



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

ACTION MEMORANDUM FOR THE MISSION DIRECTOR, A.I.

FROM: John A. Penneh, A/EGE¹
William Patterson, Director WE *W. Patterson*

SUBJECT: Approval of the new Activity: "Economic Growth for the 21st Century"
(CRECER 21), No 519-0462, under the Strategic Objective "Economic Freedom:
Open, Diversified, Expanding Economies"

I. ACTION REQUESTED. You are requested to:

Approve a new CRECER 21 Activity to help achieve the CAM Strategic Objective No 519-022 Economic Freedom "Open, Diversified, Expanding Economies" through each of the four Intermediate Results (IRs) at a Life-of-Activity funding of \$69,500,000 over a five year period and host country contribution of \$7,200,000, and with a completion date of September 30, 2009. The four IRs are #2.1 "Laws, Policies, and Regulations that Promote Trade and Investment," #2.2 "More Competitive, Market-Oriented Private Enterprises", and #2.3 "Broader Access to Financial Markets and Services." In this memorandum, we seek approval of activities to achieve IRs 1, 2, and 3. We will seek approval of activities in support of IR 4, "Improved Management and Conservation of Critical Watersheds" next fiscal year. An OYB for \$200,000 is being transferred to USAID/LAC/Washington to obligate and manage for a Global Water Partnership.

II. BACKGROUND

The attached Activity Approval Document (AAD)(Attachment 1) outlines the basic structure and implementation mechanisms for the proposed new activity in support of USAID's Strategic Objective No. 519-022 (SO2) under the Regional Strategy for Central America and Mexico (CAM Strategy) and as approved in the Country Plan for El Salvador. The Activity was developed in close consultation with key GOES agencies, NGOs, other USG agencies and other donors.

CRECER 21 will help to increase El Salvador's competitiveness and productivity, and take advantage of new trade opportunities resulting from trade agreements to stimulate economic growth and expand job creation. In order to achieve the goal stated above, the proposed Activity is comprised of four program areas or components under each IR: (1) Laws, Policies, and Regulations that Promote Trade and Investment; (2) More Competitive, Market-Oriented Private Enterprises; (3) Broader Access to Financial Markets and Services; and (4) Improved Management and Conservation of Critical Watersheds. Funds will be obligated for three IR Components in FY 2004 and funds for the fourth IR Component will be obligated in FY 2005, after IR activities are approved by the Mission Director.

¹ Request for action on all items, except for extension of IDEA/FINTRAC.

Per USAID/LAC guidance, one field support activity will be obligated in FY 04 through an OYB transfer to USAID/LAC/Washington for a \$200,000 Global Water Partnership program (Attachment 1, Annex 5).

III. INTERNAL DISCUSSIONS

During June through early August 2004, the Mission reviewed drafts of the AAD and identified issues that need to be addressed. Some of the primary concerns have been how to reduce program spread, reduce management units, develop alliances with the private sector and other donors, and making the programs sustainable by working with GOES institutions. Technical concerns have been discussed and addressed concerning which policy topics are critical priorities, what are the most critical constraints that SMEs face, and how to generate the maximum lending from the financial sector. These issues have been addressed in the final AAD. However, several factors will need to be high priority during the development of the scopes of work or program descriptions for the implementation of the AAD. These are: how to work with the GOES institutions responsible for trade, export and investment promotion as they are being reorganized, what are the possible sources of private sector alliances that can be leveraged, and how can we develop designs that are complementary to the FY 05 to 08 Regional Program Plan.

IV. KEY RESULTS TO BE ACHIEVED

In accordance with the CAM strategy, SO level results anticipated by the end of the Activity are:

- Increased trade measured by domestic and export sales and as a percentage of GDP
- Increased job-creation in both formal and non-formal sectors and economic opportunities leading to increased and more equitably distributed incomes
- Improved management of a critical watershed.

The activities described in the AAD (Attachment 1) are organized under each of the 4 IRs.

V. USAID FINANCIAL RESOURCES AND GOES COUNTERPART CONTRIBUTION

It is estimated that \$69,500,000 in DA over 5 fiscal years are required to implement this Activity. GOES counterpart contribution totals \$7,200,000 (Annex 8 of the AAD). Total USAID and counterpart resources that will be dedicated to achieving the Activity are \$76,700,000. FY 2004 is the initial year of obligation and FY 2008 will be the last year of obligation of funds. Program implementation will go through the end of FY 2009. In FY 04, \$15,459,000 will be obligated through a SOAG; \$200,000 in OYB is being transferred to LAC for obligation for a Global Water Partnership.

Counterpart contributions are required for programs that involve substantial GOES benefit and involvement. These include: IR 1: implement key requirements of CAFTA and other trade agreements (ROO, SPS), removing trade barriers and investment facilitation, fiscal policy and tax collection, and baseline analysis. IR 2: Institutional development and collaboration with GOES instrument to benefit private sector development and some institutional development of the Ministry of Economy and Ministry of Agriculture, institutional development of the Ministry of Environment and Natural Resources for cleaner production incentives, and local community cost sharing for small infrastructure. For other interventions, there will not be a substantial

benefit to the GOES from the assistance and there will not be any direct and substantial involvement by the GOES in the administration, management, or control of such assistance. Therefore, based on ADS Section 350.3.5.2, only the interventions noted above will require a host country contribution under Section 110 of the Foreign Assistance Act, as amended.

The estimated budget for each component and USAID management costs are summarized below and are detailed in the AAD (Attachment 1, annex 8):

	TOTAL SO REQUEST (\$000)	COUNTERPART CONTRIBUTION (\$000)	COMBINED TOTAL (\$000)
1. Laws, policies, and regulations that promote trade and investment	11,500	3,670	15,170
2. More competitive, market-oriented private enterprises	37,200	3,530	40,730
3. Financial Sector Development (a)	6,000	0	6,000
4. Watershed Management	9,800	TBD	9,800
5. Staffing and evaluations	4,800	0	4,800
TOTAL SO FOR USAID/EI Salvador obligation	69,300	7,200	76,500
Field support OYB transfer for Global Water Partnership	200	0	200
GRAND TOTAL	69,500	7,200	76,700

Note: (a) Includes \$500,000 for a DCA/Loan Portfolio Guarantee

VI. OBLIGATION PLAN

\$68,800,000 of life of activity funds and \$15,459,000 of FY 04 funds will be obligated through the SOAG. The following intervention under Component 3 will be obligated outside of the SOAG:

- In FY 05, a \$500,000 OYB transfer of funds may be to AID/W for obligation for the DCA loan portfolio guarantee.

Field Support: In FY 04, an OYB for \$200,000 is being transferred to USAID/LAC/Washington to obligate and manage for a Global Water Partnership.

VII. CHECKLIST

As per the e-mail dated February 17, 2004, USAID/Washington has approved the FY 2004 Country Checklist for USAID/EI Salvador. An Assistance Checklist for the CRECER 21 Activity is included as Attachment No. 2.

VIII. LEGAL AND POLICY RESTRICTIONS

The EGE or successor Office will insure that none of the interventions to be funded under the CRECER 21 Activity will contain activities that would violate any of the legal and policy restrictions such as the Bumpers Amendment, exporting U.S. jobs, amongst others. We will ensure that adequate safeguards are included in the requirements for such interventions and activities (including, in particular, the export promotion funds) to avoid any such violations. In order to address specific issues related to **Impact on U.S. Jobs; Relocation; Export Zones; Violation of Workers' Rights**; (Section 533 of the FY 04 Appropriations Act and ADS 225,) implementers will be required to conduct market based analysis on a product by product basis to be sure that the program is in compliance with these restrictions. Further, implementers will be required to maintain copies of this analysis and make them available for inspection and for end use monitoring. Similar requirements will be included in contracts, cooperatives agreements or grants for agriculture activities.

IX. INITIAL ENVIRONMENTAL EXAMINATION (IEE)

The IEE (Attachment 3) is for the new Activity, LOA funding, and the planned use of funds. No funds will be obligated until the Bureau Environmental Officer (BEO) has approved the IEE. A categorical exclusion to 22CFR216, Environmental Procedures, is proposed for all activities except for portions of the AgriTech intervention. A positive determination is recommended for AgriTech's likely assistance to farmers in recommending selected appropriate use of pesticides and an environmental assessment will be undertaken and BEO approval obtained prior to work. A negative determination with conditions is recommended for the small-scale infrastructure and environmental guidelines and procedures will be updated for implementation. Under the IR2 Component, procedures will be established for each implementer to review case by case assistance to private companies to address any potential environmental issues and refer these concerns to USAID EI Salvador for action.

X. CONGRESSIONAL NOTIFICATION:

The FY 2004 CN, notifying FY 2004 obligations for the SO was sent to the Hill on June 23, 2004 and expired without objections on July 8, 2004.

XI. AUTHORITY:

Under ADS Section 103.3.14.2a, Mission Directors in the LAC Bureau are delegated authority to implement Strategic Objectives. ADS 201 sets forth the requirements for activity design. EGE, WE and SDO Offices confirm that the AAD attached to this Action Memorandum and the proposed obligation of funds are in compliance with the requirements of ADS Chapter 201 including, but not limited to, the approval requirements set forth in ADS Section 201.3.12 for "Pre-Obligation and Activity Planning Requirements." As noted above, the AAD under this Action Memorandum is consistent with USAID/EI Salvador Country Plan approved by the Assistant Administrator for the Bureau for Latin America and the Caribbean (AA/LAC) under Memorandum dated July 1, 2004. Therefore, you have the authority to approve the actions requested in this Memorandum.

XII. RECOMMENDATION

It is recommended that you approve the Activity Approval Document (Attachment 1) for the CRECER 21 Activity to help achieve the CAM Strategic Objective No 519-022 Economic Freedom "Open, Diversified, Expanding Economies" through each of the four Intermediate Results (IRs) at a Life-of-Activity funding of \$69,500,000 and host country contribution of \$7,200,000, and with a completion date of September 30, 2009. A Strategic Objective Grant Agreement will be negotiated by the Mission with the GOES for implementation of CRECER 21 and obligate \$15,459,000 in FY 04 funds. Further, \$200,000 will be obligated by USAID/LAC/Washington for a Global Water Partnership. If you agree, please sign this Action Memorandum.

APPROVED: Tully R. Cornick
Tully R. Cornick
Mission Director, a.i.

DATE: Sept 14, '04

DISAPPROVED _____
Tully R. Cornick
Mission Director, a.i.

DATE: _____

Attachments:

1. Activity Approval Document with financial tables and procurement plan
2. Assistance Checklist for the CRECER 21 Activity
3. Initial Environmental Examination

Drafters: EGE: Ronald Greenberg MP # EGE date: 7/23/04, revised 8/9/04, revised Sept 13/04.

Cleared:

KDahlgren, SDO	__ IN DRAFT	Date: <u>8/31/04</u>
NHoffman, EXO	__ DRAFT	Date: <u>8/19/04</u>
DDriggers, A/CONT	__ DRAFT	Date: <u>8/23/04</u>
BEnroth, RCG	__ IN DRAFT	Date: <u>9/1/04</u>
RRakas, RLA	__ IN DRAFT (by phone to JAPennell)	Date: <u>9/7/04</u>
RRakas, A/DDIR	__	Date: <u>9/14/04</u>

Clearance Sheet

SUBJECT: Approval of the new Activity: "Economic Growth for the 21st Century" (CRECER 21), No 519-0462, under the Strategic Objective "Economic Freedom: Open, Diversified, Expanding Economies"

Drafters: EGE: Ronald Greenberg *RG* *AL/EGE* date: 7/23/04, revised 8/9/04

Cleared:

KDahlgren, SDO	IN DRAFT	Date:	8/31/04
NHoffman, EXO	DRAFT	Date:	8/19/04
DDriggers, A/CONT	DRAFT	Date:	8/23/04
BEthroth, RCG	IN DRAFT	Date:	9/1/04
RRakas, RLA	IN DRAFT (by phone to JAPennell)	Date:	9/7/04
NLHoffman A/DDIR	<i>nlh</i>	Date:	9/8/04

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XI. RECOMMENDATION

It is recommended that you approve the Activity Approval Document (Attachment 1) for the CRECER21 Activity to help achieve the CAM Strategic Objective No 519-022 Economic Freedom "Open, Diversified, Expanding Economies" through each of the four Intermediate Results (IRs) at a Life-of-Activity funding of \$69,500,000 and host country contribution of \$7,200,000, and with a completion date of September 30, 2009. A Strategic Objective Grant Agreement will be negotiated by the Mission with the GOES for implementation of CRECER21 and obligate \$14,394,000 in FY 04 funds. Further, \$1,065,000 million will be obligated under an incremental funding for a direct contract for microfinance assistance and \$200,000 will be obligated by USAID/LAC/Washington for a Global Water Partnership. If you agree, please sign this Action Memorandum and the attached Initial Environmental Examination.

APPROVED:

Tully R. Cornick
Mission Director, a.i.

DISAPPROVED:

Tully R. Cornick
Mission Director, a.i.

DATE:

Attachments:

1. Activity Approval Document with financial tables and procurement plan
2. Waivers/memos (3) of competition (EXPRO, IDEA/Fintrac, ATA)
3. Assistance Checklist for the CRECER21 Activity
4. Initial Environmental Examination

Drafters: EGE: Ronald Greenberg RG date: 7/23/04, revised 8/9/04

Cleared:

KDahlgreen, SDO GD Date: 8/31/04
NHoffman, EXO DRAFT Date: _____
DDriggers, A/CONT DRAFT Date: _____
BEnroth, RCG BE Date: 9/1/04
RPaas.RLA-A'DDir _____ Date: _____

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XII. RECOMMENDATION

It is recommended that you approve a New Activity and interventions for the new CRECER21 Activity to help achieve the CAM Strategic Objective No 519-022 Economic Freedom "Open, Diversified, Expanding Economies" through each of the four Intermediate Results (IRs) at a Life-of-Activity funding of \$69,300,000 and host country contribution of \$7,075,000, and with a completion date of September 30, 2009. A separate Strategic Objective Grant Agreement Amendment will be negotiated with the GOES to incorporate this New Activity. If you agree with this Activity, please sign this Action Memorandum and the attached Initial Environmental Examination.

APPROVED:

Mark Silverman
Mission Director

DISAPPROVED:

Mark Silverman
Mission Director

DATE: _____

Attachments:

1. New Activity Description with financial tables and procurement plan
2. Waivers (3) of competition (EXPRO, IDEA/Fintrac, ATA)
3. Assistance Checklists for the CRECER21 Activity
4. Initial Environmental Examinations

Drafters: EGE: Ronald Greenberg [Signature] date: 7/23/04, revised 8/9/04

Cleared:

KDahlgreen, SDO	_____	Date: _____
NHoffman, EXO	<u>[Signature]</u>	Date: <u>8/23/04</u>
FBreen, CONT	<u>[Signature]</u>	Date: <u>8/23/04</u>
BEuroth, RCG	_____	Date: _____
RRakas, RLA	_____	Date: _____
TCornick, DDIR	_____	Date: _____

Office of the Controller:

REVIEWED

[Signature] 8/23/04
DATE 8/23/04 [Signature] 8/23

USAID/EI Salvador
Strategic Objective 519-022
Economic Freedom: Open, Diversified, Expanding Economies

Activity No. 519-0462 – Economic Growth for the 21st Century (CRECER 21)

I. INTRODUCTION

This Activity Approval Document (AAD) outlines the basic structure and implementation mechanisms for the proposed new Activity in support of USAID's Strategic Objective No. 519-022 (SO2): "Economic Freedom: Open, Diversified, Expanding Economies" under the Regional Strategy for Central America and Mexico (CAM Strategy) and approved Country Plan for El Salvador. The Activity—Economic Growth for the 21st Century (CRECER 21)—has been developed in close consultation with key GOES agencies, the private sector, NGOs, other USG agencies and key donors.

USAID's CRECER 21 will stimulate economic growth and expand job creation in order to reduce poverty and improve natural resource management. It will achieve this by assisting the GOES and the private sector to take advantage of a sound macro-economic policy structure and the opportunities for economic prosperity presented by the Central American Free Trade Agreement (CAFTA). CRECER 21 is comprised of the four Results that mirror the CAM Strategy Intermediate Results (IRs): (1) Laws, Policies, and Regulations that Promote Trade and Investment; (2) More Competitive, Market-Oriented Private Enterprises; (3) Broader Access to Financial Markets and Services; and (4) Improved Management and Conservation of Critical Watersheds. Approval for IR4 activities will be sought next fiscal year. Activities under the first three Results will be obligated in FY 2004 and the fourth Result will be obligated in FY 2005. The total estimated USAID contribution for this Activity is \$69.5 million from September 2004 through 2009 (FY 2004-2008). GOES counterpart contribution is estimated at \$7,200,000.

II. DEVELOPMENT CHALLENGE

Increased trade and investment should lead to increased economic growth, which in turn should contribute to a reduction in the level of poverty in El Salvador. Sound growth will require greater focus on job creation primarily by fostering a more dynamic and efficient business environment and addressing policy bottlenecks. This includes helping micro enterprises grow to small enterprises and small to medium sized companies. Growth of enterprises and creation of new jobs in rural areas will occur by increasing business linkages between rural providers of goods and services and more urbanized business. In time, rural economic activity will be further enhanced through connections to domestic and export markets.

Trade policies need to be modernized, with special emphasis on the initial implementation of the provisions of the CAFTA. Administration of CAFTA will be both varied and complex, though integral in supporting growth of private sector exports. Policy changes are needed to level the playing field for small and medium enterprises (SMEs¹), which face significant start up and expansion barriers. Macro economic reforms are substantially in place, but the GOES will need additional revenues to pay for complementary social sector investments, e.g., in education.

¹ SMEs are defined as micro, small, and medium sized business up to 100 employees and farmers.

health care, water, and rural infrastructure. Reducing the more than 50 percent tax evasion, improving tax administration and diversifying sources of revenues can increase fiscal revenues. This will be particularly pertinent, as new free trade agreements will reduce revenues generated from tariff and customs duties. SMEs need to shift their focus to meet market demand, introduce new technologies, improve business practices and relationships, and form stronger links with international buyers. Access to credit continues to constrain SMEs, particularly for increasing their investments in equipment.

Improved watershed organizations and increased investment are needed so that more than the current 21.3 percent ² of rural Salvadoran households can have continuous access to clean water and basic sanitation. El Salvador's per capita water availability is the lowest in the region. 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.

Women and disabled individuals face especially limited access to assets, education, and training, resulting in fewer economic opportunities and lower incomes. In addition, women head many rural families, though few earn agricultural income. Women face particular issues in developing their businesses and gaining access to credit. Studies indicate that women own more than 60 percent of micro enterprises and 30 to 40 percent of small and medium sized businesses. Therefore, investments in women owned businesses result in significant benefits for economic and family development as women heads of households spend more funds on education, health care, and reinvestment in the family businesses than many male counterparts from rural areas.

III. RESULTS TO BE ACHIEVED

CRECER 21 will foster increased economic opportunities for SMEs that should lead to more jobs and economic opportunities. It will continue to fund trade capacity building programs with the GOES and the private sector to help them take advantage of opportunities for increased trade. USAID will help partners strengthen the trade and investment policy framework and implement programs that will stimulate more competitive, market-oriented, small and medium-scale private enterprises (domestic and export) that generate more sales and more jobs; help increase SME access to financial services; and address key environmental issues in a critical watershed.

In accordance with the CAM strategy, SO level results anticipated by the end of the Activity's five-year period are:

- Increased trade measured by domestic and export sales and as a percentage of GDP
- Increased job creation in both formal and non-formal sectors and economic opportunities leading to increased and more equitably distributed incomes
- Improved management of a critical watershed.

Below, the four IRs and sub-IRs are discussed.

Result 1: Laws, Policies, and Regulations that Promote Trade and Investment (IR 2.1)

- Implementation of key requirements of CAFTA and other trade agreements (SUB-IR 2.1.1)

² FESAL National Household Survey, 2003.

- Support the establishment of a legislative and regulatory framework for the proper implementation of Rules of Origin (ROO), customs valuation, and risk management
 - Strengthen the technical capacity of the Ministry of Finance's (MOF) Customs Service and Trade Administration (CSTA) to comply with CAFTA related obligations to administer ROO and risk management requirements
 - Improve the capacity of the Ministry of Agriculture (MAG) to manage and monitor specific Sanitary and Phyto-sanitary (SPS) standards. The primary focus will be on food safety regulatory enforcement, and modernizing management of the sale, use and distribution of pesticides.
- Removal of key barriers to expanding public and private sector investments and increasing exports (*SUB-IR 2.1.2*)
 - Identification and elimination of at least 3 key barriers to expanding public and private sector investments and increasing exports identified and eliminated. Illustrative areas include investment promotion weaknesses, bureaucratic procedures that inhibit speed to market and other exports, commercial business bankruptcy laws/regulations, and commercial arbitration.
 - Promotion of fiscal policy reform leading to increased tax collection (*SUB-IR 2.1.2*)
 - Strengthened fiscal policy reforms, including developing new instruments
 - Improved administration of tax collection
 - Tax collections increased by at least 1% of GDP.
 - USAID may consider promoting voluntary labor standards (*SUB-IR 2.1.3*)

Result 2: More Competitive, Market-Oriented Private Enterprises (*IR2.2*)

- More, competitive market oriented enterprises operating (*SUB-IR 2.2.1, 2.2.2., 2.2.3*)
 - SMEs increase domestic and export sales valued at \$40 million and create approximately 8,000 new jobs. If significant alliance investments can be leveraged at a rate of 4 to 1, the potential sales increase could be as high as \$200 million and job creation could be 40,000 new jobs.
 - 2,000 Salvadoran SMEs with greater access to appropriate technologies and improved business skills from USAID direct assistance and as many as 8,000 micro, small and medium size enterprises (MSMEs) assisted by alliance partners.
 - Strengthened GOES export and import promotion capacity and programs, in market analysis, business development, technology adaptation, and forming market linkages.
- More, competitive market oriented agriculture enterprises operating (*SUB-IR 2.2.1, 2.2.2., 2.2.3*)
 - Agriculture enterprises and farmers increase domestic and export sales valued at \$25 million and create at least 2,500 permanent jobs and 3,500 temporary jobs. If significant alliance investments can be leveraged at a rate of 4 to 1, the potential sales could be nearly \$125 million and job creation could be nearly 12,500 new permanent jobs.
 - 2,000 Salvadoran agriculture enterprises and farmers have greater access to technology from USAID direct assistance and up to 8,000 enterprises will have greater access to technology through alliance partners
 - Transfer of the demand driven market based agriculture model being implemented by USAID's agricultural diversification program (IDEA) and refined under USAID AgriTech to two Salvadoran agriculture private associations and possibly MAG. Limited training

and technical assistance will be provided to local associations and MAG to improve their capacity to spread this type of program around the country.

- Improvement in enterprise processes through cleaner production and energy efficiency (SUB-IR 2.2.2)
 - Draft an incentives program for cleaner production and assist the Ministry of Environment and Natural Resources (MARN) to launch this program
 - Strengthened capacity of the Cleaner Production Center and a few companies to be able to provide cleaner production and energy efficiency services.
 - Demand driven program operating where up to 20 Salvadoran enterprises undertake environmental/energy audits; and up to 10 implement improved processes that lead to reduced costs and/improved resource use.
- Removal of small-scale infrastructure barriers to facilitate access to trade and markets and lower business transaction costs (SUB-IR 2.2.2)
 - Implementation of 50-60 small-scale infrastructure projects that meet community needs to facilitate economic activity in the area and support SME activity.

Result 3: Broader Access to Financial Markets and Services (IR 2.3)

- Increased lending to SMEs and improved quality of financial services for SMEs (SUB-IR 2.3.1)
 - New SME borrowers: 4,500
 - New loans: \$70 million
 - New sales and employment information associated with SME's assisted will be monitored. .
- Increased lending to micro entrepreneurs (through completion of FOMIR II contract) including (SUB-IR 2.3.1)
 - New rural borrowers: 5,000
 - New rural depositors: 1,000
 - New loans under \$400: 3,000
- Clients served by two newly regulated NBFIs: (SUB-IR 3.1): 4,500

Result 4: Improved Management and Conservation of Critical Watersheds (IR 2.4)

- A detailed description will be provided in an amendment to this AAD in FY 05.

Additional Data Collection and Analysis

Additional analysis will be required to determine the relationship between:

- Trade policy reform and macro effects on sales and employment
- Cleaner production investments and subsequent cost savings leading to sales
- The indirect benefits of increased sales and employment from institutional development in trade administration (ROO/Risk management/SPS) and GOES programs to support competitiveness
- Loans made and expected economic activity (e.g. growth in sales and employment.)

In addition, during the development of alliances or scopes of work to attract alliances, the expected results will be estimated or negotiated with partners.

IV. PLANNED INTERVENTIONS

Program Summary

USAID's CRECER 21 will contribute to increased competitiveness and productivity in El Salvador and take advantage of domestic, regional, and international trade opportunities—specifically those created with CAFTA—in order to stimulate economic growth and expand job creation.

A better policy and regulatory environment and more efficient government programs to support the growth of SMEs will improve both exports and stimulate domestic and foreign investments. The ability to administer CAFTA and other trade agreements is vital to taking advantage of increasingly globalized trade. This includes administration of rules of origin (ROO) and risk management requirements, improved monitoring of basic Sanitary and Phytosanitary (SPS) standards and modernizing the use and control of pesticides to improve food safety. The proper implementation of ROO and risk management determines preferential tariff treatment and an efficient SPS system facilitates imports and exports. Both capacities are critical to the effective functioning of trade among CAFTA countries—the US (67%), Guatemala (11.5%), and Costa Rica (3.6%) alone represented just over 82% of El Salvador's imports in 2002. Removing market access barriers that hinder expansion of public and private sector investments and increasing exports are also key priorities. To improve the business climate for SMEs, USAID will provide technical assistance and training to identify and help remove three barriers to trade and investment. Initial areas of focus may include promoting the use of commercial arbitration as an alternative mechanism for resolving contract disputes outside of the formal court system. Two additional programs will be developed in consultation with the GOES and private sector. As part of its trade capacity building efforts, USAID may consider promoting voluntary labor standards. Finally, USAID will also help the GOES promote fiscal policy reforms that will lead to increased tax collections and improved tax administration. This will help in part to offset the reduction in tariff revenues from CAFTA and raise resources for essential GOES priorities in social sector investments¹.

Improvements in the business skills of SMEs and increased access to appropriate technologies and financing will contribute to more efficient and productive agriculture, manufacturing and service sectors that need to compete in a global marketplace. Greater business linkages, improvements in product design and packaging and decreased production costs will make Salvadoran goods more attractive in international markets. SMEs often have limited ability to manage efficiently and offer only a limited range of quality products and services. The lack of adequate management and planning skills also restricts SME's and agriculture related enterprises access to financial services and inhibits their ability to improve processes and expand sales. USAID will help selected SMEs with potential to expand and be more competitive by: 1) implementing more efficient management practices and improving basic 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 alliances with large companies and investors and through a technology innovation fund; 4) helping promote business relationships between suppliers, producers, wholesale distributors and retailers to strengthen clusters, develop business opportunities, and form new business alliances, 5) when appropriate, helping SMEs become

formalized business entities; 6) working with selected firms to help develop bankable loan applications to obtain financing for business expansion; and 7) helping private enterprises increase adaptation of cleaner production and energy efficiency technologies and practices to improve profitability, reduce pollution and increase access to markets. This approach to SME development, combined with technical assistance on loan processes, should help selected SMEs address financing obstacles under the following Result.

In order to increase demand driven lending to SMEs, USAID will assist the financial sector to offer new and better services and demonstrate that appropriate SME lending is good business. There are over 500,000 SMEs in El Salvador, generating one-third of GDP. SME financing for projects that will increase sales and jobs is limited with approximately 45% of companies having access to credit or other financial services. SMEs face significant constraints to obtaining capital for equipment and technology investments, which are needed to grow the economy. Bank supervision and requirements are not considered a constraint to increased lending; but rather banking practices and risk aversion are constraining lending to small businesses. Risk-averse lending practices, through high collateral requirements and interest rates, and short repayment periods prevent many SMEs from obtaining credit. Poorly structured loan applications are also a constraint. While banking institutions have liquidity, banks believe SMEs are high risk because many operate informally and lack long-term budget/capital planning, cash flow management, and management capacity. Nevertheless, several banks surveyed by USAID in June 2004 expressed strong interest in increasing lending to SMEs. USAID will help SMEs increase access to financial services by improving financial institutions' understanding of SME needs, assisting banks and other financial institutions to introduce new products and more appropriate management technologies, and by looking for ways to reduce lending risks. USAID will focus on those SMEs with the greatest potential at creating jobs and increasing trade opportunities. Other potential SME financial resource pools are non-bank financial institutions (NBFIs) and remittances. USAID will complete assistance started under the previous strategy through the Rural Financial Markets Activity, and provide focused support to help up to two NBFIs become regulated. This will allow the two NBFIs to capture savings and borrow from commercial sources, increasing their capacity to lend to micro and small enterprises. In order to address a key bottleneck and stimulate lending to SMEs, USAID will consider a \$20 million DCA loan guarantee for banks and other financial institutions committed to this market segment for demand driven investments in equipment and business expansion, water investments, cleaner production, or other business uses.

Better watershed management including more transparent and efficiently run watershed organizations as well as increased leveraging of investments in conservation and water systems will lead to higher quality and a more reliable water supply for human, agricultural, and industrial use. In addition, with more potable water and better sanitation, El Salvador's work force will suffer fewer health problems, leading to increased productivity and lower health care costs. Increasing local capacity to manage and conserve a watershed (such as the Upper or Lower Lempa) is key to providing water for many Salvadorans. The watershed also 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 municipalities concerned with watershed conservation, sanitation, 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. This component will be designed in FY2005.

Development Alliances

The private sector, foundations, and other major donors will invest significantly more resources in El Salvador than USAID. These investments can generate major improvements in economic performance, job creation, and natural resources management. In order to generate greater impacts from the USAID funded program, the Mission plans to leverage new resources where possible, and develop strategic alliances within CRECER 21. We plan to leverage contributions under cost-share/matching regulations/provisions as well as with memoranda of understanding (MOU). With the MOU approach, we will seek private sector indications of the leveraged sources of funds, expected programmatic impacts, etc. within the USAID award, but not have them subject to the cost-share/matching regulation/provision.

The key scopes of work under CRECER 21 will be developed through public announcements for the areas of interest for which we are seeking partners. We will seek alliance partners early on in the development of the scopes of work to allow flexibility to adjust the focus of the work when it is in USAID's interest to either co-fund activities or avoid duplication of efforts. We will seek expressions of collaboration, but we do not plan to use open-ended Annual Program Statements (APS).

Alliances, which are described in each sub-component below, will help a) address trade and investment barriers, b) improve the competitiveness and business linkages of SMEs, c) improve the competitiveness and business linkages of agricultural enterprises, d) expand the use of market based, private sector led approaches to cleaner production, and e) develop bankable projects to take advantage of the proposed loan guarantee.

Gender and disability issues

In order to address gender and disability issues, the Strategic Objective team and the program implementers will undertake data collection, analyze how programs can be adjusted to address gender and disability needs, and tailor assistance as needed to reduce gender bias and to increase access for the disabled. The general data collection and analysis will be undertaken as part of the baseline studies and as part of each implementer's work plan. Each policy study will address gender issues as a specialized theme. In the competitiveness program, data collection and analysis will be disaggregated for sex and will address the type of questions detailed in Annex 1. For example, USAID's EXPROTECH, AgriTech and other implementers will evaluate if men and women are farming or managing businesses differently, determine their roles in the sub sector of the economy and evaluate the type of services and assistance they need. Technology interventions will be designed with the different applications that men and women might make with the technologies. In the access to finance component, data will continue to be collected about the financial needs of men and women, what percentage of SME owners are men or women, how can assistance be targeted and bank instruments be developed to meet both parties needs. The analysis will address how men and women can be evaluated as credit risks to reduce bias and gender discrimination.

Environmental Considerations

CRECER 21 will not support activities that can cause environmental damage and will undertake an Environmental Assessment for the proposed work with pesticides in the new agreements in

agriculture under AgriTech and, if new pesticides are proposed by Fintrac, under the IDEA extension. Environmental guidelines and procedures will be updated for the small-scale infrastructure activities. The recommendations of environmental analysis will be incorporated as part of the scopes of work and guidance to contractors. While USAID ExproTech21 and AgriTech21 technical assistance and training are categorically excluded from environmental analysis, the contractor will be required to evaluate the potential environmental effects and sensitivity of working with each enterprise. If this evaluation indicates a potential environment issue, the contractor will be required to inform USAID in writing and seek approval for either continuing work or conducting an *environmental analysis of the potential impact*. Proactive efforts to improve the environment will be undertaken to improve watershed management, modernize the use and registry of pesticides and reduce food contamination, and promote cleaner production. The promotion of 'green certification' for products will also be part of the competitiveness efforts, particularly as it relates to organic coffee, organic food production, organic products and environmentally sustainable production schemes such as the Rainforest Alliance seal. If environmental issues are identified as a barrier to trade and investment, then CRECER 21 resources can be used to analyze this problem and work with the GOES and private sector to eliminate this barrier.

DETAILED DESCRIPTION OF ACTIVITIES TO ACHIEVE EACH IR AND SUB-IR

Result 1: Laws, Policies, and Regulations that Promote Trade and Investment - \$11.5 million (IR 2.1)

Three broad interventions will help improve the business environment for trade and investments: 1) implementation of key requirements of CAFTA and other trade agreements, including ROO/Custom Valuation and Risk Management administration and SPS monitoring; 2) Removal of barriers to expanding public and private sector investments and increasing exports, and 3) Promotion of fiscal policy reform leading to increased tax collection.

- Implementation of key requirements of CAFTA and other trade agreements and to improve the trading system (SUB-IR 2.1.1)
 - Administration of ROO Requirements and instituting a risk management system

USAID assistance for ROO and risk management will strengthen the capacity of the MOF's CSTA officials in charge of ROO and customs procedures to fulfill responsibilities and requirements under Free Trade Agreements (up to \$1.9 million). This assistance will be provided within the USG interagency framework for cooperation prepared by USAID and approved by USTR and the Department of Commerce (Annex 2) and expanded for El Salvador in July 2004. USAID's assistance on ROO, customs valuation, and risk management will focus on 1) improved ROO administration, 2) developing and implementing a risk management system, 3) implementing classification and valuation procedures, 4) generating more reliable, useful public information, 5) adopting streamlined procedures to expedite "speed to market" and other time sensitive shipments, and 6) selectively improving the legal and regulatory framework. The first step in developing a workplan for institutional development will be to conduct an institutional diagnostic of customs officials needs to set up and run an integrated ROO, customs valuation, and risk management system. Based on this, USAID will provide technical assistance and training for the proper implementation of priority reforms.

USAID El Salvador will work closely with the GOES and USAID's LAC and Central American Regional Program to identify task/activities as well as resources and to promote an integrated and complementary approach to the system. USAID will develop a plan for ROO/risk management implementation and the necessary steps for establishing the legislative and regulatory framework. Third, a program that addresses customs valuation, classification, and risk management needs to be an integrally linked system. In order to establish a fully functional ROO and risk management system, additional support from other parts of the USG and other donors will be required, which will be sought through the CAFTA Trade Capacity Building Committee. Support for customs harmonization and integration will be provided under the USAID Regional Program Plan (G-CAP and E-CAP.)

- Strengthening the capacity to address selected SPS standards

USTR, USDA and the CA governments defined a framework for cooperation at the December 2003 round of CAFTA negotiations (Annex 3) and elaborated by USDA, USAID and USTR in July 2004 (Annex 4). The regional priorities were identified as 1) the development of an SPS regulatory information system, 2) upgrading the laboratory infrastructure and analytical methods capability 3) strengthened WTO/SPS enquiry points at MAG and OIRSA, 4) development of animal health, inspection and sanitary standards for animal products, 5) development of risk assessment methodologies and risk mitigation treatments, 6) US-CA academic exchanges in food safety regulatory systems, 7) participation in international standards setting organizations, and 8) follow up work to harmonize the control, use and registry of pesticides. USAID, USDA, and other donors are providing some of the assistance to meet the needs of the CA based on this framework. USAID/EI Salvador's recently started SPS activity will establish a solid foundation for the development of this SPS effort and provide further input to refine interventions in this area. The assistance will be developed and implemented in coordination with USDA support for SPS modernization, USAID's new regional SPS work with MSU/PFID, an existing interagency agreement with USDA, support to El Salvador from the IDB, and other donors. Our bilateral resources will be supplemented with Regional program plan support for SPS.

Of these activities, USAID/EI Salvador plans to provide up to \$1.75 million to help the GOES harmonize and modernize the control, use and registry of pesticides. In order to do this, USAID will help MAG improve its pesticide registry, in coordination with MARN. The work will include training of GOES officials in MAG, MARN and the Ministry of Health in a) environmental and health risks associated with improper pesticide use, b) developing and implementing improved regulations and monitoring of pesticide use, transport, storage and disposal, c) building the capacity of MAG staff to search international (primarily the US, Europe and other major trading partners) data bases and web pages to stay current about changes in the status of regulatory control, and d) identifying and reducing pesticide residues, in accordance with the EPA guidelines for domestic and export foods. If there are funds available after costing out the pesticide management scope, limited assistance might be provided, to strengthen one additional aspect of the SPS system in coordination with the US interagency process and assistance from other donors. Assistance options will be evaluated by USAID in FY 05. Possible areas of assistance might be training inspectors in plant and animal health, pasteurization certification, or good manufacturing practices jointly with the private sector (see AgriTech below).

- Removal of barriers to expanding public and private sector investments and increasing exports (SUB-IR 2.1.2)

Based on consultations with the office of the Vice President, the Ministry of Economy (MinEc), PROESA-EXPORTA, and private sector organizations, USAID will help the GOES carry out policy analysis and promote public/private policy dialogue to identify and address three key barriers to trade, investment and exports. USAID will provide up to \$3.1 million to assist the GOES and the private sector with technical assistance, training, and policy analysis/implementation. The barriers to be selected should be critical to investments or exports. Assistance to remove investment barriers will be limited to those activities that do not result in job relocation by US industries to El Salvador. In addition, USAID will seek to leverage resources from the GOES and other donors.

Based on initial findings, USAID, the GOES and the private sector have identified an illustrative list of possible barriers:

- Working with the Salvadoran Chamber of Commerce and MinEc to expand the development of arbitration and the use of alternative dispute resolution mechanisms to resolve commercial conflicts.
 - Improving commercial laws and regulations so that they are consistent with sound commercial practices and reduces biases against SMEs (e.g. unfair import competition such as dumping or illegal subsidies, unfair use of safeguards). The new antimonopoly law might be an area to develop the regulatory environment for improved competition.
 - Removing technical barriers that impede speed-to-market exports
 - Drafting legislation and regulations for a bankruptcy law for commercial businesses, focusing on streamlining the procedures and improving judges and lawyers knowledge about procedures.
- USAID may consider promoting voluntary labor standards (SUB-IR 2.1.3)

Development Alliance: Since the removal of trade barriers will generate both a general economic benefit and can be of direct benefit to the US and Salvadoran private sectors, USAID will seek to develop strategic alliances to implement this sub-component. By leveraging additional support, it may be possible to identify and remove more trade barriers. With the MOU approach, we will seek private sector indications of leveraged sources of funds, expected programmatic impacts, etc. We will seek MOUs with the US private sector with current or potential interests in El Salvador. Contacts will be developed with AmCham, the US Business Coalition established for CAFTA, FUSADES, and other private business organizations and associations.

- Baseline and analysis

Up to \$500,000 will be used to establish baseline information and data in support of the Mission's monitoring and annual reporting. The contents of the baseline analysis will apply to all interventions under CRECER 21. They will be developed in consultation between the technical office and the Strategic Development Objective Office.

- Promotion of fiscal policy reform leading to increased tax collection (SUB-IR 2.1.2)

During the 1990s, USAID helped the GOES improve both tax policy and administration. Over the past two years, USAID technical assistance and training focused on improving the capacity of auditors and Information Technology (IT) systems to promote higher voluntary tax compliance and reduce tax evasion¹⁰. Tax revenues as a percent of GDP increased from 8.6% in 1988 to 11.6% in 2003 in part because of USAID support. Tax avoidance and evasion are important

national issues. Finally the GOES estimates that revenue collections will decrease during 2005-2019 because of the gradual tariff reductions under CAFTA.

Given the potential initial losses in revenues related to trade liberalization before trade led growth increases and the need for increased investment in social sectors, the GOES plans to continue improving tax collections without raising the IVA. In order to improve revenue flows, the MOF plans to implement the recommendations from the USAID technical assistance and training provided to the MOF during October 2002-June 2004³. The recommendations include reforms to tax laws and other related legislation and regulations as well as measures to further improve tax administration. Also, the MOF has prepared additional tax reforms, which are of great value to improve revenue collection.⁴

Under the proposed (\$4.25 million) intervention, USAID will help the MOF increase revenues by improving tax administration and planning, tax harmonization, help them implement tax policy and reforms, and better use information technology. USAID will provide technical assistance and training primarily to the Directorate General for Internal Revenue (DGII) and will assist the GOES to develop new legislation to address loopholes and move the fiscal reform forward. USAID will provide technical assistance to review and monitor tax administration effectiveness and recommend corrective practices where appropriate in order to assure sustainability of improvements.

In regards to tax administration^M and planning, USAID assistance will help: (1) improve tax laws and regulations to reduce excessive administrative burdens on DGII, enhancing DGII's enforcement responsibilities, and providing autonomy to DGII to decide on budget and organizational issues to better handle its responsibilities—concentrating on minimizing tax evasion and avoidance in order to increase tax collection significantly; (2) improve institutional capacity, organizational structure, planning, and management—to improve the audit function, and (3) provide advice and limited IT hardware and software to support the establishment of new offices such as Tax Delinquents at DGII, Tax Analysis at the MOF level and the Tax Investigations Unit.

Harmonized tax systems and policies are more likely to attract foreign investment and to increase trade. USAID will help the GOES identify methods to exchange taxpayer information—while protecting privacy rights—and tax policy best practices. Promotion of regional harmonization could lead to more cost effective tax administration and avoid duplication of efforts. Further, the development of El Salvador's new tax policies can add to Central American regional harmonization by allowing countries to share information on efficient laws, policies, regulations, processes, and procedures.

In the area of tax policy, support can be provided for the design and implementation of key reforms of core tax laws, i.e. the tax administration law (Código Tributario), income tax, VAT, and excise tax (alcohol, cigarettes, non-alcoholic beverages and beer), which the MOF plans to reform⁵. The reforms are designed to (1) make tax evasion a punishable crime by substantial

³ See the Project Completion Report, June 2004. Tax Administration Project in El Salvador. USAID/El Salvador, Task Order PCE-I 808-00-00-00014-00

⁴ See attachment on tax reforms to the Project Completion Report. The list of measures contains both project recommended measures and measures developed by MOF. IMF was provided with copy of the reforms and indicated support for measures contained.

⁵ Although the MOF knows what to reform, it does not necessarily know how to implement the reforms --or how to appropriately write the reforms.

fines, incarceration or both; and (2) widen tax bases through eliminating tax loopholes and setting up sound exemptions.

USAID may provide follow up technical assistance to improve information technology management for tax administration. This could include (1) improving the use of information and communication technologies to expand taxpayer information and analysis to cross-reference in order to increase the likelihood of discovering fraud, evasion or avoidance of tax liabilities; and (2) designing IT equipment systems and developing appropriate software and applications to upgrade audit functions and increase the likelihood of detecting tax delinquents, tax evasion and avoidance.

Result 2: More Competitive, Market-Oriented Private Enterprises - \$37.2 million (IR2.2)

Four synergistic interventions will help develop more productive and competitive SMEs able to take advantage of trade opportunities, grow and expand employment: (1) Export Promotion and Technology Program (USAID ExproTech21); (2) Agriculture Development, Marketing and Technology (USAID AgriTech21); (3) Improved enterprise processes through cleaner production and energy efficiency; and (4) Small infrastructure activities. Beneficiary SMEs are businesses with more than 10 and less than 100 employees as well as individual farmers. However, we will work with promising micro businesses that have significant potential to become small enterprises within two years. On a case-by-case basis, medium sized companies will continue to be eligible for assistance if they grow beyond 100 employees. Because it will be demand driven the cleaner production program should be able to work with large companies in addition to SMEs. The Mission will develop other criteria for eligibility that takes into account the financial value of the enterprise, gender, promotion of disability employment, among other factors.

- Export Promotion and Technology Program (USAID ExproTech21) (SUB-IR 2.2.1, 2.2.2, 2.2.3)

This proposed \$18.15 million program will increase exports of SMEs, promote access to markets, help build long-term business relationships among enterprises, improve El Salvador's (both the GOES and the private sector) capacity to facilitate exports, and seek to leverage private sector and donor resources to improve SME competitiveness. This program will help USAID (a) complete some of the work begun under the last strategy, and extend the USAID EXPRO activity through June 2006 and the Aid to Artisans Cooperative Agreement through the end of February 2006 as part of a bridging action and (b) expand on previous interventions to significantly increase export sales and related job creation and increase access to technology and financing. While USAID's resources for ExproTech21 will focus primarily on business development, marketing, and sales of products, we will work with the private sector to look for leveraging opportunities to achieve the broader objective of increasing sales and jobs.

USAID's ExproTech21 intervention will work with the private sector, business associations and the GOES to strengthen business capacity, increase sales and jobs, and expand access to appropriate technologies. This will be achieved by continuing the efforts developed by USAID's EXPRO program that is strengthening the GOES institutional export promotion capacity and current instruments, improving access to market information and increasing business contacts; analyzing market and commodity trends and product requirements (HACCP, etc); improving business skills and management practices; improving plant process and production efficiencies; promoting participation in trade fairs to identify opportunities as well as increase sales; increasing linkages with larger companies to be product and service providers, increasing

access to technology and innovative business practices through a technology innovation fund. Some training will be provided through cost sharing training grants at local business schools such as ITCA or FEPADE. USAID's ExproTech21 will leverage funds to help co-finance SME export plans, and improve business plans and loan applications to gain access to credit (in coordination with IR 2.3).

- o USAID EXPRO Extension

The Mission plans to fully fund the activity (\$1.5 million) and provide for a one-year \$1.25 million extension of the EXPRO contract with Nathan Associates, which will work closely with the private sector business associations and coordinate with the GOES to strengthen the business capacity, increase sales of SMEs and generate more jobs. We will continue to provide access to market information and business contacts; improve business skills and management practices; improve plant process and production efficiencies; promote participation in trade fairs to identify opportunities as well as increase sales; increase access to technology and innovative business practices; manage a cost sharing export promotion fund and try to leverage private sector investments that will lead to increased competitiveness. The bridging activity will allow the Mission maintain precious momentum gained with the TCB CAFTA process, as we transition into ExproTech.

- o Handicraft Sector Development Extension

Subject to the approval of a waiver of competition for a cooperative agreement, the Mission proposes to support the further development of the handicraft sector, an important source of rural employment, through an eight-month, \$500,000 bridging extension for the handicraft sector being implemented by Aid to Artisans. Aid to Artisans will continue working closely with private handicraft companies and producers to strengthen their business capacity and increase sales by providing access to market and design information, increasing business contacts; improving business skills and management practices; improving plant process and production efficiencies; and promoting participation in trade fairs to identify opportunities as well as increase sales.

- o USAID ExproTech21

This proposed \$14.9 million intervention would increase domestic sales and exports of products. The priority interventions are increased institutional export promotion capacity in the GOES, increased access to markets, improved enterprise development, improved innovation, product design and adoption of technology, and enhanced sales management and business linkages, and leveraging additional resources.

- Institutional Development

The sustainability of export development in the country largely depends on the GOES's ability to effectively coordinate and finance its export promotion instruments to access international markets with the capacity of private sector organizations to offer adequate business development services that satisfy the needs of SMEs to develop a solid export base.

The GOES is in the process of restructuring its export development policy. Part of the export instruments will remain under MINEC's responsibility and others will shift to the recently created export promotion agency EXPORTA, which is under the Vice

President's direct supervision. In an effort to continue USAID's support for strengthening the GOES' institutional export promotion strategy, the program will closely coordinate activities with the GOES, and provide them with technical assistance, training, information technology and other resources needed to support implementation of their export policy. In addition, through alliances with business associations and other private sector organizations, USAID ExproTech will implement programs to enhance capacity to generate and provide business development services for SMEs, ensuring long-term sustainability of export activities.

- Access to Market Information and Market Development

USAID ExproTech, in coordination with GOES will try to improve access to market information and increase business contacts using part-time, program funded marketing consultants network, which could operate in target cities in the U.S., México, the Caribbean, Europe and Far Eastern Asia. These consultants will not be an extension of the MinEc's or PROESA's foreign commercial staff, but will be project business consultants. The representatives will assist GOES and the program in the development and implementation of marketing strategies for priority Salvadoran export products; provide market intelligence derived from the broad regions assigned to each team member; identify and facilitate Salvadoran participation in suitable trade shows and commercial missions; and build linkages between Salvadoran SMEs and other foreign firms, importers and distributors.

USAID ExproTech will develop additional market/product analysis and studies for analyzing sector trends and product requirements as needed to increase the ability of SMEs to understand demand and trends in export markets. It will improve an information system developed under USAID EXPRO to disseminate market research results and increase information flows to businesses regarding free trade agreements and other business topics. Specific databases, hardware and software will be acquired to strengthen this information system, which by the end of the program will be installed at GOES' export development institutions.

- Enterprise Development

The export sector is constrained by the poor capacity and skills in product development, business planning, fund management, procurement of products and services, formulation of export plans and bankable projects. Employees lack good English language and technical skills to comply with international market requirements. Critical items such as laboratory analysis, quality certifications for organic products, consumer's tastes and preferences, and other aspects related to marketing and international trade practices are not considered by SMEs when planning to enter new markets.

USAID ExproTech will also be responsible for managing an export promotion fund to collaborate with, and provide grants in coordination with the GOES' current funding mechanisms such as FonTech, FOEX, or the Technical Assistance Fund (FAT). These funds will be used to co-finance technical and commercial assistance, training and technological adaptations and innovations for SMEs. This fund will be about \$1 million per year and require a 20-50% cost sharing arrangement with private sector users. It will help SMEs to improve their business skills, management practices and in selected cases English language skills through the cost sharing grants. This can be done through local consultants and training institutions, including ITCA, ISEADE, as appropriate. In

addition, ExproTech will foster groupings of businesses in clusters, associative units, export conglomerates or trading companies in order to have a more integrated approach to the market, generate additional export capacity and lower costs through economies of scale.

Since access to credit and other financial services for SMEs are still very limited, USAID ExproTech will assist a limited number of SMEs to prepare sound and bankable project loan applications to facilitate their access to commercial bank financing for export activities. This assistance will be closely coordinated with the planned assistance to the financial sector under IR 2.3.

ExproTech will leverage funds through alliances with business associations, other private sector organizations, and GOES institutions. It will implement programs to enhance the capacity of: business development service providers and local business consultants. Business associations and other private sector organizations will be trained to assist in close coordination with the GOES export promotion agency, groups of SMEs in developing export platforms to different target markets. Other service providers will be incorporated in the platforms based on SMEs specific services demanded.

- **Innovation and Product Development**

Private sector design centers can help SMEs achieve savings in product development time and cost reduction and expand quality and enhance the perceived value of products by consumers. They can generate profits resulting in increased wages and better benefits for their employees. In order to promote innovation and technological development, the program will foster private sector creation of design centers for SMEs. These centers will house marketing, design and product development teams to drive strategy and design of individual products; generate local capacity; and develop innovative design solutions stemming from the synergy of housing different design capacities under one roof. ExproTech will help establish these private design centers, but the private sector will fully finance their operation.

The program will increase SME access to technology and innovative business practices. It will provide, in coordination with GOES funding mechanisms, and grants under the export promotion fund, co-financing for technology adaptation and innovation initiatives. SMEs will have a valuable tool not only for improving their business operations and accessing international markets and market information, but also for (a) making technological adaptations to expand production and reduce costs; (b) improving process engineering to achieve higher efficiency and productivity; and (c) developing innovative designs and product prototypes and testing them in the marketplace. SMEs will have to finance equipment with their own funds or through financing under the DCA loan guarantee (see Result 3).

- **Export and Sales Management**

Once SMEs are exporting, it is important to insure that the exporting process will be sustainable over time. For this reason, USAID will assist SMEs to: (a) improve their export process and sales management to comply with market requirements; (b) improve their abilities to invoice and collect credits granted to clients; (c) use export credit insurance effectively; (d) understand the importance of logistics; (e) select sales representation in foreign markets; (f) develop effective merchandising mechanisms to

support distributors; and (g) adequately manage customer relations and after-sales service. Export sustainability depends on the profitability of the transaction, the strength of the exporter-buyer relationship, and the after-sales support received by the buyer.

- **Development Alliances and Leveraging Funds**

USAID will work with the private sector, foundations, donors, and through cost-sharing programs to leverage greater program impact. USAID will try to leverage funding that is equal to or better than 4 to 1 throughout the program. Because the development of SMEs, particularly suppliers of goods and service to large chains and investors will help speed up economic activity and will lead to general economic benefits and can be of direct benefit to the US and Salvadoran private sector, USAID will develop strategic alliances to implement this sub-component. By leveraging additional funding, we will be able to increase growth, job creation and possibly stimulate investments. We plan to leverage contributions under both cost-share/matching regulations/provisions and memoranda of understanding (MOU). We will seek MOUs with the US private sector with current or potential interests in El Salvador as well as Salvadoran organizations. Prior to the final preparation of the scope of work for USAID ExproTech, USAID/EI Salvador will have contacted the private sector, either directly with AmCham, the US Business Coalition established for CAFTA, FUSADES, and other private business organizations and associations or with a public announcement. While we prefer to work in parallel with potential partners through an MOU, we may fund potential partnerships through a grant-like mechanism under the contract for USAID ExproTech.

As mentioned above, USAID will manage a cost sharing fund of approximately \$1 million per year, which will operate on three levels: First, grants can be provided to match other donors or private investments to achieve USAID's program objectives on a minimum of 3 to 1 leverage for selected investments. For example, if the private sector were willing to invest in a university strengthening investment that would produce better trained business leaders and owners, then USAID might provide scholarships for participants to receive training. For assistance to companies for access to technology or business services, grants would be either 50/50 for companies with existing export business or 80/20 to develop the capacity and entry into the market.

- **Agriculture Development, Marketing and Technology (USAID AgriTech21) (SUB IR 2.2.1, 2.2.2, 2.2.3)**

This proposed \$14.6 million activity will help enterprises increase domestic sales and exports of non-traditional, high-value agriculture products. In addition, the intervention will improve value added processing, increase access to markets, build long-term business relationships and introduce new agricultural technologies. It will stimulate job creation and increase sales of horticulture products including short-term cycle fruits, vegetables, ornamental plants, tropical flowers, specialty coffee, as well as tackle SPS issues facing private producers. USAID AgriTech21 will focus primarily on addressing key production constraints, business development, marketing, and sales of agriculture products. We will try to leverage private sector and donor resources to improve agriculture sector competitiveness.

- **USAID IDEA Extension**

Subject to the approval of a waiver of competition, USAID plans to extend the IDEA program being implemented under a cooperative agreement by Fintrac, Inc for an additional year (to

June 30, 2006). The IDEA program extension will continue current efforts that help farmers increase their incomes, generate rural employment and promote economic reactivation in the countryside. Assistance will continue to help farmers identify and meet market demand, improve reliable high quality production of fruits, vegetables and other horticulture products, increase access to technology through a technology innovation fund, meet market requirements for selected exports, analyze market trends, and identify best practices for selected agriculture products. These achievements will support U.S. objectives of economic growth through free trade in accordance with CAFTA. The one-year extension and \$1.8 million of funding will generate the following expected results:

1. The number of direct clients will increase from 380 to 470;
2. Sales from participating farmers will increase by \$5 million;
3. Employment will increase by 800 permanent jobs and 500 temporary jobs.

o Specialty Coffee Extension

An additional \$550,000 of incremental funding will be provided to the GCAP led specialty coffee program for CA managed by Chemonics. This extension will complete the on-going work to increase the sale of high quality and specialty coffee by an additional \$2.5 million, equivalent to approximately 50 containers of exported beans. The program will continue to support producer groups, cooperatives and exporters to focus on quality (at the farm and mill level), and promote new business contacts and alternative mechanisms for selling coffee such as electronic auctions, and certifications. Additional private sector funds will be sought to increase funding available to the coffee sector.

o USAID AgriTech21

A new \$12.25 million Agriculture Diversification and Marketing Program (USAID AgriTech21) will work with farmers, individual agribusinesses and private sector business associations to strengthen their technical, marketing, production, and processing capacities leading to increased jobs and sales, either for domestic or export markets. The overriding goal of AgriTech will be to increase the income of small and medium agricultural producers and agribusinesses on a sustainable basis, while generating employment in rural areas. El Salvador imports in fruits and vegetables are estimated to be over \$100 million and significant opportunities exist for Salvadoran agriculture producers to meet this internal market demand. AgriTech's development model is based on starting with understanding and then meeting market demand for both primary products and valued added processed agriculture goods. Under AgriTech, individual producers will acquire the knowledge, skills, tools and business linkages to buyers to grow new products in commercially viable volumes.

AgriTech will seek development alliances with private investors, the private sector, US PVOs, and donors. We will build on lessons learned from the current USAID funded program implemented through FINTRAC, CLUSA, Chemonics, etc. AgriTech will play an important role in focusing resources on the non-traditional agricultural sector, including specialty or differentiated coffee, by identifying farmers and agribusiness that are willing to invest in new ventures or would like to modernize their current operations and expand their businesses. We will seek to transfer the best practices of IDEA, the Specialty Coffee program and successful elements of AgriTech to MAG and two local agriculture NGOs so that these successful approaches can be replicated.

- **Non-traditional Agriculture Development**

In order to create a cadre of producers who can respond to market demands and can effectively compete with imports from neighboring countries, USAID AgriTech will provide technical assistance, training, and a technology innovation funding to farmers and agribusinesses in the following areas: (a) sharing information and building the capacity to analyze market trends and demand by improving access to domestic market information. Market studies can be undertaken, but this type of analysis has been generally less useful in helping producers understand the market requirements. b) to improve knowledge of the buyer's requirements and to develop long-term sustainable business relationships, business contacts between producers and buyers /processors /exporters will be increased; c) access to new technologies and production practices are crucial for producers to improve productivity and competitiveness. However, access to technology is often limited by lack of funds. To overcome this constraint, USAID AgriTech will establish a cost sharing technology innovation fund at a level of no less than \$500,000 per year and seek development alliances from US businesses, NGOs, and Universities to expand access to appropriate technologies. Some agriculture producers and businesses have the potential to expand and/or improve their processing capacity. In addition, d) one of the key development stages for El Salvador agriculture sector is to increase the size and number of processing businesses that can form long-term relationships and issue contracts with small farmers.

- **Agriculture Value Added Processing**

Small and medium sized processing firms lack the knowledge and understanding on how to make improvements and innovations to their products in order to make them more attractive and safer for consumers. AgriTech will work with a limited number of processing firms to enhance their knowledge about improved supply of raw materials, post-harvest management, product packing and development, good manufacturing practices, etc. in order to make the firms more competitive.

- **Agriculture Export Promotion**

AgriTech will provide technical and/or marketing services to those firms with realistic potential and willingness to invest their funds in an export operation. Illustrative activities include: assistance on processing plant improvements to meet international standards, analyzing international market opportunities and product requirements for exports (i.e., bio-terrorism law for exports; quality standards; etc.); limited competitiveness studies of Salvadoran products, identification of buyers, and compliance with selected SPS and food safety standards. By forming international business contacts, USAID will seek to leverage business linkages through MOU type alliances with trading country businesses.

- **Agribusinesses Able to Meet certain SPS Requirements**

USAID AgriTech will also provide technical assistance and training to exporters and work with local business associations such as CAMAGRO, COEXPORT and MAG to help exporting businesses meet US SPS requirements. Priority attention will be paid to exporters that the private sector and the GOES consider to be a high priority for assistance to take advantage of CAFTA and other free-trade agreement requirements. Another important element will be to coordinate visits to the United States to agencies such as Customs, FDA, APHIS, etc. so that local exporters and GOES officials acquire

first-hand experience of the export and entry processes for their products. USAID will follow up on assistance being provided under a current contract for pesticide management, and work in several sectors, which includes dairy, pork, fruits, vegetables and ornamental plants. For efficiency and management purposes, SPS assistance to enterprises will be combined with SPS assistance to the GOES under IR 2.1.

- **Specialty Coffee**

USAID AgriTech will continue to assist Salvadoran coffee producers to strengthen their capacity to produce and increase their sales of specialty and high quality coffee. Programs to be sponsored include, but aren't limited to, the Cup of Excellence, Q auctions, certifications, marketing and nurturing business linkages. USAID will work with the National Coffee Council and private producers in this effort. Private sector alliances will be sought to increase long-term contracts for quality coffee, branding, and certification systems.

- **Institutional Development**

The sustainability of USAID AgriTech will depend on two major factors. First, the direct beneficiaries will have the near and medium term skills to improve the quality and reliability of products and will have developed medium to long-term relationships with supermarkets and other domestic and international buyers. Second, AgriTech will provide training and encourage joint operations with MAG and up to three key Salvadoran agriculture and agribusiness associations to a) extend the model first developed under the current IDEA program with Fintrac and its subsequent implementer, b) increase knowledge and business contacts within the domestic and international market, and c) transfer experiences and lessons learned in the use of technology investment funds to these organizations through the MAG and MinEc. The likely institutions are the Salvadoran Agriculture Chamber (CAMAGRO) and the FIAGRO Foundation. MAG and these organizations will have improved capacity to continue the AgriTech-type activities after USAID funding has ended, and therefore, promote sustainability. MOUs will be sought with any local organizations to collaborate with AgriTech.

- **Development Alliances and Leveraging Alliances**

USAID will work with the private sector, foundations, donors, and through cost-sharing programs to leverage greater program impact for AgriTech. USAID will try to find leveraged funding that is equal to or better than 4 to 1. Because the development of the agriculture sector can help to speed up the implementation of CAFTA, lead to general economic benefits and can be of direct benefit to the US and Salvadoran private sector, and because there has been a long-standing interest by US PVOs and other organizations in alleviating poverty in rural areas, USAID will seek to develop strategic alliances to implement this sub-component. By leveraging additional support, it may be practical to increase growth, job creation and stimulate investments. We plan to leverage contributions under both a cost-share/matching regulations/provisions as well as with memoranda of understanding (MOU).

Prior to the final preparation of the scope of work for AgriTech, we will have initiated contacts with the private sector, either directly with AmCham, the US Business Coalition established for CAFTA, and many private business organizations and US PVOs, and

associations or through public announcement, and through private sector participants in the Trade Capacity Building extended committee. While we prefer to work in parallel with potential partners through an MOU, we propose to fund potential partnerships through a grant mechanism under the contract for USAID AgrTech.

The program's technology innovation fund will contain up to \$500,000 per year and will provide other services to the Salvadoran agriculture sector on a cost-sharing basis. Like the ExproTech intervention, this cost sharing structure will operate on three levels: First, grants can be provided to match other donors or private investments to achieve USAID's program objectives on a 3 to 1 leverage for selected investments. For assistance to agriculture producers, the technology innovation fund grants would be provided on an 80/20 cost sharing or 50/50 for companies with significant business capabilities.

- Improved enterprise processes through cleaner production and energy efficiency (SUB-IR 2.2.2)

Economic pressures to reduce costs, government enforcement of environmental laws combined with incentives to promote environmental improvements, and market signals for environmental friendly products are key ingredients for promoting cleaner production and energy efficiency. The GOES policy and CAFTA support the expansion of cleaner production and energy efficient technology, which leads to environmental improvements, reduced energy losses, and improved profitability. This \$2.25 million demand driven program will assist the private sector to increase profitability and reduce energy and/or resource consumption. In order to help the private sector meet export requirements involving environmentally sound practices, USAID will a) work with MARN to prepare a cost effective incentive framework to promote cleaner production, b) strengthen the capacity of the Salvadoran Cleaner Production Center at CAMAGRO and selected private sector environment and energy service companies to be an industry advocate for, and provide services in, cleaner production, and c) increase the development of environmental management systems by the Salvadoran business and industrial sector. In order to achieve significant program impact, the Mission, in consultation with MARN and the private sector, will refine the focus to address a few key sectors with the greatest chances of reducing pollution or the consumption of energy. Cleaner production is defined as methods and business practices that reduce the use of resources, promote reuse of materials, and the recycling of materials in the industrial process. This has to be private sector led and therefore municipal programs will not be included in the program.

- Incentives for cleaner production

Short-term expertise, training, and study tours to US industries with cleaner production programs will be provided to selected MARN staff responsible for cleaner production to increase their practical knowledge of US practices. Follow up assistance will be provided to MARN to draft an incentive program for Salvadoran small, medium and/or a limited number of larger industries or businesses, present the proposed plan to MinEc and MOF, to host training seminars for Salvadoran private businesses to validate the incentives program, and prepare a communication plan to expand awareness about the program. Because cleaner production is generally an industry effort designed to improve process efficiency and profitability, the focus will be on introducing voluntary compliance mechanisms that take advantage of competitive market forces. Expertise will be sought from the US and other country's private sector to share experiences and identify best practices for cleaner production programs.

- o **Developing a cleaner production capacity**

If market forces and the regulatory environment generate demand for cleaner production, then an in-country capacity will be needed to provide cleaner production services. Some of those skills exist in the Salvadoran Cleaner Production Center (CPC) and in part in the consulting community. USAID will provide some assistance to improve the skills and management of the CPC and a few companies that can provide clean production and energy efficiency services on a fee-for-service basis. Initially, training will be provided through US private sector experts with industry experience in cleaner production and energy efficiency audits. This will be followed up with jointly undertaking environmental audits and developing an environmental management system along with the U.S. industrial experts. The CPC will be assisted to develop a business plan to be self-financing through industry donations, support through improved corporate responsibility, combined with developing a fee for service system. While developing an effective, self sustaining CPC will help provide long-term services and advocacy for cleaner production, the Salvadoran consulting community can be strengthened to work as part of a network of service providers through the CPC or independently to the private sector.

- o **Introduction of environmental improvements**

In order to introduce cleaner production and energy efficiency in El Salvador, USAID will begin by identifying strategic industrial sectors that have both environmental or energy issues and are willing to consider a 'win-win' approach to improved profitability and while reducing pollution. Experience with cleaner production shows that there are three key phases to a program to complement market forces and government incentives. These are the initial demonstration of a) environment/energy audits to show low cost/no cost investments that plants or businesses can make, b) developing a more intensive environmental management system in the industry or business sector, and c) meeting ISO 14000 series certification requirements to be able to sell higher value products. Under the cleaner production program, USAID's program will try to address the first two phases, putting into place a demand driven system that hopes to demonstrate the economic value of energy audits and low cost investments at the plant level. This effort will hopefully lead to developing an environmental management system.

- **Environmental/energy audits**

The environmental/energy audits efforts will consist of undertaking audits of up to 20 private SMEs. The audits will be conducted jointly with the CPC and US experts to identify no cost/low cost investments that a plant can undertake to increase savings and reduce pollution. If needed, small equipment grants of less than \$15,000 for monitoring equipment may be provided to participating companies to both demonstrate and measure improvements. Each participating enterprise will be required to set up an environmental management team to track results and identify potential future actions. As a precondition of the assistance, the participating company will be required to sign an agreement to make the no cost/low cost investments and to share results with other businesses and industries through a program sponsored seminar.

- **Environmental management program**

For a small number of firms, some drawn from the audit phase, assistance can be provided to develop an industry or business environmental management program. The

program will extend beyond the audits and help enterprises set up a long-term cost savings environmental improvement program for the industry or business. The long-term program may require modernization of processing lines and capital investments and participating enterprises will need to seek funding for these investments from their own sources. This may be leveraged by the regional program's cleaner production DCA loan guarantee or a subsequent DCA loan guarantee set up by USAID El Salvador. Participating enterprises will be required to disseminate the results of the program to other interested enterprises through workshops organized by the USAID implementer.

Development Alliance: Improvements in environmental conditions and introduction of private sector models for cleaner production and energy efficiency are a high priority for many US Government organizations and the US Congress. Assistance will be sought from US experts and we will try to leverage assistance from the US business community on a pro bono basis, in which USAID would pay for program management, travel expenses for volunteers, and cost share in-country expenses with the Salvadoran private sector and/or GOES. For example, we will explore the option of a cost sharing alliance with the US not-for-profit, NGO, the World Environment Center, which has a corporate network of US companies such as Cargill, Cemex, Borden, Black and Decker, Philips Electronics, ChevronTexaco, Abbott Laboratories, Bristol-Myers Squibb, amongst others. This PVO can access private sector expertise on a pro-bono basis and their in-kind contributions would far exceed USAID's ability to either afford or access these skills. We will also look at possible linkages with Universities. Additional research will be undertaken to identify other sources of leveraged expertise in this area.

- **Small-scale infrastructure (SUB-IR 2.2.2)**

Activities will improve small-scale infrastructure in selected communities to facilitate access of trade to market and lower business transaction costs. The \$2.2 million intervention will seek to improve rural productivity and/or improve rural access to markets by financing small-scale infrastructure carried out by local communities. USAID plans to co-finance 50 to 60 productive infrastructure projects, with a value of approximately \$40,000 to \$50,000, which have a 25 percent cost share requirement with local communities and donated design and engineering assistance from organizations such as FUSADES/Fortas and Fundamuni. Projects can include rural tertiary farm-to-market roads, small bridge or culvert construction; the repair of public roadways that provide access to commodity markets, community managed farm storage facilities, small-scale irrigation, and input supplies for small water systems. SIA will not fund social investment projects such as schools or clinics. The SIA program will coordinate closely with the implementers under AgriTech and ExproTech to maximize benefits and achieve more synergistic effects. The current SIA procedures will be modified to describe the new approach, linkages to other interventions, and technical review.

Link to broader access to financial services

The overall approach to SME development described above under USAID ExproTech21, AgriTech21, and Cleaner Production, combined with specific assistance to prepare loan applications, will serve to help SME obtain access to increased financial resources under Result 3 of the Activity.

Result 3: Broader Access to Financial Markets and Services - \$6 million (IR 2.3)

USAID's program will help increase lending to SMEs and further develop and improve the quality of financial terms and services (e.g., export credit instruments, medium- to long-term financing, lower interest rates, lower collateral requirements) available to SMEs by looking for ways to increase financial institutions' capacity to serve the SME sector. Planned interventions include: (1) Working with financial sector to increase levels of lending to SMEs and (2) possible DCA Loan Guarantee.

USAID hopes to work with financial institutions to increase their lending by \$70 million through approximately 4,500 new SME loans. This target is based on projections from PROPEMI/FUSADES and four banks surveyed by USAID. In total, these banks have nearly 9,000 SME loans outstanding. PROPEMI/FUSADES estimates that SME lending should increase by 10% a year over the next five years. With USAID assistance provided directly to the financial institutions, the loan guarantee, and technical assistance to SMEs to develop better bankable projects, at a rate of 10 percent of new SME loans per year, after five years 4,500 new SME loans will be generated. Furthermore, based on discussions with these banks, the average SME loan size is approximately \$16,000. If the average loan size in the future is similar, for 4,500 new SME loans, approximately \$70 million in new loans could be made.

- **Financial Institution Strengthening to Increase SME Lending and Further Develop and Improve Quality of Financial Terms and Services for SMEs. (SUB-IR 2.3.1)**
 - **Micro Finance Institution (MFI) Strengthening (FOMIRII)**

USAID will provide \$1.065 million to complete the DAI contract to strengthen financial institutions' ability to increase micro-enterprise lending by: (a) providing technical assistance to MFIs serving the rural micro-enterprise sector to help them achieve financial sustainability⁶, and expand and deepen coverage of rural financial services; (b) assisting key MFIs to comply with Superintendent of the Financial System (SFS) requirements for becoming regulated financial institutions; and (c) strengthening the microfinance industry through technical assistance and training; organizing conferences and seminars; producing and disseminating a sector bulletin and training a local organization to produce it; and conducting studies and surveys to enhance the ability of MFIs to make sound, well-informed decisions to best address the needs of the sector.

- **Micro Finance Institution Development**

Additionally, USAID will provide up to \$750,000 to assist up to two Non Bank Financial Institutions (NBFIs) to comply with the Superintendent of the Financial System's (SFS) requirements to become regulated so they can continue to expand financing to micro-enterprises⁷. Technical assistance to NBFIs will focus on updating their accounting and related software systems, building their management capacity, improving their information and communication technology, expanding their marketing strategies, and enhancing their ability to borrow from commercial sources.

- **SME Financial Product Development/Financial Institution Risk Mediation**

⁶ A financially sustainable microfinance program is defined as one that collects sufficient revenues to fully cover its operational and opportunity costs.

USAID will provide up to \$3.685 million to help financial institutions increase the loan volume to SMEs by strengthening their capacity to provide SME services and reduce risk aversion to SME lending in order to complement the assistance envisioned under IR 2.2.2 "More Competitive, Market-Oriented Private Enterprises," in which SMEs will be provided with training and technical assistance to improve their ability to develop bankable and creditworthy projects. As mentioned earlier, a number of banks that were surveyed by USAID in June 2004 expressed a strong desire to engage in SME lending but require some support in order to do so. Support to financial institutions may entail: (1) technical assistance and training to better understand SME financial statements, analyze and determine SME credit risk, identify and manage problem SME loans, and manage the SME credit process; (2) exposing key financial institution staff to best practice models of successful SME lending programs; (3) expanding marketing and promotional strategies targeting potential SME clientele; and (4) improving SME loan terms (e.g., decreased collateral requirements, lower interest rates, increased availability of medium- to long-term financing). When point out that when discussing improving SME loan terms, collateral requirements and interest rates are set by individual banks while reserve requirements are set by the Superintendent of the Financial System (SFS). Based on discussions locally, USAID believes that collateral requirements and interest rates are stringent and burdensome for SMEs whereas reserve requirements set by the SFS are more liberal. USAID intends to work primarily with financial institutions to improve SME loan terms.

- DCA Loan Portfolio Guarantee (LPG)

Development Credit Authority (DCA) gives Missions the authority to issue loan guarantees to private lenders covering up to 50 percent of risk on projects that advance strategic objectives. DCA assumes that private capital in developing countries is not being adequately mobilized and put to work to fuel economic growth. DCA is applicable when USAID identifies a sector that has a steady and positive cash flow but is still unable to access commercial financing. Through the extension of a partial guarantee, USAID EI Salvador will try to help local financial institutions overcome the market imperfection that is excluding financially viable sectors.

Missions design and implement DCA projects and pay for the cost of transferring funds from their own OYB to a Treasury reserve account. The cost (i.e., the mission subsidy) is determined by USAID/W risk analysts and ranges between four to ten percent of the amounts leveraged. Once the mission transfers the subsidy cost, the U.S. Treasury meets future obligations to the guaranteed financial institution. It is estimated that the subsidy cost to USAID/EI Salvador will be approximately two percent of the overall facility. This below normal subsidy cost is due to the Interagency Country Risk Assessment System (ICRAS) score that has deemed EI Salvador a country risk of six, well below the average ICRAS score of other USAID presence countries. In Central America, nearly all of the USAID host countries are rated an eight.

An LPG, together with targeted technical assistance, can introduce private lenders to creditworthy but underserved sectors, such as SMEs. Sharing risk with commercial banks can also stimulate innovation in their loan products, such as extending tenors, decreasing excessively high collateral requirements, and lowering interest rates. True risk sharing with private lenders, whereby USAID pays claims on loss of principal up to 50 percent, is designed to shift the principal burden for project implementation and oversight to the private commercial partner. By doing so, the financial institution has a significant incentive to do the due diligence and develop appropriate underwriting standards for the new sector/loan product. Moreover, the impact of the guarantee is more sustainable because the initial transaction costs of developing a new loan product and/or entering a new sector are sunk, and thus once the financial institution

realizes the profit from the sector, they have incentive to continue lending without USAID's guarantee. Based on in-depth discussions of the DCA LPG to a number of financial institutions, several institutions expressed interest in participating in the guarantee program to foster increased lending to SMEs.

Because USAID's use of guarantees is meant to correct for market imperfections, the use of technical assistance is invaluable. Technical assistance can come in many forms, but two of the most common are working with potential borrowers to improve their capacity to access the commercial market (as envisioned under IR 2.2) and supporting financial institutions as they develop new underwriting methodologies (as discussed in Result 1 above). USAID's technical assistance is part and parcel of a successful DCA guarantee. This is because the private sector finance groups see USAID's on-the-ground TA as an added insurance against the possibility of the deal going sour.

If there is adequate demand, the DCA mechanism will be structured in the form of a \$20 million LPG to a consortium of financial institutions for innovative services and products to: (1) catalyze lending in growth sectors such as SME exporters, SMEs that have the potential to grow into exporters or SMEs that will be suppliers to exporting companies; (2) support medium- and long-term financing for SMEs; and (3) finance water systems. By employing a competitive structure, whereby more than one financial institution has access to the guarantee, there is a financial incentive for the commercial institutions to utilize the guarantee more rapidly. This is because the origination fee is divided equally among the participants, with each financial institution receiving a ceiling that is below the overall ceiling. When the bank reaches its individual ceiling, it can petition USAID for an increase until the overall guarantee ceiling is reached. With this structure, the participating banks have incentive to utilize at least an equal percentage of the guarantee if not more because they have paid for it. For such a structure to work, it is necessary for USAID/EI Salvador to negotiate a fee that is sufficiently high enough to act as an incentive for the bank to utilize the guarantee and to ensure that adequate time is available to implement the LPG.

Development Alliance: USAID will seek to develop strategic alliances to implement this component by leveraging contributions under both cost-share/matching regulations/provisions and memoranda of understanding (MOU). We will seek development alliances with private companies, other donors and the local organizations to provide technical assistance to SMEs and financial institutions to take advantage of the proposed DCA LPG.

Result 4: Improved Management and Conservation of Critical Watersheds - \$9.8 million (IR 2.4)

Activities under this IR are yet to be developed and will be added to the AAD and SOAG in an FY05 amendment. They may include items from the following list:

- Formation and strengthening of key organizations (SUB-IR 2.4.1)

Groups will include municipal councils, large water users, and farmers to manage and improve water access and conservation

- Potable water system and latrine infrastructure (SUB-IR 2.4.1)

Leverage donor funds and the private sector for infrastructure projects

- 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)
- Possible advocacy to reform national water use and management policies (SUB-IR 2.4.1)

Field Support

One field support activity will be obligated in FY 04 through an OYB transfer to USAID/LAC/Washington for a \$200,000 Global Water Partnership program (Annex 5).

Sustainability Assumptions

The premise of CRECER 21 is that economic growth and job creation will be sustainable on a long-term basis when the private sector adapts new technologies, applies new skills, gains access to markets and creates business linkages on the basis of market principles. It is assumed that partners and beneficiaries are profit seeking and they will apply sound business practices. Further, it is assumed that success will be achieved if CAFTA is ratified by the United States and Central America. If CAFTA is not ratified by the US or El Salvador, then sustainability will be at risk for some interventions. For example, compliance with the requirements of CAFTA, i.e., rules of origin and improved SPS practices will still be needed but their importance will decrease. In this case, USAID might need to work with counterparts to redesign and re-budget some of the activities. Further, since the U.S. is El Salvador's major trading partner, it is assumed that the growth of the Salvadoran economy will continue to be linked to the growth of the US economy. In this case, there will be a need for El Salvador's businesses to diversify their market channels to be able to withstand any economic shock that might arise from major changes to the U.S. economy. Any work on legal reform such as bankruptcy and tax legal reforms will require the commitment of the GOES to promote these legal reforms in the National Assembly. It is recognized that any legislation passed by the Assembly may not correspond to the initial expectation and this may have an impact on program success. Finally, the positive initial signals from the GOES about enforcement of environment laws would indicate that there will be a greater demand for cleaner production programs and investments by the private sector. If, however, enforcement becomes a lower priority, the cleaner production program may need to be reevaluated.

V. IMPLEMENTATION AND MANAGEMENT PLAN

The Mission proposes to use five bridging instruments, nine new instruments over the Life of the Activity and to develop strategic alliances in several key areas. The five bridging instruments include two waivers for amendments of cooperative agreements (IDEA waiver has been completed), and incremental funding for two IQCs and for a GCAP IQC. Three IQCs or MOBIS contracts are proposed, while the remaining mechanisms may be for full and open competition for the agriculture sector work, a cooperative agreement for cleaner production, and one loan guarantee for the financial sector assistance. For a detailed summary of **Procurement Instruments**, see Annex 6: Implementation Plan Matrix: Procurement Instruments. Small and

minority businesses will also be encouraged through the larger contracts or cooperative agreements.

Result 1: Laws, Policies, and Regulations that Promote Trade and Investment (IR2.1)

- **Budget**
 - \$11.5 million

- **New Procurement Instruments**
 - A \$5.5 million task order under the SEGIR IQC for trade policy for the assistance to meet CAFTA requirements to implement ROO and risk management (\$1.9 million), remove trade and investment barriers (\$3.1 million), and complete the SO baseline analysis, and monitor progress of assistance (\$500,000)
 - A \$4.25 million competed task order through the SEGIR IQC contractor for fiscal policy work
 - The \$1.75 million SPS public sector capacity building activity will be implemented as part of the agriculture assistance (AgriTech) full and open competition in combination with SPS support for the private sector.

- **Key Partners**
 - Trade policy assistance will be provided to MinEc, which is responsible for negotiation, administration and enforcement of CAFTA. MinEc is responsible for overall trade policy and has a strong track record of cooperation with the USG. It has high capability, is recognized as a leader in Central America, but lacks key knowledge and skills to be able to administer new key aspects of the CAFTA agreement. The MOF's Custom officials are responsible for ROO administration. MinEc fully supports the idea of removing trade and investment barriers working in collaboration with the private sector, the Ministry, EXPORTA, PROESA, and other relevant institutions under the guidance of the Vice President. MinEc is responsible for coordinating El Salvador's Trade Capacity Building assistance and has effectively involved MAG, MOF, MARN, and the Ministry of Labor in program development. The SME private sector can be represented by economic policy think tanks (FUSADES), business associations (AMCHAM, Camera de Comercio, ASI), and key business leaders, who have a proven track record in policy advocacy. Finally, the Ministry of Finance has been an effective partner in tax administration and has increased revenue collection applying the assistance received from USAID. If the GOES continues to demonstrate the political will to reduce tax evasion and diversify tax instruments, the program can have significant benefits.

Result 2: More Competitive, Market-Oriented Private Enterprises (IR2.2)

- **Budget:**
 - \$37.2 million

- **Procurement Instruments**
 - Bridging Instruments**
 - \$2,750,000 to fully fund (\$1.5 million) and support a one-year bridging extension (\$1.25 million) of the EXPRO IQC contract with Nathan Associates.
 - A \$500,000 bridging amendment of the Aid to Artisans Cooperative Agreement for the handicraft intervention through February 2006

- A one-year bridging extension of the IDEA cooperative agreement with Fintrac for agriculture (\$1,800,000).
- A \$550,000 one-year bridging funding to the CA regional Specialty Coffee contract with Chemonics.

New Procurement Instruments

- A task order under the SEGIR IQC (GBTI) if feasible or else full and open competition contract for the \$14.9 million for ExproTech21
 - A \$14.6 million full and open competition contract for AgriTech21 agriculture development (\$9.55 million) including coffee and private sector SPS capacity to meet SPS requirements (\$1.7 million), GOES capacity building in SPS (\$1.75 million)
 - A \$2.25 million competed cooperative agreement for cleaner production and energy efficiency including leveraging pro bono services
 - Small community grants up to a maximum of \$50,000 for \$2.20 million
- **Key Partners**
 - The GOES organizations responsible for trade and investment promotion will be the key partners. While the GOES is in the process of reorganizing these institutions, we plan to collaborate with these new organizations to address issues currently managed by ProEsa, Exporta, Trade Point, and the Ministries of Economy, Agriculture, Environment and Natural Resources, and Tourism.
 - Salvadoran private sector represented by business associations, e.g., the Salvadoran Chamber of Commerce, ASI, ANEP; farmers and agriculture business associations (Camagro, Fiagro), Cleaner Production Center, AMCHAM, FUNDAPYME, COEXPORT, FUSADES, CORSATUR.

Result 3: Broader Access to Financial Markets and Services (IR2.3)

- **Budget:**
 - \$ 6. Million
- **Procurement Instruments**
- **Bridging Instrument**
 - A \$1.065 million incremental funding of the DAI contract to assist MFIs to be financially sustainable and assist selected NBFIs to become regulated.
- **New Instruments**
 - A Task Order under the AMAP IQC or MOBIS contract for the \$4.435 million intervention for a) SME risk evaluation methodologies, develop new financial products and services, and to provide broad-based SME services and attract remittances for productive uses and/or increase formal financial institutions' participation in the remittance transfer market, and b) assist up to two NBFIs in becoming regulated financial institutions.
- **Obligation Outside the SOAG**
 - \$.5 million for a \$20 million DCA loan portfolio guarantee (LPG) to cover the subsidy cost of the guarantee). The DCA LPG will be obligated with FY 05 funds but outside of the SOAG.

- **Key Partners**
 - The key partners for this IR are local financial institutions that show interest and potential to increase lending to micro, small and medium entrepreneurs, such as commercial banks, including Banco Hipotecario, recently regulated institutions (such as Bancos de los Trabajadores) and Non-Bank Financial Institutions committed to regulation (such as cajas de credito, cooperatives and NGOs). Partners under FOMIR II are AMC, Integral, ACCOVI, ASEI, ProCredit and Banco Salvadoreño. This activity will be finished by June 2005. The rest of the partner institutions will be selected through a competitive process: two Non-Bank financial institutions and three to four additional regulated institutions.
 - The DCA partners are expected to be Banco Agricola, Comercio, Cuscatlan, Salvadoreño and BANTPYM, a workers bank. These banks are already lending to SMEs but have expressed interest in entering into a DCA agreement with the Mission to increase service to these specific sectors. Conversations will continue to take place with these banks to concrete commitments. BMI and CONAMYPE have been good partners although not as direct recipients of USAID assistance.

Result 4: Improved Management and Conservation of Critical Watersheds (IR2.4)

- **Budget:**
 - \$ 9.8 million
- **Procurement Instruments**
 - To be specified in an amendment to this AAD.
- **Key Partners**
 - To be specified in an amendment to this AAD.

Staffing

- **Estimated Budget**
 - \$ 4.8.million
- **Procurement Instruments**
 - One FSL appointment and 17 FSN PSCs including technical staff, program assistants, FSN secretaries, and support staff from other offices.

PROCUREMENT RESTRICTIONS

The Mission will ensure that none of the interventions to be funded under the CRECER 21 Activity will contain activities that would violate any of the legal and policy restrictions such as the Bumpers Amendment, exporting US jobs, amongst others. We will ensure that adequate safeguards are included in the requirements for such interventions and activities (including, in particular, the export promotion funds) to avoid any such violations. In order to address specific issues related to **Impact on U.S. Jobs: Relocation; Export Zones; Violation of Workers' Rights:** Section 533 of the FY04 Appropriations Act and ADS 225, contractors will be required to conduct market based analysis on a product by product basis to be sure that the program is in compliance with these restrictions. Further, implementers will be required to maintain copies of this analysis and make them available for inspection and for end use monitoring. Similar requirements will be included in contracts, cooperatives agreements or grants for agriculture activities. See the Checklist, Annex 7 for a list of restrictions.

VI. CONSULTATION PROCESS

- The planned interventions in all four Results have been selected based on: (1) discussions with the GOES, primarily the MinEc, MAG, MARN, MOF, and with other parts of the GOES through the TCB committee, (2) the sector analysis report completed by Carana Corporation; (3) consultation with key counterparts; (4) participation in five Donor's Coordination Roundtables in policy and legal constraints to trade and investment; (5) priorities for SME development; (6) access to credit needs of SMEs; (7) two workshops on watershed management priorities; (8) a Carana conducted survey of private sector companies and potential investors concerns about investing in El Salvador; (9) the different versions of El Salvador's National Action Plan for Trade Capacity Building as well as regional and bilateral discussions under the Interagency-Intergovernmental TCB committee during 2003 CAFTA negotiations and post-negotiation TCB discussions; and (10) reviews and discussion of World Bank, IDB, CEPAL and OAS analyses of the needs to implement trade agreements as part of the donor coordination process.
- In the areas of policy and legal reforms to promote trade and investment, competitiveness of SMEs, and access to credit, the Mission has been meeting and consulting regularly with the MinEc, MAG, MOF, MARN, and with other parts of the GOES through the TCB committee. In addition, extensive discussions have been held with the Salvadoran private sector, Salvadoran NGOs and policy think tanks such as FUSADES, CAMAGRO, FUNDE, the Board of Directors of FEPADE, ANEP, and ASI amongst others. The recommendations for ROO were prepared based on the USTR/USAID/US Customs approved framework for assistance in CA in addition to analysis prepared by Booz Allen Hamilton. In the development of priorities for SPS measures, the Mission relied on the general outline of priorities needs agreed to by the CA and the US in the December round of CAFTA negotiations and discussions with MinEc, MAG and MARN. Work on environmental issues related to CAFTA was prepared in consultations with the USG Interagency and CA intergovernmental Environment Committee established for CAFTA.
- To develop the Financial Services program, the Mission relied on discussions with the banking and private sector and a feasibility assessment by USAID/Washington's Office of Development Credit. USAID discussed the financial sector development needs and the DCA loan guarantee with commercial banks such as Bancos Agricola, Comercio, Cuscatlan and Salvadoreno and BMI. These banks are already lending to SMEs but have expressed interest in entering into a DCA agreement with the Mission to increase service to these specific sectors. General discussions have been held with the MinEc on this topic. Conversations will continue to take place with these banks to concrete commitments.
- The watershed development interventions were prepared based on discussions with environmental NGOs, MARN, ANDA, the Biodiversity and Tropical Forestry Analysis prepared by Chemonics, and previous evaluations undertaken of the watershed program. In addition, the Mission coordinated closely with the GCAP PROARCA program and evaluation and the evaluation of the cleaner production program.

VII. STAFFING & PROGRAM MANAGEMENT

Staffing and Program Management

CRECER 21 will be managed by the new Office of Economic Growth (EG). CRECER 21 will be implemented by teams that will manage major program Results and will be supported by FSN staff from other offices. The CRECER 21 team will consist of one Foreign Service limited appointment (US), 11 FSN PSC project staff and program assistants and possibly 3 secretaries. Program support will be provided by one FSN PSC each from SDO, RCG, and CONT. This list is tentative and must be coordinated with the effort to incorporate new regional program plan responsibilities for watershed management within OEG. Changes will be made based upon reorganization decisions that will take place in FY 2005.

VIII. PERFORMANCE MONITORING PLAN/MONITORING AND EVALUATION

The Mission will measure progress at the Strategic Objective level through the ESCAM Regional Strategy Performance Indicators, which are under development. Proposed preliminary performance indicators for the SO-level include

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

USAID/EI Salvador will develop an Activity-specific Performance Management Plan (PMP) with indicators, baseline data and targets within one year of approval of the Activity.

The Mission will revise expected results as it is developing the specific scopes of work and can analyze additional program impacts on sales and employment. With funds under Result 1, the Mission will establish a contract to routinely collect data about program impact for each EI Salvador Central America and Mexico (ESCAM) regional strategy performance indicators. In addition, each contractor or grantee will be required to report on their program impacts, including new product sales and new employment. CRECER 21 will fund data collection such as surveys, rapid appraisals, and focus groups, necessary to monitor progress toward achievement of the results. In addition, formal evaluations for management decision-making may be conducted, as determined necessary.

IX. FINANCIAL PLAN

It is estimated that \$69.5 million in DA over 5 fiscal years are required to implement this Activity. GOES counterpart contribution totals \$7.2 million. Total USAID and counterpart resources that will be dedicated to achieving the Activity are \$76.7 million. FY 2004 is the initial year of obligation and FY 2008 will be the last year of obligation of funds. Program implementation will go through the end of FY 2009. In FY 04, the bilateral obligation will be for \$15.459 million, while an additional \$200,000 in OYB will be transferred to AID/LAC/Washington for obligation and implementation of a Global Water Partnership with the State Department. The life of activity obligation through the SOAG will be for \$68.8 million. In FY05, the \$.5 million DCA loan portfolio guarantee will be obligated through an AID/Washington OYB transfer and agreement with the Department of Treasury.

The estimated budget for each Result and USAID management costs is summarized below and a detailed budget is found in Annex 8:

	TOTAL SO REQUEST (\$000)	COUNTERPART CONTRIBUTION (\$000)	COMBINED TOTAL (\$000)
1. Laws, policies, and regulations that promote trade and investment	11,500	3,670	15,170
2. More competitive, market-oriented private enterprises	37,200	3,530	40,730
3. Financial Sector Development (a)	6,000	0	6,000
4. Watershed Management	9,800	TBD	9,800
5. Staffing and evaluations	4,800	0	4,800
TOTAL SO FOR USAID/EI Salvador obligation	69,300	7,200	76,500
Field support OYB transfer for Global Water Partnership	200	0	200
GRAND TOTAL	69,500	7,200	76,700

Note: (a) Includes \$500,000 for a DCA/Loan Portfolio Guarantee

Counterpart contributions are required for programs that benefit the GOES or work with the GOES instruments. These include: Result 1: a) Implement key requirements of CAFTA and other trade agreements (improve GOES institutional capacity in rules of origin and SPS), b) Removing trade barriers, investment promotion-public sector private sector committee and analysis, c) Improved fiscal policy and tax collection, and d) Baseline analysis and new strategy development. Result 2: a) institutional development of MinEc and MAG to support SME development and MARN for cleaner production incentives, and b) local community cost sharing for small infrastructure.

X. ANNEXES

1. Gender Questionnaire
2. USG Interagency framework for Rules of Origin, Customs Valuation and Risk Management
3. USG-CAFTA framework for SPS cooperation
4. Elaboration of SPS cooperation
5. Global Water Partnership
6. Procurement Instruments
7. Legal restrictions
8. Financial Tables (budget and obligation schedule; costs estimate of proposed interventions; USAID management costs)

¹ However, the GOES has not calculated the potential increased revenues from taxes resulting from economic growth related to CAFTA.

² Project Completion Report, Tax Administration Project in El Salvador, USAID/EI Salvador, PCE-I-808-00-00014-00, May 2004 (first draft).

ⁱⁱⁱ The new elected government of El Salvador has stated its intention to actively promote sound fiscal policy and broaden tax bases without increasing tax rates or creating new taxes. In order to increase revenues then, the GOES will need to have greater political will to combat tax evasion and avoidance. Such efforts require tax reforms leading to greater auditing capacity, more effective auditing procedures, and the elimination of potential tax loopholes.

iv Customs Directorate of the MOF estimates that the present value of the revenue loss resulting from the CAFTA will be about 3.3% of GDP at present value during 2005-2019. This implies a loss of 0.24% of GDP each year. To compensate this reduction of revenues it will be necessary to improve policy and tax administration to reduce tax evasion by 0.24% of GDP each year. This seems to be a feasible challenge given the levels of evasion in El Salvador. Recent USAID studies have found that tax evasion in El Salvador accounts for more than 8% of GDP or more than 60% of current collection levels (11.6% of GDP in 2003).

^v For information on the requirements, please refer to the "Ley de Intermediarios Financieros No Bancarios," available online at <http://www.ssf.gob.sv>, Legal Framework, Financial Laws.

Econopub/Country plan 2004-2008/NAD final/NAD_EconomicFreedom Aug 31 final EGE..doc

Gender Questionnaire

Issues that will be addressed in the design and monitoring of CRECER21

Assuming the purpose is to identify gender issues that need to be taken into account in project design, what factors are important to consider to ensure gender mainstreaming in the project, i.e., factors that may affect project results; factors that may affect impact of the project on relative status of men and women?

A first step might be to look at patterns of gender differences in the firms that may potentially be involved in the project:

- Relative distribution of men- and women-owned firms by size (MSME, scale, earnings, employees/family labor), sector, longevity/failure rates, sophistication in terms of business structure
- Differences in these distributions in rural and urban areas.
- Relationship, if any, between types of firms predominately owned by men and women (e.g., microenterprises may be part of the supply chain for medium-size firms; firms in rural areas may be suppliers for urban firms, or vice versa, urban firms may be market for rural firms).

A second step might be to look at systematic differences among these firms owned by men and women in access to and control of resources.

- Differential access to and control of resources will affect the success, growth, longevity, profitability of the firms.
- Resources might include: credit, property, licenses, market information, membership in associations/cooperatives, unpaid family labor, paid employees, time, mobility (e.g., ability to travel), connections (for raw materials, for markets, etc.). Business management skills are often an important resource distinguishing micro- from larger businesses.
- How will the services provided by the project deal with these differences? If access to certain resources (e.g., property titles, licenses, association membership) are required for participation in the project and this access is linked to gender, the project may magnify existing inequalities between men and women. If the services offered in the project do not reach men and women proportionately, the project may create inequalities. If the project is designed to lessen current differences in access, the project may serve to improve the status of women relative to men. [The last two sets of questions from the Mission speak to this issue in terms of credit. In a competitiveness project, access to information and markets may be equally important.]

As noted by the Mission, the impact of the use of unpaid family labor on the relative status of men and women also is an important consideration. Impact on schooling may be one consideration; a second may be the impact of, for example, a wife's unpaid labor in her husband's business on her normal activities. It may create an extra time burden or

she may have to forego her current income generating activities, like sewing or selling candies, etc. As business development projects generate paid employment, the distribution of employment for men and women also may have an impact on the relative status of men and women.

Agriculture

- What are the differences in the food and cash crops grown by men and women?
- How do men's and women's distinctive roles in agriculture contribute to the development goals for AgroTech?
- How have new investments and growth in the past USAID agriculture programs affected men's and women's labor supply and earnings?
- What agricultural technology services are available to male and female farmers? Do these services consider gender-differentiated roles and corollary agricultural technology needs in agriculture. Are information and advice on agricultural technology targeting the right gender?
- Do women and men work jointly or separately in agriculture production? What are the implications of these patterns for the design of DIMAGRO?
- Are men and women organized to increase their agricultural productivity and if so, how are they organized? What are the implications of men's and women's different forms of organization for providing agricultural technology services to them?
- What different constraints do women and men face in using services-for example, conflicts with other domestic chores and businesses. How could services be provided to take into account these gender constraints, for example, timing and location of services and mechanisms for transmitting information?
- How would targeting of agriculture technology services to either men or women affect their productivity, earnings, and family welfare? How would that, in turn, alter decision-making and expenditure patterns in the household?

Enterprise Development

- What is the proportion of women owned micro, small and medium sized businesses (MSMEs)?
- What are the different reasons that men and women choose self-employment over wage work?
- How do men's and women's participation differ in scale, sector of operations, earnings, and risk aversion? What accounts for these differences, for instance, firm failure rates, expectations, gender roles within the household and community?
- How do the characteristics of men's and women's enterprises differ by rural, semi-urban and urban settings?
- What is the prevalence of boys and girls working in a parent's enterprise as a supplement to family income? Does their participation affect their educational attainment and achievement?
- Do gender differences exist in availability and use of credit by women and men for MSMEs? Are there differences in interest rates charged? What accounts for the difference?

- What are the implications of men and women's different enterprise characteristics and credit demands for what type of credit is required and how credit services are provided?

**CAFTA CHAPTERS ON CUSTOMS AND RULES OF ORIGIN:
PROPOSED ACTION PLAN FOR ASSISTANCE IN
IMPLEMENTING THE CENTRAL AMERICAN FREE TRADE AGREEMENT**

BACKGROUND

In the CAFTA chapter on Customs Administration and Trade Facilitation and the chapter on Rules of Origin and Origin Procedures, the CAFTA Parties agreed that some commitments by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua will be subject to transition periods ranging from one to three years. Other provisions of these chapters call for "best efforts" that can be enhanced, to the benefit of all the Parties, by capacity building assistance. Article 5.12 of the chapter on Customs Administration recognizes the importance of trade capacity building in facilitating the implementation of the chapter.

This paper recommends an action plan for responding to these agreements. The plan includes technical assistance directed to specific CAFTA commitments, as well as support for broader institutional strengthening that can help to promote effective and sustained results.

Drawing on currently available resources, the United States is prepared to immediately initiate assistance in support of the tasks described in Section 1 of this Action Plan. These tasks relate to implementation of the CAFTA chapter on Rules of Origin and implementation of the provisions of the CAFTA chapter on Customs Administration that are subject, under Article 5.11, to a one or a two year transition. These immediate tasks will be coordinated by USAID's regional mission, based in Guatemala.

Section 2 includes tasks that may be supported by other U.S. Government resources, other international donors, or non-governmental resources. This list also includes the CAFTA Chapter 5 commitments that, under Article 5.11, are subject to a three-year transition.

The United States is currently assisting Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua to perform an audit of their respective customs and trade facilitation systems. This audit will provide useful details on the strengths and weaknesses of each country's systems and help the United States and other donors tailor future technical assistance to the individual country's local needs.

SECTION 1: IMMEDIATE TASKS

1.A. Implementing CAFTA Provisions:

- 1) Country Rules of Origin and Related Procedures (Chapter 4). Implement procedures for origin determination that are consistent with the WTO Rules of Origin Agreement and in accord with the CAFTA "Rules of Origin Procedures". Implement classification procedures in accordance with the WCO Harmonized System Convention and valuation procedures in accordance with the WTO Valuation Agreement and make rulings available to the public.

At the request of El Salvador, the USAID bilateral mission in San Salvador is currently organizing a rules of origin related training and technical assistance program to be provided in June 2004. This program will include a regional component. The United States is prepared to follow up on this activity with similar assistance in the other CAFTA countries.

- 2) Publication and Transparency (Chapter 5, Article 5.1). Make public, including on the Internet, all customs laws, regulations and administrative procedures. Establish and maintain points of contact for answering public inquiries. Publish in advance and solicit public comment on proposed new Customs regulations.
- 3) Risk Management/Selectivity (Article 5.4). Establish cargo selectivity units within each Customs organization. Develop selectivity criteria to enable the focus of intensive inspections of consignments that are a high risk for import and export control violations, misclassification, under valuation, rules of origin violations, and false invoicing. Employ automated selectivity applications in the border clearance process.
- 4) Express Shipments Expedited Processing (Article 5.7). Adopt secure procedures to expedite clearance of express shipments, normally within six hours, utilizing pre-arrival data submission and processing. Allow electronic submission via single manifest per shipment and a minimum of additional documentation.
- 5) Advance Rulings (Article 5.10). Issue to importers rulings in advance of importation with regard to such issues as classification, value, drawback, origin and quotas. Upon submission of relevant data by the importer, such rulings will be issued within 150 days.

1.B Supporting Institution Building

- 1) Public/Private Partnership (Pro-Committee) Development. Establish a public/private trade facilitation committee in each of the CAFTA countries as well as one for the region. Assure participation of influential representatives of trade ministries and trade service providers, as well as NGO assistance providers.

SECTION 2: FOLLOW-ON TASKS

2.A. Implementing CAFTA Provisions:

- 1) Release of Goods within 48 Hours of Arrival (Article 5.2). Implement procedures such as acceptance and processing of trade control data in advance of goods arrival, remote filing of trade data by declarant, and release of shipments prior to duty collection and completion of all administrative requirements. Give the declarant the option to enter data either manually or electronically. Develop a set of common data elements in accordance with world standards.
- 2) Customs Automation (Article 5.3). Establish interconnectivity of CAFTA country automated Customs systems with each other, with relevant Government organizations, and with the trading community; including access for traders to input entry data in advance of the arrival of goods. Assure development and regional utilization of common data elements in accordance with WCO guidelines. Implement automated risk analysis/selectivity system.
- 3) Cooperation: Mutual Assistance Agreement on Information Sharing (Article 5.5). Within six months after the signing of the CAFTA Agreement, conclude an information sharing agreement for the establishment of secure channels of communication for the rapid exchange of trade and related law enforcement information among CAFTA countries, and begin its implementation. CAFTA Customs organizations implement a full range of cooperation in all areas related to trade facilitation, compliance and law enforcement.
- 4) Confidentiality (Article 5.6). Implement procedures to protect the confidentiality of information shared under the Mutual Assistance Agreement on Information Sharing.

- 5) Review and Appeal Rights (Article 5.8). Assure access of the trade to independent administrative and judicial review of disputes.
- 6) Penalties for Commercial Violations (Article 5.9). Establish and implement appropriate civil, administrative and criminal penalties for violations related to tariff classification, valuation, country of origin and preferential treatment requirements.

2.B. Supporting Institution Building

- 1) CAFTA Customs Union Implementation. Proceed with full implementation of the Customs Union, to include membership of all CAFTA countries. Establish administrative procedures and documentation to assure the successful functioning of this body.
- 2) CAFTA Customs Training Center. Establish, staff and operate a regional Customs training center. Staff with qualified trainers from CAFTA countries. Develop and deliver training courses to help implement new Customs standards of organization, administration and operation as outlined in the CAFTA Agreement.
- 3) Integrity Enhancement. Effectively screen officer candidates for enforcement risk. Implement standardized job descriptions and transparent promotion policies. Assure the existence of a code of conduct and an independent internal security unit, to deal with issues of Customs officer integrity.

Annex 2 b

ROO Illustrative activities are:

Because ROO administration will take some time to implement, the 10 modules described below includes the sequencing of activities. Three broad categories have been provided: 1) short-term, which represents imperative actions that should take place in the next one-six months; 2) medium-term steps, which are important actions that should be completed within six-months to one year; and 3) long-term actions that call for extended, highly specialized training that should happen within the next one to two years.

SHORT TERM

MODULE - 1. Administrative Management of ROO:

USAID will work with DATCO on the provision of technical assistance and training to create an appropriate framework for ROO administrative management. This piece of the program will assist El Salvador in setting up the appropriate institutional framework for handling ROO issues. The target is that the Administrative Management established will be both flexible and complete in order to keep evolving as issues and priorities change regarding ROO issues. The target staff will be: Senior staff at the Trade Agency and Customs Agency. The first step will be to determine who will be assigned the administrative management of ROO.

MODULE -2. ROO Legal and Regulatory Implementation: This portion of the training will ensure that El Salvador has the appropriate legal and regulatory implementation as it is the basis for authority of ROO administration. A group of legal staff will need to be trained at the Trade and Customs Agency to ensure that the legal regime fully and effectively implements CAFTA.

MODULE- 3. Initial Review for Entry Processing and Release Determination:

Training and Technical Assistance will provide the front-line processors; the necessary tools will be identified on handling ROO issues and the handling of ROO under CAFTA. Custom officials will be trained to carry out the initial review through risk analysis and import processing systems based on both automation and human input. Technical assistance will be provided so that a manual is developed for review and release determination. Local trainers should also be identified and trained, allowing GOES Customs to maintain this function and continue to improve its capacity in this facility.

MEDIUM TERM

MODULE - 4. Additional Duty Collection/Penalties:

Training and Technical Assistance will be provide to Customs officials in order to establish a process for collection of revenues in cases where ROO requirements are not met. The Technical assistance will identify and recommend the use of automated systems, provide one that will fit El Salvador's needs and train customs personnel on its use.

Module 5 Verifications:

Training and Technical Assistance will be provided to trade and custom officials on verifications to any ROO regime, consultants will made recommendations on whether

this function is best performed by the Trade Agency or the Customs Agency and the appropriate staffing level to carry out the function, direct assessment will be provided to ensure that preferential tariff treatment is granted only to merchandise that meets ROO requirements. Staff trained will be thoroughly familiar with the various rules and calculations under the assorted ROO obligations.

Module 6 –ROO Public Information:

Training will be provided to staff that work with the press and external affairs as they will be the key links for importers so that they know how CAFTA affect them. ROO public information officers will need to be trained in order to educate the export/import community on new opportunities and responsibilities provided to them by CAFTA. This activity will be responsible for issuing a guide book for importers, exporters and brokers.

LONG TERM

Module 7-Post Entry:

Post entry review is a critical component of an advanced custom process, as it provides a targeted opportunity for the identification of importers that may be receiving improper tariff treatment. Currently, the GOES has no post entry review function, therefore the technical assistance will determine if the current staffing levels are sufficient and the training required to carry out the function.

MODULE 8- Audit:

Training and Technical Assistance will be provided to custom officials for the uncovering of other imports in which importers may have improperly received preferential tariff treatment due to improper ROO application. Training will focus on teaching them to carry out thorough examinations of their accounts and records, identifying importers that have had ROO issues in the past and/or have imported sensitive commodities. The training should include an in-depth review of the utilization of risk analysis and information, automated systems as well as classification, GATT valuation, and ROO application. In addition, training on penalty/enforcement mechanisms and record keeping requirements should be included.

MODULE 9- Administrative and/or Judicial Adjudication:

Technical assistance is needed to determine appropriate design and staffing for this function. Currently, there is no GOES administrative or judicial review of ROO cases and ROO has not been applied in GOES trade remedy cases. The proper quality administrative and/or judicial adjudication is an important phase in the process because it protects the interests of the importer by providing transparency, due process and uniformity in the adjudication of disputed matters. An assessment of needed staffing and training, and follow up technical training would be provided. This will include ROO training as well a review of the specific administrative and judicial obligations and responsibilities resulting from CAFTA.

Module 10- Advanced Rulings:

Training and Technical Assistance is required in advanced rulings for the Trade Agency office as they are responsible for this function, although they had never been asked to perform advance ruling before. A review of various staff capabilities and functions will be necessary to identify appropriate advanced rulings staff, and/or the need for further staff and the appropriate training will be identified and developed. The technical

assistance will determine if the Customs office is more appropriate to carry out this function.

Other key priorities will be to 1) strengthen private sector capacity for complying with ROO through workshops, conferences and training, 2) technical assistance for the implementation of the framework on ROO and modernization of custom procedures to implement the verification of rules of origin, and 3) creation of a new body to verify the origin of imports within Customs authority.

**CAFTA-DR SPS WORKING GROUP
TECHNICAL ASSISTANCE PRIORITIES FOR TRADE CAPACITY BUILDING
APRIL 2004**

I. Regional Needs

1. Integrated SPS regulatory information systems
2. Upgrade laboratory infrastructure and analytical methods capability
3. Strengthen national WTO/SPS enquiry points
4. Develop animal health, inspection and sanitary standards for animal products
 - a. Control and/or eradication systems for animal diseases
 - b. Pathogen reduction/Hazard Analysis and Critical Control Point (PR/HACCP) systems
 - c. Standard Sanitation Operating Procedures (SSOPs)
 - d. Good Manufacturing Practices (GMPs) for animal and plant production environments
 - e. Food Safety Regulatory Enforcement
 - f. Pasteurization
5. Risk Assessment methodologies and development of risk mitigation methods
6. US-CAFTA-DR University Network in Food safety systems
7. Participation in international standard – setting organizations

II. National Needs

- Costa Rica** Agricultural products preinspection (preclearance) assistance
- Honduras** a) Strengthening quality assurance/good manufacturing practices programs for nontraditional agricultural products
b) Agricultural products preinspection (preclearance) assistance
- El Salvador** Harmonized the control, use, and registry of banned pesticides
- Nicaragua** a) Technical assistance in refrigeration of milk products,
b) Establishment of a national, IPPC-consistent certification program for wood pallets,
c) Training in biotechnology and transgenic,
d) Technical assistance in the installation and management of greenhouses
e) Pest Control and eradication program: CSF virus; Fruit Fly and the establishment of low prevalence areas in the country; and Bovine Brucellosis and Tuberculosis.
- Guatemala** Assistance in strengthening national SPS institutions and infrastructure¹.
- Dominican Republic** a) Studies (as needed) to demonstrate the efficacy of processing methods to inactivate the CSF virus
b) Training in plant pesticides residues
c) Training in quality control, system for pesticides
d) Training in management, surveillance, survey, detection, and eradication of the fruit fly

¹ La Delegación de Guatemala manifiesta que existirán cambios en las necesidades nacionales, puesto que el país está definiendo las nuevas áreas temáticas de cooperación o asistencia técnica en función de los proyectos ya existentes en nuestro país con organismos internacionales. Así mismo manifiesta su conformidad con la identificación de las necesidades regionales consignadas en el documento consensuado en Washington en el 2003.

**CAFTA-DR SPS WORKING GROUP
TECHNICAL ASSISTANCE PRIORITIES FOR TRADE CAPACITY
BUILDING¹**

APRIL 2004

******DRAFT June 29, 2004******

I. Regional Needs

1. Integrated SPS regulatory information systems

Countries need to develop/improve their SPS regulatory information systems to better facilitate the sharing of regulatory and science based information for plant/animal health and food safety issues among technical/regulatory officials within the countries [and on a regional basis?]. The Information System consists of three subsystems which include: I) Common Elements of the system including reference information pertaining to legal/regulatory authorities related to agricultural health; the national regulations which make up the Sub regional Registry(?); and rules which pertain to emergency measures, II) Phytosanitary Information and Surveillance and III) Zoo sanitary information and surveillance. The second and third subsystems pertaining to Phyto and Zoo sanitary information and surveillance which manages information regarding agricultural health alerts, suspicion of pests and disease outbreaks, and interceptions at inspection entry points.

Hardware and software needs include:

Hardware	Software
Web Application Server	Windows 2000 (5c) EN, ArcServ (Backup)
Database Server	Windows 2000 (5c) EN, SQL Server (10c)
Collaborative Applications Server	Windows 2000 (5c)EN, Exchange Conferencing Server

Additional hardware needs include tape backup facilities, rack and accessories.

2. Upgrade laboratory infrastructure and analytical methods capability – Bob Tuverson (USDA/FSIS)?

3. Strengthen national WTO/SPS enquiry points

Countries need assistance establishing functioning National Enquiry Points and Notification Authorities.

Designated enquiry points should be able to:

¹ All USG designations are assignments of responsibility to prepare this elaboration.

- Respond to reasonable questions from interested trading partners regarding: SPS proposed or adopted regulations; control and inspection procedures, production and quarantine treatment, pesticide tolerance and food additive approval procedures, which are operated within its territory; and risk assessment procedures, factors taken into consideration, as well as the determination of the appropriate level of sanitary or phytosanitary protection.
 - Gather and analyze SPS measures on potential opportunities.
 - Analyze SPS requirements for successful exports to new markets – food safety standards and other SPS measures such laws, and decrees that exporters needs to be aware of; these are product-specific and often change quickly.
4. Develop animal health, inspection and sanitary standards for animal products
- a. Control and/or eradication systems for animal diseases **USDA/APHIS**

Countries need the ability to strengthen their systems in order to prevent foreign diseases from coming into their respective countries or diseases/pests found in their products from being transmitted to other countries. This includes the ability to effectively monitor the border patrol process, appropriate animal health protocol, etc.
 - b. Pathogen reduction/Hazard Analysis and Critical Control Point (PR/HACCP) systems (**USDA/FSIS**)?

Countries need to develop or improve programs to routinely verify plant implementation and effective control of key HACCP program components.
 - c. Standard Sanitation Operating Procedures (SSOPs) (**USDA/FSIS**)?

Countries need to develop/improve programs to monitor SSOP. Operational Sanitation and Sanitation Performance Standards. Additionally, countries need to assure they are in compliance with hygiene standards and have clean equipment.
 - d. Good Manufacturing Practices (GMPs) for animal and plant production environments (**USDA/FSIS/FDA**)?
 - e. Food Safety Regulatory Enforcement (**USDA/FSIS**)?
 - f. Pasteurization – **FDA**?

The Government of Nicaragua has identified Regional Priority #4 as a priority for the country and USAID has drafted a SOW to address this priority through the regional USDA PAPA mechanism.

5. Risk Assessment methodologies and development of risk mitigation methods –

Countries want training on concepts of conducting a risk assessment, what to look for during the assessment and how to conduct their own risk assessments in order to 'protect' the welfare of their domestic products and to expedite the process of exporting their products intra-regionally or internationally.

Countries need the ability to conduct science bases analysis of risks associated with animal and plant health and food safety systems. This analysis includes the ability to assess the risk vs. the cost associated with the identified risk (i.e., pests, diseases, contamination). Additionally, there is a need to develop a mechanism to control problems that arise in association with animal, plant and food safety related issues (example U.S. crisis control of BSE breakout).

6. US-CAFTA-DR University Network in Food safety systems

Further elaboration required from the countries.

7. Coordination and participation in international standard – setting organizations

Countries need access to information and funds in order to send the appropriate delegates to these meetings.

II. National Needs

Costa Rica Agricultural products preinspection (preclearance) assistance

USDA/APHIS is the only agency that offers preclearance programs and the program is limited to fruits and vegetables.

The establishment of a preclearance program requires several steps for approval. The first step for APHIS/PPQ to consider is a request from the country. The request will include types and volume of cargo, seasonality, locations and an invitation from the foreign government. PPQ will consider the request and some of the considerations are whether personnel will be available to carry out the duties, the commodities can be precleared, exporters are committed to the program, logistics of location, etc. It is a financial responsibility to establish a preclearance program. Trust fund agreements will be required, and payment of services in advance (deposits). The expenses will

be charged against the deposits. Failure to meet the financial obligations can result in cancellation of the agreement.

Honduras a) Strengthening quality assurance/good manufacturing practices programs for nontraditional agricultural products

USDA-FAS Honduras (Ana.Gomez@usda.gov)

As requested, please find below USDA's funded programs with the Ministry of Agriculture and Livestock (SAG) of Honduras in SPS TCB.

Sanitary-Phytosanitary Systems (SPS) - Animal and Plant Health Program:

SAG will work with APHIS to educate farmers on sanitary and phytosanitary (SPS) standards, prevention of pests and diseases in the western highlands and central northern valleys.

Training will be conducted in the diagnosis of animal and phytosanitary risks, and compliance of international SPS standards and agreements. Surveillance systems will be strengthened to detect the introduction of exotic diseases and pests and to teach animal and plant health authorities about controlling and eradicating these exotic diseases and pests. SAG will strengthen its outreach and enforcement of food safety standards for dairy product processors in the Departments of Atlantida, Colon, Cortés, Olancho and Progreso.

The specific exotic diseases and pests to be cover are:

Animal Health: Foot and mouth disease, screw worm, african swine fever, hog cholera, BSE.

Plant Health: Rio Aguan Medfly free area, trips palmi, trogoderma granarium, pink mealybug, asian long horn beatle, globodera spp, wild cane grass.

Additional programs will provide technical assistance to producer groups to increase and maintain good agricultural practices in horticultural production and comply with international standards.

USAID/Honduras:

USAID/Honduras has worked primarily on strengthening producer's capacity to meet market and export requirements. The Mission has had some minor interventions to improve the integrity of the SPS regime in-country. However, country needs that relate to this second component (SPS system) would ideally be addressed through regional initiatives to ensure consistency and harmonization across the region. Two priority areas which will also be addressed by USAID/H - in collaboration with USDA - are:

- (1) assistance to improve the surveillance and inspection capacity of local institutions, such as SENASA and
- (2) policy assistance to GOH ministries to comply with CAFTA obligations. The Mission will also support the participation of GOH and private sector representatives in trade and SPS-related conferences and fora.

Program interventions will continue to focus on helping micro, small, and medium producers comply with market and export regulations to obtain greater market access for high-value Honduran export products. Some illustrative SPS/TCB activities of the current program include:

- technical assistance to assist exporters obtain the European Good Agricultural Practices (EUREPGAP) protocol certification to export to

Europe; certification for organic coffee growers;

- pest risk assessments (PRAs) to export new crops to the US market during the Winter market window (e.g., tomato, sweet potato, peppers), and food safety systems development (e.g. HACCP).
- USAID/Honduras is also providing technical assistance to small food processors to improve the quality and marketability of their products, and to comply with food safety and packing requirements (e.g., bar codes, nutritional information, sanitary registration).
- Assistance is also being provided to producers to request FDA certifications to export typical Honduran products to the US.

USAID/Honduras has also provided extensive assistance to expand cooling and storage capacity for milk, and for the introduction of improved dairy manufacturing practices. Future interventions with milk processors and manufacturers will focus on the introduction of improved manufacturing practices and cleaner production technologies that comply with international market and export requirements

b) Agricultural products preinspection (preclearance) assistance (USDA/APHIS)?

USDA/APHIS is the only agency that offers preclearance programs and the program is limited to fruits and vegetables.

The establishment of a preclearance program requires several steps for approval. The first step for APHIS/PPQ to consider is a request from the country. The request will include types and volume of cargo, seasonality, locations and an invitation from the foreign government. PPQ will consider the request and some of the considerations are whether personnel will be available to carry out the duties, the commodities can be precleared, exporters are committed to the program, logistics of location, etc. It is a financial responsibility to establish a preclearance program. Trust fund agreements will be required, and payment of services in advance (deposits). The expenses will be charged against the deposits. Failure to meet the financial obligations can result in cancellation of the agreement.

El Salvador Harmonized the control, use, and registry of banned pesticides

FDA/EPA/USDA/APHIS)?

USAID/El Salvador

- Provide technical assistance and/or training to bring MAG and private sector technicians up-to-date on new regulations and procedures put in place by the EPA for the registry of pesticides in the U.S.
- Provide technical assistance and/or training to MAG's Office of Animal and plant Health for the process of issuing certifications to pesticide applicators as well as certification equipments to be used for the same purpose.
- Provide technical assistance and/or training to MAG on harmonization of regulation use and marketing of pesticides, as well as on auditing systems for quality control of pesticides.
- Provide technical assistance and training to MAG laboratory technicians and other laboratories for harmonization with the U.S. system on methodologies for measuring pesticide residues on food products.

- Prepare technical guides in Spanish in a "user friendly" format on EPA's permissible/approved pesticides for those crops that are being exported or have the potential for export.

Nicaragua a) Technical assistance in refrigeration of milk products (GON Priority), (USDA/FAS/ FDA)

USAID/Nicaragua

The main objective of this cooperation is to create an export program by installing capacity to handle a certain quantity of cheese under refrigeration to supply the U.S. demand. Additionally, improving the quality of the dairy products in order to meet the standards of the export markets is another important objective.

Technical assistance provided on the following topics:

- a) cold storage facility and cheese plant equipment installation
- b) alternative energy uses (solar energy)
- c) use of pasteurization equipment
- d) use of milk quality laboratories and
- e) anti-bioterrorism safety in cheese plants.

b) Establishment of a national, IPPC-consistent certification program for wood pallets (GON Priority),

Countries need to certify that the wood pallets that products are being carried or stored on are properly treated so that pests will not be transmitted via the pallet at points of export or entry.

c) Training in biotechnology and transgenic, (FDA/USDA/FAS)?

Training could be provided to help countries better understand both risks and benefits of agricultural biotechnology from a science-based perspective. An overview of research and development, biotech regulations, international organizations, global economy, marketing and consumers, and food security could be provided to assist with outreach efforts in the region.

USAID Nicaragua:

Assist the Ministry of Agriculture and other government agencies in the implementation of the national regulatory framework and the obligations acquired at the Cartagena Protocol on biotechnology safety.

- a) Organize the control and information system of biotechnology products intended for human and animal consumption or industrial purposes.
- b) Provide computer equipment and transportation to the office of biotechnology.
- c) Develop and implement a training program on the risk analysis and

- detection of GMOs.
d) Provide legal and technical assistance.

d) Technical assistance in the installation and management of greenhouses (GON Priority),

Countries require funding to design and build greenhouses, training on how to operate them appropriately, and to understand the requirements to meet US import restrictions/mitigations.

USAID/Nicaragua

The IICA project entitled "Economic Policy and Agribusiness Development Program (EPAD)" assists 17 greenhouse production areas in 8 departments of Nicaragua (Managua, Carazo, Chinandega, Matagalpa, Madriz, Masaya, Jinotega, and Granada). The project is building some of the structures and supervises all of the areas. According to the project, approximately 18,400mt² of surface area is under production with greenhouses of which the majority is supervised by USAID projects. Many private sector producers and other donors have copied the tunnels through numerous technical presentations and site visits.

- e) Pest Control and eradication program: CSF virus; Fruit Fly and the establishment of low prevalence areas in the country; and Bovine Brucellosis and Tuberculosis. (USDA/APHIS)?

Cost prohibitive – explore with IDB

Guatemala Assistance in strengthening national SPS institutions and infrastructure².
Further elaboration is required.
To be addressed by USAID/USDA PAPA & USAID PFID/MSU but clarification from USTR SPS Negotiator & Guatemala TCB-SPS lead needed.

Dominican Republic a) Studies (as needed) to demonstrate the efficacy of processing methods to inactivate the CSF virus (USDA/APHIS)?
b) Training in plant pesticides residues FDA/EPA/USDA/APHIS)?
c) Training in quality control, system for pesticides FDA/EPA/USDA/APHIS)?
d) Training in management, surveillance, survey, detection, and eradication of the fruit fly (USDA/APHIS)?

No response from DR.

² La Delegación de Guatemala manifiesta que existirán cambios en las necesidades nacionales, puesto que el país está definiendo las nuevas áreas temáticas de cooperación o asistencia técnica en función de los proyectos ya existentes en nuestro país con organismos internacionales. Así mismo manifiesta su conformidad con la identificación de las necesidades regionales consignadas en el documento consensuado en Washington en el 2003.

GLOBAL WATER PARTNERSHIPS**PROMOTION AND STRENGTHENING OF GOOD WATER GOVERNANCE IN EL SALVADOR : TOWARDS THE CONSTRUCTION OF A NATIONAL WATER AGENDA**

USAID/El Salvador will join with the Department of State (Bureau of Oceans and International Environmental and Scientific Affairs) to help strengthen institutional frameworks for water resources management in El Salvador, broaden public participation and stakeholder dialogue and increase capacity building through the Global Water Partnership (GWP). Specifically, the goals of this activity will be to: 1) Build national capacity to develop, manage and implement integrated water management plans; 2) Strengthen civil society involvement in the development planning process; and 3) Support transparent and accountable water governance. As a result, this activity can impact policies so that there is improved management of water resources and increased access to safe drinking water and sanitation. This activity supports the efforts of the UN Commission on Sustainable Development.

PROCUREMENT INSTRUMENTS

ANNEX / ANNEX 5

NAME	Contractor	Type of Action	Priority	Estimated Total Value \$	Target to RCG				Award Date	Comments
					4th Quarter 2004	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005		
BRIDGING INSTRUMENTS					6,665					
1 EXPORT DIVERSIFICATION AND PROMOTION	Nathan Associates	IQC SEGIR	Amend	High	2,750					1st quarter 2005
2 HANDICRAFT SECTOR DEVELOPMENT	Aid to Artisans	CA	New	High	500					1st quarter 2005
3 AGRICULTURE DEVELOPMENT AND EXPORTS	Fintrac	CA	Amend		1,800					1st quarter 2005
4 PROMOTION OF SPECIALITY COFFEE	Chemonics	GCAP IQC TASK ORDER	Inc	High	550					November 2004
5 NON BANK FINANCIAL INSTITUTION DEVELOPMENT	DAI	AMAP IQC	Inc	High	1,065					October 2004
					60,185					
NEW INSTRUMENTS										
1. Laws, policies, and regulations that promote trade and investment										
1 TRADE AND INVESTMENT POLICY	SEGIR TBD	COMPETED IQC TASK ORDER	New	High	5,500					4th Quarter 2005
2 TAX ADMINISTRATION AND POLICY	SEGIR TBD	COMPETED IQC TASK ORDER	New	Med	4,250					4th Quarter 2005
2. More competitive, market-oriented private enterprises										
3 EXPORT PROMOTION AND TECHNOLOGY (ExproTech)	TBD	COMPETED IQC TASK ORDER	New	High	14,900					1st quarter 2006
4 AGRICULTURE DIVERSIFICATION (AgriTech) & SPS	TBD	COMPETED CONTRACT OR RFA	New	High	16,350					2nd quarter 2006
5 CLEANER PRODUCTION	TBD	CA	New	Med	2,250					4th Quarter 2005
6 SMALL SCALE INFRASTRUCTURE	Community grants	Local grants	New	Med	2,200					
3. Financial Sector Development										
7 EXPANDING FINANCIAL SECTOR LENDING TO SMES		AMAP	New	Med	4,435					4th Quarter 2005
8 DCA LOAN GUARANTEE.		Loan guarantee	New	Med	500					4th Quarter 2005 Not an RCG procurement. Agreement is with US Treasury.
IMPROVED WATERSHED MANAGEMENT										
9 IMPROVED WATERSHED MANAGEMENT	TBD	COMPETED IQC OR CONTRACT	New	Med	9,800					2nd quarter 2006
TOTAL DOLLAR VALUE										

*SPS activities will be all contracted under procurement instrument 4: AgriTech

**Already existing agreement, not to be extended

LEGAL AND POLICY RESTRICTIONS

The EGE or successor Office will insure that none of the interventions to be funded under the CRECER21 Activity will contain activities that would violate any of the legal and policy restrictions such as the Bumpers Amendment, exporting US jobs, amongst others. We will ensure that adequate safeguards are included in the requirements for such interventions and activities (including, in particular, the export promotion funds) to avoid any such violations. In order to address specific issues related to **Impact on U.S. Jobs: Relocation; Export Zones; Violation of Workers' Rights:** (Section 533 of the FY 04 Appropriations Act and ADS 225.) contractors will be required to conduct market based analysis on a product by product basis to be sure that the program is in compliance with these restrictions. Further, implementers will be required to maintain copies of this analysis and make them available for inspection and for end use monitoring. Similar requirements will be included in contracts, cooperatives agreements or grants for agriculture activities.

The following specific legal and policy restrictions will apply to this activity:

- (a) **Production of Surplus Commodities:** Section 513(a) of the FY 2004 Appropriations Act (or a successor provision) which prohibits the use of funds to finance any loan, any assistance or any other financial commitment for establishing or expanding production of any commodity for export if the commodity is likely to be in surplus on world markets at the time the resulting productive capacity is expected to become operative and if the assistance will cause substantial injury to U.S. producers of the same, similar, or competing commodity.
- (b) **Agricultural Activities (BUMPERS AMENDMENT):** Section 513(b) of the FY 2004 Appropriations Act (or a successor provision), as interpreted by the conference report for the original enactment, which prohibits, with certain exceptions, the use of funds for any agricultural development activities (specifically any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training) that would compete with a similar commodity grown or produced in the United States, unless the activity a) is designed to increase food security in developing countries and where such activities will not have a significant impact in the export of agricultural commodities of The United States, or b) is a research activity intended primarily to benefit American producers.
- (c) **Productive enterprises competing with U.S. enterprises:** Section 620(d) of the Foreign Assistance Act of 1961, as amended, which provides that no FAA loan funds may be used for any productive enterprise that will compete with U.S. enterprise, unless
 - (1) There is an agreement by the recipient country to prevent export for use or consumption in the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or
 - (2) In case of failure to implement such agreement, the President has established import controls to effectuate that agreement.

This may be waived by the President due to national security interest.

(d) **Impact on U.S. Jobs: Relocation; Export Zones; Violation of Workers' Rights (FY 2004 Act, Sec. 533, see ADS 225).** Assistance may not be provided

- (1) To a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business;
- (2) For an activity that contributes to the violation of internationally recognized workers rights of workers in the recipient country. This is applied commensurate with the level of development of the recipient country and not to preclude assistance for the informal sector including micro

and small-scale enterprise and smallholder agriculture. However under the provision in the FY 2004 Act, these exceptions no longer apply to the right of workers to associate, to organize and bargain collectively, and the prohibition on the use of any form of forced or compulsory labor.

The CRECER 21 activity is restricted from providing any assistance that will induce any U.S. business to relocate in El Salvador. The contractors and grantees that implement CRECER 21 will be given instructions in their contracts or agreements that prohibit such actions. Furthermore, implementers will be required to conduct market based analysis on a product by product basis to be sure that the program is in compliance with these restrictions. Implementers will also be required to maintain copies of this analysis and make them available for inspection and for end use monitoring.

(e) Assistance to Support Agricultural Export Development: PD #15 states that it is USAID policy to avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters.

(f) USAID Financing of Palm Oil, Citrus and Sugar Projects and Related Products: PD #71 requires prior approval by the Assistant Administrator (AA) for the LAC Bureau of USAID with the concurrence of the AA/PPC (following a review as described in the PD) before the development of any activity involving production, processing or marketing of sugar, palm oil or citrus for export.

CRECER 21	TOTAL SO REQUEST	Counterpart Contribution	FY 04	FY 05 adj	FY 06	FY 07	FY 08
1. Laws, policies, and regulations that promote trade and investment	11,500	3,670	4,250	2,350	2,050	1,900	950
1. Implementation of key requirements of CAFTA and other trade agreements	3,650	1,220	1,800	700	450	400	300
Administration of rules of origin and instituting a risk management system	1,900		900	400	250	200	150
Strengthening the capacity to address selected SPS standards	1,750		900	300	200	200	150
2. Removal of barriers to expanding public and private sector investments and increasing exports	3,100	1,030	600	700	650	650	500
Program areas #1 and #2	2,000		300	400	400	400	500
Expanded use of commercial arbitration	1,100		300	300	250	250	
3. Promotion of fiscal policy reform leading to increased tax collection	4,250	1,420	1,700	800	850	750	150
4. Baseline and new strategy development	500		150	150	100	100	
2. More competitive, market-oriented private enterprises	37,200	3,530	8,600	4,750	7,018	7,341	9,491
1. Export Promotion and Technology Program (EXPROTECH)	18,150	990	4,200	2,100	3,568	3,641	4,641
USAID EXPRO Extension	2,750	140	2,750				
o Base agreement extension	1,500		1,500				
o Additional costs for extension	1,250		1,250				
Handicraft sector Development Extension	500		500				
USAID ExproTech21	14,900	990	950	2,100	3,568	3,641	4,641
2. Agriculture Development, Marketing, and Technology (USAID AgriTech)	14,600	1,055	3,450	1,800	2,550	2,700	4,100
USAID IDEA Extension	1,800		1,800				
USAID AgriTech21	12,250	1,055	1,100	1,800	2,550	2,700	4,100
i) Agribusiness development/exports	9,550	485	900	1,200	1,950	2,200	3,300
ii) Agribusinesses Able to Meet Certain SPS Requirements	1,700	570	200	400	400	300	400
iii) Specialty coffee	1,000			200	200	200	400
Speciality Coffee Extension	550		550				
3. Improved enterprises processes through cleaner production and energy efficiency	2,250	750	500	500	500	500	250
4. Small scale infrastructure	2,200	735	450	350	400	500	500
3. Broader Access to Financial Markets and Services	6,000	-	2,500	1,150	1,250	1,100	-
1. Financial Institution Strengthening to increase SME lending	5,500	-	2,500	650	1,250	1,100	-
i) Micro Finance Institution Strengthening (FOMIRII)	1,065		1,065				
ii) Micro Finance Institution Development	750		500	250			
iii) SME Financial Product Development/Financial Institution Risk Mediation	3,685		935	400	1,250	1,100	
2. DCA loan portfolio guarantee	500			500			
4. Improved Watershed Management	9,800	-	-	2,330	2,500	2,700	2,270
-Program	3,100			580	750	700	1,070
-Develop Alliance/leverage funding	6,700			1,750	1,750	2,000	1,200
5. Staffing and evaluations	4,800	-	109	736	1,191	1,217	1,547
1. Laws, policies, and regulations that promote trade and investment	881		109	96	226	225	225
2. More competitive, market-oriented private enterprises	990		-	140	290	275	285
3. Broader Access to Financial Markets and Services	535		-	75	150	150	160
4. Improved Watershed Management	550		-	90	150	150	160
5. Secretaries	515			95	140	140	140
6. Support staff	955			240	235	235	245
7. Evaluations	374					42	332
TOTAL SO LEVEL	69,300	7,200	15,459	11,316	14,009	14,258	14,258
Field Support	200		200				
GRAND TOTAL	69,500	7,200	15,659	11,316	14,009	14,258	14,258

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**STRATEGIC OBJECTIVE GRANT AGREEMENT
"ECONOMIC FREEDOM: OPEN, DIVERSIFIED, EXPANDING ECONOMIES"**

**ASSISTANCE CHECKLIST FOR ACTIVITY No. 519-0462
"ECONOMIC GROWTH FOR THE 21st CENTURY (CRECER 21)"
September 2004**

Part A. – Planning (in alphabetical order)

1. **Activity Information Sheet.** (See ADS 203.3.9) Does this activity require an Activity Information Sheet ("AIS"). If so, has it been prepared or, if there is already AIS for the activity, has it been reviewed and updated. See Additional Help document, database for accessing Blank Activity Information Sheet (AIS) Template (<http://www.usaid.gov/pubs/ads/200/200sbj.doc>), available at <http://cdie.usaid.gov/npc/> (accessible only within the USAID firewall); or send an e-mail request to npctemplate@dec.cdie.org.

Please comment

THIS PROVISION DOES NOT APPLY.

2. **Agricultural Activities (Bumpers Amendment)** (FY 2004 Act Sec. 513(b), as interpreted by the conference report for the original enactment). No funds may be used for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training) that would compete with a similar commodity grown or produced in the United States unless the activity
 - (a) Is designed to increase food security in developing countries and where such activities will not have a significant impact in the export of agricultural commodities of the United States; or
 - (b) Is a research activity intended primarily to benefit American producers.

Is this restriction applicable? Please comment.

No CRECER 21 activities/interventions will directly compete with United States agricultural production. Implementers will be directed to comply with the Bumpers Amendment.

3. **Communist Assistance** (FAA Sec. 620(h)). Arrangements should be made to ensure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

Please comment.

THIS RESTRICTION DOES NOT APPLY.

4. Adverse Economic Impact Upon the United States.

(a) Impact on U.S. Jobs: Relocation; Export Zones; Violation of Workers' Rights (FY 2004 Act, Sec. 533, see ADS 225). Assistance may not be provided

- (1) To a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business;
- (2) For an activity that contributes to the violation of internationally recognized workers rights of workers in the recipient country. This is applied commensurate with the level of development of the recipient country and not to preclude assistance for the informal sector including micro and small-scale enterprise and smallholder agriculture. However under the provision in the FY 2004 Act, these exceptions no longer apply to the right of workers to associate, to organize and bargain collectively, and the prohibition on the use of any form of forced or compulsory labor.

Please comment.

PROVISION (1): THE CRECER 21 ACTIVITY IS RESTRICTED FROM PROVIDING ANY ASSISTANCE THAT WILL INDUCE ANY U.S. BUSINESS TO RELOCATE IN EL SALVADOR. THE CONTRACTORS AND GRANTEES THAT IMPLEMENT CRECER 21 WILL BE GIVEN INSTRUCTIONS IN THEIR CONTRACTS OR AGREEMENTS THAT PROHIBIT SUCH ACTIONS. FURTHER, IMPLEMENTORS, WILL BE REQUIRED TO CONDUCT MARKET BASED ANALYSIS ON A PRODUCT BY PRODUCT BASIS TO BE SURE THAT THE PROGRAM IS IN COMPLIANCE WITH THESE RESTRICTIONS. IMPLEMENTERS WILL ALSO BE REQUIRED TO MAINTAIN COPIES OF THIS ANALYSIS AND MAKE THEM AVAILABLE FOR INSPECTION AND FOR END USE MONITORING. PROVISION (2): PLANNED INTERVENTIONS UNDER THE CRECER 21 ACTIVITY DO NOT CONTRIBUTE TO THE VIOLATION OF INTERNATIONALLY RECOGNIZED RIGHTS OF WORKERS IN THE RECIPIENT COUNTRY. THE MISSION IS NOT AWARE OF ANY COMPLAINT OR NOTIFICATION OF VIOLATION UNDER OTHER USAID ACTIVITIES THAT PROVIDE ASSISTANCE TO THE INFORMAL SECTOR, MICRO, SMALL, OR MEDIUM-SCALE ENTERPRISE.

(b) Production of Surplus Commodities (FY 2004 Act Sec. 513(a)).

Assistance may not be provided to establish or expand production of any commodity for export if the commodity is likely to be in surplus on world

markets and substantial injury will be caused to U.S. producers of the same, similar, or competing commodities.

Is this restriction applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

5. Environment

(a) **Environmental Review** (FAA Sec. 117; 22 CFR 216 (USAID Regulation 16), see ADS 204). 22 CFR 216 requires an Initial Environmental Examination, unless the proposed assistance falls within certain exceptions and other actions.

Please comment.

NO FUNDS WILL BE OBLIGATED UNTIL THE BUREAU ENVIRONMENTAL OFFICER (BEO) HAS APPROVED THE IEE. A CATEGORICAL EXCLUSION TO 22CFR216, ENVIRONMENTAL PROCEDURES, IS PROPOSED FOR ALL ACTIVITIES EXCEPT FOR PORTIONS OF THE AGRITECH INTERVENTION AND THE SMALL INFRASTRUCTURE ACTIVITY. A POSITIVE DETERMINATION IS RECOMMENDED FOR AGRITECH'S LIKELY ASSISTANCE TO FARMERS IN RECOMMENDING SELECTED APPROPRIATE USE OF PESTICIDES AND AN ENVIRONMENTAL ASSESSMENT WILL BE UNDERTAKEN AND BEO APPROVAL OBTAINED PRIOR TO WORK. A NEGATIVE DETERMINATION WITH CONDITIONS IS RECOMMENDED FOR THE SMALL-SCALE INFRASTRUCTURE ACTIVITY, GIVEN THAT COMMUNITIES WILL CONTINUE USING GUIDELINES ALREADY APPROVED BY THE AGENCY. UNDER COMPONENT 2, PROCEDURES WILL BE ESTABLISHED FOR EACH IMPLEMENTER TO REVIEW CASE BY CASE ASSISTANCE TO PRIVATE COMPANIES TO ADDRESS ANY POTENTIAL ENVIRONMENTAL ISSUES AND REFER THESE CONCERNS TO USAID EL SALVADOR FOR ACTION.

(b) **Debt-for-Nature Exchange** (FAA Sec. 463). Assistance that will finance a debt-for-nature exchange must

- (1) Support protection of the world's oceans and atmosphere, animal and plant species, or parks and reserves; or
- (2) Promote natural resource management, local conservation programs, conservation training programs, public commitment to conservation, land and ecosystem management, or regenerative approaches in farming, forestry, fishing, and watershed management.

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

(c) Tropical Forest Degradation (FAA Sec. 118). Funds may not be used for

- (1) The procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems;
- (2) Actions that will significantly degrade national parks or similar protected areas that contain tropical forests, or introduce exotic plants or animals into such areas;
- (3) Activities that would result in the conversion of forest lands to the rearing of livestock;
- (4) The construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) that pass through relatively undegraded forest lands;
- (5) The colonization of forest lands; or
- (6) The construction of dams or other water control structures that flood relatively undergraded forest lands.

However, funds may be used for activities in (3) through (6) above if an environmental assessment indicates that the proposed activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner that supports sustainable development.

Is this applicable? Please comment.

IMPLEMENTORS WILL BE INFORMED THAT THEY MAY NOT SUPPORT THE USE OR TRADE IN TROPICAL FOREST WOOD PRODUCTS OR PRODUCTS FROM NATIONAL PARKS OR LEAD TO THE CONVERSION OF TROPICAL FOREST LANDS TO AGRICULTURE USE. NO SMALL SCALE INFRASTRUCTURE ACTIVITY WILL BE APPROVED THAT RESULTS IN THE CONSTRUCTION OF ANY INFRASTRUCTURE THAT DEGRADES OR DESTROYS TROPIC FORESTS

6. **Expropriation and Land Reform** (FAA Sec. 620(g)). Assistance may not be used to finance compensation to owners for expropriated or nationalized property, except

to compensate foreign nationals in accordance with a land reform program certified by the President.

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY

7. Family Planning.

(a) Abortions and Involuntary Sterilizations Prohibited (FAA Sec. 104(f); FY 2004 Act Sec. 518 and, "Child Survival and Health Programs Fund" heading under Title II). Funds may not be used

- (1) To perform abortions as a method of family planning or to motivate or coerce any person to practice abortions. (Note that the term "motivate" does not include the provision, consistent with local law, of information or counseling about all pregnancy options.)
- (2) To pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations.
- (3) To pay for any biomedical research that relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.
- (4) To furnish assistance to any country or organization if the President certifies that the use of these funds by such country or organization would violate the three provisions above.
- (5) To lobby for or against abortion.
- (6) To furnish assistance to any organization or program that supports or participates in the management of a program of coercive abortion or involuntary sterilization.

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

(b) Voluntary Family Planning Support (FY 2004 Act, Title II, under heading "Child Survival and Health Programs Fund"). Funds may be made available only to voluntary family planning projects that

- (1) Offer, either directly or through referral to, or provide information about access to, a broad range of family planning methods and services (as a legal matter, Development Assistance only).

(2) Meet the following requirements:

- (a) Service providers do not implement or are not subject to quotas, or targets, of numbers of births, family planning acceptors, or acceptors of a particular form of family planning (quantitative estimates or indicators for planning and budgeting purposes is acceptable);
 - (b) The project must not provide payment of incentives, bribes, gratuities, or financial rewards for becoming a family planning acceptor or achieving numerical target or quota;
 - (c) The project must not deny any right or benefit, including right of access to any program of general welfare or right of access to health care, as a consequence of any decision not to accept family planning services;
 - (d) The project must provide comprehensible information of the health benefits and risks of method chosen; and
 - (e) The project must ensure that experimental drugs and services are provided only in the context of scientific study in which participants are advised of potential risks and benefits.
- (3) No applicant may be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning (as a legal matter, Child Survival and Health Programs Fund account only).

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

8. **International Conferences** (FY 2004 Act Sec. 541, see Guidance on Funding Foreign Government Delegations to International Conferences, Mandatory Reference to ADS 302, 303, 306, 308, 350, and 522). Development Assistance funds may not be used to pay the costs for participation of another country's delegation at international conferences held under the auspices of multilateral or international organizations.

Is this applicable? Please comment.

NO FUNDS UNDER THE CRECER 21 ACTIVITY WILL BE USED TO PAY FOR THE PARTICIPATION OF A GOVERNMENT DELEGATION OF THE RECIPIENT COUNTRY TO INTERNATIONAL CONFERENCES SPONSORED BY MULTILATERAL OR INTERNATIONAL ORGANIZATIONS.

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

Is this restriction applicable? Please comment.

RATIFICATION OF THE SOAG WILL BE REQUIRED WITH THE EXCEPTION OF THE INCREMENTAL FUNDING OF THE CONTRACT TO PROVIDE ASSISTANCE TO MICRO-FINANCE INSTITUTIONS. MISSION DOES NOT ANTICIPATE DELAYS THAT MAY AFFECT THE TIMELY IMPLEMENTATION AND THE ACCOMPLISHMENT OF THE PURPOSE OF THE ASSISTANCE. THIS CONTRACT WILL BE INCREMENTALLY FUNDED OUTSIDE THE SOAG.

10. Loans

(a) (FAA Section 122(b)). In making loans, USAID must consider the following:

- (1) Information and conclusion on the capacity of the country to repay the loan at a reasonable rate of interest.
- (2) Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?
- (3) If repayable in dollars, the interest rate must be at least 2 percent per annum during a grace period which is not to exceed 10 years, and at least 3 percent per annum thereafter, but no higher than the applicable legal rate of interest of the country in which the loan is being made.

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

(b) **Productive enterprises competing with U.S. enterprises** (FAA Sec. 620(d)). No FAA loan funds may be used for any productive enterprise that will compete with U.S. enterprises, unless

- (1) There is an agreement by the recipient country to prevent export for use or consumption in the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan; or
- (2) If in the absence of such an agreement, the President has established import controls to effectuate that agreement.

This may also be waived by the President due to national security interest.

Is this restriction applicable? Please comment.

NO LOANS FOR ANY PRODUCTIVE ENTERPRISE WILL BE PROVIDED UNDER CRECER 21.

- 11. Military Purposes** (FAA Sec. 531(e)). Congress has explicitly provided that ESF funds may not be used for military or paramilitary purposes.

Is this restriction applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

- 12. Police and Prisons** (FAA Sec. 660). Assistance may not be used to provide training, advice, or any financial support for police, prisons, or other law enforcement forces (see exceptions in Sections 660, 119 and 534 of the FAA and 536 and 582 of FY 2004 Act).

Is this restriction applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

- 13. Publicity, Propaganda, and Lobbying** (FY 2004 Act Sec. 540; Anti-Lobbying Act, 18 U.S.C. 1913). Assistance may not be used to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress.

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

- 14. PVOs – Funding Sources for U.S. PVOs** (FY 2004 Act Sec. 502). If assistance is to be made to a United States private voluntary organization (PVO) (other than a cooperative development organization), it must obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government. This may be waived in certain circumstances. Check with the Bureau for Humanitarian Response, Office of Private and Voluntary Cooperation (BHR/PVC) to see if the U.S. PVO has met the requirement.

Is this applicable? Please comment.

IF THE ECONOMIC GROWTH/WATER AND ENVIRONMENT, OR SUCCESSOR OFFICES DETERMINE TO WORK WITH U.S. PVOs, THEY WILL CHECK WITH BHR/PVC TO MAKE SURE THAT ANY U.S. PVOs SELECTED TO RECEIVE FUNDS FROM THIS ACTIVITY

UNDER A GRANT OR COOPERATIVE AGREEMENT MEET THIS REQUIREMENT PRIOR TO OBLIGATING FUNDS.

Part B. Congressional Notifications.

- *1. **General Notification** (FY 2004 Act Sec. 515; FAA Sec. 634A). Obligations must be notified to Congress. This is usually accomplished through the annual Congressional Presentation. It may be the subject of a Special Notification, as below. Additionally, a new Congressional Notification must be made 15 days in advance of the obligation if the amount of the obligation has increased 10 percent from that previously notified.

Is this applicable? Please comment.

THIS PROVISION APPLIES. THE CN NOTIFYING FY 2004 OBLIGATIONS FOR THIS ACTIVITY WAS SENT TO THE HILL ON JUNE 23, 2004 AND EXPIRED WITHOUT OBJECTION ON JULY 8, 2004.

2. **Special Notification.** For activities, countries, and other actions requiring special notification see the Annex, "Changes Made by the FY 2004 Foreign Operations Appropriations Act to Current Law."

Is this applicable? Please comment.

THIS PROVISION DOES NOT APPLY.

Part C. Obligating Documents

1. **Source, Origin, and Nationality** (See ADS 310).

- (a) **General** (FAA Sec. 604(a)). All procurement must be from the U.S., the recipient country or developing countries, except as otherwise determined in accordance with Agency rules, including the DFA Procurement Guidance. If planning procurement elsewhere, a waiver must be obtained.

Please comment.

THE AGREEMENT PROVIDES PROCUREMENT FROM THE UNITED STATES (GEOGRAPHIC CODE 000) AND, IN ACCORDANCE WITH LOCAL PROCUREMENT POLICY, FROM EL SALVADOR. SHOULD PROCUREMENT FROM ELSEWHERE BECOME NECESSARY, WAIVERS WILL BE OBTAINED IN ACCORDANCE WITH AGENCY NORMS AND REGULATIONS.

- (b) Automobiles -- buy only U.S. made motor vehicles** (FAA Sec. 636(i)). Assistance may not be used to finance the purchase, sale, long-term lease, exchange, or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained.

Please comment.

ALL POSSIBLE VEHICLES WILL BE PURCHASED FROM U.S. MANUFACTURERS UNLESS NOT DEEMED APPROPRIATE, WHEREFORE PROPER WAIVERS WILL BE OBTAINED.

- (c) Agricultural Procurement** (FAA Sec. 604(e)). Agricultural commodities and products thereof must be procured within the U.S. unless the commodity or product could not be reasonably produced in the U.S. in fulfillment of the particular assistance program. Waivers are available in some circumstances.

Please comment.

BASED ON THE DEFINITION OF AGRICULTURAL COMMODITIES SET FORTH IN ADS E3.12.5.3a, NO AGRICULTURAL COMMODITIES OR PRODUCTS WILL BE FINANCED UNDER CRECER 21.

- (d) Construction or Engineering Services** (FAA Sec. 604(g)). No engineering or construction services may be procured from advanced developing countries eligible under Code 941 that have attained competitive capability in international markets, unless

- (1) The advanced developing country is receiving direct economic assistance under the FAA, and
- (2) Its own assistance program would permit U.S. firms to compete for similar services.

Please comment.

THIS PROVISION DOES NOT APPLY.

- 2. Cash Transfers -- Requirement for Separate Account** (FY 2004 Act Sec. 529(b)). If assistance is in the form of a cash transfer or nonproject sector assistance, all such cash payments must be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance).

Please comment.

THIS PROVISION DOES NOT APPLY.

3. Capital Assistance

(a) Mission Director Certification/Assistant Administrator Determination (FAA Sec. 611(e)). When capital assistance is proposed (for example, construction), and total U.S. assistance for it will exceed \$1 million, the Mission Director must certify and the Regional Assistant Administrator must take into consideration the country's capability to maintain and utilize the assistance effectively.

Please comment.

THIS PROVISION DOES NOT APPLY.

(b) Developmentally sound projects (Jobs Through Export Act of 1992, Sections 303 and 306(b)), Pub. L. 102-549, 22 U.S.C. 2421b and 2421d(b). If assistance is being provided for a capital activity, the activity must be developmentally sound and measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level.

Please comment.

THIS PROVISION DOES NOT APPLY.

(c) U.S. Engineering Services (FAA Sec. 601(d)). If using capital (for example, construction) assistance, U.S. engineering and professional services must be used to the maximum extent, consistent with U.S. interests.

Please comment.

THIS PROVISION DOES NOT APPLY.

4. Assistance Generating Local Currency (FY 2004 Act Sec. 529). If assistance is furnished to a foreign government under arrangements that result in the generation of local currencies

(a) USAID must

- (1) Require that local currencies be deposited in a separate account established by the recipient government;
- (2) Enter into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized; and
- (3) Establish by agreement the responsibilities of USAID and the host government to monitor and account for deposits into and disbursements from the separate account.

- (b) Local currencies, or an equivalent amount of local currencies, can be used only to carry out the purposes of the Development Assistance or Economic Support Fund chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government.
- (c) USAID should take all necessary steps to ensure that the equivalent of local currencies disbursed from the separate account is used for the agreed purposes.
- (d) If assistance is terminated to a country, unencumbered balances of funds remaining in a separate account should be disposed of for purposes agreed to by the recipient government and the United States Government.

Please comment.

THIS PROVISION DOES NOT APPLY.

5. **Printing Costs.** The Bureau for Legislative and Public Affairs (LPA) must approve printing costs of a report of study (except feasibility, design, or evaluation reports or studies) more than \$25,000. [Note: While the requirement for this review is not in the FY 2004 Act, the USAID guidance still applies.]

Please comment.

ALL REPORTS OF STUDIES (EXCEPT FEASIBILITY, DESIGN, OR EVALUATION REPORTS OR STUDIES) OVER \$25,000 WILL BE SENT TO LPA FOR APPROVAL OF PRINTING COSTS BEFORE THEY ARE SENT TO THE PRINTING HOUSE. HOWEVER, IT IS NOT EXPECTED THAT A REPORT OF STUDIES UNDER THE ACTIVITY THAT ARE BEING AUTHORIZED AT THIS TIME WILL BE IN EXCESS OF \$25,000.

6. **Alcoholic Beverages and Certain Entertainment Expenses** (FY 2004 Act Sec. 549). Development Assistance or Economic Support Funds may not be used for alcoholic beverages or entertainment expenses that are substantially of a recreational nature.

Please comment.

THIS PROVISION DOES NOT APPLY.

7. **State Department Notification of Bilateral Agreements With an Obligation of \$25 Million or More** (see ADS 349). The date of signing and the amount involved must be cabled to State Office of Assistant Legal Adviser for Treaty Affairs (L/T) immediately upon signing and the full text of the agreement should be pouched to State/L/T within 20 days of signing.

Please comment.

THIS PROVISION DOES NOT APPLY SINCE FUTURE AMENDMENTS WILL NOT OBLIGATE \$25 MILLION OR MORE (AS PER REVISED ADS SECTION E350.5.5.(a) 2).

8. **Engineering and Financial Plans** (FAA Sec. 611). Before an obligation of more than \$500,000, there must be

(a) Engineering, financial, or other plans necessary to carry out the assistance; and

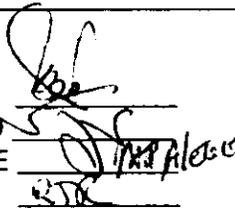
(b) A reasonably firm estimate of the cost to the U.S. of the assistance.

And, if the plan relates to a water or water-related land resource construction, the plan should include a computation of benefits and costs. This figure must be computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.).

Please comment.

REASONABLY FIRM ESTIMATES OF COSTS HAVE BEEN DEVELOPED AND INCLUDED IN THE DESIGN DOCUMENTATION OF THE ACTIVITY. THESE ESTIMATES ARE BASED ON ANALYSES MADE BY MISSION STAFF FROM EGE, WE, CONT AND RCG OFFICES.

Prepared by: JC Segovia, SDO
SJ Schwartz, SDO
R Greenberg, EGE
R Rakas, RLA



Date: 7/3/04
Date: 9/3/04
Date: 9/17/04
Date: 9/4/04

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INITIAL ENVIRONMENTAL EXAMINATION

Activity Location: EI Salvador

Activity Title: SO 2: Economic Growth for the 21st Century
(CRECER21)

Activity number: 519-0462

Funding: \$69.5 million

Life of Project: FY 2004-2008

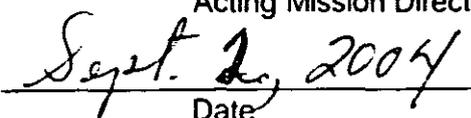
IEE Prepared By: Mark Carrato
Ronald Greenberg, EGE
USAID/EI Salvador

Approved By: William Patterson
Mission Environmental Officer

Recommended Threshold Decision: **Categorical Exclusion** under 22CFR216.2(c)(2)(i) for all technical assistance and training
Categorical Exclusion under 22CFR216.2(c)(2)(x) for the DCA Loan Guarantee
Positive Determination for AgriTech regarding training and recommendations on the use of pesticides and an Environmental Assessment is required
Negative Determination with Conditions under 22CFR216.3 (3) (iii) for the Small Infrastructure Activities

Mission Threshold Decision: Concur with Recommendations

Date Prepared: August 19, 2004

Tully Cornick
Acting Mission Director

Date

Activity Description

Economic Growth for the 21st Century (CRECER21 in Spanish), will stimulate equitable, sustainable economic growth and expand job creation in order to reduce poverty and improve natural resource management by assisting the GOES and the private sector to utilize the favorable macro-economic policy structure and opportunities presented by the Central American Free Agreement (CAFTA). CRECER 21 is comprised of the four components that mirror the CAM Strategy Intermediate Results (IRs): (1) Laws, Policies, and Regulations that Promote Trade and Investment; (2) More Competitive, Market-oriented Private Enterprises; (3) Broader Access to Financial Markets and Services; and (4) Improved Management and Conservation of Critical Watersheds. Activities under the first three IRs will be obligated in FY 2004 and the fourth IR will be obligated in FY 2005. The total estimated USAID contribution for this Activity is \$69.5 million over a five-year implementation period (FY 2004-2008). GOES counterpart contribution is estimated at \$5.0 million.

Component 1: Laws, Policies, and Regulations that Promote Trade and Investment (IR 2.1)

- Under Sub-IR 2.1.1 (*Implementation of key requirements of CAFTA and other trade agreements*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Support the establishment of a legislative and regulatory framework for the proper implementation of Rules of Origin (ROO), customs valuation, and risk management
 - Strengthen the technical capacity of the Ministry of Finance's (MOF) Customs Service and Trade Administration (CSTA) to comply with CAFTA related obligations to administer ROO and risk management requirements
 - Improve the capacity of MAG to manage and monitor specific Sanitary and Phyto-sanitary (SPS) standards. The primary focus will be on food safety regulatory enforcement, and modernizing management of the sale, use and distribution of pesticides. For example, training will be provided to GOES officials on the environmental and health risks associated with improper pesticide use and on implementing improved regulations of pesticide use, transport, storage, and disposal.
- Under Sub-IR 2.1.2 (*Removal of key barriers to expanding public and private sector investments and increasing exports*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Identify and eliminate at least 3 key barriers to expanding public and private sector investments and increasing exports identified and eliminated. *Illustrative areas include investment promotion weaknesses, bureaucratic procedures that inhibit speed to market and other exports, commercial business bankruptcy laws/regulations, and commercial arbitration.*
- Under Sub-IR 2.1.2 (*Promotion of fiscal policy reform leading to increased tax collection*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Strengthened fiscal policy reforms, including developing new instruments
 - Review and monitor tax administration effectiveness and recommend corrective practices where appropriate in order to assure sustainability of improvements.

- provide advice and limited IT hardware and software to support the establishment of new offices such as Tax Delinquents at Directorate General for Internal Revenue (DGII), Tax Analysis at the Ministry of Finance level and the Tax Investigations Unit.

Component 2: More Competitive, Market-Oriented Private Enterprises (IR2.2)

- Under *Sub-IRs 2.2.1, 2.2.2, 2.2.3 (Export Promotion and Technology Program)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - strengthen the GOES institutional export promotion capacity by improving access to market information and increasing business contacts; analyzing market and commodity trends and product requirements (HACCP, etc); improving business skills and management practices; improving plant process and production efficiencies; promoting participation in trade fairs to identify opportunities as well as increase sales; increasing linkages with larger companies to be product and service providers, increasing access to technology and innovative business practices through a technology innovation fund.
 - improve access to market information and increase business contacts using part-time, program funded marketing consultants network, which could operate in target cities in the U.S., México, the Caribbean, Europe and Far Eastern Asia.
 - help small and medium-sized enterprises (SMEs) to improve their business skills, management practices and in selected cases English language skills through the cost sharing grants. This can be done through local consultants and training institutions
 - foster private sector creation of design centers for SMEs. These centers will house marketing, design and product development teams to drive strategy and design of individual products; generate local capacity; and develop innovative design solutions stemming from the synergy of housing different design capacities under one roof.
 - assist SMEs to improve their export process and sales management to comply with market requirements
- Under *Sub-IRs 2.1, 2.3 (More competitive market oriented agriculture enterprises operating)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - work with farmers, individual agribusinesses and private sector business associations to strengthen their technical, marketing, production, and processing capacities leading to increased jobs and sales, either for domestic or export markets
 - build the capacity of farmers and agribusinesses to analyze market trends and demand by improving access to domestic market information; help them develop long-term sustainable business relationships, business contacts between producers and buyers /processors /exporters, and increase access to new technologies and production practices.
 - work with processing firms to enhance their knowledge about improved supply of raw materials, post-harvest management, product packing and development, good manufacturing practices, etc. in order to make the firms more competitive
 - help exporting businesses meet US SPS requirements.
 - assist Salvadoran coffee producers to strengthen their capacity to produce and increase their sales of specialty and high quality coffee
- Under *Sub-IR 2.2.2 (Improvement in enterprise processes through cleaner production and energy efficiency)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:

- Draft an incentives program for cleaner production and assist the Ministry of Environment and Natural Resources (MARN) to launch a program of voluntary compliance mechanisms that take advantage of competitive market forces.
 - Strengthen the capacity of the Cleaner Production Center at CAMAGRO and a few companies to be able to provide cleaner production and energy efficiency services on a fee-for-service basis.
 - Work with strategic industrial sectors to demonstrate the use of environment/energy audits to show low cost/no cost investments that plants or businesses can make, and the advantages of a more intensive environmental management system in the industry or business sector
- Under Sub-IR 2.2.2 (*Removal of small-scale infrastructure barriers to facilitate access to trade and markets and lower business transaction costs*) CRECER 21 will:
 - seek to improve rural productivity and/or improve rural access to markets by financing small-scale infrastructure carried out by local communities. USAID plans to co-finance 50 to 60 productive infrastructure projects, with a value of approximately \$40,000 to \$50,000, which have a 25 percent cost share requirement with local communities and donated design and engineering assistance from organizations such as FUSADES/Fortas and Fundamuni. Projects can include rural tertiary farm-to-market roads, small bridge or culvert construction; the repair of public roadways that provide access to commodity markets, community managed farm storage facilities, small-scale irrigation, input supplies for farmers for small water systems. SIA will not fund social investment projects such as schools or clinics.

Component 3: Broader Access to Financial Markets and Services (IR 2.3)

- Under Sub-IR 2.3.1 (Financial Institution Strengthening to Increase SME Lending and Further Develop and Improve Quality of Financial Terms and Services for SMEs) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - help the rural micro-enterprise sector to achieve financial sustainability, and expand coverage of rural financial services; and also assist key micro-finance institutions to comply with Superintendent of the Financial System (SFS) requirements for becoming regulated financial institutions;
 - help financial institutions increase the loan volume to SMEs by strengthening their capacity to provide SME services and reduce risk aversion to SME lending. Examples of this type of assistance may entail: (1) technical assistance and training to better understand SME financial statements, analyze and determine SME credit risk, identify and manage problem SME loans, and manage the SME credit process; (2) exposing key financial institution staff to best practice models of successful SME lending programs; (3) expanding marketing and promotional strategies targeting potential SME clientele; and (4) improving SME loan terms
 - help SME and financial institutions take advantage of a DCA Loan Portfolio Guarantee (LPG). Through the extension of a partial guarantee, USAID El Salvador will try to help local financial institutions overcome the market imperfection that is excluding financially viable sectors.

Application of Procedures

The Environmental Procedures 22 CFR 216.2 provides for the classification and determination of the potential environmental effects of USAID funded activities and in selected cases for the Categorical Exclusion from these requirements. Section 216.2 (c) (2) provides for Categorical Exclusions for:

- (i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.);
- (iii) analyses, studies, academic or research workshops and meetings;
- (x) Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institutions.

Under Section 216.2(d), the Environmental Procedures defines classes of action that normally have a significant effect on the environment and these always require a Positive Determination and the preparation of an Environmental Assessment. Activities such as construction, irrigation, including dams and impoundments, road and bridge construction, all require a Positive Determination. Further, under 216.2(e), it states that Categorical Exclusions do not apply to assistance for the procurement or use of pesticides, which therefore requires a Positive Determination.

Determination

All of the technical assistance, training, and small equipment activities under CRECER 21 for legal, policy and regulatory reforms, assistance for enterprise development, and increased lending to SMEs qualify for a **Categorical Exclusion** under 216.2.c.2.(i) "Education, technical assistance, or training programs..." and in (iii) Analyses, studies, academic or research workshops. The use of the DCA Loan Guarantee in sub-component 3.1 (*Increased lending to SMEs and improved quality of financial services for SMEs*) qualifies for a **Categorical Exclusion** under 216.2.c.2 (x) because the instrument provides "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution". If any project involves policy changes that affect the environment or natural resource management, an amendment to this IEE will be submitted.

Technical assistance and training in the use of pesticides under Sub-IR 2.1.1 (SPS) and 2.1 and 2.3 (*More competitive market oriented agriculture enterprises operating*) requires a **Positive Determination**, and USAID/EI Salvador will assure that an Environmental Assessment is conducted, in order to recommend the use of pesticides. This EA must be completed and approved by the Bureau Environmental Officer prior to providing recommendations to farmers or counterparts.

Small Infrastructure Activity (SIA) grant program within activity 2.3 will provide co-funding for construction of rural infrastructure such as local roads, bridges, and other small construction. Because of the small scale nature of these projects and the impact from these projects on the environment can be readily mitigated, and because the Agency has environmental guidelines in the design of small infrastructure activities, we are recommending a **Negative Determination with conditions**; the condition is that grantee community will continue using guidelines already

approved by the Agency and that the Mission will develop an Environmental Management System for SIA. This activity qualifies for a Negative Determination under Section 216.3 (3) (iii), "the Agency has developed design criteria for such an action which, if applied in the design of the action, will avoid a significant effect on the environment." The Mission is currently monitoring the effectiveness of the mitigation measures included in the current guidelines that are being used and will report the results of this monitoring to the BEO, with copy to the REO, by September 30, 2004. Based on this analysis, the Mission will update the SIA environmental guidelines and develop an Environmental Management System. Furthermore, the Mission will seek approval of the Mission Environmental Officer prior to the design and construction of SIA activities.