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AN INVENTORY OF POLICIES AFFECTING AGRICULTURE IN EL SALVADOR

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I. INTRODUCTION

The analysis of policy alternatives presented in Volume 1 of the Main Report is essentially prospective in nature. It is intended to provide some guidance as to future courses of action, and purposefully restricts to a minimum any purely descriptive material regarding the current situation in El Salvador and its antecedents. It also deliberately emphasizes only the priority areas for decision-making, therefore omitting some of the information on the current policy structure which was collected during the study.

A more complete description of a wider range of policy instruments currently in force in El Salvador is given in this volume. Legal, historical, and institutional information regarding these instruments is given where possible. Policies are classified according to the level of their primary incidence in the economy (macroeconomic, sectoral, and subsectoral), and a qualitative assessment of their impacts on the current agricultural situation of El Salvador is made. The classification and assessment of policies is presented both in summary tabular form and through a brief discussion of each.

This volume is organized as follows:

Chapter II presents a brief introductory overview of the existing policy regime in El Salvador, emphasizing its stated objectives, its broad historical origins, its internal consistency, and its general relevance to the changed internal and external conditions faced by El Salvador today.

Chapter III presents as concisely as possible the inventory of major individual policies affecting agriculture, along with an assessment of their impacts on key indicators of current agricultural performance and a summary listing of alternatives which have been identified in the course of the study.

Chapter IV discusses in greater detail the legislative and institutional framework of major policies, along with a brief description of their interaction with the agricultural system.

II. OVERVIEW OF THE SALVADORAN POLICY REGIME WITH RESPECT TO AGRICULTURE

The structure of Salvadoran agriculture is a near classical example of what is meant by "traditional agriculture" in Latin America:

- Extreme external dependence on a small number of traditional export commodities;
- Within domestic agriculture, dominance of the export subsector, a subsector characterized by a high degree of land concentration and an intensive, but relatively static, technology;
- Marked dualism between the traditional export sector and what can only be classed as subsistence agriculture -- characterized by specialization in basic grains; small unit sizes; insecure tenure; low technology and productivity;
- Incipient urban industrial and services sectors with few direct economic linkages to either the export or the subsistence subsectors of agriculture, but utterly dependent on the extraction of surpluses from agriculture for their sustenance and development (the public sector serving as the vehicle for the transfer of resources, explicitly through taxation and implicitly through the regulation of agricultural prices); and
- Pervasive and persistent poverty of the rural population -- ever the majority -- which is

almost entirely dependent on agriculture for its survival.

Recent years have been witness to deep and protracted political struggles in El Salvador, a struggle whose origins and purposes lie precisely in the need to break out from the traditional mold which has been described above. At great cost, the people of El Salvador, supported by the United States, have fundamentally transformed the political superstructure of society and have, at least for the moment, been successful in resisting external pressures and avoiding the chaos and collapse which always threaten so rapid a transition. Major steps have also been taken, through an extensive agrarian reform, to transform the structural basis for future economic development. This and other reforms have greatly strengthened the public sector and freed it to a large extent from the minoritarian power bases of the past. A great deal has been accomplished, and there is reason for hope -- if not for optimism -- regarding the ultimate outcome of the process.

The recently inaugurated government of President Napoleon Duarte -- who also presided over the 1980-82 period of structural reforms -- has clearly enunciated its objectives regarding the continued modernization of the Salvadoran economy and its agricultural sector. Principal among these are the following:

<u>Global Objectives</u>:

- Generate employment and recover output;

- Increase production and food supply pursuant to the nutritional requirements of the Salvadoran population;

- Improve the balance-of-payments by promoting exports and substituting imports;

- Achieve a more equitable distribution of income and wealth;

- Consolidate and perfect the agrarian, financial, foreign trade, municipal, and administrative reforms;

- Markedly raise educational levels of the Salvadoran population; and

- Give attention to the low-income population in rural and critical urban areas.

Specific Objectives for the Agriculture Sector:

- Ensure the production, availability, and internal supply of staple foods through cultivation of the necessary areas to satisfy internal demand;

- Modernize the production of basic grains, increasing supplies beyond the requirements of human subsistence, as a basis for expansion of livestock and other grain-based production;

- Improve the efficiency of the domestic marketing system, especially for basic grains and perishables;

- Recover 1979 production and productivity levels for traditional agricultural exports;

- Recover 1979 production levels of beef and milk to ensure their availability for the benefit of the diet of the population, and promote development of smaller species, especially in the areas of poultry and pork raising;

- Accelerate the development of irrigation as a means of intensifying land-use and productivity;
- Promote the production of non-traditional agroindustrial crops to meet domestic demand for raw materials and generate foreign exchange;
- Promote the cultivation of fruits and vegetables to substitute imports; and
- Increase industrial and artisanal fishing for the purpose of satisfying internal food and raw material needs and for export.

In the economic sphere, however, the government faces two fundamental problems in carrying the process of structural transformation forward. First, the economy has recently undergone a depression as deep as has ever been historically experienced in El Salvador. Acute shortages of domestic savings and foreign exchange and the overriding short-run need to reverse several years of economic decline severely restrict the government's scope for action in consolidating and building upon the reforms which have been implemented. Overcoming the disruptions occasioned by the transformation itself and setting the new system securely into forward motion both require resources -- which are simply unavailable or urgently required for other immediate needs.

Second, the government has inherited a set of policy instruments, and an institutional apparatus through which they are implemented, that are clearly derived from the traditional economic and social structures described above. The thrust of the existing policy structure remains tied to the economic conditions and development philosophy prevalent in Latin America during the 1960s:

- Reliance on traditional exports and foreign borrowing for foreign exchange and the savings required to finance investment.

- Stimulation of urban industrial development on the basis of highly protected substitution of (generally) high-income consumer goods. Industries selected for development in general provide few markets for domestic-resource-based production (e.g., agriculture) and the protection afforded them constitutes a major factor contributing to excess capital-intensity, poor performance in employment generation, increasing rigidity of the import bill, and the distortion of internal terms of trade against agriculture.

As will be seen in Chapters III and IV, public sector intervention in the agricultural system of El Salvador continues to reflect the influence of this philosophy. On the revenue side, policies generally aim at the extraction of a net surplus from agriculture. Expenditures, both current and capital, remain focussed primarily on support of the traditional export sector. Credit, which is highly managed and relatively inflexible, reinforces the bias in favor of traditional exports. Direct intervention and regulation, such as is implemented through IRA and the Ministry of Economy, are a reflection and a paradigm of "cheap-food" policy, biased in favor of the (in national terms) middle-income urban consumer and against the generally poorer producer of food staples.

The above applies to the current implementation of policy. Even the agrarian reform policy tends to reinforce -- even to freeze -- traditional production patterns. In the case of the Phase I cooperatives, this means primarily the production of traditional export crops, and in that of

Phase III, subsistence-level basic grains output. So long as production patterns and the (generally related) size-structure of production units remain static, little can be expected with regard to increasing employment levels, land productivity, or agricultural incomes.

The existence of the reform sector gives El Salvador appropriate preconditions, almost unique in Latin America, to promote a new strategy for the agricultural sector. The experience of countries which, like El Salvador, have abundant human resources and scarce natural resources (Taiwan, Japan) indicates that sectoral development strategies must be based to a large extent on the adoption of production systems which considerably increase the productivity of the factors. The existence of abundant rural labor and the limited availability of land points toward the possibility of a strategy permitting the growing use of new inputs which are complementary to available labor and land. This strategy is associated with intensive production systems and the increased use of divisible inputs at a neutral scale.

Since the objectives of the land reform imply a change in the man-land ratio, a change should also be expected in agricultural structure, one which will permit the absorption of more labor. Not only the land-tenure system, but also the size of farm units, are elements which determine the selection of the production system -- optimal proportions in the use of factors is in fact primarily determined by the size of the operational unit rather than by the tenure system. The organization of agricultural production in the reform sector on the basis of smaller units appropriate for intensive production would perhaps permit raising the man-land ratio considerably and a better utilization of the possibilities for technological innovation.

Freeing the agrarian reform sector to develop on the basis of appropriate unit sizes could also have a greater social impact by permitting more participation in the management and decision-making process.

The adoption of production units of adequate size for intensive production systems does not imply the abandonment of the cooperative system; on the contrary, this system can become more efficient if it is allowed to specialize in specific production activities, and in production support activities such as mechanization, input marketing, commodity marketing, credit, and others. Smaller cooperative production units could in turn belong to various specialized service cooperatives depending on their needs.

Judging from the most tangible expression of policy -- the allocation of resources -- many of the basic thrusts of the existing policy structure in El Salvador are fundamentally inconsistent with the priority objectives of modernization, diversification, employment, and productivity growth. The effect of current policy is most evident in the trend toward sharply reduced terms of trade for agriculture in El Salvador, a phenomenon which, along with the war, is a key factor in explaining the decline of agricultural output and employment in recent years. The secular decline in relative agricultural prices over recent years has affected basic grains, horticulture, and fruits almost as much as it has coffee and cotton. It has harmed the agrarian reform process to virtually the same degree as it has the non-reformed sector and agriculture in general.

III. IDENTIFICATION OF KEY POLICIES AND THEIR INCIDENCE ON THE AGRICULTURAL SYSTEM

The information presented in this chapter is organized in tabular form. In all, 10 tables identifying 35 key policy areas ranging from macroeconomic fiscal policies to specific subsectoral policies have been prepared. Each table is devoted to a single broad policy category which is identified in the upper right-hand corner. The 10 categories are:

- Macroeconomic, fiscal
- Macroeconomic, monetary
- Macroeconomic, external trade
- Macroeconomic, regulatory
- Sectoral, fiscal
- Sectoral, monetary
- Sectoral, external trade
- Sectoral, resources
- Sectoral, technology
- Subsectoral

Each table lists one or more policy interventions which fall into the policy category in question, and identifies the subsector of agriculture which the policy primarily influences. Thus, at the macro level, the level and structure of taxation are analyzed in terms of their influence on the agricultural sector as a whole. Producer price supports are analyzed in terms of their influence on basic grains.

Next, the table identifies the stated or presumed purpose of each policy intervention, and the principal institutions responsible for formulating and administering it.

The impact of the policy intervention is qualitatively assessed in terms of five major variables:

- The level of agricultural production;
- Foreign exchange expenditures through the level of imports;
- The level of domestic consumption;
- Foreign exchange generation through the level of exports;
- The level of government revenues.

The assessed degree of impact on each of these variables ranges from "highly favorable" (+2) to "highly unfavorable (-2) with "0" and "?" used to indicate negligible and uncertain impacts, respectively.

The evaluation of policy impact is <u>current</u> and <u>specific</u> to El Salvador. That is, it expresses a judgment as to how current policies, as they are currently implemented under current circumstances in El Salvador, may be influencing key indicators of agricultural performance. It is not intended to explain how such policies work in a theoretical or general sense. The reader should therefore not skip over the brief written explanation of policy impact which is included for each policy. In many instances, it is the way that a policy is implemented, or particular circumstances of the Salvadoran situation, rather than the nature of a policy itself which explains its impact.

Finally, a brief description of specific modifications which may be considered for each policy is presented. Notes to specific items in the tables are included where appropriate.

TABLE NO. 1
POLICY CATEGORY: MACROECONOMIC, FISCAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. level and structure of taxation/ agriculture	revenue generation	- Ministry of Finance - National Assembly	-1	0	-1	-2	+1	taxes extracted from the agricultural system have averaged 10-11% of agricultural value-added 1/ 90-95% of the sector's fiscal contribution originates in the coffee export tax, which, at current prices and exchange rates, has a strong negative impact on the profitability of coffee production. Declining coffee output is closely related to falling agricultural employment, income, and consumption	1. revise coffee export tax to more nearly approximate an income rather than gross sales basis 2. broaden the tax base 3. improve tax administration and collections
2. level and structure of expenditures/ agriculture	provide public goods, services, and infrastructure	- Ministry of Finance - National Assembly	-1	-1	-1	?	+1	central government expenditures on agriculture 2/ at 6-7% of total expenditures are low in comparison to agricultural sector tax revenues and to agriculture's contribution to GDP. While agriculture's share in central government's expenditures has remained constant, its share is of a declining total in real terms. Expenditures are biased in favor of livestock and traditional export crops.	1. as conditions permit, increase real levels of expenditure 2. prepare revision of intrasectoral allocation of expenditures in light of short- and medium-term national development objectives. (See Table 5, Sectoral Fiscal Policy)

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1/ not including income and stamp taxes, which are thought to be small though specific data are unavailable
2/ includes current and capital expenditures, not financial investment

TABLE NO. 2
POLICY CATEGORY: MACROECONOMIC, MONETARY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. interest rate regulation/ agriculture	regulate supply and demand for financial resources; influence costs	- Monetary Board[1] - BCR	+1	0	+1	+1	+1	The GOES has adopted an interest rate structure designed to provide for a positive real rate of return to savers and full cost recovery on lending operations. Agricultural borrowing rates are only modestly lower than other sectors. Through its impact on savings, this policy should enhance investment and growth over the medium-term.	1. More active implementation through more flexible and frequent interest rate revisions 2. Study interest rate measures to foster the development of long-term financial instruments
2. supply of credit/ agriculture	support production, processing, and marketing	- BCR - Commercial Banks - BFA - Cajas de Credito	-2	-1	-1	-2	-2	While efforts have been made to increase agriculture's share in total lending, new credits to the agricultural sector have fallen 25% in real terms since 1979. Refinancing has grown from 9 to 33.5% of total credit to the sector, while arrearages and debt service obligations continue to accumulate.	1. Refinance outstanding overdue loans on extended repayment terms 2. Increase volume of new credits to agriculture 3. Study restructuring of agricultural credit to provide finance for nontraditional crops, ag. processing, and marketing

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. The Monetary Board is composed of the heads of the following institutions: Central Bank and the Ministries of Planning, Economics, Finance, Agriculture and External Trade.

TABLE NO. 3 (Page 1)
POLICY CATEGORY: MACROECONOMIC, EXTERNAL TRADE

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. support of the official rate of exchange/ agriculture	avoid inflationary and, possibly, contractionary short-term consequences of devaluation. Preserve political credibility	- Monetary Board - BCR - MICE	-2	-2	-2	-2	?	An overvalued exchange rate reduces the domestic price of tradeable goods, which include virtually all agricultural commodities. While there is some controversy regarding the short-run impacts of devaluation in El Salvador given current conditions, there is no question that the medium-term development prospects of the agricultural sector are jeopardized by an overvalued exchange rate. The recently initiated process of selective devaluation suffers from the following: (1) ad hoc implementation by fiat -- contributes to uncertainty and sociopolitical tension; (2) no intrinsic correspondence between sector or subsector imports and exports -- creates potential for distortions and windfall gains/ losses; (3) administratively complex; (4) given its uncertain and selective implementation, may not be providing the desirable incentives of a devaluation, especially as regards needed investment decisions.	1. Further selective devaluation 2. crawling peg 3. official devaluation 4. Higher import tariffs with export subsidies
2. import tariffs/ agriculture	generate revenues; protect domestic suppliers	- Ministry of Finance - MICE	0	0	0	0	1	Agricultural inputs and commodities imported from the CACM are largely exempt from tariffs. Applicable tariff rates for non-CACM imports of these types of goods are low. Explicit tariffs on agricultural imports have little impact on the sector.	1. In the absence of devaluation, higher tariffs on competitive imports of agricultural commodities may be considered

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
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TABLE NO. 3 (Page 2)
POLICY CATEGORY: MACROECONOMIC, EXTERNAL TRADE

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. import subsidies (implicit)/ agriculture	avoid domestic price increases	- BCR - MAG - MICE	-1	-1	?	?	?	Selective exchange rate policy permits the importation of agricultural inputs and most commodities (including PL-480) at the official rate. Imported inputs are thus implicitly subsidized, though the extent of the subsidy is limited through restricted access to foreign exchange. Subsidized imports of competing commodities clearly encourage imports and discourage domestic production. Domestic consumption may be sustained in the short-run, but harmed later. Production falls harm export prospects in general, with some exceptions. Reduced production and exports may reduce government revenues in the long-run, though such losses may be offset through import tariffs and the proceeds of PL-480 sales in the short-run.	1. In the absence of devaluation, revise tariffs and/or domestic pricing policy for competing imports so as to mitigate disincentives to domestic producers
1. export subsidies (implicit)/ agriculture	support industrial exports	- BCR - MAG - MICE	+1	0	-1	+1	?	Selective exchange rate policies provide export subsidies for certain industries with access to artificially cheap inputs. Examples include non-CACM exports of cotton yarn/textiles, and poultry, which are allowed to sell foreign exchange at the parallel rate while acquiring inputs (raw cotton, PL-480 yellow corn) at prices based on world prices and the official rate of exchange.	1. devaluation to foster the development of domestic inputs based agroindustry 2. impose import tariffs on competing imports and provide explicit export subsidies when justified
. non-tariff barriers to trade/ agriculture	restrict imports	- BCR - MAG - MICE	?	+1	-1	0	-1	These barriers operate through import licensing requirements, and, especially, through restricted access to foreign exchange at either the official or parallel rates. Restricted import of agricultural inputs hurt production, while restrictions on competing imports may help somewhat. Total imports are effectively reduced by such barriers, thereby restricting domestic consumption, and GOES tariff collections.	1. devaluation 2. substitution of explicit tariffs for non-tariff barriers

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
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TABLE NO. 4
POLICY CATEGORY: MACROECONOMIC, REGULATORY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. regulation of the nationalized banking sector/ agriculure	control of domestic financial flows	- BCR - National Assembly	+1	-1	+1	+1	-2	As evidenced by agriculture's share in total credit, which is substantially larger than its share in GDP, nationalized management of the banking sector has probably averted a collapse of commercial lending to agriculture.[1] Small farmer access to credit has also improved. This has been accomplished, however, at the cost of increasing GOES transfers to the financial sector, especially that part of the financial sector serving the agrarian reform. Also, due to general economic conditions, credit flows are not adequate to meet agricultural sector needs.	1. implement an agricultural pricing strategy to enhance the financial viability and repayment capacity of the agricultural sector 2. as economic stability is recovered, study means to liberalize and decentralize management of the commercial banking sector. Such a liberalization should specifically emphasize the development of new financial institutions/markets to serve the needs of small-scale and non-traditional agriculture. Specialized credit coops may be an option.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. It is unlikely that a purely commercial financial sector would have been able, given the interests of its stockholders, to maintain services to the agricultural sector during the recent period of war and political insecurity.

TABLE NO. 5 (Page 1)
POLICY CATEGORY: SECTORAL, FISCAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
1. level of taxation/ coffee	generate revenues	- Ministry of Finance - National Assembly	-2	0	-1	-2	+1	While total taxes have averaged 11-13% of GDP in El Salvador since 1979, the coffee export tax represents 20-25% of value-added by coffee. At current prices and exchange rates, few coffee producers, including those of the agrarian reform, are able to realize any profit after taxes. Coffee production has declined by about 25%, at an accelerating rate. Employment and incomes generated by coffee have fallen commensurately. Accummulated losses, indebtedness, and the spread of coffee rust due to reduced expenditures on fungicides, seriously threaten the survival of this industry which has traditionally provided 50-60% of El Salvador's foreign exchange earnings.	1. revise the coffee export tax base to exempt estimated production costs from taxation 2. revise marginal tax rates on coffee producer incomes in accordance with foreign exchange rate policy[1]
2. level and structure of taxation/ other agriculture	generate revenues	- Ministry of Finance - National Assembly	0	0	0	0	0	The coffee export tax provides 90-95% of revenues extracted from the agricultural sector.[2]	1. study alternatives for sharply increasing the land tax. The current assessment of approximately $1.50 per ha. per year generates little revenue. A progressive land tax can discourage land concentration and speculation, thus complementing agrarian reform, and encourage more intensive land-use. 2. increase tariffs on competitive food imports 3. improve the collection of agricultural income taxes 4. study the incidence of the stamp (turnover) tax on agriculture. To the extent that is is enforced in agriculture, it may generate

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. Devaluation to ₡4:$1 could permit the maintenance of high marginal tax rates on a revised base. In the absense of devaluation, marginal rates may also need to be reduced.

2. Not including income and stamp taxes, as explained in the note to Table 1.

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TABLE NO. 5 (Page 2)
POLICY CATEGORY: SECTORAL, FISCAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
2. level and structure of taxation/ other agriculture (continued)									strong disincentives to crops which require a high degree of (labor-intensive) handling and processing.
3. level and structure of expenditures/	provide public goods, services, and infrastructure to support agricultural production and marketing	- Ministry of Finance - National Assembly	-1	-1	?	?	+1	As mentioned previously, agriculture is a net supplier of fiscal resources to the rest of the economy. Real public sector expenditures on agriculture have been declining. Increasing amounts of the agricultural budget have been absorbed by the agrarian reform sector and IRA while expenditures on research and extension, irrigation and other capital investment, have fallen sharply. Expenditures on services to the sector remain concentrated on traditional export crops, while investments have become concentrated on livestock and fisheries, which generate relatively little employment.	1. reorient agricultural support services to include research, extension, and technical assistance for non-traditional high-value labor-intensive horticultural and fruit crops 2. reorient investment in support diversification and employment creation in agriculture. Priority items include irrigation and marketing infrastructure (feeder roads storage, bulk shipping)

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
NOTES:

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. interest rate regulation/ intrasectoral	to provide incentives for particular activities in agriculture	- Monetary Board - BCR	0	0	0	0	0	A one percent interest rate discount is currently provided on crop credits for basic grains, non-traditional export crops, and coffee harvesting for small and medium growers. The impact of this policy is likely to be minimal, however, in relation to the currently constrained access to adequate volumes of credit. Access to credit is in general a far more significant factor than interest rates. Interest rate subsidies can adversely affect financial sector liquidity.	1. study incentive structures based on explicit subsidies (where subsidies are justified) as a substitute for interest subsidies 2. consider means of developing and incorporating informal rural credit markets into the agricultural financial system. Farmers are often willing and able to pay higher than commercial rates in return for timely credits. Informal lenders are often more effective at providing credit to small farmers. The organization of grassroots credit cooperatives may also be considered.
2. supply of credit/ intrasectoral	support production processing, and marketing	- Monetary Board - BCR	-2	-1	-1	-2	-2	Current credit volumes are grossly inadequate to support recovery and future growth of agriculture. Of credits made available in 1983, 78% went to traditional export crops, 9% to basic grains, 8% to livestock, and only 5% to other crops. BFA faces serious financial and administrative problems.	1. undertake an appropriate agricultural pricing strategy 2. refinance outstanding overdue loans on extended repayment terms. This measure will primarily benefit the Phase I Agrarian Reform Cooperatives, and the non-reformed coffee and cotton subsectors. 3. increase volume of new credits to finance: rehabilitation and production

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
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TABLE NO. 6 (Page 2)
POLICY CATEGORY: SECTORAL, MONETARY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
2. supply of credit/ intrasectoral (continued)									in the coffee and cotton subsectors; production and modernization in basic grains; development of high-value labor-intensive horticulture and fruit crops; agricultural processing, and; decentralized development of marketing systems for basic grains and diversification crops.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
NOTES:

TABLE NO. 7
POLICY CATEGORY: SECTORAL/EXTERNAL TRADE

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. import tariffs/ agricultural inputs	generate revenues	- Ministry of Finance - MICE	-1	+1	-1	-1	+1	Imports of agricultural goods from the CACM are generally exempt from duties but are subject to stamp tax.[1] Imports from outside the CACM are also subject to the stamp tax plus ad valorem duties ranging from 2-15%. Levies are relatively light and impacts on the agricultural system moderate.	1. If a devaluation takes place, reduce or eliminate both the stamp tax and import duties on agricultural inputs.
2. import tariffs/ agricultural commodities	generate revenues, protect domestic producers	- Ministry of Finance - MICE	+1	+1	?	?	+1	Non-competing imports from outside the CACM (e.g. wheat) are taxed at a lower rate other than the stamp tax. Competing imports generally bear a specific duty, combined with the stamp tax and an ad valorem duty ranging from 8-30%. A moderate degree of protection is provided to domestic producers.	1. In the absence of a devaluation, consider increasing tariffs on competing agricultural imports
3. export subsidies/ intrasectoral	promote non-traditional exports	- Monetary Board - Ministry of Finance - MICE	+2	+1	-1	+2	-1	Non-traditional exports outside the CACM are implicitly subsidized in two ways: preferential interest rates, and access to the parallel foreign exchange market. The effectiveness of access to the parallel market in stimulating exports is dramatically illustrated by the 55% real expansion of the Salvadoran poultry industry since 1979.	1. Devalue to restore profitability and stimulate exports of the agricultural sector as a whole. 2. In the absence of devaluation, move traditional agricultural export products to the parallel market or institute system of import tariffs and explicit export subsidies. 3. Eliminate subsidies through preferential interest rates.

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable

NOTES: 1. This exemption of CACM agricultural trade from duties applies to both agricultural inputs and commodities.

TABLE NO. 8 (Page 1)
POLICY CATEGORY: SECTORAL/RESOURCES

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
i. land-use/ intrasectoral	to promote the efficient utilization of soils	- National Assembly - Ministry of Finance - Ministry of Economics - MAG - ISTA	-2	-2	-2	-2	-2	Only 47% of land suitable for intensive annual cropping is devoted to such uses in El Salvador today; only 16% of the country's irrigation potential has been realized; about 18% of land currently in agricultural or ranching use should be withdrawn from production in the interest of soil and/or water conservation. Inattention to the land-use impacts of pricing and other policies, and the lack of a positive land-use policy favoring intensification contribute to low productivity in spite of land scarcity.	1. implement a pricing strategy to restore profitability to agricultural production 2. consider the more active use of land taxes as an instrument to promote land-use intensification, the retirement of marginal lands from production, and a more efficient size structure among farming units 3. liberalize and clarify land tenure and agricultural property rights legislation to facilitate the shift of present land-use patterns to better and higher uses organized on the basis of more efficient farm unit sizes. Intensification of agricultural production, particularly as it will involve horticultural and fruit crops, may be best accomplished through smaller farm unit sizes than currently characterize either the Phase I agrarian reform or the traditional export sectors. 4. actively pursue development of irrigation potential making maximum possible use of private sector resources

LEGEND: -2 = Highly Unfavorable; -1 = Unfavorable; 0 = Neutral or Negligible; ? = Mixed or Uncertain; +1 = Favorable; +2 = Highly Favorable
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TABLE NO. 8 (Page 2)
POLICY CATEGORY: SECTORAL/RESOURCES

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. land-use/ intrasectoral (continued)									5. consider a GOES land purchase program (financed through tax credits, bonds?) to restore highly marginal lands to conservation uses (forestry, parks, etc.) 6. develop adequate research and extension capabilities to promote desirable changes in land-use patterns
. land redistribution/intrasectoral	to promote equity and efficiency objectives of the GOES	- National Assembly - Ministry of Finance - MAG - ISTA	-1	-1	-1	-1	-2	The Phase I and III agrarian reforms which have been implemented in El Salvador have considerably advanced the equity objectives of the GOES and provide the opportunity for both a more efficient and a more participatory future development of agriculture. Short-term disruption of the farm management apparatus and heightened uncertainty occasioned by the agrarian reform have, however, undoubtedly contributed to production declines, particularly as regards traditional export crops. Legislative and institutional deficiencies in the implementation of the reforms, which have not been corrected, may hamper agricultural recovery and future growth.	1. clarify government intentions with respect to the future content and scope of the land reform program 2. clarify legal property rights of: a) Phase I coop members, and b) Phase III beneficiaries, making due provision for mechanisms enabling the legal transfer of their individual and/or collective assets 3. institute land taxes that will foster intensification of land-use and divestiture of under-utilized assets 4. develop financing mechanisms to foster

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TABLE NO. 8 (Page 3)
POLICY CATEGORY: SECTORAL/RESOURCES

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
2. land tenure/ intrasectoral (continued)	to promote equity and efficiency objectives of the GOES								the development of an active land market which is openly accessible to all people genuinely interested in farming
3. human resources development/ intrasectoral	to enable sustained equitable growth and improved quality of life in the agricultural sector	- CENCAP - ISTA - ENA	0	0	0	0	-1	The GOES has instituted a variety of manpower development and training programs for agriculture, focusing especially on the agrarian reform sector. There is some question, however, as to their adequacy in relation to the magnitude of the problem, the appropriateness of training methodology, and the effectiveness of current programs.	1. Focus greater attention on the development of non-formal and community self-help training methods 2. Institute basic literacy campaigns as a precursor to more technical training efforts and to provide the indispensable basis for genuinely participatory agricultural development

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TABLE NO. 9
POLICY CATEGORY: SECTORAL/TECHNOLOGY

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. Research, extension, and technical assistance/intrasectoral	to identify and propagate agricultural production, processing, and marketing technologies which are consistent with national development objectives	MAG through: CENTA ISTA	-1	-1	-1	-1	-1	The research/extension and technical assistance (RETA) effort in El Salvador today is: underfunded, under-manned, and misdirected. While major emphasis has been placed on serving the agrarian reform sector, recent evaluation reports indicate that less than half of the Phase I coops and perhaps fewer than 20% of the Phase III beneficiaries received any assistance during the 1982/83 crop year. RETA efforts remain focussed on traditional export crops and basic grains. These are crops characterized by slow technical progress and slow demand growth. Obstacles to small farmer adoption of available technologies for these crops are mostly of a nature that must be resolved -- through interventions in other parts of the agricultural system (i.e., land security, credit, marketing); not through extension. The present Salvadoran RETA system does not do an adequate job in providing farmers with information and assistance with the new, high-potential agronomic opportunities that must be the primary source of future agricultural growth in El Salvador.	1. provide incentives/ remove obstacles to the development of more private sector capability in technical assistance for agriculture 2. focus GOES research efforts on: a) the cost-effective solution of specific high-priority problems in traditional agriculture such as coffee rust and environmentally acceptable pest management systems for cotton b) field trials and adaptation of cultivars suitable for intensive production c) extension efforts emphasizing these new cultivars, on-farm water management, handling, storage, and other on-farm processing techniques 3. provide the working conditions necessary to attract and retain high-quality technical personnel

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TABLE NO. 10 (Page 1)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
1. producer price supports through direct purchases/ basic grains	to maintain production incentives and farm incomes	IRA	?	?	0	0	-2	Due to both financial and storage capacity limitations, IRA is unable to purchase a large enough portion of domestic basic grain production to significantly alter average market prices, although individual producers may benefit from access to the IRA market. IRA's influence on producer prices is mainly significant in that it can alter total marketed supply through grain imports. Grain imports, however, work to reduce rather than increase average producer prices. IRA operating losses constitute a substantial continuing drain on the public treasury.	1. study the possibility of transfering some or all of IRA's centralized storage capacity to producer co-operatives 2. study means to improve the efficiency of the existing private sector marketing system 3. focus public sector purchasing activities in those areas where remote access or other factors indicate a low degree of competition among private grain merchants
2. consumer price controls/ basic grains	to maintain consumer prices at "reasonable" levels	Ministry of Economy, IRA	0	0	0	0	0	The Ministry of Economy publishes, and attempts to enforce, maximum retail prices for basic grains and a variety of other consumer goods. Effective enforcement is a near impossibility, however, and price controls are almost universally ignored.	1. dismantle the price control system, replacing it with direct and specifically targetted consumer subsidies where these are warranted.

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TABLE NO. 10 (Page 2)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANAL[illegible]IS
[illegible]. public sector [illegible]arketing/ [illegible]asic grains	to provide low-income urban consumers with access to "reasonably" priced food staples	IRA	-1	-1	+1	0	-2	Through a national chain of agencies and stores, IRA markets a variety of food staples (grains, sugar, oil, powdered milk) at officially controlled prices which are, in the case of grains, below IRA purchasing prices. Access to IRA stores is not means-restricted, however, and stocks are quickly depleted. IRA also supplies food staples to government employee consumer coops and other public sector institutional buyers at subsidy prices. As organized buyers, these groups often have better access to limited IRA supplies than IRA retail outlets. A disproportional share of subsidized food supplies is therefore distributed to employed, middle-income families rather than to the unemployed and very poor.	1. impose means-tests to restrict access to subsidized food or limit access to such supplies by institutional buyers
. PL-480 imports/ [illegible]asic grains	to make up shortfalls in domestic food supplies on concessionary terms	BFA, ISTA, BCR	-1	+1	+1	0	+2	PL-480 imports have certainly contributed to maintaining consumption of certain basic food staples during the crisis period. They have also reduced balance of payments outlays for commercial food imports which [illegible]ight otherwise have taken place and contributed in a significant way to the current revenues of the government. It is cautioned, however, that these imports in some cases substitute for and may seriously harm domestic production. This is especially the case for rice imports and for imports of yellow corn which substitutes directly for domestic sorghum in animal feeds.	1. exercise care in determining the composition of the concessionary commodity import program to minimize the imported volume of commodities which are close substitutes for domestic production. Substitution patterns in domestic consumption should be carefully analyzed, and both near- and medium-term impacts of PL-480 imports assessed and weighed against each other.

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TABLE NO. 10 (Page 3)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
5. PL-480 domestic pricing/ basic grains	to meet the near-term objectives of the program while minimizing the distortions introduced by it		-1	0	+1	0	-1	PL-480 commodities are currently sold domestically on the basis of their landed $ cost converted at the official rate of exchange. Since this is an overvalued rate, this practice implicitly subsidizes imports relative to domestic output -- harming production and perhaps excessively stimulating domestic consumption. Given short-run inelasticity of demand, government revenues would likely grow as a result of an upward movement in domestic prices set for PL-480 goods.	1. price PL-480 imports on the basis of an estimated equilibrium rate of exchange. Combine such pricing with explicit, targetted, consumer subsidies if required. This will: (a) enhance government revenues in the short-run; (b) avoid harming domestic producers, and; (c) preserve the mechanism for providing concessionary imports to cover emergency shortfalls in domestic output.

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TABLE NO. 10 (Page 4)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
6. nationalized export marketing/ coffee	to establish state control over major foreign exchange transactions and presumably to improve marketing efficiency	INCAFE	-1	0	0	-1	-1	The operations of INCAFE since coffee export marketing was nationalized and centralized in 1980 are alleged to have severely and adversely impacted producer profitability. Primary deficiencies attributed to the nationalized marketing system include excessive delays in processing payments to producers, which have significantly increased interest costs borne by producers; poor international sales performance in terms of timeliness and sales, and; high product losses in the handling, storage, and marketing of coffee (the cost of such losses is reflected in prices paid to producers).	1. permit a higher degree of private sector participation in the direction, management oversight, and operations of INCAFE 2. decentralize the international sales function, perhaps through employing private sector coffee exporters as INCAFE sales agents
7. nationalized refining and marketing/ sugar	to establish state control over major foreign exchange transactions and increase processing and marketing efficiency	INAZUCAR	-1	0	+1	-1	-1	Cane production has performed well in El Salvador over recent years. This is largely attributable, however, to domestic producer prices well in excess of world market prices, sustained through increased access to the U.S. quota market, and to less exposure to guerrilla activity than other crops, such as cotton, which are more concentrated in war zones. Sugar mill yields and quality fell sharply after nationalization, however, and INAZUCAR has until recently been generating sizable losses. These losses are attributable to reduced efficiency in the operation of the sugar refineries. Domestic sugar consumption has been growing rapidly, but may be reaching saturation levels.	1. consider reverting both the sugar mills and the export marketing function to the private sector

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TABLE NO. 10 (Page 5)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT					EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
			PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES		
8. Producer price supports/sugarcane	To stimulate domestic production	INAZUCAR	+1	0	+1	+1	+1	Farmers are guaranteed a price of ¢50 per short ton of sugarcane. In terms of sugar equivalent, this price is comparable to the world market price for refined sugar. That is, producers are receiving for cane close to the total world price for the refined product, a situation which obviously could not be sustained if Salvadorean sugar sales were being transacted at the world market price. However, El Salvador has been granted an increased quota in the U.S. market, and domestic consumer prices have been kept well above world market levels. Access to both of these protected markets has maintained profitability for producers and, given the currently low or negative profitability of other crops, has induced sustained increases in production. Further increases in production will encounter difficulty in finding protected markets, however.	1. Implement an agricultural pricing strategy designed to restore profitability to sugarcane cropping alternatives. 2. For the medium term, review producer pricing strategy to avoid excess production which would have to be sold at a loss on the world market.

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TABLE NO. 10 (Page 6)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
9. Producer guarantee prices/ cotton	To prevent the further deterioration of cotton production	COPAL	0	0	0	0	-1	Cotton guarantee prices are alleged by producers to fall below average costs of production. The poor quality of available statistical data and the high degree of variability in production costs make it impossible to confirm or deny the accuracy of this allegation. Serious pest management problems do contribute, however, to El Salvador's being a high-cost cotton producer in comparative international terms. Whatever the true cost situation, guarantee prices have, since their implementation in 1982, not been fixed early enough in the crop year to have had an influence on production decisions.	1. Announce guarantee price levels before the planting season (i.e., during the first quarter of the calendar year) 2. Improve the survey and statistical basis for production cost estimation 3. To sustain the medium- to long-term viability of cotton production in El Salvador, initiate research on more effective and environmentally safe pest management and cost reduction. Unless these problems are solved, cotton production in El Salvador may not be sustainable over the long run.

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TABLE NO. 10 (Page 7)
POLICY CATEGORY: SUBSECTORAL

POLICY INTERVENTION/ IMPACT SECTOR	PURPOSE	POLICY-MAKING/ IMPLEMENTING INSTITUTIONS	IMPACT ASSESSMENT: PRODUCTION	IMPORT EXPENDITURES	DOMESTIC CONSUMPTION	EXPORT REVENUES	GOVERNMENT REVENUES	EXPLANATION OF POLICY INTERVENTION AND IMPACT	PRINCIPAL ALTERNATIVES SUGGESTED FOR ANALYSIS
10. Selective devaluation/cotton	To prevent further deterioration of cotton production	Junta Monetaria, COPAL	0	0	0	0	-1	For the 1984 season, it has been agreed that 15 million dollars of export proceeds will be returned to producers at the parallel rate of exchange. In addition, 50% of production from any increment in planted area over 50,000 hectares will also be converted at the parallel rate. While these provisions will contribute to improving the financial situation of cotton growers, agreement was probably reached too late to significantly affect planted areas this year. The measures represent a move in the right direction in implementing a pricing strategy for cotton, but suffer from the following deficiencies: (a) they may be too little, certainly too late for the current crop year, (b) the incentives they represent are not clear enough to be readily understood by the individual farmer, and depend in part on the actions of others before they can be realized. (c) policy intervenions in cotton have been implemented on an ad hoc, year-to-year basis, thus contributing to growers' uncertainty in decisionmaking.	1. Formulate and publicize production incentives in a more timely manner 2. Express the impact of such incentives in the form of a price which the producer can more readily understand 3. Improve the survey and statistical information base necessary for evaluating the impact and adequacy of alternative policy options 4. Develop a long-term policy for the crop, permitting growers to better evaluate long-term investment decisions
11. Policy vacuum/ fruits and vegetables			-2	-2	-2	-2	-2	Other than incidental inclusion of these activities in policy measures intended for other purposes, there is no apparent policy specifically supporting these potentially high-growth, high-employment crops. Lack of GOES support has hampered their development.	1. Focus statistical and analytical resources on the development of appropriate policy instruments.

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IV. AGRICULTURAL SECTORAL POLICY INVENTORY

An analysis of the different policies affecting the agricultural sector in the aggregate is presented in this chapter. These policies are discussed in terms of: objectives, instruments, legal and institutional bases, institutional division of responsibilities, implementation, effectiveness, and impact at the sectoral level.

Land Tenure Policy

Current land-tenure policy is based on the application of reforms begun in 1980. The specific objectives as defined by the GOES are to:

- Increase and improve the distribution of rural families' income and thereby permit the generation of savings and the formation of capital;
- Increase and diversify agricultural production; and
- Increase effective employment and reduce its seasonal variations.

The achievement of these medium-term objectives will depend on sectoral development strategy and the effective application of policy instruments promoting the reform. The development of the agrarian reform process during recent years and the serious difficulties encountered in its implementation have led to priority consideration being given to consolidating the reforms already effected as an immediate objective. The present goal is to ensure that enterprises in the reformed sector become self-sufficient financially, technically, and administratively.

The government is giving priority to the reformed sector, using the following policy instruments: legal, technical assistance, credit, social promotion, co-management, training, and marketing.

Legal Instruments

Legal instruments have laid out the institutional framework and govern actions in the development of the agrarian reform. Their sequence gives an overview of the different stages of the process and the interactions which occur within the system. Figure 1 contains a description of the main legal instruments in force.

Technical Assistance to Production

With agrarian reform, technical assistance has gained greater relevance because of the need to assist many of the small producers and rural workers in integrated production techniques and rural administration. The effort involved in providing technical assistance to 312 productive units (cooperatives) with an area of 211.9 thousand hectares is tremendous in terms of both human and physical resources.

Figure 1. Legal Bases for the Agrarian Reform Process: El Salvador

DECREE AND DATE	SUMMARY
Decree 153 (March, 1980)	Proclaiming an Agrarian Reform affecting 100 hectares for land in classifications I, II, II and IV, and exceeding 150 hectares for land classified V, VI and VII. Owners were allowed to reserve from 100 to 150 hectares, and continue farming that land after the rest is expropiated.
Decree 154 (March, 1980)	Authorized the reform but stipulates that only the property of persons owning more than 500 hectares be expropriated. This stage is known as phase one. (I).
Decree 207 (April, 1980)	Establishes the right for all renters to purchase the land they tilled, up to seven hectares. Provided a cut-off date of March 3, 1982 for receiving applications for land purchase farm potential beneficiaries.
Decree 124 (January 19, 1982)	Added regulations for the governance of cooperatives, the membership, and the responsible administrative parties.
Decree 970 (February, 1982)	Extended Decree 207 for one year to allow registration of potential Phase III beneficiaries.
Decree 3	Revoked Decree 114, which allowed expropria-

Figure 1. (continued)

(April, 1982)	tion without prior compensation. Decree 153 provides for compensation to be paid to the farmer owners of properties acquired by ISTA.
<u>Decree 11 and 13</u> (May, 1982)	Define eligible beneficiaries and reaffirm their rights while implementing Decree 207 revised the implementing regulations of Decree 207.
<u>Decree 124</u> (Jun, 1982)	Governing Statutory Regulations of the Agricultural Cooperative Associations.

Assistance is currently provided by CENTA through its 63 agricultural extension agencies. Other institutions (ISIC, CDG, CENREN, and CENDEPESCA) also offer some technical assistance to the reformed sector.

CENTA has given priority to the reformed sector, using the resources of the Agricultural Extension Division for this purpose. The third evaluation of the reformed sector (PERA, 1983) indicates that during 1982-83 the agricultural extension staff of CENTA served 105 cooperatives, representing 34 percent of the productive units included in Phase I of the process. Advice was provided primarily on the cultivation of cereals, coffee, cotton, and sugar cane, covering 42.3 thousand hectares, which represents approximately 20 percent of the area of the productive units.

Technical assistance to the beneficiaries of Phase III of the agrarian reform process (Decree 207) is more difficult due to the large number and geographic dispersion of the beneficiaries. The results of a survey (PERA, 1982) indicate that 86 percent of the beneficiaries did not receive or did not report receiving technical assistance. However, the technical assistance provided in coordination with the BFA seems to have met with relative success in terms of greater coverage. Recently (1984) CENTA seems to have concentrated its efforts on the beneficiaries of Decree 207. Unconfirmed information indicates that the agricultural extension staff of CENTA has organized 1,200 solidary groups ($\pm$ 5 persons per group for a total of 6,000) for technical assistance purposes.

To carry out its technology transfer work, CENTA has a staff of 503 in its extension department, of which only 207 are field agronomists; therefore, the technician/beneficiary ratio is disproportionately high. The absence of other resources, especially vehicles, seems to be another restrictive factor in the development of the agricultural extension program.

Two aspects of technical assistance to the reformed sector are relevant. The first is quantitative and refers to the low coverage given versus the existing demand, because of the lack of both human and physical resources. The second, perhaps most important, aspect concerns the quality of the technical assistance, its orientation, and strategy.

The main emphasis of extension as currently practiced is aimed at reducing productivity differences with the unreformed sector. It is based on the assumption that the necessary resources and technology exist for reducing this difference and that the main problem is motivating the farmer. This premise, which was the theoretical basis of the agricultural extension programs of the 1960s, has since been substantially modified. There is now clear evidence that small farmers in developing countries respond more slowly to relative market prices mainly because of the absence of the means to respond. These are means, such as access to credit, secure tenure, marketing support systems, which cannot be provided through extension services alone. It is also known that if farmers have such means available, they can allocate their resources efficiently.

Under the new approach to extension, the problem has become one of identifying profit-making opportunities, and to induce farmers to adopt new production methods in these areas; the availability of opportunities offering profits is a necessary condition in the decisions and changes expected of farmers. In a traditional crop agriculture, characterized by modest growth of technical opportunities and low demand growth, agricultural extension has little effect in contributing to the efficient allocation of the farmers' resources. On the other hand, in a modern and diversified agriculture, characterized by a continuous flow of technical and economic opportunities, return on the investment in extension can be substantially higher.

The recent performance of agricultural extension in El Salvador indicate that during agricultural year 1982-83 relatively more assistance was offered to traditional export products (75 percent) and to a lesser extent to basic grains (25 percent); technical assistance to new crops was not of major relevance.

Under current conditions (resources, orientation, and strategy), it is unlikely that agricultural extension will develop new opportunities for farmers or induce them to adopt new production methods. Trained staff is not available for non-traditional farming activities, and the extension strategy does not reflect current knowledge regarding the behavior of farmers.

Credit Assistance

The supply of credit to the productive units of the reform sector constitutes the main policy instrument used by the government to maintain production levels and to consolidate the land reform process. At the beginning of the reforms (March-September, 1980), ISTA was responsible for organizating and granting credit to the beneficiaries with BFA resources. This first stage in granting credit was characterized by a low recovery rate because of the low production levels recorded on the productive units, and because of lack of organization and entrepreneurial management skills. Among external factors, low prices on the international market also considerably affected the cooperatives' income.

In October 1980, productive units of the reform were assigned to the different banks of the system to establish continuity with the financing relation which existed prior to the reform. As a result, the BFA became the main financing institution and the commercial banking system began to participate actively in the credit policy for the reformed sector. Thus, the third evaluation of the process (PERA, 1983) indicates that during 1982-83 the BFA financed 75 productive units in an amount of 36.7 million colones. During the same period, the commercial banks financed 104 units in an amount of 87.0 million colones. The remaining financing was given by Banco Hopotecario (39 units), INCAFE (14 units), and FEDECREDITO (20 units).

Under this new institutional organization, the banks strengthened their agricultural departments, and attention was given to improving the organizational and administrative conditions within productive units. As a result, the credit recovery rate improved considerably; in 1980-81, 77 percent of short-term credit was paid under the agreed terms, 18 percent was refinanced using a special facility established by the Central Reserve Bank, and only 5 percent constituted non-financed delinquent credits. Some commercial banks refinanced certain cooperatives' delinquencies with their own resources, which indicates a growing confidence in their management ability.

The most important characteristic of credit policy in the reformed sector is the development of credit institutions oriented toward the productive units of the sector. Although this strengthening is based to a large extent on the participation of public credit institutions, the participation of the commercial banking system is also important, especially in cases in which this relationship has been handled efficiently under strictly commercial credit standards.

Production risks and the absence of real collateral in productive units are the major restrictive factors to extending more credit, especially because of complicated administrative procedure for handling credits and disbursements. These factors are of most concern for productive units dedicated to the production of basic grains, where the crops have a relatively lower profitability and harvests are not linked to any payment mechanisms, as in the case of export commodities. Another relevant aspect in the development of credit policy in the reformed sector is the high proportion of the credit destined to finance traditional export commodities (76.2 percent in 1982-83); for basic grains it was only 15.0 percent and only 3.0 percent for diversified crops. There are serious implications in the maintenance of this credit structure, especially with regard to the impact of credit as an instrument to induce farmers to adopt new technologies and production activities. The current credit policy is apparently consolidating the production structure which existed before the reform, without inducing technological changes in the direction of initial objectives of the general land-reform policy.

Human Resource Training Policy

Human resource training programs in the sector are implemented by CENCAP, a centralized MAG agency (Decree No. 41 of 1976). With the beginning of land reform, the center was made responsible for training new landowners. New programs were commenced with AID financial support as part of the land-reform process. CENCAP has 12 training centers throughout the country. Training needs and priorities are determined by a National Training Committee. Priorities seem to be oriented toward training of cooperative members in associative entrepreneurial organization; other training emphases are rural administration, teaching techniques, and transfer of technology. The center has reportedly given 744 training courses to a beneficiary population of 21,172 during the last three years (CENCAP Action Plan, 1984).

Interviews with different agency officials and field staff led to the identification of the following problems in implementing the different programs:

- A large proportion of the land-reform beneficiaries are illiterate;
- Deficient administration and organization of CENCAP;
- Lack of coordination among the institutions in charge of developing the programs; and
- Lack of continuity in the programs due to the constant turnover at the national, sectoral, and institutional levels.

The contents and methodologies of the CENCAP training programs are based to a large extent on formal educational standards, with very few elements of non-formal education.

In a population of users where a large percent is illiterate, non-formal educational methodologies might have greater impact. Literacy training should also be implemented before widespread program training.

ISTA also carries out training efforts in the reformed sector. This training is apparently oriented more toward the institution's own promotion technicians in order to improve their academic level.

Social promotion and co-management in the enterprise are considered part of the human resource training program. Within the institutional policy, social promotion is understood to be the process whereby sectors traditionally excluded from national development are induced to incorporate into the new society model. This promotion is being developed by ISTA through 120 promoters who, according to 1983 figures, served 102 cooperatives full-time and 39 part-time. Of the total number of cooperatives, 171 (i.e., 55 percent) had no social promotion assistance (PERA, 1983). During the last two years, both the number of promoters and of productive units served decreased in comparison with the figures for 1981-82, apparently due to a reduction in the budget for development of these programs.

Co-management is a system whereby the state assists the cooperatives until they reach a stage of maturity permitting self-management of the enterprise. The PERA report (1983) indicates that ISTA served 168 cooperatives full-time and 45 cooperatives part-time in 1982, while 95 cooperatives, or 45 percent of the total, received no assistance. The results of this co-management system have been criticized by persons with a direct relationship with the process. A lack of specific training and frequent absenteeism of the co-managers are cited as problems. Although the particulars were not confirmed, the situation warrants a specific study of the system.

Sectoral Fiscal Policy

Budget of the Agricultural Public Sector

Beginning in 1980, the Ministry of Agriculture planned considerable increases in its budget to strengthen those public institutions responsible for changes, especially in land reform. In spite of these intentions, a growing fiscal deficit prevented funding to the planned levels. The shortfall reached close to 42.3 million colones in 1982 (Table 11). As a result, many of the programs have been cut although the cutbacks do not usually include the technical and administrative staff.

Criteria for the allocation of resources in the agricultural sector are not explicitly defined; however, relative importance is given to land transformation and price regulation programs, which include operational expenses of the basic grain support programs developed by IRA. Extension and agricultural research programs have lost importance as part of the total budget of the sector as has support of irrigation and drainage programs.

Distribution of Public Investment in Agriculture

The drastic reduction in private investment in El Salvador has had to be partly substituted by public investment. However, the public sector has not been able to

Table 11. Planned and Funded Budget in the Agricultural Sector

(Thousands of current colones)

Year	Planned	Funded	Difference
1978	113997.2	94242.5	-19754.7
1979	100751.7	106284.4	5532.7
1980	136766.2	131939.2	-4827.0
1981	156703.3	143750.1	-12953.2
1982	166931.2	124549.4	-42381.8
1983	176010.9	n.a.	n.a.
1984	147998.9	n.a.	n.a.

Source: Informes Complementarios Constitucionales 1978-84, Ministerio de Hacienda.

substitute the flow of private capital. Public investment in the centralized institutions of the agricultural public sector is estimated to reach close to 45.9 million colones in 1984. This amount is 19.7 percent higher than in the previous year, but substantially lower than for 1982. Investments for development of beef cattle ranching and animal health have represented close to 50 percent during the last three years, followed by artisanal fishery development and promotion, forestry development, basic grain production promotion, and development of irrigation in land reform (Tables 12 and 13).

Investment was practically suspended in the autonomous institutions of the sector during the last three years. Some investments were made by IRA in plant improvements and collection centers. The investment programs include institutional support and implementation of the land reform process and payments by ISTA of public debts related to land reform compensation. The latter reached 45.0 million colones in 1984.

Public investments of the centralized institutions seem to follow balance-of-payments effects criteria, as in the case of ranching programs, with which it is hoped to substitute imports, especially of dairy products. A second priority seems to be in projects designed to increase the availability of foodstuffs, especially basic grains.

In addition to the financial benefits expected from investment, investment criteria need to be broadened to include consideration of labor intensity. The economy of El Salvador is characterized by massive unemployment and scarcity of capital; thus, it is advisable to give priority

Table 12. Investment Programs in Public Agricultural Sector
(Thousand of Current Colones)

Investment Program	1981	1982	1983	1984	Executive Institution	Financial Source
1. Agricultural Statistics	372.6	-	293.9	293.9	DGEA	GOES
2. Livestock Development and Animal Health	6102.2	23015.4	19165.7	24806.0	CDG	GOES/BID
3. Steers Technological Development	-	-	-	2512.1	CDG	GOES
4. Hidric Resources Master Plan	775.3	853.4	1027.4	746.3	CENREN	GOES
5. Establishment of National Parks System	223.0	300.0	297.0	291.8	CENREN	GOES
6. Land Potential Determination	780.1	580.6	580.0	-	CENREN	GOES
7. Forestal Development	3738.1	5665.0	3425.0	3836.6	CENREN	GOES
8. Natural Resources Inventory	413.5	-	-	-	CENREN	GOES
9. Improvement of Hidrologis Services	231.6	-	-	-	CENREN	GOES
10. Agricultural Technological Development	1138.1	3191.7	380.0	-	CENTA	GOES/AID
11. Agro-Industrial Crop Development	996.0	-	-	-	CENTA	GOES
12. Metereological Research	1353.8	1003.7	912.4	902.4	CENREN	GOES
13. Basic Grains Crop Fomentation	2660.8	3726.8	3400.0	3105.2	CENTA	GOES
14. Irrigation and Drainage, Aticoyo	2228.4	-	-	-	DGRD	GOES
15. Marketing Infraestructure, Aticoyo	1136.7	941.6	900.0	760.0	CENREN	GOES
16. Livestock Development, Zapotitlán	1075.3	-	-	-	DGRD	GOES
17. Irrigation Development, Reform Sector	2059.9	2832.4	2648.3	2236.2	CENREN	GOES
18. Agricultural and Industrial Training	1455.2	876.5	815.8	1127.3	CENCAP	GOES/BIRF
19. Fishing Development	3856.4	-	-	-	DGRP	GOES/BIRF
20. Development of Domestic Fishing	3100.0	8500.0	3468.9	4584.4	DGRP	GOES/BIRF
21. Institutional Livestock Strengthen	346.1	-	-	-	CDG	GOES/AID
22. Irrigation Systems for Small Farmers	-	5012.5	1101.6	788.4	CENREN	GOES/AID
TOTAL	34043.1	56499.6	38416.0	45990.6		

SOURCE: Leyes Generales del Presupuesto (1981-1984).

Table 13. Investment Programs in Agricultural Sector
Decentralized Units
(Thousand of Current Colones)

Investment Program	1981	1982	1983	1984	Executive Institution	Financial Source
-Land Reform Process	9393.1	-	-	-	ISTA	GOES
-Agrarian Reform Institutional Support	8649.3	18124.9	10000.0	10000.0	ISTA	GOES/AID
-Amortization of Internal Debt and Interest Payment	602.0	720.0	45170.9	34712.6	ISTA	GOES
-Construction and Improvement of Basic Grains Assembly Points	350.0	420.2	7725.2	-	IRA	GOES
-Basic Grains Warehouse Construction	880.0	-	-	-	IRA	GOES
-Amortization of External Debt and Interest Payment	340.0	329.8	329.8	329.8	IRA	GOES
TOTAL	20214.4	19594.9	63225.9	45042.4		

SOURCE: Leyes del Presupuesto General.

to investment projects that use maximum amounts of labor per unit of investment.

Direct and Indirect Taxes

Direct taxes affecting the agricultural sector are the agricultural land tax and income tax.

The agricultural land tax (Decree 435 of December 22, 1977) provides that all agricultural landowners whose land has a value of 200,000 colones to 900,000 colones pay 1 percent of the appraised value. If the value of the property exceeds 900,000 colones, 200 thousand colones are deducted and 1 percent of the appraised value is paid on the resulting amount. Collections have dropped considerably as of 1983, to 40 percent of that collected in 1978 (Table 14).

Income tax (Decree No. 482 of December 19, 1963 as amended) provides that all individuals whose annual income exceeds 7.0 thousand colones are subject to payment of this tax. There are no special exemptions for persons engaged in agricultural activities, except in the case of poultry raisers, who enjoy special incentives under the Agricultural Development Law.

In addition, there are taxes on imports and exports which directly affect the agricultural sector.

Sectoral Monetary Policy

The Law Nationalizing Credit Institutions and Savings and Loan Associations has been in force since March 15,

Table 14. Taxes Affecting Directly Agricultural Sector
(Thousand of current colones)

	1978	1979	1980	1981	1982	1983	1984[a]
Agricultural property	10149.0	7690.0	5015.6	4269.7	4273.7	4000.0	6766.3
Food imports	8903.7	11836.8	9755.9	8197.5	5301.0	7000.0	11233.5
Exports							
Coffee	243500.0	392000.0	273566.2	232008.1	195861.7	181300.0	245046.9
Shrimp	784.8	881.1	1792.4	3053.7	2621.8	3500.0	2242.0
Sugar	1.1	735.8	544.6	224.1	861.3	5176.4	5208.0
Total	263338.6	413143.7	290674.7	247753.1	208919.5	200976.4	270496.7
Total revenues of the GOES	1251365.0	1451925.3	1676063.7	1988518.0	2111069.0	2058803.0	2298441.7
Agr. taxes as percent of total revenues	21	28	17	12	9	10	12

a. Estimated.
Source: Informes complementarios constitucionales 1978-84.

1980. One of the objectives of this law is to orient investment and credit policies toward the funding of projects tending to diversify the production of basic goods and services, as well as to diversify the country's exports. Although the banking system tried to orient its banking policy toward these objectives, the credit methods and procedures of commercial banks did not change, and their operations continued under the norms established when they were private banks. However, as a result of these reforms the agricultural departments of the banks were strengthened, and BFA rose again as a credit institution for direct support to the land reform process.

Credit

As part of the sectoral monetary policy, the government uses agricultural credit as the main support instrument in maintaining production levels and consolidating the new land-holding system. Within this framework, the priority objectives of the government credit policy have been: (1) maintain production and productivity levels of the three main export commodities; (2) orient its operation to the production of basic grains; and (3) promote access to credit among the new agricultural entrepreneurs who rose from the land reform process.

To attain these objectives, the government strengthened the credit-granting capacity of the BFA. In fact, in 1980 the Bank gave credit of 272.2 million colones to the agricultural sector; 40 percent was for the harvest of traditional export crops, 36 percent for the promotion of basic gains, 10 percent for new crops, and 11 percent for beef and poultry raising. In 1983 the amount for exportable products decreased to 33 percent, mainly as a result of a lower demand for credit for cotton growing. The proportion for basic grains remained stable and growth was experienced by the participation of new crops and ranching (Table 15).

In spite of the important role of the BFA, the commercial banking system continues to be the main agent in the mobilization of credit within the sector. In 1980, the banking system granted 505.5 million colones, which increased to 729.4 million in 1983. In absolute terms, this shows greater growth than that of Banco de Fomento. An important characteristic of the credit granted by the banking system is that more than 90 percent of the amount is destined to the coffee, cotton, and (to a lesser extent) sugar harvests; about 5 percent is destined to basic grains and 2.7 percent to new crops (Table 16).

Interviews with officials of the banking system and users of credit identified the following problems in the credit granting process:

At the BFA:

- Credit does not reach the producer at the right time due to administrative delays;
- The institution does not have an analysis unit which studies the actual effects of credit;
- The norms are apparently not sufficiently clear for the identification of uses; and
- Its ability to prepare credit plans has been reduced due to manpower constraints.

In the commercial banking system:

Table 15. BFA: Credit Allocation in the Agricultural Sector
Millions ¢

Product	1979		1980		1981		1982		1983	
	Abs.	%	Abs.	%	Abs.	%	Abs.	%	Abs.	%
Coffee	9.1	5.2	32.6	12.0	11.0	5.1	12.7	7.1	23.1	11.0
Cotton	38.3	22.0	58.5	21.5	38.9	18.3	37.7	21.0	35.1	16.7
Sugar	3.5	2.0	18.0	6.6	11.0	5.2	12.6	7.0	11.9	5.7
Corn	53.5	30.8	72.7	26.7	65.5	31.0	57.2	31.8	51.0	24.2
Beans	7.8	4.5	10.4	3.8	12.4	5.8	10.5	5.8	6.7	3.2
Rice	11.7	6.7	15.9	5.9	13.6	6.4	11.9	6.6	14.0	6.6
Other Crops	20.3	11.6	27.2	10.0	22.7	10.7	17.2	9.6	29.6	14.0
Cattle	22.9	13.1	22.7	8.3	26.8	12.6	15.0	8.4	28.3	13.5
Poultry	1.5	0.9	7.4	2.7	4.0	1.9	2.3	1.3	4.4	2.1
Fishing	0.9	0.5	1.6	0.6	1.3	0.6	0.4	0.2	1.2	0.6
Bee Keeping & Others	4.8	2.7	5.2	1.9	5.1	2.4	2.1	1.2	5.1	2.4
TOTAL[a)]	174.3	100.0	272.2	100.0	212.3	100.0	179.6	100.0	210.4	100.0

a) Not included refinancing.

SOURCE: Memorias Anuales BFA, 1980/1983.

Table 16. Commercial Banking System: Credit Allocation Within Sector
Agropecuario Credits for New Activities

(Millions ₡)

	1979 Abs.	1979 %	1980 Abs.	1980 %	1981 Abs.	1981 %	1982 Abs.	1982 %	1983 Abs.	1983 %
Coffee	288.8	51.2	291.4	57.6	301.0	54.3	481.3	63.1	508.6	69.7
Cotton	175.9	31.2	141.6	28.0	157.9	28.5	170.7	22.4	115.3	15.8
Sugar	24.8	4.4	19.4	3.8	33.2	6.0	44.5	5.8	37.4	5.1
Corn	10.3	1.8	16.7	3.3	17.2	3.1	18.2	2.4	9.6	1.3
Beans	0.9	0.1	1.5	0.3	3.3	0.6	3.4	0.4	1.5	0.2
Rice	8.0	1.4	6.4	1.3	8.6	1.6	7.1	0.9	5.0	0.7
Other Crops	31.5	5.6	23.2	4.6	15.5	2.8	20.7	2.7	19.3	2.6
Cattle	11.1	2.0	2.7	0.5	8.2	1.5	8.9	1.2	12.3	1.7
Poultry	9.8	1.7	1.3	0.3	2.3	0.4	3.5	0.5	7.6	1.0
Fishing, Beekeeping & Others	2.5	0.4	1.3	0.3	7.5	1.4	4.8	0.6	12.8	1.8
TOTAL	563.6	100.0	505.5	100.0	554.7	100.0	763.1	100.0	729.4	100.0

AGROPECUARIO CREDIT REFINANCING (MILLIONS ₡)

	1979 Abs.	1979 %	1980 Abs.	1980 %	1981 Abs.	1981 %	1982 Abs.	1982 %	1983 Abs.	1983 %
Coffee	45.3	62.0	58.7	62.6	156.2	80.0	203.5	66.8	321.1	76.7
Cotton	17.6	24.1	13.6	14.5	12.3	6.3	71.0	23.3	62.8	15.0
Sugar	3.1	4.2	4.3	4.6	1.2	0.6	0.6	0.2	2.9	0.7
Others	7.1	9.7	17.2	18.3	25.5	13.1	29.6	9.7	32.0	7.6
TOTAL	73.1	100.0	93.8	100.0	195.2	100.0	304.7	100.0	418.8	100.0
Grand Total (New & Refinan.)	636.7		599.3		749.9		1067.8		1148.2	
New Credits as % of Grand Total	88.5		84.3		74.0		71.5		63.5	
Grand Total Deflated	636.7		510.5		556.7		709.5		674.6	

> The existing rules make it difficult to obtain credit, especially for cooperatives.

The aspects identified in the case of the BFA are basically administrative in nature. There are also technical deficiencies, possibly due to the amount of staff available and/or their ability to carry out credit planning and analysis. In the case of commercial banks, the difficulties are due to the application of normal banking procedures; however, several cooperatives have complied with these procedures and maintain financial relationships with commercial banks.

The producers' growing delinquent debt with the banking system constitutes one of the main obstacles in the application of the credit policy. The amount of this accrued debt reached 1,148.2 thousand colones in 1983, representing 36.5 percent of the total credits granted by the banking system. The existence of this debt has two important implications: (1) it limits the expansion of new credits; and (2) it increases production costs as a result of the payment of additional interest. In fact, the amount of new loans granted (Table 16) in 1983 decreased by 33.7 million colones with respect to the preceding year, whereas the delinquent debt, using the same period as a reference, increased by ₡126.3 million in 1983. The BCR has implemented a mechanism for refinancing the debt, consisting of an annual guarantee of individual debts vis-a-vis the banks of the system through discountable papers. The objective of this mechanism is to ensure that producers continue to be creditworthy at the banks of the system.

Interest Rates

The interest rate on loans to the agricultural sector is fixed by the Monetary Board both for loan and savings operations. The criteria for establishing interest rates are basically promotion of domestic production, with a reference point which is nonetheless not a determining factor on the interest rate prevailing on the international market. There is a system of selective rates, depending on whether the loan is for production, consumption, or agricultural production. Under these criteria, the following active rates were fixed on February 28, 1984:

Class "A" (Production)	Previous	Current
Less than three years	15.0	14.0
Three years or more	16.0	15.0
Class "B" (Consumption)		
Less than three years	18.0	16.5
Three years or more	18.5	17.0

Agricultural activities are defined under Class A; however, there are preferential rates for the promotion of basic grains, new productive activities, and coffee harvesting for medium-sized and small producers. The interest rate in these cases is 13 percent.

Based on the levels of international interest rates and internal inflation, the sector is working with low interest rates that are negative in real terms. In addition to the economic effects which might result from this fact (discouraging internal savings and promoting current consumption), the interest rate level has an important effect on production costs since most producers work with credit.

More detailed studies will be necessary to determine the overall effects of a reform in the interest rate policy.

However, interest rates can encourage commercial banks to grant larger credit amounts. In the case of El Salvador, the interest rates play an important role in the capital labor relationship; a low interest rate leads to the adoption of capital-intensive technologies.

Exchange Rate

At present, there are two rates of exchange: the official one, which is 2.5 colones per 1 U.S.$, and the parallel one, which fluctuates between 3.75 and 3.95 colones per 1 U.S.$. The official exchange rate is applied for the export of traditional commodities (coffee, cotton, sugar), while exports of non-traditional products can be settled on the parallel market. On the import side, foodstuffs, of which milk is the most important one, followed by fruits and vegetables, can be obtained at the official rate; foreign exchange may also be obtained at the official rate for imports of inputs necessary for agricultural production.

The overvaluation of the national currency vis-a-vis the dollar has a considerable effect on the exchange terms of the sector. Because export commodities generate around 45 percent of the value of production, the official exchange rate is generating a shift from the agricultural sector toward other sectors of the economy. This shift is in terms of added value, since inputs are paid for at the same rate of exchange. As a result, traditional agricultural export products are undervalued. Farmers receive less for their crops than they would if the price of foreign exchange were market-determined. On the import side, the official exchange rate discourages local production of foodstuffs, since these have to compete with foreign items at prices lower than those prevailing on the international market.

Sectoral Foreign Trade Policy

Two basic elements have determined the sectoral foreign trade policy in El Salvador: the behavior of the traditional exporting sector and the development of the Central American Common Market. The former has been the main source of foreign exchange and generator of employment in the rural areas. Boom and recession periods in the economy are identified by rises and falls in the prices of these commodities on the international market. The common market favored an import-substitution policy to permit the development of light industry for Central American consumption. Unfortunately, this industrial growth was not based on the transformation of local raw materials, but rather on the import of inputs and capital goods. As a result, the agricultural sector (with the exception of cotton) was not favored by the process, which may have slowed down the diversification and expansion of the sector. Interest in promoting exports of non-traditional commodities began in recent years.

The growing scarcity of foreign currency has considerably modified certain foreign-policy concepts, establishing controls, quotas, and additional barriers which regulate the transfer of foreign exchange.

The above criteria allow us to identify the objectives of the foreign trade policy as follows:

- To maintain the level of exports of traditional agricultural export commodities;
- To substitute imports of basic consumer goods;
- To generate foreign exchange for the operation of the economy; and
- To diversify exports with non-traditional commodities.

Tariffs, Subsidies, and Quotas for the Importation of Agricultural Commodities

Products originating in Central America are governed by the provisions of the General Economic Integration Treaty. Under this treaty most commodities have unrestricted trade, although some are subject to a tax provided in the tariff. The following items are of special importance for this study: wheat flour, sugar cane, unroasted coffee, and cotton. Central American goods imported in free trade are only subject to payment of the Selective Consumer Tax and the Sealed Paper and Fiscal Revenue Stamp Tax.[1]

The Sealed Paper and Fiscal Revenue Stamp Tax is applied to imports from Central America as well as from other countries. Agricultural inputs and commodities (fertilizers, insecticides, fungicides, and raw materials necessary for production) are exempt from this tax. Wheat and foodstuffs in the natural state for human consumption, animal feed concentrates, and raw materials for their manufacture are also exempt.

1. The selective consumer tax does not affect agricultural products.

Imports from countries outside the Central American Commodity market are subject to import duties set by the Central American Import Tariff (NAUCA), which establishes specific tariffs by item and a percentage over the declared CIF value of the goods. Therefore the domestic price of imported goods is equal to the sum of their CIF price plus duty. The nominal protection rate is therefore equal to the value-based tariff. Tables 17 and 18 contain a description of the import tariffs applied to the main agricultural commodities and inputs. The affected agricultural commodities are fresh fruits and vegetables, with a nominal protection tariff of 10-25 percent. Processed foods, cereals, and native cattle are also under tariff protection.

A series of regulations for importing are administered by the Foreign Trade Ministry (MICE). These include the following:[1]

- Obtaining an import license;
- Items which require the approval of the MAG;
- Plant and animal health; and
- Items subject to import licenses.

The objects of these provisions are basically protection of domestic production and to ration foreign exchange by virtue of bilateral trade agreements.

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1. For more information on these regulations, see the MICE Import Manual.

Table 17. El Salvador Tariffs or Imported Agricultural Products

(June 1984)

Description	Unit	Tariffs: Specific per unit ¢	Tariffs: Ad-valorem percent
<u>Cattle</u>			
Native bovine cattle	Heads	7.00	10
Native porcine cattle	Heads	4.00	10
Poultry	Heads	0.25	15
<u>Cereals</u>	Kilo		
Wheat		0.005	Free
Rice (paddy)		0.10	10
Corn without mill		0.08	10
Sorghum		0.08	10
Beans		0.10	8
<u>Fresh fruits</u>	Kilo	0.30	25
<u>Vegetables</u>	Kilo		
Patatas		0.15	15
Onions		0.40	10
Garlics		0.40	10
Vegetables n.s.		0.50	10
Tubercles and starch		0.15	15
<u>Processed foods</u>	Kilo		
Fresh meat		0.60	10
Sausage and salami		0.80	25
Bacon and ham		1.00	30
Pasteurized fresh milk		0.20	10
Condensed milk		0.10	10
Cheese		0.90	15
Honey		1.00	10

Source: Arancel de Aduanas.

Table 18. Tariffs on Import Agricultural Inputs
(June 1984)

Description		Tariffs: Specific per unit ¢	Tariffs: Ad-valorem percent CIF
Fertilizer	(kilos)		
Natural fertilizer		free	2
Sodium nitrate		free	4
Natural phosphate		free	2
Nitrogenous fertilizer		free	5
Phosphate fertilizer		free	5
Potassic fertilizer		free	5
Insecticides	(kilos)		
Chlorinated hydrocarbons (prepared insecticides)		0.10	10
Chlorinated insecticides (others)		free	15
DDT		free	10
Non-chlorinated products		free	5
Others			
Materials and Tools	(kilos)		
Wire fencing		0.05	5
Implements		0.15	8
Machinery and Accesories	(kilos)		
Steam tractors		free	5
Wind mill		free	10
Plow, cultivator, threshing machine		free	5
Other tractors		free	7
Water jumps		free	5
Cereal mill machinery		free	5
Milk machinery		free	free
Bee keeping			
Accessories		free	10
Other agricultural machinery		free	5

Source: Arancel de Aduanas.

Export Taxes, Regulations, and Subsidies

An important aspect of the foreign trade policy is that outside sales of coffee and sugar are taxed. From the point of view of the producer, the tax acts as a production cost, since it cannot be passed on to the consumer when faced with fixed prices and export quotas. For the government, the tax represents a major source of income, which in 1983 reached 295.3 million colones (close to 17.1 percent of its total revenues). Other agricultural commodities are not subject to export taxes.

There are numerous regulations for exporting, beginning with the need to secure an export license, export registration, and plant and animal health certificates.

To expedite the handling of the administrative formalities, the MICE recently announced the opening of a central office where all the formalities can be taken care at the same time. This is undoubtedly a positive step in facilitating the export process.

To protect local consumption levels, a group of agricultural products is subject to export control. Their sale abroad requires a MAG permit.[1] Pursuant to bilateral agreements, some items are subject to export quotas; however, this does not affect the remaining agricultural products, with the exception of eggs.

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1. For more information on regulations, and a list of items subject to export control, see the MICE Exporters' Guide.

Exports of non-traditional commodities outside the CACM are subsidized in two ways: (1) by the establishment of lower interest rates on credit for their production, and (2) through the exchange rate, which enables exporters of these items to receive exchange on the parallel market.

To promote and diversify exports, a unit at the MICE is in charge of advising and assisting potential exporters of new products. This office has apparently had initial successes; however, it lacks adequate resources and a strategy to integrate the different phases of the export process.

Imports Under the PL-480 System

Under Public Law 480 of the United States, El Salvador receives cereal, flour, and oil imports. Under this law, the United States Government makes available to the GOES products either in the form of donations or purchases through concessional loans. The commodities are distributed internally by IRA in the case of cereals and by BFA in the case of vegetable oil. The purpose of these imports is to make up shortages which might appear between domestic production and consumption.

Table 19 contains information regarding the commodities and volumes imported during the last four years. The importance of wheat, corn, and vegetable oils can be seen. Wheat is not produced in El Salvador due to ecological factors, and has to be imported. Purchases of vegetable oil have been necessary due to the drop experienced in the availability of cotton seed; while yellow corn partly substitutes for the drop in the production of sorghum.

Table 19. El Salvador Imports Under the US PL-480
(thousands of metric tons)

Commodity	1981	1982	1983	1984[a]
Wheat	108.7	90.3	115.5	131.0
Corn (yellow)	32.3	18.0	94.0	77.0
Vegetable oil	8.5	13.0	15.2	14.5
Rice			4.8	6.4
Soy bean flour	19.0	24.0	24.0	30.1
Meat flour	2.5	2.3	2.4	5.9
Animal fats	23.7	24.0	24.0	21.4
Chickens ($)	-	235.8	710.5	-
Fertile eggs ($)	-	-	81.6	-

a. Estimates.
Source: OCOPROY.

There is no evidence that these imports have had a significant impact on the price of corn, since volumes have been used basically for the preparation of concentrates; a possible effect may exist in terms of discouraging the production of sorghum. In the case of rice, imports represented 11 percent of domestic production in 1984.

Regulation of Prices and Marketing

Government intervention in the market is strong, especially in the areas of production and consumption of food items and the distribution of agricultural inputs.

There are important regulations in the area of minimum wages and bank interest rates.

Marketing of Agricultural Products

Export Commodities

Upon the nationalization of the sugar and coffee foreign trade, INCAFE and INAZUCAR were created to control the external marketing of these commodities. The state thus became the executor of export activities of these two items, with a view to putting order in the market and making sure that export revenues support the national development policies and programs.

Internal and external sugar marketing was nationalized in 1980, by Decree 237. The law provides that marketing of the sugar cane to be delivered to the processing plants be placed in the hands of INAZUCAR.

Basic Consumer Goods

The state participates through IRA in the marketing of basic foodstuffs: corn, rice, beans, milk, and sugar. The object of this policy is to increase the efficiency of the marketing process, guaranteeing the consumer a timely supply at stable prices. On the producers' side, the policy aims to maintain a support price which will stimulate production and guarantee the producer a fair price. However, due to limited buying power and possibly to administrative problems, IRA has only marketed 15-20 percent of the domestic production of basic grains and an even lower proportion of other items.

Input Marketing

The state participates through the BFA in the import and marketing of agricultural inputs, which are distributed among small and medium-size producers on a preferred basis. In 1983, BFA sold around 40 percent of all fertilizer sales and 20 percent of pesticide sales, having a decisive influence on the determination of domestic prices, since private initiative waits for the bank's price before fixing the market price.

Seed Production and Marketing

The MAG participates in the production and certification of seeds for basic grains and their marketing through the BFA, which introduces improved seeds to the producers of basic grains.

Minimum Wages

In nominal terms, agricultural minimum wages have remained constant since 1979 at ₡5.20 per 8-hour day for men over 16 years of age and ₡4.60 for women and men under 16. Minimum wages for the coffee growing sector are ₡14.25, for cotton ₡8.00, and ₡11.50 for cane. Wages during the harvest season tend to increase, depending on international prices and the time of the year.