

UNCLASSIFIED

**AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT**



**EL SALVADOR**

**COUNTRY DEVELOPMENT  
STRATEGY STATEMENT**

**FY 82**

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
WASHINGTON, D.C. 20523

\*\*\*\*\*

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE  
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND  
USED FOR PLANNING PURPOSES IN THE FIELD AND IN  
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY  
POLICY.

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*

\*\*

\*

EL SALVADOR

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1982-1986

USAID EL SALVADOR

FEBRUARY 15, 1980

TABLE OF CONTENTS

Statistical Data Sheet

Overview

PART I	<u>ANALYSIS</u>	1
A.	Analytical Description of the Poor	1
1.	Introduction	1
2.	Income Levels and Distribution	2
3.	Nutritional Status	4
4.	Health Status	5
5.	Educational Status	6
6.	Housing Status	6
B.	Major Constraints to Overcoming Poverty	7
1.	Population Growth	8
2.	The Natural Resource Base	9
a.	Land Utilization	9
b.	Impact on the Poor	11
C.	Economic Structure	14
1.	Introduction	14
a.	Agriculture	14
b.	Industrial Sector	15
c.	Employment	16
2.	Current Situation	18
a.	Balance of Payments	19
b.	Budgetary Resources	21
c.	Employment	22
3.	Prospects over the CDSS Planning Period	23
D.	Progress and Commitment	25
1.	Intent	25
2.	Performance	25
3.	Human Rights	26
4.	Present Prospects	27

PART II	<u>AID ASSISTANCE STRATEGY</u>	29
	A. Summary of the Analysis	29
	B. AID Objectives	29
	C. AID Strategy	30
	1. Employment and Income Generation	31
	a. Small Enterprise Creation and Support	31
	b. Labor Intensive Public Sector Projects	33
	c. Small Farms Production	34
	2. Fertility Reduction	35
	3. Expanding Social Services	36
	a. Nutrition Improvement	36
	b. Health Improvement	38
	c. Basic Education	39
	d. Low Income Housing	41
PART III	<u>ASSISTANCE PLANNING LEVEL</u>	43
	Housing Investment Guarantees	43
	PL 480	44
	Staffing Implications	44



## O V E R V I E W

The attempt to produce a strategy and program for FY 82 to 86, given the imponderables in El Salvador at this time, could be described as either a heroic or foolhardy task. It would in fact be impossible except for the technique of making a series of assumptions and basing our proposed strategy on these assumptions.

Briefly, our assumptions are that by the beginning of the CDSS time period (FY 82) the Government of El Salvador will have survived attacks from both the left and the right successfully and will be pursuing a moderate reformist course, the economy will have begun to turn around (although employment will still be the problem), law and order will be enforced in such a way that human rights will not be violated and people will not be in constant fear for their lives.

There is absolutely no guarantee that these assumptions will turn out to be valid. A variety of changes may occur in the next six months to a year which would prevent the United States from carrying out this proposed program so that major modifications would be required.

In El Salvador, the economic and social problem of the poor is a job -- a decent job -- with sufficient income for each person to support his or her family. The next major requirement of each person is access to government services which have been denied to poor people in the past.

It is clear that El Salvador must export to survive. It is more like Singapore than like its fellow Central American Republics in that sense. If improved policy orientation toward

exports outside the Common Market cannot be agreed upon in the Common Market, El Salvador must pursue this policy on its own. Even the most thorough and equitable land reform will not be sufficient to permit a decent income for the Salvadoran people in the absence of major labor-intensive, export-oriented activities. Once chaos is diminished, this is the economic problem which should receive primary attention.

It would not surprise anyone, I am sure, for us to admit that we have given our highest priority to our current activities in designing our FY 80 program rather than to the preparation of this CDSS. The analysis in this CDSS depends heavily on that of last year's CDSS, since much of it is still relevant, but it has been updated and modified to conform as much as possible with the current and projected situation. The strategy proposed could be carried out and the program would have a major development impact -- if our assumptions are valid.

## PART I ANALYSIS

### A. Analytical Description of the Poor

#### 1. Introduction

A majority of Salvadorans are hungry, illiterate, infested with parasites, malnourished, poorly housed, underemployed, and generally subsist from day to day in an over-crowded country with little opportunity to improve their lot in life. Illiteracy is as high as 70% in some rural areas; for many housing is virtually non-existent; and labor underutilization in the agriculture sector (50%) is the highest in the hemisphere.

In defining the poor, we have used the criteria of per capita income, calorie intake, life expectancy, birth rates, and access to basic health services as set forth in AID's report to the Congress on the implementation of the New Directions. We estimate that one or more of these basic criteria presently applies to 2.7 million people or about three fifths of El Salvador's estimated 1979 population of 4.5 million. Of these, 78% are rural poor while 22% are urban poor. Of the rural poor we estimate that two thirds have some access to land, but as many as 35% belong to a class of rural landless poor. Estimated per capita GNP in constant 1976 dollars had risen from \$560 in 1976 to \$576 in 1978. It decreased, however, to \$565 in 1979. With a population density of 555 per square mile El Salvador is clearly one of the hemisphere's lowest-income, most overcrowded nations.

This analysis focuses primarily on the rural poor. Recent demographic studies show, however, that rural to urban migration, which till now has been relatively minor, will assume major proportions in coming years. It is also apparent that no matter how beneficial agrarian transformation may prove to be, industrialization (and inevitably urbanization) offers the only long range solution to El Salvador's economic woes. Our strategy therefore will address increased attention to the urban sector.

2. Income Levels and Distribution

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

Table 1

Population and Poverty Categories: 1976

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

Per capita disposable income was only \$341 for the entire country. We define the rural and urban poor as follows. The urban poor are those living in units of approximately 2,000 population or more.

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

areas. However, adjusting for higher costs of living in the capital city would undoubtedly increase the relative incidence of poverty there. With rural-to-urban migration this incidence will increase. Secure tenure is usually non-existent in marginal urban settlements (mesones, tugurios and colonias ilegales) that house the poor. There is severe overcrowding -- average family size is over 5 persons and most dwellings have only one room. Illiteracy is about 66% among heads of households and less than 50% of families have adequate waste disposal facilities. Although the incidence of poverty is lower in urban than rural areas, the economic security of the urban poor is often more tenuous than in rural areas.

The rural poor comprised 1,894,000 people, accounting for 77% of the rural population and almost half of the entire population. The per capita household income of this group was \$130, 20% lower than for comparable urban groups. The Agricultural Sector Assessment of 1977 provides an in-depth picture of the distribution of the rural poor based on 1976 farm income estimates. Using a different data base, its estimate of the total number of rural poor was 7.7% higher than that derived from income statistics.

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

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

### 3. Nutritional Status

El Salvador's ranking by the FAO as one of the countries "most seriously affected" by malnutrition is confirmed by the GOES national nutrition surveillance system. At the end of 1978 the system showed that:

- 21.5% of children examined in first consultations in Ministry of Health facilities had weights for age sufficiently low to be classified as seriously malnourished (Fomez Grades II and III);
- 21.7% were clinically diagnosed as malnourished;
- 23.9% had serious diarrhea which both aggravates and is aggravated by malnutrition.

The prevalence of serious malnutrition was shown to be greatest in the 1-4 age group (27.4% against a 14.5% prevalence in children under one) with a higher prevalence found in rural than urban areas. These findings verify those of the nationwide nutrition survey carried out by INCAP in 1975-1976 which found a national malnutrition prevalence (Gomez Grades I, II, and III) of 74.4% and an urban prevalence of 66%. At these rates, today an estimated 500,000 rural children and 175,000 urban children are malnourished with more than 20% or 186,000 children, suffering serious malnutrition.

Many families are hardpressed to meet the estimated daily cost of feeding an average size family (5.4 persons) which has increased from an

estimated \$2.65 in 1979 to more than \$4.00 at a time when unemployment in both rural and urban areas has risen dramatically. It is thus likely that average daily caloric consumption, estimated at 1890 a year ago against a recommended 2,300, has fallen still further below this standard.

4. Health Status

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

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

### 5. Educational Status

In rural areas less than fifty percent of the school age population is served contrasting to the over crowded urban schools which are serving both urban and commuting rural students. This has resulted in high illiteracy rates and a population in which sixty five percent does not even possess minimal entry level job skills nor the means to attain meaningful employment.

The system is plagued with poor retention and repetition rates. Four times as many urban residents complete the sixth grade as compared with rural residents but still less than fifty percent of the urban populace completes the sixth grade.

The low educational attainment in El Salvador appears to relate more to lack of access than to lack of demand. Education is valued highly leading to the phenomenon of a significant number of students repeating grades they have already passed because there was no space for them in subsequent grades.

Poor children attend overcrowded and substandard schools where the vast majority of teachers have minimal training, few instructional materials, and only sporadic supervision.

### 6. Housing Status

The 1971 Census reported that 80% of the stock of rural housing and 51% of the urban stock were judged "inadequate" to meet basic needs. Only 26% of the urban housing units are constructed of permanent materials, only 37% had had sanitary sewerage system.

In 1975, a third of the households in the San Salvador Metropolitan Area were renting rooms in slum tenements. Another fifth of the households occupied illegal land subdivisions (colonias ilegales) and about

a tenth were in squatter settlements (tugurios). In short, some two-thirds of the households in the San Salvador Metropolitan Area live in informal settlements. A study of four other larger cities uncovered percentages of 55-75%.

Even these statistics however, understate the magnitude of the shelter needs throughout El Salvador. In the central rural region, for example, only 5% of the dwelling units had walls of permanent materials, 93% had dirt floors, 6% had electricity, 7% had piped water.

The total volume of formal sector shelter activity historically has been low; and within that modest volume, the target group's shelter needs have been largely ignored. The vast majority of the poor therefore lives in overcrowded, unhygienic dwellings with little access to basic services such as water, electricity and access roads.

#### B. Major Constraints to Overcoming Poverty

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

1. Population Growth

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

The continuation of high fertility in rural areas has a number of explanations including lack of access to family planning services, information and contraceptives. Urban fertility declined rapidly once GOES-sponsored family planning services became widespread in those areas in the early 1970s.

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

Looking ahead to the year 2000 and taking these factors in consideration, the demographic picture changes from grim to dismal. In the absence of a substantial decline in fertility and continued outmigration, the population could double and reach 9 million. Even if we assume striking success in the rural family planning program, leading to a decline to 30/1000 or below, the population would be expected to increase to 7.7 million. Acceleration of migration out of El Salvador from 20,000 to 50,000 a year would reduce the estimate to 7.1, but El Salvador would, even at that level, continue to claim the greatest population density in mainland Latin America.

## 2. The Natural Resource Base

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

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

a) Land Utilization: Of the total land base over one half is of steep slopes with poor soils unsuitable for agricultural use. The

remaining half includes the 18% classified as good soils suitable for intensive cultivation- much of which is occupied by urban settlement. Increasingly intense use, aggravated by heavy tropical rainfall concentrated in a six month period followed by a sharp and prolonged dry season, has resulted in a very advanced and critical state of soil erosion and depletion. National yield trends in the basic food crops reflect the onset of stagnated levels since about 1970, despite the availability of high yielding crop varieties and other improved production technologies, surprisingly low returns strongly suggest a rapid decrease in the fertility of these intensively cultivated soils. This is particularly true for corn, beans, and sorghum.

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

Table 2

Distribution of Land Base under Agricultural Production

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

Production for export characterizes medium and large farms and includes about one third of the area in temporary crops such as cotton and sugar cane, and about 85% of the area in permanent crops which is almost exclusively planted to coffee. Livestock operations on medium and large

farms also cover almost all of the area in improved pastures and about one half of the native pasture and woodlands. Small farmers with 10 hectares or less cultivate about two thirds of the areas in temporary crops, almost exclusively in corn, sorghum and beans. They also cultivate about 12% of the coffee and utilize about one tenth of the native pasture and woodland areas. As noted below only about one half of these small farm units are owned by the small operator; the balance are generally units of marginal land rented from absentee owners or producers within the modern large farm sector.

The most significant trend in land resource utilization is the shifting of land from pastures and woodlands into annual crops, largely to facilitate basic grains and bean production by the growing small farm sector. From 1950-71, farms under 2 hectares, heavily devoted to these traditional crops, increased in number by 82% and expanded their cultivated area from 83,216 hectares to 151,326. During this period the total pasture and woodland area declined by about 100,000 hectares and land in annual crops increased correspondingly. By land capability standards, the estimated amount of land in annual crops in 1978 exceeded the recommended level by over 200,000 hectares.

b) Impact on the Poor: In 1976 agricultural product per agricultural worker was valued at \$229, and population density was 320 per square kilometer of arable land. USAID estimates that tilled land per agricultural worker has fallen from 3.0 hectares per worker in 1960 to 1.8 in 1976. This shows the unrelenting population pressure on the resource base and unfortunately it has not been offset by a comparable rise in productivity. With 5% of Central America's land, El Salvador has almost 25% of its population and

unlike its neighbors has no frontier into which a growing population can expand.

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

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

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

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

Table 3  
Changing Patterns of Farm Size

Farm Size (Has.)	1950		1961		1971		% change in # of farms by size category 1951/71
	N° of Farms	% of Total	N° of Farms	% of Total	N° of Farms	% of Total	
0 - 2	105,605	60.6%	155,555	68.6%	191,527	70.7%	81.4%
2 - 5	34,868	20.0	37,743	16.6	43,414	16.0	24.5
5 - 10	14,064	8.1	14,001	6.2	15,598	5.8	10.9
10 - 20	8,874	5.1	8,524	3.8	9,164	3.4	3.2
20 -100	8,767	5.0	8,925	3.9	9,224	3.4	5.2
over 100	2,026	1.2	2,148	0.9	1,941	0.7	- 4.2
TOTAL	174,204	100.0%	226,896	100.0%	270,868	100.0%	

Table 4

Percentage Distribution of Land by Farm Size and Tenure

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

1/ % land in farm size category

2/ % of farms in tenure category

C. Economic Structure

1. Introduction

From 1961 to 1975, the two major productive sectors of the economy, agriculture and manufacturing, moved the economy forward at reasonable growth rates. The growth of GDP was 6.7% per year from 1961 to 1967. It slowed to 4.6% from 1968 to 1975, reflecting the maturing of the Central American Common Market (CACM) import substitution policy and the side effects of the Soccer War with Honduras. Since 1975, growth stimulus has come from high coffee prices with the economy growing at 5% per year through 1978 to a level of \$3,072 million. As a result of political turbulence real GDP declined during 1979 and there is little expectation that growth can be resumed over the next two to three years. The following sections describe the countries historical development followed by an analysis of the recent deteriorating situation.

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

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

While agricultural output has grown at 3.9% per year since 1960, basic grains production has grown at only 2% per year, a reflection of the importance of the export crops--coffee, sugar and cotton. This agricultural development pattern and population growth have led to sharply skewed land and rural income distribution patterns and have produced a rural labor surplus that presently cannot be absorbed by the economy.

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

The Salvadoran manufacturing firms have been unable to grow rapidly enough to compete in the World Market. They also have

been restricted by inadequate governmental policies and CACM regional political turmoil.

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

The change in trade patterns behind these tariff walls has produced a manufacturing sector that uses more capital per unit of output than would have been the case if these industries had been allowed to develop without protection. Investment capital and raw material imports are exempt from paying tariffs or are taxed at low rates. Although the idea behind this discrimination was to promote domestic investment and production, the result has also been the development of capital intensive industry.

c. Employment: In summary, the pattern of development has failed to alleviate poverty by providing job opportunities for a rapidly increasing population. The ILO estimated that effective unemployment as a percent of the economically active population was essentially constant at 32% between 1961 and 1971. Over the same time period open unemployment increased from 5.1% to 11.8%. As returned workers from Honduras were absorbed during the 1970's, the open unemployment rate declined to 3.8% by 1978. But as Table 4 shows, underemployment rates (part time workers, unremunerated workers and those earning less than

\$40 per month) rose to 37%.

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

Other factors which demonstrate an unstable job market are the high levels of self-employment (28% of the EAP) and family labor (9.9% of the EAP). These informal sectors have been a residual employer. Unfortunately, because average productivity and incomes within it are low, poverty is widespread among these workers.

The economically active population (EAP) age ten and over is expected to be about 33% of the population throughout the 1980s. If the economy is to provide jobs at the rate of growth of the EAP, approximately 40,000 additional jobs are needed to eliminate present conditions of unemployment and underemployment. Thus a high level of un-and-underemployment is likely to remain a major factor causing poverty throughout next two decades.

TABLE 5

STRUCTURE OF EMPLOYMENT, 1978

	Econ. Active Populat.	Employed in Sector	Under- Employed	Rate of Under- Employment	Rate of Open Unemployment
Agriculture	586,800	576,208	276,691	48.7	3.3
Industry	203,100	195,897	60,571	30.9	3.5
Construction	77,500	71,439	8,902	12.4	7.8
Commerce	488,300	219,193	82,659	31.7	3.9
Services		249,830	76,729	30.7	
Other	<u>74,700</u>	<u>72,926</u>	<u>4,040</u>	<u>5.5</u>	<u>2.4</u>
TOTAL	1,430,400	1,316,493	509,592	37.0	3.8

2. Current Situation

Official data for 1979 now show a minus 1% of growth of GDP with the present level of real economic activity estimated to be declining at an annual rate of 5 to 8%. Excellent weather allowed for a 2% expansion in real agricultural output. Record coffee exports at high world prices represented 18% of GDP and a major, if temporary, support to the economy. However, political uncertainty led to a decline in private investment by 25%, total investment by 15%, consumption by 5% and imports by 14% all in constant prices. These factors proved to be more important than agricultural gains and real GDP consequently fell. Unless there are substantial changes within

the next several months, this declining trend will accelerate in 1980.

For 1979, inflation was 18%. The public reduced their total deposits in the financial systems by 6% and the Central Bank was forced to maintain the systems viability by increasing lines of credit by 50% or \$220 million. At the same time currency in circulation increased 48%. These factors, added to increased minimum wages and the potential for deficit spending as structural reforms are implemented, may mean a rate of inflation rate of 20% to 30% during 1980 in spite of declining production.

The magnitude of the economic problems facing the New Government can be further demonstrated through the Balance of Payments, Budgetary Situation and Employment levels.

a. Balance of Payments: Despite a current account deficit of only \$54 million in 1979, net reserves dropped by \$100 million to \$132 million or slightly more than six weeks imports. This was due to considerable capital outflow in the private sector, including withdrawals of foreign lines of credit over which the Government has no control.

As indicated in Table 5 the Government expects to maintain the situation through 1980 by 1) selling considerable stocks of coffee from past crop years; 2) obtaining \$80 million in credit through the Central Bank, and 3) accelerating its use of foreign aid to a level of \$100 million. Failure in any or all of these areas could easily result in a larger net balance and a depletion of reserves.

In addition, losses on private capital accounts may be higher than the \$80 million projected. Direct foreign investment during 1980

will be negative as private foreign investors reduce their commitment. The Government has taken initial steps to control private Salvadoran capital flight -- e.g., nationalization of coffee and sugar export marketing and new regulations limiting the amount of foreign exchange which can be taken out of the country on personal trips. Nonetheless, because of the large amount of foreign credit which could be recalled during 1980 -- much of which was borrowed against coffee stocks in 1978 -- net private sector capital outflow could reach \$200 million in 1980. Table 5 gives USAID estimates for 1980 and 1981 based on the above discussion and assuming the political situation stabilizes by 1981. The major point for 1981 is that sale of all coffee stocks in 1980 as well as lower output in agriculture and manufacturing will determine a lower level of exports in 1981 and create a major balance of payments constraint.

Table 6

BALANCE OF PAYMENTS

	1978	1979	GOES	USAID ESTIMATES	
			1980	1980	1981
Exports	846	1070	1072	1025	800
Coffee	(433)	(640)	(670) <sup>1/</sup>	(640)	(480) <sup>2/</sup>
Imports	1031	1040	1080	1000	1000
Net Services	- 110	- 140	- 148	- 122	- 110
Net Transfers	<u>52</u>	<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>
Current Account					
Balance	- 243	- 54	- 100	- 41	- 254
Private Capital	159	- 119	- 80	- 200	- 50
Official Capital	<u>47</u>	<u>40</u>	<u>100</u>	<u>100</u>	<u>100</u>
Capital Account					
Balance	206	- 79	20	- 100	50
Total Net Balance	- 37	- 133	- 80	- 141	- 204
Central Bank Credit	65	33	80	-	-
Change in Reserves	28	- 100	0	-	-

<sup>1/</sup> 4.2 million, 100 lb. sacks at \$160. (1.2 million sacks from previous crops)

<sup>2/</sup> 3.2 million, 100 lb. sacks at \$150.

b. Budgetary Resources

As the role of the public sector has increased during the 1970's, the GOES has encountered growing domestic resource problems. Public sector expenditures increased from 12% of GDP in 1971 to 15% in 1979 and were financed mainly by increased coffee export taxes. As Table 6 demonstrates, deficit financing has not been a major problem through 1979. However, savings in current accounts have dropped from 7% in 1977 to 4% in 1979. With increasing capital expenditures, Central Government cash operations have been in deficit since 1978.

TABLE 7  
CENTRAL GOVERNMENT CASH OPERATIONS  
(\$ Millions)

	1977	1978	1979	1980 <u>1/</u>
Current Revenues	473	411	486	517
Current Expenditure	272	313	340	449
Current Surplus	201	98	146	68
Capital Expenditure (excludes amortization)	129	137	160	209
Surplus or Deficit	72	- 39	- 14	- 141

1/ GOES Budget Estimate (1979 prices)

Deficit financing is expected to become a severe problem beginning in 1980. The GOES budget summarized in Table 6 traditionally covers expenditures and capital investment based on past

levels of activity and will require deficit financing of \$141 million in 1980. Of this, \$58 million is to be financed by foreign aid and the remainder by Central Bank purchases of bonds and cash balances. New projects such as those partially financed by AID's Emergency Impact program as well as cost for new structural reforms and expanded public services will require supplementary increases in the budget. Although these budget estimates have not yet been developed by the Government, the USAID assumes total deficit financing will run between \$150 million and \$200 million over the next two or three years.

c. Employment

The discussion above illustrated the historical pattern of high un- and underemployment. This situation has been seriously exacerbated by recent economic and political activities. First, declining private sector activity during the past year has led to growing unemployment in all sectors. In the past year, 12 large factories (each of which employed more than 100 persons) have permanently closed, eliminating approximately 4,000 jobs. In a September 1979 survey by the Ministry of Planning, 25% of all manufacturing firms and 44% of construction firms reported planning layoffs during the second half of 1979. A study in December, 1979 indicated 60%, or 45,000 workers, in construction are now out of work at any time period. This reduction in industrial and construction employment has been felt primarily in the San Salvador Metropolitan Area where more than 50% of the country's manufacturing value-added and employment is located. Since 1978, employment outside the agriculture

sector has probably declined by at least 70,000 with heaviest losses in the relatively high paying construction sector. Adding to this the 20,000 new entrants into the non-agricultural job market, open unemployment can be estimated to have risen from 54,000 in mid-1978 to approximately 160,000 in late 1979. These very rough estimates indicate a near trebling of the open unemployment rate to 11% in a society that has no unemployment security system. Since underemployment has also increased during this period, we can safely estimate that slightly more than 50% of the Salvadoran labor force is now either unemployed or seriously underemployed and earning incomes far below their needs. Given the tense political situation, high level of violence, and uncertainty over the direction of reforms in agriculture, banking, trade, and union organization, unemployment is likely to increase throughout 1980.

### 3. Prospects over the CDSS Planning Period

The Agency should not underestimate the degree to which the prospects for growth and development have been constrained over the past year. Simply maintaining present per capita income levels will be difficult. Given the increased expectations now being created among lower-income groups for improved equity and higher real incomes, it seems unlikely that political imperatives can be matched against the country's economic prospects and resource base.

As the data above indicate, 1980 will be a year of declining production and employment resulting in major deficits in the Balance of Payments and Government accounts. Barring further political and social disintegration the situation is difficult but manageable through the 4th quarter of 1980.

The section on progress and commitment discusses the present Government's plans for major structural reforms of the economy. But at present there are no firm policies or planning documents upon which to base growth estimates or development trends to be expected for the economy. However, any development strategy must take account of the poor growth prospects for the Salvadoran Economy. Most factors are negative. Private sector investment climate has been destroyed. Given the lead times usually needed to make investment decisions and establish operations, renewed expansion of the industrial sector should not be expected until well into the present CDSS planning period, even if the political climate stabilizes. With the introduction of coffee rust into coffee growing areas, and the possibility that productivity in agricultural export crops is unlikely to increase during the initial period of agricultural reform, the agricultural sector is not likely to provide a vehicle for growth of GDP, balance of payments support or new revenue sources. As foreign creditors reduce their exposure in El Salvador and domestic deposits decline, the financial systems ability to finance domestic activity is being drastically reduced. Viability is being maintained only by creating lines of credit through the Central Bank. The time needed to rebuild the system and provide the basis for financing resumed growth may well run into the 1980's. As a result, the speed with which structural reforms, providing both equity and the bases for renewed growth, can be financed will now rely heavily on inputs from international donors.

D. Progress and Commitment

1. Intent

The major difference between the governments since October 15, 1979 and earlier governments is that these most recent governments have been trying to reach the poorest sectors of society with services and want to increase employment and mitigate suffering. Both the armed forces and the civilian members of these governments have been pushing for reforms. While there is a degree of difference as to how extensive these reforms should be, if it were possible to wave a magic wand and achieve them, both governments since October 15 would probably have done so.

2. Performance

The major problem has been that it has taken much longer than expected to fully staff both recent governments and get into a position so that agreement could be reached on the exact form that the reforms would take. The resignation of the majority of cabinet members and two Junta members in early January clearly set back this process. The continuing violence, daily demonstrations, and armed occupations of public buildings, embassies, factories and farms by the extreme left has kept the government constantly off balance. This is exacerbated by pressure from the extreme right against any concessions or reforms with the threat of a coup d'etat by the right constantly in the air. This obviously is a very difficult environment in which to design and carry out reform programs (we have some feeling for this due to our experience in designing our FY 80 program in support of the government's emergency plan).

Since it is not clear whether this government will survive, or if so how long, it is very difficult to predict actual future performance in the reform area. It does seem reasonable to assume, however, that if the current government continues it will begin to make structural reforms and that any successor government if it is not too extreme, would also do so. In these circumstances, our strategy is to be prepared to support reforms on a case-by-case basis, depending upon our evaluation of their importance and effectiveness in improving equity. But, we can not, at this time, predict in which areas they may be.

The following two sections describe human rights and present prospects in greater detail.

### 3. Human Rights

El Salvador's record in the area of human rights has been poor. On October 15, 1979, however, the Armed Forces issued a proclamation which set forth the purpose of the coup d'etat and the objectives of the new government. The proclamation called for (a) an end to violence and corruption, (b) the dissolution of the repressive paramilitary organization ORDEN, (c) the eradication of corrupt practices in public administration, (d) the guaranty of human rights, (e) the creation of a climate to permit free election, (f) the participation of all political parties in the democratic process, (g) amnesty for all exiles and political prisoners, (h) the recognition of the rights of workers to organize, (e) free expression within ethical norms, (f) the equitable distribution of the national wealth. Since then the Junta has launched an investigation of "disappeared persons", dissolved ORDEN, declared a general amnesty and invited all exiles to return, accepted responsibility for any abuses that have occurred since

the coup, allowed all groups to meet and demonstrate publically and reaffirmed its intention to institute agrarian and other reforms.

While there is a clear intent at the higher levels of government to observe human rights, there continue to be abuses. As the Junta consolidates its position, however, an improvement in this area can be expected.

4. Present Prospects

Although the viability of the present government, which is a coalition of reformist military officers and the Christian Democrat Party, is open to question, it appears likely that any successor government will pursue much the same reforms as announced by the Revolutionary Junta on January 9, 1980.

These reforms and programs are:

- (a) The nationalization of the foreign trade in cotton, coffee, sugar and sea products;
- (b) An accelerated nation-wide agrarian reform program to benefit the campesino directly;
- (c) An incentive program to increase the production of small and medium farmers;
- (d) The nationalization of the banking system;
- (e) The definition of labor-management relations including the formation of campesino unions;
- (f) The initiation of mass health, education and home improvement programs;
- (g) The establishment of rules for the operation of the private enterprise sector, so this may function within the process of socio-economic reforms;

- (h) The initiation of a dialogue with all popular organizations to achieve greater peaceful participation in the process of change;
- (i) The respect for human rights.

It appears, therefore, that an attempt will be made to bring about basic structural change in El Salvador's economic, social and political life. In embarking on such a course the reformist movement has positioned itself where it is attacked both by the right which resists such sweeping change and by those further to the left who use demands for immediate and still more radical changes as a tactic to gain power. Although the GOES has affirmed its respect for private property the role of the private enterprise sector in the future of El Salvador is of particular importance. In the past this sector has been the major factor in the economic life of the country and possesses resources critical to the economic recovery and development of El Salvador. The GOES must recognize this fact and improve its cooperation with the more progressive elements of the private sector.

The Junta has had little time to implement its announced reforms or even demonstrate its ability to do so. It faces an awesome task in its attempt to revitalize the economy and bring about structural reforms which, depending on how well designed and administered, may well, at least in the short term, make such revitalization even more time consuming. With luck, the economy could be back on an upward slope in the first two years of the CDSS time period, i.e., FY 82 or FY 83. But even so, major unemployment, institutions problems and uncertainties as the reforms proceed will have to be assumed to persist through the entire CDSS time period. In addition, business confidence is unlikely to be fully restored so private investment will remain less than robust until toward the end of this time period.

## PART II. AID ASSISTANCE STRATEGY

### A. Summary of the Analysis

From the analysis we have determined that poverty in El Salvador is pervasive and attributable to a series of interrelated factors, mainly:

- A deterioration of the natural resources base
- A fast growing population
- A deteriorating economic system based on agricultural exports and capital intensive import substitution Industries
- Political turmoil resulting in economic depression and declining per capita income
- Inequitable distribution of land and income
- Over 50% unemployment/underemployment

How these problems are to be solved between now and the end of the CDSS period is not clear. But failure to make progress on a substantial portion of them, raises the specter of political turmoil, social and economic collapse, mass hunger, and mass migration.

### B. AID Objectives

The objectives of AID are to support efforts of the government and private organizations to:

- Generate employment and income in the context of more equitable growth
- Reduce population growth
- Improve access to basic services

C. AID Strategy

AID's approach between now and the beginning of the CDSS time period in FY 82 will be to support the GOES emergency plan initially and to broaden our support in the reform areas when, and to the extent, practical. We intend to try to help the government to mitigate economic deterioration and alleviate the worse suffering through impact programs. Even if this approach is successful, we still must assume that the economy will not begin to turn around until early in the CDSS time period. FY 1981 is likely to be a dismal year in the economy despite the best efforts of the government, international financial institutions, and AID. We, therefore, must assume that employment remains a major problem during the CDSS time period. Therefore, our primary effort will continue to be to help the government provide employment and income. Population is, of course, the other side of the coin, and requires a major effort. Both the rural and urban poor have been deprived of basic services in the past so we will continue major support for the government in this area as well.

Our objectives will be addressed during the CDSS time period through three specific sub-strategies: (1) employment and income generation through increased small enterprise creation and support, labor intensive public sector projects and small farm production; (2) fertility reduction; and (3) expanded social services.

The Mission's strategy includes encouraging the integration of women into El Salvador's development process and activities that can be directed toward meeting the needs of women. The GOES and other donors will be encouraged to consider the means whereby women more actively participate in their development programs.

1. Employment and Income Generation

The analysis indicates that the following areas need to be supported in order to address the problems of unemployment and income distribution.

- Small enterprise creation and support
- Labor intensive public sector projects
- Small farm production

(a) Small Enterprise Creation and Support

(1) Changes sought

The most important element in the strategy is to improve the ability of Salvadoran enterprises to export competitively in world markets. This will require major policy and institutional changes. AID will provide technical assistance in these areas to the maximum extent we can. If the Central American Common Market is revitalized, as we hope, then the policy changes and incentives required to stimulate exports outside of the Common Market should be taken jointly. Otherwise, the Government of El Salvador will have to act on its own. The importance of this can hardly be overstated since El Salvador is more analogous to Singapore than to Honduras. It must export to survive. There is simply not enough land even with the most thoroughgoing land reform to support the pressure of the people. Therefore, labor-intensive business enterprises must expand or El Salvador will stagnate or even regress. Within this policy framework, this strategy focuses on increasing the access of small producers to credit, production, and marketing services. This embodies three components: one is to assist very small and micro-scale enterprises. Since enterprise

scale and labor-intensity are usually inversely related, assistance to very small producers encourages maximum use of labor which is El Salvador's most abundant and underutilized resource. A second component is to assist enterprises that are owned and operated by the poor, thereby improving returns to both labor and entrepreneurial skill of the target groups. The third component is to assist on-farm enterprises to add value to their production and/or supplement incomes with cottage, artisan or other productive work. It includes support to small farm producers to (i) process production before it crosses the farm gate (e.g., cheesemaking), (ii) process or market agricultural production after it crosses the farm gate (cooperative and groups enterprises) and (iii) increase incomes by diversifying on-farm economic activity (through artisan or other-cottage work).

(2) Development Results Expected

Among the main results expected are an export-oriented strategy which is the only way El Salvador can cope. In addition, but secondarily, improved lending to small enterprises owned and operated by the poor as well as increased capitalization and viability of systems serving the target group is expected. These results will lead to greater coverage of the target group and a doubling of membership in community-based federations. The base for an export promotion effort will be strengthened. Production and marketing arrangements at local levels<sup>,and</sup> improved supporting systems, should make it increasingly feasible to shift from local markets to the penetration of export markets.

(b) Labor Intensive Public Sector Projects

(1) Changes Sought

The basic rationale for this proposed strategy is to create new employment opportunities directly. Street repairs, construction of rural access roads and other activities desirable in themselves will be the vehicle for increasing employment and thereby generating income. The strategy proposed is to make these necessary improvements as well as water, sewerage disposal and electrification in the urban marginal areas--but greater employment is the primary purpose. Credit and land will also be made available to the urban poor to help them improve their standard of living. Low income families will have greater access to technical skills and financial reserves so that through their own efforts they can improve and/or construct permanent housing units. USAID will support the strengthening of municipal administration and operations so as to increase the financial and managerial capability of local governments to address the needs of their people.. Through investments in irrigation and drainage structures thousands of hectares of underutilized lands could be brought under intensive cultivation. The USAID will undertake feasibility studies to attract GOES and donor interest in viable irrigation projects. Food-for-work will also be used for small irrigation and drainage projects, soil conservation structures and reforestation efforts. With the assistance of ROCAP, community wood lots and reforestation efforts will be undertaken. Rural access roads will continue to be a major requirement during this time frame.

(2) Development Results Expected

It is expected that USAID-financed activities will result in marginal reductions in unemployment in the range one to two percent and generate income in areas when living conditions continue to deteriorate. More importantly they will act as a catalyst to improve the capacity of the government to continue labor-intensive programs which have increased employment as the primary objective.

(c) Small Farm Production

(1) Changes Sought

Agrarian Reform - Assuming the continuation of moderate reformist governments, El Salvador will be carrying out a policy of basic land tenure reform during the CDSS period. The specifics of this reform, such as size of holdings, method of compensation, whether farms are to be owner or group operated, have not been fully articulated to date. (It is also the single most controversial issue here and even in Washington.) It obviously is not clear what assistance the GOES might request from AID. Because of the importance of agrarian reform to the future of El Salvador, USAID will monitor developments closely and seek to play a supportive role in the formation of policies and programs. In any event, we will seek to refine conservation practices to site specific circumstances and to introduce higher value crops, varieties and cropping systems.

(2) Development Results Expected

Until reform programs are further developed there is little that can be said about the types of improvement

expected. Specific interventions in soil and water management and irrigation will provide increased income from higher crop yields and diversification. Higher labor land ratios will provide increased employment.

## 2. Fertility Reduction

### (a) Changes Sought

With a view to reducing the natural population growth rate to 2.0 by the year 2000, the Mission will focus its efforts in population on a reduction of the fertility rate. In addition to strengthening policy planning, a major emphasis will be to increase access of the rural population to family planning information, facilities, and the means of voluntary contraception.

Access will be increased by improving logistics, procedures, and staffing of clinics to fill the demand for voluntary sterilization and temporary methods of fertility control. We will encourage removal of legal/policy barriers such as prescriptions for orals, physical examination requirements and restrictions on sterilization eligibility. Access will be further improved by utilizing outreach agents such as rural health aides, agricultural extension agents, community development workers and by expanding distribution to neighborhood commercial outlets.

To break down rural male and female resistance and increase higher contraceptive prevalence in rural areas, this strategy will emphasize strengthened promotional and mass media activities.

(b) Development Results Expected

The Mission is hopeful that by 1985 the national crude birth rate can be reduced to the low thirties with the crude birth rate in rural areas dropping to 38-40/1000 and that of urban areas declining to 25/1000. These reductions in crude birth rates should then produce a decline in the natural population growth rate to 2.5 by 1985 which, assuming continuing annual out migration, will start El Salvador on the road to reducing its population growth rate to 1.2 by the year 2000.

3. Expanded Social Services

The analysis shows high incidence of illiteracy, malnutrition, and disease among the lower income population. These represent a substantial loss in the quality of people's lives and their ability to earn the income their families require. In very human terms they also represent denial of some of life's most basic human rights and needs. They also lead to economic and social alienation and severely hamper the poor's transition to a productive role and effective participation in social and economic processes. The AID strategy seeks improvement in the country's people as a means of increasing equity and making it possible for the poor to lead more useful and productive lives.

a) Nutrition Improvement

(1) Changes Sought

El Salvador's nutrition problems are worsening at present as unemployment increases among both urban and rural

poor. The likelihood that the situation can improve in the next two years, no matter what national policy changes are made, is low. It is more realistic to assume that steps taken to confront the situation will at best prevent its further deterioration from now through the early part of the strategy period.

The Mission's strategy in food and nutrition is based on the goals to increase the rural poor's access to food. Thus in planning emergency measures to meet the acute problems of malnutrition, food shortages and the increasing inability of the Salvadoran poor to obtain an adequate diet, USAID will support steps to increase employment and income so that people can purchase the food they need. We will also improve the food planning capability of the GOES to focus supplementary feeding to the most needy, urban and rural, and tie use of such foods to measures to increase employment and productive capacity, using Title I, II and III programs as appropriate.

The USAID plans specific assistance to a strengthened GOES National Food and Nutrition Program designed to make it possible for all Salvadorans to have a basic diet available to them.

(2) Development Results Expected

Building on the capacities and plans developed under the Nutrition Improvement Project, and the substantial inputs under PL 480, continuing improvement is anticipated for (1) much greater access to nutritious food; (2) national food planning as a guide to food production, distribution and pricing policies to meet domestic food needs; (3) accelerated food

production both through agricultural efforts and through industrialization and fortification of basic food staples; (4) a national program of health and nutrition education, involving outreach agents, community workers, schools and the media in an effort to improve use of available foods. This will stimulate individual and community measures of self-help in health and nutrition, including basic hygiene, communicable disease control, breastfeeding, promotion; and (5) supplementary feeding measures for the most nutritionally vulnerable.

(b) Health Improvement

(1) Changes Sought

The USAID will assist the GOES in its efforts to develop a national health plan that combines the resources of the Ministry of Health and the Social Security Institute for improved health care for lower income Salvadorans. —Major institutional reforms will improve the likelihood of success of these undertakings.

In terms of program emphasis, USAID efforts will remain focused on making primary health care more accessible to rural and urban marginal populations. Support will be continued in the first part of the period, in collaboration with PAHO and UNDP, for the extension and improvement of the rural health aide program and urban health care teams. Further, USAID will encourage the MOH to adopt a simplified drug formulary for support of these programs and to strengthen referral systems. A community and service monitoring system will be developed as a part of the urban team health component and will serve in part as a model for a management information system for the ministry.

(2) Development Results Expected

Assuming reliable political stability can be reached prior to or at least early in the strategy period, it is conceivable that extensive improvements could be achieved in the health status of poor rural and urban Salvadorans as a result of AID and other donor assistance. Major efforts to extend the outreach capacity of the Ministry of Health through programs such as the rural health aides, health collaborators and water/sanitation promoters and the extension and improvement of a MOH health facilities nationwide will result in major improvement in preventive health care. A nationwide health education program that involves communities and mass media in improving community health and nutrition status is planned. An outreach primary health care/promotion capability will have been established in urban marginal areas. Furthermore, an improved operation and maintenance capacity, in potable water supply and sanitation, should provide a firm basis for improved health status by lowering the incidence of water borne disease.

(c) Basic Education

(1) Changes Sought

The ability and skills of the Salvadoran people are the primary resource here. Therefore, improving the ability of people to perform effectively is the most important economic investment possible. Improved education and training are therefore essential. This calls for increasing access to the formal education system at all levels, but particularly in the primary level in the rural areas. Literacy and other basic skills, both technical and non-technical, need to be built on the foundation of

a well functioning formal education system. The current educational television network can be utilized more effectively in the future. Non-formal education techniques should be expanded and means need to be found to support on-the-job-training as one of the most practical means of acquiring skills which lead directly to employment rather than to the creation of better educated and more skilled unemployed people.

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

The total requirement, most of which is in the rural areas, is difficult to ascertain. Extrapolating from the Education Sector Analysis, the USAID estimates that El Salvador's primary education system is not properly accommodating between 150,000 and 200,000 children eligible for attendance in grades one through six. By 1985, an additional 174,000 children are likely to be added to the primary education age group.

The strategy will concentrate on implementing procedures that lower repeater rates and increase double shifting; providing new school rooms and teachers to increase access to higher elementary grades.

Other elements of the basic education system that would need substantial strengthening to support the planned expansion include improved curricula, materials, administration and supervision. The use of educational T.V. could possibly be

expanded to further augment the strategy.

The Mission will consider the expansion of training programs for adults not only to reach a large number of rural residents but also to offer them training in how to increase their incomes; become literate; improve their diets, sanitation and health; and to plan family size.

(2) Development Results Expected.

Assuming these key changes, achieving a goal of 90% access to primary education by 1986 will require about 3,600 additional classrooms and 2,300 additional teachers. Once the 90% goal is reached the system will need to expand by about 5% a year to reach universal access by 1990. Increased emphasis upon community self-help and participation is also an expected basic result of the strategy.

This strategy contains two important assumptions:

(1) that the World Bank will continue its assistance in this field, and (2) that the GOES will be able to mobilize the financial resources for the additional teacher and support costs.

(d) Low Income Housing

Housing is one of El Salvador's greatest social problems. It is in many ways one of the most important of the basic services which are second only to a job as the greatest need here. Sites and services and home improvements are such that requirements clearly exceed any currently projected availability. The population growth and urban migration create a treadmill effect. As a follow on to the \$15 million FY 80 housing investment guarantee the Mission proposes an additional HIG of \$10 million for FY 82.

This would finance very low cost shelter for poor families living in market towns and rural settlements. This HIG together with HIG's in FY 84 and FY 86, would seek to consolidate the institutional changes which will be initiated under the FY 80 HIG particularly in the delivery of home improvement loans and housing finance policy.

(2) Development Results Expected

The FY 82 HIG will also provide 2,400 much needed very low cost housing units and housing up-grading in market towns and rural settlements and as such will provide one of the most basic services to the poor - low cost housing. In addition, and at least equally important, this HIG is expected to generate 10,000 person years of employment over a four years period and to alleviate the high unemployment in the construction industry which is expected to continue throughout the planning period. The later HIG's would have a comparable impact.

PART III. ASSISTANCE PLANNING LEVEL

The Mission's 1986 indicative planning allocation is \$23 million. This amount is wholly inadequate to deal with El Salvador's development problems and unfulfilled basic human needs as identified in Part I. This is particularly so when one considers that the country's economic situation, while serious at present, is expected to continue to deteriorate well into the strategy planning period assuming an early restoration of political stability. Reconstructing the economy will require large scale foreign assistance to the GOES and to financial institutions whose major targets will be lower income groups. Accordingly, our proposed assistance planning levels as given in Table 8 while considerably higher than the indicative planning allocation are nevertheless considered to be minimum levels of assistance if meaningful assistance is to be provided.

Housing Investment Guarantees (HIG)

As indicated earlier, Housing Investment Guarantees are an important element of our overall strategy. Since the labor component of housing construction is estimated to be between 40% - 50% both the FY 1980 HIG of \$15 million and the proposed follow-on HIGs of \$10 million in FY 1982, 1984 and 1986 are expected to help reduce unemployment as well as make a significant contribution to alleviate the deplorable housing conditions in the marginal communities in El Salvador's secondary cities, market towns and rural settlements.

PL 480

The Mission is presently undertaking a full scale investigation of the possible uses of PL 480 in El Salvador. While this strategy has not yet been developed in detail it is clear that PL 480 can and should be a major component of our development strategy. Among other things the Mission intends to develop programs along the lines of the so called "Lima Plan" to provide employment in urban slums for services such as street sweeping, garbage disposal and other basic services as well as for the construction and maintenance of access roads. Private and community organizations will be relied upon to the maximum extent. As described earlier, PL 480 programs will also be expanded to alleviate the increasing hunger and malnutrition brought on by decreased production and income as a result of political unrest and a deteriorating economy. Title I is required in the early years to help mitigate balance of payments and budgetary problems and Title III later on to finance key activities in support of agrarian reform.

Staffing Implications

Staffing ceilings recently assigned for 1981 are 18 U.S. direct hire and 34 foreign nationals. In our FY 1981 CDSS we estimated that the program then proposed would require a minimum of 24 U.S. direct hire and 40 foreign nationals. With the expanded program proposed in the CDSS we believe that these levels will be possible during the planning period only with heavy reliance upon TDY assistance, contractors and consultants to assist in program development and evaluation and maximum flexibility in project implementation. Additionally, private voluntary organizations will be utilized to the maximum extent possible in pursuing our mutual objectives.

Table 3  
EL SALVADOR - PROPOSED ASSISTANCE PLANNING LEVELS

Sectors	Category	FISCAL YEAR			1986
		1982	1983	1984	
Employment & Income Generation					
Investment Guarantees		(a)	(a)	(a)	(a)
Small Enterprise Creation	L/G	8,000	12,000	15,000	18,000
Labor Intensive Public Sector Projects (b)	L/G	20,000	18,000	15,000	15,000
Small Farm Production	L/G	15,000	8,000	15,000	7,000
SUB-TOTAL		43,000	38,000	45,000	40,000
Population (Policy/Serving/Motivation)	G	1,800	2,087	2,260	2,500
SUB-TOTAL		1,800	2,087	2,260	2,500
Basic Human Needs,					
Basic Educations	L/G	7,200	7,500	2,000	2,000
Nutrition Improvement	L/G	6,500	500	3,000	500
Health Improvement	L/G	400	6,000	400	3,000
SUB-TOTAL		14,100	14,000	5,400	5,500
T O T A L		58,900	54,087	52,660	48,000
P.L. 480 Title I		10,000	13,000	---	---
Title II		10,000	10,000	8,000	5,000
Title III		---	---	16,000	19,000
SUB-TOTAL		20,000	23,000	24,000	24,000
HIG		10,000	---	10,000	---
SUB-TOTAL		88,900	77,087	86,660	72,000
GRAND TOTAL					81,200

(a) This would be under authority for all risk insurance of local private investment under a newly authorized program. Its economic impact would be similar to the experimental production credit guarantee program now authorized for 6 countries.

(b) To the maximum extent possible, this program should be financed under economic support funds to maximize flexibility.

UNCLASSIFIED

UNCLASSIFIED