PN-AAU-592
46552

THE CARIBBEAN BASIN INITIATIVE
IN
EL SALVADOR
A PLAN FOR PRIVATE SECTOR DEVELOPMENT

USAID/EL SALVADOR
SAN SALVADOR, EL SALVADOR

JULY 1982

CBI IMPLEMENTATION PLAN FOR PRIVATE SECTOR DEVELOPMENT

ANNEXES

1. PRIVATE FIXED CAPITAL FORMATION
2. PERCENTAGE STRUCTURE OF GDP AT CONSTANT PRICES
3. FOREIGN INVESTMENT TRENDS AT CURRENT PRICES
4. U.S. IMPORTS FROM EL SALVADOR

I. EXECUTIVE SUMMARY

A. El Salvador - The Economic and Business Setting

The economy and business environment of El Salvador are in what can be characterized as a subdued, if not depressed state of affairs at the present. The various sub-sectors have all been affected to a major degree by the combined effects of depressed agricultural prices, increased import prices and of course, the political violence. The Gross Domestic Product has declined by 20% in real terms, and almost 200 businesses have closed since 1978; unemployment has jumped to 25%; investment has declined by 137% and international reserves stand at a negative $197 million as of year-end 1981. Lack of investor confidence, foreign exchange and credit (the latter somewhat open to question) are complaints heard from all quarters in the business community. While the situation is grim, however, there are some positive aspects to be discerned. The private sector as a group is still very much alive and active; a large part of the sector's physical infrastructure remains intact; the majority of middle and upper level managers remain as does a large, moderately skilled labor pool; and finally, the common will to improve this situation is still very strong. Those factors taken together with a recent warming in political relations between the Salvadoran public and private sectors bode well for the future assuming violence subsides and sufficient financial and other economic assistance measures are taken to support El Salvador, its private sector and their own efforts to get back on their feet.

B. The CBI and its Impact on El Salvador

The CBI, while impressive in concept and scope will have a positive but modest effect on El Salvador in the near future. The $100 million (the Mission's latest understanding of the amount under consideration in Congress) resulting from the CBI supplemental will have a major, positive effect on imports and industrial production in El Salvador in 1982 as well as additional ESF funds programmed for fiscal years 1983 and 1984. The injection of dollars cannot treat the subtler, long term problems of lack of confidence, credit and know-how, however. The effects of the Free Trade Area strategy will be much less, with only $17 million in additional exports estimated to result from reduced tariffs. Investment in the medium term should increase by even less, assuming the investment incentive measure passes. The CBI should have a longer term effect however in that it will seek to initiate changes in Salvadoran production and marketing strategies and finance efforts to serve additional credit and capital resources from the U.S. private Sector.

C. The Strategy

The Mission's CBI strategy for El Salvador will mirror the concept of aid, trade and investment. Large amounts of ESF balance of payments assistance will be passed into the economy in order to maintain production and employment levels. Significant amounts of technical assistance and training will be employed to increase the Salvadoran private sector's export promotion and market exploitation capabilities and in so doing, capitalize on the Free Trade Area ideas. Finally, the Mission will work with the Salvadoran public and private sectors to establish guarantee systems or some other arrangement designed to inspire investor confidence and bring about new investment in this country.

Modest but, in the Mission's opinion, achievable targets within the CBI have been established as follows:

CBI TARGETS - EL SALVADOR

Sub-Sector	Actual 1978	Actual 1981	CBI Targets 1982	1983	1984
Industrial					
Production ($000)	481.9	492.1/	494.	519.	545.
Employment (000 persons)	194.5	218.4 1/	219.6	231	242.
Exports	261.4	221.2	210.	231.	254.
Investment (MM) 2/	137.4	55.8	55.	83.	110.
Agriculture					
Production ($MM)	843.9	873.8	880.	893.	906.
Employment (000 persons)	568.6	571.5 1/	586.	595.	604.
Exports ($MM)	526.	537.9	545.	553.	561.
Investment ($MM) Current Dollars	29.3	14.5	13.	16.	18.

1/ Employment statistics available only through 1980.

2/ Includes estimated U.S. investment (combined) of $3.7 million.

D. The Action Plan

While the strategy is simple in concept, its actualization will be more complicated. Over the next few months the Mission will be engaged in the development of a series of new Projects or amendments to existing ones. The principal Programs and Projects to be employed over the next two years, together with projected dollar contribution are as follows:

	($000)
Private Sector Support Program (Balance of Payments Support-continuing)	262,000
Industrial Recovery Program (Development Project)	56,000
Private Sector Organization and Planning (Development Project)	1,500
Trade and Investment Development (Development Project)	6,000
Reform and Policy Planning (Development Project)	450
Regional Training Program (Development Project)	350

II.A. ECONOMIC SITUATION

OVERVIEW

The 1981 Salvadoran GDP, the value of all goods and services produced in the nation, was approximately $3.4 billion measured in current dollars. (See Table II-1). In real terms, 1981 production was almost 20 percent below that of 1978, with predictable implications for private consumption, employment, worker/management/ government relations, and political stability.

The causes for this decline lie both within and outside of El Salvador. Within El Salvador, political instability culminating in a military coup in October 1979 led to the ascendancy of a strongly populist, reform-minded government, with little or no base of support among the economic leadership of the nation. This government was successful in stabilizing and reversing a trend toward growing popular unrest, but only at the price of massive reforms of key sectors of the economy, which confirmed and hardened conservative opposition against it and severely taxed the economic structure of the nation. At the same time, sharply falling prices in El Salvador's traditional export commodities, weakness in the Central American Common Market to which El Salvador customarily sells its industrial production, rising petroleum prices, high commercial interest rates for those loans which El Salvador could obtain, and a worldwide recession sharply reduced the financial resources available to the government and the private sector to deal with the nation's problems.

For the past two years, there has been a close relationship between imports and production, net flows of banking and official capital (primarily economic assistance), and the level of international reserves. Increased economic assistance has permitted increased imports and production or, alternatively, slower decline in reserves and arrearages. In 1982, U.S. assistance with direct impact on the balance of payments is projected to be $140.3 million; if the CBI is passed as proposed, this amount will increase to $268.3 million. At the higher level, U.S. assistance will provide hard currency for approximately one quarter of all

TABLE II - 1

GDP

U.S.$ Million

	1978 1/	1979	1980	1981
Consumption	2.553.0	2.800.2	3.057.3	3.257.6
Private	2.165.4	2.357.8	2.552.4	2.745.6
Public	387.6	442.4	504.9	512.0
Fixed Capital Formation	714.4	624.5	467.8	406.2
Private Fixed Capital	501.1	391.7	230.4	209.1
Public Fixed Capital	213.3	232.8	237.4	197.1
Inventory Changes	73.0	-81.0	-68.0	-16.0
Exports of Goods and Services	978.3	1.364.9	1.078.6	933.3
Imports of Goods and Services	-1.217.3	-1.261.2	-1.148.2	-1.195.6
G D P	3.076.9	3.447.4	3.387.5	3.385.5
Agriculture	843.9	1.035.7	899.9	873.8
Commerce	733.2	800.1	805.9	793.6
Manufacturing	481.9	524.4	518.0	492.1
Public Administration	278.9	304.6	353.3	379.9
Personal Services	195.8	209.2	224.3	220.2
Transport, Storage and Communications	116.4	116.7	125.1	118.6
Finance	103.8	114.5	120.8	132.3
Private Construction	73.2	79.3	86.8	90.8
Other Value Added	170.0	195.6	228.2	257.1

1/ Figures do not add because of statistical discrepancy

SOURCE: Central Reserve Bank of El Salvador

Salvadoran imports for the year. IMF assistance for 1982 is projected at \$63.4 million, of which \$21.4 million will be dedicated to imports and \$42.0 million will be utilized to improve the reserves/arrearages position of the Central Bank.

GOES planners had projected 1982 imports at slightly more than \$1.0 billion, which would imply zero GDP growth for the year. On the basis of projected export earnings and assistance flows for the year, this level of imports is theoretically possible. However, because of unexpected delays in U.S. assistance and in disbursements of IMF assistance, much of which will be made available only after the critical planting season, it is unlikely that this level of imports and zero GDP growth can be attained. Because of major uncertainties, especially regarding the timing and amount of U.S. assistance, it is difficult to project a meaningful import level for 1982. GOES economic leaders, the Embassy, and the A.I.D. Mission now believe that El Salvador will face a real decline in GDP on the order of 3-6 percent, reducing 1982 GDP to 25 percent below the 1978 level in real terms. It is possible, however, that with resolution of these uncertainties and an adequate level of economic assistance the Salvadoran economy will bottom out at this low level some time in 1982 and begin slow recovery in 1983.

In addition to critical hard currency requirements, the nation faces a shortage of local currency for production and public sector needs. The banking system is weighed down by a growing proportion of credits for refinancing old loans, which implies that scarce credit resources are not available to meet present working capital or investment needs. Agricultural producers, in many cases, have been unable to obtain bland bridge loans to support them when they are unable to repay their planting credits because of low export prices.

Key elements in the public sector are unfunded. In the government's operational budget, only the allocations for the new Legislature, the Central Elections Council which administrated the March vote, the Foreign Ministry, and Defense and Public Security have been increased;

all others were reduced. For the first time in the nation's history, the 1982 budgets for Public Health and Education were lower than in the previous year. Compensation for agricultural reform, a crucial political issue because of its implications for fomenting political opposition within the country if not paid, is in jeopardy. At a time of perhaps 20-25 percent unemployment, the government's employment generation programs and, indeed, employment within the public sector in general, is threatened by a shortage of general funds.

More importantly, even though El Salvador will succeed in 1982 in tightening its belt for the second consecutive year, local currency constraints will prevent any significant economic recovery in the short term. That is, even if sufficient hard currency were made available to finance increased production and employment, local currency constraints would place a low ceiling on improvement.

COMPONENTS OF REAL GDP

GDP was almost 20 percent lower in 1981 than in 1978, in real terms. Since 1978, overall private consumption in El Salvador has declined by 24 percent (See Table II-2). Although population data is scanty because of the nation's unstable social environment, the probable assumption that population has continued to grow during these years would indicate an even sharper decline in per capita consumption. From 1970 to 1977, private fixed capital formation made up 13-22 percent of GDP; in 1981, it had fallen to only 6.2 percent of GDP. In comparison with 1978, exports of goods and services were a real 13 percent lower in 1981 and, most important for an import-dependent economy, imports of goods and services were down by 47 percent. The hardest hit sectors of the economy were construction (down 48 percent since 1978), merchandising (down 37 percent), manufacturing, which depends on imports of raw materials and capital goods (down 32 percent), and agriculture, the mainstay of the economy (down 9 percent).

TABLE II-2

PERCENT CHANGE IN COMPONENTS OF REAL GDP

	78/79	79/80	80/81	78/81
Consumption	-4.1	-5.8	-7.6	-20.6
Private	-5.5	-7.3	-8.2	-24.4
Public	5.1	2.9	-4.7	3.0
Fixed Capital Formation	-22.2	-33.0	-25.4	-55.6
Private Fixed Capital	-31.8	-47.7	-22.9	-69.3
Public Fixed Capital	-1.6	-11.0	-27.6	-27.5
Exports of Goods & Servcs.	29.0	-6.1	-25.1	-12.6
Imports of Goods & Servcs.	-11.6	-22.9	-11.3	-47.2
G D P	-1.5	-9.6	-9.5	-19.4
Agriculture	1.5	-5.9	-4.3	-8.7
Commerce	-2.6	-13.9	-14.4	-36.8
Manufacturing	-2.9	-15.5	-17.4	-32.1
Public Administration	3.8	3.5	2.4	10.0
Personal Services	-4.7	-8.4	-14.4	-25.3
Public Construction	-11.3	-5.6	-8.6	-23.5
Private Construction	-17.7	-67.7	-6.0	-75.0
Transport, Storage & Comm.	-6.5	-6.7	-17.4	-27.8
Finance	2.1	-8.1	-3.6	-9.6
Other Value Added	1.6	-5.3	-9.8	-15.9

SOURCE: Central Reserve Bank of El Salvador

BALANCE OF PAYMENTS

The Salvadoran economy is dependent on international trade to provide markets for its industrial and agricultural production and, in return, supply it with imports basic to production and consumption, such as raw materials, capital goods, replacement parts, petroleum, fertilizers, wheat, and medicines. Every major sector depends on imports. As a result, there is a high correlation between the level of real imports (especially production goods), national production levels and employment, although less so. Moreover, although in the past El Salvador has financed most of its own development, it will have to depend more on foreign private investment, in order to absorb the pressures of an already dense and rapidly growing population in the future. Thus, the proposed Caribbean Basin Initiative, in both its trade and investment aspects, meets Salvadoran needs during its immediate economic crisis and, in the longer term, for development.

El Salvador's basic exports are coffee, cotton, sugar and, growing rapidly, shrimp, and also manufactured products sold to the Central American market. In 1979, exports reached a high point of $1.1 billion. In 1982 exports are projected to decline to $775 million, a decline of more than 30 percent in nominal terms. (See Table II-3).

Imports reached their high point in 1978 at slightly over $1.0 billion. However, imports fell a low of $972 million in 1980, but in real terms the decline continued through 1981.

In 1978, El Salvador followed its traditional pattern of negative balances on the trade and current accounts. In 1979 and 1980, because of historically high coffee prices and an increased volume of coffee sales, these accounts turned positive. In 1981 sharp decreases in cotton and coffee earnings returned the trade and current balances to negative numbers.

Historically, El Salvador has financed its negative current balances with heavy inflows on capital account, traditionally private investment capital. Starting in 1979, however, reduction in foreign bank credit and capital flight brought the capital account into a negative balance.

TABLE II - 3

BALANCE OF PAYMENTS

--in US$ millions--

	1978	1979	1980	1981	Proposed 1982
Exports	801.6	1,129.4	1,072.1	793.1	775.9
Coffee	385.6	675.2	615.2	452.6	398.0
Cotton	98.4	84.6	82.8	52.6	58.1
Sugar	18.9	26.8	13.2	14.0	10.0
Shrimp	10.6	12.3	13.4	18.7	24.5
Other	288.1	330.5	347.5	255.2	285.3
Imports	1,029.0	1,024.5	971.8	980.8	1,043.4
Consumer	266.4	275.9	306.7	297.2	304.0
Petroleum	76.4	114.3	151.3	149.0	161.0
Non-Pet. Production	421.0	418.3	401.8	424.8	469.2
Capital	265.2	216.0	112.0	109.8	109.2
Trade Balance	-227.4	104.9	100.3	-187.7	-267.5
Net Services	-109.7	-121.5	-131.6	-127.6	-129.2
Net Transfers	51.4	51.4	48.9	28.2	40.0
Current Balance	-285.7	34.8	17.6	-287.1	-356.7
Net Bank/Official Capital	128.6	103.3	186.0	253.0	464.9
Net Private Capital	185.8	-246.2	-400.4	- 45.0	- 68.2
Capital Balance	314.4	-142.9	-213.8	208.0	396.7
Balance of Payments	28.7	-108.1	-196.2	- 79.1	40.0
Closing Intl. Reserves	234.4	126.3	- 69.9	-149.0	-139.0
Change in Arrearages	-0-	-0-	41.0	45.6	-30.0
Closing Int. Res. (with arrearages)	234.4	126.3	-110.9	-235.6	-205.6
Level of Arrearages	-0-	-0-	41.0	86.6	56.6

Note: 1982 balance of payments conforms to IMF requirements for reduction of arrearages and buildup of reserves. It assumes passage of the proposed CBI ESF loan of $128 million to El Salvador. Since this may be reduced, tranched, or delayed until late in 1982, the projected 1982 BOP should be viewed as optimistic. Any of the less favorable scenarios would result in reduced imports, production and employment. See text for discussion.

June 1982

the same period, Central Bank and public sector debt more than doubled from $608 million to $1.3 billion. (See Table II-4). Predictably, there has been been an overall decline in the share of private sector foreign debt from 36 percent to 13 percent, and within private sector debt there has been a sharp reduction in short-term debt as lines of credit reach maturity and are not renewed.

The balance sheet of the Salvadoran banking system continues to show a disproportionate share of credit directed to the public sector. Nevertheless, the situation is improving. Credit and investments to the private sector rose from $856 million in March 1981 to $973 million in March 1982, an increase of 14 percent. (See Table II-5). For the remainder of 1982 and into 1983, private sector credit demand can be expected to outstrip the financing available, which will act as a brake on economic stabilization and recovery.

Money supply (M1) has shown a 26 percent increase over December 1978 levels. The primary source of this increase derived from an overall increase in cash in circulation.

Money Supply
(Millions of U.S. Dollars)

	12/78	12/79	12/80	12/81	3/82
M1	476	570	624	627	599
Index	100	120	131	132	126

Source: Banco Central de Reserva

The central government budget, already austere in 1981, has been cut back still further in 1982. (See Table II-6). Current inflows will reach $443 million, an increase in nominal terms of two percent over the 1981 budget, but a significant decline in real terms. Current outflows have declined absolutely this year, in spite of a high debt service burden. Capital outflows were also down in nominal terms, due to a reduction in public works projects. Real capital investment by the government declined from $154 million in 1981 to $93 million in 1982, a

TABLE II - 4

FOREIGN DEBT LEVEL

--in US$ million--

	12/1979	12/1980	12/1981	3/1982
Private Sector	347.7	252.2	215.1	205.2
Short Term	178.6	91.6	67.7	64.8
Med and Long Term	169.1	160.6	147.4	140.4
Central Bank	192.6	486.0	601.2	640.9
Short Term	-0-	185.5	235.3	221.8
Med and Long Term	192.6	300.5	365.9	419.1
Public Sector	414.9	475.1	649.3	708.1
Central Government	260.6	338.2	499.1	552.2
Official Instits.	154.3	136.9	150.2	155.9
Total Debt	955.2	1,213.3	1,465.6	1,554.2
Total Non-Private Debt	607.5	961.1	1,250.5	1,349.0

June 1982

TABLE II - 5

BALANCE SHEET OF SALVADORAN BANKING SYSTEM

-- IN MILLIONS OF US DOLLARS --

	12/78	12/79	12/80	12/81	3/81	3/82
Assets	1,381.9	1,519.0	1,654.1	1,908.3	1,749.1	1,986.6
Foreign Sector	76.8	- 75.3	- 359.8	- 517.8	- 356.8	- 550.8
Net International Res.	234.4	121.4	- 69.9	- 149.0	- 31.4	- 125.4
Other Int. Liabilities	- 157.6	- 196.7	- 289.9	- 368.8	- 325.4	- 425.4
Credit & Investments	1,066.3	1,313.7	1,664.1	1,997.1	1,702.9	2,044.9
To Private Sector	888.2	888.6	870.6	974.4	855.9	972.9
To Official Inst.	159.2	371.3	564.9	518.9	574.6	544.4
To Central Gov.	18.9	53.6	228.6	503.8	272.4	527.6
Other	238.8	280.6	349.8	429.0	403.0	492.5
Liabilities	1,381.9	1,519.0	1,654.1	1,908.3	1,749.1	1,986.6
Money Supply (M_1)	476.1	570.2	623.5	627.4	584.2	598.7
Cash in Circulation	200.2	296.1	287.5	281.3	251.8	262.0
Private Sight Deposits	234.6	231.2	278.7	280.2	271.4	257.9
Offic. Sight Deposits	41.3	42.7	57.3	65.9	61.0	73.8
Other Private Deposits	461.8	449.9	453.9	558.8	503.7	606.2
Savings and Time	460.5	449.3	453.5	556.8	502.3	601.3
Foreign Currency	1.3	0.6	0.4	2.0	1.4	4.9
Central Gov. Deposits	55.3	45.3	61.2	80.1	65.0	80.5
Other Liabilities	267.9	305.6	345.5	461.5	418.1	518.7
Capital and Reserves	117.8	148.0	170.0	160.5	178.1	182.5

June 1982

TABLE II - 6

CENTRAL GOVERNMENT BUDGET

--in U.S.$ millions--

	1981	1982
Current Inflows	434.6	443.2
Income Tax	90.5	91.6
Net Worth Tax	22.4	21.6
Coffee Export Tax	92.8	105.6
Import Tax	34.8	34.0
Other Tax	155.7	163.6
Non-tax income	38.4	26.8
Current Outflows	530.6	529.7
Salaries	263.0	290.4
Goods and Services	73.7	78.2
Foreign Debt Interest	7.6	9.6
Foreign Debt Amort.	4.5	9.6
Domestic Debt Interest	30.0	41.0
Domestic Debt Amort.	18.3	18.8
Transfers	100.0	82.1
Other	33.5	-0-
Subtotal: Current Deficit	96.0	86.5
Capital Inflows	-0-	14.4
Capital Outflows	189.3	181.5
Real Investment	153.7	92.7
Transfers	35.6	88.8
Subtotal: Capital Deficit	189.3	167.1
Total Deficit to be Financed:	285.3	253.6
By Foreign Debt	81.6	113.6
By Domestic Debt	203.7	140.0

June 1982

reduction of almost 40 percent. In spite of reductions in both current and capital expenses, the government still faces an overall deficit of $167 million to be financed through increased foreign debt.

II.B. EMPLOYMENT AND THE LABOR FORCE

Employment

A ROCAP study 1/ undertaken in early 1981, estimated unemployment in 1980 to average 225,000-245,000 persons, or 16-17% of a labor force estimated at 1.5 million (Table II-7). This figure includes the openly unemployed and the unemployment equivalent of persons involuntarily working less than full time. The sectors most affected have been agriculture and construction (Table II-8). Besides the 1981 GDP decrease of 9.5% a major contributor to this level of unemployment was an annual increment in the labor force of 50,000 workers.

Of particular concern is the number of business closings since 1979, as shown in the table below:

BUSINESS CLOSURES

	1979	1980	1981	1982	Reopened	Net Closures
No. Firms	29	108	86	13	45	191
No. Employees	6,981	10,004	5,829	1,782	1,992	22,604

SOURCE: Ministry of Labor, through March 1982.

Employment and unemployment, it should be pointed out, are subject to considerable seasonal variation. Seasonal unemployment is especially high from March through May, following the end of the principal harvest season for the country's major crops. Underemployment is also a problem, both in terms of fewer than desired hours of work and incomes too low to meet basic needs requirements.

Wages

The GOES has established minimum wage levels for various occupations and wage differentials between the Metropolitan San Salvador area and the rest of the country. For non-agricultural workers, the last minimum wage law was enacted on April 29, 1980. The law made effective a minimum wage which increased daily salaries for workers in San Salvador and in

1/ "El Salvador: Economic Assessment and Policy Issues", Clark Joel (AID-ROCAP) and Clarence Zuvekas (LAC/DP).

the rest of the country to 11.00 colones ($4.40) and to 10.00 colones ($4.00), respectively. As an emergency measure, the Law of Economic Stabilization (Decree 544) promulgated on December 22, 1980, effectively froze all salaries until March 31, 1983, with the exception of a one-time 10% salary increase permitted after February 15, 1982. Public workers in fact will not be permitted the 10% increase. (See Table II-9).

Price Controls

Specific price controls on basic food grains, medicines, medical services, education, and rent remain in effect. No increases are presently expected for these goods and services, nor for petroleum products, which are also regulated. Prices on consumer non durables continue to raise. While the official consumer price index as of October 1981 was 14 percent, some goods--particularly in the import sector, registered price increases in 1981 exceeding 100%.

Union Activity

The current Labor Code permits employers and employees to form industrial unions, company unions, and traded unions. It is the employer's option, however, to hire union or non-union workers. In 1980, registered unions totalled 124 with total membership of slightly over 71,000. While the manufacturing industrial sector accounts for over half the total number of unions (69), the construction sector accounts for the greatest portion of membership (31,140 members, 43.8% of total union members). Total union membership peaked in 1977, with over 76,000 registered members; while in 1978, total membership declined to 55,200. Membership climbed in 1979 to nearly 65,600 and continued to grow in 1980 to over 71,000. Sectors currently showing membership greater than previous years are: agriculture and fishing; commerce (including restaurants and hotels); transport and communication; finance and insurance; and services. Construction, utilities, and manufacturing industries show memberships below their 1977 levels.

In 1979, the number of collective labor disputes (103) almost quadrupled the number registered in 1978 (29), with the vast majority (86) occurring in the manufacturing industry sector. In 1980, as the number of business closings increased from 29 (in 1979) to 137, the number of labor disputes declined abruplty to 42. The total number of workers affected by the disputes in 1980 was 13,904, resulting in 47,511 man-days of labor lost. The causes of the 42 disputes were: desired salary increased (27); laying off of workers (5); solidarity with other strikers (5); and other causes (5). While statistics for labor disputes in 1981 are not yet available, it is likely to have declined further as a result of an additional 86 business closures and the enactment of the aforementioned Law of Economic Stabilization. The Law not only effectively froze all salaries but also prohibited all organized labor activity with potential economic repercussions.

Skill Levels

From 1970-1980, the labor force grew at an annual rate of 2.8 percent. From 1980-2000, the growth rate can be expected to climb to 3.5 percent annually, creating a major employment generation problem. A breakdown of the 50,000 new labor force entrants each year shows that about 4% are executive, professional, and technical. Another 28% possess middle-level skills, while the remaining 68% are unskilled laborers for whom productive employment is not readily available. It is estimated that for every new job created, there are four workers available to fill it. Due to the high growth rate and young age structure of the population, the primary education system absorbs only 75% of the 7 to 15 year-old age group. As a result, about 40% of the total labor force and 56% of the rural labor force are illiterate. Only 15% of agricultural workers have more than a third grade education, compared to 82% of all industrial workers. The low level of educational attainment in rural areas constitutes a barrier to the introduction of modern techniques in agricultural and livestock production. Although the modern sectors have grown (from 1960 to 1979 the percentage of the labor force in industry shifted from 17 percent to 22 percent; in services the shift was from 21 to 27 percent), employment opportunities in these sectors were insufficient to absorb the excess labor force in the agricultural sector.

Training Capabilities

Local industries in El Salvador traditionally have met their needs for skilled personnel through competitive wage policies that have attracted better trained workers from either the public sector or other private firms. These workers are provided "on-the-job" training to upgrade existing skills. At the semi-skilled level, a few cooperative apprenticeship training programs have been conducted with the help of the Ministry of Labor, while others have been run by the industries themselves. Very small firms generally hire unskilled apprentices and provide informal, long-term on-the-job training (usually paying less than minimum wage). The apprenticeship training given by employers is of poor quality in general, is not properly supervised, and is often used as a means to avoid paying minimum wages and taxes.

The most important non-formal vocational training program for the modern sector is operated by the Ministry of Labor (MOL). The MOL created the Manpower Department in 1962, which received technical and financial assistance from USAID. The Department undertakes three basic activities: a vocational training service, and employment service, and a migrant worker's service. Problems with this program which were to be addressed by the IBRD Agricultural and Industrial Training Project initiated in 1978 (but not yet functioning) are:

1. The MOL mode of training is inflexible and does not meet individual needs;
2. The accelerated training program is too long (it lasts for nine months) and almost half of the trainees drop out because of lack of money for subsistence;
3. The MOL has little or no relationship with private sector enterprises in order to encourage an improved apprenticeship system and emphasis on upgrading and inplant training to promote labor productivity.

GOES Strategy and Policies

The thrust of the GOES' development strategy is to change the structure of production in the agricultural sector in the medium term and to diversify the economy mainly through industrial development in the long term. As there is no single institution charged with employment planning, each sector develops its own programs which are integrated by the Ministry of Planning. The GOES employment policy, as stated in the 1981-1983 Development Plan, attempts to reverse the decline in employment by concentrating on the implementation of projects with high labor content, especially those in the agricultural and construction sectors.

The principal employment generation programs envisioned in the plan are:

1. A special program for support of non-traditional exports with high labor input.
2. Medium term financing of activities related to traditional crops.
3. Financing of municipal and community projects.
4. Creation and strengthening of cooperatives.
5. An expanded artisan and family industry program.

The importance of reshaping the industrial training system to support the general economic development of the country has been recognized by a series of governments in El Salvador. On December 15, 1977, Executive Decree No. 33 was promulgated to establish a National Vocational Training Council for the purpose of ensuring coordination among all Ministries and agencies involved in vocational training. In practice, the National Vocational Training Council has not functioned on a routine basis, and its Technical Committee has not managed to carry out all of its functions nor influence in a substantial way professional development training programs. To improve coordination of ministries and provide legal structure for such coordination, the Ministry of Labor presented to the Revolutionary Governing Junta of El Salvador in the final months of 1981, a proposal for a law establishing a Salvadoran Institute for Professional Development (INSAFORP). The proposed law is being re-evaluated by the new GOES. The INSAFORP plan is encountering resistance as it requires businesses having over 5 employees and decentralized government entities to contribute 1% of the total value of salaries paid to the new institute's budget.

Bilateral and Multilateral Assistance:

In 1978, USAID/El Salvador initiated a $3.85 million Basic and Occupational Skills Training Project to be implemented by the Directorate of Adult and Permanent Education (DAPE) of the Ministry of Education. Planned Project activities included: 1) the planning and evaluation of course offerings; 2) development of curricula; 3) the delivery and supervision of skills training; and 4) the provision of in-service training to DAPE administrators and teachers. The project was suspended in August 1980 due to lack of ministerial coordination and progress in carrying out project activities.

In 1978, the IBRD initiated a $9.7 million non-formal, agricultural and industrial training project. The Project has three main components: a) Agricultural Training; b) Management and Supervisory Training; and c) Industrial Training. The Agricultural Training Component is currently being implemented by the MAG. The Project has experienced considerable delay; however, construction of training centers is nearly completed.

The Industrial Training Component has been suspended because of a lack of sufficient counterpart interest and weakened capacity to cover recurrent costs. The MOL was to execute this component, which would have provided for the construction and equipment of three permanent Vocational Training Centers in three separate cities, provision of 16 mobile training centers, and the creation of a central administrative center in the MOL. The goal was to provide 5,500 persons annually with training in 33 different occupations. Courses were to have been oriented to rural interests and include bricklaying, carpentry, electricity, plumbing, and agricultural mechanisms. Also, an in-plant training division would be created in the MOL to provide industrial firms with diagnostic services in determining training needs and implementing on-the-job training programs. Mission discussions with the IBRD suggest that A.I.D. willingness to assist in these areas could ensure project continuation.

The Management and Supervising Training Component provides short-term courses for private-sector, middle-level supervisors and industrial engineering, administration, and maintenance through the National Productivity Center (CENAP) of the Ministry of Economy. The component is currently being implemented.

Outlook

Unemployment continues to climb in El Salvador with little hope that unskilled labor force entrants can be absorbed in either the agricultural or industrial subsectors. Industrial and agro-industrial development efforts must be pursued as vigorously as possible in the short and medium term. Laws prohibiting union activity and factory closings are likely to guarantee a stable, skilled work force for the export sector in the short term. With salaries frozen, wages will remain competitive. Taking into account the uncertainty in institutional organization, prior A.I.D. project experience, and present problems confronting the IBRD efforts in industrial training, no new initiatives in skills training are recommended for the short term. However, if A.I.D. were to provide local currency funding of GOES recurrent costs for the industrial training centers contemplated in the IBRD project, medium and long term availability of skilled workers could be at least partially assured with a marginal investment. GOES ability to absorb these costs over the long term should be carefully considered and a plan developed to ensure resumption of recurrent costs over a specific, e.g., five year, period.

TABLE II-7.

CONJECTURAL EMPLOYMENT AND UNEMPLOYMENT DATA, 1971-1981
(thousands of persons)

	(1) Labor Force	(2) Employment	(3) Adjusted Employment	(4) Employment Growth Rate	(5) Unemployment	(6) Unemployment Rate	(7) GDP Growth Rate
1971	1,116	1,028.9	1,029	-	87	7.8	4.6
1972	1,153	1,076.8	1,077	4.7	76	6.6	5.7
1973	1,191	1,124.6	1,125	4.6	66	5.5	5.1
1974	1,230	1,172.4	1,172	4.2	58	4.7	6.4
1975	1,270	1,220.3	1,220	4.1	50	3.9	5.6
1976	1,313	1,263.2	1,263	3.5	50	3.8	3.9
1977	1,357	1,307.7	1,308	3.6	49	3.6	5.2
1978	1,403	1,234.5	1,352	3.4	51	3.6	4.4
1979	1,451	1,222.2	1,340	-0.9	111	7.6	-1.2
1980	1,500		1,256	-6.3	244	16.3	-8.7
1981	1,550		1,256	0.0	294	19.0	0.0

Sources: (1) IDB, Economic and Social Progress in Latin America, 1977 Report, Chapter 5.

(2) El Salvador, Ministerio de Planificación y Coordinación de Desarrollo Económico y Social, El Salvador: Informe Económico y Social 1979 (San Salvador, August 1980).

(3) 1971-77: Column (2) figures, rounded; 1978-81: Based on the elasticity of employment with respect to GDP from 1971 to 1977.

(4) Column (3).

(5) Column (1) minus Column (3).

(6) Column (4) divided by Column (1).

(7) 1971-79: Same as (2); 1980: Central Bank estimate; 1981: best-case assumption.

TABLE II-8

OPEN UNEMPLOYMENT RATES BY SECTOR, JANUARY-JUNE 1980

(percentages)

Economic Sector	Economically Active Population	Unemployment Rates					
		January	February	March	April	May	June
ALL SECTORS	1,625,000	7.5	15.8	23.3	22.0	15.4	14.2
Agriculture	711,000	11.8	25.6	48.3	43.3	22.5	18.6
Mining	1,000	-	-	-	-	-	-
Manufacturing	244,000	2.0	6.2	5.6	12.9	8.3	10.5
Utilities	14,000	4.1	9.2	-	7.8	10.7	-
Construction	70,000	14.7	12.6	18.8	13.7	11.0	24.0
Commerce	258,000	1.2	3.1	1.7	3.3	5.3	4.0
Transport	57,000	4.7	7.3	6.4	11.3	9.0	8.8
Banking and Finance	25,000	5.4	4.9	13.2	15.2	6.5	-
Services	234,000	3.0	7.6	7.5	4.7	5.0	5.7
Other	7,000	-	-	-	-	-	-

Source: Proyecto Indicadores de Progreso Social, unpublished preliminary data, February 27, 1981.

Note: See text for the definition of unemployment used in these surveys.

TABLE II - 9

TARIFAS DE SALARIOS MINIMOS SEGU[illegible]TO Y ACTIVIDAD ECONOMICA 1965 - 1980

Cuadro Nº 1

DECRETO EJECUTIVO Nº	DECRETO EJECUTIVO FECHA	DIARIO OFICIAL Nº	DIARIO OFICIAL FECHA	TRABAJADORES AGROPECUARIOS: VARONES MAYORES DE 16 AÑOS	TRABAJADORES AGROPECUARIOS: MUJERES, MENORES DE 16 AÑOS PARC. INCAPACITADOS	RECOLECCION DE COSECHAS: CAFE p/arroba	CAFE p/día	CAÑA DE AZUCAR p.Ton.	CAÑA DE AZUCAR p/día	ALGODON p/lib.	ALGODON P/día	INDUSTRIAS AGRICOLAS DE TEMPORADA: BENEFICIO CAFE	INGENIO CAÑA DE AZUCAR	BENEFICIO ALGODON	INDUSTRIAS Y SERVICIOS: SAN SALVADOR 1/	OTROS MUNICIP.	COMERCIO: MUNICIP. SAN SALVADOR	OTROS MUNICIP.
70	2/Abr/65	65	2/Abr/65	2.25	1.75	0.45	2.25	1.125	2.25	0.0225	2.25							
110	25/Sep/66	192	20/Oct/66			0.50	2.50	1.25	2.50	0.025	2.50							
22	9/Oct/67	187	13/Oct/67															
3	8/Ene/70	7	13/Ene/70									2.50	2.50	2.50	3.20	2.80		
35	21/Oct/70	193	22/Oct/70			0.70	3.50	1.75	3.50	0.0275	2.75						3.50	3.20
49	15/Oct/71	180	15/Oct/71			0.70	3.50	1.75	3.50	0.0275	2.75							
14	8/Nov/72	207	8/Nov/72			0.75	3.75	1.875	3.75	0.03	3.00							
55	16/Jul/73	136	23/Jul/73	2.75	2.25							3.20	3.20	3.20	4.10	3.60	4.50	3.80
80	6/Nov/73	206	7/Nov/73			0.81	4.05	2.05	4.10	0.033	3.30							
66	16/Jul/74	136	23/Jul/74									4.00	4.00	4.00	5.15 2/	4.50	5.50	4.60
73	12/Ago/74	155	23/Ago/74	3.10	2.50													
95	21/Oct/74	190	23/Oct/74			0.85	4.25	2.30	4.60	0.036	3.60							
66	9/Oct/75	188	10/Oct/75			1.10	5.50	2.75	5.50	0.045	4.50							
80	11/Dic/75	239	23/Oct/75									5.50	5.50	5.50	6.20 2/	5.50	6.50	5.60
30	1º/Abr/76	64	1º/Abr/76	3.75	3.15													
77	5/Oct/76	184	6/Oct/76			1.60	8.40	2.75	5.50	0.06	6.00							
21	15/Nov/77	212	16/Nov/77			1.85	9.25	2.75	5.50	0.06	6.00							
40	21/Dic/77	239	23/Dic/77															
42	23/Dic/77	239	23/Dic/77									7.00	6.00	6.25				
33	29/Jun/78	[illegible]	29/Jun/78	4.25	3.65										7.00 2/	6.10	7.20	6.20
63	27/Oct/78	[illegible]	27/Oct/78			1.95	9.75	2.75	5.50	0.065	6.50							
41	3/Jul/79	122	3/Jul/79	5.20	4.60													
42	4/Jul/79	125	6/Jul/79															
53	23/Ago/79	155	23/Ago/79														9.00	8.00
64	4/Oct/79	186	5/Oct/79			2.20	11.00	3.25	6.50	0.07	7.00				9.00 2/	8.00		
65	10/Oct/79	190	11/Oct/79															
1	13/Nov/79	211	14/Nov/79			2.85	14.25					8.00	8.00	8.00				
2	14/Nov/79	212	15/Nov/79					4.50	9.00	0.08	8.00							
4	3/Dic/79	225	3/Dic/79															
20	28/Abr/80	79	29/Abr/80									14.00						
51	6/Oct/80	187	6/Oct/80			2.85	14.25								11.00 2/	10.00	11.00	10.00
54	22/Oct/80	199	22/Oct/80					5.75	11.50									
62	14/Nov/80	215	14/Nov/80							0.105	10.50							

1/ Establecimientos de los Municipios de San Salvador, Ayutuxtepeque, Cuscatancingo, Delgado, Soyapango, Ilopango, San Marcos, Antiguo Cuscatlán, Nueva San Salvador, Mejicanos.

2/ Incluye Municipio de Apopa.

World market prices have dropped during the past four years, decreasing by approximately 38 percent, from $69.07 per cwt. to $49.81.

Meanwhile, production costs have risen by 33 percent from $618 per acre to $822, not surprising given the increasing reliance upon numerous applications of insecticide.

It should also be noted that in the past a significant portion of the cotton produced ended up as raw materials for domestic textile producers. From 1980 to 1982, it is estimated that approximately $42.4 million in cotton products will be imported for textile operations. Previously, Salvadoran producers supplied all the cotton raw material to these textile operations.

About 30 percent of the cotton lands fell under Phase One of the land reform program where yields for the reformed sector averaged 16.2 cwt per acre compared to 17.6 for the non-reformed farms. Approximately 30 percent of all cotton lands would fall under the recently rescinded Phase Two of the land reform. The Constituent Assembly has temporarily suspended the Decree 207 reform Phase wherein it affects cotton, cane and basic grain production. These two acts may stimulate additional cotton cultivation.

A definite obstacle, according to the Cooperativa Algodonera, is that production credit is not available in sufficient amounts. The Cooperative estimates that BCR credit lines will only finance 75 percent of the potential crop in 1981/82 constraining output and leaving thousands of farm laborers without employment.

C.1 INDUSTRY

DESCRIPTION

After agriculture and commerce, manufacturing makes the largest contribution to El Salvador's Gross Domestic Product. In real terms, the contributions of this sector were 18.9%, 18.7% and 17.5% in 1978, 1979 and 1980 respectively. The importance of manufacturing is further highlighted by the fact that it accounts for approximately 30 percent of the total value of the country's exports and provides employment for nearly 15 percent of the labor force.

The last census of manufacturing in El Salvador in 1978 identified 10,065 establishments, of which 1,319 were plants employing five people or more. In that year, these establishments employed 96,844 people, of which 80,055 worked for those plants employing more than four people.

Payments to workers and employees in 1978 reached US$155.5 million of which 84% were salaries and the remainder other labor costs. Raw material costs were about $920 million, of which some 29% was imported.

The gross production of the manufacturing sector in 1978 was $1,845 million, of which $684.2 million was value added. This production was heavily concentrated in food products (including coffee beneficiating and sugar refining) and textiles which generated 54% of the gross production and 44% of the value added.

Included in the manufacturing sector mentioned above are those agricultural beneficiating plants comprising the preparation of crude coffee and cotton, and the sugar mills. While these plants generate a substantial 37% of total industrial gross production, and 22% of its employment, their capacity as economic generators is relatively less than that of the other manufacturing sub-sectors.[1/]

[1/] These include the following: Food products, beverages and tobacco; textiles and leather; wood and wood products; paper, paper products and printing; chemical products; non-metallic mineral products; basic metals; metal products; and others.

In the context of the CBI, there appears to be limited opportunity to increase agro-beneficiating production and exports by means of the resources deriving from this program. Such increases will depend mainly on the increase of agricultural production in response to international market demand and prices. The main opportunities for achieving results from the CBI lie in increasing production and exports in the other manufacturing fields outside of agro-processing of coffee, cotton and sugar. The following analysis therefore, applies principally to these other manufacturing fields.

DEVELOPMENTS SINCE 1978

Salvadoran industry has suffered from severe negative pressures from 1978 to the present, resulting from terrorism, labor unrest, political uncertainties, loss of markets, lack of foreign exchange and financial problems. Of 1,128 manufacturing firms with over 4 employees which were operating in 1978, 68 firms had shut-down by 1981 and factory employment declined by over 31%. During the same period new private investment in industrial fixed assets, which was $137.4 million, experienced a 60% drop. Industrial production declined at an accelerating rate of 69% of 1978 levels, in real terms.

POTENTIAL FOR INCREASED INVESTMENT, PRODUCTION, AND EXPORTS

Given adequate internal and external financial resources, and the investment incentives and trade opportunities to be provided under the CBI, El Salvador's manufacturing industry has excellent potential for a rapid increase in investment and production over present levels, and in the longer term, for a substantial increase in exports of manufactured goods. This conclusion is reached taking into account the following factors:

a) Physical Infrastructure:

With the aforementioned decline in industrial production, over half of which took place within the last 18 months, the country has a substantial unused manufacturing capacity already installed. Included in this unused capacity are the 68 factories now shut down. Of these, 59 employed more than 20 people, and 42 more than 99 people. Many of these idle plants are in first-class condition, and located in the San Bartolo Free Zone described elsewhere in this document. Restoration of these plants to production is thus feasible with a short lead time and a minimal investment.

According to a recent study by Checchi and Company, it has been estimated that 80% of 1978 production could be restored within 12 months, provided that some $239 million were invested (either as credit or equity) for plant reconditioning.

b) Human Resources

El Salvador has a highly skilled and vigorous entrepreneurial and managerial class. Although the country suffered some "brain-drain" due to internal political conditions, the vast majority remained in the country and no serious shortage of qualified people exists. Furthermore, the results of the elections held recently have started a modest, but significant, reverse flow of entrepreneurs and professionals who are returning. Assuming no worsening of the internal political situation (including violence), the reactivation of industrial production would tend to accelerate the return of entrepreneurs and professionals.

Although no immediate shortage in middle management personnel is foreseen, a substantial expansion of industrial production in the longer term would be faced with problems in the supply of middle managers, unless an adequate training program is undertaken to meet this contingency.

The industrial labor force of the country is outstanding. It has an excellent record of productivity and quality production, and has demonstrated its ability to compete successfully with other countries, such as Japan, in international markets. Salvadoran labor has a first-class reputation in world industrial circles and this reputation is the principal factor which attracted the establishment of foreign-owned assembly plants in El Salvador (Texas Instruments) and the contracting of production in the San Bartolo Free Zone by many U.S. companies.

According to an estimate by Salvadoran Association of Industries about 70% of the factories in El Salvador are unionized. According to a recent survey, labor relations are excellent and businessmen are optimistic that they will continue so.

c) Willingness of the manufacturing community to invest and expand production.

Salvadoran industry is highly motivated to increase investments and production. In a recent survey of manufacturing firms in El Salvador, 83% of the responses indicated intention to expand current production if political uncertainties were resolved and sufficient foreign exchange and local credit were available. Of these, over 35% indicated willingness to invest to replace or increase plant capacity.

d) Improved Political Climate and Business Confidence

The outcome of the March, 1982 elections, and the new government subsequently formed in April, have restored business confidence and removed much of the political uncertainty previously felt by private business.

Harmony between the Government and the private sector has been improved, and the two have begun to work cooperatively towards economic recovery of the country.

This improved confidence on the part of the Salvadoran business community must inevitably influence favorably the attitude of prospective foreign private investors.

PRINCIPAL PROBLEMS AND CONSTRAINTS

a) Financial Problems

After over three years of unfavorable environment, many local industrial firms have suffered losses, decimation of their inventories, physical plant deterioration, and are overburdened with short-term debt.

These conditions have created the following problems:

(1) Technical insolvency. Because of the deterioration of their current ratios these firms cannot qualify for new working capital loans until they work out a revised capital structure.

(2) Deterioration of bank liquidity. Because these firms are legitimately unable to repay their loans, banks are renewing such loans as a temporary measure.

To the extent that this continues, credit for industry will dry up, and bank liquidity will be progressively more impaired.

(3) Lack of Investment Credit. There is no adequate supply of medium and long-term investment credit to finance reconditioning and expansion of existing plants, and in the longer-term to finance new projects. Such financing came traditionally from external sources which are now cut off due to the high political risks of lending to El Salvador, and from the government development bank, INSAFI, which is now bankrupt and in reorganization.

Traditionally, the commercial banking system has limited its industrial credit to short-term working capital loans, and the banks have not developed any substantial capacity in investment credit evaluation.

b) Lack of Foreign Exchange

Because of the deterioration of the country's balance of payments, industry has suffered from an insufficient supply of foreign exchange to finance the import of raw materials and for maintaining the physical plants.

According to estimates prepared in December, 1981, industry will require $341 million to finance imported raw materials, and $239 million for plant reconditioning in the next 12 months in order to reach an industrial recovery equivalent to 80% of 1978 production. This total of $580 million required is $195 million in excess of anticipated foreign exchange availabilities in El Salvador for these purposes during the period in question.

c) Political Risks

The country has suffered from severe problems of guerilla warfare, urban terrorism, negative balance of payments, and loss of internal business confidence, which have seriously restrained the movement of external credit and investment to El Salvador, and impaired the ability of the country to engage in the export of its manufactured goods because of the doubts of the foreign buyers of the ability of Salvadoran manufacturers to perform contracts reliably, due to the aforementioned problems.

These problems have resulted in:

(1) Shutting down of assembly plants in the San Bartolo Free Zone, which depend primarily on the import of semi-processed goods for further processing or completion.

(2) The suspension of major export contracts because of the questionable ability of the manufacturer to obtain sufficient foreign exchange for raw material supplies to assure performance.

(3) The suspension of supplier credit and short-term bank lines to the country.

(4) A net negative foreign investment to the country (capital flight).

d) Lack of Export Know-How

Salvadoran industry has historically produced about 70% of its output for internal consumption, and a large part of its exports of manufactured goods were sold in the Central American Common Market. The country's industrial exporters do have limited experience in third country markets, such as the United States. However, trade connections, knowledge of the markets requirements in terms of price, quality, packing, etc. could be vastly improved.

Furthermore, over 90% of the manufacturing firms are small to medium-size companies with extremely limited or no export experience whatsoever.

For a more in-depth discussion of the industrial sub-subsector, the reader is referred to Maintaining El Salvador's Private Sector: Industrial Recovery, Checchi and Company, Washington, D.C., December 1981.

C.2 AGRICULTURE

Sector Importance

Agriculture is of prime importance to El Salvador's economy, accounting for 25.8 percent of the 1981 GDP. Major activities include coffee, sugar and cotton cultivation and livestock raising, comprising 11.9, 2.3, 1.0 and 2.9 percent of the 1981 GDP respectively.

From an employment point of view, 689,089 agricultural workers made up 42.2 percent of the total 1980 labor force. In that year, 118,160 workers or 17.1 percent were unemployed. This unemployment rate had risen sharply from 3.3 percent in 1978. Traditionally agricultural employment has been seasonal according to crop cycles. Many agricultural jobs are generated during four or five months, leaving considerable unemployment and under-employment during the rest of the year. There is a high rate of labor supply growth in the agricultural sector.

Agricultural activities utilize 88.1 percent of total land area:

Current Land Use 1980/81

	Has.	%
Agriculture		
Traditional Export Crops	272,271	12.9
Basic Grains	480,690	22.8
Agroindustrial Crops	25,971	1.2
Others	1,076,598 1/	51.2
Sub-Total	1,832,150	88.1
Forestry	174,903	8.3
Non-Arable	73,567	3.5
	2,104,000	100.0

Agriculture is also very important regarding foreign exchange generation. In 1981, agricultural exports made up for 68.1 percent of total country exports. Coffee alone made up 57.2 percent of all exports.

1/ Consists primarily of pasture lands.

Private fixed capital formation in the agricultural sector has declined dramatically, approximately 50 percent in nominal terms, during the past four years:

Private Fixed Agricultural Capital Investment
(US $ millions)

	1978	1979	1980	1981
Investment	29.3	17.2	14.9	14.5
Index	100.0	58.7	50.9	49.5

Major crops and other agricultural activities are experiencing a serious decline which can be attributed to several major factors: declining world market prices, increasing agricultural input prices, sporadic violence and uncertainty surrounding the ultimate status of lands which may be affected by the land reform program.

Without a more in-depth analysis it is difficult to determine which factor may have the greatest impact upon agricultural production. No matter the precise source, the production decline has seriously eroded export earnings, reduced both farm and related employment and has had a very deleterious effect upon the economy as a whole. Major agricultural activities are discussed below.

Coffee

1. Resources

Coffee growing represents the country's single most important economic activity. There are approximately 40,779 coffee farms covering 147,639 hectares, or about 10.1% of total agricultural lands. There are also more than 100 coffee mills with a total installed capacity of 250,000 tons. West Germany and the U.S. purchased 49.5 and 35.3 percent of total 1981 exports.

2. Constraints

- World coffee market prices increased from 1978-80, causing strong coffee export increases which were partially responsible for a positive trade account surplus in 1980 and 1981. Prices have subsequently dropped by 22 percent. Simultaneously, labor, insecticides, herbicides, and roya disease control costs have risen considerably. The price reduction coupled with the cultivation cost increases have resulted in many growers operating near breakeven or at a loss, and there was a 14 percent production drop during last year.

Coffee Production

	78/79	79/80	80/81	81/82
Production (000 cwt)	3,913	3,702	3,498	3,375
Index	100.0	94.6	89.4	86.2
Exports (000 cwt)	2,396	4,362	4,003	3,601
Index	100.0	190.0	167.0	150.0
Average price ($/cwt)	160.90	148.00	153.70	125.70
Index	100.0	92.0	95.5	78.1

An additional factor contributing to the production decline has been the lack of confidence of those coffee growers whose farms would fall under Phase Two of the land reform program. These farmers have resisted replacing their trees (about seven percent must be replaced annually) and they have not used fertilizers in sufficient amounts. Approximately 45,000 hectares or 30 percent of coffee lands would be affected by Phase Two. Recently, the Constituent Assembly rescinded Phase Two in an attempt to restore some measure of confidence to these growers in order that they might raise production.

This dimished output (approximately 26,900 tons below 1978 levels) has created serious economic repercussions. It has resulted in a lowered net foreign exchange inflow and increased farm unemployment. Furthermore, reduced volumes handled by private coffee processors has placed many of them in financial difficulty.

The exportation is handled by the Instituto Nacional de Café (INCAFE). This organization is discussed below under Public Sector Institutions.

World market prices have dropped during the past four years, decreasing by approximately 38 percent, from $69.07 per cwt. to $49.81.

Meanwhile, production costs have risen by 33 percent from $618 per acre to $822, not surprising given the increasing reliance upon numerous applications of insecticide.

It should also be noted that in the past a significant portion of the cotton produced ended up as raw materials for domestic textile producers. From 1980 to 1982, it is estimated that approximately $42.4 million in cotton products will be imported for textile operations. Previously, Salvadoran producers supplied all the cotton raw material to these textile operations.

About 30 percent of the cotton lands fell under Phase One of the land reform program where yields for the reformed sector averaged 16.2 cwt per acre compared to 17.6 for the non-reformed farms. Approximately 30 percent of all cotton lands would fall under the recently rescinded Phase Two of the land reform. The Constituent Assembly has temporarily suspended the Decree 207 reform Phase wherein it affects cotton, cane and basic grain production. These two acts may stimulate additional cotton cultivation.

A definite obstacle, according to the Cooperativa Algodonera, is that production credit is not available in sufficient amounts. The Cooperative estimates that BCR credit lines will only finance 75 percent of the potential crop in 1981/82 constraining output and leaving thousands of farm laborers without employment.

Cotton

1. Resources

Approximately 1,133 farms utilize 3.1 percent of all arable lands for cotton production. In 1981, cotton production accounted for 6.7 percent of all exports. Japan was a major purchaser of Salvadoran cotton, obtaining 53.1 percent of all exports in that year.

2. Constraints

The same factors affecting coffee production, reduced world market prices, increasing input costs, reduced cultivation due to violence, and the uncertainty caused by the land reform program have resulted in a 43 percent reduction in cotton lands cultivated and a 45 percent reduction in fiber production.

Cotton Production

	78	79	80	81
Production (000 cwt fiber)	1,575	1,430	997	867
Index	100.0	90.8	63.3	55.0
Exports (000 cwt)	1,682.7	1,228.0	1,133.5	644.7
Index	100.0	73.0	67.4	38.3
Average price ($/cwt) 1/	69.07	56.46	55.00	49.81
Index	100.0	81.7	79.6	72.1

1/ Annual reports of the Salvadoran Cotton Cooperative (COPAL)

Sugar Cane

1. Resources

At present 28,000 hectares or 1.5 percent of all agricultural lands are used to cultivate sugar. Sugar accounted for 1.8 percent of total GDP and generated 1.8 percent of total 1981 exports.

2. Constraints

Sugar cane, as in the case of the other major crops, has experienced a dramatic decline in production, a 40 percent drop with exports declining by 60 percent. Major reasons given for the reduction were violence, low world market prices, and high costs of production, resistance by owners to plant and maintain cane fields while the status of Phase Two of the land reform program is undecided. Other problems cited are: overly short terms of production credits; a lack of planning and good management practices on the part of INAZUCAR.

Sugar Production

	78/79	79/80	80/81	81/82
Milled cane (ton)	3,321	2,564	2,142	1,983
Index	100.0	77.2	64.4	59.7
Exports (000 cwt)	2,477	3,286	750.5	972.7
Index	100.0	132.7	30.2	39.3

Of the thirteen sugar mills, only three have remained in private hands. There were, however, only seven mills in operation during 1981/1982, and only one of the privately-owned mills operated during the harvest. The government-run mills are reportedly run in a very inefficient manner. The mill closures apparently caused additional transportation costs for some growers.

Livestock

1. Resources

El Salvador uses a very large portion of its agricultural lands, approximately 51.2 percent, for livestock pastures. The livestock industry is well developed yielding beef of export quality and has several dairies which produce milk products of all types.

2. Constraints

El Salvador has been a net beef exporter, selling the bulk of those exports to the U.S. During recent years, these exports have declined dramatically.

Beef Exports
(Millions US$)

	1978	1979	1980	1981
Refrigerated or frozen beef	12.5	13.5	4.2	.8
Index	100.0	108.0	34.0	6.4
Exports to U.S.	12.2	12.5	3.4	.5

El Salvador has not become self-sufficient in milk. It did reach its peak production recently in 1979, but production has currently declined to a level below what it was ten years ago. Imported powdered milk supplements domestic production. Powdered milk purchases rose from $18 million in 1979 to approximately $40 million in 1981.

Milk Production
(Millions of bottles)

1971	1978	1979	1980	1981
220		409		200.0

During the last several years domestic meat and milk prices rose sharply:

	1979	1981
Milk	$ .24 bottle	$ .48 bottle
Cheese	$ 1.20 pound	2.40 - 3.60 pound
Cream	1.20 pound	2.40 - 3.60 bottle
Primebeef	1.40 pound	2.40 - 3.60 pound

Primary causes for the decline of milk and meat production is violence in the Northern, Central and Eastern parts of the country, decapitalization by owners of Phase one reform properties just piror to intervention, and liquidation of herds by Phase One cooperatives (sometimes in order to pay back their production credit loans). The amount of time required to build beef or dairy herds back to full production is four to five years.

Shrimp

Shrimp has recently become an important export product for El Salvador. During the past five years, exports have demonstrated steady increases iwth almost all of the shrimp catch exported to U.S.

Shrimp Exports

(Millions of US$)

	77	78	79	80	81
Total Exports	10.4	10.6	12.3	13.4	18.7
Index	100.0	102.0	118.3	128.8	180.0
Exports to US	10.3	10.5	12.2	13.4	18.7

Shrimp obviously has not been affected by the violence or uncertainties surrounding the land reform program. a related product, lobster, has experienced growth in exports to the U.S., from $15,384 in 1978 to $1.2 million in 1981.

C.3 COMMERCE

1. Background

Commerce is the second largest contributor to El Salvador's gross domestic product, following the agriculture sector. Percentage contribution for the GDP in 1978 was 23.8%; 23.2 in 1979 and 23.7 in 1980.

According to the latest census for the year 1978, there were 1,349 commercial establishments employing five people or more. These firms employed 29,025 people and paid them a total of $79.5 million in remunerations. Gross sales were $1,360 million and value added was $382.4 million.

The commerce sector has suffered equally with other sectors of the economy from the negative pressures of the past three years: since June 1979 some 167 commercial firms have gone out of business.

2. Constraints

It is important to note that, historically, the principal exporting activities of the private commercial sector were in the sale of the country's agricultural commodities, coffee and sugar. (Cotton was, and, continues to be, exported by a growers cooperative). Exports of manufactured goods were mainly handled by the producing factories, and not by exporting firms. The remaining private commerce of the country has been largely concentrated in importing-distributing firms, and retail merchants.

With the nationalization of the exports of coffee and sugar, the activities of the commercial sector are mainly directed to importing and internal commerce, and thus of secondary concern to the CBI.

2. Constraints

There seem to be no obvious constraints to expansion of shrimp and lobster production. Discussions should be carried with fishing and packing companies to further understand their problems.

Other Agricultural Activities

1. Resources

There are several additional non-traditional agricultural activities worthy of mention including: melons, shredded coconut, balsam, honey and beeswax, sesame seeds, castor beans and okra. As noted above, only about 1.2 percent of total agricultural lands are used for agroindustrial crops. If these activities are aggregated, they represent a small, but growing portion of the total country exports.

Selected Non-Traditional Agricultural Exports
(000 US$)

	80	81
Melons	601.0	-
Shredded coconut	1,570.0	864.2
Balsam	2,076	1,969
Honey	2,033	2,252
Beeswax	129.5	10.5
Sesame seeds	51.0	1,858
Castor beans	-	34.4
Okra	846.7	928.1
Ornamental plants	-	38.8
	7,307.2	7,955

2. Constraints

Non-traditional agricultural activities are conceptually very attractive. However, there are many constraints to entering the U.S. market. All of these products are subject to U.S. agricultural health and sanitary regulations.

To be acceptable in the U.S. market, these products must meet certain industrial norms. For example, melons must be harvested having a certain diameter range. To achieve this requires careful attention to planting cycles and supervision of harvesting and packing.

Depending upon the perishability of the product, processing plants will be required and their development can only take place in the medium term. The largest constraint is introducing such products into long-established U.S. marketing channels. In the past, Central American non-traditional agricultural product exporters have encountered considerable barriers in penetrating these channels.

C.4 TRANSPORT SECTOR

This sector comprised of land, rail, air, port, and storage activities accounts for a relatively small share, only 3.5 percent, of GDP. Land transport accounts for by far the greatest portion of sectorial activity with 63.7 percent of transport GDP. In 1981, there were 61,918 transportation workers, or about 3.8 percent of the total labor force, at work in the transportation sector, of which according to the most recent labor survey, 3.6 percent were unemployed.

Private fixed transportation capital has suffered a precipitous decline implying that many assets sorely in need of replacement:

Private Fixed Capital Formation
(US$MM - Current Prices)

	78	79	80	81
	146.0	107.9	74.1	60.7
Index	100.0	74.0	50.8	41.6

Land Transportation

1. Resources

The land transportation sector consists of passenger and cargo carriers and rental cars. The total number of vehicles registered for use in these areas is shown below:

Transportation Sector Vehicles

	78	79	80	81	% Charge
Rental Cars	1,724	1,858	2,040	2,213	28.4
Buses	4,396	4,756	4,945	6,021	37.0
Commercial	9,832	10,634	11,048	11,112	13.0
Tractor-Trailer	69	64	64	57	(17.4)
Vendor	706	691	650	643	(8.9)

2. Constraints

Bus operators and cargo carriers have borne a considerable amount of damage inflicted by terrorists. Passenger buses have been especially hard hit with the apparent motive of demoralizing the civilian labor force, thus destabilizing the country's economy. Since 1979 more than 600 buses have been damaged. In 1980 A.I.D. assisted transportation companies and cooperatives by providing 80 buses at modest prices payable in five years. The calm in the wake of the March 1982 elections has been punctuated in May and June with the burning and bombing of nearly 50 buses. Additional buses are a critical need.

A special Central Reserve Bank (BCR) line of credit in the amount of $2.4 million was developed to assist owners to repair buses partially damaged by terrorist violence. The conditions of the loans, channeled through the BCR to the Fondo de Financiamiento y Garantía para la Pequeña Industria (FIGAPE) and commercial lenders were not satisfactory and the loans were resisted, in large part, by the bus owners. FIGAPE handling of these loans was described as very bureaucratic.

It has become very difficult to obtain spare parts, tires, etc. given the foreign exchange shortage. A second BCR line of credit in the amount of $4.0 million was made available through FIGAPE for financing spare parts imports. FIGAPE's performance with this line of credit was once again described by bus owners as dismal.

Rising costs plague operators while fares for most routes, no matter their length, are held constant by the Government. A typical fare is six U.S. cents. Microbuses, trucks and pickups have begun to fill the breach left by the diminished number of buses, charging fares up to three times those charged by bus operators. While the Government does subsidize bus operations somewhat, bus owners consider this overall situation, with its heavy tolls in terms of damage, the difficulty in obtaining credits for parts and repairs, fixed fares and increasing competition which is not subjected to fixed fares, to be highly unfair.

Truckers share with the passenger bus operators the same problems in obtaining parts, rising operating costs, and possible terrorist damage. While their current financial positions are precarious, the truckers are looking at two medium-

Acajutla, by far the more important port, has eight deepwater berths along two piers which can handle general cargo, dry bulk, and container shipments. One pier is equipped with high-speed conveyor equipment capable of handling 500 tons per hour. Acajutla handles the major portion of the country's coffee, sugar and cotton seed meal exports; and fertilizer, grain and soybean meal imports. Petroleum is off-loaded near the port at a buoy-pipeline off-loading facility. The port is being expanded to accommodate a new roll-on/roll-off trailer and lift-on/lift-off container facility. This expansion, to be primarily financed by IDB and the Venezuelan Oil Fund, will cost approximately $60 million and should go under construction in 1983.

It is felt that Acajutla's facilities are adequate for at least five years, even if the economy recuperates to pre-1978 levels. Although La Union's port is in rather very poor condition, a recently completed fishing port at Punta Gorda is capable of handling general and bulk cargoes and it is currently under study as to whether La Union should be abandoned altogether.

Air Transportation

1. Resources

Internal air transport is not well developed primarily due to the size of the country, however international passenger and cargo services are very adequate. Most air traffic enters or leaves the country at the new Cuscatlán terminal in the South Central Region of El Salvador about 45 kilometers from the capital.

2. Constraints

The air passenger traffic has shown a considerable decline reflecting the drop in business travel and leisure tourism discussed elsewhere in this paper.

Air Passengers

	78	79	80	81
Arrivals	162,684	151,997	107,069	101,209
Index	100.0	93.4	65.8	62.2
Departures	163,503	154,584	125,165	105,432
Index	100.0	94.5	76.6	64.5

term improvements which, if made, could vastly increase efficiency: a Metropolitan San Salvador freight terminal and the reduction of customs inspection requirements at international borders. Another problem, concerning the land transportation system as a whole, is the number of bridges (nearly 50) which have been destroyed by guerrilla activity.

Maritime Transportation

El Salvador has two major seaports, Acajutla and La Union, administered by the Comisión Ejecutiva Portuaria Autónoma (CEPA). Ship arrivals have been decreasing by twelve percent per year, consonant with the overall economic decline.

Ship Arrivals

	78	79	80	81
Acajutla	535	459	383	364
La Union	67	70	25	36
	602	529	408	400
Index	100.0	87.8	67.8	66.4

Cargo Offloaded
(000 Metric Tons)

	78	79	80	81
Dry cargo	1,075	956	850	738
Index	100.0	88.9	79.1	68.6
Liquid bulk	772	750	631	605
Index	100.0	97.2	81.7	78.3

Cargo Loaded
(000 Metric Tons)

	78	79	80	81
Dry cargo	523.2	514.9	359.7	302.0
Index	100.0	98.4	68.8	57.7
Liquid bulk	21.3	23.3	1.1	45.1
Index	100.0	109.4	5.2	211.7

Air Cargo
(000 Kilograms)

	78	79	80	81
Arriving	11,829	11,068	4,962	4,830
Index	100.0	93.5	41.9	40.8
Outgoing	6,850	8,479	9,028	5,155
Index	100.0	80.8	106.5	60.8

Incoming air cargo has dropped precipitously as the GOES has moved to restrict the importation of luxury goods. Air cargo exports have been variable and are primarily generated by companies operating in the free trade zone such as Texas Instruments.

Rail Transportation

The rail system is comprised of 602 kilometers of track which connects the ports of Acajutla and Cutuco (La Union) with San Salvador. The system has approximately 500 rail cars and eight operating locomotives. Nearly 60 box cars and three locomotives have been destroyed by guerrillas. Major cargo of the railroad is coffee and cement on the San Salvador-Acajutla line and coffee and cotton on the San Salvador-Cutuco line. CEPA, which manages the system, will oversee a feasibility study in the near future to determine whether the rail system should be rehabilitated or ultimately abandoned.

C.5 BANKING

The Banking sector is comprised of the Central Reserve Bank (BCR), and the following various financial institutions:

10 commercial banks, and 1 finance company
1 mortgage bank
8 savings and loan institutions
1 national home loan bank
1 agricultural development bank
2 savings unions, and
4 foreign commercial banks

INSAFI, the national industrial development bank was recently dissolved due to deep financial problems; it is very doubtful whether its newly created successor institutions, Banco Nacional de Fomento Industrial (BANAFI) and Corporación Salvadoreña de Inversiones (CORSAIN) will ever function.

General Outlook

As can be seen in the table below, the commercial banks have traditionally had the majority of deposits and loans outstanding:

Table II-10

GLOBAL DEPOSITS AND CREDIT LEVELS, YEAR-END

($ millions)

Deposits		1979	1980	7/1981
A.	Commercial Banks	$ 695	$ 757	$ 770
B.	Rest of Financial Sector	240	291	N/A
	Total Deposits	$ 935	1,048	N/A
Loans Outstanding				
A.	Commercial Banks	$ 932	$ 788	$ 461
B.	Rest of Financial Sector	$ 706	$ 782	N/A
	Total Credit	$1,638	$1,570	N/A

For the three-year period 1977 through 1979, the nation's commercial banks--including the Banco Hipotecario--kept their loan levels fairly constant at around $950 million with only a slight decline over time. This slow decline in loans outstanding at year-end turned more sharply downward in 1980 when loan levels fell to $788 million, down from $976 million in 1977, for a 23.8 percent drop.

This constant decline in outstanding credit reflects the weakening of El Salvador's economy, i.e., the fact that real GDP has fallen by a real 20% since 1978.

By December 1981, loan levels had not increased significantly; loans outstanding amounted to $950 million. However, considering that the inflation levels for the four-year period exceeds 50 percent, the volume of loans outstanding is significantly lower in real terms.

As can be seen in the following table, refinancing increased sharply from $107 million in 1977 to an unwieldy $150 million in 1980, caused primarily by the banks' seriously weakened cotton and coffee portfolios.

TABLE II-11

Bank Loans Outstanding at Year End

($ millions)

	1977	1978	1979	1980	% Change
Agriculture	$262	$234	$225	$202	(29.7)
Industry	128	129.6	118	78.8	(38.4)
Construction	54.4	69.1	57.2	30.7	(77)
Commerce	400	394	400	314	(27)
Refinancing	106	116	94	150	+42
Other Loans	25.6	20.1	37.4	12.7	(101)
Total Loans	$976	962.8	931.6	$788.2	(23.8)

The greatest reduction in credit was felt by the construction and industry sectors, whose financial needs were sacrificed to provide refinancing of unpaid loans. By September 1981, refinancing requirements had reached an extraordinary high $244 million.

External Financing

Over the last few years, El Salvador has seen its external bank financing and trade credit decrease alarmingly. It is estimated that the commercial banks lost approximately $500 million in short-term, trade-related credit facilities from foreign banks since 1979, contributing significantly to the drop in foreign exchange reserves. Official net international reserves were $266 million in 1978, dropping to a minus $197 million by year-end 1981.

Concurrently, trade credit levels have also been reduced substantially. For example, commercial banks are now obliged to deposit dollars, as collateral on an average of 90 days prior to the shipment of goods just to have their clients' letters of credit confirmed. This excessive demand for scarce foreign exchange reduces the economy's ability to import vital raw materials to keep production up.

The severe lack of foreign exchange has been the major constraint to industrial reactivation, greater even than constraints of terrorism and security problems.

The drop in exports and production between 1977 and 1981 caused a dramatic increase in public external debt, from $280 to $649 million. While precise data is not readily available, it is obvious that the term structure of El Salvador's external debt is exceedingly too short, not providing sufficient time to bridge finance the country's economic problems.

But the term structure problem is not limited to the commercial banks' foreign exchange funding. The preponderance of 1981 bank loans was funded by $800 million in deposits of the public in local currency; 35 percent of those deposits were on a demand basis, 28% on time, and only 37% of those deposits were in passbook savings, which provide longer term funds to the banks.

The only other significant longer term funds came from special BCR lines which reached $200 million at year-end 1981. But subtracting the $77 million in bonds and treasury bills outstanding (which the banks must invest in) left slightly more than $100 million in longer term funds outstanding to finance industrial and other long-term projects presented to the banks. While precise data is difficult to obtain, the Checchi study estimates that the average loans term in bank portfolios is about six months. But whatever the true average life, it is obvious that the banking sector does not have the necessary long term funds internally or externally to fund development needs, let alone to jolt the economy out of its stagnant state.

Lending Policies

Before nationalization, control and management of the commercial banks were heavily interlocked with owners of large and medium agricultural, commercial and industrial enterprises. Production and working capital loans were made largely on the basis of personal knowledge and long-standing client relationships. Principal reliance for funds was on the bank's own resources with minor use of BCR rediscount facilities. Few loans were over one year; intermediate capital came largely from external financing and from direct local investment. Under these circumstances the banks did not need or develop any substantial capacity in credit analysis and assistance to clients.

In this sense, it is essential for the Mission to implement an on-going credit analyst training program to support the human resources needed to prevent the bank reform from deteriorating.

Commercial banks recognize their deficiencies in credit analysis capability; some of them are trying to alleviate it by employing additional staff. Progress is slow, owing to government austerity programs against increasing personnel in nationalized institutions; pay scales are frozen at low levels, and there is limited availability of people possessing the necessary skills.

Bank Nationalization

On March 7, 1980, El Salvador's financial system was nationalized, pursuant to Decree 158. Nationalization involved three basic activities: (1) taking over management and control of the affected institutions; (2) carrying out financial audit to determine net worth of former owners; and (3) issuance and payment of bonds for compensation.

Management and control: This step was achieved by progressive steps culminating in a control of the bank boards by the Central Reserve Bank.

Valuation

As of this date, the Commission has completed the financial audit of each institution, thus evaluating the net worth accounts of the previous owners. As part of the valuation process, doubtful assets (mostly loans) have been turned over to the deposed owners so that they may attempt to recover their cash from shaky borrowers.

Approximately $61 million in compensation was made in the form of five-year bonds bearing nine percent interest (which is taxable). These interest payments to date have been made on time.

Many complaints relating to the bank reform have to do with the fact that the GOES did not consider any intangible "goodwill" in the valuation of the assets of each institution. The critics argue--with some validity--that the organizations nationalized were really worth more than their book value. They point out, for instance, that years of image building, development of branch locations, and managerial experience etc., were assets which did not appear on the balance sheet but did have economic value.

ASSESSMENT OF THE BANK REFORM

It is difficult to assess the true success or failure of the bank reform. One view is that this reform, together with the agrarian reform, helped defuse the country's political time bomb, and was a long-standing economic and social necessity. Others see it as one of a series of actions which have brought the country to the brink of economic disaster.

A. Operational Aspects

Partially as a result of the lack of confidence in a nationalized banking system, the Salvadoran public in mid-year 1980 began to withdraw large sums of money from the banking system; demand deposits dropped from $400 million in March to $270 million in August. The BCR had to make stand-by facilities available to the banks, until confidence was regained and deposits returned to previous levels.

By and large, the management, operational aspects, and loan policies of the banks have remained the same. Presently, all upper level bank management is directly responsible to the BCR, and can be replaced at the discretion of the BCR. All bank personnel including officers have had their salaries frozen at 1980 levels.

As with most operational policies, higher bank management salary scales are determined by the BCR, and are excluded from any profit sharing or additional compensation schemes, regardless of performance. Critics of the bank reform argue that this uniformity will tend to lethargize the historically dynamic banking system of El Salvador, as more competent managers will be slowly lured away by private firms offering better pay scales. The mid-career bankers who do not leave, will tend to seek guidance on even day to day operational aspects of the banks, so as not to jeopardize their positions and their accrued security benefits.

Only three directors -all chosen by the Monetary Board - make up the bank boards. There are presently no private sector directors on any bank board, nor are there any private sector representatives on the board of the BCR or the Monetary Board.

The law which nationalized the banks called for the Government to divest itself of 49% of each bank stock within one year, 20% to be divested to employees through loans provided from retained earnings on soft terms; and 29%, to be divested to the public. No one will be allowed to own more than 1% of this stock. As things presently stand, the BCR has not complied with this phase of the law.

There has been considerable clamor for the BCR to comply. There has also been considerable pressure to place private sector individuals on the boards of the banks, and to provide compensation based on profits and efficiency of managers. There is considerable pressure within the private sector for the government to sell its bank shares to the public.

B. Present Loan Policies

While it appears that overall loan policies have not radically changed with the nationalization of the banks, it is a fact that the banking system, and particularly the BCR, have steadily increased the market share of loanble funds to the Government.

Total loans to the private sector have remained steady at about $890 million since 1978, increasing slightly to $943 million at year-end 1981.

Total credit to the public sector on the other hand, grew dramatically by 424 percent for the same period, as can be seen below.

TABLE II-12

Loans Outstanding by Private and Public Sectors

($ millions)

	1978	1979	1980	1981	% Charge
Private Sector	$ 888	995	870	943	+ 6.1
Public Sector:					
Autonomous Agencies	159	250	565	534	+ 236
Central Government	19	54	229	398	+ 1,995
Total Public Sector	$ 178	$304	$794	$932	+ 423

Critics of governmental credit policies state that the GOES is and has been crowding-out private firms' needs for scarce loanable funds. The GOES response has been that when the social and political crisis got difficult, the private sector refused to invest, creating an unacceptable impact on production, and particularly on unemployment levels, thereby obligating the government to invest to prevent an imminent economic collapse. These new investment policies, forced the GOES to go to market internally and externally to fund its programs. External funded government debt for instance, increased from $280 million in 1977, to $649 million in 1981, while internal government debt increased by 337 percent in the period.

Notwithstanding the larger share of the Government in total loanable funds of the system, the only real pressure upon the banks by the Government, has been to assure that the banks provide adequate funding for the agrarian reform operations. During the agricultural year 1981/1982, a total of 256 cooperatives were financed by the banks for a total of $80 million, with a surprisingly high degree of success in terms of repayment.

c. Policies Toward Foreign Banks

There are four major foreign banks with direct presence in El Salvador:

Bank of London and Montreal (Lloyds)

Citibank, NA

Bank of America, NT & SA

Banco de Santander y Panama, S.A. (Santander group of Spain)

The British-owned Bank of London and Montreal is the oldest, having opened a full branch to complement the advent of British investments in railroads, tobacco and industries, in 1917. Citibank established a full banking office here in 1965 and the Bank of America and Banco de Santander y Panama, S.A., established banking offices here in 1977, but were not permitted to take local deposits due to a change in the banking law. Both institutions increased their lending capability by funding their operations in eurodollars, thus assuming a great deal of cross-border exposure.

These foreign banks have all lost money since the present crisis began, and are on the verge of closing their doors, although considerable political pressure has been placed upon them not to do so. One foreign bank has ceased operations: Manufacturers Hanover Trust Company of New York quietly closed its very successful representative office in 1979 in response to increasing security problems.

After the nationalization of the local banks, foreign banks with full branches were required to sell their local branch operations and to spin-off deposits in local currency, thus leaving all foreign banks on the same no-deposit basis. Bank of London quietly complied with the new rules of the game. Citibank has apparently been the most resistant to spinning off its local currency deposits, postponing the final decision until year-end 1982.

The foreign bankers feel it is unfair for them to operate without the resources of local deposits and point to the importance of their continued operations particularly at a time when other foreign banks are extremely wary of extending new credits to El Salvador.

Moreover, members of the private sector mention that the foreign banks' presence breeds excellence in local banking practice, giving competition to local banks.

One possible solution to the foreign banks' dilemma could be for the Monetary Board to permit all four banks to establish full branch operations, allowing them to take local deposits in direct competition with the nationalized banks. A quid pro quo could be established in the sense that these four banks would be obliged to extend trade-related credit facilities in some multiple of those deposits, to the BCR and/or the local commercial banks, alleviating somewhat the present lack of international credit.

Such action would give a positive boost to other foreign banks which could constitute the beginning of regaining the credit levels which the country has lost.

Besides creating more competition (thus extending cheaper and better bank services to the consumer), the foreign banks might also be enlisted to collaborate with the Mission's efforts in training bank analysts. Citibank, for instance, has one of the best credit training programs in Latin America, which is conducted in Puerto Rico. Conceivably, Citibank's program could be used to train local bank analysts using LAC Project funds.

Summary and Recommendations

In light of the CBI's principal purpose to involve the private sector of El Salvador in solving some of the serious economic problems of the country, it is recommended:

1) that the BCR and the Monetary Board give immediate priority to allow private sector representation on the boards of the BCR and all the Commercial banks.

2) That the third phase of the banking law pursuant to Decree 158 be implemented by the immediate sale of 49% of all bank stock to the public, particularly to the employees. For this to occur, it is necessary for the BCR to first define the mechanics for such a sale, utilizing perhaps, private sector intermediaries as investment bankers who would offer the sale of the shares to the general public for a profit.

3) That the foreign banks be permitted to compete freely with the local banks, with the understanding that their head offices extend short-term credit facilities for trade related purposes in some multiple of the local deposits.

5. That the decline of loans outstanding to the private sector be arrested, by the local currency disbursements of all PSS funds. For this to happen, it is necessary for the credit analysts of the banks to be better trained, perhaps utilizing the services of one of the foreign banks who could collaborate in this regard.

C.6 TOURISM SECTOR

1. Resources

At first glance, this sector would appear to be relatively insignificant: its 12 major hotels have only 1,200 rooms, and its private sector direct employment in hotels, food, travel agents and tour operators totalled only 4,782 at its peak in 1979.

Yet its importance in export earnings is revealed in the Table below: tourism was the third largest foreign exchange earner in 1977 and 1978, exceeding sugar and shrimp; and it was the fourth largest foreign exchange earner in 1979. In addition, the multiplier factor of this sector is well-recognized, and will be especially so in a country as high industrialized as El Salvador.

TABLE II-13

RELATIVE RANKING OF TOURISM TO OTHER EXPORT ACTIVITIES
1976-1979

(Millions of US$)

Year	Coffee	Cotton	Sugar	Shrimp	Tourism	Tourism Rank
1976	375.8	64.0	40.5	11.8	21.0	4th.
1977	596.4	80.9	26.4	10.5	31.8	3rd.
1978 P/	432.8	100.5	18.9	10.7	36.7	3rd.
1979 P/	675.1	87.0	26.8	12.6	24.9	4th.

P/ Preliminary figures.

This sector began to develop its international tourism plant in 1975. During the period of 1975 to 1979, much of the total tourism infrastructure constructed in response to increasing flows of tourists. The number of international leisure travelers had increased from 278,761 in 1977 to 293,080 in 1978, resulting in an average hotel occupancy of 65 percent in those years. A new high-standard international airport was constructed near to existing and proposed beach resorts.

2. Constraints

By May 1979, El Salvador's civil tensions had become headlines and the hotel occupancy rate dropped to 39 percent. A traveler's advisory was placed on El

Salvador by the U.S. State Department in June of that year, and the occupancy rate plummeted to 15 percent. This rate has recovered only slightly since 1979, to 20 percent during 1980 and 1981 and 25 percent in 1982. This low influx of travelers has adversely affected tour operators and other tourism-related businesses.

As it requires at least a 45-50 percent occupancy requirement to break-even, all hotels except the Hotel Camino Real (where all the foreign journalists stay) are operating in the red. Hotel rates have been slashed by half. The result has been a heavily battered tourism sub-sector.

Travelers to El Salvador which will generate foreign exchange can be divided into two categories: (1) business travelers and (2) leisure travelers. Business travel will increase as the economy recovers, and there is little which can be done to directly affect an increase in business travel.

The latter category, externally-generated leisure travelers, present another problem. The fact that there continue to be areas of the country which are still not safe for travel, and that there are bombings and murders and a military presence in the streets makes it unlikely that a travel agent would suggest El Salvador as a destination, even if the U.S. State Department should lift its travelers' advisory in the near future. The dangerous image of El Salvador will be adequate to keep tourists from visiting the country for several years to come.

However, unless El Salvador can maintain some sort of toe-hold in the leisure traveler marketplace its recovery will take even longer. Maintenance of hotel listings and other services in catalogs and in computerized reservation services is necessary to re-establish its place in the tourism market, if and when peace is restored to the country.

Most importantly, the tourism base cannot be maintained under the present circumstances. Bank loans are not being repaid--approximated $16 million is currently outstanding--and physical plants are not being maintained, meaning that several hotels may be forced to close in the near future or will be inadequate for accommodating foreign travelers.

D.1 STRUCTURE AND ORGANIZATION OF KEY PUBLIC SECTOR MINISTRIES

Ministry of Foreign Commerce (MICE)

That past Salvadoran Governments had the political will to foment exports and welcome foreign investment is evident from the promulgation of appropriate legislation. The Export Development Law approved by the Legislative Assembly in September 5, 1974, established not only a mandate but also a legal institutional infrastructure to foment further industrialization. The National Foreign Trade Council comprised of the Ministers of Finance, Economy, Foreign Affairs, and Planning, and the President of the Central Bank was established to formulate and direct policy vis-a-vis foreign trade and investment. The Salvadoran Institute of Foreign Commerce (ISCE) was established as the implementing agency within the Ministry of Economy.

In January of 1980, Decree No. 68 created the Ministry of Foreign Commerce, which essentially absorbed the mandate of ISCE. While ISCE has not been legally dissolved, much of the supportive human resources such as lawyers, administrators, auditors, etc. which the Ministry of Economy provided to ISCE were not shifted to new MICE. It is still not clear whether ISCE will be maintained as an autonomous agency or phased out.

Within MICE's organizational framework there are four Departments reporting directly to the Undersecretary: i) Imports and Exports; ii) Services, Capital, and Technology Transfer; iii) Export Promotion and Development; and iv) Planning. Other entities included under MICE are the National Sugar Marketing Institute (INAZUCAR) and the National Coffee Marketing Instituce (INCAFE), as well as ISCE.

A. Imports and Exports

This department's basic function is to implement the overall policy of the MICE with regard to foreign trade. It issues export and import licenses, issues certificates of origin, gathers data on exports and import, analyzes internal and foreign commerce and is in charge of investigating problems related to importing and exporting goods and services.

The division also administers and controls bilateral trade agreements and interfaces with the Central Bank on international payment mechanisms.

B. Services, Capital, and Technology Transfer

Some of the MICE's more important functions are carried out by this Department, and it is apparent that some reorganization is necessary as is some kind of budgetary support.

For example, the Ministry of Economy was previously in charge of investigating and authorizing foreign firms who desired to establish operations in El Salvador. Now that it is a MICE function, its staff are either hard-pressed to deliver, or simply cannot, for lack of human resources caused by an inadequate budget.

The Department is also responsible for elaborating an export service strategy, monitoring and controlling bilateral and multilateral service agreements, and assuring that agreements with regard to capital and technology transfer are being met.

Another important function of the Department, which was previously carried-out by the Ministry of Economy, has to do with all non-short-term external debt. All such loans or credit facilities must now be first presented to the Services, Capital, and Technology Transfer Department, where the applications are processed, authorized, and passed to the BCR for appropriate registration of the incoming foreign exchange. At maturity, the borrower goes to the BCR with the appropriate form authorized by MICE to request the foreign exchange be sent back to the lender.

Perhaps the most important function which this Department has under its purview is the overall management of the country's industrial free zone, located in the San Salvador suburb of San Bartolo.

C. Export Promotion and Development

The third Department is the Export Promotion and Development Center (CENTRODEC). Its principal functions are to increase and diversify the country's exports and to penetrate new markets. The unit supports the small and medium size firm which has little or no export experience, quality control and/or working capital.

D. Planning

The principal objective of this Department is to develop foreign trade policy based on the overall social and economic development policies of the Government. Its principal functions are to:

1. Design, formulate and propose foreign trade policies.
2. Implement economically feasible export projects.
3. Analyze proposed economic integration schemes.
4. External market research.
5. Identifying n w export projects which would require inter-ministerial support to assure their success.

E. INCAFE and INAZUCAR

In March 1980, the GOES established two state monopolies, the National Coffee Institute (INCAFE) and the National Sugar Institute (INAZUCAR) to purchase and market coffee and sugar. Under the new organization of MICE, both institutions report to the Minister of Foreign Commerce, through the Undersecretary. It is obvious that this reorganization is strictly a theoretical one, as the two powerful institutes are very autonomous; it is doubtful that they will relegate their autonomous authority to the new MICE. Presently, both INCAFE and INAZUCAR face serious financial difficulties and are the object of considerable criticism. The criticism stems primarily from perceived operational and marketing inefficiencies.

INCAFE. This organization inherited from its quasi-public predecessor organization large debts and commitments and an administration in disarray. After more than one year's activity by a commission of auditors, internal accounts are being reviewed and only recently has a draft audit been concluded.

Criticism of INCAFE stems mainly from the fact that while world coffee prices are down, and labor, input and roya disease control costs are increasing, thus, squeezing the farmers' profits, INCAFE takes an extremely long time to liquidate its payables to farmers. This delay in payment creates considerable problems for the farmers to pay off their crop credits at the bank, and often requires loan extensions. These loan extensions often continue into the following crop year. This means that the coffee farmer will be incurring interest expenses not only on the present year's crop credit, but also on credit from the previous year, at the relatively high rate of 16 percent. Legal fees and stamp taxes paid in connection with these loan extensions (can amount to up to 2.5 percent of the outstanding loan.

These additional costs are making it increasingly difficult for coffee farmers to turn a profit. Complaints regarding this aspect of the INCAFE operation have been registered by not only large farmers but also cooperativists involved in Phase I of the land reform program. Under the previous system coffee farmers could sell their product at any time they felt it was convenient and coffee millers and/or exporters paid them cash for their production.

Additional complaints are heard regarding INCAFE's lack of aggressive marketing. Apparently, it has concentrated on larger buyers and has bypassed opportunities to move some of its surplus to smaller purchasers. Additionally, INCAFE's mixing of all grades and qualities has caused a loss of some of the well known Salvadoran millers' "marks" in the market place. INCAFE has also held back stocks in anticipation of a coffee price increase and reportedly the result has been a slight cut in El Salvador's quota as set by the International Coffee Organization. As a result of reduced world market demand for coffee and the practices described above, INCAFE has held a surplus of 1.6 million cwt during the past two years.

INCAFE deducts from the price paid to the farmer fees for transportation, insurance and export taxes (the largest source of revenue for the GOES). Farmers with long experience in growing coffee claim the margin charged by INCAFE to cover these costs are excessive.

In spite of its inherited financial and operational problems and its political opposition, INCAFE will probably continue to hold a monopoly on foreign coffee transactions. As the nation's most important earner of foreign exchange and as the dominant force in a key economic sector, the government is unlikely to change its policy of control during a period of economic crisis. So far, the newly formed government has not moved to change even the management personnel at INCAFE.

INAZUCAR

INAZUCAR faces much less political opposition than INCAFE. Because sugar is a basic consumption commodity in El Salvador, INAZUCAR has subsidized production to ensure that domestic demand is met. As a result, Salvadoran sugar producers receive prices higher than their counterparts in other nations. Nevertheless, because of political uncertainty, guerrilla attacks on cane fields, and adverse world prices, sugar production has declined sharply during the last three years. Exportable sugar, the residual after supplying domestic demand, has fallen even more sharply, resulting in reduced foreign exchange earnings and a potentially troublesome level of shortfall in reaching the quota set by the international Sugar Organization.

INAZUCAR's subsidies to sugar producers and lack of experience in dealing with such large-scale operations have resulted in a deficit of $25-40 million in its two years of operation. At a time of severe credit shortage, this deficit represents a serious drain on national financial resources. In order to alleviate the problem, domestic retail sugar prices have increased from 50 cents to 60 cents per pound. Even with this price increase INAZUCAR may still face deficits in the coming year.

It is probable that INAZUCAR will not be modified significantly by the new government. The same need to control export earnings and production of basic commodities which affect coffee also applies to sugar. In addition, the need also to control domestic prices of sugar reinforces the political argument in favor of a state monopoly institution. Nevertheless, some of INAZUCAR's policies will be modified. The management of INAZUCAR recently was replaced. Major investment programs designed to stimulate production will probably be postponed or reduced in scope, in deference to the shortage of investment capital.

THE MINISTRY OF ECONOMY

The Ministry of Economy after the loss of some functions to the Ministry of Foreign Commerce is still in a state of transition. Some departments are in the process of reorganization, as is the case with the Transport Office; some are inoperative; and the status of some of the autonomous dependencies, such as the National Industrial Development Bank (BANAFI) is in doubt.

The general objective of the Ministry of Economy is to orient national economic policy and apply it to those sectors of the economy under its responsibility. Its scope covers principally: industry, tourism, energy, mining, transport, internal commerce, and private capital formation.

On paper, the Ministry is organized according to the following functional divisions: Operational Divisions; Regulatory Bodies; Planning, Coordination, and Statistical offices; and Autonomous Entities.

1. Operational Divisions

a. Industry and Tourism: administration of the legal and fiscal incentives relating to industrial and tourism investments. The division's functions include: promotion, project evaluation, granting incentives and control.

b. Energy and Mineral Resources: responsibility for the development and implementation of the country's energy policies, and for the development of the minerals extraction industry.

c. Transport: When fully organized, this office will be responsible for the development and regulation of land, water and air transport, including rate regulation.

d. Internal Commerce: responsibility for the development of internal commerce and consumer price controls.

2. Regulatory Bodies: This division authorizes the organization of new private companies which fall into one of several categories, limited liability company, limited liability company with variable capital, or an anonymous society; and controls their operations as stipulated by law.

3. Planning, Coordination, and Statistical Division

a. Directorate of Planning: planning of all activities at the Ministerial level; preparation of Ministerial budgets; and provisional technical assistance to the Ministry.

b. Directorate of Economic Studies and Evaluations: preparation of general and sectoral economic studies and prepares national account statistics.

c. Directorate of National and Regional Economic Integration: planning programs and evaluating the integration process. This division is virtually inoperative at present.

d. General Directorate of Statistics and Census: responsibility for the census and the collection of other statistical data.

4. Autonomous Entities

The following autonomous operating entities are dependencies of the Ministry of Economy.:

Executive Commission for Autonomous Ports (CEPA), responsibility for seaport and airport development and operations.

Salvadoran Tourism Institute (ISTU), tourism promotion.

National Industrial Development Bank (BANAFI), Provision of medium and long-term industrial credit.

Salvadoran Investment Corporation (CORSAIN), Promotion industrial investment.

Industrial Guarantee Fund for Small Business (FIGAPE), provision of small business credit.

National Productivity Center (CENAP), industrial development assistance.

Electric Power Commission (CEL), electric power development.

OUTLOOK

As is evident, a number of functions of this Ministry and its dependent autonomous entities, are critical to the success of the CBI program. Nevertheless, the Ministry's general disorganization casts doubt on its ability to meet its responsibilities unless it is substantially strengthened.

On the bright side, the new Minister and his Undersecretary have been brought in from the private sector and their disposition toward CBI objectives to bring about economic recuperation of private sector stimulation is favorable.

D.2 PRIVATE SECTOR ORGANIZATIONS

There are numerous trade associations and other organizations representing private sector interests in El Salvador. The majority of these belong to one "umbrella" organization, the Salvadoran Association of Private Enterprise (ANEP). Major organizations, each with its own constituency, which belong to ANEP are: Salvadoran Chamber of Commerce, Salvadoran Association of Industry (ASI), Council of Agricultural Entities (CEA), the Union of Directors of Salvadoran Businesses (UDES), and the National Federation for Small Enterprise (FENAPES). There is also a political organization comprised mainly of the boards of these organizations called the Productive Alliance.

ASI is considered to be the most liberal and progressive among these organizations, and has been supportive of a recent A.I.D.-financed evaluation of the industrial sector. ASI was established in 1958 and has approximately 300 members who are involved in medium- and large-sized industry.

The most outspoken critic of the various reforms undertaken by the Christian Democratic Junta has been the Chamber of Commerce. The Chamber currently has 700 members representing all sizes and types of businesses. Its objective is to defend the principles of free enterprise as fundamentals for progress of the country.

The Council of Agricultural Entities has been described as the most conservative group. Its membership is made up of association representatives involved in coffee cultivation, coffee milling, agricultural input suppliers, livestock and milk producers, and cotton producers.

The Union of Directors of Salvadoran Businesses tends to integrate representatives from all fields of private endeavor. The organization is described as not having much influence.

The National Federation of Small Enterprises is perhaps the least powerful organization. It has only 34 members: 11 small industrialists, nine from the transport sector, nine representing services, and five from agriculture.

Within ASI, the Committee of Exporters of El Salvador (COEXPORT) was founded in 1973 for the purpose of creating more job opportunities through the establishment and expansion of export industries. The association assists industrialists which export or are interested in exporting non-traditional products outside the Central American Common Market. The stated objectives of COEXPORT are:

1. Represent exporters' interests in governmental, private, and international institutions.
2. Obtain and provide information, documentation, and assistance needed to facilitate export activities.
3. Study and recommend measures which would improve the competitiveness of exporting industries.
4. Facilitate the adoption of systems which would improve and control the quality of goods manufactured in El Salvador, particularly export products.
5. Improve export capabilities of businesses through the organization of courses, seminars, round tables, conferences, and the exchange of experiences to benefit industrialists in general and exporters in particular.
6. Obtain consulting services and technical assistance in matters related to export activity, including feasibility of exporting a particular product, identification of markets, distribution channels, packing and shipping, storage, financing, insurance, fiscal and monetary incentives, attraction of foreign capital, and establishment of export industries.
7. Take necessary measures to improve conditions in the transport of merchandise for export, and ensure that exported products arrive in the international markets in optimum and competitive condition.
8. Collaborate with government and private institutions in international trade fairs in which El Salvador is a participant.
9. Undertake all efforts which directly or indirectly contribute to the development and diversification of the country's exporting capacity, to increase the exportation of manufactured goods, and to create a favorable export climate.

COEXPORT has been instrumental in promoting El Salvador's participation in international trade fairs, most recently in Frankfurt, Germany (1980 and 1981), and in the "Feria de las Américas" in Miami (March 1980). Participation in the Frankfurt fair in 1981 resulted in the establishment of artisan marketing contacts in Israel, Holland, and Greece. Also, the Association has cultivated relationships with a number of international organizations, which have provided assistance in export development through seminars and conferences.

The Central American Institute for Research and Industrial Technology (ICAITI) has provided COEXPORT members with information on export opportunities, training, technical assistance, and marketing information on specific products. In 1980, COEXPORT staff members attended several international trade conferences (Canada and Venezuela).

COEXPORT is not only a source of information and international contacts for private sector exporters, but also performs an important function as a source of expertise to public sector entities on export related matters. The association has participated in working groups with the Ministry of Foreign Relations to support efforts in signing of trade agreements with Honduras and reactivation of a treaty with Panama. COEXPORT has also encouraged the signing of a bilateral trade agreement with the Republic of China, which contemplates measures for technology transfer, financing, and investment projects.

In addition, COEXPORT acts as a lobbyist for exporters' interests on the domestic scene. In this regard, COEXPORT spearheaded the request that the Export Development Law be revised and its regulations up-dated, particularly those pertaining to incentives for exporting businesses. The association is presently participating in a Mixed (private sector and public sector) Commission assigned the task of reviewing the Law. COEXPORT is encouraging: 1) a clear definition of the government's support role in the export sector, and 2) the establishment of instruments to provide export incentives such as financial resources, fiscal measures, and tariffs. With the possible phasing out of ISCE, COEXPORT believes it is critically necessary to establish new mechanisms for private sector participation in decision-making regarding the export sector. For example, COEXPORT has requested that the private sector be permitted to take part in the programming of the Country's official participation in international fairs and expositions with ISCE or its replacement as the coordinator.

COEXPORT's fundamental concern at present is the potential involvement of government entities in the marketing of non-traditional exports such as honey and sesame. The association points out that the Export Development Law clearly states that public sector initiatives in this area should only be undertaken when private sector initiatives have not resulted in efficient marketing, and then, only on an experimental, pilot project basis. Moreover, COEXPORT considers the markets for such products to be highly specialized and sensitive to variables of production, quality, and marketing, which require experience and "know-how" not usually available in public sector institutions.

D.3 PUBLIC AND PRIVATE SECTOR RELATIONS

It is somewhat difficult to measure the quality of relations between the Public and Private Sectors, as they presently are in transition. The outcome of the March 28th elections does seem to have produced a more harmonious state of affairs between both sectors. During the past two years there had been a complete split between the two sectors which has not completely disappeared. Some private sector antagonism has been directed toward the USG as a result of its support for the reform process.

Under the sponsorship of ANEP, ASI, the Chamber of Commerce, FENAPES, and UDES, there have been two national symposia. At these symposia held in July 1981 and May 1982, each economic sub-sector was invited to expound upon its particular problems. The symposia served to bring the plight of Salvadoran businessman to the attention of politicians and common citizens alike.

The Private Sector now appears to be, if not more confident, certainly more at ease with the direction of the present Government. The heretofore estrangement of both sectors has eased, as it is evident from the Private Sector's interest in cooperating with and joining forces with the present government in solving the economic crisis.

Notwithstanding this new apparent spirit of cooperation, there are some fundamental problems plaguing this new government. Interministerial coordination is seriously lacking, a clear-cut overall policy seems non-existent, and some serious sectoral problems in the banking, foreign commerce, and other vital areas of the economy are evident. There appears to be no definite plan for reversing the economic decline, and the time required to reverse it in light the civil strife looms as an important factor.

In June 1982, the Salvadoran Productive Alliance responded to a request by President Magaña to nominate 18 of its members (3 for each of six key ministries) to work closely with and advise the Government on key aspects of the economy. These committees are viewed by the Mission as key to the establishment of linkages through which mutual cooperation between the GOES and the productive sector can be enhanced, and this effort will be supported as a part of the CBI program.

D.4 EXPORT AND INVESTMENT DEVELOPMENT

Current Export and Investment Development Policy

With respect to export promotion, the GOES' 1981-1983 Three-Year Plan calls for: a) the consolidation of the Foreign Trade Reform to manage more efficient use of the Country's foreign exchange earnings; and 2) creation of an environment conducive to increasing non-traditional exports in order to recuperate industrial and artisan production to an acceptable level, as well as to improve the economy's base over the medium and long term. As the economy recovers, foreign investment will be welcomed, particularly in the areas of export-oriented industries that use local labor, materials, and other inputs. Joint ventures are preferred.

Export Development Law

On September 5, 1974, the Legislative Assembly approved the Export Promotion Law, which is still in effect. The Law, in effect, established a mandate and legal structure for stimulating industrialization. The legislation implicity recognized the importance of developing extra-regional markets by offering fiscal and other incentives to industries exporting all or part of their products to non-CACM countries. The Law is presently under review for updating of incentives and re-definition of public and private sector roles as a result of changes in agencies involved in monitoring the Law's application.

Free Zone

To aid investors, the country's first Free Industrial Zone has been established in the San Salvador suburb of San Bartolo. The Zone was the first of several planned to be established under the Export Development Law to permit export-oriented industries to operate under advantageous conditions.

Industrial zone firms (which may be 100 percent foreign and export 80 percent or more of their products to non-CACM countries) enjoy duty-free import of equipment, raw materials (including fuels), and other inputs for the project's life in addition to other general incentives. Export-oriented local industrialists under the Export Development Law would also enjoy most of these benefits; but, particularly for the foreign investor, the zone offers certain advantages over domestic production: no administrative processing of imports and exports, no obligation for local investor participation and access to factory facilities and infrastructure.

There are presently four companies employing 800 workers still operating in the San Bartolo Free Zone: AVX (U.S.; electronics; ceramics): Form-O-Youth (U.S.; textiles); TME (Spanish; coats); and Expon (U.S.; pharmaceuticals). By comparison, during 1979, the zone contained some fourteen firms employing 4,200 workers, and plans called for an increase to 20,000 workers by 1982. Motorola alone, wanted to set-up an operation employing 5,000 workers and Beckman Instruments was in the process of expanding its operation to 1,500 workers.

With little additional investment, reactivation of the San Bartolo Free Zone in the short run, and establishment of additional free zones in the medium term could significantly alleviate depressed employment and production levels while generating scarce foreign exchange.

This prospect is particularly true if assembly operations, which prior to 1980 employed thousands of Salvadorans, could be revived or promoted to located in the free zone. Given the location of the international airport, and the new highway connecting the airport to San Salvador, the town of Comalapa may be an ideal location for a second free zone.

General Treaty for Central American Economic Integration

El Salvador is a subscriber to the General Treaty for Central American Economic Integration. Signed in December 1960, this treaty established the Central American Common Market (CACM). Under the CACM the most important incentives regarding investment and trade development are: a) free trade within the CACM area for products of "integration" industries; b) tariff protection; c) import duty exemption on machinery, equipment and raw materials for new or established integration industries; and d) income and other local tax exemptions for variable periods according to industry.

- **El Salvador's CACM Experience**

By 1968 El Salvador had the largest share in intra-CACM trade in manufactured products (35%) and its industrial sector was the most dependent on CACM trade, exporting about 33% of its growing manufacturing output (excluding food, beverages and tobacco) to the region. The economic consequences of the conflict with Honduras in 1969 proved to be very serious, resulting in a sharp drop in exports by El Salvador to the CACM. A crisis in the textile industry which has traditionally provided about 25% of the country's manufactured exports to the region also caused a decline in El Salvador's CACM export share. In 1975 El Salvador had for the first time a balance of trade deficit with its CACM partners.

Textiles (mainly cotton fabrics), clothing and footwear constituted the major manufactured exports from El Salvador to the CACM, almost 35% of the total in both 1968 and 1976. Chemical products were the second major group of manufactured CACM exports, with a constant share of about 20% since 1968. Major chemical products included soaps, detergents, cosmetics and similar products, pharmaceuticals, fertilizers and insecticides, plastics and synthetic fibers. Paper and paper products, particularly packaging materials, have grown rapidly since 1968 and reached more than 9% of manufactured exports to the region by 1976.

The results of an IBRD study of the Common Market completed in 1980 [1/] indicate a series of positive results from the regional integration efforts: (1) substantial increase in the degree of interdependence among the CACM countries; (2) an expansion of market size which has made possible the growth of local industries which individual national markets could hardly have supported and which has encouraged some degree of specialization; (3) encouragement to the development of technical and managerial skills and (4) important improvements in regional infrastructure.

For a wide variety of non-durable consumer products whose output has been stimulated, domestic prices do not appear to be, at most, more than marginally

[1/] Central America, Special Report on the Common Market, World Bank, Washington, D.C., September 29, 1980.

above internationally competitive levels and for a number of products the basis has been created for relatively substantial exports towards third countries. On the other hand, the IBRD report warns, the protectionist character of the policies adopted to stimulate exports provides a framework in which misallocation of resources (e.g., investment in uneconomic intermediate goods industries) could occur, unless changes are made in a number of critical economic policies. Similarly, while the basis has been set for export expansion to other areas, the pattern of economic incentives which have been provided has not been sufficiently focussed to achieve that objective.

Common External Tariff (CET)

The present CET had its origins in the Central American Convention on the Equalization of Import Tariffs signed in 1959; under its provisions, agreement was reached on common tariffs for 10% of the items within the Uniform Central American Customs Nomenclature (NAUCA)[1/]. With the adoption of the General Treaty in 1960, the establishment of a complete CET and, with it, the liberalization of intra-CACM trade were to be accomplished in five years. By 1966, after a series of protocols, common tariff levels had been accepted for all but 33 products in the trade classification; those not covered included major agricultural products (e.g., grains) and a number of consumer durables.

Central American Agreement on Fiscal Incentives for Industrial Development.

Signed in 1962, this Agreement was not ratified until 1969. Its main objective was to replace the various national investment laws with a common system for incentives. The principal benefits granted under this system were exonerations from tariffs on imported inputs and capital goods and from income and related taxes for varying periods of time in accordance with criteria established in the agreement. The most important type of fiscal incentive to date in terms of monetary value to the recipient firm has been the exoneration of import duties on materials, equipment and fuel.

1/ NAUCA was adopted by each of the five countries in the period between 1956 and 1959. This is essentially a trade classification based on the main physical substance constituting a product and, as a consequence, tends to group under one heading a number of items with different economic (end-use) characteristics.

There appears to be a consensus that the present fiscal incentive system to promote industrial investment has been excessively costly to the countries in terms of lost revenue. Even within the private sector there is growing discontent with the competition which has developed among the countries and which has contributed to uncertainty over the competitive position of any new investment. Moreover the system has tended to encourage investment in industries not appropriate to the resource endowment of the region with low value added and both high import and capital intensity. Secondly, the contract providing tariff exonerations on imported inputs to a specific firm for a fixed time period while its output is protected from external competition, does not encourage the establishment of industries with economic viability. Oftentimes, vested interests are created to find means to perpetuate those benefits.

Constraints to the Expansion of Extra-Regional Exports of Manufactures

The bias toward regional import substitution in the CACM trade policy is one of the most important constraints on the growth of industrial exports outside the area. The structure of the CET, combined with the granting of duty exonerations under both the previous national systems and the regional industrial incentive agreement, has provided a widely dispersed pattern of protection which is excessive for the food processing, textiles and clothing industries and discriminates against those producing intermediate and export goods. Thus these protected industries recorded substantial output increases in the first years of the CACM development but did not establish external export markets during this time. Exports to third areas were largely pursued as a means of taking up the slack in capacity utilization when the internal markets lost their dynamism. On the other hand, there has been only limited growth of "new" industries primarily oriented at third-country exports, the major exception being the wood products industries developed in Honduras and Nicaragua.

The emphasis on import substitution has encouraged individual enterprises to produce a broad range of products in accordance with regional demand patterns (e.g., textile enterprises in El Salvador) rather than a few items which could be produced in large series and thus be competitive in international markets.

The easy entry into highly protected domestic markets contributes to the problem of idle capacity which plagues especially the textile industry. Similar situations appear to exist in the pharmaceutical, detergent and some food processing industries. In 1976 expectations regarding profit margins in protected markets were high, while duty-free imported equipment and intermediate materials were cheap compared to domestic inputs. This had two effects. Firstly, it was comparatively cheap to leave capacity idle and, secondly, the choice of technology in industry-favored, capital-intensive processes over processes using the relatively inexpensive domestic inputs, specifically labor.

The textile industry is one example where equipment of highly advanced technology which, in addition, was standing idle. Thus, an important segment of industry in the CACM countries is producing at high costs, reducing long-term competitiveness in foreign markets. In the short run, exports will be undertaken to employ temporary excess capacity to cover marginal costs, but not full average production costs.

A second constraint relates to the lack of knowledge concerning external markets and the shortage of marketing skills. Traditionally, enterprise management and marketing in CACM countries have concentrated on the processing and export of agricultural products and on the import of consumer goods. Managers of commercial enterprises have gradually shifted towards manufacturing establishments producing mainly for local markets and there has been an impressive growth in the supply of production engineering know-how. But the inward orientation of output has not encouraged the development of export marketing skills.

D.5 International Center for the Settlement of Investment Disputes (ICSID)

ICSID, a member of the World Bank Group, has been in existence since October 1966. The number of signatory countries now stand at 87. Once the legislative Assembly ratifies the agreement signed in June, El Salvador joins six other Latin American and Caribbean countries: Barbados, Costa Rica, Guyana, Jamaica, Paraguay, Trinidad, and Tobago.

ICSID offers a number of advantages to the parties of a dispute. Both arbitration and conciliation are available, and the ICSID charter has enough flexibility to take into account special requirements which the host government may desire. For example, there are provisions permitting exhaustion of local remedies, exclusion of certain sectors of the economy from ICSID jurisdiction, and designation of a legal system to be applied to a dispute. Both parties must agree to ICSID jurisdiction, and they may do so either at the time the dispute occurs or at the time the investment agreement is signed. Once the parties have agreed to ICSID jurisdiction, there are protections against procedural stalls aimed at preventing the establishment of a tribunal or keeping it from hearing evidence in the case.

Bilateral Investment Treaty (BIT)

U.S companies in El Salvador generally have praised the Salvadoran regulating environment as being open, flexible, and pro-investment. The establishment of a free zone with tax incentives and exonerations from import duty on machinery, parts, and accessories as well as other fiscal incentives successfully attracted foreign investment before the acceleration of civil strife in 1980. A Bilateral Investment Treaty with the Unite States would provide additional support for El Salvador's efforts to attract foreign investment by demonstrating good faith and establishing the "rules of the game" for foreign investors presently active in El Salvador.

Preliminary negotiations for a BIT have been very successful. That the GOES is interested in moving forward quickly is evidenced by its decision to join ICSID. The outstanding issues relate to the treatment provision, expropriation/compensation, and free transfers. All issues are expected to be resolved, however, by late July, and the prospects are good for signing an agreement in early August of 1982.

II.E. POTENTIAL BENEFITS FROM CBI

A. Traditional Exports - Free Trade Area Effects

It is evident from the foregoing discussion of coffee, sugar, and cotton cultivation and marketing that these major activities have been reduced due to exogenous variables (such as world market price, phase Two status) upon which the implementation of the CBI will have little effect. Possible exceptions might be the development of soluble coffee plants which could market coffee surplus and increased sales outside of the current coffee quote system; improvement in management, financial control and marketing of INCAFE: provision of technical assistance to cotton growers to lower costs of production; and utilization of sugar production for new products. The CBI will not create any benefits as the result of reduced tariffs. Sowever, some benefits may accrue however, from investment in soluble coffee, candy or confectionary plants as a result of the 10 percent tax credit to be provided.

The only direct effect which the CBI will have upon livestock raising will be the reduction of the 2 cents per pound duty which is imposed upon refrigerated and frozen beef. This small reduction is not likely to result in a large increase in beef exports or livestock production.

Beyond the CBI, A.I.D. can encourage beef and milk production on Phase One farms, as a great deal of the production decline derives from those operations. Given an overall economic recovery, El Salvador should be able to recover the $12 million in beef exports experienced in 1979, and to raise milk production to decrease, in some measure, the $10 million in annual powdered milk imports.

Shrimp and lobster production will receive no direct boost from the CBI as both currently enter the U.S. on a duty free basis. These products possibly can be stimulated further by development promotion efforts: shrimp exports to the U.S. have been growing at an average annual rate of 20 percent. New technologies can produce high yields on now totally unusuable lands, an important concept for a nation of scarce land resources. Lobster is growing at a phenomenal rate and although the total amount is still small, further increases can be achieved. Oyster processing should be studied as a possible new export activity. The 10 percent investment credit component of the CBI may further expand export capability.

There are many tropically-grown products which do not directly compete with U.S. agricultural production, which already enter duty free and whose exports will therefore receive no direct stimulus from the CBI. There are certain non-traditional agricultural products which might be stimulated in the medium term through the provision of U.S. technical assistance of research and much later, perhpas, investment capital for plant expansion and modernization.

B. Non-traditional Exports - Free Trade Area Effects

Earlier analyses show that the Salvadoran economy is highly dependent upon traditional exports which accounted for 66 per cent of total exports in 1981. Nevertheless, some level of benefits is predictable resulting from efforts to expand non-traditional exports through (a) a general export promotion and (b) reduced levies under CBI legislation on certain products.

A careful examination of major agro-industrial and industrail exports has been made in Table II-14. Exports have been analyzed which are: products currently subjected to U.S. import duties (and the actual 1982 tariff rate has been indicated in the exhibit) Excluded from this analysis are products which enter the U.S. duty free; products such as textiles and apparel excluded from special treatment by the CBI; and products which did not account for more than $50,000 in exports in either 1979, 1980 or 1981. The products included in the exhibit represent approximately 27.0 percent of all 1981 exporters to the U.S. and 8.8 percent of total 1981 exports.

Estimates have been formulated for major exports through 1984, anticipating that the CBI will be enacted and implemented by early 1983. Assuming an overall annual export growth rate equal to that of the rate of tariff reduction under the CIB, total exports affected by the CBI are anticipated to reach \$86.9 million in 1984, or an increase over 1982 exports of \$17.0 million. Major positive influences will be felt by electronics manufacturers. These positive impacts may be slightly understated as firms adjust their productive functions to assure that they fall under the 25 percent local value added clause. It is further assumed that an aggressive export promotion program as described below, will have been pursued during the two-year period, and that some investment will have taken place during 1984 to take further advantage of the U.S. free trade area.

C. INVESTMENT EFFECTS

Table II-15 examines direct foreign investment according to different economic activities and time periods, up to 1970, from 1971 through 1975, and 1976 through 1981. Among the most important areas of investment over all of these periods has been wholesaling which accounted for 20.0 percent of total direct foreign investment. These investments probably were made in storage facilities and transportation equipment primarily to handle imported goods.

The second most important foreign investments were in thread, cloth and textile operations with 15.3 percent. Following textile investments, in order of importance, were lights and electricity, 6.6 percent; financial institutions, 5.6 percent; fertilizer and insecticide production, 5.1 percent; and investment in petroleum refinery operations, 4.8 percent.

Foreign investment peaked in 1979 at $22.5 million, and subsequently has plummeted to $3.6 million in 1981.

TOTAL FOREIGN INVESTMENT

(Millions of U.S. Dollars)

	71	72	73	74	75	76	77	78	79	80	81
Investment	3.6	8.0	3.7	6.1	10.2	10.9	18.5	7.9	22.5	9.2	3.6
Index	100	222	103	169	283	303	514	219	625	256	100

The country source of foreign investment is analyzed in Table II-16 .

TABLE II-E

FOREIGN INVESTMENT TRENDS

(000 U.S. Dollars)

Current Prices

	Accumulated through 1970	%	1971-1975	%	1976-1981	%	Total	%
Agriculture	60.7	.1	470.1	1.5	142.8	.2	673.6	.5
Fishing	56.4	.1	267.9	.8	299	.4	623.3	.4
Mining (non-ferrous)			1,045.8	3.3	272	.4	1,317.8	.9
Quarrying					17.4	.0	17.4	.0
Livestock	99.9	.2			20.0	.0	119.9	.1
Dairy Products	198.2	.4	76.9	.2	(1,028)	(1.4)	(752.9)	(.5)
Fruit and veg. Processing	68.0	.2	56.6	.2			124.6	.1
Oils, fats			200.9	.6			200.9	.1
Milling	1,280.0	2.9	306.0	1.0	(799.7)	(1.1)	786.3	.6
Cacao, chocolate, candy	277.4	.6	3.2	.0	40		320.6	.2
Diverse food processing	60	.1	120	.4	180	0	360.0	.3
Tobacco	3,320	7.5	70	.2	1,562.2	2.1	4,952.2	3.6
Thread, cloth, textiles	3,614	8.2	7,572.6	23.9	10,074.0	13.9	21,260.6	15.3
Ropes					218.8	.3	218.8	.2
Clothing			476.9	1.5	884.9	1.2	1,361.8	1.0
Tanning			195.0	.6	(183.0)	(.3)	12.0	.0
Leather products					20.0	.0	20.0	.0
Shoes			310.0	1.0	465.0	.6	775.0	.6
Cardboard Containers	1,094.4	2.5			245.0	.3	1,339.4	1.0
Pulp, paper & Cardboard	904.4	2.0	450	1.4	3,327.1	4.6	4,681.5	3.4
Printing	275.2	.6	198.0	.6	79.6	.1	552.8	.4
Chems. exc. fertilizers	55.1	.1			80.0	.1	135.1	.1
Fertilizers, insectic.	6,908.0	15.6	111.8	.4	40.0	.0	7,059.8	5.1
Resins, plastics					230.0	.3	230.0	.2
Paints, varnishes	97.8	.2			931.6	1.2	1,029.4	.7
Pharmaceuticals, medicines	693.6	1.6	90	.3	460.3	.6	1,243.9	.9
Soaps, cosmetics	727.8	1.6	260	.8	211.8	.3	1,199.6	.9
Chemical products	50	.1	145				195.0	.1
Petroleum refinery	3,921	8.8	1,439.6	.5	1,309.7	1.8	6,670.3	4.8
Tires	40	.0	307	1.0			347.0	.2
Rubber products	50	.1			(200.0)	(.3)	(150.0)	(.1)
Plastic products	257	.6	444.5	1.4	318.8	.4	1,020.3	.7
Cement	203.9	.5			(74.7)	(.1)	129.2	.1
Non-metallic, min prod.	329.3	.7	441.3	1.4	1,132.4	1.6	1,903.0	1.4
Steel Products			200.9	.6			200.9	.1
Knives, tools, hdwe.	450.7	1.0	348.4	1.1			799.1	.6
Structural metal	30.0	.0			2,559.0	3.5	2,589.0	1.9
Metal Prod. exc. mach.	741.7	1.7	154.9	.5	(212.0)	(.3)	684.6	.5
Ag. Mach. & Equip.					160.0	.2	160.0	.1
Ind. Mach. & Equip.					79.6	.1	79.6	.1
Office equipment					4,734.1	6.5	4,734.1	3.4
Mach. and equipment	664.8	1.5			32.8	.0	697.6	.5
Electronic equipment	405.1	.9	269.7	.9	1,256.1	1.7	1,930.9	1.4
Home appliances			556.4	1.8	1,280.4	1.7	1,836.8	1.3
Electric Machinery	1,955.1	4.4	803.3	2.5	2,859.4	3.9	5,617.8	4.0

	Accumulated through 1970	%	1971-1975	%	1976-1981	%	Total	%
Vehicles	200	.4			15	.0	215.0	.1
Control instruments			244.0	.8			244.0	.2
Photographic & Optical	134.8	.3			597.5	.8	732.3	.5
Mfg. NEI	49	.1	75.0	.2	134.6	.2	258.6	.2
Lights and electricity	4	.0	533.0	1.7	8,647.9	11.9	9,184.9	6.6
Prod. & Distrib. of gas	609.4	1.4	2,294.1	7.2	1,798.6	2.5	4,702.1	3.4
Construction	51.6	.1	338.7	1.1	132	.2	522.3	.4
Wholesaling	7,956.7	18.0	4,694.1	14.8	15,219.3	20.9	27,870.1	20.0
Retailing	538.2	1.2	1,643.3	5.2			2,181.5	1.6
Restaurants			57	.2			57.0	.0
Hotels	884.3	2.0	(127.9)	(.4)	100	.1	856.4	.6
Transportation	635.4	1.4			80.4	.1	715.8	.5
Warehousing	103.0	.2	13.0	.0	250.0	.3	366.0	.3
Financial inst.	2,612.8	5.9	1,600.0	5.0	3,598.8	4.9	7,811.6	5.6
Other finan. inst.	456.2	1.0	114.3	.4	51.7	.0	622.2	.4
Insurance	160.0	.4	60.0	.2	880.0	1.2	1,100.0	.8
Real Estate	717.9	1.6	934.8	3.0	438.8	.6	2,091.5	1.5
Technical Services	90.5	.2					90.5	.1
Renting Equipment			45.	.1			45.0	0.0
Public instruction					20.0	.0	20.0	.0
Radio and Television	108	.2					108.0	.1
Total	44,201.3	100.0	29,918.1	100.0	64,991.0	100.0	139,110.4	100.0

7.6.82

Of total foreign investment made between 1970 and 1981, the U.S. led all investors with 46.1 percent, followed by Panama, 14.1 percent; Japan, 13.7; and West Germany, 4.9 percent.

Major U.S. investors have included Texas Instruments, 3M, Kimberly Clark, Xerox, Citibank, Chevron, ITT, Bank of America, ESSO, National Cash Register, Coordinated Caribbean Transport, AVX Ceramics, and Cargill. Most of these firms have formed wholly-owned subsidiaries. Subsidiaries not of the wholly-owned variety generally have U.S. participation of 70 to 99.9 percent, however, in some instances U.S. participation has been as low as 26 percent (Crown Zellerbach) to 36.2 percent (Sherwin Williams).

It is anticipated that the prospects for generating foreign investment will be grim in the near future. If and when the country becomes more pacified, foreign investment will resume. The one-time 10 percent investment tax credit will provide additional stimulus to U.S. investors, especially when that investment is made in connection with export-oriented ventures whose products are destined for the U.S.

Given direct U.S. investments in El Salvador during the past ten years the average annual U.S. investment has been $4.65 million. It is noted furthermore that the U.S. investment level has been extremely variable during this period. As a target, 80 percent of the average annual investment, or $3.7 million, is seen as realistic. Given the current situation, it is felt that even this level of investment would not be forthcoming without CBI incentives, and, would be realized only in the second year of the program. It is envisioned that U.S. investment levels can be sustained over the remainder of the CBI program period.

U.S. DIRECT INVESTMENT

(Millions of U.S. Dollars-Current Prices)

	72	73	74	75	76	77	78	79	80	81
Investment	2.5	1.3	[illegible].3	2.4	2.3	12.4	1.2	14.5	6.7	1.9
Index	100	52	52	96	92	496	48	580	268	76

Ten year average (current prices): $4.65 million

TABLE II-14

MAJOR EXPORTS TO U.S. BENEFITTING FROM CBI

(Thousands of Dollars)

TSUSA	PRODUCT 1/	A.V.E. DUTY	ACTUAL 1979	ACTUAL 1980	ACTUAL 1981	ESTIMATED 1982 2/	ESTIMATED 1983 3/	ESTIMATED 1984 4/
	Agroindustry							
10610	**Beef, fresh, chilled or**	2.0¢ lb.	12,879	5,496	339	322	328	367
1380580	**Okra, frozen, cut, sliced**	25.0%	604	845	522	496	652	880
13680	**Okra, fresh, chilled or**	25.0%	-	-	162	154	203	274
14509	Coconut meat except copra	6.9	206	215	160	152	171	200
15570	Honey	1.0¢ lb.	286	36	379	440	450	500
1706040	Scrap tobacco except cigar	16.9	5	-	175	166	194	246
1708045	Tobacco except smoking	11.8	-	-	944	897	1,003	1,222
1845200	Cotton seed oil cake	4.1	-	-	1,077	1,023	1,064	1,214
	Total Agroindustry	-	13,980	6,592	3,758	3,650	4,065	4,903
	Non-agro, industrial							
2565240	Boxes, paper, paper bd., mach	6.6	-	81	106	138	147	171
6121020	Copper waste and scrap	1.3	-	446	184	175	177	197
6121040	Brass waste and scrap	1.3	2	52	57	54	55	61
6121060	Copper waste and scrap alloyed	1.3	10	127	73	69	70	78
6762011	Electronic calculating mach	4.7	6,096	7,113	4	4	4	5
6765230	Parts of automatic data	4.8	5,169	4,227	1,014	963	1,009	1,125
6765210	Parts of calculating mach	4.8	9	3	69	76	80	89
6850018	Fixed capacitors, ceramic	9.9	0	15,662	15,895	19,074	20,962	23,475
6859054	Connectors, NSPF	6.0	1	93	52	49	52	60
6861035	Resistors, variable, except	5.9	9,422	5,411	473	449	475	550
6861052	Fixed resisters, film, NSPF	5.9	1,006	81	32	30	32	37
6861060	Parts of resistors and	5.9	1,644	39	96	91	96	111
6862400	Automatic voltage and voltage	7.1	4,417	5,431	1,227	1,165	1,247	1,460
6873010	Light emitting diodes (LED)	4.5	-	157	464	510	533	610
6875813	Electronic tubes ex cathode	5.7	-	260	22	21	22	25
6875831	Monolithic integrated	5.7	-	1,676	208	198	209	233
6875835	TTL Bipolar monolithic	5.7	-	20,630	8,823	8,381	8,858	10,248
6875870	Other semiconductor except	5.7	-	881	407	387	409	474
6877531	Monolithic integrated	5.7	-	-	4,709	4,473	4,727	5,478
6877535	TTL Bipolar monolithic	5.7	-	-	29,074	27,620	29,194	33,777
6877553	Integrated circuits others	4.24	-	-	68	65	68	78
6877586	Photo cells, crstls, etc.	5.3	-	-	385	386	406	468

TSUSA	PRODUCT[1]	A.V.E. DUTY	ACTUAL 1979	ACTUAL 1980	ACTUAL 1981	ESTIMATED 1982[2]	ESTIMATED 1983[3]	ESTIMATED 1984[4]
6877587	Electronic crystal components	4.24	-	-	1,038	986	1,028	1,174
7090940	Boogies, catheters	4.2	418	288	236	224	233	266
7092700	Medical and surgical	8.0	28	339	494	543	586	691
7316500	Artificial baits and flies	10.8	312	226	313	297	329	397
7342040	Game machines and parts	6.9	117	149	7	7	8	9
73730	Stuffed toy animals	5.4	85	99	18	17	18	21
7379565	Toy parts NSPF	7.1	151	127	87	69	74	87
7722045	Containers NSPF of rubber	7.1	510	611	426	405	433	507
7724200	Specified druggists sundries	5.3	88	-	36	34	36	42
	Total Non-agro Industry		29,485	64,209	66,097	66,960	71,577	82,004
	Grand Total		43,465	70,801	69,855	70,610	75,642	86,907
	Index/1981				100.0	101	108	124
	Percentage of total exports to U.S.		12.4	17.6	27.0			
	Percentage of total exports		3.8	6.6	8.8			

1/ Includes all products accounting for more than $50,000 in exports to U.S. during 1979-81.

2/ Assumes 5% reduction based upon negative GDP growth projections.

3/ Assumes annual growth at ad valorem tariff reduction percentage, thereby assuming perfect elasticity of supply and demand. Assumes products meet the 25% rules of origin test. All textile and apparel items have been excluded.

4/ Assumes annual growth at ad valorem tariff reduction percentage plus 10% due to increased foreign investments and increased working capital due to export increments.

DIRECT FOREIGN INVESTMENT
BY COUNTRY

(000 U.S. Dollars)[1/]

Country	1970-1975	Percentage	1976-1981	Percentage	Total	Percentage
U.S.A.	11,542	31.3	38,910	53.6	50,452	46.1
Canada	605	1.6	1,674	2.3	2,279	2.1
Asia:						
Japan	7,857	21.3	6,928	9.5	14,785	13.5
Taiwan			225	.3	225	.2
Korea			470	.6	470	.4
Europe:						
West Germany	1,900	5.2	3,472	4.7	5,372	4.9
Luxembourg	227	.6	40	.0	267	.2
England	289	.8	4,458		4,747	4.3
Switzerland	989	2.7	2,082		3,071	2.8
Liechenstein	195	.5	(178)	(.2)	17	.0
France			53	.0	53	.0
Italy	141	.4	340	.5	481	.4
Spain			33	.0	33	.0
Netherlands	1,953	5.3	640	.9	2,593	2.4
Latin America:						
Costa Rica	336	.9	224	.3	560	.5
Guatemala	643	1.7	815	1.1	1,458	1.3
Mexico	1,399	3.8	394	.5	1,793	1.6
Nicaragua			2,730	3.8	2,730	2.5
Panama	6,716	18.2	8,755	12.0	15,471	14.1
Venezuela	532	1.4	48	2.9	580	.5
Colombia			80	.1	80	.0
Caribbean						
(Netherland Antilles	648	1.7	200	.3	848	.8
(Curacao	193	.5	388	.5	581	.5
Puerto Rico	10	.0			10	.0
Bahamas	600	1.6	848	1.2	1,448	1.3
Cayman			(7)	.0	(7)	.0
Bermuda			48	.0	48	.0
Middle East						
Israel			52	.0	52	.0
TOTAL	36,810	100.0	72,661	100.0	109,467	100.0

1/ Current dollars.

TABLE II-16

MAJOR EXPORTS BY REGION

(US$ million)

	1978				1979				1980				1981			
PRODUCT	Total	CACM	USA	Rest World	Total	CACM	USA	Rest World	Total	CACM	USA	Rest World	Total	CACM	USA	Rest World
Total	801.3	233.4	173.8	394.1	1,129.1	266.7	338.3	524.1	1,069.4	295.8	442.3	331.3	789.4	204.5	212.5	372.4
Traditional Exports	513.5	0.3	145.1	368.1	798.9	-	309.2	489.7	724.6	4.1	419.9	300.6	537.1	1.4	191.7	344.0
Coffee	385.6	-	115.7	269.9	675.2	-	270.1	405.1	615.2	-	399.9	215.3	451.8	-	159.0	292.8
Cotton	98.4	0.2	-	98.2	84.6	-	-	84.6	82.8	4.1	-	78.7	52.6	1.4	-	51.2
Sugar	18.9	-	18.9	-	26.8	-	26.8	-	13.2	-	7.2	6.0	14.0	-	14.0	-
Shrimp	10.6	0.1	10.5	-	12.3	-	12.3	-	13.4	-	12.8	0.6	18.7	-	18.7	-
Non-Traditional Exports	287.8	233.1	28.7	26.0	330.2	266.7	29.1	34.4	344.8	291.7	22.4	30.7	252.3	203.1	20.8	28.4
Meat	12.5	-	12.2	0.3	13.5	-	12.5	1.0	4.2	0.2	3.4	0.6	0.8	0.2	0.5	0.1
Manufactured Products	169.5	152.2	6.6	10.7	198.5	176.4	5.9	16.2	207.5	188.6	6.6	12.3	147.9	132.8	7.2	7.9
Chemicals	40.4	36.9	0.4	3.1	45.1	41.4	-	3.7	43.3	38.6	0.1	4.6	30.4	26.2	0.1	4.1
Food Products	35.5	21.3	7.6	6.6	38.9	21.1	8.8	9.0	40.4	22.1	9.4	8.9	34.1	18.1	11.0	5.0
Machinery & Transport. Eq.	16.0	15.3	0.1	0.6	17.8	16.9	0.2	0.7	18.4	17.5	0.2	0.7	8.8	8.6	-	0.2
Crude Products	8.1	1.6	1.8	4.7	7.6	2.1	1.7	3.8	10.7	5.8	2.7	2.2	9.9	3.3	1.8	4.8
Other	5.8	5.8	-	-	8.8	8.8	-	-	20.3	18.9	-	1.4	20.4	13.9	0.2	6.3

F.1 SUMMARY OF IDENTIFIED CONSTRAINTS

In this section is summarized the major constraints identified in the foregoing assessment of the economy as a whole and its important sub-sectors. In such discussions, there is difficulty in separating constraints to economic growth from symptoms of economic decline. To the extent possible, only constraints are listed below, recognizing that at times there is a "gray area" as to whether a particular phenomenon is a constraint, merely a symptom, or both. It is also recognized that not all constraints can be or should be treated with Mission programs, as some constraints are best resolved indirectly through an improvement in general economic conditions.

Macroeconomic Situation. A negative balance of payments and scarce foreign exchange availabilities are true constraints to importation of much needed industrial and agricultural inputs, replacement parts for the transport sector (especially for trucking and bus operations) and products for sale by the commerce sector.

EMPLOYMENT AND LABOR FORCE

The high number of unskilled labor force entrants, nearly 50,000 per year, makes it impossible under present economic conditions to maintain these workers in gainful employment. Currently, there is high unemployment, over 200,000 persons, which creates the possibility of increased civil unrest.

INDUSTRY

Manufacturing firms face severe financial problems: technical insolvency caused by several years of operating under depressed conditions; deterioration of credit availability from the banks; lack of investment credit for projects requiring medium-term financing; and the lack of foreign exchange cited above. Given the overall situation, industrial lack confidence to invest, however, this constraint will be overcome if some measure of the above financial problems are resolved. Given a long-standing reliance upon the national and CACM as outlets for industrial sales, manufacturers have a lack of export know-how.

F.2 AGRICULTURE

The major constraint is the reduced world market prices for major agricultural exports. Simultaneous with the drop in world market prices has come an increase in most agricultural inputs; and the introduction of coffee roya disease has increased costs of production for that crop. Recently, some agricultural inputs (fertilizers) have not been available due to foreign exchange shortages. Lack of adequate credit is reducing output and, at the same time, is causing increased unemployment in the countryside.

Uncertainty regarding the status of lands which will fall under agrarian reform, especially those under Phase Two, have created a resistance to invest and maintain agricultural assets (such as coffee orchards).

Decimated livestock herds will require several years to rebuild to regain beef export and milk production levels.

COMMERCE

Lack of foreign exchange restricting inventory levels and general reduction in buying power has reduced sector's sales levels. As the sector is non-basic in nature, it is believed that these constraints can be overcome by actions taken to affect the basic sectors—agriculture and industry.

TRANSPORT

A severe reduction in the number of passenger buses brought about by terrorist activities may impede the ability of laborers to arrive at their workplaces. The lack of foreign exchange used for replacement parts hampers the ability of bus operators and truckers to keep vehicles running. The destruction of bridge infrastructure by guerrillas impedes the smooth flow of goods and passengers to all parts of the country. Primitive customs inspection requirements at the frontiers disrupts the flow of goods and incurs additional costs in terms of time and damages.

F.3 BANKING

The most serious deficiency is the apparent overall reduction in credit levels caused in part by a decrease in external bank financing and trade credits. In this regard, the restraint demonstrated by OPIC and EXIM Bank has acted as a strong financial constraint. The short-term nature of foreign lending is inadequate in light of the need for medium term working capital and investment credit.

The lack of investment credit for the industrial sector is compounded by the deficiency of loan officers to perform, investment credit and project analyses.

There is a lack of private sector representation on the bank boards and the CRB board which could enhance a closer working relationship between the banking and private sectors. The banking reform has not been completed, namely the steps which would bring about divestiture of government-held shares to the bank employees and public-at-large, and this has created a certain element of distrust surrounding the entire banking reform.

In addition to the reduction of bank financing cited above, foreign banks are hampered in carrying out their financial functions by not being allowed to receive deposits and otherwise provide a full rante of banking services.

TOURISM

This sector is seriously constrained by the reduction in business and leisure travel. Reduced business travel is considered a function of the reduced activities of other economic sectors; and reduced leisure travel has been brought about by the State Department Traveler's Advisory and the dangerous image of the country and the region as a whole. There is little that the CBI can do to directly assist this sector.

PUBLIC SECTOR

MICE is relatively new and important entity regarding foreign trade and investment, but which lacks institutional capability to effectively carry out the trade and investment development aspects of the CBI. There is a serious constraint in the amount of governmental red tape required for both exporter and investor. There is an overall lack of commercial information for investors abroad and for exporters who require information concerning third markets. There is a need for interinstitutional coordination among the ministries which will be involved in implementing the CBI.

INCAFE and INAZUCAR, both essential to effective coffee and sugar marketing, face serious administrative problems. INCAFE especially has demonstrated poor marketing ability, poor payment procedures, and alleged by charges excessive margins for services severely constraining coffee growers' ability to turn a profit. Both organizations operate very autonomously of the groups they serve as there presently is no private sector representation on either of their boards.

The Ministry of Economy which must carry out some important functions vis-a-vis the CBI program is presently in a general state of disorganization reducing its ability to operate effectively.

PRIVATE SECTOR

On an overall basis no particular constraints can be cited concerning individual private sector organizations with the exception of ASI's export development group, COEXPORT. COEXPORT has been doing some effective work but requires overall strengthening in order to perform well under the CBI.

Public and private sector relations were poor under the previous Administration, however these have become more harmonious of late, requiring attention for their continued improvement and workability.

Under the general heading of export and investment policy, there are several constraints of varying importance:

- -the export development law is currently under review and that process should be finalized to reduce uncertainty for exporters.
- -The free zone represents a positive development concept, and concretely usable industrial assets whose fuller utilization need continued and vigorous promotion.

-The CACM is in jeopardy as a traditional export market. Its protectionistic policies have led to misallocation of resources, under-utilization of plant capacities, and, perhaps most importantly in light of the CBI, a lack of knowledge concerning third markets.

III. The CBI Strategy

A. Introduction

In brief, the strategy of USAID/El Salvador in implementing the Caribbean Basin Initiative will be to provide the resources necessary to allow the Salvadoran and U.S. private sector to make the most productive and equitable use possible of the Initiative's key policy and financial assistance elements.

The CBI Implementation Plan and Strategy for El Salvador is based on a two year time frame. The volatility and fragility of the political and economic situations are such that they preclude attempts to set any meaningful goals beyond that period. Indeed, the targets included in this section may be easily subject to considerable change and depend largely on certain assumptions set out later in this section.

In general the CBI itself is expected to have only a modest short term impact on the Salvadoran economy, in terms of production, exports, employment and investment. Balance of payments assistance flowing through the CBI will, of course, help maintain import levels and through them, keep production and employment from falling. The effect will be short term in nature however, and will serve to meet only a portion of total import requirements. Export levels will increase slightly assuming the Free Trade Area concept as presented to Congress is accepted. Investment activity is expected to increase only slightly as a result of the Initiative confidence levels are low and will continue to remain so unless measures in addition to those proposed in the CBI are taken to reduce risk to investors interested in El Salvador.

The essence of the CBI program as it applies to El Salvador will be reactivation and rehabilitation. The uncertainties generated by the recent years' political and social upheaval have driven investors and foreign exchange out of the country and reduced production, exports and employment to levels not seen since the early seventies. In the near future the Mission plans to use two of the three main elements of the basic CBI (balance of payments support and the Free Trade Area concept) to keep the Salvadoran private sector and economy from sinking any further. Use of this near term strategy will serve to give the economy a breathing spell while the Mission and El Salvador's public and private sectors make use of CBI investment incentives, large quantities of technical assistance, training and additional financial assistance to treat the private sector and the economy in a systematic manner and bring it back on the road to recovery and growth.

In seeking to bring about the reactivation and rehabilitation of the economy, the Mission will make use of complementary program vehicles such as specific A.I.D. projects, and other agency resources to take advantage of the Free Trade Area measure and so increase production, export, and employment levels. A concomitant but longer term effort will be made to capitalize in the investment incentive policy by developing a risk assurance program for El Salvador. Details on these approaches and other parts of the action plan are discussed below, insofar as they have been worked out.

The Mission's strategy envisions a phased effort over the next two years which bring El Salvador through the process of aid and trade, and beyond, investment. CBI-supported activities carried out in rough sequence or concurrently in El Salvador would deal with the balance of payments problem; stimulate export production, which will bring more foreign exchange and keep the productive sector moving, and attract long term investors. Each of the elements comprising the strategy are discussed in more detail below.

While it is the aim of the USG to support that economic reactivation, the facts of life are that achievement of that goal will depend in no small part upon certain exogenous factors which are out of the Mission's control. In preparing the CBI strategy then, the Mission has assumed that certain events will come to pass (or not, depending on the situation) which would allow the CBI to have some positive effect. They are as follows:

-The U.S. Congrees makes available the economic assistance funding programmed for El Salvador in FY's 1983 and 1984.

-Political violence subsides substantially in the next 18 to 24 months.

-The GOES receives continued financial support from the multilaterals, most notably the IMF, over the next two years.

-Critical import commodity prices, particularly those of petroleum products and agricultural inputs remain reasonably stable.

-Prices of key agricultural export products remain stable.

Assuming the foregoing conditions hold, the Mission feels there is a good chance that the targets set out below can be achieved. The potential of the Salvadoran private sector - and for that matter, the economy as a whole - is great. The USG and the GOES have been working over the past two years to realize that potential through hard times by providing hard currencies and employment opportunities. The time has now come for the Mission, and the GOES to work with the private sector, draw it into the reactivation process and do everything possible in encouraging the sector to realize its potential.

B. Objectives

The objective of the USG's effort throughout the Basin is to increase investment, production, employment and exports. Here in El Salvador targets will be relatively modest in the sense that achievement of some semblance of employment, production and export levels that existed in 1978 will be sought. The numbers set forth below represent what we consider to be reasonable targets for bringing the economy back upon its feet over the next two years, if the Mission's assumptions hold. It is important to note once again that the Mission is well aware that the impact of the CBI will extend well into the future. Our judgement however, is that the situation in El Salvador is so volatile as to preclude setting targets any further ahead than 1984.

CBI TARGETS - EL SALVADOR

Sub-Sector	Actual 1978	Actual 1981	CBI Targets 1982	1983	1984
Industrial					
Production ($000)	481.9	492. 1/	494.	519.	545.
Employment (000 persons)	194.5	218.4 1/	219.6	231	242.
Exports	261.4	221.2	210.	231.	254.
Investment (MM) 2/	137.4	55.8	55.	83.	110.
Agriculture					
Production ($MM)	843.9	873.8	880.	893.	906.
Employment (000 persons)	568.6	571.5 1/	586.	595.	604.
Exports ($MM)	526.	537.9	545.	553.	561.
Investment ($MM) 2/	29.3	14.5	13.	16.	18.
Current Dollars					

1/ Employment statistics available only through 1980.

2/ Includes estimated U.S. investment (combined) of $3.7 million. See Section II.E.

Targets were set for Industry and Agriculture only since they are the two leading productive sectors of the economy which provide the bulk of employment in the country and which earn almost all of the foreign exchange. In drawing up the goals listed above, the Mission took into account as many actual factors as it had on hand. (USDOC import listings, tariff schedules and so on). Where such works were available and consonant with our strategy the Mission drew on studies or reports dealing with production strategies. Finally, certain assumptions were made as discussed in more detail below.

It should be noted that: (a) these estimates are expressed in nominal terms; and (b) they tend to be as conservative as possible even as expressed in nominal terms.

Industry - It is estimated that overall industrial growth will increase in 1983 and 1984 by 5% annually after bottoming-uout in 1982 at approximately 1981 levels. Five percent annual increase will be considered a relatively strong rate, given the currently weakened state of this sector, and even this rate will depend heavily on foreign exchange made available through the CBI. Employment will rise in response to this recovery at the rate of one employee per every $2,225 in industrial output, resulting in the re-absorption of approximately 10 percent based largely on $17 million increase derived from CBI program. Investment will return to approximately 80 percent of 1978 levels, but these effects will be felt more directly in subsequent periods. Investment will take the place of replacement of capital goods, and not in plant construction as the increase in output will utilize already installed capacity.
Agriculture - Total output is projected to increase at an estimated 1.5% per annum during the next two years. Output growth is based upon further consolidation of phase ONe land reform operations and a decrease in uncertainty surrounding Phase II properties, but assumes no substantial advances in world market prices of major agricultural exports. Some increase in non-traditional agricultural production, will occur as a result of CBI free trade area effect but seen in terms of overall output, the effect will be minimal. There will be some recovery in agricultural employment approximately 33,000 workers as credit levels for the sector increase. Exports will maintain their traditional relationship with total agricultural output (about 62 percent of the total). No minor advances are foreseen for coffee and cotton. Sugar may shift upward to meet its international quotas. Beef exports will recover somewhat, given CBI incentives. Shrimp will continue its healthy growth.

Investment is estimated to return to only 60 percent of 1978 levels, as it is believed that agriculturalists will be more cautions in their investments than will be the industrialists.

• As can be seen from the Assessment Section, the Salvadoran economy is highly dependent upon traditional exports which accounted for 66 percent of the total in 1981. In estimating production, exports and employment figures for the planning period, the Mission examined current export performance and determined what El Salvador could reasonably expect to earn as a result of policies promulgated under the CBI. Estimates for non-traditional (here taken to mean industrial) exports through 1984 assume implementation of the CBI by early 1983 at the latest. Assuming an overall annual export growth rate of 10 percent and assuming that that rate will be increased by the rate of tariff reduction under the CBI, total non-traditional exports are anticipated to reach $53.1 million in 1984, or a two-year increase of $13.6 million in export sales. With regard to tariff reduction, perfect elasticity of demand and supply has been assumed. It is further assumed that an aggressive export promotion program as as described below, will have been pursued during the two-year period.

To estimate employment impacts from the non-traditional export expansion, the following employment multiplier has been developed.

		79	80	84
Employment =	Total Exports	669	759	714
Multiplier	Total Employm't.	(Actual)	(Actual)	(Estimated)

An expansion of non-traditional exports as a result of the $13.6 million sales increase will result in 9,710 jobs which would not exist if the CBI is not enacted. The estimated increase is very low, given a total 1980 employment level of 1.4 million persons.

Calculation of the effects of the CBI on over non-traditional production is difficult since the Mission has not yet been able to establish a clear correlation between production and the flows of foreign exchange, and imports. Research work by the Mission in the coming months should help to make these relationships somewhat more understandable.

C. Strategy Elements

As was noted in the introduction to the Strategy Section, the Mission's basic approach to implementation of the CBI will be to make priority use of the balance of payments and trade promotion aspects of the Initiative with longer term goals being set for the investment element. The following Strategy elements are arranged accordingly. Each of the elements will lay out in general terms the Mission's plan for dealing with identified problems or needs in terms of broad resources requirements (specifically areas outside of direct Salvadoran influence) direct institutions and policies, laws or regulations which deal with or have an effect on trade or investment development. The Action Plan which follows will provide specific activities to be followed in each area, insofar as planning has been possible.

1) Balance of Payments

a) Resources

The strategy in this area is straightforward: inject as much foreign exchange into the economy as possible in order to maintain import flows and allow businesses to keep their doors open and people employed. The Mission will strive to keep the foreign exchange inflows high not only from A.I.D. but from the IMF and other multilaterals. In addition, the BCR and commercial banks will work with outside banks to attract foreign exchange on their own.

b) Institutions

The Mission will seek to seek to improve the foreign exchange management, control and use systems of the BCR.

c) Policies, Laws and Regulations

As part of the CBI implementation plan, the Mission will work for refinement of the monetary and banking laws to allow some degree of private sector participation in the direction of the BCR and its policies. Steps will also be taken to encourage completion of all requirements under the Banking reform and return at least part of commercial bank ownership to private hands principally through the sale of stock shares in the nationalized banks.

2) Export Development

a) Resources

The Mission will strive for the most efficient use of trade credit resources already or soon to be available under BID and A.I.D. regional programs or the BCR's own lines of credit. The Mission and the GOES will work to obtain more short term credit guarantees or lines of credit from commercial or government sources in the U.S. and elsewhere.

b) Institutions

The Mission's strategy will be to upgrade the capabilities of GOES and private sector entities to promote exports, carry out marketing research and otherwise develop export markets in the U.S. and elsewhere. Work will also be done to strengthen export credit programming and administration capabilities throughout the banking system.

c) Policies, Laws and Regulations

The Mission will work for improvements in the administration of the Foreign Trade Reforms as they affect the coffee and sugar industries and updating of the Export Development Law. Efforts will also be made to bring about more private sector participation in the management of the coffee and sugar industries.

3) Investment Development

a) Resources

This Mission will work together with the GOES and the private sector to increase investors confidence in El Salvador. Specific steps will be taken to establish a Bilateral Investment Treaty and some type of medium term investment guarantee arrangement.

b) Institutions

The strategy here will be to strengthen GOES and private sector entities in terms of financial and human resources so that they can encourage or attract foreign investment to El Salvador or finance investment projects themselves. Particular attention will be given to the development of investment information systems, support of the Free Trade Zone system in El Salvador and the strengthening of investment institutions.

c) Policies, Laws and Regulations

The Mission's strategy here will be to reform or otherwise improve upon laws and policies which would pose disincentives to investors or which might conflict with the establishment of investment guarantees.

IV. The CBI Action Plan - Through 1984

A. Introduction

The next two years will see a series of coordinated actions in the form of program and project assistance provided by A.I.D. and other agencies to El Salvador and its private sector. All activities mentioned will pass through or are in accordance with the three main strategy elements outlined in Section III, and are designed to specifically address problems and constraints discussed in Section II. Many of the steps outlined below will take place simultaneously in the near term while others will follow somewhat later, particularly those that pertain to investment. For presentation purposes, actions related to export marketing and investment have been grouped under Section C., Trade and Investment Development, since most of the Projects discussed in that Section address the subjects of export and investment in combination. The first stage of the Balance of Payments action plan is predicated upon the assumption that $100 million in supplemental funds related to the CBI will be approved in time to allow the Mission to obligate the funds in FY 1982.

All of the described program components are consonant with the objectives set forth in the Mission's annual Budget Submission and Country Development Strategy Statement. Since the ABS was submitted in June, the Trade and Investment Development Project discussed below was not mentioned in that document.

B. Balance of Payments

1) A.I.D.

In preparing an action plan related to balance of payments support, the Mission has taken into consideration those projects which impact in one way or another on the private sector and could be reasonably expected to provide significant foreign exchange to the economy by the end of FY 1984. What follows is a listing of those Projects or other activities, which impact favorably on the balance of payments situation.

a) Economic Support Funds - Private Sector Support Programs.* The Mission will provide $264 million in ESF funds to the BCR for specific

*This Section responds to State Cable_________inquiring as to the Mission's position on conditions and uses of CBI Supplemental funds. The Mission is in basic accord with position set forth in that cable.

targeting to the private sector over the next eighteen months to two years. Economic Support Funds will permit the GOES to allocate dollars to the private sector for the importation of raw materials, and intermediate and capital goods. Those imports will in turn allow Salvadoran businessmen to keep their doors open while they work with the GOES and the Mission to devise longer term measures for economic recovery. The period covered by this Strategy Statement will see disbursement of dollars to El Salvador through either cash transfers or a series of Commodity Import Programs (CIP). Each mechanism has its advantages and drawbacks. The cash transfer can produce an immediate salutary effect on the balance of payments situation; however it lacks the definitive control features of the CIP. The CIP on the other hand, while much slower in disbursing, has the advantage of providing greater control of ESF funds. The requirements of the balance of payments situation and the IMF/GOES Economic Stabilization and Recovery Program for 1982 are such that the Mission will use the Cash Transfer mechanism to disburse at least $82 million of the ESF funds requested under the CBI during CY 1982. Funds not required under the IMF Agreement will be administered under a CIP which should begin in early CY 1983. The CIP will be used to disburse the balance of $18 million in FY 1982 CBI supplemental funds and $164 million in ESF funds already programmed for balance of payments support to the private sector through FY 1984.

The Mission had originally intended to tranche disbursements of ESF money in 1982, using those tranches as a lever to insure compliance with any conditions negotiated with the GOES. The same considerations that argue for a continuation of the cash transfer system in the remainder of CY 1982 also apply to the tranching principle. If by some chance the CBI supplemental were to pass in the last quarter of FY 1982, the tranche approach could be used; any later passage would make tranching impractical in that the Mission would have to disburse the funds almost immediately to support the 1982 monetary program.

Since CY 1983 will essentially be a new start in terms of both a Monetary Program and, most likely, disbursement of FY 1983 A.I.D. funds, the Mission plans to employ some sort of tranching system at that time.

Local currency generated by the ESF funds will be used as a very large bargaining chip in negotiating on various points of mutual interest with the GOES. Local currency generated by the FY 1982 ESF funds have in fact been employed in negotiations between the Mission, the GOES and the IMF in the context of the 1982 Monetary Program. Under the Monetary Program the majority (Colones 267.5 generated from $107 million. For planning purposes, the Mission negotiated with the GOES on the basis of a $125 million ESF Private Sector Program in FY 1982 of that amount, $107 million were included in the 1982 Monetary Program understanding that the dollars would be expended in the GOES with the 1982. The balance of $18 million would be expended in CY 1983. Of the $107 million, $25 million have already been disbursed leaving a balance of $82 million.) of the local currencies were used in a broader, macroeconomic approach which allowed them to become fungible with other sources of the credit expansion financed under the program (e.g., expansion of the money supply, increased interest earnings, and hard currency loans). The Mission in turn concurred in the budgeting of certain priority activities within the GOES as well as credit expansion program to the private sector. The colones (₡45 million) which were not committed to the Monetary Program under the negotiations will be used to support private sector activities including possible credit supplements to the funds established under two earlier ESF-financed Private Sector Support Programs. Actual establishment of additional credit funds will be contingent however, on the results of credit demand and supply studies to be funded under other parts of the CBI Program.

The Mission expects to use FY 1983 ESF Private Sector Support funds for essentially the same purposes described above. Allocation of local currencies will probably see the bulk of colones going to the GOES budget again. A certain amount will be allocated however, to complement the Mission's other Private Sector Support Projects in policy development for example, or in some other areas where the use of colones might increase the impact of scarce foreign exchange resources. In any event exact amounts and uses of FY 83 ESF colones will be worked out in the course of Program design and negotiation.

b) Economic Support Funds - Industrial Recovery Program (See FY 83 ABS for a description of this Project). Longer term balance of payments assistance will go to the private sector through this Project which will provide credit, technical and training resources through the National Industrial Bank or an alternate institution to businessmen seeking to reopen or rehabilitate industries in El Salvador. Balance of payment impact under this Program will be significant since a major portion of the credit will probably be used for import of capital goods and parts. While the balance of payments targeting complements the Private Sector Support Programs, the nature of this Program is such that the dollar flow will be somewhat slower than in other programs. Approximately $35 million should be disbursed under this Project over the next two years.

c) Economic Support Funds - Public Service Restoration Project.

The private sector will also receive indirect balance of payment support from this project which finances the import of maintenance, repair and construction goods needed by the country's infrastructure system. Maintenance of El Salvador's transportation, power, and communications systems are essential to the private sector's continued operations, so while dollars will not go directly to the private sector, their impact will surely be felt.

d) Economic Support Funds - Employment Generation.

Less direct balance of payments assistance will also be used during the next year to address another symptom of El Salvador's depressed economy, the high level of unemployment. As with the basic foreign exchange problem, immediate and continuing measures must be taken if further declines in employment levels and their political consequences are to be averted. At the same time it should be realized that recovery of the private sector and its ability to provide employment at pre-1979 levels will require several years. The Mission therefore intends to continue financing a public works support program into FY 1983, and FY 1984. While one step removed from the private sector at this point, the program will help maintain employment and income levels while recovery and reactivation measures take effect. The program will be similar in essence and intent to that of the Public Sector Employment Project, but will be to focus on developing public work projects producing positive economic returns. Economic Support Funds will be used to finance this program also. Finally, since the costs involved in the program are local currency costs in the main, most of the dollars provided will have a positive effect on El Salvador's international reserves situation.

e) PL-480 Title I

The Mission has programmed a substantial PL-480 Title I Program in FY 1983 of up to $30.0 million. Because El Salvador probably will continue to encounter problems in importing essential food commodities normally procured through commercial term credit, PL-480 assistance will help provide substantial balance of payments relief in an important element of the country's economy. Although final needs have not yet been projected, it is estimated that an additional $32 million of Title I funds will be used in FY 1984.

f) Commodity Credit Guarantees

The Mission also proposes a Commodity Credit Guaranty Program for the next two fiscal years. If approved at the levels proposed ($25 million in FY 1983 and $25 million in FY 1984), this program would provide major assistance in encouraging short term suppliers credit for foodstuffs and agricultural comodities.

g) Other Mission Programs

Local currency and dollar funds from ESF or the Reform Policy and Planning Project will be used to support GOES policy initiatives or activities in the areas of foreign exchange control and administration. Specific efforts will be directed toward improvement of the price checking system, review and modification of the foreign exchange control law clarify policies regarding the parallel market and bringing about any other changes which stimulate the economy without undue negative results. Further details or initiation of other efforts in this area are contingent upon future studies and negotiations with the GOES funded or otherwise taking place under other parts of the Mission's CBI program. The Mission plans to press for greater private sector participation in development of policy initiatives by negotiating for inclusion of more private sector representatives on the boards of the BCR and other banks.

2) Other Institutions

a) The Inter-American Development Bank (BID). BID has recently begun an Industrial Recovery Project designed to disburse $40 million through the BCR over the next five years. The Project would provide foreign exchange to eligible borrowers for importation of raw materials and intermediate goods. Priority will be given to net foreign exchange earners although other importers will be allowed to participate.

b) Regional Office for Central American Programs (ROCAP). ROCAP is in the midst of preparing a $4.0 million export development project to be managed through the Latin American Bank for Export Development in Panama (BLADEX). Foreign exchange will be passed through participating institutions in Central American countries, to eligible borrowers (in this case net exporters only). This Project will be complemented by a ROCAP export and investment promotion Project discussed in more detail later in this Section.

c) The GOES. The GOES and specifically the BCR are expected to be carrying out further work in the area of foreign exchange control, price checking and the formalization of some sort of parallel market system. The BCR will also be negotiating on its own with the multilaterals, the IMF and commercial banks to bring foreign exchange in through lines of credit, loans or other arrangements.

d) The Private Sector. Regarding direct private sector participation and as it might touch upon the balance of payments, the Mission plans to push for establishment of an intersectoral committee between the BCR and the business community along the lines of the intersectoral committees mentioned earlier in Section II. Establishment of such a committee would bring some measure of private sector outlook and attitudes if not participation, into BCR policy development - something which was missing under the previous GOES administration. We would expect that each committee would become involved in issues such as refinement of the bank reforms, sale of bank stock shares, clarification of parallel market rules and so on. Several of the commercial banks have been working (with little success to date) to establish credit lines with banks in the U.S. in an effort to draw more foreign exchange into the economy. They can be expected to continue doing so over the life of the CBI.

e) The IMF. The IMF has negotiated a program for CY 1982 which calls for disbursement of about $75 million this year. The terms of the agreement are such that only a portion of those funds will go for imports of new import items, however; the rest of the IMF funds will be used to improve the BCR's International Reserve position.

C. Trade and Investment Development

The Mission recognizes that pure foreign exchange programs in support of import levels only buy time and do not address the root causes of the problems affecting the economy. While the foreign exchange is flowing into the economy, the Mission will be working with the Salvadoran private sector and the GOES to use other CBI program resources and policies in stimulating trade and investment in El Salvador. Steps have to be taken to get the economy back on its feet, essentially weaning it from the foreign exchange provided by A.I.D., and drawing traders and investors back into a prominent - and traditional-role in the economy. The following initiatives are being or will be taken in the next two years as part of the Mission's medium term recovery and reactivation strategy for trade and investment under the CBI.

In the case of El Salvador those steps will include using a combination of Mission, ROCAP and LAC Bureau resources together with GOES and private sector help from both El Salvador and the U.S.

1) A.I.D.

a) Private Sector Organization and Planning Project. - (See

FY 1984 ABS for description of this Project.) This Project which is described in more detail in the FY 1984 ABS is designed to assist at private sector entities. The purpose of the Project is to enable the private sector itself to increase production stimulating reinvestment increase employment levels. Realization of this purpose will entail provision of technical assistance and training in management and organization techniques. Private sector beneficiaries of the Project would also use services provided under a complementary LAC Bureau Project, Private Sector Initiatives, which would help bring Salvadoran businessmen in contact with the U.S. business community. These contacts would be used to develop new export and marketing prospects and formulate industrial recovery and programs.

b) Reform and Policy Planning Project. - As part of its CBI strategy, the Mission will be using some funds from this existing project in working with the GOES to develop new policies and strategies or modify old ones in such a way as to encourage the private sector to assure a longer responsibility in moving the Salvadoran economy forward. An example of this would be working with the BCR, private sector, MIPLAN and other relevant parties to complete the final steps of the original Bank Reform (i.e., sale of bank stock) A next step would be to bring more private sector representatives in bank boards (including that of the BCR itself) and eventually majority private sector interests in the banks. Another effort which may be funded in part here (depending on how much funding used in the LAC Regional Training Project; see below) would be training, in particular, for BCR and commercial bank employees in loan and project analyses to enable them to make bankable loans. Funds in this Project which might be directed to the private sector are limited however, so additional activities of the type discussed above will be funded in the main under the other projects listed below.

c) Agrarian Reform Support - (See FY 1984 ABS for description of this Project). This Project will use some Project resources to carry out research in the production of non-traditional crops and greater private sector involvement in the management of Agrarian Reform farms. The Mission will seek to develop these ideas in conjuntion with the intersectoral committee idea.

d) Trade and Investment Development Project. This grant Project will constitute the Mission's principal response to constraints identified in the development of the CBI implementation plan. In so doing, it will complement the various Projects and Programs described above and serve as the focal point of A.I.D.'s medium term strategy of reactivating the economy. Its basic purpose will be to act in the Mission's strategy of fomenting production, exports, investment and employment development while supporting about a shift from the public sector to the private sector as the prime movers of the economy.

Key components in the Project would include:

i) Intersectoral Policy Development - Project support will be provided under this element to intersectoral committees established in June between a series of key GOES Ministries (excluding the BCR) and several groups of private sector representatives. The Mission sees the development of their committees as one of the more important events in the recent, strained history of intersectoral relations and intends to use Project resources to capitalize on that development to the extent possible. Some of the private sector members have suggested the need for some full time staff assistance to the committee members, all of whom are working on their own time. The Mission and some committee personnel have also noted that there remains a need to develop concrete policies and direction for the committees. Project resources therefore will be used to assist in the development of an umbrella group and provide staff and administrative support which might be needed by that group. As an important part of this activity, the Mission will seek the establishment of intersectoral working committee with the BCR since it is one of the public sector institutions having the most impact on the private sector.

This activity will be used together with the Private Sector Organization Project to support greater private sector participation in policy development and programming within a number of public institutions directly affecting the sector. Special attention will be paid to bringing more (or the first, depending on the organization) private sector representatives on the boards of the BCR, INCAFE and INAZUCAR.

ii) Institutional Support

Funds under this component will be used to support the organization named above in their efforts to develop export, marketing and investment strategies for El Salvador.

The Mission has been working with three public and one private sector institutions (The Ministry of Economy, the Ministry of Foreign Commerce (MICE) the Pre-Investment Study Fund (FOSEP) in the Ministry of Planning, the BCR and Salvadoran Export Committee (COEXPORT) involved in export and investment development, foreign exchange control and budgeting, and and related areas, to determine what their plans and strategies are and how those institutions can be helped, particularly in bringing about policy or planning changes or initiatives consonant with the Mission's CBI strategy. Training has already been requested from all four institutions and technical assistance needs are being assessed. Preliminary indications are that there may be some material support requirements from MICE, separate and apart from those discussed under the following element.

iii) Marketing and Investment Information and Promotion System

Preliminary meetings have been held with the Ministry of Foreign Relations and MICE personnel to discuss the establishment of Commercial Attaches offices in Salvadoran consulates throughout the U.S. The Commercial Attache would serve as liaison and information links between Salvadoran exporters and the U.S., and potential investors in the U.S. and El Salvador. While the element as well as the others in this Project are in very preliminary stages, indications are that some form of communications system tied in perhaps with computer systems here and in the states will be required. Commercial officers in the U.S. would use either in-house or build systems to keep them up to date on marketing trends in the U.S. or to answer specific questions from would be exporters in El Salvador. The same system would be used in reverse for investment inquiries. Commercial Officers would work in MICE to develop investment information in El Salvador and to answer importers' questions or direct them to information services in the U.S. or elsewhere, if need be. Results achieved under this particular component will of course, be used to complement work going on under the first two components in the Project.

Work in this element will require outside technical assistance (possibly provided in part under the ROCAP Export and Investment Promotion Program), training in tandem with that provided under the LAC Regional Training Initiatives Project, and possibly substantial amounts of material or equipment support, depending on the results of intensive review work.

iv) Research, Analysis and Development

The complexity and scale of the export and investment system together with the structure of the private sector and its problems are such that analytic work leading up to the CBI Implementation Plan and even the Private Sector Study of December 1981 have only scratched the surface. Much remains to be done in identifying specific constraints or developing strategies in such areas as credit demand and supply, guaranty systems resolution of problems with the labor laws, the feasibility of using a trading company approach, improvement of the Commercial Reforms, and ways to monetize Agrarian Reform bonds, to name a few. This element of the Project will provide financial support to resolve identified problems affecting the private sector in those instances where resources available under complementatry programs, especially the Reform and Policy Planning Project, are insufficient.

Since essentially no Project development has been done, Project cost estimates are of necessity very tentative. The following is an illustrative budget for the Trade and Investment Development Grant Project.

		($000)
a)	Intersectoral Coordination	500
b)	Institutional Support	2,500
c)	Marketing and Investment Information System	2,000
d)	Research, Analysis and Development	1,000
	Project Total	6,000

d) Program Development and Support Funds. The Mission expects to submit PID's on the Private Sector Organization, Industrial Recovery and Trade and investment Development Projects sometime in the first quarter of FY 1983. At the same time, if not sooner, a PAAD will be prepared requesting authorization of another cash transfer Program together with a follow-on CIP. Preparation of these documents not to mention the Project Papers and implementation requirements that will follow will necessitate extensive TDY and outside consultant assistance. The Mission has requested that some ESF funds programmed under the CBI be used as Program Development and Support Funds to finance that assistance. In the event that that proves to be unfeasible, the Mission would plan to request a substantial increase in the FY 1983 PD and S budget for Selected Development Activities to cover the funding requirement.

2) Other Institutions

a) LAC Bureau Regional Training Initiatives Project. This complementary training Project will be used over the next fiscal year to train a small number of public sector employees in institutions such as the Ministry of Foreign Commerce and the Ministry of Planning which deal with the private sector and more importantly, with export and investment promotion. Specific training in the first year will concentrate on the subjects of marketing analysis and research export promotion and pre-investment feasibility studies. Subjects to be taught in subsequent years will depend on future requests submitted by public and private sector entities.

b) ROCAP Export and Investment Promotion Program. This Regional Program is being designed to complement the BLADEX balance of payments support Project mentioned earlier. Consultant work and some training provided under this Program will complement marketing research and development efforts contemplated under other Projects listed in the Mission's action plan.

c) Overseas Private Investment corporation (OPIC)/Export-Import Bank (EXIM). The Mission will continue lobbying with OPIC and EXIM to expand ongoing or initiate new guaranty programs which would provide short-term, high value coverage on import and foreign trade transaction in El Salvador.

d) The Department of State. The Department of State has been negotiating a Bilateral Investment Treaty (BIT) with the Ministry of Foreign Relations for some time and expects to have a Treaty signed sometime in August.

e) The Department of Commerce. The Mission has already used the Department of Commerce's Caribbean Basin Information Center in preparing this Plan. The DOC is planning to expand its information base on El Salvador and the Mission will put MICE in contact with the USDOC as part of the development of the Trade and Investment Development Project.

f) The Department of Agriculture. The Mission together with other Embassy Offices will work the USDA to improve upon vegetable and animal export product processing procedures in El Salvador, which will help to reduce import rejection rates of those goods shipped from El Salvador. USDA Training on this subject will be financed under the LAC Bureau Training Initiative Project mentioned earlier in this Section.

D. MISSION ROLE IN ACTION PLAN

The Mission's overall role in carrying out the strategy will be to develop and implement at least three more balance of payment Program increments and three Projects related to private sector organization and development, and trade and investment development. In carrying out the CBI Action Plan, the Mission will be designing a series of Projects simultaneously while beginning the implementation of a number of others. The following is a discussion by Project or Program of development steps to be taken in the next few months. Scheduling of consultant assistance has been made so as to make maximum use of SDA PD and S funds in FY 82. This will require significant coordinating assistance from AID/W and maximum use of the IQC contracting approach, in addition to TDY field assistance from AID/W. To the extent that the Mission is unable to contract (obligate) the services described below in FY 82, or the funds do not suffice, we ask priority consideration in allocation of additional PD and S funds in early FY 83 (late October at the latest).

LAC Bureau - Regional Training Initiatives Project No. 598-0622

1. Mission sends eligible course request cable to AID/W - July 19
2. AID/W responds affirmatively. July 30
3. Mission works out details with participating institutions and signs PIO/P's. Mid-to-late September.
4. Training takes place October 1982 - March 1983.

Reform and Policy Planning Project No. 519-0260

1. Mission signs Project Agreement Amendment late August 1982.
2. Consultants carry out research for use of Project funds in conjunction with PID and PP development of the Private Sector Organization Project and the Trade and Investment Development Project.

Private Sector Support Program-Project No. 519-0267

1. Mission hires consultant for initial research in credit demand and supply situation. Late July or early August.
2. Mission develops PAAD Supplement for approximately $100 million to be disbursed partly as a Cash Transfer and partly on a CIP using AID/W TDY assistance. Mid August to early September.

3. PAAD Supplement submitted to AID/W early September.
4. PAAD approved and Project Agreement Amendment signed mid-to late September.

Consultant requirement:	Credit specialist, four weeks	$ 10,000
AID/W TDY costs:		$ 2,500

Private Sector Organization Project No. 519-0286

1. Mission contracts consultants in organization and management, economic planning and business communications to work with private sector groups in development of PID. Mid August-mid September.
2. PID submitted to AID/W late September.
3. PID approved for intensive review late September.
4. Mission brings back consultants for PP development (or some contract obligated in August). Early-late October.
5. Mission develops PP with AID/W TDY assistance. Early October-mid November.
6. Mission submits PP to AID/W late November.
7. PP approved by AID/W late November.
8. Project Agreement signed. Mid-December.

Consultant requirement:	Organization and Management specialist	$ 20,000
	Planning specialist	$ 20,000
	Communication expert	$ 20,000
AID/W TDY costs:		$ 5,000

Industrial Recovery Program-Project No. 519-0276

1. Mission contracts consultant assistance in the areas of project financing, analysis, organization and management, and training for possible beneficiary organizations and for individuals.
• Late August - late October.
2. PID submitted to AID/W. Mid-late November.
3. PID approved by AID/W late November-early December.
4. Mission brings back consultants for PP development. Early January-mid March.

5. Mission developes PP with AID/W TDY assistance. Early January-late March or early April.
6. PP submitted to AID/W. Early April.
7. PP approved by AID/W. Mid April.
8. Project Agreement signed. Late April-early May.

Consultant requirement (assumes all FY 82 PD and S money used):

	Organization and Management specialist	$ 30,000
	Project financing expert	$ 30,000
	Training specialist (for in-and-out of country)	$ 30,000
AID/W TDY costs:		$ 5,000

Trade and Investment Development Project No. 519-0287

1. Mission contracts consultant assistance in the areas of organization and management, export and investment promotion, market research and analysis, systems analysis, training and program planning for PID development. Late September-early/mid November.
2. PID submitted to AID/W. Mid-January.
3. PID approved by AID/W. Late January.
4. Consultants return for intensive review work. Early February-late March.
5. Mission completes PP and submits to AID/W. Mid/late April.
6. PP approved by AID/W. Late April-early May.
7. Project Agreement signed. Mid May.

Consultant requirement:	Organization and Management	$ 30,000
	Expert and investment promotion	$ 30,000
	Market, research and analysis	30,000
	System analysis	$ 30,000
	Training	$ 20,000
	Program planning	$ 30,000
AID/W TDY costs:		$ 10,000

Total consultant costs - Project Development	\$330,000
Total AID/W TDY costs Project Development	\$ 23,500

The Mission will also avail itself of ROCAP TDY assistance when required.

ANNEX 1

PRIVATE FIXED CAPITAL FORMATION

U.S. $ Million-Constant Prices

	1978	1979	1980	1981	Percentage Changes Real Terms 1978/81
CAPITAL GOODS	151.6	93.4	56.7	43.8	-71.1
Agriculture	12.0	6.2	4.6	3.9	-67.5
Commerce	3.9	2.6	1.3	1.1	-71.8
Manufacturing	56.4	32.3	20.5	15.1	-73.2
Services	5.7	4.6	1.3	2.5	-56.1
Construction	10.1	6.8	3.8	3.2	-68.3
Transp. Storage & Commerce	59.9	38.8	23.0	16.5	-72.4
Finance	0.3	0.3	0.2	0.2	-33.3
Other	2.9	1.9	1.1	1.2	-58.6
CONSTRUCTION	54.1	47.3	16.7	12.9	-76.2
Houses	42.9	36.0	12.8	9.8	-77.2
Industrial	0.2	0.1	0.1	0.0	-100.0
Commerce or Servcs.	8.5	8.8	3.1	2.4	76.8
Other	2.5	2.3	0.8	0.6	-76.0
TOTAL PRIVATE FIXED FORMATION	205.7	140.7	73.5	56.7	-72.0

GDP

ANNEX 2

PERCENTAGE STRUCTURE-CURRENT PRICES

	1978	1979	1980	1981
Consumption	83.0	81.2	90.3	96.2
Private	70.4	68.4	75.4	81.1
Public	12.6	12.8	14.9	15.1
Fixed Capital Formation	23.2	18.1	13.8	12.0
Private Fixed Capital	16.3	11.4	6.8	6.2
Public Fixed Capital	6.9	6.8	7.0	5.8
Inventory Changes	2.4	-2.4	-2.0	-0.5
Exports of Goods & Servcs.	31.8	39.7	31.8	27.6
Imports of Goods & Servcs.	-39.6	-36.6	-33.9	-35.3
G D P	100.0	100.0	100.0	100.0
Agriculture	27.4	30.0	26.6	25.8
Commerce	23.8	23.2	23.8	23.4
Manufacturing	15.7	15.2	15.3	14.5
Public Administration	9.1	8.8	10.4	11.2
Personal Services	6.4	6.1	6.6	6.5
Transport, Storage & Comm,	3.4	3.3	3.6	3.9
Public Construction	2.6	2.0	2.6	2.7
Private Construction	2.4	2.3	0.7	0.8
Other Value Added	5.4	5.7	6.7	7.7

SOURCE: Central Reserve Bank of El Salvador

ANNEX 3

FOREIGN INVESTMENT TRENDS

(000 U.S. Dollars)

Current Prices

	Accumulated through 1970	%	1971-1975	%	1976-1981	%	Total	%
Agriculture	60.7	.1	470.1	1.5	142.8	.2	673.6	.5
Fishing	56.4	.1	267.9	.8	299	.4	623.3	.4
Mining (non-ferrous)			1,045.8	3.3	272	.4	1,317.8	.9
Quarrying					17.4	.0	17.4	.0
Livestock	99.9	.2			20.0	.0	119.9	.1
Dairy Products	198.2	.4	76.9	.2	(1,028)	(1.4)	(752.9)	(.5)
Fruit and veg. Processing	68.0	.2	56.6	.2			124.6	.1
Oils, fats			200.9	.6			200.9	.1
Milling	1,280.0	2.9	306.0	1.0	(799.7)	(1.1)	786.3	.6
Cacao, chocolate, candy	277.4	.6	3.2	.0	40		320.6	.2
Diverse food processing	60	.1	120	.4	180	0	360.0	.3
Tobacco	3,320	7.5	70	.2	1,562.2	2.1	4,952.2	3.6
Thread, cloth, textiles	3,614	8.2	7,572.6	23.9	10,074.0	13.9	21,260.6	15.3
Ropes					218.8	.3	218.8	.2
Clothing			476.9	1.5	884.9	1.2	1,361.8	1.0
Tanning			195.0	.6	(183.0)	(.3)	12.0	.0
eather products					20.0	.0	20.0	.0
hoes			310.0	1.0	465.0	.6	775.0	.6
dboard Containers	1,094.4	2.5			245.0	.3	1,339.4	1.0
Pulp, paper & Cardboard	904.4	2.0	450	1.4	3,327.1	4.6	4,681.5	3.4
Printing	275.2	.6	198.0	.6	79.6	.1	552.8	.4
Chems. exc. fertilizers	55.1	.1			80.0	.1	135.1	.1
Fertilizers, insectic.	6,908.0	15.6	111.8	.4	40.0	.0	7,059.8	5.1
Resins, plastics					230.0	.3	230.0	.2
Paints, varnishes	97.8	.2			931.6	1.2	1,029.4	.7
Pharmaceuticals, medicines	693.6	1.6	90	.3	460.3	.6	1,243.9	.9
Soaps, cosmetics	727.8	1.6	260	.8	211.8	.3	1,199.6	.9
Chemical products	50	.1	145				195.0	.1
Petroleum refinery	3,921	8.8	1,439.6	.5	1,309.7	1.8	6,670.3	4.8
Tires	40	.0	307	1.0			347.0	.2
Rubber products	50	.1			(200.0)	(.3)	(150.0)	(.1)
Plastic products	257	.6	444.5	1.4	318.8	.4	1,020.3	.7
Cement	203.9	.5			(74.7)	(.1)	129.2	.1
Non-metallic, min prod.	329.3	.7	441.3	1.4	1,132.4	1.6	1,903.0	1.4
Steel Products			200.9	.6			200.9	.1
Knives, tools, hdwe.	450.7	1.0	348.4	1.1			799.1	.6
Structural metal	30.0	.0			2,559.0	3.5	2,589.0	1.9
Metal Prod. exc. mach.	741.7	1.7	154.9	.5	(212.0)	(.3)	684.6	.5
Ag. Mach. & Equip.					160.0	.2	160.0	.1
Ind. Mach. & Equip.					79.6	.1	79.6	.1
Office equipment					4,734.1	6.5	4,734.1	3.4
Mach. and equipment	664.8	1.5			32.8	.0	697.6	.5
lectronic equipment	405.1	.9	269.7	.9	1,256.1	1.7	1,930.9	1.4
Home appliances			556.4	1.8	1,280.4	1.7	1,836.8	1.3
ctric Machinery	1,955.1	4.4	803.3	2.5	2,859.4	3.9	5,617.8	4.0

	Accumulated through 1970	%	1971-1975	%	1976-1981	%	Total	%
Vehicles	200	.4			15	.0	215.0	.1
Control instruments			244.0	.8			244.0	.2
Photographic & Optical	134.8	.3			597.5	.8	732.3	.5
Mfg. NEI	49	.1	75.0	.2	134.6	.2	258.6	.2
Lights and electricity	4	.0	533.0	1.7	8,647.9	11.9	9,184.9	6.6
Prod. & Distrib. of gas	609.4	1.4	2,294.1	7.2	1,798.6	2.5	4,702.1	3.4
Construction	51.6	.1	338.7	1.1	132	.2	522.3	.4
Wholesaling	7,956.7	18.0	4,694.1	14.8	15,219.3	20.9	27,870.1	20.0
Retailing	538.2	1.2	1,643.3	5.2			2,181.5	1.6
Restaurants			57	.2			57.0	.0
Hotels	884.3	2.0	(127.9)	(.4)	100	.1	856.4	.6
Transportation	635.4	1.4			80.4	.1	715.8	.5
Warehousing	103.0	.2	13.0	.0	250.0	.3	366.0	.3
Financial inst.	2,612.8	5.9	1,600.0	5.0	3,598.8	4.9	7,811.6	5.6
Other finan. inst.	456.2	1.0	114.3	.4	51.7	.0	622.2	.4
Insurance	160.0	.4	60.0	.2	880.0	1.2	1,100.0	.8
Real Estate	717.9	1.6	934.8	3.0	438.8	.6	2,091.5	1.5
Technical Services	90.5	.2					90.5	.1
Renting Equipment			45.	.1			45.0	0.0
Public instruction					20.0	.0	20.0	.0
Radio and Television	108	.2					108.0	.1
Total	44,201.3	100.0	29,918.1	100.0	64,991.0	100.0	139,110.4	100.0

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982

ANNEX 4

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
1003100	BIRDS, LIVE, NSPF, VALUED-------	30	6	24	0	
1007500	HORSES LIVE, NT FOR SLGHTR------	3	2	1	0	
1009580	ANIMALS, LIVE NSPF--------------	24	0	18	0	
1061060	BEEF, FRESH, CHILLED, OR--------	12,879	5,496	339	0	
1111500	SHARK FINS NOT OTHERWSE PREP----	2	8	1	0	
1144515	LOBSTERS, IN AIRTIGHT-----------	0	0	364	0	
1144525	ROCK LOBSTER TAILS, NOT IN------	70	105	265	0	
1144530	LOBSTERS, NES, NOT IN-----------	139	208	866	0	
1144545	SHRIMPS AND PRAWNS,-------------	13,417	15,282	19,860	0	
1144557	SHRIMP, PEELED, RAW, NOT IN-----	5,948	2,761	972	0	
1144562	SHRIMPS AND PRAWNS NOT IN-------	124	96	10	0	
1144590	SHELLFISH, INCLUDING PASTES-----	1	250	1,000	0	
1178845	CHEESE SUBSTITUTES MADE FROM G--	0	0	5	0	
1178855	CHEESE, SUBSTITUTES NSPF, OVER--	0	10	35	0	
1178875	CHEESES AND SUBSTITUTES,--------	0	30	4	0	
1258400	LIVE PLANTS SUITABLE FOR--------	0	23	21	0	
1270100	GRASS SEEDS AND OTHER FORAGE----	0	0	1	0	
1271000	GARDEN AND FIELD SEEDS EXCP-----	4	4	4	0	
1368000	OKRA, FRESH, CHILLED, OR--------	0	0	162	0	
1380580	OKRA, FROZEN, CUT, SLICED,------	604	845	522	0	
1384250	VEGETABLES,NSPF,FROZEN,CUT,SLI--	0	0	1/	0	
1450200	COCONUT MEAT, EXCEPT COPRA,-----	206	215	160	0	
1491500	PLANTAINS, PREPARED OR----------	0	0	1	0	
1552045	CANE OR BEET SUGARS, SIRUPS,----	27,290	21,446	13,406	0	
1557000	HONEY---------------------------	286	36	379	0	
1571020	CANDY & OTHER CONFECTIONERY-----	0	4	19	0	
1601020	COFFEE, CRUDE-------------------	212,821	261,293	123,549	0	
1601040	COFFEE ROASTED OR GROUND--------	6,779	174	178	0	
1602000	COFFEE, SOLUBLE OR INSTANT,-----	4,367	2,781	2,692	0	
1611100	CARDAMON------------------------	0	0	22	0	
1621500	MIXED SPICES,SPICE SEEDS,-------	0	0	32	0	
1705000	TOBACCO STEMS,NOT CUT GROUND----	4	0	6	0	
1706040	SCRAP TOBACCO EXCEPT CIGAR------	485	1/	175	0	
1706400	CIGARETTES, NSPF----------------	0	1/	2	0	
1706500	CIGARETTES,NOT CONTAINING CLOV--	0	0	2	0	
1707275	CIGARS AND CHEROOTS, LESS-------	0	1	1	0	
1707285	CIGARS AND CHEROOTS, LESS-------	0	0	3	0	
1708045	TOBACCO, EXCEPT SMOKING TOB,----	0	0	944	0	
1754500	SESAME SEED---------------------	515	529	448	0	

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
1822000	BISCUITS,CAKE, WAFERS, SIMLR----	3	0	2	0	
1830500	EDIBLE PREPS NSPF CONTAINING----	0	1	2	0	
1845200	SOYBEAN AND COTTONSEED OIL CAK--	0	0	1,077	0	
1882400	OTHER BALSAMS NSPF, NATURAL-----	1,375	1,492	1,085	0	
1883870	OTHER GUMS, GUM RESINS AND------	0	4	42	0	
1904500	FISH OR SHELLFISH, LIVE, FOR----	0	0	473	0	
2063040	WOOD DOORS, EXCEPT FLUSH,-------	0	41	22	0	
2070020	WOOD CARVING, NSPF--------------	2	2	5	0	
2070030	ARTICLES OF WOOD, NSPF----------	12	14	3	0	
2224200	BASKETS AND BAGS, OF RATTAN-----	7	11	17	0	
2224400	BSKTS AND BAGS OF UNSPUN--------	11	18	3	0	
2226000	ARTICLES NES,OF BAMBOO----------	0	0	1/	0	
2565220	SANITARY FOOD & BEV CONTRS,-----	4	0	35	0	
2565240	BOXES, PAPER, PAPERBD, MACH-----	0	81	106	0	
2565440	BOXES, PAPER, PAPERBOARD AND----	0	4	15	0	
2565600	BOUND BLANK BOOKS, DIARIES,-----	1	2	6	0	
2700500	PRINTED MATTR BY LITERARY OR----	0	0	1	0	
2702540	BOOKS EXCEPT BIBLES ETC.--------	0	0	1/	0	
2702580	BOOKS, NOT SPECIALLY------------	9	0	1	0	
2708500	PRINTED CATALOGS,PRICE LISTS----	0	0	1/	0	
2744000	STAMPS,POSTAGE AND REVENUE,-----	1	1	1/	0	
2744500	X-RAY FILM, EXPOSED, WHETHER----	3	13	4	0	
2747040	PHOTOS,ENGRVGS,ETC,NSPF,NOT-----	6	3	14	0	
2747560	LITHOGRAPHIC PRINTED MATTER-----	3	0	1/	0	
2749040	PRINTED MATTER, NSPF------------	0	1	7	0	
3013000	YARN WH COT NOT BLEACHED--------	964	988	1,270	0	
3022026	YARN WH COTTON BLEACHED---------	0	0	8	0	
3202092	FABRIC NES WH COT NOT FAN OR----	276	271	138	0	
3472500	RIBBON FABRICS OF---------------	0	0	1	0	
3476040	OTHER RIBBON MAN MADE FIBER-----	0	0	7	0	
3520010	COTTON NETTING IN THE PIECE-----	0	0	1/	0	
3520095	NETTING IN THE PIECE OTHER,-----	0	0	1/	0	
3603300	MAN-MADE FIB FLOOR COVERINGS----	0	0	2	0	
3630120	COTTON PILLOWCASES ORN ETC------	0	0	1/	0	
3657817	COTTON TOWELS AND WASHCLOTHS----	1	0	1/	0	
3662440	COT DISH TOWELS PILE OR TUFT----	0	0	1/	0	
3662460	COTTON TOWELS NES TERRY O-------	3,191	2,841	3,656	0	
3662480	COT TOWELS PILE OR TUFTED-------	1,627	1,642	1,167	0	
3666000	COTTON FURNISHINGS NES----------	41	52	28	0	

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador,
1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
3666500	COTTON TERRY CLTH FURNISHING----	41	4	6	0	0
3673424	OTH WOOL FURNISHINGS NSPF NOT---	0	0	1/	0	0
3743550	OTHER MANMADE FIBER WGI LACE----	0	0	1	0	0
3744000	OTH HOSIERY, NOT ORNAMENTED,----	0	0	1	0	0
3762430	BRASSIERES MAN-MADE FIBER--------	3,311	1,441	1,223	0	0
3762830	BRASSIERES MAN-MADE FIBER--------	1,199	1,805	845	0	0
3786015	MENS AND BOYS BRIEFS DRAWER-----	0	0	1/	0	0
3800029	MENS AND BOYS COTTON KNIT--------	115	316	107	0	0
3800461	MENS AND BOYS ORN SPORT---------	0	0	7	0	0
3800640	MENS AND BOYS COTTON KNIT--------	42	66	10	0	0
3800652	MENS AND BOYS COTTON KNIT--------	1,698	1,447	1,527	0	0
3801840	MENS OR BOYS COT NK DRESSING----	422	108	84	0	0
3803915	MENS A BOYS COTTON NIGHTWEAR----	0	0	3	0	0
3803924	MENS OTHER TROUSERS A SLACKS----	333	0	9	0	0
3803939	MENS AND BOYS COTTON WEARING----	0	152	32	0	0
3806630	MENS OR BOYS WOOL DRESSING-------	0	0	1	0	0
3808443	MENS A BOYS OTH MANMADE FIB------	0	0	58	0	0
3820005	WOMEN KNIT BLOUSES COTTON--------	21	0	1/	0	0
3820012	WOMENS COTTON DRESSES------------	0	0	1	0	0
3820014	GIRLS A INFANTS COTTON-----------	0	0	1	0	0
3820039	WOMENS COTTON BLOUSES NOT--------	143	56	161	0	0
3820055	WOMEN GIRL INFANT OTHER----------	2	1	1	0	0
3820057	WOMENS COTTON DRESSES NT KNT----	81	12	2	0	0
3820059	INFANTS DRESSES NOT KNIT---------	0	7	22	0	0
3820070	WOMEN GIRL INFANT ROBES ETC------	0	0	1	0	0
3820080	WOMENS COTTON SKIRTS NOT---------	1	0	15	0	0
3820096	WOMENS GIRLS INFANTS COTTON------	11	1/	1/	0	0
3820413	WOMENS KNIT DRESSES MANMADE------	834	79	14	0	0
3820437	WOMENS GIRLS A INFANTS KNIT------	31	7	13	0	0
3820447	WOMENS GIRLS A INFANTS KNIT------	529	77	13	0	0
3820459	WOMEN'S BLOUSES NOT KNIT---------	909	2,369	3,282	0	0
3820478	WOMENS GIRLS OR INFANTS----------	134	16	2	0	0
3820488	WOMEN GIRL INFANT OTHER ORN------	110	0	1	0	0
3820660	OTHER WOMENS GIRLS INFANTS-------	41	0	16	0	0
3820669	OTHER WOMENS SHIRTS COTTON-------	31	0	17	0	0
3820671	OTHER GIRL AN INFANTS COTTON----	105	94	31	0	0
3821223	WOMENS OTHER COTTON COATS--------	0	20	53	0	0
3821820	WOMENS GIRLS OR INFANTS COT-----	0	0	3	0	0
3821870	WOMENS GIRLS OR INFANTS COT-----	23	31	48	0	0

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
3823309	WOMENS OTH COTTON BLOUSES-------	170	29	19	0	0
3823325	WOMENS GIRLS AND INFANTS OTH----	227	16	2	0	0
3823347	WOMEN OTHER COTTON TROUSERS-----	379	126	29	0	0
3823361	WOMENS COTTON TROUSERS----------	379	12	1	0	0
3823396	WOMENS GIRLS INFANTS COTTON-----	72	5	32	0	0
3827837	WOMENS GIRLS & INFANTS PANTY----	0	15	7	0	0
3827866	WOMENS KNIT SUITS MAN-MADE-------	185	26	1	0	0
3827895	OTHER WOMEN GIRL INFANT KNIT----	5	0	2	0	0
3828137	WOMEN MAN-MADE FIBER BLOUSES----	3,217	992	1,514	0	0
3828163	WOMENS OTHER MAN-MADE FIBER-----	2,425	219	4	0	0
3828167	WOMENS MAN-MADE FIB COV-ALLS----	35	0	8	0	0
3828174	WOMENS OTHER MAN-MADE FIBER-----	947	52	1	0	0
3828187	WOMENS GIRLS AND INFANTS MAN----	862	5	4	0	0
3855000	BAGS, SACKS ETC VEG FIB EXC----	0	0	4	0	0
3860430	COTTON LACE OR NET ARTICLES-----	9	9	14	0	0
3860960	OTHER LACE OR NET ARTICLES-------	0	0	4	0	0
3861000	OTHER ARTICLES NOT ORN NSPF-----	2	3	1	0	0
3863000	COT ARTICLES NSPF VELVETEEN-----	0	0	1/	0	0
3865040	OTHER COTTON ARTICLES NSPF-------	24	28	48	0	0
3873200	OTHER ARTICLES OF JUTE, NOT-----	0	0	1/	0	0
3873500	OTHER ARTICLES VEGE FIBER NOT---	0	0	1/	0	0
4044600	CARBOXYLIC ACIDS W/ALCOHOL A----	0	0	4	0	0
4502040	OTHER FLAVORING EXTRACTS ETC----	0	0	1	0	0
4528042	OILS, DISTILLED OR ESSENTIA-----	0	0	13	0	0
4750535	HEAVY FUEL OILS UN 25 DEG-------	0	0	13	0	0
5323100	CERAMIC TILES, EXCEPT FLOOR-----	0	0	1	0	0
5336400	CHINAWARE NONBONE HHOLD SPEC----	0	0	1/	0	0
5348100	EARTHENWARE OR STONEWARE,FG,----	1/	0	1	0	0
5348400	EARTHENWARE OR STONEWARE,FG-----	0	2	1	0	0
5348700	EARTHENWARE OR STONEWARE, FG----	2	3	1	0	0
5349400	OUSEHOLD ARTICLES, NSPF OF------	0	0	1	0	0
6015400	TUNGSTEN ORE---------------------	0	0	34	0	0
6052020	GOLD BULLION, REFINED-----------	146	126	60	0	0
6057020	GOLD SWEEPINGS AND GOLD WSTE----	0	75	110	0	0
6057040	SILVER SWEEPINGS AND WASTE------	10	35	8	0	0
6057060	PRECIOUS-METAL SWEEPINGS AND----	1	4	2	0	0
6060700	IRON A STEEL WASTE SCRAP NOT----	0	843	300	0	0
6121020	COPPER WASTE AND SCRAP,---------	0	446	184	0	0
6121040	BRASS WASTE AND SCRAP-----------	2	52	57	0	0

26FEB82:18:38	All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
6121060	COPPER WASTE A SCRAP ALLOYED----	10	127	73	0	(
6403050	CONTAINERS EXCPT PRESSURE-------	5	1	10	0	(
6442600	ALUMINUM FOIL CUT TO SHAPE------	0	0	20	0	(
6465500	NUTS OF IRON OR STEEL,----------	0	0	16	0	(
6466040	SCREWS OF IRON OR STEEL WITH----	1	0	1/	0	(
6485300	PICKS AND MATTOCKS AND----------	13	26	23	0	(
6486500	MACHETES AND PARTS--------------	103	236	156	0	(
6486700	AXES,ADZES,HATCHETS,ASIMILAR----	41	159	21	0	(
6501700	KNIVES WITH HANDLES OF----------	1	15	1	0	(
6502160	KNIVES WITH THEIR HANDLES-------	1	1	2	0	(
6514760	IRON OR STEEL HAND TOOLS--------	0	5	13	0	(
6533950	PARTS OF ILLUMINATING-----------	0	0	1/	0	(
6540300	BRASS HOUSEHOLD AND SANITARY----	0	0	2	0	(
6540535	COPPER HOUSEHOLD AND SANITRY----	0	0	1/	0	(
6540900	ALUM COOK WARE, EX CAST, NOT----	0	19	46	0	(
6573540	ARTICLES OF COPPER N COATED-----	4	8	1	0	(
6577500	LEAD ARTICLES NSPF NOT PREC-----	0	0	32	0	(
6605630	PISTON-TYPE ENGINES, NES--------	0	0	5	0	(
6606718	PARTS EXC CONNECTING RODS &-----	0	0	1	0	(
6609200	FUEL INJECTION PUMPS FOR--------	0	0	1	0	(
6616800	OTHER INDUST MACH ETC,& PTS-----	0	0	2	0	(
6623020	WEIGHING MACHINES EXCEPT--------	0	0	1/	0	(
6707410	PTS OF TEXT MAC F PRODUCING-----	1/	1	2	0	(
6743526	GRIND & POLISH, MIL-CUT MACH----	0	0	2	0	(
6743583	METAL FORMING MACHINE TOOLS,----	0	0	1	0	(
6760540	TYPEWRITERS, NON-AUTOMATIC,-----	0	3	4	0	(
6762011	ELECTRONIC CALCULATING MCHS-----	6,096	7,113	4	0	(
6762017	ELECTRNC CALCS OTH THAN HAND----	0	1	11	0	(
6762019	CALCULATING MACH SPECIALLY------	5	29	1	0	(
6765210	PARTS OF CALCULATING MACH;I-----	9	3	69	0	(
6765230	PARTS OF AUTOMATIC DATA---------	5,169	4,227	1,014	0	(
6765270	PARTS OF OFFICE MACHINES,-------	1/	6	3	0	(
6813900	MACHINERY PARTS NOT CON---------	0	0	2	0	(
6826050	RECTIFIERS AND RECTIFYING-------	0	1/	1	0	(
6836090	ELECTRICAL STARTING & IGNIT-----	0	0	1/	0	(
6839550	SOLDERING IRONS AND GUNS &------	0	0	2	0	(
6846210	TELEPHONE SWITCHING AND---------	0	0	1	0	(
6858010	FIXED CAPACITORS, TANTALUM------	0	1	9	0	(
6858018	FIXED CAPACITORS, CERAMIC,------	0	15,622	15,895	0	(

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)--	
					1981	1982
6858040	ELECTRICAL CAPACITORS,----------	0	0	3	0	
6859006	CIRCUIT BREAKERS, EXC MOLDE-----	0	0	2	0	
6859054	CONNECTORS, NSPF----------------	1	93	52	0	
6859055	PRINTED CIRCUIT BOARDS----------	25	6	2	0	
6859030	OTHER ELEC APPAR FOR MAKING-----	19	22	10	0	
6861035	RESISTORS, VARIABLE EXCEPT-----	9,422	5,411	473	0	
6861047	IXED RESISTORS, CARBON----------	11	18	2	0	
6861052	FIXED RESISTORS,FILM,NSPF--------	1,006	81	32	0	
6861053	RESISTORS, FIXED, WIREWOUND-----	0	0	1/	0	
6861057	RESISTORS, FIXED, EXCPT FILM----	0	0	.4	0	
6861060	PARTS OF RESISTORS AND----------	1,644	59	96	0	
6861800	AUTM VOLTAGE REG ETC FOR 6,-----	0	23	10	0	
6862400	AUTOMATIC VOLTAGE & VOLTAGE-----	4,417	5,431	1,227	0	
6871010	FLUORESCENT LAMPS, HOT----------	0	0	3	0	
6873010	LIGHT EMITTING DIODES (LED)-----	0	157	464	0	
6873030	ELECTRIC LUMINESCENT------------	0	0	5	0	
6875810	ELECTRONIC RECEIVING------------	0	0	5	0	
6875813	ELECTRONIC TUBES EX CATHODE-----	0	6	5	0	
6875827	TRANSISTORS WITH DISSIPATION----	0	260	22	0	
6875331	MONOLITHIC INTEGRATED-----------	0	16	48	0	
		0	1,676	208	0	
6875833	BIPOLAR MONOLITHIC--------------	0	1/	1	0	
6875335	TTL BIPOLAR MONOLITHIC----------	0	20,630	8,823	0	
6875840	BIPOLAR MONOLITHIC--------------	0	6	30	0	
6875842	MOSE RANDOM ACCESS--------------	0	24	24	0	
6875853	INTEGRATED CIRCUITS OTHER T--	0	6	3	0	
6875859	ZENER DIODES--------------------	0	0	1	0	
6875870	OTHER SEMICONDUCTORS EXCEPT-----	0	881	407	0	
6875381	CHIPS, DICE, AND WAFERS, AS-----	0	1/	1/	0	
6876567	DIODES AND RECTIFIERS-----------	0	0	1/	0	
6877027	TRANSISTORS WITH DISSIPATION----	0	0	2	0	
6877523	ELECTRONIC TUBES, NES-----------	0	0	25	0	
6877531	MONOLITHIC INTEGRATED-----------	0	0	4,709	0	
6877533	BIPOLAR MONOLITHIC--------------	0	0	3	0	
6877535	TTL BIPOLAR MONOLITHIC----------	0	0	29,074	0	
6877538	ECL BIPOLAR MONOLITHIC----------	0	0	4	0	
6877542	MOSE RANDOM ACCESS--------------	0	0	17	0	
6877544	MOS MEMORIES, EXCEPT------------	0	0	6	0	
6877553	INTEGRATED CIRCUITS OTHER T--	0	0	68	0	
6877568	MOUNTED PIEZO-ELECTRIC----------	0	0	3	0	

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
6877583	PARTS OF SEMICONDUCTORS,---------	0	0	6	0	0
6877586	PHOTOCLS,CRSTLS ETC A PTS EX S--	0	0	385	0	0
6877587	ELECTRONIC CRYSTAL COMPONENT N--	0	0	1,038	0	0
6923288	PARTS NSPF OF MOTOR VEHICLE-----	0	0	1/	0	0
6923510	TRACK-LAYING TRACTORS-----------	0	0	4	0	0
6946200	PARTS, NSPF, CERTIFIED FOR USE--	0	0	5	0	
7003527	FOOTWEAR, LEATHER, FOR WORK,-----	258	0	1/	0	0
7003550	FOOTWEAR, LEATHER, NES, FOR-----	1/	4	1	0	0
7003575	FOOTWEAR, LEATHER UPPERS,--------	8	1	10	0	0
7003580	FOOTWEAR, LEATHER UPPERS,--------	1	0	1	0	0
7004510	FTWEAR, LEATHER, NES, CASUAL----	7	0	1	0	0
7004540	FOOTWEAR, LEATHER, CEMENT-------	2	8	1/	0	0
7004560	FOOTWEAR, LEATHER, FOR WOMEN----	21	2	1	0	0
7005348	FOOTWEAR, EXCEPT SOFT SOLE,------	21	8	10	0	0
7023720	HEADWEAR NO CAP PALMLEAF--------	4	7	4	0	0
7043220	GLOVES LACE OR NET A OTH ORN----	1,832	1,581	479	0	0
7046500	WOOL GLOVES NOT LACED OR---------	65	88	99	0	0
7048520	GLOVES MAN-MADE FIB KNT FROM----	352	0	1	0	0
7058300	GLOVES, RUBBER OR PLASTIC,------	0	4	1	0	0
7060400	BILLFOLDS, LETTER CASES AND-----	0	0	1	0	0
7061320	LUGGAGE, BAGS, AND CASES NES----	0	0	2	0	0
7062045	LUGGAGE H-BAGS A F-GOODS TEX----	0	0	1	0	0
7062806	OTHER COTTON HANDBAGS NSPF------	0	0	9	0	0
7066045	BILLFOLDS, LETTER CASES AND-----	0	0	1	0	0
7090600	ANESTHETIC APPARATUS AND--------	12	30	4	0	0
7090920	RUBBER CATHETERS----------------	0	0	33	0	0
7090940	BOUGIES, CATHETERS NES,---------	418	288	236	0	0
7091770	ELECTRO-MEDICAL APPARATUS--------	43	16	3	0	0
7092700	MEDICAL AND SURGICAL------------	28	339	494	0	0
7094500	OXYGEN THERAPY ETC APPARATUS----	1,797	2,046	1,406	0	0
7107200	RULES, NONFOLDING---------------	0	0	2	0	0
7124960	ELECTRICAL POLARIMETERS, GAS----	0	0	1/	0	0
7124980	ELECTRICAL MEASURING, ETC.-------	0	2	3	0	0
7225600	PHOTOGRPHC SPLICERS, EDITORS----	0	0	2	0	0
7241025	FEATURE FILM,EXPOSED,35MM-------	0	1	1/	0	0
7271100	FURNITURE, AND PARTS THEREOF----	0	2	3	0	0
7271200	FURN A PARTS, UNSPUN FIBROUS----	0	8	11	0	[illegible]
7272900	CHAIRS, WOOD, NSPF--------------	0	3	1	0	[illegible]
7273540	FURNITURE OF WOOD NSPF----------	4	1	1/	0	[illegible]

26FEB82:18:38

All items in U.S. imports for consumption from El Salvador, 1979, 1980, 1981, January-(null) 1981, and January-(null) 1982--Continued

(In thousands of dollars; customs value)

TSUSA Number	Description	1979	1980	1981	January-(null)-- 1981	January-(null)-- 1982
7275560	FURNITURE AND PARTS OF----------	4	12	2	0	
7278200	MATTRESSES, PILLOWS, AND--------	0	0	1/	0	
7300500	SWORDS, BAYONETS ETC AND--------	1	0	2	0	
7316500	ARTIFICIAL BAITS AND FLIES------	312	226	313	0	
7342040	GAME MACHINES NES, AND PARTS----	578	654	238	0	
7347780	GOLF EQUIPMENT AND PARTS--------	117	149	7	0	0
7373000	STUFFED TOY ANIMALS, VALUED-----	85	99	18	0	0
7379560	TOY PARTS NSPF------------------	151	127	87	0	0
7401300	OTHER NECKLACES AND NECK--------	0	0	1	0	0
7401400	JEWELRY OF PRECIOUS METALS------	0	0	5	0	0
7403300	JEWELRY ETC AND PARTS NSPF,-----	0	1	1/	0	0
7482100	ARTIFICIAL FLOWERS, FRUIT-------	3	1	1	0	0
7483000	NATURAL PLANTS ETC, DRIED OR----	1/	0	1/	0	0
7651500	SCULPTURES, STATUARY,-----------	0	77	1	0	0
7715500	RUBBER OR NON-CELLULOSE.--------	0	4	4	0	0
7722045	CONTAINERS, NSPF, OF RUBBER-----	510	611	426	0	0
7724200	SPECIFIED DRUGGISTS SUNDRIES----	88	0	36	0	0
7729500	CHRISTMAS TREE ORNAMENTS--------	5	43	52	0	0
7729700	RELIGIOUS ARTICLES OF RUBBER----	54	7	5	0	0
7745030	FOOTWEAR UPPERS, OF RUBBER------	0	535	806	0	0
7745035	PARTS OF FOOTWEAR, EXCEPT-------	0	14	1	0	0
7905530	FILAMENT REINFORCED PRESSURE----	0	0	1	0	0
7912700	CUT SHOE UPPERS OF LEATHER------	0	0	44	0	0
7916000	BELTS AND BUCKLES, LEATHER,-----	0	0	1/	0	0
7916500	BAGS, BASKETS, BOXES, AND-------	17	21	11	0	0
7919000	LEATHER ARTICLES NSPF-----------	14	15	21	0	0
7930000	WASTE AND SCRAP NSPF------------	141	193	132	0	0
8000035	UNITED STATES GOODS-------------	2,255	2,818	2,723	0	0
8062040	VALUE OF REPAIR O ALTERATION----	44	86	55	0	0
9999500	UNDER 251 FORMAL AND------------	175	132	161	0	0
	Total---------------------	350,229	402,999	258,524	0	0
	Total, all items imported from El Salvador----------	443,167	426,383	258,524	0	0

1/ Less than $500.

Source: Compiled from official statistics of the U.S. Department of Commerce.