting and legal support services to different units (including the RIG) in the region. By the middle of FY 2006, contracting, financial management and legal support services will be provided to all CAM missions. This will require a third contracts officer slot in EI Salvador after the RCO in Honduras departs post. With the approval of this plan, EI Salvador will begin coordinating all regional contracting activities with the appropriate supervisory responsibilities and authorities. The existing regional program managed by USAID/G-CAP will move from Guatemala to EI Salvador. The mission is in the process of reviewing the staffing and organizational changes necessary to meet these requirements. We recognize the scarcity of OE funds and the imperative to find ways to improve efficiencies while maintaining high quality services to the CAM missions. A preliminary transition plan has been developed to migrate the program over a one year period.

A. Staffing

A Mission Management Assessment (MMA) of USAID/EI Salvador was conducted by LAC in March 2004. The MMA recognized that since 1998, the Mission reduced staffing from 158 to 114 in 2000 but because of a major earthquake response, staffing increased to 126. While the team did not recommend specific mission staffing levels, it agreed that adjustments in staffing should be coordinated with the transfer of functions to the mission under the CAM Strategy and the development of our country plan. Major considerations concerning staffing are the transition of the G-CAP program to EI Salvador; consolidation of payment processing, contracting and legal services for the region here; completion of the mission's large Earthquake Reconstruction program and consolidating technical offices from five to three, in line with CAM strategy objectives.

Because of regional responsibilities and staff quality, LAC and HR have identified USAID/EI Salvador as a training and mentoring mission for IDIs. We understand that fully funded IDIs in EXO and PROG/PDO will be assigned to EI Salvador for one tour, starting in FY 2005; we are also willing

² Levels are estimated and subject to the availability of funds. Amounts are rounded to the nearest \$500,000.

³ \$1.3 million DA will be obligated in FY 2004 to start up SO activities. A CN notifying this FY 2004 obligation has been processed.

to explore the possibility of a fully funded Health IDI. We can accept the officers as long as they are not counted against our USDH ceiling and adequate OE is provided to support them here.

B. Operating Expenses

The mission's proposed budgets in its current Annual Report submission take into consideration some of the USDH and FSN staffing changes noted above but will require modifications. We proposed shifting of six FSNPSCs from OE funding to Program funding. As a result of this action, 35 of the 40 FSN positions in our four program management offices are now program funded. In accordance with recommendations of the MMA team, we are conducting an analysis of the responsibilities and duties of remaining OE funded support staff to determine the appropriateness of program funding these positions as provided under ADS 600 guidelines. We are also carefully considering the impact on staff of the assessment team's recommendation that all FSNDH staff (except those under CSR retirement) be converted to FSN/PSC status. The recommendations will be implemented to the maximum extent possible during the restructuring of mission staffing.

At the time of the FY 2004 AR submission, we were not aware of the plan to assign IDIs to EI Salvador. The budget did not include support costs associated with these positions. It is unknown how much funding for support of these positions will come from USAID/W. Depending on family size, support costs for each of these positions could be as much as \$200,000. We request LAC/W concurrence that they will cover the costs.

Under our current regional support activities, travel and per diem costs of regional staff providing TDY services are generally covered by the client missions and all the FSN salary and other operating costs are contained within EI Salvador's OE budget. In order to recommend to LAC the most appropriate allocation of costs under the CAM Strategy, we will prepare a cost analysis of the services provided to other Missions and operating units. Based on services provided, an allocation of costs in relation to organizational unit, function and source of funds will be recommended. Budget allocations during FY 2005 and FY 2006 for USAID/EI Salvador and other CAM missions will have to be adjusted to reflect LAC decisions concerning the most appropriate distribution of these costs.

C. Management Units

The recent MMA complemented the Mission on its efforts over the past several years to significantly reduce the number of management units across its entire portfolio. We commit to continue efforts to reduce management units, consistent with and in support of the Agency's overall push for a more efficient business model and operation. We will emphasize previously competed procurement mechanisms, and look for synergies with other missions.

V. SUMMARY OF ASSESSMENTS AND STUDIES

Mandatory assessments and key studies prepared for the USAID/EI Salvador Country Plan are summarized in Annex 2 and some of the recommendations incorporated into the plan design. During the past seven months, the Mission has conducted evaluations, a wide variety of assessments and analyses and direct discussion with partners, customers and donors to guide and validate the process. Customer feedback was a key element in formulating Mission strategic choices. As required for new strategies, we conducted Gender; Conflict Vulnerability; and Biodiversity/Tropical Forestry assessments. Other relevant reviews and studies were conducted to support and justify Mission choices, such as the Economic Analysis, the Education Policy, the Health assessment and Family Health Survey, and the EI Salvador Management Assessment. The results

of these assessments as well as a number of other key reports were considered in the development of the Country Plan. A listing of key studies and reports is provided in Annex 3.

ANNEXES

1. Acronyms
2. Executive Summary of Mandatory Assessments
3. List and Bibliography of Assessments and Studies Consulted
4. Potential Disaster Scenarios or Other Emergencies in El Salvador
5. Results Framework and Indicators in Graphic Form

ANNEX 1: ACRONYMS

AA/LAC:	Assistant Administrator Latin America and Caribbean
ABANSA:	Asociación de Banqueros Salvadoreños
ADR:	Alternative Dispute Resolution
ADS:	Automated Directives System
AIDS:	Acquired Immunodeficiency Syndrome
AIN:	Integrated Nutrition Care
ANDA:	The National Administration for Aqueducts and Sewage
AR:	Annual Report
CABEL:	Central American Bank for Economic Integration
CAFTA:	Central America Free Trade Agreement
CAM STRATEGY:	Central America, Mexico and Panama Strategy
CCM:	Country Coordinating Mechanism
CDC:	Centers for Disease Control
CETT:	Center of Excellency for Teacher Training
CSH:	Child Survival and Health Program Fund
CSR:	Civil Service Retirement
DA:	Development Assistance
DCA:	Development Credit Authority
DG:	Democracy & Governance
DRL:	Democracy, Human Rights and Labor (State)
EDIFAM:	Early Childhood and Family Education
EGAT:	Economic Growth Agriculture and Trade
EHP:	Environmental Health Project
FFP:	Food for Peace
FSN:	Foreign Service National
FY:	Fiscal Year
G-CAP:	Guatemala and Central America Program
GFATM	Global Fund to Fight AIDS, TB and Malaria
GH:	Global Health
GNP:	Gross National Product
GOES:	Government of El Salvador
HACCP:	Hazard Analysis and Critical Control Points
HIV:	Human Immunodeficiency Virus
IDB:	Inter- American Development Bank
IDI:	International Development Intern
IEC:	Information, Education and Communication
IMCI:	Integrated Management of Childhood Illnesses
INCAP:	Central América and Panamá Nutrition Institute
INL:	International Narcotics and Law Enforcement (State)
IPR:	Intellectual Property Rights
IR:	Intermediate Result
LAC:	Latin America and Caribbean Bureau
MAG:	Ministry of Agriculture
MARN:	Ministry of Environment and Natural Resources
MCA:	Millennium Challenge Account
MINED:	Ministry of Education
MOH:	Ministry of Health
MPP:	Mission Performance Plan
MSME:	Micro Small Medium Enterprise
NBFI's:	Non- bank Financial Institutions

NGO's:	Non Governmental Organizations
OE:	Operating Expenses
OFDA:	Office of Foreign Disaster Assistance
PAHO:	Pan American Health Organization
PASA:	Participating Service Agency Agreement
PCI:	Project Concern International
PMP:	Performance Management Plan
RSPI:	Regional Strategy Performance Indicators
SIBASI:	Integrated Basic Health System
SMEs:	Small and Medium Enterprises
SO:	Strategic Objective
SPS:	Sanitary/ Phyto-Sanitary
SUB-IRs:	Sub-Intermediate Results
TB:	Tuberculosis
TBCTA:	Tuberculosis Coalition for Technical Assistance
TBD:	To Be Determined
UNCF:	United Nations Children's Fund
UNDP:	United Nations Development Program
UNPF:	United Nations Fund
USAID:	United States Agency for International Development
USDH:	United States Direct Hire
USG:	United States Government
USPSC:	United States Personal Services Contractor

ANNEX 2: EXECUTIVE SUMMARY OF MANDATORY ASSESSMENTS

- Gender Analysis
- Environmental Analysis (Tropical Forest and Biodiversity)
- Conflict Vulnerability Analysis

Copies of these mandatory assessments are available upon request and will also be shared with the Development Experience Clearinghouse (DEC).

GENDER ANALYSIS

(DevTech Systems Inc., November 2003-March 2004)

The Gender Analysis assessed gender relations and issues in the Mission's current program as part of the process for developing the new Country Plan and made recommendations for each of the three new Strategic Objective areas on how we could achieve greater gender integration:

Under the *Ruling Justly: More Responsive, Transparent Governance SO*, it is expected that much of the assistance for the rule of law will be in the form of training designed to improve the agility, transparency, and fairness in the resolution of criminal and civil disputes, and to improve adherence to due process and citizen rights. The report recommends that in addition to modules on gender issues and gender sensitivity for select topics, efforts be made to incorporate some degree of gender awareness into all of the units.

The Public Defender's office has been seen, especially by women of limited resources, as a public source of assistance. Data is currently available at the three mediation centers of the Public Defender established with USAID assistance. The Mission should review and analyze this data to ascertain the range of priorities these mediation centers are addressing.

Under the new strategy of *shared benefits from trade-led growth*, the link between implementation of the strategy and improving living conditions of the society at large, i.e., shared benefits, is no longer intuitive. The study recommends that USAID monitor the community, social and labor force impact of its interventions. The report suggests that the Mission monitor for these impacts, including variables for gender analysis, to learn the cost or benefit of its policies and to be able to justify or adjust its course accordingly.

Under the new *Investing in People: Healthier, Better-Educated People SO*, controlling HIV/AIDS and other infectious diseases has clear gender implications. It would be beneficial to plan orientations for men, men and women together, and women, at different levels of detail according to the topic. Technical assistance to improve and expand child and reproductive health services considered in the new SO ought to include components that train health service providers about how to convey knowledge to men and women, young and old. MOH personnel ought to be similarly informed.

Decentralization of health services puts decision-making authority closer to those who ought to be aware of local needs. Community members, both women and men, should be encouraged to approach providers of health services to make their concerns known, just as providers should approach them. This appears to be another potential area of overlap with initiatives that promote civil society organization.

ENVIRONMENTAL ANALYSIS (TROPICAL FOREST AND BIODIVERSITY)

Chemonics International Inc., November 2003 – January 2004

The “Section 118/119 Assessment of Tropical Forestry, Biodiversity and Water Resources Conservation for El Salvador” was completed in January 2004. The Assessment Team reported that, based on its understanding of the new strategy, there will be little likelihood of adverse environmental impacts of the new USAID/El Salvador Country Plan on tropical forestry, biodiversity and water resources. Furthermore, the team concluded that the results in the area of wise use of water resources and watershed management, will lead to greater tropical forest and biodiversity conservation.

The team recommended that USAID consider strengthening the relationship between its environment programs and the nascent national efforts to adopt a system for payment for environmental services. These efforts can be complemented by increased public awareness of environmental issues and more coordination among other donor agencies with similar goals.

The report mentioned that USAID should see the CAFTA agreement as an opportunity for focusing on the regional nature of environmental management and sustainable development. It recommended that USAID work closely with the USAID regional environmental program to reinforce policies and methodologies based on the lessons learned from the current strategy. Among the items highlighted are: enhanced understanding of the watershed management paradigm; a more strategic approach to strengthening the protected area system; more targeted and better coordinated approach to endangered species conservation; a proactive linkage of governance and environmental management objectives.

CONFLICT VULNERABILITY ANALYSIS

Management Systems International, December 2003 – February 2004

From December 2003 – February 2004 a Conflict Vulnerability Assessment (CVA) was conducted to assist USAID/El Salvador in understanding the possible sources of social, criminal, political and economic conflict during the medium term. Additionally this assessment was to provide recommendations regarding possible focus areas in the development of the new Country Plan that could address any potential areas of conflict or other variables that were identified through the assessment process. It should be noted that, for the purposes of this study, conflict was defined as “widespread, violent conflict.” At behest of the Mission, the Democracy and Governance Office of USAID’s Bureau for Democracy, Conflict and Humanitarian Assistance contracted MSI to conduct this CVA. The assessment consisted of two parts, a desk study carried out in December 2003 and field research performed from January 12 – 30, 2004. The main finding of the CVA was that there is a low possibility of conflict in El Salvador in the short to medium term.

Although the MSI team found that widespread, violent conflict is unlikely to occur in the immediate to medium term, they did note the possible future consequences of economic underdevelopment. Until the economy grows faster, large numbers of Salvadorans will remain in poverty or on limited incomes. Though the share of the population that is poor has declined, the recent low economic growth rates suggest further reducing the ranks of the poor may become increasing difficult. Over time these are constituencies that can be potentially mobilized for widespread conflict. The fact that income and wealth remain highly concentrated may also exacerbate this situation. Youth-at-risk, as potential recruits for gangs due to job scarcity, and the recent rise in gang violence were also noted as factors that could, over time, lead to greater conflict. Other risk variables that the study noted were the perceptions of corruption in the justice system, a lack of transparency and accountability in some public institutions, the growing fiscal deficits and the increasing urbanization of the country.

Based on the study's conclusions, it is clear that economic growth and job creation can be the most effective means of attacking potential conflict. Additionally, the assessment recommends promoting conflict-prevention methods at the local level, especially through mediation and other dispute resolution methods. It is also suggested that policy dialogue be promoted that builds consensus around key issues such as economic development strategies and political reforms. Finally, the need to increase public sector accountability and stimulate greater civil society oversight was noted by the CVA team. The conclusions and recommendations summarized above directly fed into the Mission's country plan design and democracy and governance program approaches.

ANNEX 3: LIST AND BIBLIOGRAPHY OF ASSESSMENTS AND STUDIES CONSULTED

GENERAL:

- “Bases para el Plan de Nación”, Comisión Nacional de Desarrollo, 2001.
- “País Seguro: Plan de Gobierno 2004-2009”

STRATEGIC OBJECTIVE 1: RULING JUSTLY: MORE RESPONSIVE, TRANSPARENT GOVERNANCE	STRATEGIC OBJECTIVE 2: ECONOMIC FREEDOM: OPEN, DIVERSIFIED EXPANDING ECONOMIES	STRATEGIC OBJECTIVE 3: INVESTING IN PEOPLE: HEALTHIER, BETTER EDUCATED PEOPLE
<p>“Encuesta de opinión sobre la percepción de corrupción en instituciones de El Salvador.” Report Prepared for Creative Assoc. International, San Salvador, El Salvador, IUDOP. 2004.</p> <p>“Desk Study for El Salvador Conflict Vulnerability Assessment”, prepared for Management Systems Internacional, Inc. (MSI), Lehoucq, Fabrice, 2004.</p> <p><i>“Partidos políticos de América Latina: Centroamérica, México y República Dominicana.</i> México: Fondo de Cultura Económica” El Salvador, in Manuel Alcántara and Flavia Freidenberg, eds., , Artiga González, Álvaro. 2003a.</p> <p>“Democratization, War, and State-Building: Constructing the Rule of Law in El Salvador.” <i>ournal of Latin American Studies</i>, 35: 827-62, Call, Charles T. 2003.</p> <p>“Political Institutions in El Salvador: Proposals for Reform to Improve Elections, Transparency and Accountability,” Report Prepared for the Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES), Aug 21, 2003. Carey, John</p> <p>“Seguimiento de los procesos de reforma Judicial en América Latina 2002 – 2003”. Centro de Estudios Jurídicos de las Américas (CEJA), 2003.</p> <p>“Índice Latinoamericano de Transparencia Presupuestaria: una comparación de 10 países.”, Mexico: International Budget Office. International Budget Office. 2003.</p> <p>“Los salvadoreños frente a las elecciones presidenciales de 2004,” Boletín de prensa, 18: 1-13. IUDOP (Instituto Universitario de Opinión Pública). 2003</p>	<p>“Economic Growth Strategy for USAID/EI Salvador: Synthesis Report,” Arlington, VA. CARANA Corporation, March 2004.</p> <p>“The Slowdown of Economic Growth in El Salvador: An Explanatory Analysis,” UCLA Graduate School of Management, Los Angeles. Edwards, Sebastian, 2003.</p> <p>“Expenditure Issues and Governance in Central America,” IMF Working Paper No. 187, International Monetary Fund, Washington, DC. Corbacho, Ana, and Hamid Davoodi, 2002.</p> <p><i>Informe de Desarrollo Económico y Social 2003: Competitividad Para el Desarrollo</i>, San Salv. FUSADES, 2003a.</p> <p><i>Estrategia Económica y Social 2004-2009: Oportunidades, Seguridad y Legitimidad: Bases Para el Desarrollo</i>, San Salvador. FUSADES, 2003.</p> <p>“El Salvador: Como Volver a Crecer?,” Paper prepared for the Government of El Salvador, funded by the Inter-American Development Bank. Larrain B., Felipe, 2003.</p> <p><i>Informe Sobre Desarrollo Humano El Salvador 2003: Desafíos y Opciones</i>, San Salvador. UNDP, 2003.</p> <p><u>Watershed Management:</u> “Primer Foro Pago Por Servicios Ambientales”, CARE – AGUA, Oct. 04.</p> <p>“El Salvador: Biodiversity, Tropical Forestry and Water Resources Assessment”, Chemonics, January 2004.</p> <p>“Plan de Monitoreo de la Calidad de Agua”, CARE – AGUA, October 2003.</p> <p>“Encuesta Nacional de Salud Familiar”, FESAL, 2003</p>	<p><u>Health Related Area:</u> “Informe Resumido FESAL 2002-2003”, Asociación Demográfica Salvadoreña (ADS) and Center for Disease Control (CDC), October 2003.</p> <p>“Impact of the introduction of water and sanitation at the community level as a contribution to the food security and nutrition of the population”, Instituto de Nutrición de Centro América y Panamá (INCAP)/Guatemala; CARE/EI Salvador, June 2000 - November 2002.</p> <p>“Portfolio Review of USAID/EI Salvador Health Office”, Merry Weinger/GH, John Austin/GH, Mary Vandenbrouke/GH, Karen Cavanaugh/GH; Laurie Cobb and Michael Jordan/Population Technology Associate (POPTECH), December 20, 2002.</p> <p>“Assessment of Sustainability: USAID Population Assistance to the Salvadoran Demographic Association”, John Coury and Luis Hernandez/POPTECH, March 15, 2002.</p> <p>“HIV/AIDS Surveillance External Situation Analysis”, Bernie Branson/Center for Disease Control (CDC), January 2002.</p> <p>“Rapid Assessment on El Salvador’s Contraceptive Security”, Mark Rilling, Lisa Luchsinger/CLM/USAID/W; Nora Quesada/John Snow, Inc., February 2001.</p> <p>“Rapid Assessment and Proposal Commercial Marketing Strategies”, Kelly Wolf/Commercial Market Strategies (CMS), May 2001.</p> <p>“Diagnosis on the Water and Sanitation Condition in El Salvador”, Project Concern International (PCI), El Salvador Water and Sanitation Network (RAS-ES), September 2001.</p>

STRATEGIC OBJECTIVE 1: RULING JUSTLY: MORE RESPONSIVE, TRANSPARENT GOVERNANCE	STRATEGIC OBJECTIVE 2: ECONOMIC FREEDOM: OPEN, DIVERSIFIED EXPANDING ECONOMIES	STRATEGIC OBJECTIVE 3: INVESTING IN PEOPLE: HEALTHIER, BETTER EDUCATED PEOPLE
<p>“Diagnostico de la Transparencia Judicial en El Salvador”. PROBIDAD, 2003.</p> <p>“Assessment to Identify Legal & Regulatory Obstacles to the Full Implementation of CAFTA within El Salvador”. Prepared by USAID/El Salvador, ARD Inc., May 2003.</p> <p>“Informe Final: Taller de Planeación Estratégica Oficina de Democracia y Gobernabilidad USAID”. Blumenberg & Asociados, November 2003.</p> <p>“Informe Preliminar sobre la Encuesta de Hogares de Propósito Múltiples, para el año 2003”, Ministerio de Economía, Dirección General de Estadística y Censos. Diciembre 2003.</p> <p>“Country Assistance Strategy for the Republic of El Salvador”, World Bank. 2001.</p> <p>“Demanda y Oferta de Capacitación y Asistencia Técnica de las Municipalidades de El Salvador”, PROMUDE/GTZ , abril 2003.</p> <p>“Anteproyecto de Ley de Descentralización del Estado y Participación Social”, FUNDASPAD, Febrero 2000.</p> <p>“Making Decentralization Work in Latin America and the Caribbean”, Interamerican Development Bank (IDB), Apr 2000.</p> <p>“Las Transferencias Intergubernamentales, los Ingresos Municipales y Opciones de Políticas para Fortalecer las Finanzas Municipales”, BID, Junio 2000.</p> <p>“Proyecto para Clasificar el Desempeño Financiero y Capacidad Institucional Municipal en El Salvador”, BID/ICMA/DEV-TECH.</p>	<p>“Informe Final Evaluación Proyecto AGUA”, Associate and Rural Development (ARD), October 2002.</p> <p>“Ley de Medio Ambiente y Reglamentos”, MARN, March 2000.</p> <p>“Water Resources Assessment of El Salvador”, US Army Corps of Engineers, October 1998.</p>	<p><u>Education Related Area:</u> World Bank Strategy Notes: El Salvador”. Emanuella de Gropello. February 2004.</p> <p>“Quality and Equality: Renewing the Lon-term Vision of Preschool and Primary Education in El Salvador”. Ernesto Schiefelbein, Renán Rápalo, Richard Kraft, José Luis Guzmán, Anabella Lardé de Palomo, Carmen Siri and Fernando Reimers. February 2004.</p> <p>“Plan de Educación para Todos, 2004-2015”. Ministerio de Educación, November 2003.</p> <p>“Distintas Escuelas, Diferentes Oportunidades. Los Retos para la Igualdad de Oportunidades en Latinoamérica”. Reimers, F. (Coor.), Madrid: Editoriales La Muralla, S.A. Capítulo 4. 2000.</p>

ANNEX 4: POTENTIAL DISASTER SCENARIOS OR OTHER EMERGENCIES IN EL SALVADOR

Rural malnutrition crisis, earthquakes, flooding, volcanic eruptions are the most frequent destructive disasters that occur in El Salvador. Four potential disaster scenarios are identified for El Salvador and a list of possible activities that we may implement if a Crisis Modifier is invoked during the Country Plan period. The Mission will work with the Office of Foreign Disaster Assistance (OFDA) in the event of a major disaster.

Scenario 1: A Major Earthquake

Illustrative activities: The GOES' ability to respond to disasters created by earthquakes has been strengthened through disaster mitigation activities that were funded from the Hurricane Mitch and Earthquake Reconstruction Programs. Based on the experience of the recent earthquakes, we will allow our grantees and contractors to modify their activities within the scope of the original SO for such activities and funding accounts for which funds for those activities were appropriated in order to respond to earthquake recovery interventions. The USAID/El Salvador Small Infrastructure Activity is a flexible mechanism that can also be used to redirect resources to invest in small-scale infrastructure in communities most affected.

Scenario 2: A Major Rural Malnutrition Crisis

Illustrative activities: Similar to actions taken by El Salvador after the 2001 – 2002 crisis, a response would most likely involve requesting USAID/Food for Peace to send priority food stocks through the World Food Program to the most affected areas. We would work closely with the Ministry of Health to ensure careful monitoring of child growth, sound health care and feeding practices and may provide additional health care and monitoring support, if needed.

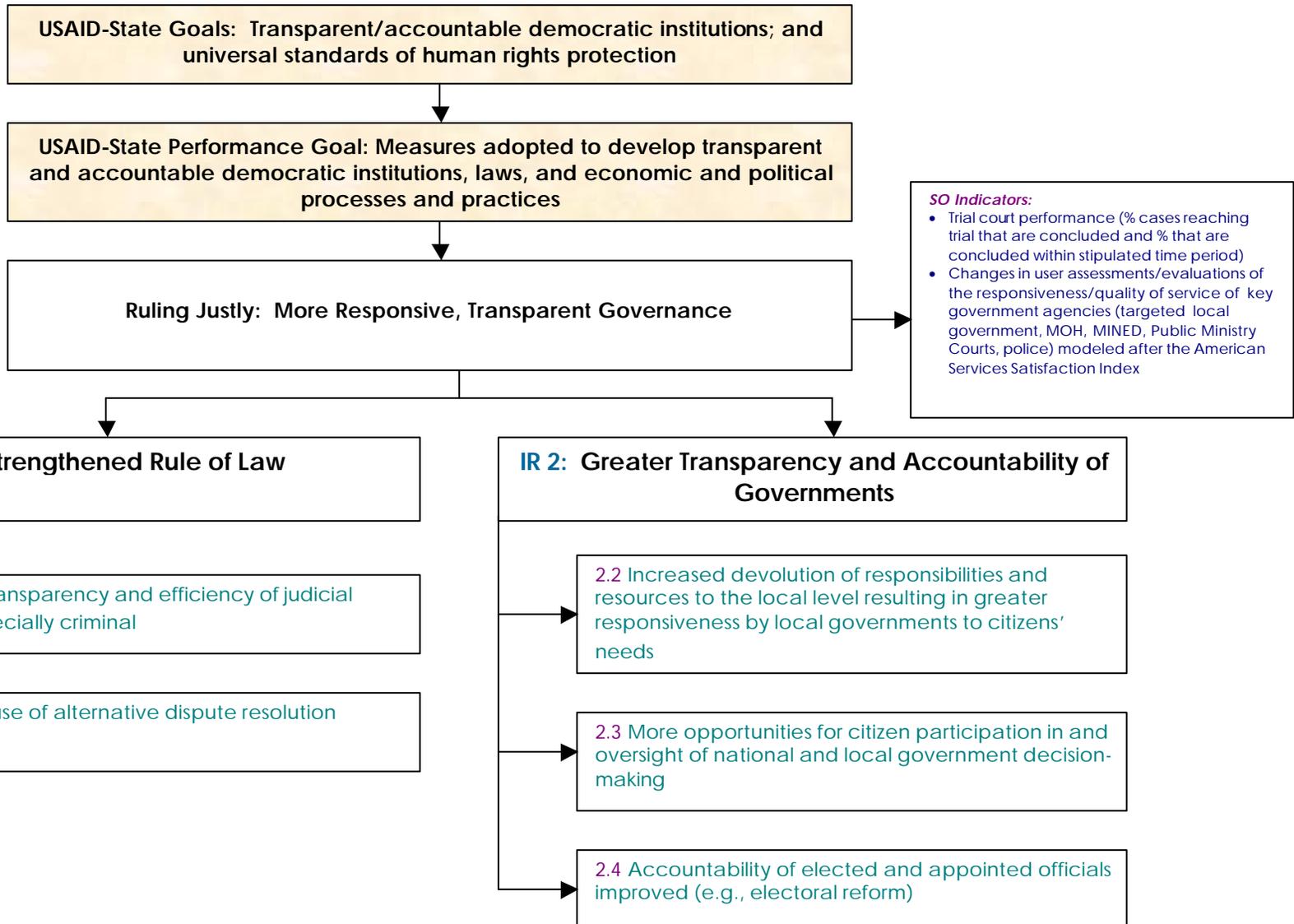
Scenario 3: Major Flooding

Illustrative activities: The GOES' ability to respond to flooding has been strengthened by USAID by developing an early warning system for floods in the Rio Lempa and Rio Grande Watersheds. Based on the experience of flooding after Hurricane Mitch, USAID/El Salvador will allow our grantees and contractors to modify their activities within the scope of the original SO for such activities and funding accounts for which funds for those activities were appropriated in order to respond to the flooding. Again, the USAID/El Salvador Small Infrastructure Activity is a flexible mechanism that can also be used to redirect resources to invest in small-scale infrastructure in communities most affected.

Scenario 4: Volcanic Eruption

Illustrative activities: The GOES has in place monitoring systems for volcanic activity. GOES personnel have also received training from USGS on monitoring volcanic activity as part of an early warning system. This information will be used by the emergency response institutions to evacuate communities that may be affected.

ANNEX 5: RESULTS FRAMEWORK AND INDICATORS IN GRAPHIC FORM





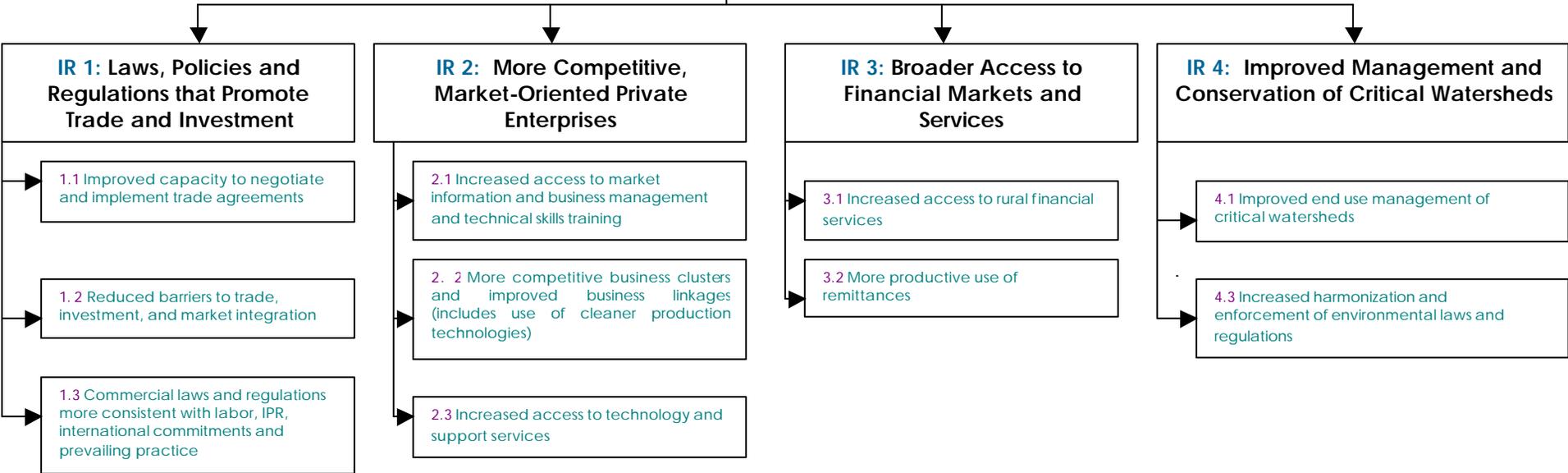
USAID-State Goals: Private sector-led growth, macro-economic stability and poverty reduction; enhanced food security and agricultural development; increased trade and investment; secure and stable financial and energy markets; and partnerships, initiatives and treaties that protect the environment

USAID-State Performance Goals: 1) Institutions, laws, and policies foster private sector-led growth, macroeconomic stability, and poverty reduction; 2) Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system; and 3) Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management .

Economic Freedom: Open, Diversified Expanding Economies

SO Indicators:

- Exports as percentage of GDP
- Growth Competitiveness Index Score





USAID-State Goals: Improved global health, including child, maternal and reproductive health, and reduction of disease; and broader access to quality education with emphasis on primary school completion

USAID-State Performance Goal: 1) Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and diseases, especially HIV/AIDS, malaria, and tuberculosis; and 2) Broader access to quality education with emphasis on primary school completion.

Investing in People: Healthier, Better Educated People

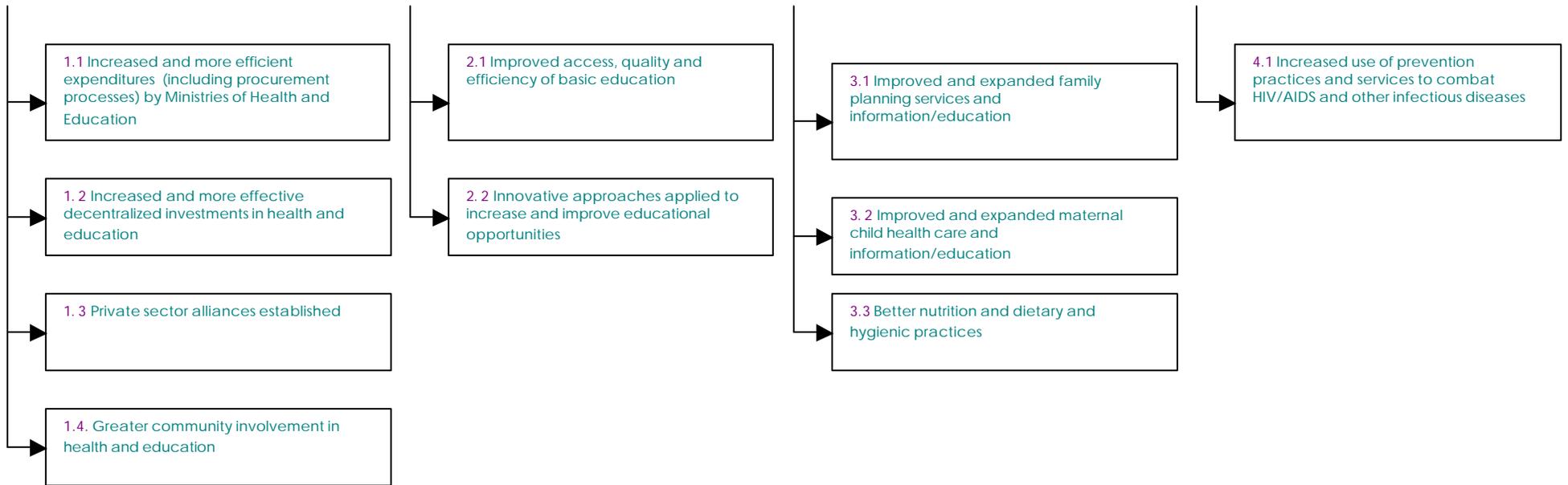
- SO Indicators:**
- Infant Mortality rate (national survey every five years)
 - Total fertility rate (national survey every five years)
 - Primary education completion rates (Ministry of Education sources)
 - Public expenditures on education as a percentage of GDP

IR 1: Increased and Improved Social Sector Investments and Transparency

IR 2: Increased and Improved Basic Education Opportunities

IR 3: Improved Integrated Management of Child and Reproductive Health

IR 4: HIV/AIDS and Other Infectious Diseases Contained and Impact Mitigated



ACTION MEMORANDUM

TO: AA/LAC, Adolfo A. Franco

THRU: SDAA/LAC, Mosina Jordan

FROM: Abdul Wahab, LAC/SPO

SUBJECT: Approval for USAID/El Salvador Country Plan

Action Requested: Your signature to the attached Management Letter is requested to: approve the USAID/El Salvador Country Plan, authorize its incorporation into the approved Central America and Mexico (CAM) Regional Strategy, and allow the Mission to proceed with obligations. The Mission's Country Plan will have an approved funding level of \$139.5 million for the FY 2004–2008 period.

Background: The Mission has completed and submitted its Country Plan for FY 2004–2008. The plan was developed with the central objective of supporting the CAM Regional Strategy for the FY 2003–2008 period. Following submission, the Country Plan was reviewed by the LAC Bureau and relevant offices throughout the Agency. The Mission's Country Plan is consistent with and strongly supports all three strategic objectives of the CAM Regional Strategy.

Authority: Approval of the CAM Regional Strategy was provided through the Management Agreement that you signed on August 1, 2003 in accordance with ADS 201.3.10.3. You have the authority to approve the Country Plan and its incorporation into the CAM Regional Strategy pursuant to ADS 103.3.8.1 in which you are delegated authority for strategic planning by the AA/PPC. The authority for program implementation delegated to you by the AA/PPC in ADS 103.3.8.2 gives you the authority to allow the

Mission to proceed with obligations (subject to the Mission meeting all preobligation requirements).

Recommendation: That you sign the attached Management Letter indicating your approval of the Mission's Country Plan and its incorporation into the CAM Regional Strategy. Your signature will allow the Mission to proceed with obligations under the CAM Regional Strategy.

MANAGEMENT LETTER

Mark Silverman
Mission Director
USAID/El Salvador

Dear Mr. Silverman:

This is to express my sincere congratulations to your Mission for its outstanding work in completing its Country Plan for FY 2004–2008. I am pleased with the strategic direction and focus areas you have emphasized in your Country Plan.

This Management Letter approves the incorporation of the USAID/El Salvador Country Plan into the Central America and Mexico (CAM) Regional Strategy.

The USAID/El Salvador Country Plan, which includes an approved funding level of \$139.5 million for the FY 2004–2008 period, is consistent with and strongly supports the CAM Regional Strategy.

As the Mission moves forward with its activities, it should keep in mind program and staffing resource limitations so as not to overextend the program and dilute potential impact.

With this letter, subject to the Mission meeting all preobligation requirements, you are formally authorized to obligate funds under the CAM Regional Strategy beginning in FY 2004.

Sincerely,

Adolfo A. Franco
Assistant Administrator
Bureau for Latin America and the Caribbean

**Clearance Page for Approval of USAID/EI Salvador Country Plan and Incorporation into
CAM Regional Strategy**

LAC/RSD, CMango	<u> </u> (draft)	Date: <u>(06/22/04)</u> (Kermit Moh, Acting)
LAC/CEN, RKahn	<u> </u> (draft)	Date: <u>(06/22/04)</u>
LAC/EMT, CRoyalty	<u> </u>	Date: <u> </u>
LAC/SPO, JRudasill-Allen	<u> </u> (draft)	Date: <u>(06/22/04)</u>
PPC/PC, RBoncy	<u> </u> (draft)	Date: <u>(06/14/04)</u>
GC/LAC, JLifur	<u> </u> (draft)	Date: <u>(06/15/04)</u>
EGAT/PAICO, SPhillips	<u> </u> (draft)	Date: <u>(06/18/04)</u>
DCHA/PPM, SParks	<u> </u> (draft)	Date: <u>(06/16/04)</u>
GH/OFPS, MVandenbourke	<u> </u> (draft)	Date: <u>(06/14/04)</u>

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