

PN-ABD-217
62689

UNCLASSIFIED

Country Development
Strategy Statement

FY 1990-1994

USAID/EL SALVADOR

FINAL - JUNE 1989



Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

CDSS
TABLE OF CONTENTS

	<u>Page No.</u>
I. ENVIRONMENT FOR DEVELOPMENT.....	1 - 9
II. THE A.I.D. STRATEGY.....	10 - 13
III. ECONOMIC STABILIZATION AND GROWTH - OBJECTIVES: STABILIZE FINANCIAL STRUCTURES, PROMOTE EXPORTS.....	14 - 21
IV. LONG TERM GROWTH - OBJECTIVES: INCREASE AGRICULTURAL PRODUCTION, PROMOTE EXPORTS, STRENGTHEN THE PRIVATE SECTOR.....	22 - 31
V. LONG-TERM GROWTH - OBJECTIVES: STRENGTHEN THE PRIVATE SECTOR, PROMOTE EXPORTS.....	32 - 38
VI. SOCIAL STABILIZATION - OBJECTIVES: IMPROVE INFRASTRUCTURE, THE NATIONAL PLAN, ASSIST DISPLACED PERSONS, EARTHQUAKE RECONSTRUCTION.....	39 - 48
VII. SPREADING THE BENEFITS OF GROWTH - OBJECTIVES: IMPROVE EDUCATIONAL OPPORTUNITIES, INCREASE PARTICIPANT TRAINING..	49 - 54
VIII. SPREADING THE BENEFITS OF GROWTH - OBJECTIVES: INCREASE ACCESS TO FAMILY PLANNING, REDUCE INFANT AND CHILD MORTALITY, IMPROVE HEALTH AND HEALTH SERVICES.....	55 - 59
IX. SPREADING THE BENEFITS OF GROWTH - OBJECTIVES: IMPROVE HOUSING.....	60 - 62
X. STRENGTHEN DEMOCRATIC INSTITUTIONS.....	63 - 69
XI. ANNEXES	
A. SPECIAL INTERESTS: OTHER DONORS, LOCAL CURRENCY, WID, GOES MANAGEMENT CAPABILITY.....	1 - 7
B. AAPL RESOURCE TABLES.....	1 - 5
C. PERSONNEL TABLE.....	1 - 2
D. ENVIRONMENTAL AND RESOURCE CONSERVATION.....	1 - 10
E. ECONOMIC POLICY DIALOGUE MATRIX.....	1
F. SUMMARY OF NON-ECONOMIC POLICY DIALOGUE.....	1 - 2
G. WFP FOOD IMPORTS.....	1
H. ACRONYMS.....	1 - 2
I. BIBLIOGRAPHY.....	1 - 7

I. ENVIRONMENT FOR DEVELOPMENT

A. Introduction

El Salvador finds itself, once again, at a critical turning point in its history. For almost ten years, it has successfully fought off a Marxist insurgency which in 1983 had more combatants than did the Salvadoran armed forces. Today, the insurgents have virtually no chance of taking power through violent means. Democracy is functioning for the first time in this small country and a political and economic system formerly dominated by a small group of the wealthy and powerful is taking its first solid steps toward becoming a pluralistic society with broad-based participation.

The causes of both the insurgency and the reforms were the centuries-old economic, social and political injustices which virtually disenfranchised 70 to 80 percent of the population and concentrated the country's wealth in the hands of a small minority. In 1979, a coup by reformist military officers and a subsequent civilian-military junta began a far-reaching process of social and political change. This process continued under the government which came to power in 1984 in the country's first free democratic Presidential elections in 52 years.

The initial years of reform (1979-1983) were marked by the rising power and violence of the leftist guerillas who were fighting the government, and a similar force of lawless right-wing extremists who used the same tactics of intimidation, terror and murder that was practiced by the left. The result was economic and social chaos.

B. The Crisis Leading to Increased A.I.D. in 1983

As the scale of fighting increased, economic conditions worsened. Between 1978-82 real GDP fell by 32 percent and real per capita GDP by 28 percent. Over 500,000 persons were displaced from their homes and hundreds of thousands more migrated to other countries. Schools, health facilities and municipal centers were destroyed. Dams, power lines, water supplies and railroads were attacked and damaged by the guerrillas. Over the course of the first four years of fighting, every major bridge in the country was sabotaged. Foreign investors left and domestic businesses closed their doors. Massive capital flight took place. Between lost production and destroyed infrastructure, the cost ran to some \$2.6 billion. In 1981, the insurgent forces boasted that with one more major offensive the country would be theirs.

Recognizing the seriousness of the situation, the U.S. Government framed a strategy emphasizing substantial resource transfers (about \$2.0 billion between 83-89) to stabilize the economy, restore the provision of essential social services, and to effect a more equitable distribution of wealth. Our balance of payments support program was designed to arrest the downward slide in output, employment, and incomes. The associated local currency program, as well as dollar funded activities, were directed to restore health, education systems and public utilities. In addition, substantial dollar and local

currency resources were allocated to supporting GOES efforts to effect a more equitable distribution of wealth, primarily through the redistribution of land. Finally, U.S. food aid and temporary job programs enabled the GOES to address the social shock of war-displaced persons.

C. Impact of A.I.D. Assistance

This strategy achieved measurable results on all fronts.

1. Macroeconomic

Almost \$1 billion in Balance of Payments Support since 1983 has allowed the government to arrest the rapid decline in economic growth from 1980-1983, maintain levels of employment, and to prevent further deterioration in the income levels of the poor. By providing the dollars necessary to import raw materials, machinery and spare parts, the U.S. played the critical role in preventing the Salvadoran economy from falling into total disarray. The local currency generated from the Balance of Payments assistance allowed the government to finance the reconstruction of war and earthquake damaged infrastructure, and provide the basic social services needed in health, education and welfare. It also provided the equivalent of \$US 800 million in production credit to the private sector, further helping to stem the economic decline. Finally, Balance of Payments support helped to reduce the extent of the decline in the standard of living of the Salvadoran people to a tolerable level, and raise the level of resources available for social programs by 35 percent over what they would have fallen to without U.S. aid.

2. Maintenance of Social Services and Provision of Humanitarian Assistance

U.S. assistance has been critical in keeping the basic health and educational systems functioning. By 1982, the supply of medicines in government health clinics and hospitals was nearly exhausted. U.S. assistance financed the importation of medical supplies and helped the GOES to develop more efficient distribution systems for the drugs. A.I.D. resources were also used to strengthen the administration and management of the Ministry of Health to enable it to maintain a reasonable curative health system in the urban areas and to keep at least minimal assistance flowing to rural areas. While the health situation is still sub-standard, acute malnutrition has not increased, infant and child mortality is down since 1978, and the incidence of vaccine-preventable disease such as measles and polio has dropped. The population growth rate, without considering migration, has dropped by one half percent since 1977 and now stands at 2.5 percent annually.

In spite of the insurgency, the educational system continues to operate and 2/3 of the children of grammar school age are now enrolled in classes. A.I.D. programs have rehabilitated 3,000 classrooms, reopened over 300 schools, and provided desks, textbooks and teaching materials to thousands of children and teachers. Without these programs, it is doubtful that the Ministry of Education could have maintained its efforts in the rural areas.

Since 1982 guerrilla sabotage has forced the GOES to repair damage totalling \$1.5 billion to the electrical grid, to highways, bridges, and water systems. With technical assistance and equipment provided by the U.S., Salvadoran institutions are able to put these basic services back on line in a matter of hours or days rather than weeks or months.

U.S. humanitarian assistance programs have provided more than 500,000 persons displaced at the height of the war with temporary housing, health services and food to ease their initial dislocation. They were then assisted in finding employment and integrating into their new areas. As war conditions improved, many were helped to return to their homes and farms and given financial assistance or materials to start anew. The number of displaced persons is now down to around 125,000 and by early 1991, these will have been relocated to their original homes, integrated into new areas, or absorbed into Salvadoran social assistance programs. The 1986 earthquake which left more than 300,000 persons homeless and did \$1 billion in material damages to San Salvador required almost \$150 million in ESF funds to bring the capital city back into operation. Food, shelter and medicines were furnished, temporary housing was provided, credit to reconstruct permanent housing and businesses was made available and more than 60 temporary buildings were constructed to house government offices. A.I.D.-financed projects also provided short term employment to thousands of laborers and residents hired to remove the rubble.

3. Enhanced Equity

One of the most critical and far-reaching reforms of the Salvadoran government has been a major transformation in land tenancy. In a country which was noted for its inequitable land distribution, almost 25 percent of the farmland has been distributed to tenant farmers, sharecroppers and farm laborers. The U.S., through the provision of credit and technical assistance, has helped these new land owners obtain legal title, begin to improve their holdings and increase and diversify their production. Almost one-half million farmers and family members have directly benefitted from the land reform program.

4. Improved Democratic Processes and Institutions

By providing humanitarian assistance, avoiding a breakdown in the provision of social services, and supporting the economic base of the country, the U.S. has given the government of El Salvador the time and stability necessary to consolidate the reforms which it has initiated. This was particularly critical for carrying out land reform and for guaranteeing the long-term viability of democratic institutions - the electoral process, free labor unions, the legislature, and in improving the observance of human rights and due process of law. Improvements made in these areas directly address many of the root causes of the insurgency.

In spite of imperfections in the process and strident criticism from those unfamiliar with either pre-1979 El Salvador or the realities in other Latin American countries, the democratic process has a foothold in this country, and improvements, albeit perhaps small by our standards, have been made. One presidential election has been held, Legislative Assembly elections were carried out in 1985 and 1988, and, in the elections for mayors in 1988, the opposition party won the majority of the municipalities.

Reforms of the judicial system, while also slow, are proceeding, as are improvements in a formerly powerless legislative body. The democratic labor unions acknowledge that collective bargaining with employers is now a normal procedure rather than the exception that it was prior to 1979. The outright violent intimidation and persecution of labor unions and cooperatives which was widespread in the past has all but disappeared. Given the situation which prevailed before the reforms began, the progress has been remarkable, particularly when one considers that, under wartime conditions, individual liberties and constitutional rights are usually contracted rather than expanded. The encouragement and assistance provided by the United States were key factors in creating the conditions in which such progress could take place.

C. Summary Resource Table

Table 1, below, summarizes the absolute minimum resource level required to implement our strategy. The amount requested will enable El Salvador to consolidate its democracy, stabilize its economy and broaden participation in social and economic benefits throughout the society.

Table I

APPLS PROVIDED IN AID/W CDSS GUIDANCE FOR EL SALVADOR

	<u>FY 1990</u>	<u>1991</u>	<u>199</u>	<u>1993</u>	<u>1994</u>	<u>TOTALS</u>
ESF	185.0	155.0	110.0	100.0	79.0	629.0
DA	78.0	80.0	80.0	80.0	80.0	398.0
PL-480, TITLE I	35.0	35.0	30.0	27.0	25.0	152.0
PL-480, TITLE II	4.8	5.2				4.8
TOTAL	302.8	275.2	220.0	207.0	184.0	1,183.8

If El Salvador is only allotted the AAPL figures over the five-year planning period, the ESF balance of payments assistance will decline by over 57 percent (from 185 to 79); DA funds will remain constant and P.L. 480 resources will drop gradually. By FY 1994, total resources levels will have dropped more than 40% (302.8 to 184). This precipitous phase down, especially in the ESF Balance of Payment support component, is unjustified. Given the need for economic reform, the sluggishness of the economy and the continuing war, it seems

highly unlikely that the GOES will be able to absorb a \$300 million drop in ESF assistance over the later part of the CDSS period without major disruptive cuts in social services and economic growth. Keeping ESF balance of payment support at approximately the FY 1990 levels of 185 million over the FY 1991-1994 period is strongly recommended.

The changes in economic policy sought by the Mission during the CDSS period will set the stage for improved economic performance, especially in the rate of growth in real GDP. Improved economic performance will generate higher levels of export earning and increased flows of private foreign capital. However, these gains will likely not be sufficient to cover the balance of payments deficit that will probably exist even at higher levels of growth. Consequently, El Salvador will continue to require external donor assistance during the CDSS period as well as throughout much of the 90's.

The Mission has estimated this gap to be approximately \$150 - \$180 million annually during the period 1990-94. Our strategy assumes that improved economic policies will open the door for other external donor programs, such as those of the World Bank and the IMF, allowing USG participation to decline as projected above. If other donor participation does not materialize, USG assistance must remain at current levels; otherwise targeted growth in employment, incomes and social services will not be achieved, and the continued financing of rural service delivery programs put in place during 1990-94 will be in jeopardy.

The Summary Table II on the next page, (together with the explanatory narrative and the resource tables in Annex B) indicates clearly that the overwhelming majority (90 percent) of programable funds needed to implement the strategy will be applied to programs that will benefit low income segments of the society. The balance will be assigned to productive development activities that will benefit the society at large.

D. The Current Picture

As discussed above, progress has been made in addressing the problems which caused the social upheaval at the start of the decade. However, much remains to be accomplished for the country to achieve both sustained economic growth and broad participation in the benefits of such growth.

To avoid long-term dependency on U.S. assistance, the GOES must adopt a variety of economic and social reform measures, such as those set out in Annex E (Economic Policy Dialogue Matrix). These policies need to be combined with investments designed to provide sustainable improvement in the quality of life of the poor majority. Key improvements are needed in the productivity of small farmers, small businesses, and in the quality and extent of education and health programs. New job generation in the private sector, both in industry and agriculture, is paramount. However, the war continues to be a constant drain on GOES resources, and large scale capital repatriation is unlikely unless the armed conflict abates significantly. Thus, strong economic growth is several years away, probably in the latter half of the 1990's.

1. Macroeconomics

The economy today has made only a modest recovery relative to its high point in 1978. GDP and GDP per capita are 85 percent and 73 percent, respectively, of their 1978 levels. Unemployment is down, but so are real wages. Inflation has declined, but it remains currently at 20 percent per annum.

In spite of a two-year struggle to reduce the rate of inflation, lower the fiscal deficit, and give nontraditional exporters a more favorable climate, the Salvadoran economy today is laboring under several obstacles to recovery and growth. An overvalued exchange rate, supported by numerous import restrictions, reduces the profitability of many actual and potential export products and dampens demand for domestically produced goods, e.g., corn, fruits, and other vegetables, which are produced by small farmers. The fiscal deficit places increasing demands on the available credit resources of the financial sector. The financial system, characterized by overcentralized operations and a regime of negative real interest rates, is incapable of mobilizing financial savings and channeling credit to the most profitable activities. Finally, inefficient parastatal monopolies in coffee and sugar have created disincentives to domestic production.

Table II

SUMMARY
Planned Uses of Development Assistance, ESF and LC
Broken Out by Sectors, Beneficiaries and
Action Plan Objectives Considerations
CDSS PERIOD
(Millions of US Dollars)

	FY 1990		FY 1991		FY 1992		FY 1993		FY 1994		TOTAL	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
I. Sectors												
Agric. Rural Dev. & Nut.	93.1	33	93.2	37	75.4	37	81.1	42	59.7	35	402.5	36
Health & Pop.	49.9	18	43.4	17	38.2	19	28.6	15	29.3	17	189.4	17
Education	25.6	9	27.3	11	17.4	8	22.3	11	23.4	13	116.0	11
Private Sec. & Misc.	114.4	40	89.1	35	74.0	36	62.0	32	59.6	35	399.1	36
TOTAL	283.0	100	253.0	100	205.0	100	194.0	100	172.0	100	1107.0	100
II. Beneficiary Considerations												
Target Group Social Programs	154.5	55	150.8	60	125.5	61	115.8	60	95.3	55	641.9	58
Target Group Productive Programs	102.5	36	78.0	31	67.3	30	57.4	29	54.4	32	353.6	32
All Society Productive Programs	26.0	9	24.2	9	12.2	9	20.8	11	22.3	13	111.5	10
TOTAL	283.0	100	253.0	100	205.0	100	194.0	100	172.0	100	1107.0	100
III. Action Plan Goals and Objectives												
Econ. and Soc. Stabilization												
-Objective 3-Stabilize Fin. Strucs.	25.5	9	18.1	7	9.0	5	8.0	4	7.9	5	68.5	6
-Objective 7-Expand Infra.	55.1	19	52.7	21	45.9	22	38.2	20	35.4	21	227.3	21
Long-Term Growth												
-Objective 1-Increase Agr. Prod.	30.5	11	31.7	13	25.8	13	34.4	18	19.9	12	142.3	13
-Objective 2-Strengthen Priv. Sec.	60.9	22	60.2	24	56.7	28	45.2	23	45.2	26	268.2	24
-Objective 5-Promote Exports	49.4	17	30.3	12	14.9	7	17.8	9	14.5	8	126.9	11
Spread Benefits of Growth												
-Objective 8-Family Planning	7.0	2	6.2	2	11.0	5	7.2	4	7.2	4	38.6	3
-Objective 9-Health & Child Surv.	27.4	10	21.2	8	17.9	9	15.4	8	14.1	8	96.0	9
-Objective 11-Education	19.6	7	22.3	9	14.7	7	19.8	10	20.8	12	97.2	9
Strengthen Democratic Initiatives												
-Objective 12-Streng. Democ. Insts.	7.6	3	10.3	4	9.1	4	8.0	4	7.0	4	42.0	4
TOTAL	283.0	100	253.0	100	205.0	100	194.0	100	172.0	100	1107.0	100
A.I.D. Operating Expenses	15.0		17.0		15.0		13.0		12.0		72.0	
Non Projectized BOP Support	143.5		116.0		82.0		75.0		59.0		475.5	

2. Political Structures

El Salvador's nascent democracy must be nurtured and its key institutions fortified. It is critical that the upcoming presidential elections be conducted with integrity and that they result in a peaceful transfer of power from one civilian government to another. The Judiciary and the Legislature have yet to achieve equal status with the Executive as first powers of the state, and both entities suffer from severe institutional, human resource and budgetary difficulties. The National Assembly lacks the ability to draft relevant, sound legislation. The Legislature and the Judiciary and the Central Election Committee all suffer from budget deficiencies which inhibit their ability to hire qualified individuals. Decentralization of decision making authority, and the consequent responsibility of municipal governments to provide community services, is in its most incipient stages. Equally incipient is the process of community participation in the operation of local government.

3. Social Equity

Dwindling budget resources have limited advances in the social sectors. It is remarkable that the GOES has been able to maintain a reasonable level of basic education and health services in the face of the war and unfavorable world prices for traditional export commodities.

Like all GOES institutions, the Ministry of Education suffers serious management deficiencies. The Ministry is hard pressed to develop a coherent policy menu to guide the formal training process and is especially lacking in planning capability. Approximately 640,000 primary school age children are without access to formal education. The internal efficiency of the educational system is among the poorest in Latin America (it currently takes 9 years to produce a sixth grade graduate), the curriculum is outdated and teaching methods emphasize rote learning as opposed to problem solving.

The GOES has been able to sustain a reasonably effective curative health system, which is centered mostly in urban areas. And, as noted earlier, there have been some gains in certain health indicators (e.g., reduction in the incidence of infectious diseases and infant mortality) which are largely a product of Ministry of Health sponsored vaccination campaigns. However, the Ministry of Health has suffered from budget cuts over the past decade, a fact which has negatively affected planning capacity and the overall professional quality of its staff. With limited exceptions, there is an absence of preventive health services in the rural areas and, while population growth rate has declined by .5 percent since 1977, tens of thousands of Salvadorans are without access to family planning services. Perhaps most alarmingly, only 13 percent of the rural population has access to potable water.

4. Productive Equity

The productive infrastructure of the country (e.g., road network, power grids, port facilities) was adequate, and in some aspects (viz., highways) above par prior to the outbreak of hostilities. The conflict has been particularly hard

on the road network, where almost 10 percent of the highway system has been lost and the balance, approximately 9,000 kms, has suffered severe deterioration attributable to deferred maintenance. The power grid has remained functional in spite of the repeated guerrilla attacks, but the lack of funding for maintenance has seriously diminished the efficiency of port facilities, and is beginning to impinge on the safety standards of airports. Funding shortages are exacerbated by a government policy that keeps utility rates artificially low to favor consumers, thereby denying the National Water Authority (ANDA) and the National Electrical Company (CEL) the revenues needed to improve service delivery.

If GOES policies are favorable, the private sector can play a vital role in productive growth and equity. The availability of jobs and income can be a politically unifying factor among the population at large. Taxes on productive enterprises can finance investment in social capital to improve services. Jobs can provide the wherewithal for people to pay for such services.

Private enterprise, while beginning to react to the stimulus offered by the CBI, continues to suffer from a series of institutional limitations. Financial and information systems have not kept pace of technology advances. Expertise for production and marketing for overseas transactions are in short supply, and there is a dearth of adequately trained professionals, particularly at the mid-technical and administration levels. A rapprochement between the public and private sectors concerning the conduct of the economy, and the appropriate role for each party in this process, has just begun and requires considerable expansion to achieve the minimum consensus necessary to begin to solve the country's severe social and economic problems. Small and micro businesses have grown tremendously in numbers over the past decade. However, the development of institutions to provide these entrepreneurs with credit, training and technical expertise has not kept pace with this expansion, and we must deal with this constraint to achieve broad-based growth.

The agrarian reform has been successful in correcting the severe imbalances which existed concerning access to land. Nevertheless, the reform is far from complete. Small farmers find themselves in the precarious position of not being able to determine how they will organize their production units in the absence of a clear beneficiary rights law. Over 80 percent of the country's small farmers lack access to formal credit, and lack the technology required to diversify production through the addition of cash crops to their traditional production of basic grains. Linkages between the growers and agroindustries with ties to international markets are absent. An artificially over-valued exchange rate and price ceilings on certain agricultural commodities continue to act as disincentives to increased production. Relatedly, there is still excessive interference in agricultural prices by GOES parastatals--especially with respect to coffee and basic grains. These parastatals distort resource allocations to the agricultural sector and limit its domestic and international competitiveness.

II. The A.I.D. Strategy

A. A.I.D. Strategy Summary

The goals of the A.I.D. El Salvador program are: (1) economic and social stabilization; (2) economic growth; (3) broadening the benefits of growth; and (4) strengthening democratic institutions. Our specific target group is the seven out of ten Salvadorans (approximately 3.7 million people) who have little or no participation in the political or economic processes which govern their lives. We will improve the standard of living and quality of life of this target group through an integrated program characterized by: (1) continued balance of payments support that will be used in a manner to leverage key policy changes necessary for the reactivation of the productive sectors of the economy; and (2), the application of dollar and local currency resources to spur the development of lasting, structural changes in the private and social sectors.

1. Stabilization and Growth

Our macroeconomic objective is to assist the GOES to achieve sustainable broad-based economic growth with equity without continued dependence on compensatory balance of payments. This will require a comprehensive economic adjustment program that will contain measures to increase the growth potential of the economy without enduring inflationary pressures. We will promote liberalization of the exchange rate, the trade regime, and the financial sector in order to mobilize domestic savings and promote productive investments and to encourage diversified, export-led growth. In addition, we will encourage the implementation of other compensatory measures (e.g., reform of the tariff structure for imports, reduction of price controls for agricultural commodities) in a time-phased program of comprehensive structural adjustment.

We recognize that macroeconomic structural reform, while critical for economic recuperation, will, in the short-run, have a negative impact on certain sectors of the population (viz., urban poor, rural landless) thereby exacerbating the difficulties already encountered by these groups. To cushion the shock of these adjustments, our strategy includes a safety net of social programs to maintain stability through a series of labor intensive infrastructure activities (e.g., construction and maintenance of rural roads, water systems and schools, urban markets and the repair of the electrical grid) to be carried out throughout the country. These initiatives will provide the country with badly needed infrastructure while generating short-term employment to enable the affected population to sustain themselves until the economy begins to grow and they can be absorbed into the permanent work force.

Our ongoing efforts to increase access to quality education and health services also will help those affected by economic adjustment, particularly in 1990-91 period when we expect to devote nearly 30 percent of our DA, ESF and LC resources to these sectors. If the next administration is successful in eliminating government intervention in pricing policies for small farmer crops like basic grains and coffee, incentives to invest and increase production will raise employment and incomes in rural areas.

Finally, we will continue our efforts to reintegrate remaining displaced persons and help the city of San Salvador recover from the October 1986 earthquake. And, through increased support to municipal governments to improve their capability to provide services to the local populace, we will assist the GOES in counteracting the influence of the FMLN insurgents.

In conjunction with macroeconomic policy reform, our long term strategy for achieving sustained economic growth will emphasize continued USG assistance to increase production and productivity. We will, therefore, support investments in the private sector for the production of both traditional and nontraditional exports and the continued development of the small and micro business sector which, in the main, produces to satisfy domestic consumption. Our strategy also calls for a shifting of emphasis in our rural development portfolio from land reform to assisting small farmers, including land reform beneficiaries, to increase their production and income. We will emphasize diversification of the production and processing of traditional and nontraditional exports to compliment basic grain production.

2. Broad-based Growth

It is our judgment that a strategy to diversify and reorient the Salvadoran economy will have important equity dimensions in addition to fostering sustained economic growth. Mission strategy will emphasize broad-based participation in private sector growth to avoid recurrence of the concentration of wealth in the hands of a few - one of the root causes of the insurgency. The export-led strategy will result in expanded employment opportunities for the labor force and, if accompanied by adequate pricing policies and a realistic exchange rate, will provide greater income opportunities to small farmers. This approach will also stimulate domestic demand which, in turn, will foster the creation of small and microenterprises, and generate additional government revenues for social services and productive public and private infrastructure.

While the root causes of the insurgency are related to employment and income for the country's poor, they are also associated with inequities in access to social services. Accordingly, we will continue substantial involvement in the social sectors to improve the quality of life of the poor majority and to ensure that they can take advantage of the new opportunities that will be presented by the economic growth. For example in education, A.I.D. will continue to finance rural primary school construction, while simultaneously launching a program to improve the quality of education through teacher training, revised curricula, increased availability of books, and use of the mass media. We will also maintain our commitment to upgrading the quality of technical training.

In the field of health, we will support government efforts to expand rural health services. The emphasis will be on the provision of comprehensive preventive health care, including access to potable water, to combat the health and child survival problems (e.g., malnutrition, gastroenteritis) faced by the rural poor. We will also expand our nation-wide family planning program.

It is important to note, that proposed investments in the social sectors represent an increased financial burden (recurrent costs) that the GOES cannot afford now nor will it be able to fully afford by 1994. This implies a long-term commitment, by A.I.D. and/or other donors to finance social sector investments until the economy recovers sufficiently to enable the GOES to meet these commitments.

3. Democratic Institutions

It is our firm belief that broad-based economic growth can best be realized through a democratic political system. Accordingly, we will increase our efforts to enhance the capability and effectiveness of the public bodies that form the core of the democratic process, so that they may better serve the needs of the populace. As these institutions (e.g., the Judiciary, the Legislature, the labor unions, human rights commissions, municipal government and the electoral process) become stronger and improve their record in serving the public, they will help foster a sense of confidence by the citizenry that they can voice their views and seek redress through the democratic process. This heightened sense of confidence will both promote and reinforce equitable growth.

B. Program Impact - The Picture in 1994

This strategy, and the program it will guide, will enable the GOES to take significant strides to overcome the economic, social and political problems which El Salvador currently experiences. On the macroeconomic front, we envision the formulation of a comprehensive restructuring of the economic policy framework that will position the country for sustainable growth by the mid-1990's. Relatedly, we foresee the active participation of other donors (viz., IMF and IBERD) in assisting the GOES to restructure the economy, generate employment and improve health and education services.

While we do not anticipate that self-sustaining economic growth will be possible during the CDSS period, we do expect the economy to remain stable and the first signs of significant growth to occur during the strategy period; e.g., inflation will be reduced to around 10 percent and annual, GDP growth will be 4-5 percent annually.

We also expect continued economic reinvigoration of the private sector, growth in the numbers of small and medium sized businesses, and the emergence of a more efficient public sector. By 1994, private investment will increase from the current 11 percent of GDP to 14 percent level, traditional exports (viz.,

coffee) will return to the levels achieved in 1978 and nontraditional exports will grow by at least 100 percent. The banking system will be restructured to facilitate a more efficient flow of credit resources and to include the participation of private enterprise. We also look for both enhanced productivity from the small and microenterprise subsectors, and substantial growth in their numbers.

Our strategy will also assure wide distribution of the benefits of the economic improvement. We believe that our assistance will generate at least 125,000 productive jobs in both domestic and export industries, including free zones. Most of those jobs will be filled by people from disadvantaged groups. In addition, at least 32,000 more jobs will be produced in the small and microenterprise sectors. An estimated 250,000 small farmer families will realize production and productivity increases and all but a very minor number (3,000-4,000 families) of displaced persons will be reintegrated into the society.

By 1994 approximately 1.2 million elementary school students will have better access to formal education as well as benefiting from improvements in the quality and efficiency of education. Improved preventive health services will be available to the rural population resulting in significant declines in malnutrition (15 percent to 13 percent) and infant and child mortality (50/1000 to 42/1000).

Continuing high population growth rates (currently 2.5 percent per year), threaten to wipe out many of the gains expected during the CDSS period for El Salvador, the most densely populated mainland country in the Americas. Reducing the population growth rate, and resultant population pressure, down to a 2.2 percent per year level is one of the Mission's highest priority targets.

The end of the strategy period will also see more effective democratic institutions in place and functioning. Both the Legislature and the Judiciary will have improved their capability to service the populace, and they will have improved their position relative to the Executive, thereby sharing more equally in the administration of the nation.

To be sure, by 1994 the process of economic and social recuperation will not be complete. However, the synergism of activities in our program will improve the standard of living and the quality of life of significant numbers of Salvadorans who heretofore have had only limited access to the benefits of the society. Our assistance will afford them an enhanced economic and political stake in their society and its democratic system. In the process, the influence and appeal of the insurgency will be reduced. It is our judgment, that this strategy coincides with, and will contribute to, the broad USG goals for El Salvador which include economic growth with equity, a stable democracy and peace and security in the region.

III. ECONOMIC STABILIZATION AND GROWTH - Objectives: Stabilize Financial Structures, Promote Exports.

A. Constraints to Economic Growth

Achieving sustained increases in real per capita GDP in the Salvadoran economy is essential to improving the material well-being of the Salvadoran people. However, an analysis of economic trends since 1984 reveals quite clearly that the Salvadoran economy has only been able to manage average real growth of about 1 percent annually--in spite of high levels of USG assistance. Even considering the war, the 1981-83 world recession, and the collapse of the Central American Common Market (CACM), it is clear that the postponement of key economic adjustments, however necessary, has created structural imbalances that constrain overall economic performance.

1. The External Imbalance A deficit in the trade balance that has reached the equivalent of 9-10 percent of GDP (compared to being roughly in balance during the 1970s) limits the import capacity, and therefore the growth potential of the economy. Financing this deficit has required a flow of USG grant assistance and foreign remittances that now exceed \$400 million annually. Low commodity prices in world markets have contributed to the problem, but stagnant investment in the coffee sector, the slow pace of agricultural export diversification and nontraditional extra-regional export growth have also been contributing factors to stagnant export growth over the past decade.

2. The Fiscal Imbalance The deficit in the nonfinancial public sector has reached the equivalent of about 4 percent of GDP. Central government revenues have fallen from the equivalent of 13 percent of GDP in 1978 to 12 percent in 1988. Current expenditures, needed to sustain the war effort (which today account for 30 percent of GOES total expenditures) and to extend social services to the poor, have grown from the equivalent of 10 percent of GDP in 1978 to about 14 percent in 1988. Fiscal subsidies to support current and capital expenditures in the utility companies and to support a food subsidy program have risen.

The fiscal imbalance poses a constraint to economic growth in several ways; First, financing the deficit places pressures on the financial system by reducing the flexibility of the monetary authorities in programming money and credit expansion, particularly with respect to credit expansion to the private sector. In 1988, 40 percent of total banking system credit was allocated to financing the deficit. Furthermore, future economic performance is hampered by reduced government expenditures for productive infrastructure. As the overall deficit increases, the government is forced to sacrifice investment expenditures in favor of maintaining the level of current expenditures. Capital expenditures have fallen from the equivalent of 4.4 percent of GDP in 1978 to 2 percent in 1988.

3. Financial Sector Imbalances

The financial system in El Salvador is not capable of channeling credit efficiently to productive uses, nor is it able to generate sufficient financial savings to finance credit expansion from the system's own

resources. The system is characterized by a regime of negative real interest rates, overcentralized control of banking operations, the lack of a strong supervisory and auditing body, and a commercial banking sector burdened with a low level of managerial and technical skill and saddled with portfolios cluttered with perhaps 30 percent non-performing assets. Consequently, in its current state, the financial system cannot provide the necessary degree of financial intermediation for the Salvadoran economy.

4. Imbalances in the Productive Sectors These imbalances in the macroeconomy have resulted in a misallocation of resources in both the manufacturing and agricultural sectors. Until 1978, El Salvador's manufacturing sector was one of the strongest in Central America, exporting to the CACM and to emerging extra-regional markets for nontraditional manufactured goods. However, from 1978 to 1988, the fall in domestic incomes and the 48 percent contraction in exports to the CACM have led to a 21 percent decline in manufacturing output. In spite of a 32 percent rebound in exports of manufactured goods to the CACM in 1987 and some growth in extra-regional exports, the manufacturing sector remains stagnant, operating at an estimated 65 percent of capacity.

Specifically, the imbalances are:

- The financial sector does not allocate credit efficiently to manufacturing activities. There are long delays in obtaining loans, periodic shortages of working capital, an absence of long-term lending, and heavy collateral requirements.
- The exchange and trade regime encourages manufacturing activities that are not consistent with the comparative advantage of the country.
- Inefficient administration of customs and bureaucratic controls over trade, plus other administrative deficiencies, hamper interaction between the government and the private sector.

The most significant impact of the imbalances in the economy has been the fall in agricultural production. Until 1978, El Salvador's agricultural sector was the engine of growth for the nation, financing much of the development in the productive and social sectors. From 1960-1978, El Salvador's real agricultural growth averaged 4.0 percent per year. Since 1978, however, agricultural output has fallen at a rate of -1.7 percent per year.

As is the case in manufacturing, macroeconomic policies have lowered the profitability of agriculture. More specifically: an overvalued exchange rate diminishes the incomes of traditional producers; the tariff structure and the quantitative restrictions on imports distort the pattern of import prices raising the cost of imported inputs for agriculture, such as fertilizer and other agro-chemicals; taxes are levied on the final products of agriculture instead of on the factors of production (coffee, for example, has been taxed in El Salvador in recent years at an explicit rate of 30-35 percent, versus 10 percent in

Honduras), and within the agrarian reform sector, especially the large Phase I agrarian reform cooperatives, a poor incentive structure as well as inadequate management, excessive debt loads, and lack of technical assistance, have constrained productivity.

B. The Action Plan

A program to address the imbalances in the economy must be based on political and social realities. Consideration must be given to the delicate social fabric underlying the economy given the high levels of tension and distrust among the various elements of the society. The GOES must take pains to explain the rationale the reforms and must inspire confidence among the general population regarding Salvadoran institutions and the orientation of economic policy. The GOES faces the need to allocate large amounts of productive resources to continue the war and to replace war-damaged assets. The government must overcome the reliance on non-market, or administrative mechanisms, for the allocation of resources. Both the USG and the GOES must recognize the importance of, and act to achieve, a balanced program of economic reform that takes El Salvador's realities into account.

The importance of both continued USG economic assistance and of policy reform for the CDSS period may be assessed through the following scenarios: (1) continued ESF assistance for \$185 million per year with no policy change; (2) continued ESF assistance at \$185 million with policy reforms implemented by the end of 1989; and (3), ESF assistance eliminated in 1991 with no policy change. With no policy changes but continued USG assistance, incomes would fall by 8.4 percent Raschel. The same differences among the three scenarios hold with respect to the government social budget. The fall would be much larger, 19.1 percent, if ESF assistance is eliminated in 1991 and no policy reforms take place. In contrast, it would rise by 6.6 percent if policies are improved and assistance levels maintained. Finally, if the proposed policy changes are made, exports would more than double. The conclusions are that policy reforms are critical to achieving faster economic and export growth. Nonetheless, regardless of the pace of policy reform, El Salvador will continue to need substantial external aid into the mid-1990s if lower incomes are to be avoided.

The Mission is proposing a phased and carefully balanced program of economic reform. Only through a clear policy direction and appropriately timed reforms can such a program be implemented. Throughout the CDSS period, the GOES will be encouraged to continue with the rigorous annual economic plans that were so important to achieving the stabilization goals in 1987-88. Achieving sustained economic growth will require an economic adjustment program that will combine elements of demand management, i.e., stabilization, with measures to increase the efficiency and productive capacity of the Salvadoran economy. The key element for stabilization will be a monetary program that will allow sufficient

growth of money and credit to achieve the annual growth and inflation targets. To increase efficiency and productive capacity, the Mission will encourage the GOES to implement the reform measures discussed below.

Economic reforms will be sought in two related and overlapping phases. In the first phase, the GOES will be encouraged to set the stage for a liberalization of the exchange and trade regime and begin a multi-year program of fiscal and financial sector improvement. The second phase will see a continuation of the fiscal and financial programs along with concerted efforts to remove price controls and administrative barriers to investment in manufacturing and agriculture.

1. Setting the Stage: late 1989-1990 The principal focus of this phase will be a reform of the exchange and trade regime to remove the import constraint to growth and to increase the profitability of the export sector. The most fruitful course of action would be the adoption of a flexible exchange rate regime, the exact design of which will be determined through a joint GOES-USAID technical study.

The policy dialogue with the GOES will press for the implementation of a new exchange rate regime late in 1989. However, a change in the exchange rate regime cannot be taken in isolation; several complementary measures are required to avoid inflating the economy and losing the beneficial effects of such a change. The GOES will be encouraged to take the measures outlined below.

- Increase domestic interest rates to increase the demand for local currency denominated assets and remove pressure on the balance of payments. This action is also important for improving financial sector efficiency, a program that will be discussed below.
- Eliminate non-tariff import barriers such as quantitative import restrictions, prior import deposits and selective consumption taxes that serve to support an overvalued exchange rate.
- Improve the revenue performance of the public sector in the short-run through an extension of the stamp tax and an increase in utility rates for water, electricity and port charges. By increasing revenue, the public sector deficit will be reduced, along with a corresponding reduction in pressure on the banking system.

In addition to the reform of the exchange and trade regimes, the Mission will negotiate with the GOES several multi-year programs to improve the efficiency of the fiscal and financial sectors.

- Implement a program to strengthen the financial sector so as to increase financial savings and improve the flow of credit resources to the most productive sectors of the economy. Such reforms would eventually encompass a broad range of activities, but in 1989-90 will embrace adjusting interest rates to positive real levels (a measure

discussed above), strengthening bank supervision by regulatory agencies, raising auditing standards required from financial institutions, and enhancing the management and credit analysis capabilities of financial institutions.

- Implement a program to increase public sector efficiency by focusing on improving tax administration through broadening the tax base, the elimination of inefficient taxes, and a more effective tax collection system. In 1989-90 technical assistance will be provided to strengthen tax audits, improve customs administration and implement improved accounting in the Ministry of Finance and the Court of Accounts.

Two principal actions are needed to improve the performance of the agricultural sector: first, a reform of IRA, the institute that regulates basic grain prices, will be carried out to return it to its original function as a food stabilization agency; second, we will work with the GOES to jointly establish objectives and a time phased implementation plan for parcelization, establishment of beneficiary rights and self-management of Phase I agrarian reform cooperatives.

2. Phase Two: Consolidation, 1991-1994 Phase two of the Mission's policy reform effort will contain adjustment measures that are essential to the full realization of the economic benefits stemming from the reforms begun in the first phase, and will be addressed in consonance with the degree of success achieved in the implementation of the first phase. Accordingly, the Mission will focus on the complementary agenda shown below:

- The program to strengthen the financial sector will continue with activities to further adjust the interest rate regime, establish primary and secondary markets for financial instruments, improving the solvency of the banks and, in general, improve the environment for the introduction of private banking.
- A program to increase public sector efficiency will build on the activities begun in 1989-90 and focus on more comprehensive budget preparation and execution, controls over the budgets of autonomous institutions, the application of cost benefit criteria in the selection of public sector projects, and a possible revision of the tax code.
- The efforts to improve the allocation of productive resources through the elimination of price distortions in the economy will continue. This will include: the elimination of all remaining quantitative restrictions on imports and their replacement with tariff equivalents; reform of the tariff structure to equalize the tariff rates among categories of imports; and, further reduction of the number of categories of products subject to price controls.

- Measures to remove the administrative barriers to increased investment in the productive sectors by: streamlining bureaucratic procedures, principally the industrial licensing system; introducing legislation to reform INCAFE, the state coffee marketing agency, to permit the private sale of coffee; continued progress on parcelization and self-management in the agrarian reform sector; and implementation of the IRA actions begun in 1989-90.

C. Macroeconomic Targets for 1994

Assuming continued health in the world economy and continued stability in world financial markets, El Salvador, with a judicious adjustment effort, could be able to substantially improve economic performance by 1994.

- Growth in real GDP, driven by improved performance in the coffee sector and the growing participation of nontraditional exports, could achieve 4-5 percent annually, compared to about 1 percent today, implying about 2 percent growth in GDP per capita.
- With improvements in the financial sector, the annual inflation rate could be reduced to about 10 percent.
- With revenue improvement and better control over expenditures, the deficit of the consolidated nonfinancial public sector could be reduced to the equivalent of 2 percent of GDP without grant assistance, compared to about 3.7 percent in 1988.
- The balance of payments could be in equilibrium at a growth rate much higher than it is today. Even with improved export performance, the trade deficit would be constant over the 1989-94 period, equivalent to 9-10 percent of GDP; however, an improved policy regime would encourage increased inflows of private capital and added external donor assistance.

The allocation of productive resources will be improved:

- A reduction in price controls from over 26 categories today to about five relatively narrow categories;
- The average loan interest rate will be increased to 6 percent in real terms from approximately a negative 5 percent today;
- Private sector investment will increase to the equivalent of 14 percent of GDP from approximately 11 percent today;
- Gross domestic savings will be increased to the equivalent of 13 percent of GDP.

The economic reform/adjustment process outlined here will be an evolving effort that will span several years. It is a very ambitious agenda, and one that will take a concerted, sustained effort on the part of both the GOES and A.I.D. to implement. Given the frail nature of the Salvadoran democracy, the reforms will be measured and sequential. To do otherwise could lead to social and political unrest that could threaten the democracy, and possibly have a heavy negative short-term impact with no long-term benefits. We recognize that macroeconomic reform, while crucial for economic recovery, will in the short run have a negative impact on certain sectors of the population (viz., urban poor, rural landless) thereby exacerbating the difficulties already encountered by these groups.

The Mission and the GOES will assist the poor to deal with the shock of adjustment through its existing portfolio and the flexibility inherent in the local currency programming process. The Mission and the GOES will draw on the current inventory of project interventions to help maintain employment and incomes and cushion the impact of adjustment on the targeted poor during the first year of adjustment. Our dollar portfolio currently includes general projects (e.g., the Displaced Persons, Earthquake Reconstruction, and Rural Electrification), that will provide short-term employment to unskilled labor in the urban and rural areas. New activities, such as the \$135 million Public Services Reconstruction project slated for initiation late in FY 89, will also generate considerable levels of short-term employment. It is calculated that in 1990 A.I.D. dollar financed activities will create 19,000 jobs. Approximately 18,000 will be established through the same mechanisms in 1991.

Local currency activities for FY 90 include counterpart for other donor (viz., BID, IERD) infrastructure programs that have large job creation components such as repair of the San Salvador water and sewer system, earthquake reconstruction and the construction of rural roads. They also include GOES-USG jointly programmed investments for infrastructure in the countryside (viz., the National Plan) and in urban areas (viz., housing construction, and street repair). The local currency funded activities will generate approximately 29,000 person years of employment in both 1990 and 1991.

The Mission will be able to adjust its job creation program to respond rapidly to changes in dislocation once the adjustment measures are taken and their impact begins to play out. If required, we will expand our local currency infrastructure program to create more employment opportunities. Similarly, if needed, we will alter the geographic target of such programs should extremely hard hit population pockets be identified.

The Mission's investment in the productive sectors will also contribute to cushioning the shock of adjustment. The private sector --especially those subsectors which will benefit immediately from the economic reforms--will have substantial dollar and local currency resources available for investment in export operations, working capital, refinancing, etc. The FY 1990 Coffee Technology Project will provide credit and technical assistance to approximately 20,000 small farmers. Modifications to the Agrarian Reform Financing Project will expand beneficiaries to other than non-reform small and medium-size farmers. The new Free Zone Development Project will also offer employment opportunities in urban areas.

GOES and Mission efforts to assist small and microentrepreneurs will offer further relief to the poor during the adjustment period. In addition to the ongoing Small and Microenterprises Project, complemented by significant local currency credit to these enterprises, a new FY 1990 Project will focus on microentrepreneurs and smaller businessmen in urban and rural areas. Moreover, several PVO's working in this area are being supported by USAID and the GOES.

IV. LONG TERM GROWTH - Objectives: Increase Agricultural Production, Promote Exports, Strengthen the Private Sector.

A. Background and Trends

Agriculture currently provides approximately 30 percent of the country's GDP, 75 percent of its earned foreign exchange and 50 percent of its employment. Foreign exchange earned by traditional agricultural exports financed much of El Salvador's early economic development and social overhead capital. Taxes paid on coffee, the country's primary agricultural commodity, constitute a major source of public revenues; and in rural areas where over half of the population lives, agriculture is often the only source of income and subsistence for many residents.

El Salvador's agricultural sector is characterized by three major commodity groups: traditional export crops, basic grains and livestock, and non-traditional agricultural exports (NTAE's).

Traditional export crops (cotton, sugar cane and coffee) account for 55 percent of the value of output of the agricultural sector. In recent years, however, the production of all traditional export crops has declined. Cotton production in El Salvador peaked in 1978 after almost three decades of steady growth. Since then, as a result of high costs which have made it uneconomical to produce, it has fallen steadily and no longer supplies even domestic requirements. Cotton's decline has left over 50,000 hectares of former cotton land, most of it in the fertile coastal plain, available for other crops. About 15,000 hectares have been converted to sugar cane since 1978, while a much smaller area has been planted in diversified crops, primarily sesame and melons.

Although sugar cane has replaced cotton in many areas, much of this increase was fueled by higher than world price sales made under the U.S. sugar quota. With recent reductions in the quota, declining demand and strong competition from high fructose sweeteners, further reduction of sugar cane production in El Salvador is likely. As with cotton, sugar has a limited future in El Salvador.

With the decline of cotton and sugar cane, the traditional export sector is increasingly a monoculture based on coffee. Coffee is a Salvadoran institution and now accounts for almost all the value of traditional agricultural export production. It is produced on 170,000 hectares by some 40,000 farmers, most of whom own less than five hectares each. Moreover, seasonal harvest labor provides the only cash income available to an estimated 600,000 Salvadorans in rural areas when production levels are high; but coffee production has been declining in El Salvador since 1980. After slowly rising to a level of production of approximately 4.3 million hundredweight in 1979-80, production has steadily declined by over 65 percent to approximately 1.5 million hundredweight in 1988, levels lower than the early 1960's. The reduction translates into a loss of 6.6 million person days of labor the equivalent of US\$ 26 million lost in harvest wages alone.

Food crops, basic grains and livestock, account for 35 percent of the value of the agricultural sector's output and provide food for domestic consumption. They are produced primarily by small and medium size farmers using low levels of technology on landholdings with generally poor resource bases. Basic grains (corn, beans, rice and sorghum) constitute more than 55 percent of the average Salvadoran daily diet, and their production supplies subsistence and occasional cash earnings to approximately 250,000 farm families.

Non-traditional agricultural export production accounts for 10 percent of the value of sector output and is increasing, but currently the production of NTAE's in El Salvador is best characterized as an "infant industry." Like many other Central American countries, El Salvador is searching for the right combination of products, technology and market opportunity. Aquaculture, fruits and vegetables, as well as processed and specialty crops, hold potential for reducing dependence on coffee and expanding the agricultural sector's contribution to the economy.

El Salvador historically suffered one of the most inequitable land distributions in the Western Hemisphere. As the pressure for change grew during the 1970's, access to land was recognized as a critical constraint to social, economic and political progress. One of the first, and perhaps the most controversial, actions of the new government in 1979 was the sweeping agrarian reform. The agrarian reform has redistributed about 25 percent of the farmland in El Salvador to former rural laborers, renters and sharecroppers.

Phase I was begun in 1980 and affected 469 properties belonging to landholdings greater than 500 hectares. It has redistributed 220,000 hectares to over 30,000 farm families (an average 7.3 hectares per family). Phase III of the land transfer process was begun in 1981 and has titled almost 100,000 hectares to over 45,000 families (an average of 1.8 hectares per family).

Phase III beneficiaries have responded well to secure tenure by improving and conserving their limited land resources, as well as increasing and diversifying production. They currently produce about one-fourth of El Salvador's basic grain production. Phase I cooperatives have been less successful in achieving agricultural production, diversification and income goals. In many cases, production and employment on the cooperatives has fallen, and although the GOES has incurred high costs in providing management, technical and credit assistance to the cooperatives, family income is only slightly better than that of Phase III beneficiary families, despite having an average of three times as much, and better, land. Farming under a system of individual ownership and decision making, as in Phase III, appears to provide superior identification with the land and incentives to produce, than does the system of collective ownership and government directed decision making of Phase I.

B. Constraints

1. Social Constraints The violence associated with current Salvadoran political and social unrest increases the risk and uncertainty of all production, and decreases the propensity to invest, especially in new and unproven activities. An insecure investment climate makes it all the more important that other constraints be identified and minimized.

2. Policy Constraints

a) Exchange Rate - The overvalued exchange rate negatively impacts the entire agricultural sector. It makes El Salvador a relatively high cost economy in dollar terms and reduces the incomes of export agriculturalists. The impact on subsistence producers is even worse, however, because they do not have the luxury of being able to reduce production as do their colleagues with larger holdings. It has been estimated that just the overvalued exchange rate alone directly reduces the incomes of traditional corn producers by 18 percent.

b) Commodity Pricing - Currently, consumer prices for a wide variety of agricultural commodities, especially the commodities produced by small farmers (basic grains, milk, etc.), are set by the GOES. Under this system of government controlled prices, incentives to produce, as well as subsequent producer incomes, have decreased dramatically since 1978. A recently concluded study calculates that from 1967-69 to 1977-79, real agricultural prices of all crops increased 5.2 percent per year, but over the following ten years, real producer prices for all crops decreased by 10 percent per annum. Without an adjustment in price policy which permits producers to capture the value of their production, agricultural recovery will be delayed and difficult, if not impossible.

c) Coffee Tax - El Salvador's coffee tax policy constitutes another distortion of agricultural pricing. In 1987, combined direct and indirect taxes, as well as losses imputed by the overvalued exchange rate, were equivalent to a 67 percent tax on coffee producers. As a result, Salvadoran coffee producers have been deferring investment for almost eight years with concomitant reductions in coffee production. It is estimated that for every 1 percent reduction in coffee production, 132,000 person days of direct labor and the equivalent of one half million dollars in rural wages are lost (in harvesting alone). This cut in employment and wages is taken by the poorest of El Salvador's rural residents, either subsistence farmers who depend upon coffee harvest employment for off-season cash incomes, or landless persons who have few, if any, other sources of wages.

d) GOES Parastatals - GOES parastatals control the marketing, and to an extent, the production and processing of coffee, sugar cane and basic grains. Mismanaged and expensive to maintain, the parastatals have been a drain on the GOES resources without benefiting agricultural marketing. Instead, they distort resource allocations to the agricultural sector and reduce its domestic and international competitiveness by restricting the flexibility of producers, processors and marketers.

3. Constraints on the Factors of Production. After almost eight years of uncertainty and restrained public and private investment, El Salvador's technology stock has been depleted. The demise, without replacement, of major traditional agricultural export industries (cotton and sugar); the slow growth of non-traditional agricultural exports; and the slow rate of diversification by traditional farmers indicate the pervasiveness of the problem.

Former cotton producers have left large tracts of land idle because they do not know what alternative crops to produce or how to produce them. Many sugar cane producers will soon face the same question. The idling of this land has denied thousands of rural laborers a traditional source of income. Non-traditional agricultural exports require technical knowledge for proper crop selection, production using irrigation, proper processing of the product and preparation and packaging. The production of "farmed" aquatic species (shrimp, prawns, fish, etc.) is a technologically sophisticated activity with potential in El Salvador, but in order to capitalize on the natural comparative advantages found in the country's water and estuarine resources, advanced production technology must be available to those willing to invest. Adequate aquacultural technology does not exist within the country yet and there are currently no institutions which appear capable of generating it.

Technological constraints in marketing and transportation hinder the development of NTAE's in El Salvador. Export marketing and transportation, especially of perishable, high value NTAE's, require a more responsive information system than the one used for marketing the country's traditional exports. El Salvador's agricultural credit delivery system also constrains development. For small farmers, the system is sometimes too complicated, and for all producers, credit delivery is untimely and inadequate to respond to agricultural's seasonal demands.

A final constraint is the issue of how long El Salvador's resource base, under current intensive use and limited management, can sustain agricultural production. Recent estimates are that forests cover only 9 percent of the nation (compared with a regional average of 41 percent). Although the depletion of El Salvador's rich but fragile natural resource base has been longstanding; it has intensified due to the conflict.

Environmental studies of El Salvador have identified some specific constraints to adequate protection and management of the country's natural resources: poor policy formulation, lack of regulatory enforcement, a lack of interagency coordination and inadequate institutional capability. Coastal and marine resources with the potential for aquacultural development are currently inappropriately protected. Environmental contamination in El Salvador is pervasive and unchecked. Chemical and pesticide use threatens the safety of El Salvador's citizens and its potential as an agricultural exporter. Continued environmental neglect has the potential to deprive agriculture of its very base and future.

The combined impact of these constraints has been a 29 percent reduction in the per capita agricultural production since the late 1970's.

C. Target Group and Strategy

The Rural Development program strategy is directed toward various producer groups, as well as farm wage laborers:

- The 250,000 small and subsistence farm families who produce rice, corn, beans and sorghum;
- Approximately 10,000 families, many of them participants in Phase I and Phase III agrarian reform programs, who are potential new producers of non-traditional agricultural products for export;
- The 28,000 farmers who already produce non-traditional agricultural products, but who lack adequate knowledge of, or good contacts with export markets;
- Some 40,000 small coffee producers, most of whom own less than 5 hectares each, and the 600,000 farm wage laborers employed primarily in the harvesting of coffee.

The objective of our agricultural strategy is to increase, via enhanced productivity and production, the incomes of the rural poor and increase the agricultural sector's foreign exchange contribution to the economy. We will pursue this objective through a combination of policy dialogue and program level interventions. The dialogue will focus on the cluster of policy issues that constrain production. The program intervention will focus on the technical constraints to improve agricultural output.

1. Policy Dialogue. The policy questions which most seriously affect the agricultural sector are exchange rate, price controls, coffee tax and parastatals. All four rank high on the Mission's policy agenda and will be the subject of policy discussions from the outset of the CDSS period. The exchange rate is the "primus inter pares" of policy matters and it will receive particular attention, highlighting the ESF program agenda at the earliest possible date. The benefits of a devalued colon are multiple and will impact on all segments of the agricultural sector, notably the landless and small farmers. For the exporter, an exchange rate adjustment will improve the competitive position of Salvadoran commodities in the international market place. This in turn, will stimulate production increases and create jobs that can be taken by the poor. A devaluation will also provide relief for basic grain producers - the small farmers.

The Mission will employ the P.L. 480 program as the principal lever to address the price ceiling on agricultural commodities, especially basic grains and dairy products. They will be included among the self-help measures in the FY 1990 P.L. 480 agreement. The elimination of ceilings will stimulate production and impact directly and significantly on the country's small farmers.

The coffee tax and the excessive involvement of the Government in commodity marketing via the parastatals will also be the subject of ESF policy dialogue early (first or second year) in the CDSS period. Concerning the tax, our position will be to have it reduced to less onerous levels. Without doubt, a significant reduction would stimulate production increases. On balance, a lower tax rate over a higher volume of production would probably yield a net increase in revenues for the Government.

The most important of the parastatals is the National Coffee Institute (INCAFE). The Mission believes that the public sector should and must play a key role in coffee marketing -- but not the all encompassing role exercised currently by INCAFE. Accordingly, we will encourage the GOES to focus on policy formulation and monitoring of coffee transactions, i.e., coffee sales, repatriation of funds and compliance with international agreements. Simultaneously, we will seek GOES acceptance of private sector participation in marketing. A second parastatal whose role will be reviewed is the Food Price Regulation Institute (IRA). We will encourage the GOES to alter the function of IRA from the current "food subsidy implementor" to a more narrowly defined role which will focus on assuring that there are no major fluctuations in food prices and on insuring that adequate emergency food stocks exists.

2. Program Support. Our program support will be directed at, in the main, the country's 250,000 small farm families -- agricultural reform beneficiaries and others. Our assistance will be geared to help these growers increase their incomes by diversifying their production regime through the addition of export commodities to the traditional basic grain inventory while simultaneously addressing basic grain production constraints.

Diversification via non-traditional agricultural export development in El Salvador is as risky as it is necessary. New activities are by nature confronted with technological constraints, and they will not normally be undertaken by those who cannot afford to risk their investment and production capital. The Mission's strategy will be to assist agribusinesses -- processing and marketing firms -- overcome technological constraints and link these agribusinesses with small farmer and cooperative producers. Although the target group for these activities will be small farmers, USAID will use agribusiness investors as implementers of the strategy. These implementers will pass on credit, technical assistance, plant materials and market information to small farmers who, in addition to their basic grains will be able to plant off-season, high value crops for sale and export. The benefits deriving from these agribusinesses are expected to multiply quickly as growing export sales increase the demand for raw product. This will generate employment in processing and expand opportunities for small farmers to supply production.

This approach recognizes that agribusinesses are innovators and diffusers of technology and that small producers of basic grains are constrained by the limited, rainy season crops they have traditionally produced. It utilizes those who have vested interests in assured quantities of "market

quality" production to transfer technology which will increase the intensity with which the small farmer uses his land and labor. It will improve economic opportunities for farmers who have traditionally produced for subsistence, entering the market only when a surplus resulted. With new markets and technical assistance provided by the processors and marketers of non-traditional agricultural export crops, subsistence farmers can fully utilize their land and family labor resources and earn important new cash incomes. In this manner, agribusinesses will provide income opportunities to those otherwise unable or less willing to invest in risky ventures.

We will continue and expand our support to the coffee sector. This will include sustaining our involvement with Salvadoran Coffee Research Institute (ISIC) to enhance production through better plant material and improved disease control. Moreover, once the policy adjustments are undertaken we will launch a new endeavor, via a private sector coffee producer group or cooperative federation, to improve production. This effort, in addition to institution building will focus on such activities as rehabilitation of plantings, introduction of new, high yielding and disease resistant varieties, plant protection and cultural practices. The direct beneficiaries of this effort will be the country's 40,000 coffee growers, the majority of whom are small farmers with holdings of less than 5 hectares.

The USAID agricultural strategy will continue to provide support to programs directed at small farmers, which are being implemented by the Ministry of Agriculture and other donors such as IDB, FAO, IICA, and IFAD. Our support to these activities in 1988 amounted to over \$24 million generated by the P.L. 480 Tittle I program, and it is expected that similar levels will be maintained during the CDSS planning period.

Small farmer programs, currently supported by USAID, consist of the development of new varieties of basic grains, certified seed production (corn and beans), agricultural research in fertilizer use and soil erosion control, small animal production for small farmers, and on farm storage for basic grains. Our counterpart funding is also financing the decentralization of the Ministry's extension services and the creation of community level extension agencies to better serve the small farmer. Through the local currency programs, (P.L. 480) we are also funding the rehabilitation of a major irrigation district and the establishment of a water users association to continue its management. Finally, local currency P.L. 480 counterpart to a major IDB irrigation project is providing 3000 - 5000 small basic grains farmers with the means to diversify and increase their incomes. This type and level of support will continue through the CDSS period.

We will sustain, via training and non-project financial support, our assistance to the Ministry of Agriculture to improve its data collection and natural resource management capability.

Natural resource depletion and the lack of adequate resource management was noted as a significant constraint to sustainable agricultural production, and although the Mission is addressing some concerns, more will be done.

Findings and recommendations in the "Biological Diversity Annex to the FY 88/89 Action Plan" and "Natural Resource Management in El Salvador: A Strategy for USAID" recommend increased support to international and domestic NGO's that implement resource management and conservation programs within El Salvador. Two local NGO's have been identified and a coalition of environmental interests is being formed and funded by a local civic organization. The Mission will work closely with these groups to develop a long term strategy and then to help finance specific interventions.

The Mission supports the A.I.D. regional natural resources strategy and will continue to support specific regional projects with relevance to El Salvador's environmental situation: firewood, integrated pest management and reforestation projects. All agricultural projects begun within the CDSS period will have inherent, but explicit, resource management components. These components will be defined by further studies and implemented as project activities. Within agricultural projects, soil, water and forest resource management activities will receive particular attention.

In addition, if security concerns permit, the Mission will design and implement a natural resources project which addresses deforestation and soil erosion problems.

D. Impact on Target Group

The strategy will, as discussed above, assist hundreds of thousands of small farmers to increase their production of basic grain crops, non-traditional agricultural products and coffee. A substantial improvement in the income of basic grains farmers can be made from even a slight diversification in production. The difference in annual income of farmers growing only basic grains and farmers growing basic grains plus some additional cash crop is striking. Basic grains farmers earn an equivalent of \$424 per year; those growing grain and another crop earn the equivalent of \$788 annually. The suggested policy changes in exchange rate, price controls and producer incentives, along with continued provision of credits, technical assistance, and extension services under the ongoing IDB program, should increase the income earning potential of basic grains farmers by 48 percent and coffee farmers by 43 percent. Over the CDSS period, we anticipate that non-traditional agricultural exports should grow by an estimated 25 percent annually. This will provide increased income opportunities for another 44,000 farmers who join the ranks of NTAE producers bringing the total to 72,000. Also, 40,000 coffee farmers will increase their incomes as a result of an annual average increase of 5 percent to 6 percent in coffee exports.

In addition to increasing production and gaining new markets for their crops, more than 30,000 members of agrarian reform cooperatives under Phase I will be able to determine for themselves what forms of production and management they wish to use in operating their cooperatives. Many cooperative members will be given the option of owning their own land, rather than continuing to work land on a communal basis. The result of these changes should be an improvement in production levels and income, such as that already seen on the privately owned and operated Phase III agrarian reform land.

It should be noted that the policy changes and technological improvements related to the coffee industry will result in increased production and as a direct result, in more employment for some 600,000 seasonal workers in the coffee harvest. For many of these people, their earnings from picking coffee are the only cash income that they receive.

5. Targets

1. Policy Targets

- The role of IRA will be gradually reduced and redefined. IRA's role, by the end of the CDSS period, will be primarily to insure that adequate emergency food reserves exist, to avoid major fluctuations in commodity prices. It will no longer implement a broad-gaged food subsidy program.
- The role of INCAFE will be modified. International coffee marketing will be liberalized allowing private firms to compete with INCAFE. The GOES will continue to regulate repatriation of foreign exchange and register sales contracts.
- The direct export tax on coffee will be gradually reduced and replaced by a tax which does not penalize production.

2. Program Targets

- Increase the value of non-traditional agricultural exports by an average 25 percent per year over the 5 year CDSS period.
- 72,000 small farmers will derive higher incomes from the increase in NTAE as a result of increased production incentives, better marketing opportunities and technological improvements in production techniques.
- Processing and export firms provide technical assistance to small producers, including agrarian reform land holders and cooperatives.
- Approximately 20,000 small coffee producers benefit from technology transfer from public and private sector institutions.
- 40,000 coffee farmers and some 600,000 farm laborers will benefit from increased production resulting from policy changes.

- 50,000 basic grains producers will receive credit and extension services.
- Accelerated loan application processing for NTAE projects through improved training of financial sector employees.
- Passage of agrarian reform beneficiary rights and responsibilities legislation which permits reorganization of cooperatives in a manner consistent with efficient production and, and allows self-determination of the beneficiaries as contrasted with the government-imposed management and communal ownership pattern in force at present.
- All phase I cooperatives meeting the criteria for self-management by 1994.
- Seventy-five cooperatives divided and distributed as individual parcels by 1994.
- A voluntary land bank organized and operating in a self-sustaining manner.
- A GOES natural resources management plan will be developed.
- An explicit natural resource component will be included in every agricultural project.
- The Mission will provide assistance to international and domestic non-governmental organizations in the implementation of environmental and natural resource management activities.
- The Mission will design and implement a specific natural resources project, which addresses deforestation and soil erosion problems, if security conditions permit.

V. LONG TERM GROWTH - Objectives: Strengthen the Private Sector,
Promote Exports

A. Background and Trends

By 1983, it had become clear that increased private sector activity was essential to reverse the economic slide which began in 1980. Accordingly, the USG and GOES formulated an economic recovery plan which was based on the private sector's historical performance and a belief that an expanded private sector which involved small producers, microentrepreneurs, and businessmen from all socioeconomic levels could become an effective vehicle for distributing the benefits of growth in a more equitable fashion. A strengthened private sector would create productive, sustainable jobs and permit economic advancement throughout the society for a greater number of Salvadorans. In addition, a strengthened private sector would generate increased revenue which the public sector could capture through taxation to finance the provision of essential social services.

It was also evident that El Salvador could no longer depend on a mix of nontraditional exports to the CACM and traditional exports to extra-regional markets as the basis for its foreign exchange earnings. At the close of 1983, exports to the CACM had declined to \$164 million from \$283 million in 1978 and would continue to decline to a low of \$91 million in 1986. Exports of cotton would eventually drop to a fraction of the \$98 million figure registered in 1978. Sugar and coffee production were adversely affected by state control of processing and marketing and a fall in world prices.

The response to these challenges was a strategy to: (1) promote the production and marketing of nontraditional exports; (2) broaden participation in the economy by assisting the increasing number of small and microenterprises; (3) strengthen the institutional base of both the private and public sectors; and (4) forge a better working relationship between the public and private sectors.

An initial move in implementing the strategy was to develop an institutional mechanism to channel assistance to the private sector, the Salvadoran Foundation for Social and Economic Development (FUSADES). The Foundation embarked on a program to upgrade the capabilities of private sector entities, enhance private sector productivity, capitalize on market opportunities, and improve the policy environment in which private enterprise must operate. For example, the Association Strengthening Program (FORTAS) has provided technical assistance and training to business associations on export promotion and investment. The Export and Investment Promotion Program (PRIDEX) and the Agricultural Diversification Program (DIVAGRO) have furnished technical expertise to individual firms on a range of matters especially related to nontraditional export markets. The Export Investment Fund (FIDEX) finances the production of nontraditional agricultural and industrial

products destined for extra-regional markets. The Foundation has also worked with the public sector to improve the country's economic and social policy framework. Passage of the 1986 Export Promotion Law, and approval of the 1988 Foreign Investment Guarantee Law are, in large part, a result of joint private-public sector efforts in which FUSADES played an active role.

As a complement to private sector institutional development, assistance to the Ministry of Foreign Trade (MICE) has helped it to define its role in support of the private sector in export and investment promotion and to create mechanisms, such as the CENTREX a one-stop export/import center, to facilitate export. The creation of a high level, joint public sector-private sector advisory committee on investment and export development (CODEXI) has served to ameliorate some of the constraints to productivity and exports and has also provided a forum for constructive dialogue between the public and private sectors.

Through PROPEMI, the small business division of FUSADES, and through FEDECCREDITO, a public sector entity which specializes in credit for the small producers, credit, technical assistance and training has been provided to significant numbers of small and micro-entrepreneurs. Complementary activities, such as technical assistance provided by IESC volunteers and support to the Salvadoran Junior Achievement Program have rounded out the joint USAID-host country program for aiding small and micro-enterprise. All of these efforts attempt to broaden participation in the benefits of growth and provide resources to groups that, historically, had received little assistance.

Financial resources were also needed to convert improved institutional capability into increases in production and productivity. The strategy has included credit from local currency resources for investments in: coffee production, industrial reactivation, nontraditional export development, small enterprise development, and eastern region reactivation.

Policy dialogue with the GOES has also produced some important private sector policy changes, such as free zone regulations and export promotion and investment laws.

B. Constraints

1. The War. The war is the single greatest obstacle to the growth of foreign investment and to stemming capital flight.

2. Policy Environment. The over-valued exchange rate is a disadvantage to penetrating overseas markets. Price controls on agricultural commodities serve as a disincentive to increasing production. Credit rationing and cumbersome foreign exchange allocation procedures inhibit investment, as does interest rate manipulation and excessive state involvement (e.g., coffee marketing, financial intermediation) in the conduct of the economy.

3. Inadequate Financial Intermediation. The nationalized banking system is unable to service investor needs due to over-centralization, inefficiency, poor management, absence of long-term lending, heavy collateral requirements, low capital reserves and illiquidity. The net result is that investment resources required by private enterprise to stimulate production and productivity increases are either in short supply or are made available in an untimely fashion. The current GOES policy of not allowing competition from the private sector in banking only serves to intensify the problem.

4. Institutional Inefficiencies. Private sector entities, of all sizes, lack sound organization, management, financial and information systems. While there is a high level of professionalism and skill at the senior management level in many large Salvadoran businesses, only a limited number of companies are experienced in production and marketing of non-traditional exports.

C. Target Group and Strategy

The Mission's strategy for private sector development, not including agricultural sector activities covered in that section of the CDSS, is targeted toward assisting the firms and businesses involved in the production and marketing of both products for domestic consumption and non-traditional exports, encouraging a broader participation in the economy by small and microenterprises, and strengthening public and private institutions which support the private sector.

The small and micro-enterprise subsector is made up of some 81,000 businesses which employ over 170,000 persons. Almost 80 percent of the operators or employees of these businesses are women. Half of these operations are located in the capital, and only 18 percent are outside of urban areas.

The export subsector program will provide expanded opportunities in production and assembly for some 75,000 additional skilled and semi-skilled workers as well as managers and supervisors. In this context, an additional 70,000 square meters of factory space is planned for the expansion of free trade zones.

Credit lines for private enterprise financed from host-country owned local currency generations are targeted to assist large, medium and small business and will be used principally for production and employment in industry, agroindustry and construction. About 75 percent of the anticipated employment resulting from the use of local currency credit lines will go to urban workers and 30 percent to rural job-seekers. Women will benefit slightly more than men from the employment opportunities created by the credit lines in a proportion of about 60-65 percent women to 35-40 percent men.

The strategy formulated in the early 1980's to strengthen the private sector will take time before showing maximum results. Accordingly, for the CDSS period we will continue to emphasize increased private sector and public sector efficiency, export and investment promotion, and expanded participation of small and micro-enterprise. To this program, we will add an effort to reform the financial sector as a major step toward broad-based growth. Finally, we will identify other private sector institutions to complement the efforts of FUSADES and will broaden the geographic coverage of our help to the private sector.

1. Public Sector Efficiency. The dominant theme of our strategy on public sector efficiency will be to alter the role of public organizations in the conduct of the economy. The objective is to have the public sector assume a "policy setter, facilitator and monitor" role while delegating implementation of productive activities to private enterprise. To this end, we will work closely with the Ministry of Foreign Trade (MICE) to develop regulations to further enhance private investment and to continue to streamline procedures for export by the private sector. As will be discussed below, we will assist the BCR in restructuring the financial sector to provide for more efficiency in the banking system. Finally as noted in the previous sector on Agricultural Production, we will allocate resources to address, through a restructuring of roles, the disincentives to agricultural production that are generated by the state controlled coffee (INCAFE) and basic grains and dairy products (IRA) marketing organizations.

2. Export and Investment Promotion. Successful implementation of the financial intermediation component of our strategy (described below) will stimulate investment. FUSADES has developed a five year strategy for export and investment promotion which includes targets for growth in export earnings, new investment and employment generation. It is anticipated that the new Free Zone Development project will have a significant impact on all three areas. With the development of private free zones and the recent A.I.D.-funded upgrading of the state-run San Bartolo Free Zone, the public and private sectors will cooperate to increase promotion of foreign investment, particularly production sharing arrangements where the capital investment of the foreign investor is low, and risk is, therefore, perceived to be manageable.

As discussed in Section IV, such current and future efforts as technology to improve productivity, enhanced managerial capability to producers, and the linkage of growers to agro-industries with export market ties which are aimed at assisting agriculture diversification and nontraditional production and export will be expanded. These efforts will be coordinated with the export and investment promotion activities mentioned above.

3. Small and Micro Enterprise Development. The Mission has provided substantial support to the small enterprise sector through the credit and technical assistance programs of PROPEMI and FEDEOCREDITO. We recognize that this assistance has gone primarily to established small enterprises and particularly to the elements of the sector at the top end of the strata; and in the case of PROPEMI the support has been limited to greater San Salvador. Our support for broad-based development will evolve by developing new projects to increase the universe of small and micro-entrepreneurs participating in our programs by reaching down further into these entrepreneurial subsectors. Simultaneously, the programs of PROPEMI and other private sector entities will be expanded to urban centers outside of San Salvador. PROPEMI will be encouraged to establish satellite efforts in key regional cities (e.g., Sonsonate and Santa Ana). Technical assistance will be provided to FEDEOCREDITO to decentralize its operations, reduce administrative costs, and deliver credit more efficiently to the rural small and micro-entrepreneur. As part of our effort to broaden the institutional delivery base, we will enlist the support of FVO's to provide technical assistance to the small and micro- enterprise sector.

Local currency credit lines, including one for small and micro-enterprise will be continued. Finally, as part of our financial sector reform initiative, discussed below, we will engage the GOES in a dialogue to open a rediscount facility to any registered financial institution, public or private, to enable greater participation of lenders and the more efficient delivery of credit to more members of the small and micro-enterprise sector.

4. Financial Sector Reform. It is generally recognized that the banking system cannot adequately service the needs of the private sector. Changes in policy and in the legal and regulatory framework are required in order to promote the competition and efficiency needed to improve savings mobilization and the allocation and delivery of credit. In addition, the BCR must change its focus from commercial banking to the formulation of monetary policy. Other reforms such as those on interest rates and exchange rate adjustments, described in Section III must also be made. Finally, capital markets must be developed to provide alternative means of financing and savings mobilization.

At the outset of the CDSS period, we will undertake an intensive effort to correct the deficiencies of the financial sector. This effort will include both policy dialogue and direct program assistance. The policy dialogue will be carried out in association with the balance of payments program and will address macroeconomic issues such as the exchange rate and interest regimes and the decentralization of lending operations.

In support of this policy dialogue, A.I.D., will facilitate the establishment of primary and secondary markets in debt instruments to make monetary policy more efficient and to enhance the ability of the financial sector to capture savings from the nonbank public. In addition, we will support the formulation of the legal and regulatory framework as well as the institutional guidelines relative to the establishment of a Salvadoran stock exchange.

We will apply program level assistance to improve the organizational and administrative efficiency of the financial sector. Assistance will be provided in the form of technical expertise to review the legal and regulatory background of the banking system and to construct a plan of action for change, concentrating on the law of Nationalization of the Banking System and the Law for Credit Institutions and Auxiliary Organization (LICOA). The objective of this assistance will be to improve the system's efficiency, reintroduce private enterprise into the banking system, and, through competition, enhance the system's efficiency. The movement toward private participation in the banking system will be a major item in our policy agenda. In our effort to reintroduce private banking, we will consider a range of modalities (e.g., local commercial banks, credit unions and foreign banks) to determine what is most appropriate for the Salvadoran situation. In addition, we will embark on a comprehensive effort to strengthen the managerial, analytical and audit capabilities of the financial institutions.

D. Impact on Target Group

Investments in dollar and local currency financed export promotion, lines of credit and free zone expansion projects are expected to create some 157,000 jobs - 15,000 in free zones and 142,000 in other export and lines of credit activities.

Efforts in small and microenterprises will result in about 32,000 of these positions, in addition to higher incomes and increased activity for people already employed in this sub-sector.

The increase in indirect jobs resulting from this higher level of economic activity and income is estimated at 1 to 1-1/2 additional positions for each direct job created.

E. Targets

1. Export and Investment Promotion

- An annual increase in the value of non-traditional exports of 23 percent.
- Construction of at least two private sector-owned free zones.
- Attraction of at least \$110 million in new investment.
- Creation of 75,000 jobs in export industries and free zone operations.

2. Expanded Participation of the Small and Microbusiness Sub-sector

- Support the establishment of a credit mechanism to service microenterprises and an institutional mechanism to coordinate technical assistance to small and microenterprises.
- Expand the operations of PROPEMI to regional population centers - municipal capitals, etc.
- Increase employment by 32,000 jobs over the next 5 years.

3. Local Currency Credit Lines

- Total of 6,800 loans to be made to small, medium, and large businesses over the CDSS period.
- A total of 50,000 jobs created by 1994.

4. Financial Sector Reform

- Establishment of an independent superintendency of banks.
- A system of internal audits set up.
- Non-performing asset of the banks reduced to the point where all banks have a positive net worth.
- Authority given to the banks to authorize loans up to the equivalent of \$500,000.
- Broaden private sector participation in the banking system.
- A stock market functioning by 1994.

VI. SOCIAL STABILIZATION - Objectives: Improve Infrastructure, Strengthen "Grass roots" Democracy, Assist Displaced Persons, Earthquake Reconstruction.

Infrastructure Reconstruction, the National Plan, Displaced Persons and Earthquake Reconstruction comprise the social stabilization component of our strategy. As the title suggests, the combined purpose of these activities is to provide social services for the population in general until the economy begins to grow and until the democracy is strengthened.

Infrastructure Reconstruction is a direct response to the insurgency. It replaces productive infrastructure (e.g., electricity, bridges) destroyed by the guerrillas, thereby enabling the populace at large to carry on a relatively normal course of economic and social activity. The Displaced Persons program is also a direct product of the war. It addresses the needs of those individuals who have had their lives uprooted fleeing the conflict, the wide majority of whom come from the ranks of the rural poor. The National Plan is providing badly needed social services to the Salvadoran citizenry at the grass roots level. It is demonstrating that a democratic system can provide equitable access to social goods and, in so doing, it is reducing the influence of the insurgency among the nation's poor. The earthquake reconstruction activities are providing residents of El Salvador's capital with a wide range of productive and social services, such as roads, credit for housing and reconstruction of businesses, hospitals, schools, public markets and municipal buildings.

By definition, this set of activities is designed to be short term. The Displaced Persons and Earthquake programs will be concluded early in the CDSS period. The continuation of infrastructure replacement and National Plan efforts will be determined by the duration and intensity of the conflict. However, it is anticipated that by the end of the CDSS period the need for these types of interventions will have ended or been dramatically reduced and that the other elements of strategy will have come on line so that El Salvador can begin to realize sustainable economic growth with broad participation throughout the society in the benefits of such growth.

A. Infrastructure Reconstruction - Background

In 1978 the extent and the condition of the Salvadoran infrastructure system was adequate and some parts of it, for example the highway and road network, were possibly the best in Central America. The GOES maintained a continuous road building and improvement program. The 9,706 Km. highway and road network fully served the national economy's needs. The Ministry of Public Works' (MOP) budget assured an adequate level of investment for construction and maintenance. Since 1978, the war has taken its toll on this system: the MOP's budget is 36 percent of its 1978 budget in real terms; nearly 800 Kms. of highway have been lost and the remaining 8,907 Kms. have deteriorated significantly due to deferred maintenance. The frequency of guerrilla attacks on the electric power

sector, the backbone of Salvador's infrastructure and industrial development, has risen during the past ten years and attacks have become increasingly sophisticated. The cost of restoring the system (generation and transmission/distribution) to its original condition would be about \$80 million. In 1978 the national water and sewer authority (ANDA) provided access to potable water for 59 percent of the urban and 30 percent of the rural population. Ten years later, urban access is 89.7 percent, but rural access has plummeted to an estimated 13 percent. The impact on health is demonstrated by recent health statistics: 6.4 percent of all deaths and 57.6 percent of all infectious diseases are related to diarrhea and intestinal infections.

Like the highway system, the railroad, the ports and the airports also served the national economy well in the late 70's. Since then, the railroad has suffered major damage from sabotage and deferred maintenance and, given the estimated \$17 million needed to repair it and the increase in importance over the years of the connecting highway network, the railroad probably never will be restored to its 1978 importance. The two international sea ports and the International Airport, which opened in 1979, are basically adequate for today's needs. They have not suffered direct damages from the war, but have suffered from equipment damaged by constant electrical power fluctuations due to sabotage to the electrical grid, deferred maintenance and the lack of equipment replacement.

1. Constraints

a. Policy. Government subsidies to consumers through low utility rates, particularly for electricity and water, result in revenues and budgets which are totally inadequate to meet recurring costs or new investment requirements.

b. Financial. The inadequate budgets of the utility services are a result of the subsidies mentioned above, coupled with dollar debt servicing requirements, the use of a great part of revenues to repair sabotaged equipment and facilities, and the need to finance security measures to prevent further sabotage. The severely restricted budget has resulted in the deterioration of existing plant and equipment due to deferred maintenance and little or no construction of new infrastructure to serve growing needs.

c. Institutional. A lack of capable and coherent management and leadership in the Ministry of Public Works and in ANDA, have resulted in failure to adopt appropriate policies to optimize the use of limited resources or to anticipate and plan for new requirements.

2. Target Group and Strategy

The target group of the infrastructure reconstruction component is the entire population of the country, all of whom are dependent upon the efficient operation and maintenance of the nation's infrastructure. All elements of society, both urban and rural, suffer as a result of damage to the electrical power grid, the potable water system or interruption of the highway and railroad networks, sea ports and air terminals. The rural areas, in particular, have been left without adequate electrical service, access to potable water or a road system which allows travel to urban market centers.

The major components of the infrastructure reconstruction program target the 2.6 million rural people, although the restoration of sabotaged and deteriorated infrastructure has an obvious impact on the urban population as well. The latter has been served principally through the constant repair of the electrical grid, power generating plants and the highway system, all of which have been preferred targets of the guerrilla forces.

The rural population, in addition to suffering the impact of constant sabotage of infrastructure, lack many of the most basic services. Current estimates indicate that only 20 percent have electricity and, as noted above, only 13 percent have access to potable water.

The Mission's strategy during the CDSS period will be to: (a) maintain a quick response capability in all of the key GOES infrastructure agencies, i.e., electric power, public works and the railroad, for the repair of sabotaged facilities; (b) strengthen the management and implementation capabilities of these agencies so that they can deal with deferred maintenance of infrastructure, particularly of secondary and tertiary rural roads; and (c) assist the agencies to meet the most critical needs for the extension of electrical distribution systems and rural potable water systems.

The Mission cannot predict when guerrilla sabotage may decrease, much less cease. Consequently, our principal efforts, and those of the utility companies, will be directed at repairing or restoring public services damaged by sabotage. A.I.D. will continue financing for support of on-going activities designed for this purpose.

A second area of activity will be the repair of existing rural potable water systems which are not operating and the construction of new systems. We will provide financing, technical assistance and training to the Water Authority in order to develop its capacity to carry out these tasks. The aim is to arrest the decline in potable water services and recover to the 1984 level of potable water access of 33 percent of the rural population being served.

A third major area will be improving the ability of the Ministry of Public Works to plan and execute urgently needed infrastructure maintenance programs. A.I.D. financing, via P.L. 480 and ESF generated local currency, will emphasize maintenance of rural secondary and tertiary roads.

The Mission will not fund new or reconstructed infrastructure except in those rural areas which are not targeted by other donor organizations. For example, our financing to ANDA would be provided only for water systems in communities smaller than those covered by IDB projects.

3. Impact on Target Group

The implementation of the strategy described here will result in an increase in the number of persons with electricity from 500,000 now served to about 700,000 in 1994. Access to potable water in rural areas and small towns will be increased from some 315,000 persons served now, to 825,000 persons with access to pure drinking water by 1994. Transportation from the rural areas to urban centers will be improved for some 650,000 people through maintenance and repair to approximately 25 percent of the secondary and tertiary road system.

4. Targets

- Provide an additional 200,000 people in rural areas with electricity.
- Restore or expand approximately 1,000 potable water systems to serve an additional 500,000 persons, primarily in small towns and rural areas.
- Improve access and transportation in the rural areas through improvement of some 2,500 kilometers, (approximately 25 percent of the road network) of roads with emphasis on secondary and tertiary roads.
- Attempt to make the electrical company and the water authority operationally self-sustaining and, therefore, able to improve and extend their services to a greater percentage of the populace.
- Extend and improve the coverage of the potable water system and the maintenance of rural roads through strengthened management in the Ministry of Public Works and the Water Authority.
- Sustain the capability of the electrical company, public works, the railroad, and the water authority to rapidly repair sabotaged infrastructure and public services.

B. The National Plan - Background

Reacting to the insurgency's serious threat of gaining widespread popular support, in 1983 the GOES formulated a strategy for restoring order and for strengthening civil government in areas targeted by the guerrilla forces. This strategy, labeled the National Plan, was two-fold: (1) eliminate the insurgents via military intervention, and (2) establish strong local governments and provide essential public services. Simultaneously, an institutional mechanism - The National Commission for Areas Restoration (CONARA) - was created to implement the Plan.

In 1983 and 1984, the Plan focused in two guerrilla stronghold areas: the Departments of San Vicente and Usulután. After initial success in the form of the establishment of a military shield and the provision of public services such as small and medium scale infrastructure projects, the effort was effectively stalled. The military units were withdrawn to respond to a guerrilla offensive in another area, financial resources needed for public services restoration were insufficient and the central government service ministries (the entities which carried out the infrastructure component) gave only lukewarm priority to the Plan.

Since 1984, the Plan has undergone a series of adjustments leading to its current configuration. Beginning in 1985, the Plan added Combined Civic Actions (CCA's) to its inventory. The CCA's are short duration actions, normally one day affairs, in which the military provides security allowing civilian government organizations (e.g., Ministry of Health) to undertake humanitarian aid activities (e.g., distribute food, medicines and provide medical care) to residents in conflictive areas. By 1987, there were, on an average, 30 such interventions per month.

In 1986, the Plan was further modified. Rather than have the line ministries responsible for infrastructure interventions, the Municipalities in Action (MEA) program was developed. Resources were channeled from CONARA directly to municipalities, which selected and carried out the investments. The MEA program was begun on an experimental basis in 14 geographic zones (United to Reconstruct, UPR) selected for special emphasis. The military not only secured the areas, but also developed localized civil defense units to provide ongoing security. The program was a notable success and within 12 months, it was expanded to 232 of the country's 264 municipalities. Simultaneously, CONARA launched a nationwide program to train municipal officials, mayors and other functionaries in general public administration and the planning and management of modest public service infrastructure investments.

1. Constraints

a. The War. Uncertainty due to the security situations in contested areas remains a problem. The Salvadoran military's ability to control insurgent access to a given area of the country is critical for success of both the developmental and political impacts of the program.

b. Financial. Lack of budgetary resources by national ministries to finance their activities in newly opened areas and a strong tendency on the part of civilian agencies to view the conflict as the Army's problem and to pursue their regular activities.

c. Institutional. Program administration is complicated by a need for coordination between civilian and military authorities, as well as local government and national government coordination.

2. Target Group and Strategy

The National Plan, originally a program for reestablishing government services in the areas regained from the insurgents, has now expanded its operations to include 232 of the country's 264 municipal jurisdictions. Only San Salvador and some conflictive areas are excluded from the Plan. The participating municipalities represent a population of some 1.5 million persons. The activities carried out are basically regional development programs which address the economic problems, particularly small infrastructure, of villages, small towns and isolated rural areas. Most of these communities have no schools, health posts, community or municipal buildings, water or sanitation systems. The inhabitants, historically, had no participation in the development of their community, nor a voice in establishing priorities for municipal activities.

In addition to the inhabitants of these communities, 1,200 municipal officials, including mayors, are also targets of the Plan's strategy. Many of the mayors have had no previous training in government. Most of the officials have no experience in the provision of municipal services, and virtually none have experience in encouraging community participation in development activities.

To address the problems of access to the benefits of the society and the influence of the insurgency in the countryside, as well as to promote the democratic process at the grass roots level, the Mission will employ an integrated, development strategy. Operating through the Salvadoran Institute for Municipal Development (ISDEM) and the National Commission of Areas Restoration (CONARA), we will help the GOES provide technical assistance and training to upgrade the administrative and planning capability of mayors and other local government officials. In the process, we will be upgrading the capacity of municipal government to provide services for their constituency, thereby contributing to our objective of decentralizing government and bringing true participatory democracy to the grass roots of Salvadoran society. A second and equally important leg of the strategy will be provision of services to rural people. The successful Municipalities in Action (MEA) program, the operational arm of the National Plan, will be the centerpiece of this effort. Financial resources will be channeled to all of the municipalities in the country to carry out small and medium scale infrastructure projects. The activities will be selected by local residents, the beneficiaries, in open town meetings. Local suppliers will be used as commodity procurement sources and community residents will help supply manual labor.

The MEA portfolio will be complimented by a special set of integrated development efforts in areas of the country where the insurgency has had a prolonged, strong presence and which have received little attention from the central government. In simplest terms, these special, concentrated initiatives will be amplifications of the MEA program carried out under a military security shield. The municipalities selected to participate will receive grant resources, above the levels they will receive under the regular MEA program, to implement infrastructure activities. The national level ministries will compliment municipal efforts by providing resources for social infrastructure (e.g., schools, water systems, latrines and rural roads) along with credit and technical assistance related to agricultural production. This concentrated integrated development approach was initiated, on a pilot basis, late in FY 88, in the Department of Chalatenango with very positive results. Over the course of the CDSS period, it will be expanded, in controlled phases, to other extremely conflictive areas of the country, especially the eastern region.

The final leg of our grass roots development strategy will be to enhance community participation, and correspondingly, the degree of community responsibility, in the provision of social services. To this end, we will seek the transfer of authority over the construction of social infrastructure (e.g., schools, health posts) from the central government to the municipalities. We will also encourage the GOES to adopt measures that will enable the municipalities to generate revenue to maintain such infrastructure.

3. Impact on Target Group

Thousands of Salvadorans will participate for the first time in "grass-roots" democracy through community participation in town meetings, where priorities and plans for carrying out small community infrastructure projects are decided. The community members help to determine the priority of activities, plan their implementation and, in many cases, participate in the construction.

This process has proven to be very successful in focusing local authorities on the priorities as seen by the community and for developing a greater degree of interdependence and mutual trust between the community and local authorities.

Some 1,200 mayors and other officials will receive training and support under the program to improve their abilities in administration and leadership, while the community members develop a sense of responsibility for the progress of their town or village and a new concept of their rights as citizens.

The self-help programs to provide water and sanitation systems, schools, road repair, and municipal buildings will, in addition to providing a vehicle for community participation and an exercise in democratic decision-making, also make a contribution to economic reactivation of many communities through the considerable investment in local labor and materials.

4. Targets

- The number of municipal projects will increase from the current 830 per year to 1,500 per year from 1991 through 1994.
- Employment generated by municipal development projects will increase from 600,000 person days per year to 1.2 million person days per year until 1991. From 1991 until 1994, the number of person days of employment will decrease by 10 percent annually.
- The number of beneficiaries of municipal projects will average 400,000 people annually.
- Some 1,250 local leaders and officials will receive training each year.
- In areas of conflict, where other programs cannot to provide adequate assistance to the civilian population, some 400 civic action programs will be carried out annually.

C. Displaced Persons Program - Background

El Salvador's rural population historically has had a significant landless migrant component, basically people who moved where there was agricultural employment. By 1981 hundreds of thousands of person affected by economic recession and an armed conflict began to leave their homes and farms. People fled many rural areas in fear of both the Salvadoran army and the guerrillas and/or in search of work as the agricultural sector entered into hard times. Those who moved became known as Displaced Persons (DPs), a title that has never had an economic means test, i.e., all one needed was a cedula (official identity card) from a conflictive area other than where they currently were located.

From 1983 to 1986, a significant safety net of donor funded food, medical services and minimum employment activities was in place for what was a generally destitute DP population. By 1986 some DPs had returned home, but support groups like the International Red Cross, the Catholic Church and A.I.D. grew increasingly alarmed at the growth of dependency; the indifference of the GOES to solving "the donor community's problem;" and the "institutionalization" of what was to have been an emergency response. Starting in 1986, the USAID began to emphasis economic reintegration activities and to begin a slow phase-out of dole assistance. By mid 1988, the number of DPs was around 125,000 and falling. After five to seven years of displacement, hundreds of thousands of DPs have integrated into new communities, returned home or voluntarily been relocated, some on idle Agrarian Reform lands.

Between 1981 and mid-1988 A.I.D. dispersed about \$60 million and jointly programmed local currency equivalent to about \$11 million for the DPs program, largely for minimum employment, health, and relocation activities (large levels of P.L. 480 Title II commodities also have been provided both directly and through the World Food Program). Current DP support activities are listed below.

- Funding for U.S. PVOs engaged in voluntary returnee and relocation programs, which assist the ex-displaced persons through one crop cycle to reestablish themselves as small farmers.
- Pilot vocational training and productive projects, designed to foster micro enterprises run by DPs.
- Local currency program funded budget support to the GOES, at about \$1 million a year, basically for the logistics required for World Food Program feeding.

1. Constraints

Policy. The GOES has assumed the position that the displaced are a problem whose resolution is primarily the responsibility of the donor community. Activities to assist the displaced have not enjoyed priority status within the government.

2. Target Group and Strategy

The number of displaced persons, using the de facto definition of "needy persons enrolled in discrete programs for the displaced", has now dropped to 125,000. This number is falling constantly as people return to their original homes or permanently relocate in other communities. Virtually, no new displaced persons are being created under the current type of conflict. Within two years, the remaining displaced will be reintegrated into the economy or picked up by the social welfare programs of the GOES. At that point, A.I.D. will phase out its program.

In the next two years, the Mission strategy for addressing the Displaced Person's problem will be a continuation of the "reintegration" approach which has been successfully implemented since 1986. We will work closely with the GOES to have land (abandoned Phase I cooperatives or other suitable state-owned land) made available to enable DP's to relocate permanently in nonconflictive areas and to assist with an expansion of programs for DP's voluntarily returning to their place of origin. The relocation and returnee programs will be supported by agricultural starter packs (i.e., seeds, fertilizer and tools sufficient for one growing cycle), production credit and housing material that will be made available to the participants.

3. Impact on the Target Groups and Targets

By the end of 1990, using the definition given above and given the current trend of the war, there will no longer be any displaced persons. An estimated 97,000 of the current 125,000 will have reintegrated into the economy and will have returned to their homes or will have relocated elsewhere. An additional

1,500 persons with some 6,000 dependents will be trained and will have become economically active using newly acquired vocational skills or through participation in microenterprise activities.

The remaining 15,000 to 20,000 persons, such as widows, orphans, the mentally and physically handicapped and others who for some reason cannot integrate into the economy will be absorbed into on-going social programs of the Ministry of Labor or the Ministry of the Interior.

D. Earthquake Recovery and Reconstruction

1. Background, Target Group and Strategy

The Mission will conclude its involvement in this area early (FY 1991) in the CDSS period. To date, A.I.D.'s earthquake recovery and reconstruction has totaled \$148 million. An initial tranche of \$50 million was for rapid impact, emergency assistance immediately after the quake. These resources provided credit to approximately 7,000 families to rebuild their homes and to 2,300 persons to reestablish their businesses. More than 35,000 families, the majority of which were urban poor, were given building materials to erect temporary quarters. Over 700 school classrooms were reconstructed, basic services (e.g., water, electricity) were reestablished, more than 60 temporary buildings were constructed and more than 900,000 person days of work were generated through the removal of over 1,000,000 cubic meters of rubble -- a process which put the city back in operating order in a very short time.

The second tranche of funding, \$98 million, is assisting with permanent reconstruction efforts. These resources are being used in the process of reconstructing classrooms, rebuilding public markets, repairing of highway between the capital and the international airport and reconditioning health facilities. In addition, credit resources are being made available to repair homes and reopen small businesses.

2. Impact on the Target Group

The following targets will be achieved by 1991;

- Housing: 8,000 homes repaired
- Small business: 400 small businesses restored
- Education: 1,200 classrooms repaired/constructed
- Markets: 9 major markets repaired
- Highways: 24 kms reconstructed
- Health facilities: 3 major hospitals reconstructed; 1 health laboratory reconstructed; 1 health care facility reconstructed.

VII. SPREADING THE BENEFITS OF GROWTH - Objectives: Improve Educational Opportunities.

A. Background and Trends

Education in El Salvador suffers from years of neglect exacerbated by civil conflict. Prior to 1978, the system was performing reasonably well, with primary school enrollment growing, teacher ranks expanding and the Ministry of Education enjoying stable annual budget allocations of 20 to 25 percent of the public budget. Illiteracy rates dropped from 49 percent in 1960 to 38 percent in 1978.

Between 1978 and 1982, however, the war caused school enrollments to decline slightly (from 928,000 to 885,000). Over 875 school closures and the migration of nearly 500,000 Salvadorans from rural to safer urban and semi-urban areas strained a system ill equipped to respond. Dwindling budget allocations (from 20.7 percent of the national budget in 1978 to 18.8 percent in 1982) contributed to a significant system-wide decline in quality of instruction.

Substantial A.I.D. investments began in 1982 for school construction, equipment, and material. A.I.D. financed construction or rehabilitation of nearly 3,000 classrooms, resulting in the reopening of 323 schools. However, there is still a deficit of approximately 600 primary schools. Despite these investments the illiteracy rate has not improved from the 38 percent of 1978; approximately 35 percent of school-aged children (K-9) remain out of school, and it takes an average of 10 years for a student to complete the sixth grade in the public education system.

A sharp drop has occurred in productivity of the labor force due to deterioration of technical and vocational skills and the outmigration of large numbers of skilled workers. Only a small number of vocational and technical training institutes exist today, and these are ill-equipped to meet the demands for skilled manpower. Technologies are outdated; teachers are poorly trained; and GOES policies prohibiting tuition increases inhibit expansion or improvement of most of these institutions. The dimensions of the problem of scarce technical and vocational skills have recently been fully examined by the manpower survey carried out by the Entrepreneurial Foundation for Educational Development (FEPADE), established with A.I.D. funding in 1986. According to the survey, unmet demand exists for 17,000 skilled and semi-skilled workers and 2,000 foremen and mid-level supervisors in numerous sectors.

B. Constraints

1. Institutional. Although the Ministry of Education is hampered by significant financial, human resource, and infrastructure limitations, its most serious constraint is managerial weakness. MOE executives have been unable to articulate a comprehensive policy or program to achieve increased coverage or upgrade the quality of basic education. The official basic curricula has not been evaluated in over 15 years. Language arts and

mathematics skills, especially in the first six grades, have not been emphasized. The MOE has funded the production of teaching guides and useful texts, but availability remains severely restricted. An effective distribution system is lacking, even if materials were available.

Technical training has suffered from many of the same problems as basic education. Also GOES sponsored programs have not been linked to the employment needs of the private sector. Private technical schools have been attempting to fill the void, but are constrained by GOES policies and the lack of skilled teachers in priority fields such as irrigation, agricultural technology, construction trades, business management, and electrical engineering.

Currently, 25 percent (approximately 9,000 persons) of all Ministry employees perform administrative tasks rather than teach (worldwide norm is about 15 percent). This results in an overstaffing of administration by nearly 3,500 persons. Finally, weaknesses in mid- and lower-level staff, most of whom work half days only, further limit the Ministry's ability to provide for a quality education.

2. Financial. To cope with dwindling budgets and increased enrollment, the Ministry has postponed maintenance and repair of facilities, reduced or eliminated purchases of expendable supplies (e.g., desks, textbooks), and cut teacher training, resulting in dependence on rote memorization as the principal didactic mechanism. Also as a consequence of budget limitations, the Ministry adopted a policy of part-time employment allowing the number of teachers to grow to 27,000 and budget allocated to salaries to rise to 95 percent.

3. Human Resources. The Ministry of Education (MOE) workforce is poorly trained and supervised, and the number of administrative (non-teaching) personnel are clearly excessive. Teachers have not received appropriate in-service training since 1979, and there is a systematic lack of supervision and management, compounded by politicization of employment and training opportunities. The recruitment system for new teachers, too often based on political or family connections rather than professional qualifications, is inadequate to attract and retain qualified employees. The promotion system is no better.

4. Infrastructure. Despite A.I.D. investments, the system suffers from lack of physical facilities, furniture and equipment which prevent thousands of primary school children from attending school or which place them in severely overcrowded facilities. Current estimates put the number of primary schools required at 600, with the wide majority of these located in small rural locales.

5. Policy. Present policies and centralized administration discourage participation of the community and the private sector in the provision of basic education and vocational training. GOES-mandated tuition ceilings for educational facilities constrain development, expansion and upgrading of private technical and vocational institutes.

6. Social. Emigration of educated Salvadorans has led to a loss of qualified teachers. A cyclical pattern of internal migration for agricultural workers results in children being removed from schools prior to the completion of the school year and contributes to the high repeater/retention rates. Children, especially older girls, are expected to contribute labor for economically productive or household activities, contributing to high drop-out rates. This phenomenon is exacerbated by the civil conflict, emigration and the resulting absence of one or more parents. In addition, given the relatively short tradition of public education in El Salvador, the value of education is not adequately appreciated, especially among the disadvantaged. These other social and cultural impediments have not been systematically studied and play virtually no role in GOES educational planning or policy formulation.

C. Target Group and Strategy

Some 640,000 elementary school aged children, almost 35 percent of the total number eligible - are not enrolled in classes. Those who are enrolled receive an education that is inadequate in many ways and suffer from overcrowded classes, lack of textbooks and lack of teacher training, and high teacher absenteeism. This group is the primary target of our education strategy.

The thousands of unskilled and underemployed workers who are in the job market, or who will enter it in the next five years constitute the second major target group which will be served by the proposed approach.

The third target group is the body of young potential leaders, predominantly from rural areas, who need training in order to contribute to the growth of democratic organizations and institutions.

The Mission's program in education is built around a strategy to (1) improve the quality and efficiency of primary education through teacher and curricula development and greater decentralization of the public school system; (2) expand access to primary education through school construction and cost effective and innovative teaching methodologies; and (3) expand vocational/technical programs, primarily but not exclusively in the private sector, and focused on skills essential to restoring the productivity and competitiveness of the Salvadoran workforce. A complementary policy dialogue agenda will also be pursued to encourage the (1) decentralization and increased responsibility at the local level for school construction and maintenance; and (2) increased private sector involvement in educational planning, teaching and financing. We intend to pursue these policy reforms in the context of our DA portfolio interventions.

1. Improvement in the Quality and Efficiency of Education. This component of the strategy calls for: (1) improved administrative efficiency throughout the system at large, (2) complete evaluation and updating of primary school curricula, (3) comprehensive teacher training, (4) the preparation of critically needed didactic materials and (5) community involvement.

Major changes in the way that the Ministry operates and allocates its resources are needed to sustain qualitative improvements over the long-term. The program will seek to effect institutional reform through the upgrading of planning, managerial and administrative skills. Management training programs for senior officials will be developed and the MOE will be assisted with internal efficiency studies and financial analyses.

For mid-level management, in-service training programs will be initiated to strengthen capabilities in such areas as supervision, cost-effective educational technologies, materials development, and personnel management.

A.I.D. will finance the development and distribution of textbooks, workbooks, teacher's guides and complementary didactic materials for kindergarten through ninth grade and their distribution. In-service teacher training will also be increased dramatically, and a program of teacher's aides, drawn from local school parents, will be introduced to reduce high student-teacher ratios and increase parental participation. At the same time, A.I.D. will assist the Ministry to establish a unit charged with the responsibility of evaluating and updating curricula.

The Ministry will also be encouraged to establish advisory committees consisting of parents and private firms, to stimulate greater awareness within the system and a more responsive and responsible posture relative to the educational needs of the society at large. In this regard, a major step has already been initiated through the establishment of the National Commission for Educational Development (CONACODE). This is a unique experiment, fomented by A.I.D., in public/private sector development between the Ministry and FEPADE which is already active in several aspects of educational system and policy reform.

2. Access. For the foreseeable future, the GOES will not have sufficient resources to address all of the infrastructure needs of the public educational system and will have to depend upon donor agencies for funding. As a result, during the CDSS period, A.I.D. will provide local currency funding under the extraordinary budget for school construction.

A.I.D. will encourage municipalities to assume construction and maintenance activities initially on an experimental basis. The participation of parents and communities in these endeavors can also serve to strengthen democratic processes through increased citizen participation in such aspects as site selection and school construction. With this in mind, continuing local currency support to municipalities is planned throughout the CDSS period in order to institutionalize an effective cost sharing arrangement with the Central Government for school construction and maintenance.

3. Vocational/Technical Education. There is an urgent need for vocational/ technical training to meet the demands of a growing economy for a skilled and productive workforce. Spearheading the effort will be FEPADE, mentioned above, which is equipped to assess vocational/technical education needs and serve as a broker/catalyst for the establishment of programs to respond to them. Specifically, the Mission will assist

FEPADE to expand its educational credit program for needy students enrolled in priority vocational/technical programs. It will also help to upgrade the capabilities of vocational/technical schools through the provision of teacher fellowships and grant resources to expand facilities.

The Mission will also support the efforts of other private organizations such as FUSADES, AIFLD, and the Salesian Society, to provide short and long term training in professions related to priority sectors of the economy such as irrigated agriculture, business management, and construction trades. Other donors, such as the IDB, have also expressed an interest in vocational training, and the USAID will aggressively support their involvement and investment in this field.

4. The Central American Peace Scholarship Program (CAPS). Although the Mission's strategy for education, training and human resource development is not dependent on CAPS per se, CAPS is important to upgrading the human resource base of the country. The CAPS program also complements priority Mission activities in such areas as the strengthening of democratic institutions and processes, agricultural diversification, and small business development. The target population of the CAPS program is disadvantaged rural leaders, with a potential for future leadership roles. Selection of those trainees who occupy, or will occupy, positions that will give them opportunities to influence other Salvadorans will be emphasized. Also, based on past experience, medium term training programs lasting from three months to a year will be stressed. Given the limited funds available, this will enable more Salvadorans to participate. Emphasis will be placed on practical mid-level technical skills development, in addition to meaningful exposure to traditional American values and democratic principles.

5. Policy Dialogue. The Mission will pursue the two policy dialogue lines described above during the CDSS period, although others will undoubtedly arise in the process.

D. Impact of the Strategy on the Target Group

Some 300,000 elementary school children will be enrolled in classes over the CDSS period. A substantial reduction in the number of children who are held back to repeat grades year after year will take place. The quality of teacher training, combined with a greater number of new classrooms, and expanded availability of texts and materials will reduce the average number of years necessary to produce a 6th grade graduate from 9 years to 8 years. The primary school completion rate will be increased from 63 percent to 69 percent of the students and nationwide literacy rates will be raised from 62 percent to 65 percent.

Approximately 1.2 million elementary school students will be receiving a higher quality of instruction as a result of improved curriculum, better and more widely available textbooks and a larger body of better trained teachers. In conjunction with our program of democratic initiatives, we

will promote the incorporation of civics instruction into the curriculum. This will provide young children with an understanding of how a democracy should function and clarify their rights and responsibility under such a system.

The strategy will also provide vocational technical training to between 15,000 and 20,000 workers who are needed to fill skilled and semi-skilled jobs in industry.

The CIASP program will train some 2,000 young Salvadorans in mid-level technical jobs to meet needs in both the public and private sectors in specialities such as agriculture, health, private enterprise and education. Skills for enhanced participation in democratic organizations will also be emphasized: leadership and communication, negotiating skills, conflict resolution, parliamentary procedures, voluntary community involvement and development.

E. Targets

- Decentralization of school construction, rehabilitation and maintenance function from the MOE to municipalities and communities in order to cut costs and involve communities in their school systems.
- Construction or rehabilitation of at least 600 rural primary schools.
- Improved curricula developed for primary and secondary schools, to include civics instruction.
- Development and distribution of new textbooks and didactic materials.
- 5,000 new or in-service teachers trained in use of new teaching materials and methods.
- 15-20,000 workers will have their job skills developed or enhanced.
- 300 short term and 100 long term participants annually will be provided training under the CIASP program.
- Thousands of parents and community leaders taking a role in their community's educational system.

VIII. SPREADING THE BENEFITS OF GROWTH -- Objectives: Increase Access to Family Planning, Reduce Infant and Child Mortality, Improve Health and Health Services.

1. Background and Trends

In spite of the violent conflict and resulting population displacement, national level health statistics show the people of El Salvador to have experienced generally improving health status since 1950. The most dramatic indicators of this are the falling infant and child mortality rates and the increase of life expectancy at birth. Although there was a brief rise in all mortality rates during the early 80's, infant mortality fell from 77 in 1979 to 50 in 1988 (per 1,000 live births). Consistent efforts on the part of the Ministry of Health to improve and reorient its innovative malaria control program have also shown results, with the incidence of malaria reduced by some 40 percent between 1979 and 1985. On the population side, contraceptive prevalence rates have also increased during this time period, with approximately 47 percent of women of fertile age in union now regularly practicing some form of contraception. Population growth rate has declined from the 3.0 percent level of ten years ago, but it is still at an unacceptable 2.5 percent per year level.

Nationwide indicators of health status mask an inequitable distribution of gains by the rural and marginal urban populations. For example, although the infant mortality rate for the country as a whole in 1988 was 50 per 1,000 live births, in rural areas the rate was found to be 56 per 1,000 live births (roughly 11,000 children in 1988), while rates were second highest in low income urban areas. And, both mortality rates and nutritional status were found to be significantly worse than the national average for displaced children in marginal urban areas. Protein-calorie malnutrition in rural children under 5 years of age continues to be a problem. However, the preliminary data (December 1988) of the 1988 National Nutrition Survey indicates that there has been an overall decrease in acute child malnutrition (NCHS Standard II and III degree) from 18 percent in 1978 to 15 percent in 1988.

Diarrheal disease, undernutrition, acute respiratory infections, prenatal mortality, and vaccine-preventable illnesses (all topic areas which may be referred to as Child Survival or, more traditionally, as Maternal-Child Health), continue, therefore, to be major health problems in El Salvador, and particularly among women and children living in rural areas, reflecting both the poverty level and the limited availability of health care services and potable water.

2. Constraints

a. Financial Constraints. Despite nominal increases in the MOH'S budget between 1979 and 1987, the MOH has suffered a continual decline in its purchasing power. Between 1980 and 1985, for example, the cumulative effect of inflation resulted in a 50 percent reduction in the MOH's budget in real terms. At the same time, family incomes have remained low and medicines and food have become more expensive. The 1986 devaluation, combined with high import taxes on pharmaceuticals, has resulted in a doubling in the price of most medicines in the past two years.

b. Institutional Constraints. The MOH continues to suffer from the lack of a comprehensive, well-articulated health strategy and competent management. The manifestations of the non-existent policy and programmatic framework include: a) imbalanced allocation of scarce resources (personnel, facilities, medicines, equipment and supplies) to hospitals rather than rural areas; b) deficient logistics systems which delay provision of essential drugs and supplies to high risk areas; c) the vertical planning and implementation of donor funded projects, fragmenting service delivery and resulting in duplicative and expensive administrative systems.

c. Social Constraint - The War. Over the last 10 years, the MOH has had restricted service delivery to the rural population due to the conflict. The Ministry of Health has had to close 25 of the 100 health units and posts in the Eastern Region of the country, as well as numerous other health facilities in other parts of the country where medical neutrality was not respected. Medical personnel continue to be in danger when delivering services in rural areas, thereby exacerbating the already low coverage of high risk populations.

d. Infrastructure. As indicated by the continuing high rates of diarrheal disease, access to safe water supplies, particularly in rural areas, continues to be a major constraint to improving health status. As noted earlier, rural population access to potable water had dropped alarmingly, from 30 percent in 1984 to 13 percent in 1988. This is in sharp contrast to USG's Central America Initiative goal for 1989 of 33.3 percent for rural population coverage. The internal conflict, high population growth rates, and lack of maintenance for existing systems are blamed for the precipitous drop in coverage.

3. Target Group and Strategy

To date, A.I.D.'s financial assistance for pharmaceuticals, medical supplies and emergency medical equipment has enabled the public sector to provide basic health services despite dislocations caused by the war and the related constraints on the public sector budget. However, the USG resources, which have been concentrated on supporting a facility based urban and larger town health programs and the few child survival-community health interventions (e.g. UNICEF immunization program, German-PROSAR community health worker initiative) have had limited impact on the part of the rural population living in the more remote areas.

Accordingly, the Mission will shift the emphasis of our health sector program from systems strengthening to service delivery to high risk groups, largely those located in the areas that have, to date, been poorly served by health services and whose health indicators have lagged behind those of the country at large.

These are three specific target groups as discussed below.

Women in fertile ages and children under the age of five years living in some 2000 of the country's poorest and smallest rural communities (populations of 200-800); women of fertile ages and children of less than five years living in some 100 of the country's rural towns (populations of 500-5000); general population of those urban and marginal areas with populations of more than 5000.

The primary target group lives in areas with extremely weak or nonexistent services and will receive selective interventions via preventive and curative health care. The components of the health care system will generally include potable water, vaccination, health and nutrition education, growth monitoring, pre-natal care, child spacing and basic curative services. The number of direct beneficiaries in this group is estimated at 800,000 of whom some 350,000 are women in fertile ages and children less than five years old.

The second target group has traditionally had access to some services and will receive limited A.I.D. assistance to complement these services. The health care system components will vary depending on need but will probably include some potable water, child spacing, pre-natal care and nutrition education assistance. The number of direct beneficiaries in this group is estimated at 800,000 of whom approximately 330,000 are women in fertile age and children under 5 years of age.

The tertiary target group are those receiving services supported by A.I.D.'s assistance to the MOH and other donors via vertical and institutional strengthening activities. These cut across a wide swath of urban/rural populations and programs provide a wide variety of curative and preventive services. Some 1,200,000 Salvadorans are served via these programs.

During the transition period from institutional systems strengthening to the focus on the high risk groups, predominantly in rural areas, the strategy will complete current efforts to improve planning, management and logistical capacity to deliver health services through the existing system of the Ministry of Health. Increased efficiency in this area will free up resources allowing greater emphasis and effort to be applied to more critical problems among the rural and urban poor populations.

Because we intend to reach high risk groups in a short period of time, the Mission will utilize all institutional vehicles available, with at least beginnings of organizational capacity, technical expertise and philosophical commitment. This will entail a major preventive health care effort through the public sector (National Water Authority, ANDA, and the Ministry of Health) complemented by significant involvement of private organizations under a potential variety of modes — e.g., grants to P/O's, and private practitioner incentive programs. Throughout we will emphasize the introduction of cost recovery methods to reduce the recurrent expense to the delivery system.

We recognize that our resources for health, family planning and potable water alone, although estimated at \$35-40 million per year throughout the CDSS period, will not be sufficient to adequately address the health problems which the country faces. Accordingly, as a part of our strategy, we will actively engage other donors to either continue ongoing efforts or undertake new health initiatives. For example, we will encourage UNICEF to move from its current narrow program which focuses on expensive technological interventions, to a broader approach that emphasizes child survival through communications, water and sanitation, and nutrition. We will provide counterpart resources for the IDB's water and sanitation project for metropolitan San Salvador. And, we will encourage UNFPA to sponsor an enhanced demographic data collection effort and a family planning education program. Currently the World Food Program (WFP) is providing approximately \$US 15 million per year in food assistance and is expected to continue assistance at this level for the period covered by the CDSS (see Annex G Food Aid WFP). Also, the UNDP will implement a \$US 30 million food and other assistance program for DPs and marginal groups early in the CDSS period.

4. Impact on the Target Group

The implementation of this strategy will reduce the percentage of children under five years of age suffering from second and third degree malnutrition from 15 percent to 13 percent.

Potable water will be available to 825,000 rural people by 1994 as compared to 315,000 now, with a consequent reduction in diarrheal disease in children.

Seventy-six (76) percent of children under 2 years of age will be protected from communicable diseases, i.e., measles, polio and DPT, as contrasted to the current 66 percent receiving protection.

These improvements will result in infant mortality rates reduced from 50 to 42 per 1,000 live births nationwide and from 56 to 48 in rural areas. Child mortality rates will be reduced from 24 to 22 per 1,000 live births.

The annual population growth rate will be reduced from 2.5 percent to 2.2 percent by 1994 as a result of the expanded coverage of the family planning programs which will reach 53 percent of couples - a 6 percent increase over the current level.

E. Targets

- 500,000 couples using modern methods of Family planning.
- 3,000 private family planning distribution outlets.
- 1,000 public family planning distribution outlets.
- Vaccination coverage for polio, DPT and measles will be increased by 20 percent over the five year period.
- About 1,000 potable water systems, will be repaired or installed in rural towns and villages.
- Improve basic health services in 1500 of the 2,000 villages with a population of less than 500 persons.
- Child health visits will increase from two to three per enrolled child.
- 800,000 rural poor at highest health risk, provided with a basic health system.
- 2,000,000 poor in urban and secondary cities areas receiving improved health services.

IX. SPREADING THE BENEFITS OF GROWTH - Objective: Improve Housing.

A. Background and Trends

Currently, 2.2 million out of more than five million Salvadorans live in inadequate shelter; up from an estimated 1.5 million in 1978. Sixty-two percent of rural homes are in precarious physical condition and/or lack basic water and electricity services. Twenty-three percent of the urban homes consist of little more than wood and tin shacks, and many are built in non-legal subdivisions and lack water, sewerage and storm drainage. El Salvador has been trying to keep pace with population growth and rural-urban migration mainly through informal production of low quality shelter.

Over the last two decades, the general population's ability to afford formally produced housing has declined. Reduced real incomes, increased real land and construction costs, and higher cost of credit has reduced by 50 percent what a below median income family can afford. Standards have been reduced, but they have not resulted in sufficient cost savings to overcome inflation, higher interest rates, and limited land availability. To compensate for lost affordability, more families are building, renting or moving into informally produced shelter, often lacking basic services. In sum, El Salvador's housing problem is essentially a matter of declining quality.

Infrastructure serving housing has also suffered from low investment. There are growing water, sewer and storm drainage deficits in most towns and cities.

In 1986, over \$100 million (C503.9 million) was lent by financial institutions for an estimated 15,100 homes built by formal sector builders. Institutional housing production for 1986 added about 11,700 units. While the share of housing in GDP has moderately increased from 1.2 percent in 1978 to 1.4 percent in 1987, in real terms, the level of housing investment has not changed significantly during the last 10 years.

Housing officials have not come to grips with the fact that over 60 percent of Salvadorans cannot afford adequate shelter, even with interest rate subsidies, and that adequate housing is a primary element of social stability. El Salvador's shelter policy must, at some point, recognize that upgrading the stock of existing precarious housing will contribute to resolving housing problems far more efficiently than will the construction of new housing alone.

Over the past 20 years A.I.D. has provided \$58 million for housing under a variety of programs, -- e.g., housing guarantees, local currency projects and ESF dollar funds for earthquake reconstruction. Another \$48 million is in the pipeline to be invested in the next several years for earthquake reconstruction and resettlement. During this period, the Mission will begin to shift its primary emphasis toward improving the housing sector's policy and legal frameworks.

B. Constraints

1. Policy Constraints. The lack of a formal shelter sector policy constrains effectiveness. The GOES's National Housing Policy has no legal or regulatory effect. El Salvador's de facto housing policy is contained in the body of laws, decrees and regulations that created the myriad of housing institutions, the water and sewer authority and the savings and loan system. This legislation, combined with the political mandates to build more, new, standard houses, determines the direction of investment in the housing sector. At this juncture, the upgrading of substandard housing rather than continued construction of new housing which is unaffordable to the majority of people, is a matter of social equity. But, it is an area which has not been successfully addressed by GOES reforms.

2. Institutional Constraints. El Salvador has an excess of housing development and finance institutions, both private and public. Most of these institutions are not associated with a large portion of the rural settlers and poor urban dwellers.

Each institution sets its own policies, interest rates, mortgage documents, eligibility requirements (limited to contributors). They are autonomous and are not controlled by either the Central Bank, Monetary Control Board or the Vice Ministry of Housing.

3. Legal Constraints. The current legal framework, as contained in the various, disconnected laws, regulations and decrees that control the financial policies, construction, land titling, municipal services, and taxation for the most part impedes low cost housing construction and, in particular, works against upgrading informal settlements and facilitating non-formal home construction or improvement activities.

4. Financial Constraints. In addition to the major cross cutting issues that effect the financial sector in general (e.g., low real interest rates and limited ability to capture savings), El Salvador's housing finance institutions are severely constrained as to where and how they can invest their resources. With few exceptions, funds available for these institutions can only be used to finance first mortgages on new houses, requiring a clear unencumbered title and certificate that all services are installed and legal requirements met. These requirements effectively eliminate financing informally produced housing improvements or new construction in non-legal subdivisions. Also, the installation of services (e.g., water, sanitation) cannot be financed through most financial institutions.

Generally, low income families or small, non-formal home builders do not have access to credit or other facilities with which to buy, build or improve houses. Of the over \$100 million of housing finance provided each year, 70 percent is restricted in some manner to new housing production.

C. Strategy

The Mission plans to phase out its major financial assistance to the housing sector and shift its housing strategy to one of inducing major policy and structural reforms through policy analysis and dialogue, technical assistance and training. Until the policy, legal, institutional and financial basis is set, there will be very limited opportunities for the GOES, A.I.D. or other donors to efficiently invest funds into large scale upgrading programs. Therefore, during the CDS period, the GOES will have to decide on policies, develop appropriate legislation, and promote institutional reforms that in addition to promoting new home construction, will allow a major increase in the scale of upgrading activities needed to improve the existing, precarious housing stock. These activities include provision of basic residential infrastructure (water, sewer, drainage, electricity) as well as activities that increase land titling and tenure security. The Mission will seek to achieve the following objectives listed below.

- A formal housing policy statement that recognizes the need for upgrading non-formal settlements and sets out clear central government, municipal government, public institution and private sector roles.
- Upgrade the position, authority and capability of the Vice Ministry of Housing to coordinate the various housing sector activities, including the activities of the multilateral and bilateral donors.
- A plan to make the housing sector financial institutions more efficient. This could include consolidation of savings and loan associations, and key public housing institutions into a housing bank; and regulations that provide for new instruments for both savings and lending and for secondary financial markets for housing sector securities.
- A liberalized set of eligibility criteria and guaranty requirements for home improvement and construction lending, as well as lending for basic utility services, so that financing can reach low income families through the savings and loan system and other housing finance institutions.
- Legislation or regulations that set out the terms, conditions and responsibilities for land titling in non-formal settlements on both public and private land and that provides appropriate criteria and standards for upgrading non-formal settlements.

Policy dialogue will be directed at the formulation and review of formal policy statements and/or legislation. Technical assistance will be used to back up policy dialogue with analysis, expert opinions and presentations and to formulate plans for institutional actions such as improving the cost efficiency of the savings and loan system. Training will assist in upgrading the human resources needs across the board at the institutional level.

X. OBJECTIVE: STRENGTHEN DEMOCRATIC INSTITUTIONS

A. Background and Trends

During the war-torn period in the late 1970's and early 1980's, democratic processes in El Salvador underwent major transitions. Some democratic institutions (e.g., electoral processes, human rights organizations) emerged for the first time. Others, such as the legislative assembly, the democratic labor movement, the judicial system, and municipal government made some sporadic progress. A.I.D. assistance to this process took many forms.

For local, legislative and presidential elections, the Mission provided commodities and technical assistance to create a voter registry and financed the participation of international observers to assure that the elections were conducted in an above board, public fashion.

The Mission funded the creation of the Human Rights Commission (CDH), to help provide thousands of Salvadorans a safe, effective means of informing their government about alleged abuses of authority by government officials, by guerrillas, and by others who have taken the law into their own hands. Since 1980, the trend in the number of civilian deaths from political violence has declined dramatically and the work of the CDH was clearly a contributing cause.

The Salvadoran Legislative Assembly, historically a weak institution, has with A.I.D. assistance been resurrected and since 1983 has demonstrated some progress toward attaining institutional credibility. While there is limited staff turnover with elections, a core staff group provides a measure of administrative continuity. A major weakness of the legislature has been that it lacks the capacity to draft and analyze laws independently. To counter this problem, USG resources have been used to create the National Revisory Commission on Legislation, which has been active in redrafting a series of outdated laws including legislation to improve the penal system, and create a judicial career system that would require judges to be selected by merit.

After suffering near decimation during the violence of the early 1980's, the labor movement, with A.I.D. funded assistance, is now resurgent. By December, 1987, there were 150 trade unions and employees' associations in El Salvador - a figure that represented 19 percent of the labor force. Eleven of 14 private sector labor unions now have negotiated and signed collective bargaining contracts with their employers. A.I.D. support has been channeled through AIFLD to train union leaders to organize and educate their constituency, to help unions provide disability training, and masonry training. Since 1986, over 15,000 union members have participated in AIFLD-sponsored training courses.

The judiciary system is one of the weakest elements of the democratic institutional structure. The institution suffers from: a politicization of the selection of judges at all levels, corruption, undue influence (particularly through intimidation exerted by the military and elements of both the extreme right and left), a weak human resource base, and insufficient funding.

Judicial reform has been the centerpiece of A.I.D. assistance efforts to El Salvador's democratic institutions. Financing has been provided to train judges, justices of the peace, and administrative personnel, and to finance a separate administrative office in the Supreme Court for a temporary court center for San Salvador. The Mission has also supported the establishment of the Commission on Investigations, which has created a civilian wedge in the otherwise military-dominated police forces.

On balance, democratic processes in El Salvador have improved measurably over their status in the late 1970's. However, all of El Salvador's democratic institutions are fragile. They must be strengthened if they are to play their assigned role of serving the general populace and, engendering a sense of confidence in the democratic system.

B. Constraints

1. Social/Cultural Constraints. A fundamental problem is the lack of consensus among sectors of society on values which should take precedence over personal interests, monetary gains, and concentration of power. For example, corruption in the judicial system affects the impartiality of the system and impedes the formation of consensus that reform is necessary. Decisions are made on the basis of political or personal rationales, or even bribes, as a matter of common practice.

Social and political polarization also has made the strengthening of democratic institutions difficult. In the democratic labor movement, mutual distrust of labor and management makes collective bargaining hard. Physical threats from the political right and left impede judges' ability to make decisions based on the law and discourage witnesses and prosecutors from participating in the process.

2. Political Constraints. Political dependency has had a detrimental impact on the Judiciary as lack of a judicial career system has resulted in the politicization of appointments and opened the system to corruption.

The military and the extreme right or the extreme left, unduly influence the application of the law. Murders have gone unpunished, bringing severe denunciation of the Salvadoran judicial system by the outside world.

The fact that military officers have yet to be successfully prosecuted for committing serious crimes, including human rights abuses, must be counted as a failure of the judicial system. The military's legitimate need to pursue its objectives at times conflicts with the legitimate need of Salvadoran society to guarantee due process under the law to all.

3. Institutional Constraints. Poor administrative procedures, inadequate financial management, and a lack of adequate information systems make institutions vulnerable to political maneuvering. Poorly trained court administrators cause unnecessary delays in case handling. The National Assembly lacks the data center and library facilities that would enable its

members and their staffs to generate data, conduct analyses, and draft appropriate legislation. Absence of financial management skills result in inefficient utilization of scarce resources.

4. Financial Constraints. Low salaries are one of the root causes of the low quality of judges and other personnel attracted to the profession, and of their susceptibility to bribes.

Financial constraints on the legislature keep that body from establishing and maintaining an adequate technical staff and building its resource base. The electoral process is dependent on A.I.D.'s support and once that support stops, funding constraints could restrict the CCE's ability to continue the process it has so successfully put in motion.

Underfunding hinders the ability of the police to investigate cases and present adequate evidence to the courts. Without good police work, the system breaks down completely. Both the Attorney General's Office and the Public Defender's Office are severely limited in what they can accomplish because of a lack of funding.

C. Target Group and Strategy

While all members of Salvadoran society will benefit from improvements in the judicial system, human rights protection, a democratic labor movement and an honest, efficient legislative power, some groups will receive specific benefits:

- Current and potential members of democratic labor unions, the judicial, and legislature systems.
- Current and potential future victims of human rights abuses.
- Those who, because of a lack of influence, social or financial position, cannot receive due process due to the nature of the judicial system.
- The voting public (historically disenfranchised) who now and in the future will participate in a freer, more open electoral system; and those who, because of civic education efforts, will be more capable of participating.

Significant, immediate impact is simply not probable. We can and will however, continue to push on the constraints discussed above, thereby contributing to their eventual resolution. The majority of our efforts for now will be directed at human resource and financial constraints. As tangible, albeit modest, improvements in El Salvador's basic institutions are made, expectations on the part of Salvadorans that democratic institutions can work will, hopefully, result in an increased reliance on them and, over time, in the attainment of the fundamental attitudinal changes necessary for a stable democracy. We will also continue to encourage popular participation in decision making at the local level, and activities, such as civic education and CIASP scholarships that build popular support and understanding for

democratic ideals and processes. During the CDSS time frame there will be an increased emphasis on policy dialogue to achieve an increase in the ordinary budget resources for the judiciary.

Within the judicial sector, our basic program will continue to upgrade the quality and effectiveness of three of the institutions that are the foundation of this sector: the court system, the Attorney General's Office, and the Public Defender's Office. These activities (largely training and equipment purchases) will be expanded and efforts will be made to institutionalize training programs. Specific program areas will include: activities aimed at law schools to build in a greater concept of ethics at the formative stage of lawyers; a complimentary effort with attorneys' associations; establishing an ethics office and moving to a full-time judiciary. By the end of the CDSS period these activities plus funding for the Public Defender's Office and the Attorney General's Office, including its Human Rights Division, should be incorporated into the regular budget, to ensure their continuity.

Thus far, A.I.D. has addressed the police side of the judicial system equation by creating and providing support to the Commission on Investigation. Although A.I.D.'s authority to finance this activity has expired, we do recognize the importance to upgrading the judicial system. Accordingly, arrangements have been made to transfer responsibility for assistance to the Commission to the Departments of State and Justice. U.S. government support to improve the capability of the police force will continue but through a different channel.

In the area of the democratic labor movement, continued support will be given to the on-going efforts of AIFLD to train leaders and members of rural and urban unions in basic union management and organization. Also, the successful AIFLD program of union/management joint efforts in job skills training will be increased. Both of these activities are designed to overcome financial and human resource constraints which impinge on the growth of the labor movement.

Programmatic efforts will be made to overcome the polarization and mutual distrust between management and labor. The human resources of the Direccion General de Trabajo in the Ministry of Labor, which has the legal mandate for facilitating collective bargaining, will be upgraded. Labor and management will be brought together over less controversial issues, e.g., the safety of the workplace, and once dialogue and cooperation is established, on issues of a more controversial nature, such as wages.

We will undertake policy dialogue with the government, the legislature and the private sector in an effort to have the labor code revised so as to streamline the enforcement process with respect to labor cases and a general strengthening of the democratic labor movement.

We will launch a major new initiative to strengthen the Legislative Assembly. Key will be policy dialogue aimed at ensuring that sufficient resources are provided to the legislature to permit it to hire permanent staff. Project assistance will train this staff, and expand the data center/library.

The Mission will actively promote through training, trips, etc., for legislators, and the public, the need to reintroduce the widespread teaching of civics.

Regarding the electoral process, we will continue to encourage ordinary budget support for the Central Elections Council to permit it to improve the electoral process, particularly in registering voters. During election years, we will also provide support for international election observers as necessary, and will facilitate training by CAPEL on voting procedures. In off-election years, emphasis will be placed on completing the voter registry, which ultimately could be used as a basis for a national registry. Voter education activities will also be carried out in off years, and efforts will be made to educate the political parties in organizational methods.

We will continue to provide local currency budget and technical assistance support to the Governmental Human Rights Commission. This institution plays an important role in beginning to make Salvadorans in all sectors aware of their rights to basic due process, and of the detrimental effects to their society of human rights abuses.

D. Impact on Target Group

With improvements in the judicial, legislative and electoral systems, Salvadorans in all walks of life should begin to develop confidence in the operations of these constitutionally-mandated mechanisms to resolve their differences and to make their opinions known. The impact of reforms in these areas will be greater on people at lower socio-economic levels (a majority of the population).

Under the present system, the poor and those without influence are second-class citizens. They are more likely to languish in jail, not receive access to legal representation, or simply not receive equal treatment under the law. The democratic initiatives program will work to redress this imbalance.

Similarly, efforts to strengthen the democratic labor movement impact strongly on people at lower income levels, showing them that workers too have rights and obligations.

The impact of improvements in the electoral system will be felt nationwide, but those who were formerly disenfranchised or who had no other option than to participate in an undemocratic and more corrupt political system will feel the impact of the benefits in greatest measure.

E. Targets

1. Judicial Reform

- An upgrading in the quality of judges, as a result of training, merit selection and judicial career laws, and a general upgrading of the standards of lawyers and the bar associations.
- 600 judges, justices of the peace and other court personnel will receive training to upgrade their skills.
- 2,700 people will receive assistance from the Public Defenders Office.
- Improved administration of the court system, particularly the management of cases.
- Improvements in the penal codes, which should, in turn, result in improved processing of cases.
- Strengthening of the Attorney General and Public Defender's functions, with resulting improvements in defense of the poor.
- Greater expectations on the part of Salvadoran society that the judicial system can and must operate more effectively and fairly.

2. Human Rights

- 5,600 persons aided by the Human Rights Commission to resolve complaints or redress grievance .

3. Democratic Labor Union Strengthening

- Improvements in the working relationship between labor and management.
- Increasing the ability of the democratic labor unions to provide for the needs of their members and a parallel weakening of the non-democratic labor movement.
- 280,000 democratic labor union members will have received training and support through AIFLD.

4. Legislative Reform and Strengthening

- Assist the legislature to acquire the capacity to independently analyze and draft legislation, and, thus, to assume a role equal to that of the executive in the functioning of the government.
- 60 legislators and 60 alternates will receive training in the legislative process.

- Through civics education, greatly increasing the awareness by Salvadorans of the role that the legislature and other branches should play in a democratic society.

5. Improving the Electoral System and Citizen Participation

- Institutionalizing the procedures for carrying out free and fair elections and the concept that all citizens have a right and obligation to vote.
- Introduce civic education into public school curriculum.

SPECIAL INTERESTS: OTHER DONORS, LOCAL CURRENCY, WID AND GOES MANAGEMENT IMPROVEMENTOTHER DONORS

The expansion of other donor participation in El Salvador is vital to the accomplishment of any strategy designed to put the country back on the path to economic growth. We estimate that, even taking into consideration timely GOES action on difficult macroeconomic policy reforms, the GOES trade deficit as a percentage of GDP will remain constant at around 9-10 percent. In absolute terms, it would reach about \$870 million by 1992. Some \$200 million in financing, in addition to planned A.I.D. levels, must be secured from external sources to help fill this gap.

Although the IMF continues annual discussions with the GOES on economic policy, there has been no Fund program in place since 1983. IBRD, while it has provided funding for school construction and for earthquake reconstruction, is not a significant contributor to El Salvador at this point. Both organizations are reluctant to expand their assistance given this country's macroeconomic situation. While some of the monetary and fiscal targets of the GOES were met during 1987, neither the Fund nor the World Bank see the actions taken to date as sufficient. Both are concerned about the current negative interest rates, the overvalued currency, the effect of price controls on investment and production, and the general state of public sector finances.

The InterAmerican Development Bank is financing projects, on a limited basis, in the areas of health and municipal planning and has been a sizable contributor for infrastructure projects. In contrast to the macroeconomic concerns of the IMF and the World Bank, the reluctance of the IDB and many of the bilateral donors to expanding assistance appears to be based upon the lack of efficient management and administration by the GOES in the execution of projects. The level of resources which these donors presently provide, while considerable, is nowhere near sufficient to meet the country's needs for repair, maintenance and construction of basic infrastructure for electricity, water, sewage, roads, bridges, airports or seaports, or for the expansion of critically needed programs in health and education.

The A.I.D. strategy for encouraging other donors to expand their financing for El Salvador addresses two constraints: the present macroeconomic policy environment and the inefficient management and administration of programs by the GOES. The strategy seeks to create the conditions which will attract other donors to this country once again. We see the implicit acknowledgement of a fiscal and monetary "house in order" which an IMF arrangement confers upon a country, in addition to the value of the standby itself, as an essential precondition to the return of many commercial financial institutions. An IBRD structural adjustment loan would also be of great

10

assistance in meeting El Salvador's needs, particularly in view of the likelihood of a decline in U.S. resource flows over the next five to six years. Our extensive macroeconomic policy reform agenda is directed at encouraging the GOES to make the fiscal and monetary adjustments required to stabilize the economy. The success of these reforms should provide sufficient incentive to attract the IMF and World Bank back into El Salvador.

To address the second constraint to expanded other donor activity - inefficient management and administration of projects - we will continue to accelerate our efforts to improve the accounting, auditing, and financial control and management systems of the GOES institutions involved in administering A.I.D. dollar-funded or local currency projects. In addition to improving management of activities financed with U.S. funds, the implementation of other donors' projects will benefit as well, and, as implementation improves, the number and magnitude of projects which other donors are willing to undertake should increase.

The Mission's policy reform group, (PRG), which will be the working-level team in contact with the GOES on the policy reform agenda, will also be the point of contact with the technical teams from the World Bank who are working on a new economic memorandum for El Salvador and with the IMF teams who are here, periodically, on Article IV consultations.

While the Mission can provide a communications link with the other donors at the country level and keep them apprised of progress on economic reform and improved project implementation on the part of the GOES, this level of communication may not be sufficient. Upper management in the IAC Bureau must accept the responsibility for applying regular high-level pressure on the donor institutions to initiate expanded programs in this country.

We do not see any near-term prospects for the creation of a Consultative Group. However, if we receive the necessary support from AID/W on negotiating the policy reforms with the GOES, conditions should be favorable for the organization of such a donor group by 1991 or 1992. In the meantime, we will work with the GOES to create a policy and management environment conducive to an increase in activity by individual donors and then move toward promotion of a formal Consultative Group.

LOCAL CURRENCY

USAID/El Salvador is in the process of adjusting its system for management of host country owned local currency (HCOLC). The Mission's adjusted system of HCOLC programming will begin in FY 1989. It will restructure Mission and GOES responsibilities, and make it easier to meet A.I.D.'s HCOLC policy objectives of: enhancing the GOES' capacity to design and manage development programs, furthering USAID and US government policy objectives, ensuring appropriate use of funds, and maintaining flexibility so as to maximize developmental impact. The system will involve a switch from the current emphasis on the project specific programming mode to a more varied programming mode which will include the three principal programming alternatives (general budget support, sector

or sub-sectoral support, and projects or specific activities) suggested in the new Agency and IAC Bureau HCOLC guidance. The Mission is making this adjustment to: increase the GOES role in HCOLC decision making and management, reduce A.I.D.'s accountability and vulnerability and eventually, but not immediately, relieve the Mission's HCOLC management burden. The new management system will go into effect on an experimental basis beginning with the FY 1989 HCOLC program to be negotiated with the GOES in CY 1989.

Under the general budgetary support approach, the GOES and the Mission will jointly program HCOLC funds for general support of the GOES' budget. This mechanism will be used when the Mission can establish a credible linkage between the HCOLC budgetary support and A.I.D. developmental objectives. A.I.D. guidance on programming and design, implementation, monitoring, accounting and reporting, evaluation, and remedy requirements will be followed. In the past two years, approximately C100 million (US \$20 million) was provided from HCOLC to the GOES for general budget support for the GOES Ordinary Budget. This approximate level of funding is projected to continue during the CDSS period.

The major new approach to joint programming of HCOLC with the GOES will come in the area of sector or sub-sectoral support. Up to now, the Mission has primarily programmed in a project specific mode requiring intensive monitoring in order to comply with accountability requirements. Beginning with the FY 1989 HCOLC program, the sectorial mode of programming will be introduced. Under this approach, decisions on what can be funded will be based not on project specific judgments, but on reviews of the proposed sector program content, types of activities, overall quality and developmental impact. A.I.D. HCOLC guidance on programming and design, implementation, monitoring, accounting and reporting, evaluation, and remedy requirements will be followed. Current thinking is that the GOES and USAID will agree to assign set amounts of HCOLC to support sectoral (sub-sectoral) activities in some of the following areas: education, health, agriculture and rural development, infrastructure and regional development, private sector development, and counterpart to other donors (note: this is an illustrative list). For each participating sector, the GOES will, as part of the HCOLC negotiations, agree to a series of sectoral objectives, similar to P.L. 480 self-help measures. Sectors may be split into sub-sectoral programs, for example, under the private sector program there will be a sub-sector titled financial sector support.

There are a number of HCOLC funded activities, which for reasons of importance to meeting Mission objectives or political sensitivities, will remain as projects or specific activities. Illustrative items in this category include: counterpart funding to A.I.D. projects, funding for audit and compliance work, funding for specific activities such as CONARA, Chalatenango, ISDEM, the Free Zones and the Land Bank. For activities of this sort, the Mission will make the extra effort to assure itself that these activities have been designed in accordance with acceptable technical, financial, accounting, administrative, and environmental standards. Funding for these activities is expected to continue at current levels.

Moving to a new HCOLC management approach, which emphasizes the sectoral approach will help the Mission relieve some of its management burden toward the middle and end of the CDSS period. The total number of GOES management units requiring direct USAID management supervision will drop, as will A.I.D.'s accountability and vulnerability for HCOLC. The GOES' role in HCOLC program planning and management will increase and improve during the CDSS period.

WOMEN IN DEVELOPMENT:

Background. The increasing economic participation of women is one of the most significant changes in Latin America in the past 20 years. Women are entering the labor force as a result of increased rural to urban migration, greater economic pressures on households due to recession and falling real wages, increased incidence of households headed by women, and increased demand for unskilled and semi-skilled workers in certain sectors. These modern trends add to the body of evidence which indicates that, in several sectors, women have played a much more important role in daily economic activities in the household throughout history than was commonly believed. For example, women participate directly in the production, harvesting and marketing of food crops in El Salvador's agricultural sector. Women form the majority of owner/operators of microbusinesses in the country's urban private sector. Women take the household lead in addressing health issues.

The principal concern of the Mission over the last six years has been aiding in trying to stabilize the economy and providing the basis for sustained economic growth. The program has been implemented in an environment of a guerilla-based civil conflict and intense government intervention in the production, marketing and financial sectors of the economy in hopes of diffusing the causes of that conflict. This atmosphere of war and civil unrest has inhibited the Mission from incorporating gender considerations to the degree which it would have preferred in the design and development of programs and projects.

Nonetheless, Mission projects have had positive impacts on women in several areas. For example, women have received increased support in the more production-oriented agricultural projects. Approximately 35 percent of loan recipients in Mission-supported small business programs have been women. Women workers have comprised the largest proportion of new employees in Mission-stimulated industrial development and industrial nontraditional export programs. The Mission's health, nutrition and family planning programs have targeted women and children as the primary beneficiaries.

Unfortunately, our data base as presently structured, is unable to extract disaggregated data to quantify and qualify gender impacts. However, during the early years of the CDSS period, the Mission will install an improved data system from which to design programs and projects.

Although women participate and contribute in all economic activities in society, various cultural barriers exist within the mindset and actions of most members of Latin societies. This affects the general treatment of women, but also impacts on specific project interventions employed by A.I.D., such as credit programs and receipt of technical assistance. Local implementing institutions are subject to the same inertia, cultural pressures, and prejudices present in the rest of society.

Strategy. The Mission will integrate gender considerations into all applicable phases of its program. The main objective will be to expand the data base regarding gender issues so that new programmatic and project interventions will more accurately reflect the situation in El Salvador.

During the CDSS period, we will take the following actions:

1. Sensitize Mission staff to gender considerations by conducting a WID conference in El Salvador early in the CDSS time frame.
2. Undertake surveys, amend ongoing surveys and compile existing information to form a reliable gender disaggregated data base. These information tools will identify current constraints to the participation of men and women in Mission-financed activities. Key data variables to be illuminated include allocation of labor, sources of income, household expenditures, and access and control of resources.
3. Integrate gender concerns into new macro, sectoral and project interventions.
4. Specify WID objectives, targets and performance indicators in each applicable sector.

These efforts will allow us to incorporate gender considerations and measures in new project designs and will improve monitoring and evaluation of proposed activities by including gender disaggregated guidelines for study.

The Mission will encourage host country counterparts and implementing institutions to adopt measures to stimulate participation of women, through guidance, technical assistance and training.

The WID representatives will establish relationships with host country institutions and researchers who have the potential to provide a better understanding of WID concerns in El Salvador. We will make a concerted effort to strengthen PVO's as implementors of WID activities.

GOES MANAGEMENT CAPABILITY

In June of 1989 a new GOES administration will take office. It will be faced immediately with the enormous task of dealing with the political/military problem of the insurgent movement, stabilizing a shaky economy, initiating

major economic reforms in pursuit of growth, providing employment opportunities and social services to the needy, and strengthening incipient democratic institutions.

Both the institutions and the personnel of the GOES are ill-prepared for such a challenge. In the past, inefficient use of resources, incompetence and featherbedding have been common characteristics of the bureaucracy here. Potential increases in financing by other donors has not been forthcoming due to the poor record of some government institutions in implementing both their own and other donor-financed projects.

Financial, policy, institutional and political constraints have kept the GOES from rectifying its human resource problems. The GOES has few discretionary funds available to increase the number of skilled technicians and professionals and pay scales are low. Austerity measures to control public spending, while needed, have impacted on the GOES's ability to train its existing people or hire new ones. GOES ability to reduce public sector recurrent costs or reallocate resources is hampered by the fact that almost all these resources finance salaries. Cutting these expenditures means laying off large numbers of public sector employees - a politically untenable position. In addition to these constraints, El Salvador's educational institutions are not producing graduates with sufficient skills and training to upgrade the public sector, especially in the areas of middle and senior level management.

Given this difficult situation, the A.I.D. Mission has provided assistance to selected ministries for decentralization of management, personnel training and technical assistance to strengthen control systems, management methods, auditing standards and management information systems. We consider such improvements imperative if:

1. The GOES is to meet its responsibilities in managing A.I.D. and other donor programs;
2. Other donors are to increase the level of assistance to El Salvador;
3. The GOES hopes to be successful in its economic recovery and in progressing on its social reform agenda.

Over the CDSS period, the Mission will pick out key ministries where we can concentrate our management improvement assistance and interventions. The mix of interventions will include assistance in GOES: program development, (training and technical assistance to develop a solid data base and strong public sector analytical capabilities), program implementation, monitoring and control, as well as project administration. Thus far, the Mission, through the local currency program, has promoted 51 external audits of GOES agencies who are implementing local currency projects to assure that administrative and financial controls are in place, or if they are not, that they are put in place before the agencies receive additional local currency for activities. The aim is to have a modern system of fiscal control in place and operating in

all GOES entities to which we directly disburse local currency. These entities are the Ministry of Planning's Technical Secretariat for External Financing (SETEFE), The Central Bank and the Ministry of Finance. As a second step in the process, SETEFE will certify, on the basis of the audits of the 51 GOES institutions, that these have the capacity to properly manage and account for local currency resources assigned to them.

SETEFE has designed a training plan for the personnel of implementing agencies who work in the areas of financial control and planning. Projected areas of involvement include: macro-economic planning and analysis, promotion of exports and private sector strengthening, agricultural productivity, decentralization of health and education services, improved financial controls, improvements in budgetary management, improved fiscal management and improved auditing and accounting functions. Interventions will be tied, for the most part, to U.S.A.I.D. programs and projects. The Mission will work with the GOES on macropolicy agenda level items but most interventions will be at the program and project levels.

ILLUSTRATIVE PLANNED USES OF AAPL RESOURCES

The El Salvador assistance program is large and comprehensive. To help explain its size, scope and targets, the resource tables that follow disaggregate the program in three different breakouts to help the reader understand what areas are being worked in, who is being reached and for what objective.

Each of the three tables that follow has three breakouts. The first breakout is by general sectors of A.I.D. activities. Over the CDSS period, an estimated 36 percent of all available resources (DA, ESF and LC) will go for agricultural and rural development sector activities such as: irrigation projects, coop and farming projects, rural electrification, the National Plan, municipal development, the Land Bank, construction of rural roads. An estimated 17 percent of all resources will fund health and population projects such as: family health services, family planning, potable water, support to health PVOs. Eleven percent goes for educational activities such as: continuing efforts to rebuild educational infrastructure and to strengthen the quality and quantity of education services, continuation of the CIASP program. Thirty six percent of resources will go to build up El Salvador's private sector and for other activities such as: free zone development, credit lines, financial sector reform, export promotion, industrial stabilization, micro and small enterprise development, judicial reform, strengthening the Legislative Assembly, and free labor development.

The second breakout "Beneficiary Considerations" is a different way to examine the use of these same resources. There are three beneficiary categories: the first two are social programs and productive programs that directly benefit A.I.D.'s target groups, for example activities in health, education and small business development; the third category is productive programs that impact on all society, i.e., programs targeted for economic growth benefits, without a direct A.I.D. target group link, such as free zones or industrial credit lines. This breakout gives the reader a feeling for who will benefit from A.I.D.'s activities; and it shows that more than half of all funding (58 percent) will go to benefit A.I.D.'s target group of low income families with assistance for: health services; potable water; roads, bridges and electrical service; education; family planning; judicial reform; free labor development; access to land; and other kinds of social services. 32 percent of resources will be used so that A.I.D.'s target group can participate more fully in El Salvador's productive activities via programs such as: agric. reform financing, agribusiness and commercial farming via cooperatives, small and micro business development activities. Ten percent of total resources are not specifically aimed at A.I.D.'s low income target group (although they may benefit from the activities) for programs for industrial stabilization, export promotion, free zones development and the like. As the tables show, the overwhelming majority of resources go directly to A.I.D.'s target group.

The third breakout is the Action Plan breakout by Goals and Objectives using the FY 1990 - FY 1991 format. Viewed this way, 27 percent of total resources will go for economic and social stabilization to meet the objectives of stabilizing the financial structures (6 percent) and expanding infrastructure (21 percent). Forty-eight percent of resources will go for long-term growth and its objectives of increasing agricultural production (13 percent), strengthening the private sector (24 percent) and promoting exports (11 percent). Twenty-one percent of resources will go to spread the benefits of growth by working on the objectives of family planning (4 percent), health and child survival (9 percent) and education (8 percent). Four percent of resources will be used to strengthen democratic initiatives.

Put together into a summary table, (see Table in Environment for Development section), the DA, ESF and LC figures paint a picture of an A.I.D. program that emphasizes growth and reaches the target growth. The figures show a balanced program with its eye on the target group and major emphases in the areas of agricultural, private sector, health and population, and education development. Keep in mind that these amounts are considered to be the minimum levels needed and that adjustments will obviously be needed given unforeseen earmarks, evolving realities, and changing needs and opportunities.

Economic Support Funds (ESF) are given special treatment in the tables. These funds are split into two categories: the 75 percent that is non-projectized and goes for commodity purchases, and the 25 percent that is projectized and goes to fund Mission programs and projects. The 75 percent category is listed at the bottom of the ESF table as a separate line item. These funds are not programmed/projectized so they are not included in the three breakouts because doing so skews the tables and misrepresents programmable resources. Their impact is macro-economic and felt across all sectors of the economy and society. The 25 percent category is projectized and is included in the three breakouts. This 75 percent to 25 percent split is a Congressional earmark assumed to continue through the CDSS period.

Host Country Owned Local Currency is generated by the unprojectized 75 percent of ESF funds and these funds plus P.L. 480 Title I generations make up the resources broken out in the local currency table.

Planned Uses of Development Assistance (DA) Funds
Broken Out by Sectors, Beneficiaries Considerations,
Action Plan Objectives
CDSS PERIOD
(Millions of US Dollars)

	FY 1990		FY 1991		FY 1992		FY 1993		FY 1994		TOTAL	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	
I. Sectors												
Agric. Rural Dev. & Nut.	27.6	35	28.1	35	21.7	27	25.3	32	21.8	27	124.5	31
Health & Pop.	21.6	28	18.2	23	24.6	31	15.4	19	15.4	19	95.2	24
Education	13.8	18	13.8	17	10.2	13	17.3	22	18.3	23	73.4	18
Private Sec. & Misc.	15.0	19	19.9	25	23.5	29	22.0	27	24.5	31	104.9	27
TOTAL	78.0	100	80.0	100	80.0	100	80.0	100	80.0	100	398.0	100
II. Beneficiary Considerations												
Target Group Social Programs	45.3	58	40.8	51	47.8	60	42.0	53	41.5	52	217.4	54
Target Group Productive Programs	22.6	29	28.2	35	24.7	31	29.4	36	29.3	36	134.2	34
All Society Productive Programs	10.1	13	11.0	14	7.5	9	8.6	11	9.2	12	46.4	12
TOTAL	78.0	100	80.0	100	80.0	100	80.0	100	80.0	100	398.0	100
III. Action Plan Goals and Objectives												
Econ. and Soc. Stabilization												
-Objective 3-Stabilize Fin. Strucs.	-	-	-	-	-	-	-	-	-	-	-	-
-Objective 7-Expand Infra.	9.4	12	9.4	12	4.3	5	0.4	1	0.4	1	23.8	6
Long-Term Growth												
-Objective 1-Increase Agr. Prod.	9.6	12	9.5	12	11.5	14	15.2	19	14.8	19	60.6	15
-Objective 2-Strengthen Priv. Sec.	6.9	9	14.2	18	21.7	27	12.2	15	14.2	18	69.2	17
-Objective 5-Promote Exports	22.7	29	21.4	27	7.0	9	15.0	19	12.4	15	78.5	20
Spread Benefits of Growth (*)												
-Objective 8-Family Planning	4.4	6	4.2	5	9.0	11	5.2	6	5.2	6	28.0	7
-Objective 9-Health & Child Surv.	9.7	12	5.0	6	11.6	15	10.2	13	10.2	13	46.7	12
-Objective 11-Education	13.8	18	13.8	17	10.2	13	17.3	21	18.3	22	73.4	18
Strengthen Democratic Initiatives												
-Objective 12-Streng. Democ. Insts.	1.5	2	2.5	3	4.7	6	4.5	6	4.5	6	17.7	5
TOTAL	78.0	100	80.0	100	80.0	100	80.0	100	80.0	100	398.0	100

(*) Housing is not shown as a separate objective (No. 10) given the modest amount of funding proposed, see narrative for more information.

19

Planned Uses of Economic Support Funds (ESF)
 Broken Out by Sectors, Beneficiaries Considerations
 Action Plan Objectives
 CDSS PERIOD
 (Millions of US Dollars)

Note: This is the 25% of
 Balance of Payments Support
 that is projectized.

	FY 1990		FY 1991		FY 1992		FY 1993		FY 1994		TOTAL	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
I. Sectors												
Agric. Rural Dev. & Nut.	6.0	15	15.0	38	12.9	46	18.1	72	14.3	72	66.3	43
Health & Pop.	3.0	7	3.0	8	3.0	11	3.7	15	5.7	28	18.4	12
Education	3.0	7	6.0	16	2.1	8	-	-	-	-	11.1	7
Private Sec. & Misc.	29.5	71	15.0	38	10.0	35	3.2	13	-	-	57.7	38
TOTAL	41.5	100	39.0	100	28.0	100	25.0	100	20.0	100	153.5	100
II. Beneficiary Considerations												
Target Group Social Programs	15.6	38	29.4	75	19.9	71	22.8	91	20.0	100	107.7	70
Target Group Productive Programs	25.9	62	9.6	25	8.1	29	2.2	9	-	-	45.8	30
All Society Productive Programs	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	41.5	100	39.0	100	28.0	100	25.0	100	20.0	100	153.5	100
III. Action Plan Goals and Objectives												
Econ. and Soc. Stabilization												
-Objective 3-Stabilize Fin. Strucs.	6.2	15	1.0	3	0.1	-	0.2	1	-	-	7.5	5
-Objective 7-Expand Infra.	9.0	22	13.0	33	16.0	57	16.8	67	20.0	100	74.8	49
Long-Term Growth												
-Objective 1-Increase Agr. Prod.	-	-	5.0	13	-	-	5.0	20	-	-	10.0	6
-Objective 2-Strengthen Priv. Sec.	-	-	5.0	13	3.0	11	2.0	8	-	-	10.0	6
-Objective 5-Promote Exports	19.7	48	3.7	9	5.0	18	-	-	-	-	28.4	19
Spread Benefits of Growth												
-Objective 8-Family Planning	-	-	-	-	-	-	-	-	-	-	-	-
-Objective 9-Health & Child Surv.	-	-	-	-	-	-	-	-	-	-	-	-
-Objective 11-Education	3.0	7	6.0	15	2.0	7	-	-	-	-	11.0	7
Strengthen Democratic Initiatives												
-Objective 12-Streng. Democ. Insts.	3.6	8	5.3	14	1.9	7	1.0	4	-	-	11.8	8
TOTAL	41.5	100	39.0	100	28.0	100	25.0	100	20.0	100	153.5	100
Non projectized Balance of Payments												
Support (75% of total)	143.5		116.0		82.0		75.0		59.0		475.5	
TOTAL ESF (Includes proj. 25%	185.0		155.0		110.0		100.0		79.0		629.0	
broken out above and the non-proj. 75%)												

Planned Uses of Local Currency Generations (ESF and P.L. 480 Title I)
 Broken Out by Sectors, Beneficiaries Considerations
 Action Plan Objectives
 CDSS PERIOD
 (Millions of US Dollars)

	FY 1990		FY 1991		FY 1992		FY 1993		FY 1994		TOTAL	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
I. Sectors												
Agric. Rural Dev. & Nut.	59.5	36	50.1	37	40.8	42	37.7	42	23.6	33	211.7	38
Health & Pop.	25.3	16	22.2	17	10.6	11	9.5	11	8.2	11	75.8	13
Education	8.8	5	7.5	6	5.1	5	5.0	6	5.1	7	31.5	6
Private Sec. & Misc.	69.9	43	54.2	40	40.5	42	36.8	41	35.1	49	236.5	43
TOTAL	163.5	100	134.0	100	97.0	100	89.0	100	72.0	100	555.5	100
II. Beneficiary Considerations												
Target Group Social Programs	93.6	57	80.6	60	57.8	60	51.0	57	33.8	47	316.8	57
Target Group Productive Programs	54.0	33	40.2	30	28.5	29	25.8	29	25.1	35	173.6	31
All Society Productive Programs	15.9	10	13.2	10	10.7	11	12.2	14	13.1	18	65.1	12
TOTAL	163.5	100	134.0	100	97.0	100	89.0	100	72.0	100	555.5	100
III. Action Plan Goals and Objectives												
Econ. and Soc. Stabilization												
-Objective 3-Stabilize Fin. Struc.	19.3	12	17.1	13	8.9	9	7.8	9	7.9	11	61.0	11
-Objective 7-Expand Infra.	36.7	22	30.3	22	25.6	26	21.0	23	15.0	21	128.6	23
Long-Term Growth												
-Objective 1-Increase Agr. Prod.	20.9	13	17.2	13	14.3	15	14.2	16	5.1	7	71.7	13
-Objective 2-Strengthen Priv. Sec.	54.0	33	41.0	31	32.0	33	31.0	35	31.0	43	189.0	34
-Objective 5-Promote Exports	7.0	4	5.2	4	2.9	3	2.8	3	2.1	3	20.0	4
Spread Benefits of Growth (*)												
-Objective 8-Family Planning	2.6	1	2.0	1	2.0	2	2.0	2	2.0	3	10.6	2
-Objective 9-Health & Child Surv.	17.7	11	16.2	12	6.3	6	5.2	6	3.9	5	49.3	9
-Objective 11-Education	2.8	2	2.5	2	2.5	3	2.5	3	2.5	3	12.8	2
Strengthen Democratic Initiatives												
-Objective 12-Streng. Democ. Insts.	2.5	2	2.5	2	2.5	3	2.5	3	2.5	4	12.5	2
TOTAL	163.5	100	134.0	100	97.0	100	89.0	100	72.0	100	555.5	100
A.I.D. Operating Expenses	15.0		17.0		15.0		13.0		12.0		72.0	
TOTAL LC PLANNED USES	178.5		151.0		112.0		102.0		84.0		627.5	

(*) Housing is not shown as a separate objective (No. 10) given the modest amount of funding proposed, see narrative for more information.

81

PERSONNEL TABLEPERSONNEL TABLE

<u>Category</u>	<u>FY 1990</u>	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
USDH a/	40	40	40	40	40
USPSCs	29	27	26	25	25
FSNDH	43	43	43	43	43
FSN-PSCs	142	142	142	142	142
TOTAL	254	252	251	250	250

a/ Does not include 4 IDIs for FY 1990.

The Mission believes that the personnel levels specified above are the absolute minimum required to design and implement our program at the assigned APPL levels. However, there is a problem with the mix of the staff. Given the size and complexity of the USAID/El Salvador portfolio, we believe that an additional 15 US direct hire positions are needed. This increment would permit the Mission to replace a large percentage of our current cadre of PSCs with experienced A.I.D. personnel, which would contribute to increased continuity in program management.

If, as argued previously, resources above the APPL levels were to be provided (i.e., a straight line of ESF resources at the FY 1989 \$185 million figure) then the personnel requirement, will have to be revised upwards.

Administrative Improvements During the CDSC Period

The most critical monitoring and implementation problem of the Mission at this time is a result of the growth in the number of projects in the local currency program and the increasingly detailed monitoring required during their implementation. There are currently 80 management units in the local currency portfolio which together make almost an impossible demand on the staff for administrative processing and monitoring. The

88

Mission plans to follow the new AID/W guidance on sectoral and subsectoral programming of local currency funds to bring the number of activities down to a manageable level.

Beginning in FY 1989, using a sectoral rather than a projectized approach to local currency programming, we expect to bring the number of management units down from the current 80 to about 30 units. On the Development Assistance side, we are attempting to eliminate those projects which are peripheral to our strategy and undertake fewer, but larger, project starts.

This sort of consolidation of the very large program will enable us to reduce our personnel ceilings slightly over the next five to six years, reduce some the currently high level of additional hours worked by the staff and relieve some of the resultant stress.

ENVIRONMENT AND RESOURCE CONSERVATION

1. RELATIONSHIP OF NATURAL RESOURCES TO DEVELOPMENT

Over the past few years, USAID/ES has concentrated its efforts along two tracks: short-term assistance focused on economic stabilization, provision of essential social services and assistance for people displaced by the war (the safety net program), as well as long-term assistance aimed at enhancing the productivity of the private sector and bringing about sustained economic growth. Although this dual program will continue, the Mission anticipates an increasing emphasis on activities that will promote further development of the private sector and long-term economic growth. Yet development assistance must also focus on the renewable natural resources upon which most economic development in the country depends. These resources are the soil, timber, water and coastal zone, which can sustain economic development indefinitely.

Depletion and degradation of the renewable resource base are becoming increasing constraints to future economic and social development in El Salvador. With few mineral and petroleum resources, the country is heavily dependent upon renewable natural resources for generation of income productive sectors such as agriculture, fisheries, and energy generation, as well as for supply of raw materials for most manufacturing and processing industries. Moreover, control of environmental contamination and protection of watersheds to preserve clean water and forest, and to avoid solid erosion are fundamental to socioeconomic growth.

Depletion rates of soils, forests, wildlife, and other crucial resources exceed renewal rates, and secondary problems such as soil erosion, floods, sedimentation of hydroelectric dams and coastal waters, pesticide misuse and environmental contamination, and water pollution have reached critical levels in many parts of the country. Continued deterioration of these natural resource systems in the future is likely to lead to decreased productivity and incomes, which in turn could further exacerbate problems of pervasive poverty, political and social instability, and economic stagnation.

2. THE STATE OF THE NATURAL RESOURCES AND THEIR MANAGEMENT

2.1 Soils and Land Use

2.1.1 Soil Resources and Their Use

El Salvador, with a surface area of 21,000 sq. km., is one of the smallest countries on the American continent. Despite the generally high fertility of the soils, there are several limiting factors - erosiveness, shallowness, drainage - which make these soils susceptible to degradation if not properly managed.

Land use capability is defined as the most intensive use that a piece of land is able to sustain on a continuous basis without suffering degradation. This capability can be compared with actual land use to determine whether a particular piece of land is being degraded through overuse, or could be

utilized in a more intensive manner. In El Salvador, 17 percent (357, 189 ha) of the land is suitable for crop-intensive and capital-intensive agriculture, and runs little risk of erosion. Another 16 percent of the land (332,860 ha) is suitable for limited annual crops, perennial crops and pasture. Over 40 percent of the land should be used for cultivation of mixed perennial crops and production forest. Only a limited amount of this land is being managed appropriately; the majority is used for shifting cultivation, production of corn and sorghum and extensive grazing, or left in brush. The remainder (12 percent) of the country is classed as land which should be preserved as protection forest. At present, however, some of these fragile lands are being used for extensive grazing or production of typical crops such as corn and sorghum.

2.1.2 The Degradation and Loss of the Soil Resource

As a consequence of extensive clearing of forest cover, the expansion of cattle raising and agriculture on hillside and mountainous areas, and a general failure to apply soil conservation and land management techniques, the problem of land degradation and soil erosion is reaching crisis proportions in El Salvador. In a recent study, it was estimated that 77 percent of the country is seriously affected by erosion or has already been significantly degraded. A FAO study reported that in upland watersheds, 80 percent of the soils are suffering intensive degradation or already degraded. El Salvador suffers greatly from rampant soil erosion because so much of the land cultivated is on steep slopes. In the volcanic highlands, soil erosion has not yet caused widespread loss of productive lands. Nevertheless, rates of loss of volcanic soils due to erosion are high and appear to be increasing. Another serious loss of soil resources is due to urbanization and road construction.

2.2 Forests

2.2.1 Status of Forest Resources

Perhaps the single most important ecological change occurring throughout Central America has been the rapid and continuing conversion of forests to other land uses. In the case of El Salvador, this process has led to the clearing of the greatest percentage of forest area in all Central America. Recent estimates indicate that the area of broadleaf, coniferous and mangrove forest covers 184,515 ha, or only 9 percent of the country's land surface. This figure can be compared with the regional average of 41 percent to better appreciate the near complete deforestation of this country. Land use capability studies indicate that, due to topographical, hydrological, and pedological factors, more than 55 percent of the country should be used for agroforestry or forest production. Furthermore, in recent years almost all clearing is occurring on lands unsuited for agricultural purposes.

The natural forests of El Salvador are of two general types: broadleaf and coniferous. Most of the land originally covered by broadleaf forest was cleared long ago; the remaining areas, and especially the mangroves, are under extreme pressure by local populations as sources of fuelwood, building materials, and tannins.

2.2.2 The Process of Deforestation

It is important to note that much more deforestation results from demand for the land which the forests cover than from commercial or noncommercial demand for timber.

El Salvador faces severe problems of overcrowding and extreme scarcity of land. Thus, small farmers are driven to clearing and cultivating undersized plots on low-quality, sloped marginal lands, and must use this land as intensively as possible. The 1973 Forest Law attempted to control deforestation and promote sustained use of forest and other natural resources. Unfortunately, the law does not encourage forest development and management. Nevertheless, the critical problem is its lack of effective enforcement. The demand for wood and other forest products is great in El Salvador. Fuelwood is by far the most important product derived from the forests. About 64 percent of all energy consumed in El Salvador is derived from biomass, most of it fuelwood.

In economic and social terms, loss of forest and soil have seriously limited sustained agricultural production, and resulted in the country becoming dependent upon imports of wood products. Continued degradation of forest resources has also driven up the real price of fuelwood, and could force a switch to greater dependence upon imported sources of energy, using up scarce foreign exchange needed for other development activities. Proper forest management is becoming increasingly important for sustained economic development.

2.2.3 Reforestation

The Government of El Salvador has responded to reforestation with a series of programs since the seventies. These efforts have been hampered by lack of necessary financing and the absence of a coherent policy. At the present time, the Ministry of Agriculture maintains some 300 nurseries throughout the country for production and sale of seedlings to the public, supplying a wide variety of species. A sizeable plantation effort was carried out on Phase I farms of the land reform under an employment generation project. A total of about 10,600 ha of plantations were established; it is estimated that about half of the plantations are still alive. Funding for this project ended in April, 1988.

A different approach, using P.L. 480 funds, has been followed since 1984 based on the increasing interest of small farmers in establishment of trees in various agroforestry systems and woodlots, for fuel and rustic construction wood, and for sale of the excess. The program has been quite successful and has expanded to create 80 nurseries in 1987, operated by 1200 farmers producing 450,000 seedlings. There is now greater demand for seedlings than the program is able to meet. In 1989, the program will continue to be operated through the MAG. Financing for the program is provided by P.L. 480 funds, by the World Food Program, and by the ROCAP/CATIE Tree Crop Production Project which also provides technical assistance.

2.3 Wildlands

Wildlands are defined as natural land and water areas, little affected by modern society, where wild species predominate. Wildlands thus include the full range of ecosystems (natural areas), whether land-based (e.g. forest, woodlands, bushlands, grasslands), natural inland bodies of water, or coastal and marine areas. Wildland management is defined as the direct maintenance, protection or enhancement of relatively unmodified natural ecosystems and their characteristic plant and animal species.

2.3.1 Wildland Resources and Their Use

El Salvador has one of the smallest systems of protected area in Central America. Nevertheless, the importance of these areas is increasingly being recognized and the amount of land set aside as protection areas is growing. At the present time, there are six protected areas officially established and actively managed. Five of these areas are managed by the Servicio de Parques Nacionales y Vida Silvestre (SPNVS) of CENREN: The sixth (Parque Deininger) is managed by the Instituto Salvadoreño de Turismo (ISTU). These six areas total 9680 ha in area (ranging from 180 to 3400 ha). Another 47 areas, consisting of 18,700 has., have been provisionally identified for protection. These areas were obtained through the agrarian reform program, and have been set aside with the eventual goal of administering them as national parks and wildlife reserves. The total amount of protected areas would cover 1.5 percent of the country and represent most of the major life zones and plant communities characteristic of El Salvador.

One of the major difficulties in establishing and managing a system of wildland areas is the lack of awareness of their value in sustaining economic development efforts in the country. Wildlands play a vital role ensuring production of freshwater for irrigation, hydropower, domestic and industrial consumption. Tourism based on wildlands and natural history can generate much needed foreign exchange.

2.3.2 Problems Associated with Management of Wildlands

A number of problems are associated with the consolidation and management of wildland areas in a country as small and densely populated as El Salvador. They are briefly summarized below:

Inadequate Protection and Management

The additional 47 new wildland areas to the wildlands system is not adequately protected. SPNVS, an active and creative agency considered to be among the finest of its type in Latin America, is hampered by its small size and a scarcity of funds to cover operating costs.

Deficiencies in Wildlands Legislation and Policy

A serious lack of legislation and its regulations concerning wildlands deters effective management, although the present forest law does contain two articles dealing with parks and wildlife.

Institutional Role — Public vs Private Sector

Until recently all regulation and management of wildland areas has been handled by the public sector, principally by SPNVS and ISTU. Inadequate use has been made of the private sector especially regarding resource management and development. This may reflect the present absence of a politically or financially strong NGO conservation community. The efforts of several groups such as the Asociacion Salvadorena de Conservacion del Medio Ambiente (ASACMA) and the Grupo Ecologico de Docentes de Ciencias - Montecristo to undertake innovative environmental education programs have been recognized.

2.4 Wildlife

A necessary starting point for an effective program in wildlife conservation and utilization is a detailed knowledge of the local fauna. Regrettably, no comprehensive treatment of the flora and fauna of El Salvador exists today, although work on developing such an inventory has commenced.

2.4.1 Wildlife Resources

According to the El Salvador Perfil Ambiental Estudio de Campo, El Salvador has a herpetofauna of about 110 species (ca 80 reptiles, 30 amphibian); an avifauna of some 450 birds; and a mammal fauna of some 110 species.

2.4.2 Problems in Wildlife Conservation

The most significant threat to wildlife in El Salvador is habitat destruction resulting from deforestation. Nevertheless, legal and illegal hunting and exportation of exotic species further contribute to the problem.

Trade in endangered species was active in the past in El Salvador. Recently, however, El Salvador became a signatory to the CITES convention, and is now committed to regulating trade of those plants and animals listed by CITES, including prohibition of trade of those species considered endangered by the convention. Trade in illegal wildlife has slowed. Still, trade continues.

In general, most of the threats to wildlife are adequately countered by habitat protection/management and the control of the negative impact of illegal hunting, animal trade and the misuse of biocides. Thus, actions taken to protect and manage wildlands and other forest areas are essential to the conservation of wildlife.

2.5 Coastal and Marine Resources

The coastal zone of El Salvador provides an important national resource. The coast extends for a total of 321 km. The character of the coast varies from west to east; plains and lagoons prevail in the west, while to the east the coast is much more irregular with many gulfs, peninsulas, rocky headlands and estuaries. Given the 200-mile limit, El Salvador has an exclusive economic zone and jurisdictional waters covering about 122,000 sq. km., an area equivalent to six times its terrestrial surface area.

Beaches, mangroves, coral reef and lagoons are the principal coastal habitats. Many of the sandy beaches are nesting grounds for threatened, commercially important marine turtles. Furthermore, these beaches provide an important national tourist attraction.

Mangrove are an especially important and fragile features of the Salvadoran coast, covering only 45,000 ha or a mere 2 percent of the national territory. Their value, by and large, is poorly understood, although in El Salvador they are being exploited as source of fuelwood, construction material, tannins and for their biotic resources. Unfortunately, their critical importance as habitat, breeding and nursery areas for shrimp, molluscs and for many other marine species important for artisanal fisheries is poorly understood. These mangrove systems also play an important role in protecting fragile coastal areas, and support adult marine species by providing a source of nutrients and detritus which serves as a food base in adjacent estuarine and nearshore waters.

2.6 Environmental Contamination

El Salvador generates more wastes than ever before. Environmental protection and natural resource management measures and institutional capacities have lagged far behind technological advances. Organic matter, industrial and domestic effluents are contaminating the country's waterways. Many of the rivers suffer from severe contaminations problems.

The widespread use of agricultural pesticides in El Salvador, all of which are imported, has had a significant effect on human health and environmental quality. The indiscriminate use of these pesticides is one of the most pervasive environmental contamination and human health problems in El Salvador. Contamination by organochlorine compounds has been noted in mother's milk, human blood, soil and water. With the recent collapse of cotton production, however, levels of pesticide use

have dropped substantially. USAID/El Salvador has implemented integrated pesticide management programs and is supporting workshops on proper use of pesticides. The use of pesticides affects human health, acceptability of commodities by U.S. and other markets, costs of inputs, use of foreign exchange for pesticide inputs, resistance and secondary pest outbreaks, and environmental contamination.

3. CONSTRAINTS TO THE WISE USE OF NATURAL RESOURCES

3.1 Structural Constraints

3.1.1 Population Growth and Distribution

El Salvador is the most densely populated country in Latin America (about 245 persons per square kilometer), and the population growth rate remains at a high level of 2.4 percent per year. With this high population density and limited land area, pressures are intense on land in general, and the limited lands set aside as parks and reserves, in particular.

3.1.2 Land Tenure

In El Salvador, even after the agrarian reform, one percent of the agricultural landowners possess 50 percent of the land, while 95 percent of the landowners owned only 30 percent of the land. With the best lands already being worked, many small farmers are forced to grow crops on steep slopes and areas ecologically not suited for such land use.

3.2 Policy Constraints

3.2.1 Legal Framework

Laws affecting natural resources are limited, diverse, and often lacking. Perhaps the most important law is the current forest law, which unfortunately has never been properly implemented. Other bills for a Wildlife Law and a Parks and Reserves Law have been drafted by MAG, but have never been passed. The main problem is lack of enforcement, because actions affecting natural resources are often spread over remote areas.

3.3 Operating Constraints

3.3.1 Low Efficiency of Public Sector Institutions

As a rule, government agencies dealing with natural resources are inefficient. Much of the inefficiency is caused by the obsolete, rigid structures of the agencies and low salaries. Most of the natural resource agencies are dominated by young, inexperienced, though often highly motivated staff. Most of the budget covers personnel costs. The result is central staff stuck in the office and unable to carry out field work.

3.3.2 Inadequate Coordination Between Organizations

Efforts to manage natural resources enjoy little coordination among and within agencies. Another major difficulty results from the process of regionalization. Although the purpose of regionalization is sound, the process appears to have been carried too far.

The result has been the creation of small central offices whose responsibility is establishing general policy, standards and guidelines, and carrying out research. Field operations are carried out through four field offices. Unfortunately, these field offices provide extremely limited support for field operation. Frequent restructuring and shifting responsibilities between the central and field offices have led to considerable difficulties and inefficiencies in carrying out operations.

3.3.3 Information and Qualified Personnel

Although the techniques required to improve management of natural resources are generally well known, the staff equipped with such knowledge in El Salvador are limited. For instance, the professional, technical staff of the Park Service (SPNVS) consists of only six biologists and three administrators. There is a serious lack of trained professional staff in charge of administration of parks in the field. The Forest Service is similarly constrained.

4. A FRAMEWORK FOR USAID INTERVENTION

4.1 Current and Previous USAID Involvement

Recognizing the importance of natural resource management to contribute to sustainable development, USAID/San Salvador has supported various activities including integrated pest management, soil conservation, reforestation, protected areas and wildlife programs focused on the areas of agrarian reform and expansion of agricultural production. The major direct contributor to biological diversity conservation was the Generation of Employment project (519-0256) which provided support to CENREN and CENTA (Centro de Tecnologia Agricola) to carry out wildlife management activities and germplasm conservation. This project was concluded in FY 1986. Reforestation and soil conservation efforts have been supported on Phase I farms since 1980. This effort will also be terminated after 1988.

USAID/San Salvador will continue to support reforestation efforts through a community nursery program using P.L. 480 funds, programmed on an annual basis. This program receives technical assistance from the CATIE Tree Crop Production project funded by ROCAP. The Tree Crop Production project is also providing assistance in training, research and information transfer concerning the establishment, management and commercialization of multi-purpose trees on farms.

USAID/San Salvador also intends to support training in pesticide management with PD&S funds, beginning in 1988.

5. SUMMARY OF ENVIRONMENTAL/NATURAL RESOURCE MANAGEMENT PROBLEM AND STRATEGY STATEMENT

5.1 Problem Statement

In country's such as El Salvador, with limited nonrenewable natural resources, sustained economic development must be based on rational exploitation of domestic renewable resources. Thus development efforts must recognize the mutual interdependence of conservation and management of the resource base, and pursue a program linking environmental/natural resource management with other important development programs.

USAID/San Salvador has undertaken efforts to address these problems and promote natural resource management and conservation.

5.2 ODSS Planning Period Strategy:

The goal of the USAID environment and natural resource strategy is to help El Salvador conserve and protect its environment and natural resources, and to promote long-term economic growth by managing exploited resources for sustainable yields.

USAID's strategy to reach the goal consists of four interrelated components; policy dialogue, development of private institutional capacity; human resource development, and support for selected activities designed to enhance sustainable management of critical natural resources.

5.2.1 Policy Dialogue

The objective of the policy dialog component is to develop a national environmental policy that produces a coherent national environmental strategy which leads to rational use of the country's natural resources and appropriate management of the country's ecosystems. Over the planning period, USAID will support several natural resources/environmental policy studies, possibly using the central Environmental Planning and Management (EPM) project or ILANUD as a source of technical assistance. The time seems right to establish a forum for a national dialogue to discuss environmental/natural resource management issues. Working within the framework of its ongoing projects with the Ministry of Agriculture, the Mission will seek to stimulate greater attention to forestry, watershed management, and soil conservation activities by the government.

5.2.2 Institution Building

USAID strategy will seek to improve the institutional capacity of private environmental organizations. Assistance will be provided through P.L. 480 local currency to the country's leading environmental organization, such

as the Grupo Ecológico de Docentes de Ciencias - Montecristo and the Asociación Salvadoreña de Conservación del Medio Ambiente (ASACMA) to develop environmental education programs, conservation and management plans, and programs to manage protected areas. The ultimate objective of this support is development of a public environmental conscience and the formulation of coherent national environmental policy.

5.2.3 Human Resource Development

A shortage of well-trained staff is an impediment to the implementation of natural resource management programs in El Salvador. For example, El Salvador has less than ten university trained foresters and only two foresters and only two mid-level. There is an urgent need to upgrade professionals and technicians in a broad range of environmental and natural resource fields, and to generate a critical mass of trained technicians in selected fields for sustained action. USAID will provide technical assistance and training to strengthen public and private institutional capabilities in natural resources management, particularly in land-use planning, forestry, soil and water conservation, watershed management, and management of wildlands and protected areas. USAID also plans to send participants to a natural resources management course for mid-level policy makers given by the Organization for Tropical Studies (OTS) in Costa Rica.

5.2.4 Selected Development Activities

In order to sustain production on fragile lands and increase incomes over the long run, it is extremely important to encourage appropriate use of natural resources and improve yields on existing lands. USAID has been supporting a number of activities addressing these needs and attempting to reverse deterioration of the environment. These programs, including soil and water conservation, and reforestation, will be continued.

The task of reaching and teaching small landholders proper land use management techniques is difficult. The weakness of government institutions in charge of extension, such as CENTA, and a number of deeply embedded political, social and economic factors make the effort to change the behavior of small landholders challenging. Yet the need for such efforts to promote proper land use and agriculture practice is great. To work towards the above objective, USAID will work through service cooperatives to provide training in simple farming systems and resource management techniques of benefit to small landholders, i.e., soil and water conservation techniques, pasture management, agroforestry, mixed cropping, and integrated pest management. Improved systems for demonstrating the ease and success of utilizing such techniques must be developed in rural areas throughout the country.

Watersheds in El Salvador are suffering from widespread deterioration, largely resulting from deforestation and improper use of upland watershed. USAID will help the GOES to deal with this problem by

undertaking a watershed management program which will integrate soil conservation, agroforestry and pasture management to enhance the natural resource will be implemented with P.L. 480 local currency, or through a buy-in to the ROCAP Watershed Management project, or through activities funded under the Water Management project.

In response to requirements of Sections 118 and 119 of the Foreign Assistance Act, USAID prepared an analysis of the current biological diversity and tropical forest situation in El Salvador. Recognizing the vital role played by these wildlands, USAID will support development and implementation of a strategy by the Park Service to identify and manage some of the most important and threatened wildland areas left in El Salvador.

ECONOMIC POLICY DIALOGUE MATRIX

	Late 1989 - 1990	1991 - 1994
OBJECTIVE	Setting the Stage for Liberalization of the Economy	Consolidating and Reinforcing Liberalized Markets
MEASURES BY SECTOR		
<u>FISCAL.</u>	Extension of stamp tax. Adjust utility rates.	Improve revenue collection and expenditure control in central gov. --Improve tax audits --Improve customs --Improve accounting in GOES
	---	---
<u>FINANCIAL.</u>	Adjustment of interest rates.	Develop financial Sector reform project. --strengthen credit analysis capabilities of banks --strengthen bank superintendency --portfolio audit of banks
	---	---
<u>EXTERNAL.</u>	Institute flexible exchange rate regime. Remove non-tariff barriers.	Reform import tariff regime Removal of remaining non-tariff barriers.
	---	---
<u>PRODUCTIVE.</u>	Agrarian reform activities in parcelization, self management and beneficiary rights.	IRA reform. Reduction in number of Price control categories.
		Continued progress on parcelization on parcelization, self-management, and beneficiary rights in agrarian reform sector Streamline industrial licensing system. Reform INCAFE

SUMMARY OF NON-ECONOMIC POLICY DIALOGUE
ISSUES OF CDSS PERIOD

AGRICULTURE

- Contraction in the role of the basic grains parastatal, IRA, from subsidizing and fixing grain prices to insuring the maintenance of emergency food reserves and, thereby avoiding major fluctuations in grain prices.
- Modification in the role of INCAFE by liberalizing competition, allowing private firms to compete with INC FE in marketing coffee.

PRIVATE ENTERPRISE

- Principal policy issue is the decentralization of lending operations.
- Other policy concerns of the private sector are macroeconomic and are covered in the Economic Policy Agenda.

INFRASTRUCTURE RECONSTRUCTION

- Policy on utility rates for electricity and water sufficient to pay for recurrent costs and new investment.

EDUCATION AND TRAINING

- Policy discussions to promote decentralization of school construction, maintenance, management and financial authority to regional offices or local governments.
- Removal of tuition rate ceilings on private academic and vocational institutes.
- Provision for expansion of lending and repayment regulations for construction and administration of private schools.
- Encourage the GOES to adopt employment practices and incentive packages that will enable them to hire and retain properly qualified personnel.

HEALTH

- Policy discussions will center on Ministry of Health planning and management problems which impede efficient delivery of health services to rural populations. These include the adoption of cost recovery programs, reducing tariffs on pharmaceuticals and contraceptives, decentralizing planning and budgeting, reducing the MOH's recurrent costs as a percentage of the overall public health budget and improving international donor coordination.

HOUSING

- Negotiate for a housing policy statement which recognizes the need for upgrading of non-formal settlements and sets out clear central government, municipal government, public institutions and private sector roles in meeting this objective.

DEMOCRATIC INITIATIVES

- Revision of labor code to streamline enforcement with respect to labor cases.
- Dialogue aimed at ensuring that sufficient resources are provided to the legislative to permit it to hire permanent staff.
- Dialogue aimed at reintroduction of the teaching of civics education in the public school system.
- Seek GOES agreement to revise legislation to allow municipalities to levy taxes. The revenue will be used to support municipal administrative and service costs and to construct local infrastructure.
- Dialogue arrived at ensuring that sufficient resources are provided to the judiciary to permit it to hire sufficient permanent staff and adequately compensate judges and other court officials.

WORLD FOOD PROGRAM - TOTAL FOOD IMPORTS

	<u>1985 - 1990</u>	
1985	34,135	\$ 13,200,000
1986	25,330	14,700,000
1987	29,480	13,600,000
1988	26,293	17,400,000
1989	28,000	17,100,000
1990	25,700	15,500,000

Exact figures for 1991-1994 not yet available but organization has publically stated general intent to continue at the same level during CDSS period.

98

ACRONYMS

AIFLD	- American Institute for Free Labor Development
ANDA	- Water and Sewer Authority
ASPRODERH	- Private Human Rights Commission
BCR	- Central Reserve Bank
BOP	- Balance of Payments
CACM	- Central American Common Market
CAPS	- Central American Peace Scholarship Program
CBI	- Caribbean Basin Initiative
CPI	- Consumer Price Index
CCE	- Central Elections Council
CDSS	- Country Development Strategy Statement
CENTA	- MAG's National Center for Agricultural Technology
CENTREX	- GOES "One Stop" Export/Import Center
CODEXI	- Committee for Investment and Export
CDH	- Committee for Human Rights
CONACODE	- National Commission for Cooperation in Educational Development
CONADES	- National Commission for Displaced Persons
CONARA	- Commission of National Reconstruction
CRS	- Catholic Relief Services
CTD	- Democratic Workers Confederation
DIDECO	- Directorate for Community Development
DP	- Displaced Persons
FEDECCREDITO	- Federation of Credit Unions
FEPAD	- Private Sector Foundation for Educational Development
FORTAS	- Association Strengthening Activities
FUND	- Fund for Social and Economic Development
FUSADES	- Salvadoran Foundation for Economic and Social Development
GDP	- Gross Domestic Product
GOES	- Government of El Salvador
IBRD	- World Bank
IDB	- Interamerican Development Bank
INCAFE	- National Coffee Institute
IICA	- Interamerican Institute of Agricultural Sciences
ISDEM	- Municipal Development Institute
ISTA	- Agrarian Reform Institute
IVU	- Urban Housing Institute
JPU	- Judicial Protection Unit
MAG	- Ministry of Agriculture and Livestock
MEA	- Municipalities in Action
MINPLAN	- Ministry of Planning
MICE	- Ministry of Foreign Trade
MSPAS	- Ministry of Public Health and Social Welfare
NAM	- National Association of Municipalities
NBCCA	- National Bipartisan Commission on Central America

99

NGO	- Non Governmental Organization
NTAE	- Nontraditional Agricultural Exports
PRG	- USAID Policy Reform Group
PRIDEX	- Trade and Investment Promotion Services
PROPEMI	- Program for Small and Micro Businesses
PVO	- Private Voluntary Organization
REDO	- MAG's Rural Enterprise Development Office
SETEFE	- MINPLAN's Technical Secretariat for External Financing
SIDES	- Industrial Syndicate of El Salvador
SIU	- Special Investigative Unit
TCIP	- Trade Credit Investment Program
UCS	- Salvadoran Campesino Union
UNOC	- National Union for Campesino Workers
UNIS	- National Unity of Salvadoran Workers
USDA	- US Department of Agriculture
WFP	- World Food Program

SELECTED BIBLIOGRAPHY OF DATA SOURCES USAID/EL SALVADOR 1990-94 CDSS

EDUCATION SECTOR

1. Proceedings of Workshop on Decentralization of Educational Services. IAC Bureau Document, May 1985.
2. Improvements in Educational Efficiency for Basic Education, Association for Educational Development, September 1988.
3. Encuesta Sobre Demanda de Empleo y Necesidades de Capacitación (Manpower Survey), FEPADE, March-April 1987.
4. A Study of the Foundation for Productivity and Educational Development (FEPADE) Role, Association for Educational Development, November 1988.
5. Annual Report of the Ministry of Education, 1987 - 1988.
6. Various information searches conducted by the information unit of the Ministry of Education for USAID/El Salvador, 1987-88.

HEALTH, POPULATION, AND NUTRITION (INCLUDING DISPLACED FAMILIES)

1. Primary Health Care in El Salvador - Project HOPE Evaluation, Manual J. Carvajal, PhD, and Abel Duenas Padron, M.D., May 1988.
2. Evaluation of the Ayudantes Rural de Salud Program, Dr. Javier Lorenzana, Ministry of Health, El Salvador, September 1988.
3. Encuesta Nacional de Salud Familiar (FESAL 88), Salvadoran Demographic Association and the Centers for Disease Control, September 1988.
4. Child Survival Strategy, USAID/El Salvador, Elizabeth Burleigh, PhD, June 1988.
5. Rural Potable Water in El Salvador, WASH Report, 1988.
6. Evaluation of Catholic Relief Services P.L. 480 Title II Nutrition Program, CRS, September 1988.
7. The Feasibility of the Use of the Private Sector for Rural Health Care Delivery in El Salvador, Roy Brooks, Management Sciences for Health, September 1988.

8. Report on Rural Contraceptive Distribution in El Salvador, Development Associates, October 1988.
9. Evaluacion a Medio Termino de Proyecto de Sobrevivencia Infantil Financiada Por CEE, Health and Life Sciences Partnership, September 1988.
10. Estimaciones y Proyecciones de Poblacion, El Salvador, Hasta 2025, Ministry of Planning, El Salvador, 1987.
11. Economic Analysis of the Public Health Sector in El Salvador, Jack Fiedler, PhD, 1987.
12. Health Systems Vitalization Evaluation, University Research Corporation, August 1985.
13. Nutrition Status Surveys: Janua y - March 1978, Ministry of Health, El Salvador.
14. Estudio Sobre Salud Materno-Infantil, INCAP, Ministry of Health, El Salvador, 1986.
15. Los Programas de Poblacion y Planificaci6n Familiar - Situacion Actual y Perspectivas Tecnico Financieras a Corto Plazo, Salvadoran Demographic Association, 1984.
16. The Journey Home: Durable Solutions for Displaced Families, Gersony, Lynch and Garvelink, July 1986. (Classified).
17. Formative Evaluation of the Displaced Families Program (Project No. 519-0281), GLeechi and Comany Consulting, Inc., September 1988.
18. Humanitarian Assistance Program, Strategies for Displaced Persons in EL Salvador, USAID/EL Salvador, April 1987.
19. The Economic Reintegration of Displaced Families, AID Strategy for Assisting Displaced Families in El Salvador (Project No. 519-0281), November 1988.

INFRASTRUCTURE, REGIONAL DEVELOPMENT, EARTHQUAKE RECONSTRUCTION AND HOUSING

1. Public Services Infrastructure Damage Assessment Report, Development Associates, Inc., July 1988.
2. Public Services Infrastructure Damage Assessment Report, Vols. I and II Development Associates, Inc. April 1986.
3. El Salvador Damage Assessment, Development Associates, Inc., July 1986.

4. An Assessment of USAID/El Salvador's Pilot Potable Water and Environmental Support Project, WASH Report prepared by John Chudy, Carola Rull and Carlos Solares, May 1988.
5. Preliminary Design for Handpump Installation Project in El Salvador, WASH Report No. 187, July 1986.
6. Estudio de Transporte Regional de Centroamérica: Informe Regional, Parsons Brincherhoff International, Inc., Junio de 1987.
7. CONARA Impact Evaluation, Research Triangle Institute, December 16, 1988.

OFFICE OF DEMOCRATIC INITIATIVES

1. Diagnostico Sobre el organo Judicial en El Salvador, Centro para la Administración de Justicia, Florida Internacional Universit (FIU), September 1987.
2. Mid-Term Evaluation of the Judicial Reform Project, Arthur Mudge, et. al., November 1987.
3. Information Needs Assessment of the Legislative Assembly, 1988.
4. Numerous studies by the Revisory Commission Legislation of Needed Reforms to Salvadoran Law

OFFICE OF PRIVATE SECTOR

1. El Salvador: Credit Supply and Demand, Checci and Company, March 1983.
2. Studies on The Private Sector in the Eastern Region and Other Conflictive Regions, Danial Carr and Associates, 1987-1988. (draft report).
3. Final Project Report on the Small Enterprise Development Project, No. 519-0322: Lessons Learned from 21 Experimental Sub-Projects, 1988. (being translated into English).
4. Regional Assessment: Impact of the Civil War on the Eastern Region, chapter in Public Services Infrastructure Damage Assessment Report, Development Associates, Inc., 1986.
5. El Salvador: Small Scale Enterprise Sector Assessment, Robert R. Nathan and Associates, 1987.
6. Strategy for Export Development and Investment Promotion, Price Waterhouse and Associates, 1984.

7. Estudio de la Capacidad Productiva Exportable del Sector Industrial de El Salvador, ASO Consultores.
8. The Salvadoran Textile Industry: Facts and Requirements to Generate Employment and Export, FUSADES.
9. Tipo de Cambio y Política de Desarrollo en El Salvador, FUSADES.
10. Bases Para una Política de Fomento de Producción, FUSADES, July 1987.
11. CENTREX: Diseño Organizacional, Procedimientos y Programs de Computación, MARCABLE, May 1987.
12. Liberalización Económica: Solución a La Crisis Económica y Social en El Salvador, Cámara de Comercio y Industria, October 1987.
13. Review of Export and Investment Legislation of El Salvador, Verner, Liipfert, Bernhard and McP erson, December 1983.
14. Encuesta Sobre Demanda de Empleo y Necesidades de Capacitación, FEPADE, March-April 1987.
15. Proyecto Programa de Capacitación Técnica Para Industria Manufacturera y Agroindustrial, Asociación Salvadoreña de Industriales, 1986.
16. Eficiencia Económica y Procesos de Privatización, Centro de Políticas y Economía Aplicada, INCAE, February 1988.
17. Increasing El Salvador's Exports Through a Strengthened Base for Light Manufacturing and Assembly Operations, March 1986.
18. Textile Exclusive: El Salvador, July 1986.
19. Política Agroindustrial de El Salvador, MIPLAN, December 1986.
20. Reporte Final: Servicios de Apoyo a La Industria de Confección en El Salvador, August 1988.
21. Foreign Aid: Improving the Impact and Control of Economic Support Funds, U.S. General Accounting Office, June 1988.
22. Lineamientos para Definir Una Estrategia para Reactivar la Economía Salvadoreña, FUSADES, 1983.
23. Utilización de los Bonos de la Reforma Agraria y la Reactivación Industrial, FUSADES, 1983.
24. Reactivación del Cultivo de Algodón, FUSADES, 1983.

25. Programa de Reactivación de la Caficultura, FUSADES, 1984.
26. Aspectos Económicos, Financieros y Jurídicos que Justifican la Apertura a la Banca Comercial Extranjera, FUSADES, 1985.
27. La Necesidad de un Nuevo Modelo Económico para El Salvador: Lineamientos Generales de una Estrategia, FUSADES, 1985.
28. Estrategia Ante La Crisis: Reconstrucción y Reactivación, FUSADES, 1986.
29. Características Básicas y Evolución Reciente del Sector Externo de El Salvador, FUSADES, 1986.
30. Diagnóstico Social: Situación Actual de las Necesidades Básicas en El Salvador, FUSADES, 1986.
31. Ley de Fomento y Garantía a la Inversión Extranjera, FUSADES, 1986.
32. Ley de Fomento de Exportaciones, FUSADES, 1986.
33. Reflexiones Sobre Política Cambiaria, FUSADES.
34. Como está Nuestra Economía?, FUSADES, 1983.
35. Estudio Sobre Demanda Potencial Para Espacio en Zonas Francas en El Salvador, FUSADES, 1988.
36. A Desk Study of Investment Incentives for El Salvador and Selected Central American and Caribbean Countries, Coopers and Lybrand, February 19, 1986.
37. Maintaining El Salvador's Private Sector: Industrial Recovery, Checci and Company, December 1981.
38. AID/W Evaluation of the Trade Credit Insurance Program, 1988.
39. FUSADES Evaluation, Development Associates, Inc., December 1988.
40. Assessment of FUSADES, Daniel Chaij and Aaron Williams, 1987.
41. Balance of Payments Audit Report.
42. Draft Audit Report on Local Currency.

ECON OFFICE

1. Financial Sector Assessment, Inter-American Management Consulting Corporation, September 1988.

105

2. Alternative Exchange Rate Regimes (draft), Inter-American Management Consulting Corporation, June 1988.
3. El Salvador: Recent Economic Development, International Monetary Fund, August 16, 1983.
4. El Salvador: Recent Economic Developments, International Monetary Fund, December 8, 1987.
5. El Salvador Country Economic Memorandum, World Bank, November 15, 1985.
6. Employment and Unemployment in Central America, Peter Gregory, June 23, 1986.
7. Policy Issues in Addressing the Employment Problem in Latin America, Peter Gregory, February 1985.
8. Evaluacion del Programa de Estabilizacion Economica del 21 de Enero de 1986, Grupo de Asesoría Economica, MIPLAN, August 13, 1986.
9. Credit Delivery Systems and Transaction Costs of Credit in El Salvador, Carlos Cuevas, January 14, 1988
10. Real Exchange Rates in El Salvador, William Loehr, February 2, 1988.
11. Tax Policy in a Small, Open Developing Economy, Arnold C. Harberger, 1984.
12. "Desequilibrio Externo, Política Cambiaria y Crisis Económica en El Salvador. Es la Devaluación una Alternativa?", Juan Héctor Vidal G., Presencia, 1988.
13. Commercial Policy in El Salvador: An Evaluation, Larry Sjaastad for the Grupo Asesoría Económica, MIPLAN, August 1985.
14. The Theory of Nominal, Effective and "True" Protection, Hans Gerberg for the Grupo Asesoría Económica, MIPLAN, August 1985.
15. Cálculo de la Protección Efectiva en El Salvador, Carlos Alfredo Rodríguez for the Grupo Asesoría Económica, MIPLAN, August 1985.
16. La Participación de El Salvador en el Mercado Común Centroamericana, Carlos Alfredo Rodríguez for the Grupo Asesoría Económica, MIPLAN, August 1985.
17. The 1988 El Salvador Agricultural Land Ownership and Land Use Survey, Peter H. Gore, Samuel A. McReynolds and Thomas M. Johnston, NCBA, August 1988.

18. Memorandum de Adhesion al Acuerdo General de Aranceles Aduaneros y Comercio, Ministry of Foreign Trade, September 1988.
19. Food Imports, Agricultural Policies and Agricultural Development in El Salvador, 1960-1987, Mirna Liévano and Roger D. Norton, Robert R. Nathan and Associates, June 1988.
20. Analysis of El Salvador's Household Employment Survey of 1986, Peter Gregory, April 13, 1988.
21. The Determinants of Savings in Financial Institutions in a Politically Unstable Economy: The Case of El Salvador, Jerry R. Ladman and Jorge E. Gobitz, 1987.
22. The Balance of Payments Crisis and Adjustment Programmes in Central America, V. Bulmer Thomas, Department of Economics, Queen Mary College, University of London Paper No. 136, March 1985.
23. Adjustment Programs and Social Welfare, Elaine Zuckerman, World Bank, September 1988.
24. Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth, Giovanni Andrea Cornia, Richard Jolly and Frances Stewart, Oxford University Press, May 1987.

< 107