

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

EL SALVADOR

**DEPARTMENT
OF
STATE**

January 1979



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EMBASSY OF THE
UNITED STATES OF AMERICA

San Salvador, El Salvador

January 30, 1979

The Honorable
Governor John J. Gilligan
Administrator
Agency for International Development
Washington, D. C. 20523

Dear Governor Gilligan:

I have participated in the formulation and have reviewed the El Salvador "Country Development Strategy Statement (CDSS)". This, in my opinion, is a well conceived document, which I endorse. The strategy has evolved from ideas, thoughts, deliberations and experiences of the past year from all the members of the staff that have participated in its preparation. Some of the ideas evolved from my weekly "Country Development Meetings" in which the A.I.D. Director, Mr. Ruiz, and other members of my senior staff involved in economic development participate.

I realize that the CDSS has been prepared following AID/W guidelines and instructions that "human rights will not be considered as a separate factor affecting planned levels". I support that approach. The strategy addresses present basic human needs as geared toward the poor majority consistent with our Congressional Mandate.

I am pleased to note that the strategy as designed requires funding levels higher than those presented in the Annual Budget Submission (ABS) for FY 1980 but without any request for additional personnel than those requested in the ABS; which I endorse. I am in agreement that we should "lift our sights" and heartily support your policy "to do more with the same number of fewer direct-hire employees". In this respect, Mr. Ruiz and I discuss personnel matters periodically with the view in mind of maintaining personnel levels to the minimum without affecting our overall economic development objectives. So I am confident that the proposed program will be carried out effectively with the personnel levels proposed.

I am looking forward to the approval of the CDSS and your support of the proposed program during the upcoming AID/W review to be chaired by you.

Sincerely,


Frank J. Devine
American Ambassador

EL SALVADOR

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1981 - 1985

USAID EL SALVADOR

JANUARY 30, 1979

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COUNTRY DATA - EL SALVADOR

<u>Area</u>	<u>Population</u>	<u>Density</u>
20,988 Km ² (equivalent to Massachusetts)	4.4 million (mid-1978)	205 per Km ² (1978)
	Natural growth rate 3.3%	328 per Km ² of arable land (1978)
	Net outmigration 20,000	
	Net growth rate 2.8%	
<u>Population Characteristics</u>		<u>Education</u>
Crude death rate (per 1000)	8	Adult literacy (1975) 63%
Crude birth rate (per 1000)	42	Enrollment ratio age 9-15 (1978) 67%
urban (per 1000)	35	
rural (per 1000)	47	
No. of years to double	21	<u>Income Distribution (1976)</u>
Life expectancy at birth	59	% income lowest 10% 2.0%
Economically active population 32%		% income lowest 40% 16.0%
		% income highest 5% 11.0%
GNP per capita (1976) U.S.\$528		<u>Land Ownership (1971)</u>
Disposable income per capita (1976) U.S.\$341		% of land in largest 10% of farms 78%
Agricultural output per rural person (1976) U.S.\$229		% of land in smallest 50% of farms 5%
Growth rate of GDP (1970-77) 5.1%		<u>Average Daily Caloric Intake</u> 1,890
Growth rate per capita GDP (1970-77) 2.2%		<u>Coffee Sector</u> (current prices)
		% of GDP
		1974 11%
		1977 22%
<u>National Income Accounts</u>	1977 % (Millions) GDP	
Gross domestic product	U.S. \$2,841 100%	% of exports
Government expenditures	496 18	1974 42%
Government revenues	501 18	1977 63%
Gross capital investment	606 21	
Exports	973 34	<u>External Public Debt Service</u>
Imports	942 33	Debt service ratio (1978) 2.9%
Net foreign reserves year-end 1978 (millions) U.S. \$222		External debt to GDP (1978) 10.3%

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O V E R V I E W

This CDSS presents a candid analysis of the critical conditions characterizing the development environment in El Salvador. The picture that emerges is not a pretty one, especially for the 60 percent of the society representing El Salvador's poor.

El Salvador is at a critical juncture. It is buffeted by a series of forces that hopefully will not paralyze the capacity of the people and their government to solve a number of crucial problems. In many ways a prisoner of its past patterns of development, confused by the present turmoil that threatens peaceful change, and troubled by a vision of what the future portends with or without change, El Salvador seems for the moment unsure of a course of action. Progressive initiatives need reinforcement and support.

The longest shadows falling across El Salvador's future are the human rights question on the one hand and pervasive and growing poverty on the other. The problems of one are in many ways inseparable from the problems of the other. Poverty has led to political and social turmoil which in turn has produced fear and a sharp reaction from those with vested interests in the status quo. The challenge for all those concerned with El Salvador's future will be to find a way to overcome the current polarization and proceed with development programs that promise growth with equity.

Thus, AID and the progressive elements of El Salvador are presented with both the dilemma and challenge of how to break through this vicious circle. The dilemma for AID alone is that while we cannot ignore human rights considerations, neither can we turn our backs on El Salvador's poor, particularly at a time when their need for help has never been more critical.

We are very much aware of the complexities involved. We are, however, confident that we can accept this challenge and pursue a course of action that balances concern for human rights with the AID mandate for helping the poorest of the poor. This will not be an easy task given the issues and the development problems, and it will require much more than the relatively low levels of assistance provided in recent years. Within this context we have developed a strategy which addresses the critically pressing problems of the poor. We are confident it represents a worthy investment in their future.

PART I. ANALYSIS

A. Analytical Description of the Poor

1. Introduction

A majority of Salvadorans are hungry, illiterate, infested with parasites, malnourished, poorly housed, underemployed, and generally subsist from day to day in an over-crowded country with little opportunity to improve their lot in life. Illiteracy is as high as 70% in some rural areas; the severity of parasitic illness and malnutrition equals that of Bangladesh, Haiti, or Ethiopia; for many housing is virtually non-existent; and labor underutilization in the agriculture sector (47%) is the highest in the hemisphere.

In defining the poor, we have used the criteria of per capita income, calorie intake, life expectancy, birth rates, and access to basic health services as set forth in AID's report to the Congress on the implementation of the New Directions. We estimate that one or more of these basic criteria presently applies to 2.6 million people or about three fifths of El Salvador's estimated 1978 population of 4.4 million. Of these, 78% are rural poor while 22% are urban poor. Of the rural poor we estimate that two thirds have some access to land, but as many as 35% belong to a class of rural landless poor. With an estimated per capita GNP of \$528 in 1976 and a population density of 508 per square mile El Salvador is clearly one of the hemisphere's lowest income, most over-crowded nations.

This analysis will focus primarily on the rural poor. This group is by far worse off and more unstable than the urban poor group. For this reason, the rural poor will continue to be, throughout most of the planning period, AID's principal target group. Increasing attention will be devoted to developing information about the urban and landless poor, rates of migration and urbanization, and their implications for AID strategy. The current Rural Poor Survey and other studies will provide a continuing flow of data regarding the landless and the urban poor.

We define the rural and urban poor as follows: The urban poor are those living in units of approximately 2000 population or more. The rural landless poor are mainly farm worker families some of which derive income from itinerate non-agricultural employment. The small farm group represents those residing on farms whose per capita income is estimated to be less than the minimum AID criterion discussed below.

2. Income Levels and Distribution

As a reasonable upper limit for defining poverty, the agency benchmark of \$150 per capita in 1969 dollars was adjusted to an equivalent \$250 for 1976 by the GDP deflator. Table 1 gives Mission estimates of the total number of poor whose per capita income, including autonomous consumption and imputed rents, fell below this level in 1976. All data in this section are for 1976 unless otherwise stated.

Table 1
Population and Poverty Categories: 1976

	<u>Population</u> <u>(000)</u>	<u>%Total</u> <u>Population</u>	<u>Households</u> <u>(000)</u>	<u>Avg. Per Capita</u> <u>Disposable Income</u>
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<u>Population</u>				
Total El Salvador	4,123	100%	762	\$341
Rural	2,474	60	417	210
Urban	1,649	40	345	537
San Salvador	694	17	149	738
Other Urban	955	23	196	392
 <u>Poor Target Group</u>				
Total El Salvador	2,432	59	392	134
Rural	1,894	46	296	130
Urban	538	13	96	155
San Salvador	106	3	19	171
Other Urban	432	10	77	150

Per capita disposable income was only \$341 for the entire country. It was 2.5 times higher in urban than in rural regions, a reflection of the relative incidence of poverty.

The urban poor comprised 538,000 people. One third of urban and 13% of the total population are in this group and had a per capita disposable income of \$155. The San Salvador metropolitan area seems to have the lowest incidence of poverty at 13% versus 45% for other urban areas. However, adjusting for higher costs of living in the

capital city would undoubtedly increase the relative incidence of poverty there. The rural poor comprised 1,894,000 people, accounting for 77% of the rural population and almost half of the entire population. The per capita household income of this group was \$130, 20% lower than for comparable urban groups.

The Agricultural Sector Assessment of 1977 provides an in-depth picture of the distribution of the rural poor based on 1976 farm income estimates. Using a different data base, its estimate of the total number of rural poor was 7.7% higher than that derived from income statistics. Table 2 summarizes by region.

TABLE 2
Rural Poor: Small Farm Families and
Landless Rural Workers: 1976

	<u>Farms sizes</u> <u>Included</u>	<u>Number of</u> <u>Farms</u>	<u>Small Farm</u> <u>Population</u>	<u>Landless</u> <u>Population</u>
West Region	0-2	47,979	276,000	
Central (West)	0-4 ha.	62,565	356,000	
Central (East)	0-3.8 ha.	36,664	213,000	
East Region	0-8 ha.	77,348	475,000	
All Regions	--	224,556	1,320,000	720,000
<u>Total Rural Poor</u>				<u>2,040,000</u>

The incidence of poverty increases dramatically as one moves toward the north and east. A larger farm size is needed to raise a rural family above the Agency's poverty level as one moves toward the eastern, non-coffee growing regions. Using a rough distribution of the landless poor based on farm worker data and regional rural population estimates, the poor represent 40% to 50% of the rural population in the West Region, but 80% to 85% of the rural population in the East Region. The worst poverty is to be found in the northern tier, a non-coffee growing area of the country.

The cold statistics used here can scarcely describe the overwhelming degree of malnourishment, illiteracy, unemployment, crowded housing and incidence of illness one sees in the countryside. Therefore, to gain a fuller picture of the conditions of rural poverty it is necessary to look beyond income levels.

3. Nutritional Status of the Rural Poor

Nearly three-fourths of all Salvadoran children are malnourished with one-fifth suffering serious malnutrition often associated with disease or leading to increased vulnerability to disease. While a recent study has shown severe child malnutrition in all regions, the problem is most serious in marginal agricultural and coffee farming areas where seasonal variations in employment and income are greatest. Moreover, the highest rates of malnutrition are found in the June-July period when family stores of corn and beans have run low and unemployment is high.

Many families are hard pressed to meet the estimated daily cost of \$2.65 it takes to adequately feed the national average size family of 5.4 persons. As a result, average calorie consumption nationwide is estimated at 1,890 measured against a recommended 2,300. Since protein consumption averages an estimated 43 grams per day, or 91% of the minimum requirement, it appears that the problem is one of dietary quantity rather than quality.

4. Health Status of the Rural Poor

Despite the fact that most rural Salvadorans reside within less than 10 kilometers of a health clinic and are relatively unthreatened today by diseases such as measles, tuberculosis and diphtheria, they live in poor health. Coughs, malnourishment, and diarrheas are so common as to be accepted as a routine part of life. Thus the poor usually do not seek attention until seriously ill. Infant mortality in rural areas exceeds 100 per thousand, and life expectancy at birth in rural areas is 54 compared to 59 for the country as a whole. Nearly 20% of medically certified deaths are ascribed to diarrheas and respiratory ills with another 28% to ill defined causes. Furthermore, diarrheas and respiratory disease accounted for 80% of diagnosed illness in 1977 and malaria another 7%. This is in large part due to the fact that in rural El Salvador only an estimated 25% of the populace has access to safe water and only 17% has adequate means of waste disposal.

Existing Ministry of Health services are generally overcrowded and poorly administered. When the rural poor seek modern medical care, they often bypass the MOH facility in favor of a visit to a local pharmacy where a minimally trained assistant will provide a diagnosis of their illnesses for a fee and prescribe drugs available at a price that cuts deeply into their already low income.

5. Educational Status of the Rural Poor

The educational level attained by rural residents of El Salvador is far behind that of urban dwellers as demonstrated by Table 3. In 1975, 38% of the total population over ten years was considered illiterate, while 53% of the rural population over ten years was illiterate.

TABLE 3
Illiteracy by Age Groups

	<u>10 - 19</u>	<u>20 - 29</u>	<u>30 - 39</u>	<u>40 - 49</u>	<u>50 +</u>
Total	27%	31%	41%	52%	58%
Urban	9%	12%	19%	28%	37%
Rural	39%	48%	58%	68%	76%

In 1975, only 12% of rural residents had finished sixth grade as compared with 44% of urban residents, and only 0.4% of the rural populace completed nine grades in contrast to 4.5% of the urban populace. Rural school children enter school later than urban youngsters and attend school 1.6 less years on the average.

Low educational attainment in rural areas seems to relate to lack of access more than to lack of demand. Education is valued highly. For example, rural students at all income levels often repeat grades that they technically have passed because instruction at the next higher level is not available. In 1973 only 32% of rural schools offered all grades in primary education in contrast to 93% in urban schools. The gap worsens in grades 7-9 where rural areas have only 5% of the total enrollment for these grades. Faced with the lack of access, rural youngsters will often choose to commute to classes in urban areas.

6. Housing Status of the Rural Poor

In 1971 80% of the stock of rural housing and 51% of the urban stock were judged inadequate to meet basic needs. A typical rural home is made of adobe with a dirt floor and tile roof. Materials are made by hand from what is available locally. The second most common type of home is a combination of mud and sticks or mud and bamboo which holds together only a few years at best. These houses typically have thatched roofs of sugar cane leaves or grass. Both types usually have only one room which serves as a sleeping, living, and food storage area.

"Sausage" communities (chorizos) are becoming a common sight in rural areas. These are long sausage like rows of crude housing squeezed into extremely narrow spaces between large tracts of land and along the roadside. The product of population pressure and concomitant separation from the land, these housing groups represent a relatively new phenomenon in the rural areas where the poor have traditionally had at least a small plot of land which permitted subsistence and some distance from others. These "sausages" are marked by high population densities and the virtual absence of potable water, latrines, and other basic facilities.

B. Why the Poor are Poor

Stated simply -- the basic cause of poverty in El Salvador is too many people pressing on the resource base. The patterns of development have failed to provide adequate increases in economic opportunities for a rapidly growing population. A fuller answer to this question probably lies in an examination of El Salvador's economic, social and political evolution, as well as its resource endowment. The analysis that follows examines the major reasons why El Salvador has the degree of poverty that exists today and why poverty not only has not been reduced or alleviated at a faster rate but indeed may have become worse for some income groups over the past several years.

1. Population Growth

Demographically, the situation in El Salvador is grim.

Mortality has dropped dramatically from 30 to 8 per thousand in the last several decades. Fertility, close to 50 per thousand until 1970, has declined since then only to 42 per thousand for the country as a whole, but remains 47 in rural areas. As a result, El Salvador has a natural growth rate of 3.3, one of the highest in the world.

This more sluggish decline in rural fertility has a number of explanations. Lack of access to family planning services is undoubtedly important as can be seen from the rapid descent in urban fertility once GOES-sponsored family planning services became wide spread in those areas in the early 1970s.

Just as important is the pattern of family relations among rural lower classes. Male-female relationships generally begin on a basis called companionship. Given the lack of employment opportunities in rural areas, women often enter into a companionship relationship seeking economic security. Most rural men resist marriage or other forms of permanent commitment. Since female security rests on the assurance of a large family and the burden of family support does not fall fully on the man's shoulders, the individual's desire to limit family size is weak. Moreover, female contraceptive acceptance seems to be constrained significantly by male opposition based on his alleged concern for the women's health, her possible infidelity, and the machismo desire for large families as a proof of virility.

Rural illiteracy rates have been shown to correlate with high fertility with each additional year of instruction corresponding to a lower fertility rate. Female unemployment and migration in rural El Salvador show the expected complementary relationships to fertility. More ambitious women tend to migrate to the cities. Women left behind are often those with more traditional ideas of child bearing.

Looking ahead to the year 2000 and taking these factors in consideration, the demographic picture changes from grim to dismal. In

the absence of a substantial decline in fertility and continued outmigration, the population could reach 8.9 million. Even if we assume striking success in the rural family planning program, leading to a decline to 30/1000 or below, the population would be expected to increase to 7.7 million. Acceleration of migration from 20,000 to 50,000 a year would reduce the estimate to 7.1, but El Salvador would, even at that level, continue to claim the most rapid population growth rate and greatest population density in Central America.

2. The Natural Resource Base

El Salvador has a total land area of 2,098,000 hectares. The adjacent Pacific Ocean supports a small fishing industry with limited potential. Fossil fuel or other mineral potential is negligible. Three fourths of the country is mountainous. Once covered 90% by evergreen and deciduous vegetation, this has been reduced to less than 15% and commercial forestry has vanished.

Silting threatens the potential of hydroelectric development. Despite an extensive river system irrigation is constrained both by unfavorable topography and greatly reduced stream flows in the long dry season. While rain-fed tropical agriculture appears to offer the only means of land exploitation, farsighted conservation measures will have to be employed to prevent further deterioration.

a) Land Utilization: Of the total land base over one half is of steep slopes with poor soils unsuitable for agricultural use. The remaining half includes the 18% classified as good soils suitable for intensive cultivation, much of which is occupied by urban settlement. Increasingly intense use, aggravated by heavy tropical rainfall concentrated in a six month period followed by a sharp and prolonged dry season, has resulted in a very advanced and critical state of soil erosion and depletion. National yield trends in the basic food crops reflect the onset of stagnated levels since about 1970, despite the availability of high yielding crop varieties and other improved production technologies.

Surprisingly low returns strongly suggest a rapid decrease in the fertility of these intensively cultivated soils. This is particularly true for corn, beans, and sorghum.

The actively exploited area of agricultural production since the mid-1900s has remained at less than one million hectares as reflected in Table 4. The reduction between 1961-71 is explained largely by urban and infrastructure expansion.

Table 4
Distribution of Land Base under Agricultural Production

<u>Year</u>	<u>Total Hectares</u>	<u>Temporary Crops</u>	<u>Permanent Crops</u>	<u>Improved Pastures</u>	<u>Native Pastures & Woodlands</u>
1950	924,670	391,050	153,220	174,881	205,510
1961	986,778	493,495	159,662	104,434	229,187
1971	932,716	488,436	163,499	112,737	168,044

Production for export characterizes medium and large farms and includes about one third of the area in temporary crops such as cotton and sugar cane, and about 85% of the area in permanent crops which is almost exclusively planted to coffee. Livestock operations on medium and large farms also cover almost all of the area in improved pastures and about one half of the native pasture and woodlands. Small farmers with 10 hectares or less cultivate about two thirds of the area in temporary crops, almost exclusively in corn, sorghum and beans. They also cultivate about 12% of the coffee and utilize about one tenth of the native pasture and woodland areas. As noted below only about one half of these small farm units are owned by the small operator; the balance are generally units of marginal land rented from absentee owners or producers within the modern large farm sector.

The most significant trend in land resource utilization is the shifting of land from pastures and woodlands into annual crops, largely to facilitate basic grains and bean production by the growing small farm sector. From 1950-71, farms under 2 hectares, heavily devoted to these traditional crops, increased in number by 82% and expanded their cultivated area from 83,216 hectares to 151,326. During this period the total pasture and woodland area declined by about 100,000 hectares and land in annual crops increased correspondingly. By land capability

standards, the estimated amount of land in annual crops in 1978 exceeded the recommended level by over 200,000 hectares.

b) Impact on the Poor: In 1976 agricultural product per agricultural worker was valued at \$229, and population density was 320 per square kilometer of arable land. USAID estimates that tilled land per agricultural worker has fallen from 3.0 hectares per worker in 1960 to 1.8 in 1976. This shows the unrelenting population pressure on the resource base and unfortunately it has not been offset by a comparable rise in productivity. With 5% of Central America's land, El Salvador has almost 25% of its population and unlike its neighbors has no frontier into which a growing population can expand.

Lacking other employment opportunities, agriculture has become the employer of last resort for a majority of the rural poor who still choose to crowd the land and not the city. We attribute this to a perception that some participation in the production of basic grains and traditional food crops offers more security than other alternatives.

Increasing pressure on the land is manifesting itself in at least five forms:

- increasing purchase and rental prices
- rapidly increasing numbers of small farms
- decreasing average size of small holdings
- rapid expansion onto hillside and marginal land, and
- increasing insecurity of tenure in the small farm sector

The tables below illustrate the respective trends in farm numbers, size, and tenure. Trends in ownership patterns have shown a slight decrease of land concentration with land in farms under 10 hectares increasing from 19.0% in 1950 to 27.1% in 1971. However, in 1971 farms over 100 hectares still constituted .7% of all farms and made up 39% of all farm land. Although the small farm sector has grown, it has made no dent in absorbing the increasing number of rural poor. The non-owners comprise over one half of all small farmers and their average farm size is decreasing. As a result the relative welfare of the small farmer has continued to diminish.

Table 5
Changing Patterns of Farm Size

Farm Size (Has.)	1950		1961		1971		% change in No. of farms by size category 1951/71
	No. of Farms	% of Total	No. of Farms	% of Total	No. of Farms	% of Total	
0 - 2	105,605	60.6%	155,555	68.6%	191,527	70.7%	81.4%
2 - 5	34,868	20.0	37,743	16.6	43,414	16.0	24.5
5 - 10	14,064	8.1	14,001	6.2	15,598	5.8	10.9
10 - 20	8,874	5.1	8,524	3.8	9,164	3.4	3.2
20 - 100	8,767	5.0	8,925	3.9	9,224	3.4	5.2
over 100	2,026	1.2	2,148	0.9	1,941	0.7	- 4.2
TOTAL	174,204	100.0%	226,896	100.0%	270,868	100.0%	

Table 6
Percentage Distribution of Land by Farm Size and Tenure

Farm Size (Has.)	1950	1961	1971	Net Change in Area % 1950-71
0 - 2	5.4% ^{1/}	8.8%	10.4%	81.8%
Owner	(42.2) ^{2/}	(41.9)	(44.2)	90.4
Non-Owner	(57.8) ^{2/}	(58.1)	(55.8)	75.6
2 - 5	7.1	7.9	9.1	23.4
Owner	(75.9)	(79.6)	(76.6)	24.5
Non-Owner	(24.1)	(20.4)	(23.4)	19.8
5 - 10	6.5	6.7	7.6	11.1
Owner	(91.0)	(93.2)	(90.0)	9.8
Non-Owner	(9.0)	(6.8)	(10.0)	24.0
10 - 20	8.0	7.9	8.7	3.7
Owner	(95.1)	(95.6)	(93.9)	2.0
Non-Owner	(4.9)	(4.4)	(6.1)	28.1
20 - 100	23.1	24.5	25.5	4.4
Over 100	49.9%	44.2%	38.7%	-26.5%

^{1/} % land in farm size category.
^{2/} % of farms in tenure category.

3. Economic Structure

The two major productive sectors of the economy, agriculture and manufacturing, have moved the economy forward at reasonable growth rates since 1961. The growth of GDP was 6.7% per year from 1961 to 1967. It slowed to 4.6% from 1968 to 1975, reflecting the maturing of the Central American Common Market (CACM) import substitution policy and the side effects of the Soccer War with Honduras. Since 1975, growth stimulus has come from high coffee prices with the economy growing at 5% per year. The rapid fall in the price of coffee plus the continuing depression in the world sugar market will cause a decline in growth in 1979 unless alternative sources of foreign exchange (such as borrowing) can be found.

a) Agriculture: The structural problems discussed here and in the section on the resource base have developed over the last 25 years. Before 1950, when there were few industries and the population growth rate was low, most rural dwellers were either attached to land or had some access to land. The economic cycle followed agriculture. At the same time, death rates were high enough to check population growth. Absorbing an increasing labor force was not a major problem even though poverty resulting from low productivity was pervasive. In other words, the economy was in a static equilibrium. Today all of this has changed, affecting the well-being of a majority of the population and the country's socio-economic stability.

Although the value of agriculture output has declined from 30.8% of GDP in 1960 to 20.7% in 1978, it is still the backbone of El Salvador's economy. It provides a livelihood for about 60% of the population and about 65% of foreign exchange revenues. In effect the agriculture sector has played a central role in the development of the industrial sector by providing foreign exchange for essential raw materials and machinery.

While agricultural output has grown at 3.9% per year since 1960, basic grains production has grown at only 2% per year, a

reflection of the importance of the export crops - coffee, sugar and cotton - and the declining productivity of the land of small farmers. This agricultural development pattern and population growth has led to sharply skewed land and rural income distribution patterns and has produced a huge rural labor surplus that presently cannot be absorbed by agriculture.

b) The Industrial Sector: El Salvador's exports to the CACM increased at an annual rate of more than 27% during the period 1962-68, but only 4% per year during 1969-74. Once the manufacturing capability of El Salvador and the other member countries caught up with increased regional demand, there was little potential to expand except to accommodate the secular growth of the CACM. As a result the manufacturing sector's share of GDP increased steadily from 14.5% in 1960 to 18.3% in 1970. The share now seems to have reached a plateau where it contributes about 20% to GDP.

There are several factors that will make future accelerations of industrial growth and employment generation difficult. Although the CACM is larger than any individual member market, it is still very small when compared to the demand required to encourage the size of manufacturing firms needed to become competitive in the world market. Consequently, Salvadoran manufacturing firms have been unable to expand beyond CACM tariff walls, and Government policies have been inadequate to effect this transition.

Second, the manufacturing sector now produces goods that used to be imported. Imported raw materials and capital equipment often cost the economy a higher net price than the world price of the finished product. The result is the dependency of the economy on the export of traditional crops to finance raw materials. The industrial sector has, in part, become a user rather than an earner of foreign exchange.

Third, the change in trade patterns behind these tariff walls has produced a manufacturing sector that uses more capital per unit of output than would have been the case if these industries had been allowed to develop without protection. Investment capital and raw

material imports are exempt from paying tariffs or are taxed at low rates. Although the idea behind this discrimination was to promote domestic investment and production, the result has also been the development of capital intensive industry.

c) Employment Prospective

In summary, the pattern of development has failed to alleviate poverty by not providing job opportunities for a rapidly increasing population. The ILO estimated that effective unemployment as a percent of the economically active population was essentially constant at 32% between 1961 and 1971. Over the same time period open unemployment increased from 5.1% to 10.2%.

The rural poor's access to employment is limited by the seasonal nature of labor requirements. The small farm population and landless rural poor account for most of this underutilized work force. Labor underutilization is 76% on farms of 5 to 10 hectares, but only 20% on farms of 10 to 20 hectares. In general small farmers utilize 53% of their labor on their own farms during the peak November-December period, and only 11% in March. These rates indicate the need to find employment on the part of the rural poor is critical.

The economically active population (EAP) age ten and over is expected to be about 33% of the population throughout the 1980s. If the economy is to provide jobs at the rate of growth of the EAP, approximately 40,000 jobs per year are presently required. Furthermore roughly 300,000 additional jobs are needed to eliminate present conditions of unemployment and underemployment. Thus a high level of un-and-underemployment is likely to remain a major factor causing poverty throughout next two decades. IBRD projections indicate that even if GDP grows at 5.5% with a growth rate above 6% in manufacturing and construction, the rate of effective unemployment will be reduced to only 25.5% by 1991.

4. The Rural Social Structure

The social structure of the rural Salvadoran to some degree is a constraint to programs aimed at relieving poverty. It is notable for

its lack of social integration and community identity. The target group member is likely to be highly independent with few ties external to the family, has limited obligations to relatives, and receives little if any help from friends.

When compared with her counterpart in some industrialized nations or in certain other Latin American countries (Chile, Brazil), the Salvadoran woman plays a very conventional role in the political and economic life of her country. Although the legal structure of El Salvador confers equal rights to women, custom and tradition often relegate women to second class status, especially in rural areas and among the poor.

Rural women do participate to a significant degree in marketing and commerce, thereby acquiring skills and self-confidence that theoretically can be applied to other development efforts. Moreover, mothers' clubs and similar "women's" organizations exist to stimulate self-help projects, but by and large, the weak family structure of the poor forces women into the sole position of holding together what little family there is by whatever means possible.

Rural Salvadoran society is a homogenous one with linguistically and culturally distinct subgroups of the population virtually nonexistent. Spanish is the common language embracing all socio-economic levels and areas of the country. The disappearance of the traditional Indian social background in the rural areas coupled with the comparatively rapid socio-cultural evolution of the country's urban areas has left the rural poor with few social, political, and economic vehicles through which to improve their lives.

Finally, the broader value system of the rural poor, especially the desire for subsistence security, land, and a preference for a rural life style, has acted to limit the receptiveness of the poor to community self help efforts and to change.

5. The Political Structure

El Salvador's political and governmental structure is highly centralized with separation of powers existing only in a conceptual sense. The executive branch effectively dominates all major governmental decisions. Few powers are reserved for the departments or the people.

Every President since 1932 has come from the military. When the term power structure is applied to El Salvador it refers to a military government staffed with both military and civilian technocrats working in alliance with the wealthy upper classes through a civilian political party system. This power structure is neither dynamic nor eclectic, and has been remarkably stable over the years.

The National Conciliation Party (PCN), a center-right party enjoying the support of the military, has remained in power since its founding in 1961. The principal opposition party since 1964 has been the Christian Democratic Party (PDC). The PDC is aligned with the National Revolutionary Movement (MNR-Social Democrats) and the communist dominated National Democratic Union (UDN) in a coalition called the United National Opposition, (UNO).

The Catholic church, for centuries always a part of the power structure in every Latin American country, ceased to collaborate with the military and the wealthy elites during the 1960s. Since 1977, the top leadership of the Church has been in constant and vociferous opposition to the military government and highly critical of El Salvador's current economic and social conditions.

Labor unions and cooperatives play an important role in Salvadoran politics although agricultural unions by law are not permitted to engage in collective bargaining. The Federation of Salvadoran Christian Farmers (FECCAS) and the Farm Workers Union (UTC) are the most prominent of the rural labor groups together with the Salvadoran Communal Union (USC). In 1966 the government in an attempt to foster stability created ORDEN, a para-political group organized at the grass roots level and directed from the Office of the President. Its task is to mobilize the political energies of the rural people, to educate them to the importance of freedom and democracy, and to alert them to the dangers of subversion. ORDEN is often accused of being a repressive arm, or "Falange," of the GOES.

A major private sector institution that plays an important political role is the National Association of Businessmen (ANEP). It

takes a stand on all major political issues and was largely responsible for scuttling the agrarian reform law of 1976/77. The various coffee, cotton, and sugar cane growers associations also play important roles as does the National Monetary Board of the Central Bank.

Administratively, the country is divided into fourteen departments, each headed by a governor who is appointed by the President, and reports to the Minister of Interior. Departments are sub-divided further into 261 municipalities. The mayors of the municipalities are elected by popular vote, but make few major decisions relating to revenue collection, budgets, and expenditures. The 261 municipalities in turn are divided into 1,966 cantons which are dispersed groupings of houses.

Canton authorities are the commander and the commissioner. The canton commander is either a national guardsman or a local civilian appointed by the military authorities to direct both military and police operations. The commissioner plays a complementary role as the chief civilian authority at this level and he too is appointed to his post, usually by the mayor of the municipality.

Since 1932 when the military took over the reins of government there has been a very low level of popular participation in politics and decision making processes. The army has worked closely with the wealthy elites to preserve the existing economic and social order. The controversial government dominated elections of 1972, 1976, and the rise and fall of the 1976/77 land reform project are the best and most recent examples of the narrow scope of political participation permitted. At times, opposition political parties have been unable to assume power even after apparent election victories and are often seen by the power structure as subversive and an anathema to the country's interests.

In summary, the centralized hierarchical, quasi-democratic Salvadoran political system permits the poor little meaningful access to the political process and few vehicles to articulate their desires and grievances. The system, therefore, while perhaps not actually creating poverty, is not structured to provide a participatory approach to development.

C. Progress and Commitment

1. Public Sector Performance

Until recently the public sector played a limited role in El Salvador. During the 1960s government expenditures as a percent of GDP ranged between 10% and 13%. The GOES fostered a growth oriented policy which, despite rapid population growth, generated average per capita income increases of 2 percent per year. Analysis of income distribution figures, changing land-labor ratios, and unemployment trends indicate that all income groups have gained in absolute terms with the exception of the agriculturally-based rural poor.

Limited exchange controls, monopoly marketing boards for exports such as coffee, cotton and sugar, and government red tape, though irritating, do not seem to have acted as major disincentives to past growth as they have in many LDCs. On the other hand, positive programs to promote exports as development/employment vehicles, such as export rebate schemes, exchange rate adjustments, export insurance and marketing assistance have been inadequate to promote growth. However, the government is now attempting to accelerate growth by expanding exports outside the CACM. The Export Promotion Law of 1974 provides import duty and income tax exemptions and property tax deferments. The government has established re-export manufacturing zones, the Salvadoran Foreign Trade Institute and an Export Guarantee Fund to assist exporters.

a) Budget Commitment: A major expansion of public sector involvement in promoting overall growth has taken place since 1970. The percentage of public sector expenditures has increased from 12% of GDP in 1971 to an estimated 18% in 1977. Transportation, communications, energy, water and sewage, and urban community development are areas in which the GOES has provided better living conditions for Salvadorans. Social and infrastructure development expenditures account for about 60% of all GOES expenditures.

b) Social Sector Allocations: Health, family planning and education have consistently received favorable budget allocations. Twenty-three percent of the budget goes to education which represents 4.3% of GDP. Forty-five percent of the education budget goes to basic education (grades 1 to 9). The health sector receives 12% of the budget and 2.2% of GDP. Between 1973 and 1977 capital expenditures in the Ministry of Health budget rose from 6.8% to 22.7%. Most of this increase represents extension of the health services network.

c) Monetary and Fiscal Policy: These policies have been conservative and present a varied picture. There has been a moderate trend away from indirect taxes and toward direct personal, corporate and property taxes which have increased from 12% to 23% of total revenues between 1960 and 1974.

From 1951 to 1974 taxes as a percent of GDP were remarkably stable at 10%. The elasticity of tax revenues to GDP was between .66 and .86 so that the government constantly had to add new taxes and increase specific rates to maintain the tax share of GDP. By carefully keeping its foreign borrowing in the concessionary class, the GOES enjoyed a low debt service ratio and was able to weather the petroleum and other crises of the 1970s better than most non-oil producing LDCs.

The coffee boom since 1975 has financed increased government expenditures. By 1977 total taxes had risen to 17.3% of GDP and the coffee tax accounted for 37% of all collections. As the yield of this tax has declined with falling prices, the government has been forced to hold budgetary expenditures constant. However, in a major policy change with respect to deficit financing, the GOES has decided to finance expected deficits by borrowing in the Eurodollar market. In order to avoid a significant decrease in public sector activity, continue development programs, stimulate the economy and provide jobs, foreign financing of perhaps \$300 million probably will be contracted over the next two or three years.

In addition, in August 1978, the government raised interest rates closer to world levels in order to stem capital flows abroad and encourage domestic savings. Maximum rates paid on deposits were raised from a range of 5.5% to 6.5% to a range of 8.5% to 10% and the maximum rate for certificates of deposit over one year was eliminated. Legal lending rates were raised from the 8% range to 14%. In the short-run these measures will improve the country's ability to finance development internally; in the long-run, these measures should encourage improved labor utilization.

2. Growth with Equity

Government policies vary in the degree to which they ensure growth with equity. This section highlights policies in areas of particular importance to AID strategy development.

a) Land Reform: Since the mid-1970s the GOES has increased its efforts to improve land distribution. In 1973 the state agricultural bank began lending to small farmer cooperatives for land purchase on a limited basis. In 1976 an ambitious GOES program of land reform was initiated and continues at a moderate pace despite the loss of expropriation powers sought by the government but overturned by strong selected private sector opposition. Currently under active legislative review is a controversial new GOES proposal to create a far broader source of credit for financing small farmer land purchases. If approved as proposed, it will strengthen both private and public sector participation in this process. About 10% of the actively exploited land base represents GOES transfers to the small farm sector since the mid-1930s.

b) Small Farmer Support: Policies impacting upon cost-price relationships in the small farm sector through the GOES price support and stabilization program for basic grains were more successful. The GOES is expanding its buying stations and drying and storage facilities by 40%. The program has the capacity to purchase approximately 20% of production. Support prices are well above world prices.

When interest rates were increased, the GOES kept small farm basic grain credit at a concessional level of 8% and established minimum lending requirements for financial institutions to expand this type of financing. A special GOES program operating through the Agricultural Development Bank provides fertilizer to small farmers at costs below regular commercial rates.

Research and extension activities over the past five years have increasingly been focused on small farm sector crops, and include efforts to improve agricultural practices such as multiple cropping, irrigation, etc. However, the ability of the extension service to deliver these programs still lags behind the political mandate to carry them out.

c) Tax Structure: The coffee export tax, a major revenue source, is levied directly on producers. It represents one of Central America's most progressive and economically stabilizing taxes. Direct income taxes levied exclusively on the upper classes have risen from 12% to 23% of all taxes between 1960-1974. Since these two sets of taxes have yielded between 45% and 60% of all collections in recent years, it seems likely that the incidence of taxation is progressive and falls mainly on the wealthiest 20% of the population. The poor target group is affected most heavily by liquor, beer, and cigarette taxes which represent 13% or less of total collections. Property taxes are minimal, representing 5.6% of collections and 0.6% of GDP. These measures provide little tax incentive to improve use of the small proportion of land not fully exploited at present.

d) Social Services: Despite rapid population growth, the GOES has been successful in providing increased access to basic education. School enrollments of grades 1-9 were increased by 86% between 1965 and 1978, while the comparable school age population only increased 53%. The USAID estimates that two thirds of all children are now enrolled in school. A GOES formal adult education program provides education to 44,000 adults.

Since 1976, the GOES has strengthened rural health services by training paramedics, midwives, and nurse practitioners for assignment to rural clinics. Between 1976 and 1978 medical attention as measured by number of consultations rose 29%, a function of both the outreach system and a substantial expansion of infrastructure carried out with IDB assistance.

e) Family Planning: El Salvador is one of the most progressive governments in the hemisphere with respect to population policy. An Integrated Population Policy announced in 1974 encourages smaller family size as one of a number of measures designed to improve life quality. Implementation of this policy has focused on a large scale national family planning program with services offered in all GOES health facilities. Since 1975, family planning activities as measured by consultations have risen 48% and GOES expenditures have risen from \$1.7 million to \$3.4 million.

3. Human Rights

Charges of human rights violations in El Salvador in recent years have been documented in various reports including a recently submitted State Department Report to the Congress and one prepared by the Inter-American Human Rights Commission but unpublished at the time of the preparation of this CDSS. However, excerpts from the Inter-American Commission report have been widely publicized in the press.

In recent years there have been numerous allegations of torture by prison security guards. Claims reported include electric shock, denial of food and water, and sexual violation. There is little proof for individual cases, but many allegations are detailed and seem credible. It can be said with some certainty that the number of people killed or wounded in 1978 during riots, demonstrations, and terrorist activities was considerably smaller than in previous years. Much of the brutality associated with the Salvadoran system appears to be a traditional way of doing things rather than something officially sanctioned by the government. However, there is little or no indication that allegations of serious abuses by the security forces are subject to Government investigation and subsequent corrective action.

Although there has been no state of siege during the present administration, freedom of thought, speech, press, religion, and assembly have been inhibited by the November 1977 Law of Defense and Guarantee of Public Order. For example, the Church claims that its lay workers in rural areas are harassed as subversives by local police authorities and pro-government groups. Trade unions are permitted, but freedom of assembly has been selectively curtailed under the Law of Public Order.

From a developmental standpoint, the Government's policies and actions indicate a growing awareness that participation by the poor in the development process will be necessary if the social and political problems facing the country are to be resolved. Consequently, the government is struggling with ways to increase participation in economic activities by lower income groups without generating political action or decentralization of control. There is a tendency toward the suppression of activities viewed as political. At the same time, an extremely cautious, but countervailing trend exists to expand local participation by lower income groups in activities viewed as purely economic.

D. Host Country Development Plan

1. Macro Goals and Targets

The objectives of the 1978-82 National Development Plan are to provide adequate socio/economic opportunities for all; self-sustaining socio/economic progress; effective use of human and natural resources; employment opportunities; maximum use of land resources with emphasis on "critical areas," a stable investment climate; strengthened Salvadoran international relations; and improved Central American integration.

Specific goals in terms of global growth rates of macro-variables are given in the following table. It shows that the planned growth rates are higher than their historical values except in the construction sector. The GDP is projected to grow at 7.5% annually. In view of the fact that El Salvador has not experienced in the past fifteen years a sustained average GDP growth rate of 7.5%, this target must be considered ambitious.

Table 7
GDP Growth Rates by Sector

	1960-65	1965-70	1970-75	New-5 Year Plan 78-82
Agriculture	3.9%	3.9%	4.7%	5.0%
Manufacturing Industry	10.7	5.7	5.6	9.3
Construction	8.3	1.2	13.9	9.5
Electricity	12.2	10.1	9.4	10.1
Commerce	8.9	2.0	4.5	7.0
Public Administration	4.1	5.9	5.9	8.5
Total GDP	6.8%	4.4%	5.4%	7.5%

Table 8
Gross Domestic Product by Sector
(structural percent)

	<u>1960</u>	<u>1970</u>	<u>1978</u>	<u>1982</u>
Agriculture	30.8%	26.2%	20.7%	18.8%
Manufacturing Industry	14.5	18.3	20.9	22.5
Construction	2.9	2.7	5.1	5.0
Electricity	1.1	1.9	1.3	1.5
Commerce	24.2	23.6	23.7	23.4
Public Administration	8.1	7.6	9.8	10.0
Others	18.4	19.7	18.5	18.8
T O T A L	100.0%	100.0%	100.0%	100.0%

An interesting feature of the Five Year Plan is that the agricultural sector's share of GDP is forecast to decline from 21.1% in 1977 to 18.8% in 1982, while that of the manufacturing sector is planned to increase to 22.5% in 1982 as shown in the previous table. Thus, the new Five Year Plan projects continued structural change in the economy, i.e., industry will replace agriculture as the principle productive sector.

2. Productive Sector Investment Priorities

a) Agriculture: The objective in the agriculture sector is to increase income and achieve more equitable income distribution; expand employment; increase both traditional and non-traditional exports; promote import substitution, principally in basic food commodities; promote social mobility; conserve and develop renewable natural resources; and promote balanced development among the various regions of the country.

To achieve these objectives, the Agriculture Sector Five Year Plan calls for a GOES gross investment of \$452 million of which \$116 million is earmarked for direct capital investment and \$336 million for financial investment. Planned investment in the agriculture sector accounts for 22% of total planned public investment of almost two billion dollars.

b) Industry: The New Five Year Plan's emphasis on the development of manufacturing industry can be seen by comparing the Public Investment Plan 1978-82 with that of 1973-1977. The productive sector is to receive 20% of the government investment funds. In contrast the 1973-77 Public Investment Plan allocated only 12% of its funds to industry.

c) Infrastructure: Transportation, communication and energy continues to be a priority and will receive 40% of public investment funds in the new as it did in the old plan.

3. Social Sector Goals and Targets

The attempt to increase industrialization evidently would occur at some expense to the social sectors. In the previous plan expenditures on health, education, housing and community development were to receive 19% of total investment funds. The New Plan allocates only 12% to these sectors even though the absolute amount is doubled to \$245 million.

(a) Population, Nutrition and Health: The GOES has developed six strategic programs which directly address health/nutrition/population sector problems. They are the National Integrated Population Program, the National Food and Nutrition Program, Environmental Sanitation, Mental Health, including alcoholism, Modernization and Extension of Coverage of Health Facilities and Services, and Occupational Health and Hygiene.

The Five Year Plan's population strategy moves beyond previous population goals by citing the specific demographic goal of reducing population increase from 3.3% to 2.9% by 1982. To that end, the Plan includes activities in family planning, population education, migration and mass communication, but does not address the need for programs and policies in other sectors that could influence fertility.

The GOES program in food and nutrition includes nutrition planning and education, projects to enrich tortilla flour, and improved distribution of food. The GOES plans to extend health services to rural areas by the development of outreach personnel and the training of rural midwives and female health care workers. Improved water supply and waste disposal are secondary priorities, with 83% of planned investment in health devoted to expansion of health facilities, and only 15% planned for potable water.

(b) Education: The Ministry of Education budget continues to be the largest single item in the national budget. The Five Year Plan identifies six major education priorities: modernization and expansion of education in rural areas, adult education, expansion of university and technological education, support to private education centers, construction of additional sports facilities, and development of national art and cultural centers.

The Plan projects \$67.6 million (excluding recurrent costs) for public investment in the education sector. About 38.8% of this investment is earmarked for construction of classrooms (\$19.1 million), vocational and professional instruction (\$2.0 million), and teacher training (\$4.8 million). The rest is for the expansion of cultural services (\$8.0 million), open university programs (\$10.4 million) and construction of regional technical colleges (\$23.3 million).

(c) Critical Areas: The GOES has designated specific rural regions of the country as areas most in need of basic services. These critical areas include the frontier with Honduras, the eastern half of the coast line, and the departments of Chalatenango, San Miguel, Morazán and La Unión. GOES policy emphasizes directing resources specifically to these regions within the framework of the plan under the supervision of the Ministry of Interior. The Plan calls for programs to expand basic education, health, and adult education, and the productive capacity of participating groups, through community action and coordinated investment in infrastructure and personnel development.

4. Comments and Conclusions

While El Salvador's new Five-Year Plan reflects growth with equity concerns, it is difficult to determine how realistic some of its goals are. It appears overly ambitious, vague as to basic priorities,

replete with inconsistencies and unclear as to sources of financing. For example, policies needed to direct the private sector in the directions outlined by the plan are not spelled out. Nor are alternative fiscal policies worked out to ensure the GOES can obtain required revenues under various economic conditions. Moreover, unless a drastic change in economic performance takes place soon, the projections given in the Plan will be difficult to achieve. In order to attain a GDP growth rate of 7.5%, the investment growth rate in fixed capital is forecast to grow at an average annual rate of 6.9%, private and public consumption at 7.3% and 8.5% respectively, and imports and exports at 7.1% each. These growth rates are mutually incompatible in the sense that required fixed capital investment is projected to grow slower than both GDP and consumption. If El Salvador is to attain its growth objective, it will have to reduce the growth of consumption and increase investment and export growth rates accordingly or institute policies that can rapidly improve the efficiency of capital.

The latter alternative would be a change in the right direction given El Salvador's unemployment problem. However, projected industrial investment does not seem to be directed toward labor absorption. This can be seen from projected investment in physical capital. The calculated ICOR value for the Five-Year Plan is on the average 3.3, implying that planned investment is to be quite capital intensive. For example, two capital intensive projects -- a steel mill and a chemical plant -- account for 20% of public investment funds allocated to industry.

E. Absorptive Capacity

In assessing El Salvador's capacity to absorb higher levels of investment during the planning period we have used three measures: capacity for external borrowing; its budgetary power to support new investments; and institutional capabilities in planning and managing investments.

1. Capacity to Borrow

El Salvador has traditionally maintained one of the lowest public debt service ratios in Latin America. The following table summarizes the current debt situation.

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Table 9

Current Debt Situation (\$millions)

	1976	1977	1978	1979
				Est.
Gross Domestic Product	2,179	2,841	3,082	3,205
Exports of Goods and Services	848	1,040	998	900
Public External Debt (excluding Central Bank)	283	280	318	373
Public Debt Service Payments	20	66	29	47
Net Reserves Year End	105	234	222	-
		(percent)		
Public External Debt Service Ratio	2.3%	6.3%	2.9%	5.2%
Public External Debt to GNP	13.2	9.9	10.3	11.6

The present Public Debt Service Ratio is extremely low.

Public debt actually declined in 1977 due to prepayments on foreign commercial loans. Public sector foreign capital inflows (drawings not obligations) are estimated at \$60 million for 1978 and are projected in the GOES budget at \$88 million for 1979. With an historically high ratio of exports of goods and services to GDP, 28% projected for 1979, the government should have little difficulty in financing external borrowing at twice this level over the next decade if it can maintain a real growth rate of 5% or more, and obtain concessional assistance.

2. Budgetary Capacity

Central Government expenditures as a percent of GDP were 19% in 1977. Fifty-seven percent of those expenditures, or 11% of GDP represented recurrent expenditures. Starting from this low base, there seems little doubt that the country can support expansion of expenditures at a rate higher than the expansion of GDP. However, occasional short term constraints to expansion may result from an inadequate tax structure. For the years 1974 to 1977, 72% of all revenues came from indirect taxes. This was a relatively high total due to high coffee prices and 28% of all revenues were from coffee export taxes. Since the tax structure of the country is inelastic, maintaining growth in tax revenues has required the piecemeal addition of new taxes to finance expenditures as the economy grows. The resultant general tax structure, added to fluctuations in coffee prices, makes it almost certain that there will continue to be recurrent short-term periods of budgetary stringency.

3. Institutional Capacities

The country's institutional capacity to plan and manage new projects is less clear than its debt servicing and budgetary capacity

and varies greatly by institution. In general, however, all GOES institutions are limited in their capacity by over-centralization of responsibility, by reluctance of officials to delegate authority, and by poor communication throughout the chains of command. These ways of doing things have roots going back to the early colonial era and constitute the framework within which all programs must be planned and implemented.

Nevertheless relative to many LDC's, El Salvador has considerable trained bureaucratic personnel to carry out programs. However, the private sector is able to attract the best technical and managerial talent away from government employment. Specific technical skills (e.g., planners and trained economists) are in short supply to the GOES. Although we do not identify lack of manpower as a major constraint to expansion of future programs, the need to upgrade skills and ensure manpower development will determine the pace at which project development can proceed. Major assistance programs by foreign donors are likely to require a basic technical assistance input to overcome institutional constraints. In AID's case this will require grant/loan combinations for several programs.

F. Other Donors

1. Multi-lateral Donors

The major multi-lateral donors in El Salvador are the World Bank (IBRD), Interamerican Development Bank (IDB) and United Nations Development Programme (UNDP).

a) IBRD: The IBRD has ongoing loans in basic education, agricultural and industrial skills training, urban development, and water supply. Its lending is balanced between rural and urban sectors.

Future lending levels, requested by the GOES and projected by the Bank, suggest that El Salvador may become one of the IBRD's largest borrowers in Central America during the planning period. New projects are proposed in all major sectors and tentatively indicate an aggregate lending level of around \$175 million in the next 4-5 years.

In the social sectors, the Bank anticipates follow-on loans in basic education, urban development, water and sewerage, and community development in the Northeast. In the productive sectors, the IBRD is developing a \$15 million industrial development project focused upon manufacturing, industry, export promotion, import substitution and employment creation. The Bank is also reviewing requests for loans to finance a container port facility, further investment in geothermal

power development, transportation facilities, and rural roads perhaps also in the Northeast.

b) IDB: The IDB's current loan portfolio in El Salvador includes loans for rural potable water, feeder roads, agricultural credit, and integrated communal development in the Northwest. The IDB also has a small grant portfolio in El Salvador consisting of projects for agricultural research and extension services, and promotion of small industries.

As with IBRD, IDB plans follow on lending to most current projects (i.e., feeder roads in the northern zone, agricultural credit, and a second stage integrated Northwest project). Potential new projects include loans for pre-investment studies, animal sanitation, the health sector, and a reforestation project.

IDB lending to El Salvador may run between \$80-100 million in the next 4-5 years. It will increasingly focus upon the northern, critical zone and be a blend of soft and near-market term money. It appears that the IDB strategy will be similar to the USAID's as to target group orientation and, to a somewhat lesser extent, sectoral emphases.

c) UNDP: The UNDP is currently funding a large number of small grant projects, generally providing technical assistance and training. These projects include technical assistance for: regional and urban development, civil aviation and airport development, beef and milk production, export promotion, telecommunications, sex education, population and human resources, maternal child health and international migration and settlement. Moreover, the UNDP supports the World Food Program of supplementary feeding.

In the future, the UNDP is considering support for integrated industrial development, watershed studies, educational and cultural extension, and productive projects including natural resources, energy, foreign trade, strengthening of the planning system, modernization of tax and fiscal administration, agricultural training, water supply and latrification in eastern rural areas as well as support for restructuring the Ministry of Education and establishing rural health training centers.

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IDB lending to El Salvador may run between \$80-100 million in the next 4-5 years. It will increasingly focus upon the northern, critical zone and be a blend of soft and near-market term money. It appears that the IDB strategy will be similar to the USAID's as to target group orientation and, to a somewhat lesser extent, sectoral emphases.

c) UNDP: The UNDP is currently funding a large number of small grant projects, generally providing technical assistance and training. These projects include technical assistance for: regional and urban development, civil aviation and airport development, beef and milk production, export promotion, telecommunications, sex education, population and human resources, maternal child health and international migration and settlement. Moreover, the UNDP supports the World Food Program of supplementary feeding.

In the future, the UNDP is considering support for integrated industrial development, watershed studies, educational and cultural extension, and productive projects including natural resources, energy, foreign trade, strengthening of the planning system, modernization of tax and fiscal administration, agricultural training, water supply and latrification in eastern rural areas as well as support for restructuring the Ministry of Education and establishing rural health training centers.

d. Other: Other multi-lateral donors in El Salvador include international technical assistance agencies such as, PAHO, OAS, and CABEI. Of these, CABEI is the only major lender and is financing road construction.

2. Bilateral Donors

Other major bilateral donors include West Germany, Canada, Italy, Israel and Great Britain. These countries provide limited but valuable amounts of development assistance, mostly grant, for projects in agriculture, small industry, rural water, and human resource development.

3. Donor Coordination Mechanisms

There are two major means of coordinating the efforts of international donors in El Salvador, both multi-lateral and bilateral. Principal among these is the GOES Ministry of Planning. The Ministry actively attempts to assure a rational allocation of inputs from all donors. The other coordination mechanism is regular in-country donor meetings. The USAID has recently been able to stimulate an increasingly higher degree of coordination than before. The current result is much greater interchange of information and development of specific opportunities for joint and coordinated programming. Future coordination is expected to continue and develop even further.

PART II. AID ASSISTANCE STRATEGY

A. Summary of the Analysis

From the analysis we have determined that poverty in El Salvador is pervasive and attributable to a series of interrelated flaws in economic, social and political structures, mainly:

- a limited and, in some important aspects, deteriorating natural resource base;
- an economic system derived from conservative attitudes and policies, and based on export agriculture and capital-intensive import substitution industries;
- political and institutional systems that are highly centralized, only quasi-democratic, and appear to lack adequate mechanisms for dissent and peaceful political change;
- a public institutional structure that in many instances is neither well staffed or managed, nor has it had the means or the mandate to develop effective, integrated systems for the delivery of basic services to a majority of the rural population;
- a fast growing, socially unintegrated, and increasingly mobile and unstable rural population that is without significant political or economic vehicles to make its demands known and felt, and;
- a close-knit and not always visible power structure that, for the most part, has not yet realized that its future welfare and that of the country are inextricably linked to finding a solution, and soon, to the problems of the poor majority.

The result has been a moderate but skewed economic growth pattern which, combined with high population growth rates, has produced a continuing shift in the distribution of wealth and income in favor of the few and left the many without sufficient opportunities to satisfy their basic human needs and break the vicious circle of poverty that entraps them.

The analysis also indicates that the GOES is making a more serious effort than in the past to change traditional patterns of trade and development, achieve a more equitable distribution of growth and expand the delivery of goods and services related to basic human needs. It finds itself caught, however, between two strong opposing and intolerant forces - one advocating radical changes in the present system, the other staunchly defending the status quo. Thus the GOES often appears unsure of the latitude it can or must exercise in the areas of economic and social progress, and still survive.

Relating the analysis to the rural poor, the following problems stand out clearly:

- high fertility rates in the rural sector;
- a rapidly deteriorating land resource base affecting basic food production and small farmers;
- scarcity of land and jobs for the rural poor;
- loss of human resource capacity as the result of illiteracy, malnutrition and disease.

This series of interrelated causes and effects reflects trends that, unless corrected, could lead to economic and social chaos in the not distant future. For example, current population growth rates translate into 8.9 million people by the year 2000. This means that the country's agricultural base, which is not now feeding a current population of 4.4 million, would need to feed an additional 4.5 million people. There is a need for 50,000 new jobs a year. There will be a need for an additional 1.5 million workplaces by the year 2000. The number of classrooms would have to be doubled by the year 2000 in order to attain universal education through grade 6. How these basic human needs are to be met in the intervening 22 years is not clear. Failure to meet a substantial portion of them, however, raises the specter of mass hunger, increasing political turmoil, social and economic collapse, and mass migration. The image carries serious implications for every country in the hemisphere but especially for neighboring countries, the rest of Central America and the United States.

B. AID Objectives

At best, the solutions to these problems are long-term and will require a massive effort by El Salvador, assisted generously by others. In this, nothing short of innovation, imagination and a highly committed and coordinated effort by all parties will suffice.

AID cannot hope to be the major source of money this effort will require. It, however, can aspire to be a leader among donors, a catalyst and development innovator. This means among other things that AID should take the lead in attempting to bring the full force of AID and other donor resources to bear on critical elements of change. Thus, a high level of other donor coordination involving key USG agencies and AID/W will be a major element of the AID role and strategy in El Salvador. The role as development leader, catalyst and innovator also implies that AID will be willing to take risks with promising but untried ideas, technologies and experiments.

In relation to the major problems identified, an assistance strategy for El Salvador must center its focus to the extent possible on increasing employment. Solution to the employment problem lies in El Salvador's ability to increase its economic growth rate along equitable lines by diversifying its economy from one that is largely dependent upon plantation agriculture to one that relies on labor-absorbing industrialization. Between these two points are a staggering number of intermediate problems which will not be all solved in this century.

First is the imperative to accelerate the rate at which population growth declines. Second, the policies, data base, incentives, infrastructure, credit and investment climate that will induce the transition to industrialization must be firmly established. Third, actions must be taken soon to arrest and reverse some of the worst aspects of environmental degradation. Other pressing requirements involve the need to improve the small farmer's production, productivity and access to land, better economic alternatives for the landless and

urban poor, and opportunities for rural residents to attain literacy and improve their diet and health and thereby lead longer and more productive lives.

Against this seemingly insurmountable array of problems, the Mission proposes to focus its strategy for 1981-85 primarily on the rural sector but with a view, as opportunities permit, to address a more comprehensive national production and employment strategy. In this context, the strategy will address selected, broad policy changes that affect El Salvador's long term development, concentrating on those problems that can improve the lives of the poor in the shorter term. For the period 1981-85, therefore, the Mission proposes to base its strategy on the following goals:

- improve key development policies;
- reduce fertility rates in rural areas and the overall population growth rate to 2.5% by 1985;
- increase small farmer production, productivity and income;
- broaden the rural poor's access to land and employment;
- increase the rural poor's access to the other basic necessities of life; and
- increase the rural poor's participation in the development process.

C. AID Strategy

These goals will be addressed through five sub-strategies: (1) policy improvement, (2) population reduction, (3) increased small farm production, (4) rural enterprise development, and (5) human resource development.

While each of these five sub-strategies are discussed separately, they are interrelated and designed to achieve impact in several areas. The sub-strategies for the small farm sub-sector, rural enterprises and human resource development, and to some extent, population, should be looked at as vertically structured, while the sub-strategies

for policy improvement, population and increased participation are designed to impact horizontally across these three major problems.

1. Policy

a) Changes Sought

The Mission has identified five areas in which policy improvements are needed. They are in several instances first steps in moving toward solutions to some of El Salvador's most obstinate obstacles to increased growth and equity. Success in these areas will depend heavily on GOES commitment and other donor coordination with AID attempting to be a catalyst. AID will seek policy improvements in the following areas.

Economic Policy. Improving the possibilities for growth with equity will require reorientation of key economic policies. This means in the first instance, a close examination of the industrialization incentives required to allow El Salvador to increase significantly its exports of manufactured goods to the world market and appropriately price factors of production in order to absorb the country's surplus labor. Since El Salvador's industrial sector is highly protected, transitional policies will be required to allow firms to adjust to new conditions.

A wide range of policy alternatives could be considered. These incentives could focus on domestic value added to exports and the amount of labor used. Barring the possibility of exchange rate adjustments, an export incentive scheme could be designed that compensates for an over-valued exchange rate. Tax holiday arrangements could be based on the amount of labor employed, and not on capital used. To avoid a bias in favor of scarce skilled workers at the expense of the unskilled, policies could emphasize the number of jobs created rather than the size of the payroll. Of major concern should be keeping labor costs low, and keeping the cost of capital in line with world market rates. The recent interest rate reform goes a

long way toward adjusting the cost of capital. Policy changes will have to be consistent with present CACM arrangements.

The AID strategy in this policy area is analytic and catalytic. Using limited technical assistance and continuous dialogue with the GOES, the Mission hopes to assist the government in evolving policy alternatives to accelerate the transition toward industrialization. The strategy contemplates relatively low AID financial inputs at the beginning of the planning period but we believe that toward the end of the period AID should be prepared, depending on GOES action and programs of other donors, to consider substantial assistance directed at employment generation.

Population Policy. El Salvador has one of the more progressive population policies in the hemisphere, implementation of which is coordinated by a Central Population Commission. This aspect of the strategy aims at strengthening this policy and planning body's ability to exert national leadership, especially in providing multi-sectoral coordination and population programs and in developing national demographic and service targets. We will also assist the Commission in evaluating both public and private sector population programs and in stimulating fertility research to broaden impact.

Food and Nutrition Policy. The analysis indicates the malnutrition problem is basically one of income and food availability. By a process begun with AID assistance in FY 1978, the Mission is encouraging the GOES to make a major commitment to raising nutritional levels. A first step is to strengthen GOES capability to formulate and implement a National Food and Nutrition Program. Other policy areas that need particular attention are those that can affect the balance between food produced for domestic consumption and export crops. The Mission also will support further development of the food information and nutrition surveillance systems as the basis for stronger policy and program execution. The Mission seeks to influence the GOES to make nutrition impact a basic consideration in its economic

and social policy formulation. To assure a similar focus, USAID will incorporate nutrition impact as a criterion in its programming.

Environmental Policy. El Salvador is only now beginning to confront the serious environmental deterioration that has occurred over the years. This environmental decline is in some respects a generation ahead of that of most other Latin American countries. With the increasing population press, this situation can only worsen. Beginning in FY 1979, the Mission will seek the establishment of a National Environmental Policy and Planning Office - attached to the Vice-Presidency - to formulate and coordinate needed environmental policies and programs. Corrective actions that are the most imperative concern deforestation, loss of marginal lands through erosion and soil depletion, contamination and silting of rivers, streams and other water sources, and excessive levels of pesticides use. The strategy therefore, aims at developing El Salvador's awareness of these abuses and stimulating the development and initiation of actions to correct them, preferably with other donor as well as AID assistance. The small farmer sub-strategy contains a major proposal for land improvement. This plus other AID assistance planned for 1983, will help actualize the policy improvements sought.

Energy Policy. El Salvador has had an active energy development policy and program. It is a leader in geo-thermal power development. With the San Lorenzo Dam coming on stream, El Salvador is expected to have in 1985 a surplus of electrical energy, which will be exported to Guatemala by a regionally coordinated grid. It is estimated that by 1985, consumption of imported fossil fuel will drop to 20% of total energy output.

Completion of the San Lorenzo Dam, however, will exhaust hydro-electric power potential. Geo-thermal production will be the country's only source of additional energy and its potential is unknown at present. Therefore, depending on what assumptions are made as to the rate of future industrialization and the country's

energy requirements, El Salvador could be in a deficit energy situation by the 1990's.

In this context, the Mission proposes that ROCAP, under its regional energy responsibilities, seek to assist the GOES to examine its long term energy and supply/demand requirements and develop policies for energy conservation and use of alternate energy sources. At the same time, USAID through its economic policy and other sub-strategies, e.g., Rural Enterprises, will be encouraging the development and utilization of appropriate and energy saving technologies.

Development Results Expected

The economic policy strategy is aimed chiefly at the employment problem. As this CDSS has pointed out in several places, this is the key problem area in terms of increased growth with equity and will be the toughest nut to crack. The strategy makes no pretense that the AID efforts described above will solve the problem. We do believe that it can achieve specific results that will contribute to a longer term solution. We also hope that as this strategy progresses AID can mount a more frontal assault on the employment problem.

By or before 1985, we would hope that AID and other donors are in concert with the GOES on an overall development strategy that focuses on production and employment. We would expect that before 1985, a reoriented policy structure along the lines discussed will be in place and implemented; we would also expect that this policy structure would already be attracting investments, public and private, domestic and foreign, that significantly contribute to increased growth, increased foreign exchange earnings and most important - labor absorption. We are not prepared at this time to cite measurable employment targets. Some employment generation is expected from the

The results expected from the policy initiatives in population and food and nutrition are cited under their respective sector strategies.

The results from environmental improvement policies are not yet predictable in specific and quantifiable terms since the magnitude of the problem and the appropriate response must await additional study. We would expect, however, that by 1985, an effective organization for environmental protection is established and functioning and that a series of progressive environmental policies will have been developed and implemented. Specifically, program responses will have been developed that give priority to correcting water pollution, deforestation and land erosion problems. We expect that a program for strengthening marginal lands will have proved itself and served as a catalyst in stimulating the GOES to accelerate programs for correcting other critical environmental constraints, relying on community action wherever possible.

2. Reduction in Fertility Rates

a) Changes Sought

With a view to reducing the natural population growth rate to 2.0 by the year 2000, the Mission will focus its efforts in population on a reduction of the fertility rate to the low thirties by the end of 1985. Our major effort in population during the planning period is designed not only to affect the growth rate but to address other development problems such as low rural incomes, the over-burdened GOES budgets, malnutrition, and poor health. In addition to strengthening policy planning, a major emphasis will be to increase access of the rural population to family planning information, facilities, and the means of voluntary contraception.

Access will be increased by improving logistics, procedures, and staffing of clinics to fill the demand for voluntary sterilization and temporary methods of fertility control. We will encourage removal of legal/policy barriers such as prescriptions for

orals, physical examination requirements and restrictions on sterilization eligibility. Access will be further improved by utilizing outreach agents such as rural health aides, agricultural extension agents, community development workers and by expanding distribution to neighborhood commercial outlets.

To break down rural male and female resistance and increase higher contraceptive prevalence in rural areas, this strategy will emphasize strengthened promotional and mass media activities. To increase both access and motivation, USAID will include a population segment in all its activities, especially health, education and agriculture. In fact, USAID intends to make impact on fertility reduction and improve criteria for project selection and project design.

b) Development Results Expected

Results expected in reducing population growth, in many respects the other side of the employment equation, are more easily established and measured. The Mission is optimistic that by 1985 the national crude birth rate can be reduced to the low thirties with the crude birth rate in rural areas dropping to 38-40/1000 and that of urban areas declining to 25/1000. It is expected that these reductions in crude birth rates then will produce a decline in the natural population growth rate to 2.5 by 1985, and at a continuing annual net out migration of 40,000, start El Salvador on the road to reducing its population growth rate to 1.2 by the year 2000.

Achievement of employment and education objectives is especially important to realizing these long term population growth rate declines. Conversely, population decreases will reduce unemployment and increase GOES capacities to adequately meet its population's basic human needs.

3. Increase Small Farmer Production, Productivity and Income

a) Changes Sought

Per-capita small farmer production is falling as a result of diminishing farm size and stagnating yields. The small farmer's

apparent alternatives offer little hope for improvement. They can seek employment within an increasingly competitive rural labor force; they can migrate to the urban centers; or they can remain on the land which offers security even as it becomes increasingly inadequate to meet subsistence requirements.

Land redistribution, while inevitable and underway, progresses too slowly to suggest a major impact by 1985. Accelerated off-farm rural and urban employment also must be addressed; but it too, along with population reduction, will not have an early impact. Productivity increases within the small farm sub-sector represent one of the few means available in a reasonably short period to broadly effect an increase in production and income and to give some measure of economic stabilization to this segment of society.

The Mission proposes a major departure from the traditional focus on new production technology, therefore, as the principal basis for productivity increases. We propose to go straight to the farm level with a relatively simple, low cost and labor intensive program of water and soil management and subsequently phase in the dissemination of improved production technology.

The strategy includes four basic elements: on-farm land resource improvement, land redistribution support, crop diversification, and rural access roads. The first three are the major thrust of this strategy. Training of small farmers and technical personnel will be an integral part of each related project. Approximately 250,000 small farmers including owners and renters with ten hectares or less will be the primary beneficiaries.

On-Farm Land Resource Improvement. Our current intensive cropping project points to the quality of the resource base as the overriding constraint to increased yields. Independently, self-help efforts by various groups of small farmers, trained and guided largely by Peace Corps Volunteers, have achieved up to 50% and more in yield increases over a two year period through selected water and

soil management practices with little or no change in other inputs. The technology is simple, appropriate, and relatively easy to master and pass on within the community.

It emphasizes rainfall catchments, contour planting, terracing and related practices at the individual farm level as well as drainage, reclamation and irrigation when contiguous farms are involved. A FY 79 project in on-farm soil and water management at the individual farm level will identify specific water and soil management practices appropriate over a broader range of social and ecological conditions, as well as refinements in the organizational and transfer processes. These results will then be extended to selected areas of the northern and eastern regions.

The technology requires a minimum of institutional support in its early stages and offers good opportunities for stimulating group or community action. The heavy labor requirements suggest it may have little acceptance among small farmers unless they have secure tenure. However, it offers the opportunity to direct surplus on-farm labor toward improving the land base and increasing yields, and possibly could absorb some off-farm labor as well. It is likely also to increase the desire of the landless and those with insecure tenure for land and more secure tenure arrangements.

Land Redistribution Support. An increase in the absolute amount of land available to small producers largely depends on GOES agrarian reform activities and the increased availability of land financing for them. To foster and accelerate progress in these areas we will continue to stress their importance, provide technical assistance and finance related support services and infrastructure on the larger tracts of land being purchased and transferred to target farmer groups. Much of this infrastructure will involve drainage and irrigation and, coupled with new support services, will further facilitate crop diversification.

Crop Diversification. This sub-strategy is closely linked to land improvement and its contribution toward increasing the returns from improved production technology, both for traditional and new crops. No direct assistance to research and development of technology is planned. Existing knowledge is relatively well developed and we anticipate continuing reinforcement by regional (ROCAP) activities. Instead, as land improvement gains facilitate higher returns to improved production practices, we plan to reinforce the extension/transfer process and strengthen linkages in supporting services. Initially we will emphasize crop diversification through intensive training, improved seeds, and horticultural and small livestock development. Follow-on assistance will address further expansion of farm level soil and water management, planning and implementation, and increased access to production inputs and marketing services.

Rural Access Roads. Despite a well developed primary and secondary road system, the need to intensify land use, diversify the product mix, and provide production inputs and available markets will require improved access to selected areas of increasing production potential. We will finance selected labor absorptive projects for this purpose.

Other donor assistance supportive of our small farm strategy includes IDB lending for production credit. We are hopeful that the IDB and IBRD will take increasing interest in drainage, reclamation and irrigation and follow AID initiatives in these areas to become the major external source of financing.

b) Development Results Expected

The longer term result expected from this strategy is a reversal of the diminishing viability and declining productivity of small farm enterprises in El Salvador. We believe it will result in up to a 50% increase in basic food crop yields with corresponding increases in small farmer per capita incomes, and restoration of an

estimated 300,000 hectares of deteriorating marginal lands. The more intermediate results expected by 1985 are (1) yield increasing improvements on 90,000 hectares affecting production and income of an estimated 70,000 small farmers, (2) permanent tenure arrangements completed for 30,000 small farmers, including 20,000 of the landless poor who will receive new land through purchase or communal farming arrangements, and (3) 5,000 more hectares under irrigation.

We also expect improvements in rural nutrition from this increased and diversified output. The concept and practice of cooperative and community action will be strengthened and as the relative welfare of the target group improves, social and political activities in the rural area may become more positive and reinforcing.

4. Rural Enterprise and Community Development

The 720,000 or more rural landless poor have gained least from economic growth and income distribution patterns. The head of household income of the rural landless poor probably averages less than \$2 a day. Boxed in by lack of on-farm and off-farm employment on the one hand and inflation on the other, the rural landless poor in particular are left to scratch out a living as best they can.

Increasing off-farm employment is probably the major and most difficult task facing a growth with equity objective in El Salvador, given the policy and other obstacles to be overcome. Strategy to effect the policy changes required to help increase employment were discussed earlier. While further analysis is needed, we believe that it is possible to create a limited number of off-farm economic opportunities at the rural level in the absence of a major stimulus to industrialization. Lack of capital available to entrepreneurs, lack of an outreach capability and marketing and investment information, as well as the absence of more appropriate technologies appear to be the major obstacles. Accordingly, the Mission proposes a combination rural and community enterprise strategy beginning in 1980 to help create additional rural economic opportunities.

a) Changes Sought

Focusing on the need to develop efficient technical outreach as well as to make credit, production, and marketing services available, the Mission will seek to improve the capability of public federations of credit agencies and private federations of savings and loan cooperatives to stimulate rural enterprise and cooperative development. Included is the development of a project identification and design capability, a small business marketing network, and mechanisms for transmitting appropriate technologies. The passage and implementation of the proposed small business development law, which will create and expand technical assistance, professional training and business development extension, will be an important stimulus.

Development of cooperative and community enterprises also offers a means to create new rural economic opportunities. Linking the technical and financial assistance mentioned above to cooperative development federations, the Mission will help develop their capability to offer assistance to small potential entrepreneurs and artisan groups.

Beginning in 1980, we will embark on a substantial community enterprise and community development program which will be continued throughout the planning period. The objective is to stimulate the creation of new community enterprises through cooperative formation and small community run and managed enterprises. The program will emphasize the generation of employment and income as well as self-help and community/cooperative action. The program also will include small community infrastructure and environmental improvement activities which will provide employment as well as encourage community action. To the extent possible, the strategy will favor the eastern region where the majority of the "poorest of the poor" are found.

d) Development Results Expected

Since this is an uncharted area for the Mission, it is difficult to predict realistic results. By the end of the planning

period, however, and in addition to developing institutional capacity, we would expect that the strategy will have been effective in creating 100-200 new enterprises and up to 10,000 new jobs. We would also expect that 100 cooperatives representing 15,000 or more members would be either newly established or assisted to generate employment or business income for their members.

Less measurable, but no less important, we would expect that the strategy will make a major contribution in promoting increased community action and in creating new rural organizations, thus raising the level of the rural poor's participation in the development process as well as providing needed community level infrastructure such as water, sanitation facilities, bridges, roads, and environmental improvements.

5. Improved Human Resources

The analysis shows high incidences of illiteracy, malnutrition, and disease among the rural population. These represent a substantial loss in human resource potential, and a denial of some of life's most basic human rights and needs. They also lead to economic and social alienation and preclude the poor's transition to a productive role and participation in the inevitable industrialization process.

The AID strategy, therefore, seeks improvement in the country's human resource base as a means to increase equity and provide an opportunity for the poor to lead more useful and productive lives.

a) Changes Sought

Basic Education. The strategy ambitiously aims at providing the means whereby all primary school Salvadoran children can attain a basic education and literacy. This will not be an easy goal to reach and the Mission does not propose that AID do it alone.

The total requirement, most of which is in the rural areas, is difficult to ascertain. Extrapolating from the Education

Sector Analysis, the USAID estimates that El Salvador's primary education system is not properly accommodating between 150,000 and 200,000 children eligible for attendance in grades 1 through 6. By 1985, an additional 174,000 children are likely to be added to the primary education age group.

The strategy will concentrate on lowering repeater rates, increasing double shifting, and providing new school rooms and teachers to increase access to higher elementary grades. Assuming these key changes, achieving a goal of 90% access to primary education by 1986 will require about 3,600 additional classrooms and 2,300 additional teachers. Once the 90% goal is reached the system will need to expand by about 5% a year to reach universal access by 1990. Heavy emphasis upon community self-help and participation is a sine qua non of the strategy.

Other elements of the basic educational system that would need substantial strengthening to support the planned expansion include improved curricula, materials, administration and supervision. The use of educational T.V. will be expanded to further augment the strategy. Also a Faculty of Administration and Supervision will be established within the existing National Teacher Training School.

This ambitious strategy contains two important assumptions: (1) that the World Bank will continue its assistance in this field, and (2) that the GOES will be able to mobilize the financial resources for the additional teacher and support costs, as well as the counterpart funds for new investments.

The Mission also will expand its occupational skills training program not only to reach a larger number of rural residents but also to offer them training in how to increase their incomes and improve their diets, sanitation and health, and to plan family size.

Nutrition Improvement. The analysis pointed out that nearly three-fourths of all Salvadoran children are malnourished with one-fifth suffering severe malnutrition. This serious problem is

a function of lack of income and food availability. To meet this problem, the Mission will take a multi-sectoral approach that builds on USAID's nutrition improvement activities initiated in 1978. The primary target will be children under age 6, especially those under 3, and rural women of fertile age.

El Salvador's nutrition outreach capability can be substantially improved by developing and integrating a variety of untapped resources such as community-based rural health aides, agricultural extension workers, community development workers and PVOs, health workers assigned to rural health facilities, and rural teachers. This outreach will focus on maternal/child nutrition, including promotion of breast feeding and improved weaning practices.

Although no increase in numbers of PL 480 Title II beneficiaries is planned, the focus on Title II and WFP programs will be sharpened and the Food for Work component increased to support various community development efforts. Later in the period the Mission will assist the GOES to develop its own plans for supplementary feeding.

The more difficult aspect of the nutrition strategy will be to induce changes in food availability. The policy sections on nutrition listed several changes needed. To the extent possible, USAID intends to support efforts to improve production technologies that relate to foods consumed by the poor. Simultaneously we will seek ways to stimulate industries that process and transport local foods, and reduce food losses through improved storage distribution and quality control.

Health Improvement. Despite a rather extensive national health system, a majority of rural Salvadorans suffer from gastro-enteric and respiratory diseases. Barriers to improved rural health are lack of adequate water and waste disposal, poor hygiene and health habits, and health resource allocations that favor hospital care and infrastructure over rural health delivery.

The Mission's strategy to reduce these barriers will focus on rural outreach, on rural water/sanitation and health education, and on changes in the allocation of resources for rural health delivery.

Outreach workers will focus on preventive health care, family planning and nutrition. Extending and improving support systems of rural health aides, rural midwives and malaria collaborators, will be the focus of assistance in primary health care during the early planning period. Special attention will be given to strengthening the referral and supervisory systems that provide vital back up to these workers.

Changes sought in environmental health will be closely coordinated with IDB, CIDA, PAHO, UNICEF, and UNDP, all of which are extensively involved in this area. Potable water projects integrated with sanitation and health education elements will be designed and carried out with maximum community participation. Appropriate technologies will be developed for integrated environmental sanitation systems. Mid-level water technicians will be trained to design and supervise such projects with community participation.

Later in the planning period, emphasis will shift to problems of water supply and sanitation in towns and smaller urban areas. The change reflects our expectation that eventually a single organization will have responsibility for water provision and waste disposal in both rural and urban areas.

b) Development Results Expected

The major results expected from the basic education strategy have been cited above. Providing access to a basic education and literacy for most Salvadoran children is expected to have a profound effect on El Salvador's future development prospects. It can have a major impact on future population growth rates as well as on nutrition levels and health habits. Most important is the potential this represents for creating individual self-esteem and self-confidence in one's ability to affect his future.

While not prepared to quantify the results expected in nutrition, we are confident that by 1985, the strategy will produce

a higher host country commitment and a significant reduction in malnutrition. We also would expect a greater collaboration between the public and private sector on food production policy and a greater availability of food to lower income groups as a result of improved food distribution and fortification. A nutrition outreach capacity will have been established and functioning in key GOES social programs, reinforced by nationwide radio programs in nutrition and health. It also is hoped that other donors will be using nutritional impact criteria in designing their own programs.

Closely related are anticipated results in improved health. It is expected that by 1985, 1,080,000 rural residents will have improved access to minimum primary health care via outreach workers and backup health facilities. Another 225,000 rural residents will have safe drinking water and improved minimum sanitary conditions and the information and services to improve their health habits. The combined effect of these results is expected to lead to a significant reduction in gastro-enteric diseases with corresponding increases in improved health, productivity and longer life spans. Most important are expected changes in health attitudes with fatalism giving way to an awareness that disease can be prevented and health status improved.

D. Overall Impact of the Strategy

In assessing the overall impact of the AID assistance strategy the main consideration should be the extent to which it contributes to the central objective of increased economic growth with equity.

The strategy in at least four key areas impacts directly on growth with equity. For example, if the viability of El Salvador's small farm enterprise can be restored through high yields, more secure tenure and land restoration, it will have made a major contribution to growth with equity for this sub-sector. Success in creating economic opportunities through developing rural enterprises is also progress towards this objective. Perhaps even more important are some of the

policy objectives sought. If AID along with other donors can be instrumental in accelerating El Salvador's long and difficult march toward more labor-intensive industrialization, this would have a profound effect on employment and more equitable growth, if not for today's poor, certainly in terms of the vast numbers who will be tomorrow's poor if increased growth with equity does not take place. The Mission's goal of providing the opportunity for all Salvadorans to gain a primary education squarely addresses not only social equity but also employment. Thus, while the strategy does not mount a frontal assault on employment it does address the employment issue in direct and demonstrable ways.

Equity, not only in terms of employment and other basic human needs but also increased popular participation in the development process is built into almost every goal strategy. Increased access to family planning puts the poor, especially women, at the center of the decision-making process. Almost every sector strategy is based in one form or another on not only reaching the poor but also increasing their participation in the development process. Strategies for land improvement, community enterprises, potable water, nutrition and school expansion are all designed to stimulate local self-help and community organization and action. The rural enterprise and community enterprise strategy is based almost entirely on this concept.

The total strategy is also appealing in that each element reinforces and produces spin-offs that impact favorably on other elements. Nutrition and small farmer strategies are complementary and reinforce each other. Expected results in population decline cut across and reinforce all other goal strategies. Education, employment, nutrition and health in turn help realize the population goal.

Lastly, the strategy illustrates specific ways in which AID, with limited resources, can act as development leader, innovator and catalyst. The catalytic role to be played with other donors, particularly at the policy development levels, could have a

major impact on resolving such critical problems as employment and environmental degradation. The proposed land improvement sub-strategy, while not a new technique, would in its application be a major innovation for El Salvador. Much of the rural enterprise strategy is based on developing innovative and appropriate technologies. Our basic education strategy also emphasizes new and low cost approaches.

In summary, we believe the strategy proposed, while it severely tests AID's capacities, presents a realizable challenge and a full and important opportunity for AID to meet its Mandate.

PART III ASSISTANCE PLANNING LEVEL

A. Proposed Assistance Planning Level

The Mission's 1985 Indicative Planning Allocation (IPA) is \$17.0 million. We judge it to be wholly inadequate in the face of El Salvador's overwhelming development problems and unfulfilled basic human needs. It is not sufficient to deal with the problems identified in Part I. It will not adequately support the strategy of Part II, and it is not consonant with the opportunities for an expanded AID role in this country.

El Salvador has traditionally come out short in bilateral allocations. Within the Central American sub-region, for example, AID development lending levels were about as follows between CY 1960 and mid-1978: Costa Rica \$90.7 million; Guatemala \$118.2; Honduras \$113.0; Nicaragua \$160.4; and Panama \$183.5. In contrast, development lending to El Salvador in this period was \$63.3 million. Yet, within the sub-region, El Salvador has 25% of the population on 5% of the land area, a population that is expanding as a proportion of the sub-regional total. We would hypothesize that socio-economic conditions outlined in Part I result in some measure from low assistance levels in the past.

Beginning in early 1978, with a new Minister of Planning and a new GOES Development Plan, the Mission began to develop a stronger foundation upon which to base a larger and more responsive AID program. This base has been enhanced to where there now exists a close and candid dialogue on development problems, higher GOES commitment and closer coordination with other donors. Part I indicates major areas in which the GOES is making a sincere effort to do a better job in meeting the basic human needs of its rural poor. El Salvador is more prepared now than before to vigorously address its critical development problems, and we trust that our response can be affirmative and reinforcing.

The following table summarizes the planning levels produced by our analysis and strategy.

Table 10

EL SALVADOR - PROPOSID ASSISTANCE PLANNING LEVELS
(U.S. \$000)

Sectors	Categories	F i s c a l Y e a r s					TOTAL
		1981	1982	1983	1984	1985	
I. <u>Economic Policy</u>	(G)	200	--	300	--	150	650*
II. <u>Population Policy/Svcs/Motiv PVO</u>	(L/G) (OPG)	700 100	700 100	750 100	850 150	6,300 150	9,900* 9,300 600
III. <u>Small Farm Land Improvement Land Tenure Support Crop Diversification Rural Roads PVO</u>	(L/G) (L/G) (L/G) (L/G) (OPG)	4,150 -- -- -- 150	8,250 8,600 -- -- 150	-- -- 6,350 -- 200	-- -- -- 8,350 200	4,100 -- 4,250 -- 250	45,000* 16,500 8,600 10,600 8,350 950
IV. <u>Rural & Comm. Ent. Rural Ent. Devel. Commun/Coop. Devel Environ. Policy Commun. Environ. PVO Spec. Devel.</u>	(L/G) (L/G) (G) (L/G) (OPG) (G)	3,000 8,350 150 -- 750 100	-- -- -- -- 950 100	-- -- -- 7,750 1,000 100	7,700 -- -- -- 1,000 150	-- 6,200 -- -- 1,000 150	38,450* 10,700 14,550 150 7,750 4,700 600
V. <u>Human Resource Education Rural Primary Skills Trng. Nutrition/Food Policy Health Rural Svcs/Water Town Water/Sanit. PVO</u>	(L/G) (L/G) (L/G) (L/G) (L/G) (L/G) (OPG)	4,300 4,250 4,250 2,500 -- 300	4,350 -- -- -- 250	10,200 -- -- 6,250 -- 700	-- 4,000 -- -- 300	4,200 -- 3,300 -- -- 750	23,050 8,250 7,550 8,750 5,450 2,300
TOTAL		33,250	23,450	33,700	28,150	30,800	149,350
PL 480 Title II		2,735	3,171	3,499	3,825	4,262	17,492

* Sector sub-totals

B. Types and Kinds of A.I.D. Resources Required

1. Financial Resources: As tabulated above, the proposed program will be funded from AID loan (L), grant (G) and operational program grant (OPG) sources. Emphasis will be placed upon loan/grant (L/G) combinations to facilitate: program concentration; stream-lining of project documentation; and the provision of appropriate advisory and monitoring assistance to the host country. Phasing of initial and follow-on financing will further enhance program concentration. Through the conditional commitment of subsequent support, we expect to obtain improved performance and results from the initial financings. It is hoped that a number of these phase one demonstrations will attract phase two assistance from other donors, thus permitting AID to develop further innovative approaches and mechanisms for delivering new opportunities to the Salvadoran poor.

The strategy flows from our current and planned FY 1980 program, of which an estimated \$9.0 million will be incrementally funded or trached in the planning period. Following are the types of resources required to meet strategy goals for 1981-1985.

a) Policy Development. We envision moderate and phased grant inputs to assist the GOES acquire the technical help and accumulate the analytical data needed to assess policy in economic growth and equity. This type of assistance will build upon prior AID-funded analysis and tie-in with planned interventions for rural enterprise development and other employment generation schemes. A productive credit guarantee approach may become feasible. If midway through the planning period the outlook for acceleration is favorable, we believe AID should consider program lending to further stimulate the process.

b) Population Sector. A population dynamics grant, planned for initial funding in FY 80, will be incrementally funded during the first four years of the planning period and is expected to prepare the GOES for L/G assistance starting in FY 1985. In addition, we will rely heavily upon central AID-funded contracts and other resources. Close coordination will be maintained with organizations such as IPPF to achieve maximum complementarity. OPG funding of private voluntary initiatives in population is envisioned throughout the planning period.

c) Small Farm Sector. A pilot grant for small farm natural resources management is expected to begin in FY 1979. The ongoing small-scale irrigation project is indicating new needs for on-farm technologies in water use. These parallel efforts will provide a basis for moving to L/G assistance for land resource base improvement starting in FY 1982. In tandem, an AID-assisted land transfer project is expected to begin in FY 1979 and lead to intensified L/G support for land expansion and infrastructure in FY 1982.

Complementary L/G assistance is planned for subsequent years in the planning period to support small farm production technology, extension, multi-cropping and diversification, rural roads and infrastructure. These efforts will interrelate with the community environment intervention planned in the rural and community enterprise sector. The Mission expects to utilize Title XII resources as appropriate and to move into integrated sector lending later in the planning period. Finally, we envision that within both the land improvement and expansion schemes, there is major potential for utilizing the latent leadership potential of progressive small farmers, community action groups, and significant numbers of Peace Corps Volunteers, augmented by local PVOs and contractors to supplement the work of GOES outreach workers.

d) Rural and Community Enterprise Sector. A major effort in rural enterprise development is planned for initial L/G funding in FY 1980, with tranching in FY 1981 followed by L/G support in FY 1984. This effort will be complemented by L/G assistance to the cooperative sector in FY 1981 with phased support in FY 1985. An environmental policy and project development grant is planned for start-up in FY 1979 with incremental funding in FY 1980 and 1981. It will draw upon regional and centrally funded sources and is expected to lead to a major L/G activity midway through the planning period which will emphasize local, community-based efforts to protect and develop El Salvador's renewable natural resources. As noted, it will complement land resource improvement interventions in the small farm sector.

We plan to maintain vigorous and growing OPG and SDAF elements in the program, based on current success and progress. These elements will span all sectors and will strike a balance between public and private sector assistance here as well as deepen our support of community-based activities. If possible, we will use HIC support to upgrade housing, especially where it would involve community participation and help improve housing tenure arrangements.

e) Human Resource Sector.

1) Education. A rural primary education expansion project will begin in FY 1979 and lead to major follow-on L/G support in nearly every year of the planning period. As shown in Part II, this assistance will be planned in tandem with proposed World Bank loans for basic education. We will provide continued and follow-on financing of the occupational skills project with further L/G support in FY 1981 and 1984. OPGs will be used to support these aims.

2) Nutrition. The Mission plans substantial assistance beginning in 1981 to follow the ongoing nutrition policy and planning grant project. Increased levels of PL-480 Title II assistance are planned to support new food for work initiatives within the community action elements of the strategy, as well as ongoing maternal-child health activities. We will update our analyses and estimates of the country's food availability and consumption patterns prior to the planning period. OPG financing with PVOs will be an important resource supporting our nutrition objective.

3) Health. A rural health improvement loan is planned for initial funding in FY 1980, tranching in FY 1981, with follow-on L/G support in FY 1983. This phased assistance will support continuing efforts to develop rural community-based health delivery systems and the new initiative planned in rural potable water and sanitation. It will be followed by L/G assistance to support a sanitary health intervention in market towns in FY 1984.

The following table summarizes the blend of resources comprised by the proposed assistance planning levels.

Table 11
Resource Mix
(US\$ Millions)

Source of Funding	Fiscal Year					TOTAL
	1981	1982	1983	1984	1985	
Development Loan	29.50	20.50	29.50	24.70	26.50	130.70
Development Grant	2.45	1.50	2.20	1.80	2.15	10.10
Oper. Program Grant	1.30	1.45	2.00	1.65	2.15	3.55
Total	33.25	23.45	33.70	28.15	30.80	149.35

2. Staffing Resources: Staffing resources required to develop and implement strategy elements during the planning period will be provided from three sources: Mission USDH and FNDH for both program development and implementation; PD&S-funded consultants and contractors to assist in program development and evaluation; and Agency TDYs to also assist in program development.

We envision PD&S funding of \$300,000 in FY 1981, rising gradually to \$400,000 in FY 1985 and totalling about \$1.8 million for the entire planning period. Agency TDY assistance is also envisioned since we are not increasing direct hire staff above the levels expressed in our FY 1980 ABS. The table below sets forth projected staffing requirements for the planning period. It shows minimum requirements and reflects Mission plans to build monitoring capabilities into loans and grants to reduce implementation burdens on DH Staff. In addition to the staff levels indicated in the table below, the Mission annual support services will approximate 15 person years over the planning period.

Table 12
Projected Staffing Requirements
(In work years, 1981-1985)

CATEGORIES	1981			1982			1983			1984			1985		
	TDY			TDY			TDY			TDY			TDY		
	US	FN	OTHER	US	FN	OTHERS									
F&N	4	4	.4	4	4	.6	4	4	.6	4	4	.6	4	4	.6
E&HR	2	4	.7	3	4	.5	3	4	.4	3	4	.4	3	4	.4
HPN	4	4	.6	4	4	.7	4	4	.7	4	4	.7	4	4	.7
GEN DEV	2	4	.3	2	4	.2	2	4	.3	2	4	.3	2	4	.3
MGT/PROG SPT	11	24	--	11	24	--	11	24	--	11	24	--	11	24	--
T O T A L S	23	40	2.0	24	40	2.0	24	40	2.0	24	40	2.0	24	40	2.0