UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

EL SALVADOR

PROJECT PAPER

PRIVATE SECTOR SUPPORT

AID/LAC/P-066

Project Number:519-K-602

CLASSIFICATION:

AID 1120-1 (9-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: LAC-81-2 519-K-602
2. COUNTRY: El Salvador
3. CATEGORY: Cash Transfer
4. DATE: September 22, 1980
5. TO: A/AID, Douglas J. Bennet, Jr.
6. OYB CHANGE NO.: --
7. FROM: AA/LAC, Edward W. Coy (Acting)
8. OYB INCREASE: None
TO BE TAKEN FROM: Economic Support Fund (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 20,000,000
10. APPROPRIATION - ALLOTMENT: 72-1 11037 137-65-598-00-50-11
11. TYPE FUNDING: [ ] LOAN [X] GRANT
12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE
13. ESTIMATED DELIVERY PERIOD: FY 81
14. TRANSACTION ELIGIBILITY DATE: Date of approval
15. COMMODITIES FINANCED: N/A

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	$20,000,000
Cash:	$20,000,000	Other:	

18. SUMMARY DESCRIPTION

The purpose of this program is threefold: to ameliorate the country's balance of payments crisis; to strengthen the private sector by providing the foreign exchange resources which will permit the importation of raw materials and intermediate goods needed by the manufacturing, industrial, and business communities; and to help restore economic stability to El Salvador. In order to respond to an urgent balance of payments crisis, immediately after Government of El Salvador (GOES) compliance with Conditions Precedent to Disbursement, AID will transfer the $20 million grant to the GOES. The GOES will agree to import from the United States at least $20 million worth of raw materials and intermediate goods for the private sector. Following the $20 million transfer, the Central Bank (BCR) will provide an equivalent amount of colones to be used in meeting local currency credit and operational costs of El Salvador's agrarian reform program.

19. CLEARANCES		DATE
XXXXXX	LAC/CEN:RGomez	
XXXXXX	LAC/DP:DLazar	
XXXXXX	GC/LAC:BVeret	
XXXXX	FM :TMcMahon*	
XXXXXX	AA/PPC:AShakow	
XXXXX	GC :NHolmes	
XXXXXX	ARA/ECP:JEddy	
	LAC/DR:MBrown	

20. ACTION
[ ] APPROVED [X] DISAPPROVED
AUTHORIZED SIGNATURE — DATE
Administrator
TITLE

*Subject to review of funds by OMB

CLASSIFICATION:

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I. Summary and Recommendations

A. Recommendation

USAID/ElSalvador recommends authorization of an Economic Support Fund grant of $20,000,000 for a Private Sector Support Cash Transfer Program.

B. Grantee

The Grantee will be the Government of El Salvador. The Ministry of Planning will act as the coordinating agency, working with the Central Bank, several small business federations or groups working in the private sector, and the Ministry of Agriculture (for local currency generated program).

C. Program Summary

The purpose of this Program is threefold: to ameliorate the country's balance of payments crisis; to strengthen the private sector by providing the foreign exchange resources which will permit the importation of raw materials and intermediate goods needed by the manufacturing, industrial, and business communities; and to help restore economic stability to El Salvador. Because of urgent balance of payment problems, AID has determined that its Cash Transfer mechanism is the most appropriate way to achieve this program purpose. AID will disburse the $20 million directly to the GOES. After this transfer, the Central Bank will provide an equivalent amount of colones to be used in meeting local currency credit and operational costs of El Salvador's agrarian reform. These local currency counterpart funds will complement AID Development Assistance funds already authorized and obligated for the agrarian reform.

D. Conditions and Covenants

The Grant Agreement will include three covenants:

1. That within twelve months of the date of signing this Agreement, the GOES shall make available to the private manufacturing, industry, and business communities of El Salvador at least $20 million for the importation from the United States of raw materials and intermediate goods.

2. That the GOES will cause the Central Reserve Bank (BCR), within two weeks following the disbursement of funds under this Agreement, to deposit in a special account currency of the Republic of El Salvador equivalent in amount to the United States dollar disbursement made under the Agreement for the purpose of helping to meet the financial requirements of its Agrarian Reform Program.

3. That the GOES will in addition ensure that at least $20 million equivalent of colones is made available to help meet working capital credit requirements of the private sector in El Salvador during the twelve month period following signature of this Agreement.

E. Waivers

No waivers are required.

II. Economic Situation

A. Summary

El Salvador's economy is heavily dependent upon three traditional agricultural exports -- coffee, cotton and sugar -- and a protected manufacturing sector which is geared toward the Central American Common Market. Although there has been a growing middle class, the economy is still highly skewed with a large poor majority and a relatively small number of very wealthy families. El Salvador's growth record was relatively good through 1977. Over 1970-77, El Salvador's real GDP increased at an average annual rate of 5.2%. In 1978, the growth rate declined to 4.4%, while in 1979, growth was a negative 1.5%. The decline in 1979 was largely induced by political instability, e.g., kidnappings, takeovers of factories, bombings, and terrorism. As a result, economic activity and employment have declined significantly, and there has been a general deterioration in the country's foreign exchange and domestic resource positions. The outlook for 1980 is for a 6 to 9% decline in real GDP, for an overall balance of payments deficit of $100 million and for a fiscal deficit of $120 million. While there are no official statistics on unemployment, it is known to be substantial and to have risen considerably in recent months, particularly in the areas of manufacturing and construction, as a result of the large number of factory closings and the practical cessation of construction activity in the private sector.

B. Economic Growth

El Salvador's real GDP grew at an average annual rate of 5.2% over 1970-77. That rate declined to 4.4% in 1978 and to a negative 1.5% in 1979. Value added by manufacturing industry increased (in real terms) at an average annual rate of 5.7% between 1974 and 1978, while value added in agriculture increased very sluggishly -- at an average annual rate of only 1.6% over this period. On the other hand, construction, finance and utility services grew at relatively high rates during this period.

Growth came to a sudden halt in 1979. In spite of excellent weather which allowed for a 2% expansion in real agricultural output and record coffee exports, preliminary estimates show that GDP in 1979 declined by at least 1.5% This was primarily due to political uncertainty and terrorism which triggered a sharp decline in private investment (by about 30%), only a small part of which was compensated for by increased public investment. The industrial, construction, commercial, and services sectors all suffered decreases. The downturn in the economy is likely to be significantly greater in 1980. The Central Bank originally projected a decline similar to that of 1979 for 1980, but now conservatively projects a real GDP decline of 5%. There is a strong possibility that

it might be considerably higher owing to the collapse of private investment and the sharp drop in manufacturing production induced by fear, intimidation and militant labor action (factory take-over, threats to management and labor demands for increases in wages and fringe benefits that are inconsistent with profitable operation). Indeed, ROCAP's Economic Advisor believes that private investment must be expected to be very low this year -perhaps even close to zero. Based on such an expectation, the Advisor projects a decline in the real GDP in the range of 6% to 9%. (See Annex I.E for details of GOES original 1980 projection).

El Salvador's GDP per capita is second to the lowest in the CA region: $550 (in 1977) compared with $410 for Honduras, $790 for Guatemala, $830 for Nicaragua, and $1240 for Costa Rica.

C. Financial Resources

High coffee prices in 1976-77 improved the country's overall balance of payments and fiscal positions during that period. By mid-August, 1979, international reserves had risen to $292 million; by the end of the year they had dropped to $135 million, equal to approximately 1 1/2 months of imports. During 1977, the Central Government's budget (on current operations) was in surplus, as the total tax burden increased from 12.4% of GDP in 1975 to 16.6% in 1977. During 1978, both the balance of payments and fiscal situations began to deteriorate. During 1979, the pace of deterioration accelerated, and projections indicate that it will worsen during 1980. The balance of payments and fiscal situation are examined separately below.

1. The Balance of Payments

As coffee prices fell during 1978, the Salvadoran Coffee Company withheld sales, speculating on a rise later in the year. By August 1978, foreign exchange reserves fell to $104 million, equal to 1.2 months of imports. Although coffee sales were resumed in September 1978, the balance of payments in 1978 showed a current account deficit of $243 million -- a huge deficit when compared to an average deficit of approximately $40 million during the previous eight years. This $243 million deficit was covered by a substantial increase in the inflow of external capital, i.e. some $270 million vs. an average of $90 million over 1974-77. This included some long-term capital, but most was short-term credit in the form of borrowing against coffee stocks in Europe. The government also borrowed $20 million from the Central American Stabilization Fund. The net result of this substantial capital inflow was a $29 million increase in foreign exchange reserves during 1978, reaching a total of $234 million, or 2 1/2 months of imports, by the end of 1978.

A significant deterioration in the overall balance of payments position of El Salvador occurred in 1979 on account of the

considerable amount of capital flight that occurred in that year. The country's position on current account actually improved substantially during the year as a result of the sharp increase in coffee prices. The deficit on current accounts declined from $243 million in 1978 and actually showed a surplus of $11 million in 1979. The deficit is expected to rise to between $95 million and $170 million, however, in 1980 due to the current political unrest. (see Annex I.A.). However, even the substantial improvement of 1979 was more than offset by the exodus of capital. The movement of private capital changed from a plus $159 million in 1978 to an estimated minus $192 million in 1979, a turn-around of $351 million. As a result, the country's net international reserves changed from $134.6 million in 1979 to a minus $2.1 million in 1979 (Annex I.B.).

Authorities are seriously concerned with the above situation, and have taken steps to strengthen their reserves by applying to the IMF for compensatory financing. We understand that the IMF has approved this request and has provided a standby fund in addition, for a total of $40 million.

The outlook for 1980, and 1981 is for a further deterioration of El Salvador's balance of payments position. The balance of payments deficit is projected to go from $108 million in 1979 to $97 million in 1980 and to between $150 million and $200 million in 1981 (See Annex I.A.). Reasons for this pessimistic forecast include the impact of violence and civil strife on cotton, sugar and coffee production (As if this weren't enough, INCAFE, the National Coffee Institute, halted all coffee exports in mid-July in order to negotiate higher coffee prices in the international market; in so doing it has further reduced foreign exchange inflows - at least for the near future); the reduction in manufacturing production because of factory closings; and the possible downturn in some agricultural production during the first year or two of the Agrarian Reform Program.

In summary, the country is facing serious balance-of-payments difficulties. Imports cannot be reduced without further adversely affecting production and living standards, and exports are highly dependent upon the government's ability to control violence in both the rural and urban areas. Coffee, cotton and sugar exports may be affected by continuing violence and labor problems as well as by possible problems associated with the land reform program. Coffee rust may further contribute to the decline in foreign exchange earnings in 1981 and following years unless effective measures are adopted immediately to check the spread of the disease. The government will probably be able to prevent further capital flight through tight foreign exchange controls, but it will not be able to do much about the determination of foreign banks to reduce their exposure. Thus, the outlook is grim. El Salvador's foreign exchange reserves may reach crisis proportions in 1981 unless the authorities are able to restore order and guarantee security, regain the

confidence of the private sector by assuring that it will have a continuing and important role to play in the country's economy, and secure substantial assistance from abroad on concessionary terms.

2. Fiscal Operations of the Central Government

The historical pattern for the Central Government's fiscal operations is for a surplus on current operations (excess of current revenues over current expenditures), and a deficit in the overall budget. This comes about because the Central Government's capital budget exceeds the surplus on current account. This excess must be covered by borrowing.

Central Government: Savings on Current Account, Overall Deficit and Financing (In millions of U.S. Dollars)

	Saving on Current Account	Overall Deficit	Financing: External Loans	Financing: Internal Loans
Average over 1973-76	50	43	22*	24*
1977	190	12	21	- 8
1978	98	39	39	-
1979	146	14	28	- 14
1980	68	142	58	4

Source: Central Bank

*Does not add exactly to overall deficit because of changes in cash balance.

Savings on the current account averaged $50 million over 1973-76 while the overall budget deficit averaged $43 million over that period. Sharp increases in savings on current account were registered in 1976, 1977 and 1979, with corresponding declines in the overall budget deficit, mostly as a result of substantial increases in coffee prices which resulted in even larger increases in current government revenues. The government derives a substantial portion of its revenues from the coffee export tax which is graduated so that the rate of the tax increases with price. As a result, a change in the price of coffee gives rise to a multiple change in government tax collections. Obviously, this same system works in reverse, which means that if the moratorium on coffee exports continues much longer, export earnings and related current revenues will experience significant declines.

The economic crisis that the country is presently experiencing is not reflected in the 1979 central government accounts. Coffee prices were very favorable last year, while the political disturbances had a serious impact on economic activity only in the latter part of the year. Thus, the overall deficit was only $15 million, 87% below the level that had been projected by the government in its 1979 budget.

The situation is quite different with respect to the budget outlook for 1980. According to current government projections, the deficit for the current year will be ¢300 million (US$120 million) or eight times the size of the deficit of 1979 and three times the deficit of 1978. The latest analysis performed by the ROCAP Economic Advisor indicates that the GOES is projecting a smaller 1980 budget than was originally contemplated and consequently, a smaller deficit than was originally expected ($142 million). It appears that the Central Government's policy has become somewhat less inflationary (particularly in view of the deficit forecast for 1980 under the National Emergency Plan for 1980-1982 which amounted to ¢447 or $179 million; see Annex I.D.).

With respect to financing of the 1980 deficit, only some $58 million (¢144 million) were assured at the time the 1980 dudget was prepared. This leaves $84 million (¢211 million) to be supplied internally, and an even larger amount if, as is quite possible, the deficit exceeds the amount projected. Thus, the government's fiscal deficit, if largely internally financed (as currently planned), must be expected to add to inflationary pressures.

D. Unemployment

There are no reliable statistics on open unemployment in El Salvador. The most recent estimates available from the Ministry of Labor refer only underemployment in 1978. These data, show an overall underemployment rate of 37%. Note that underemployment is particularly high in agriculture, manufacturing industry, and services. The situation has deteriorated considerably in 1980, particularly in the areas of agriculture and manufacturing. Open unemployment in the construction industry was recently estimated at 60% of the available labor force in that industry.

The Salvadoran Association of Industrialists (ASI) estimated on January 21, 1980, that in recent weeks, the closing of factories left an additional 7,000 workers without jobs which, in addition to the 8,200 left unemployed by the closing of 20 enterprises in previous months, raises to 15,200 the number of workers that lost their jobs in the manufacturing sector. This constitutes between 25 and 30 per cent of the labor force employed in the manufacturing sector. Factory closings since January are expected to have raised this rate further.

The employment situation in El Salvador is further complicated by considerable variation in the seasonal demand for labor and the high degree of self-employment, especially in the informal service sector which is characterized by low productivity. Agricultural employment is highly seasonal, with the period of lowest employment being between February and April. This seasonality affects nearly all workers in agriculture which make up about 40% of the labor force.

In sum: It is estimated that 35 to 40% of the labor force is underemployed. Open unemployment may be conservatively estimated at at least 15%. Thus, at least 50% of the labor force may be considered as being either un- or under-employed. As the security situation forces further depression of economic activity, the already grave unemployment situation could worsen.

E. Effect on the Private Sector

As might be expected, the political events of the past year have had a decidedly negative effect on the private sector as a whole. Specific impacts in terms of production, unemployment and loss of credit lines are catalogued elsewhere in this paper; suffice it to say that political and social instability have had repercussive effects on the fragile relationship of consumer-worker-investor confidence which threaten to halt any meaningful economic activity unless drastic action is taken by the GOES in the very near future. Within the private sector, the manufacturing sector produces about 25% of the total national output. Light industry, which composes the backbone of the sector employs a major portion of the sector workforce. It has contracted significantly this year, due to a number of factors:

- A decline in sales in the internal market which results from more unemployed people, factory closings, strikes threats or acts of violence and a general decline in private investment.

- Disruption of supply systems and production processes themselves through strikes, general labor unrest or acts of terrorism.

- Large scale capital flight in 1979 and 1980 (estimated at one half billion dollars although the Central Bank does not - and cannot keep formal records on this problem).

- Reluctance on the part of foreign banks to renew traditional lines of credit or make new loans (it is estimated that $500 million in foreign lines of credit have dried up because of the political situation).

- Difficulty in obtaining credit, particularly for working capital, from domestic banks as a result of lower bank liquidity (due in part to the capital flight mentioned above).

It is important to note that the liquidity problem confronting commercial banks in El Salvador has been growing steadily worse since shortly before the change in government in October, 1979. The triple phenomena of capital flight, low rates of loan repayments and the growing propensity to maintain holdings in cash, real estate or the like, have conspired to depress savings deposits by a significant margin over the past year (over ₡115 million or $46 million). Since savings deposits constitute a major source of loan funds, the number of loans have dropped

accordingly (by almost 30% or over ¢100 million ($40 million) during the same time period). By using local currency generations from this program to cover local costs associated with the country's agrarian reform, other domestic resources will be released to help meet this essential requirement for working capital credit to the private sector.

III. Program Description

A. Program Background Rationale

The Mission pointed out in the Country Development Strategy Statement that the primary economic and social problem of the poor is a job which will provide sufficient income which will allow people to support themselves and their families. The private sector and specifically large and medium light manufacturing establishments (i.e., those employing more than five people) provide about 51,000 jobs and produce roughly 25% of the total GDP. At present, nearly 30% of those people are out of work, many because of strikes or violence, but the majority because their employers are simply unable to make an economic go of it. Many businesses are unable to continue because domestic demand has declined, but even more importantly, manufacturers cannot obtain lines of credit needed for the importation of materials or intermediate goods required for production. As an example of this point, representatives of the Asociación Salvadoreña de Industriales (ASI) negotiated with several U. S. commercial banks in June, to reopen traditional lines of credit for the relatively small amount of $60-$80 million. The attempt ended in failure when the ASI group was informed that no further lending would be contemplated until such time as some degree of political stability had returned to the country.

The CDSS makes a second, equally important point: El Salvador must export (manufactured goods and agricultural produce) to survive economically. This point will become more important as time goes on, particularly as El Salvador's economy evolves from primarily one with an agricultural base to one based on industrial production. The private sector plays a key role now in the production of export goods and will play an even more important part in export area of the national economy as it evolves.

This program will deal with both of the foregoing points by supplying credit needed by businesses and industries to keep themselves going and ther imployees working; the credit will be supplied on a preferential basis to those enterprises which are export oriented, in order to provide incentives to those entities which can earn badly needed foreign exchange for El Salvador although purely domestic demand, which is sizable (see letter from ASI - Annex III) will also be attended to.) (This will also serve to alleviate the balance of payments problem to some extent).

ESF funds rather than Development Assistance funds are to be used under this Program since a quick disbursing assistance mechanism which can provide timely relief with a minimum of bureaucratic constraints in the face of rapidly deteriorating employment and production situations is needed.

B. Detailed Program Description

This Private Sector Support [illegible] consists of a $20 million cash transfer. The GOES will also covenant [illegible] 20 million over a 12 month period for the importation of raw materials and intermediate goods. As shown in Annex II, it is expected that these imports will include such items as mineral and vegetable oils, chemicals, textiles, ingots, plastics, laminated metals, wood products, and intermediate goods.

Because of serious balance of payment problems, AID will make a cash transfer of the $20 million grant to a United States bank account of the Central Bank. Within two weeks after deposit of these dollars, the Bank will release a like amount of colones -- upon AID approval -- to be used in support of the Government's agrarian reform program. It is expected that the bulk of program generated local currency will be used for credit (Phases I and II and Land-to-the-Tiller), logistical support, and operating cost requirements of the agrarian reform. All local currency will be programmed to complement previously authorized AID assistance for agrarian reform -- i.e., Agrarian Reform Credit ($10,000,000), Agrarian Reform Organizations ($15,000,000), and Agrarian Reform Support ($3,250,000).

IV. Technical Analysis

A. Import Requirements

Two estimates of the overall annual financial requirements for the importation of raw materials and for the industrial sector were prepared as part of the latest (August) assessment of the economic situation in El Salvador.

Data prepared by the Central Bank (presented in Annex III.A.) shows that total imports of intermediate goods were ₡848 million ($339 million) in 1978 and ₡958 million ($383 million) in 1979. The second estimate by the Asociación Salvadoreña de Industriales (ASI) is somewhat higher; it estimates the annual requirement at $463 million (see Annex III.B)

These estimates refer to the total import requirement for raw materials and intermediate goods, not to a foreign exchange gap. The major part of this import requirement will be covered through foreign exchange earnings derived from the export of primary products and manufactured goods (the latter mostly to the CACM). The total foreign exchange gap in 1981 was estimated in the balance of payments analysis at $150 to $200 million.

BEST AVAILABLE

The annual credit requirement of the industrial sector is estimated by ASI at a much lower figure -- ₡490 million ($196 million - See Annex III.B.) Moreover, this estimate is based on the assumption that credit "revolves", having an average maturity of only four months. What is needed, according to ASI, is a standing line of credit to the industrial sector of only ₡163 million ($65 million) which would, by turning over three times a year, generate a total amount of credit of ₡490 million (₡163 million x 3) per year, equal to US$196 million.

What proportion of this requirement will be met by the ESF program? There will be a multiplier effect to the $20 million in foreign exchange resources that AID proposes to provide under the ESF. Assuming that the $20 million turns over three times during the year, we will help to finance some $60 million in import credit for working capital. Thus, the ESF will meet about 30% ($60 million out of $196 million) of the total estimated annual import credit requirement of the industrial sector.

B. The Beneficiaries

While the primary beneficiaries of this Program are the companies receiving the credits, the benefits will be broadly disseminated in the economy. The increase in unemployment in the manufacturing sector during the 12 months ending in February of 1980 is estimated at 15,200. Access to foreign exchange and inputs should help effect the reemployment of about 7,400 of the people now out of work. Assuming an average family size of 5.5 people, this means about 41,000 people will benefit more or less directly from increased employment effects. Consumers stand to benefit from increased industrial production, while producers in the agricultural sector will experience an increase in demand for their products. The foreign exchange gap will be reduced to the extent that a portion of the increased manufacturing output made possible by the program can be marketed abroad.

On the local currency side, the beneficiaries will be all those who are participating in the country's agrarian reform. By making credit available and by helping to finance logistical support costs, this program can play an important role in consolidating Phase I of the reform and in initiating the Land-to-the-Tiller Program. The direct beneficiaries of these two aspects of the reform are some 120,000 low income rural families.

V. Implementation Procedures

A. Dollar Procedures

Disbursement of the $20 million part will be made in full immediately following GOES compliance with the one Condition Precedent to Initial Disbursement -- i.e., notification of legal representative(s) and specimen signature(s). The GOES will agree to make available at least this amount to the private sector for the importation of raw materials and intermediate goods. To ensure compliance, the Central Bank will establish a special account to be used exclusively to record the importation of goods attributed to the dollars provided through this grant. The BCR will provide a quarterly statement of the account to AID beginning March 31, 1981. This report will indicate the amount of imports attributed to the private sector, the name of the importing person, business, or institution, and the type of goods and services purchased.

It is expected that the commodities imported will consist almost exclusively of raw materials and intermediate goods. The major expected items are listed in Annex II. All commodities attributed to this program will have their source and origin in the United States. This is consistent with traditional Salvadoran trade patterns. For example, in 1979, El Salvador imported $27.3 million worth of chemicals, $11.8 million of textile yarns and cloth, and $63.7 million of machinery from the U.S.

B. Local Currency Procedures

Local currency generated by the program will be used to support the Government of El Salvador's recently decreed agrarian reform program. Activity Agreements with individual implementing agencies which detail (1) how local currency funds are to be used; (2) special terms and conditions relating to the use of these funds; and (3) monitoring responsibilities will be prepared and signed following signature of the $20 million grant.

VI. Impact on the U.S. Balance of Payments

Both the short- and long-term impact on the U.S. balance of payments will be favorable since an amount equal to that provided by this program will be spent on U.S. goods and services. The program will assist U.S. suppliers/exporters in maintaining trading relationships and, to the extent that it permits, even modest increases in imports of essential raw materials and intermediate goods, will help maintain the existing position of the U.S. as a major trading partner of El Salvador.

EL SALVADOR: BALANCE OF PAYMENTS
PROJECTIONS FOR 1980 AND 1981
(In Millions of U.S. Dollars)

		1978	1979	1980		1981	
1.	Exports (FOB)	846	1,134	1,006	998	963	963
	Coffee	433	685	589	589	525	525
	Cotton	99	88	86	80	64	64
	Sugar	19	27	11	11	19	19
	Shrimp	11	12	14	12	15	15
	Other (to rest of World)	53	51	56	56	60	60
	To CACM	231	272	250	250	280	280
2.	Imports (CIF)	-1030	-1,040	-960	-1,027	-1,100	-1,180
3.	Services (Net)	-110	-140	-180	-180	-200	-200
4.	Transfers (Net)	51	56	40	40	50	50
5.	Balance on Current Account	-243	11	-94	-169	-287	-367
6.	Capital (Net)	271	-119	-3	72	140	160
	Private	159	-192	-205	-130	-30	-30
	Official	47	40	87	87	90	110
	Banking Long-term	65	33	115	115	80	80
7.	Overall Balance	28	-108	-97	-97	-147	-207

Source: ROCAP Economic Advisor with substantial assistance from Research Department of Central Bank.

NOTE: Double figures for years 1980/1981 represent upper and lower range figures agreed upon by ROCAP Economic Advisor and representatives from the Central Bank.

EL SALVADOR: INTERNATIONAL RESERVES, 1975-AUGUST 1980
(In millions of U.S. dollars)

	Gross International Reserves	Net International Reserves
End of Year		
1975	127.6	130.1
1976	213.8	205.6
1977	233.7	205.7
1978	288.0	234.4
1979	161.5	134.6
April 6, 1979	296.0	269.4
August 10, 1979	311.0	291.7
December 28, 1979	161.5	134.6
April 4, 1980	104.6	- 14.4
August 8, 1980	144.8	- 2.1

Source: Banco Central de Reserva, Revista Mensual for March 1980, and Reporte Monetario Semanal for Dec. 28, 1979; April 4, 1980, and August 8, 1980

TABLE-4-

TRENDS IN BANK CREDIT, BANK DEPOSITS AND MONEY SUPPLY
DEC. 28, 1979 TO APRIL 4, 1980
(In Millions of Colones)

	Dec. 28, 1979	April 4, 1980	Aug. 8, 1980	Percent Increase Dec. 28,79 - Aug.8,80 at annual rate %
Total Credit of Banking System	3,228	3,638	3,730	26.7
Total Credit Extended by Central Bank	1,561	2,084	2,195	69.6
Deposits of Savings and Loan Associations	441	352	464	8.9
Deposits of Commercial Banks	1,716	1,735	1,729	1.3
Money Supply (Currency plus demand deposits, excluding govt deposits)	1,408	1,531	1,269	-15.6 1/
Consumer Price Index (Dec. 1978 = 100)	114.8	121.2 (March)	128.5 (June)	23.9 2/

1/ The contraction is mostly a seasonal phenomenon. The money supply is subject to sharp seasonal fluctuations, bottoming in August and peaking in Jan. - Feb. Note that between Aug. 10, 1979 and Aug. 8, 1980, the money supply expanded from ₡1,063 million to ₡1,269 million, or by 19.4%.

2/ Dec. - June at annual rate.

Source: Central Bank, Reporte Monetario Semanal of Jan. 1, 1980, April 10, 1980, and August 8, 1980.

ANNEX I.C.

SUMMARY OF FISCAL SITUATION OF CENTRAL GOVERNMENT
1978-1980
(IN MILLIONS OF COLONES)

	Actual 1978	Actual 1979	1980 Original Budget	1980 Emergency Plan	1980 Curr Estim
Current Revenues	1027.0	1215.4	1292.8	1324.8	1200
Current Expenditures	782.8	838.2	1123.0	1294.4	1000
Surplus on Current Account	244.2	377.2	169.8	30.4	200
Capital Expenditures*	341.8	414.8	524.4	477.8	500
Direct Investment (Physical and Financial)	119.4	171.8	326.4	381.5	302
Transfers	123.0	131.1	124.1	94.1	124
Prior Year Obligations	99.4	111.9	73.9	2.2	74
Amortization of Public Debt	33.0	28.8	28.7	28.7	29
Total Expenditures (Net of Amortization)	1124.6	1253.0	1647.4	1772.2	1500
Overall Deficit*	- 97.6	- 37.6	-354.6	-447.4	-300
Financing Required (Net)**					
External	96.7	30.0	143.7	214.4	150
Internal (and change in Cash Balance)	.9	7.6	210.9	233.0	150

* Excluding amortization
** Net of amortization payments

Source: Central Bank

BEST AVAILABLE

BEST AVAILABLE

TABLE 6

GROSS DOMESTIC PRODUCT
(In Millions of Constant 1962 Colones)

	1978		1979 1/		1980	
	¢	Increase %	¢	Increase %	¢	Increase %
Consumption	3,384.7	3.5	3,247.5	-4.1	3,203.0	-1.4
Private	2,953.5	2.6	2,798.8	-5.2	2,727.9	-2.5
Público	431.2	9.6	448.7	4.1	475.1	5.9
Gross Internal Domestic Investment	795.6	4.2	629.8	-20.8	710.7	12.8
Fixed Capital Formation	751.9	11.0	700.7	- 6.8	725.5	3.5
Private	505.6	17.4	445.0	-12.0	391.6	-12.0
Public	246.3	- 0.1	255.7	3.8	333.9	30.6
Changes on Inventories	43.7	-	-70.9	-	-14.9	-
Exports	689.8	15.5	849.3	23.1	769.6	-9.4
Imports	1,286.8	8.3	1,196.9	-7.0	1,206.5	.8
GDP	3,583.3	4.8	3,529.7	-1.5	3,476.8	-1.5

Source: For 1978-79, Central Bank. For 1980, "target" projection by Central Bank.

NOTE: The 1980 projection has since been revised by the GOUT to -5% [illegible] projects an even more severe decline of 6% to 9% in 1980.

ANNEX I.E.

ILLUSTRATIVE LIST OF PRIORITY RAW MATERIALS AND INTERMEDIATE GOODS

ACEITES MINERALES

ACEITES VEGETALES

PLANTAS MEDICINALES

ASFALTO

ALQUITRAN

ACEITE DE HULLA

CUEROS CRUDOS

CUEROS CURTIDOS

PRODUCTOS QUIMICOS INDUSTRIALES

PRODUCTOS QUIMICOS FARMACEUTICOS

PRODUCTOS QUIMICOS BIOLOGICOS

SUEROS

VACUNAS

ANTIBIOTICOS

MATERIALES CURTIENTES, NATURALES Y QUIMICOS

PORUDCTOS QUIMICOS PARA LIMPIEZA DE MAQUINARIAS

DETERGENTES, SUAVISANTES Y OTROS MATERIALES QUIMICOS INDUSTRIALES

PRODUCTOS DE MADERA PARA USO INDUSTRIAL

CORCHOS Y MATERIALES DE CORCHO

CAUCHO Y PRODUCTOS DE CAUCHO

HIERRO EN LINGOTES

ZINC, COBRE, BRONCE, ESTAÑO, PLOMO, HIERRO, ALUMINIO, Y OTROS MINE

PLANCHAS, LAMINAS, TUBOS, VARILLAS, PERFILES, ANGULOS Y DEMAS FORMAS PARA LA INDUSTRIA.

CARTON, PAPEL, CARTULINA Y ARTICULOS DE ESTOS MATERIALES

DERIVADOS DEL PETROLEO' COMO DECIR: PRODUCTOS Y SUB-PRODUCTOS QUE NO SEAN GASOLINA Y SIMILARES.

PLASTICOS EN FORMAS PRIMARIAS COMO DECIR: LAMINAS, TUBOS, PLANCHAS, BLOQUES, GRUMOS.

RECINAS SINTETICAS

RECINAS PLASTICAS

HILOS, HILAZAS, TEJIDOS DE MEZCLAS DE TODA CLASE DE FIBRAS

Source: ASI

	miles	%	miles de $ CIF	%	miles	%	miles $	%	miles	%	miles $	%	Kilogramos	%	Colones	%	Kilogramos
productos alimenticios	16 845	10.1	43 125	8.5	106 642		55 896		108 931		47 251		122,470		56,133		111,170
[illegible]	4 103	0.5	6 138	1.2	4 424		5 937		7 261		9 737		8,071		10,468		4,317
[illegible]	812	--	778	0.2	822		1 020		828		1 133		738		1,073		766
[illegible]	12 271	1.4	45 581	8.9	16 602		54 [illegible]		19 621		80 780		17,447		74,577		18,439
[illegible] y [illegible]	3 412	0.3	41 200	8.1	5 120		53 151		4 546		13 289		4,398		61,066		5,299
productos de la madera	20 513	2.3	6 117	1.2	20 872		6 352		21 008		9 933		25,258		10,964		17,627
[illegible] y [illegible]	1 192	0.1	838		1 959		705		1 271		1 342		1,531		1,664		725
papel y productos de papel	4 [illegible]	0.5	3 349		4 [illegible]		3 958		8 097		6 869		6,096		4,505		12,597
[illegible] y [illegible]	17 62[illegible]	2.0	21 518		21 76[illegible]		21 261		24 499		31 515		25,192		33,083		22,329
productos de cuero	4 906	0.5	8 216		3 746		7 [illegible]		5 297		13 367		4,723		15,026		3,037
productos de caucho	2 279	0.2	7 918		3 021		9 506		3 306		10 856		3,317		12,455		3,161
productos químicos	52 559	7.5	86 619		90 423		122 017		117 002		113 361		152,197		171,017		118,782
productos de petróleo	517 217	60.1	115 223		514 298		125 395		859 655		214 850		703,980		180,752		643,852
productos minerales no metálicos	20 [illegible]	2.3	7 139		20 740		7 364		31 668		13 545		44,442		11,382		34,255
productos metálicos básicos	23 305	3.2	19 163		12 577		20 517		34 139		17 839		23,092		14,015		40,633
productos metálicos	1 279	0.1	4 315		2 457		7 022		3 389		13 424		3,412		12,503		1,646
maquinaria no eléctrica	1 [illegible]	0.1	4 860		1 475		5 931		947		6 926		1,135		8,208		1,232
maquinaria y aparatos eléctricos	2 90[illegible]	0.3	5 136		4 432		6 5[illegible]		6 622		9 811		6,369		5,723		11,403
maquinaria [illegible] y [illegible]	631	--	3 842		801		5 778		1 158		8 433		993		8,947		468
manufacturas diversas	20 [illegible]	2.4	24 061		16 958		37 617		21 633		48 563		21,716		48,566		22,502
[illegible]	12 875	1.6	13 343		15 [illegible]		13 171		20 149		21 448		20,[illegible]		23,776		16,252
[illegible]	[illegible]	--	3 661		[illegible]		4 303		718		6 155		[illegible]		5,249		596
otros	28 136	3.2	39 148		40 704		34 432		60 105		71 019		46,178		68,563		54,263
TOTAL	859 529	100	504 450	100	909 370	100	641 100	100	1 361 292	100	572 966	100	1,214,934	100	848,218	100	1,145,742

Nacionales 1975/1977
[illegible] de Dupo: 1978, 1979 y porcentajes

BEST AVAILABLE

SOURCE: Banco Central

ANNEX III.A.

ASOCIACION SALVADOREÑA DE INDUSTRIALES

SAN SALVADOR, EL SALVADOR, C. A.

MEMORANDUM

PARA : SEÑOR MINISTRO DE PLANIFICACION Y COORDINACION DEL DESARROLLO ECONOMICO Y SOCIAL, LIC. ATILIO VIEYTEZ

DE : ASOCIACION SALVADOREÑA DE INDUSTRIALES

ASUNTO : CRECIMIENTO Y NECESIDADES FINANCIERAS DEL SECTOR INDUSTRIAL.

FECHA : Mayo 19, 1980

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1. PRODUCTO TERRITORIAL BRUTO A PRECIOS CORRIENTES

Se estima en 1.432 millones de colones para el año de 1980, sin deducir la pérdida de producción durante los primeros 4 meses de dicho año debido a la problemática socio-política y económica.

2. FINANCIAMIENTO NECESARIO

Considerando la íntima correlación entre el financiamiento y el PTB del sector, es necesario un 34.24% de financiamiento, o sean unos ₡490 millones.

Considerando el estado de recesión de la economía y la iliquidez consecuente, la necesidad de refinanciamiento más amplio es indispensable. Dicho refinanciamiento se estima en un 18% del volumen total del crédito, vale decir unos ₡88 millones . Este refinanciamiento debería de ser a plazo mayor de un año, pues de lo contrario, la iliquidez se haría presente.

Lo expresado indica que para capital de operación se necesitarían unos ₡402 millones y para refinanciamiento ₡88 millones.

Es obvio que si el PTB estimado fuese menor, el volumen del crédito también lo sería, aunque no de manera proporcional, debido a que el volumen de refinanciamiento se considera constante y, como es na

tural, al no generarse capital de trabajo propio de las empresas debido a una disminución en sus niveles de producción, se presentaría un estado de iliquidez que sólo podría resolverse aumentando el refinanciamiento.

3. NECESIDAD DE DIVISAS

Para satisfacer las necesidades de materias primas y demás necesarios para la producción y consecuentemente para alcanzar el PTB estimado, habría necesidad de $463 millones. Esto desde luego con la reserva de que habría que deducir las importaciones ya efectuadas durante los primeros 4 meses de 1980, lo que daría por resultado una necesidad de $309 millones para el resto del año, si es que el proceso de importación fue normal durante el primer cuatrimestre.

4. MEDIDAS COLATERALES A NIVEL DEL SISTEMA BANCARIO

a)- Un estricto control del ingreso de las divisas provenientes de las exportaciones de aquellas empresas que tienen un mercado internacional para sus productos;

b)- Un control efectivo mediante el análisis de Estados Financieros periódicos, para garantizar el uso de los créditos;

c)- Flexibilidad de parte del sector bancario a fin de considerar con prioridad la necesidad de reactivar la economía sin referencia con demasiado énfasis hacia los aspectos de garantía de los créditos, siempre y cuando las empresas beneficiarias acusen una razonable situación financiera y con un record crediticio aceptable.

d)- En los casos de empresas que requieran financiamiento por encima de los límites que una institución financiera en particular pueda otorgar a una sola persona, deberán hacerse los arreglos necesarios para consorcios entre varias instituciones financieras;

e)- Regular a las empresas el reparto de utilidades, como medida transitoria y de emergencia, indispensable para la rehabilitación económica del país.

f)- Facilitar a las empresas el otorgamiento de avales por parte del sistema bancario, cuando existan fuentes de financiamiento externo;

g)- Que el refinanciamiento de deudas sea flexible para evitar el estrangulamiento del proceso de producción.

5. ACCIONES DE "ASI"

ASI está dispuesta a colaborar con el Gobierno, con el sector bancario y con los empresarios, en el sentido de dar la asistencia técnica que sea requerida, así como la información que se considere necesaria a fin de facilitar y expeditar el proceso de financiamiento y consecuentemente de reactivación del sector. A tal efecto se propone:

i - Realizar reuniones periódicas para hacer conciencia entre los empresarios en el sentido de moderar si no mantener los niveles de precios de los artículos que producen para aliviar la presión inflacionaria.

ii - Hacer conciencia sobre la importancia de suministrar información veraz, constante y oportuna para tener elementos de juicio a nivel de la empresa, así como a nivel del sector, para facilitar el proceso de reactivación y el establecimiento de programas tendientes a fortalecer la industria en general.

iii- Se harán viajes y se realizarán programas de divulgación para restaurar la confianza en el país en el exterior e internamente.

iv - Se asesorará y orientará a los empresarios sobre la forma en que puedan mejorar sus mercados externos.

v - En fin, ASI realizará todos los esfuerzos a su alcance para contribuir a la rehabilitación de la economía y al gradual restablecimiento de condiciones económicas que conduzcan eventualmente a una paz social y a un mayor bienestar del pueblo salvadoreño.

6. ACCIONES COMPLEMENTARIAS DEL GOBIERNO

El Gobierno por su parte deberá adoptar una política efectiva de apoyo a la industria nacional, dando preferencia, en igualdad de condiciones de precio y calidad, al producto manufacturado en el país.

ASOCIACION SALVADOREÑA DE INDUSTRIALES

ALFREDO CHEDRAUI S.
DIRECTOR EJECUTIVO

ACHS/mdech/

3A(1) - COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	Yes.
3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	(a) No. (b) No.
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.
5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?	No.

A.

6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No.
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	No.
8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	El Salvador has instituted the Investment Guaranty program.
9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, a. has any deduction required by Fishermen's Protective Act been made? b. has complete denial of assistance been considered by AID Administrator?	N/A
10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?	No.
11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	Approximately 9% of the 1978 Central Government budget was for defense and public security expenditures. With respect to defense, the percentage drops to 6%. The GOES has not made significant foreign exchange expenditures for defense.

A.

12.	FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
13.	FAA Sec. 620(u). What is the payment status of the country's U.N. obligations. If the country is in arrears, were such arrearges taken into account by the AID Administrator in determining the current AID Operational Year Budget?	To the best of our knowledge, the GOES is not in arrears.
14.	FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	No.
15.	FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	N/A
16.	FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out an economic development program under FAA?	No.
17.	FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?	No.

b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs?	N/A
c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?	N/A

18. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? No.

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No.

B. FUNDING CRITERIA FOR COUNTRY

1. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? No.

b. FAA Sec. 531 Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? yes

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangments been made? N/A

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) populadistribution, and (5) unemployment. N/A

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	An advice of Program Change notifying the Congress of the use of $20 million of Economic Support Funds was sent to Congress.
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	No, ESF funds are being used here to meet urgent, unforeseen need which was not tak into account in the preparation of the Congressional Presentation for the year i question.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	None is required.
3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	No, it is more efficiently and effective given through bilateral channels.
4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	The assistance will provide an infusion credit resources to the GOES which will allow it to finance a portion of the int national and domestic trade activities i the Salvadoran private sector, and in so doing, support private and competition throughout the country.

A.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will encourage U.S. private trade abroad by providing the GOES and through it, the Salvadoran private sector, with the means for financing the importation of American-produced goods.

6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

In order to meet the short term objectives of this Program, a significant amount of U.S. dollars will be used to generate local currency. The GOES has agreed, for its part, to contribute $20 million in local currency to work toward joint AID-GOES objectives.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531. How will this assistance support promote economic or political stability?

This Project will provide additional foreign exchange needed for the importation of raw materials and intermediate goods required by the weakened industrial/manufacturing sector. Provision of the materials will help revive the industrial sector, and through it, help strengthen the general economy.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund souce.)

N/A

B2b

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;	N/A
(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?	N/A
(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;	N/A
(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	N/A
(a) to help alleviate energy problem;	N/A
(b) reconstruction after natural or manmade disaster;	N/A
(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	N/A
(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	N/A
(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	N/A

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy. N/A

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. N/A

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? N/A

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position. N/A

3. Nonproject Criteria for Development Assistance (Loans only) N/A

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other fr world sources, including private sour within the United States. N/A

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan. N/A

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner? N/A

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? N/A

4. Additional Criteria for Alliance for Progress N/A

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America? N/A

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities? N/A

3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Standard A.I.D. Procedures will be used to the extent applicable.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	To the extent feasible, yes.
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	To the extent feasible, yes.
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	N/A
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	N/A
6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	N/A
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	N/A

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8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — N/A

9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — N/A

10. International Air Transport. Fair Competitive Practices Act, 1974 — Yes, to the extent feasible.

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States? — Yes.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States? — Yes.

3. Will arrangement preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? — Yes.

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? — Yes.

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? — Yes.

d. FAA Sec. 662. for CIA activities? — Yes.

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e. App. Sec. 103. to pay pensions, etc., for military personnel? Yes.

f. App. Sec. 106. to pay U.N. assessments? Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.

4. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter. Can the country borrower service the loan on harder than standard development loan terms? N/A

MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL

No.183-SE-80

San Salvador, 19 de sept. 1980

ASUNTO: solicitando donación de US $20 millones, apoyo sector industrial país.-

SEÑOR DANIEL A.CHAIJ
DIRECTOR INTERINO
USAID/EL SALVADOR
EMBAJADA AMERICANA
CIUDAD.-

Estimado señor Chaij:

Tengo el agrado de solicitar a Ud. una donación de US $ 20 millones para apoyo al sector industrial de nuestro país. Contra estos $ 20 millones, que se depositarán en un banco de los Estados Unidos, el Banco Central de Reserva emitirá cartas de crédito para la importación de materia prima para la industria salvadoreña.-

Además tengo a bien comunicarle que dada la importancia de esta actividad en la economía nacional, el Banco Central de Reserva se compromete a cubrir cartas de crédito por otra cantidad igual a la donación que en ésta se solicita.-

Después de la operación del depósito de los dólares, el Banco Central de Reserva, contra órdenes de AID, desembolsará ₡ 50 millones que se utilizarán de la manera siguiente:

- ₡ 25 millones al Banco Central de Reserva para establecer una línea de redescuento para financiamiento industrial. Esta línea sería utilizada para otorgar préstamos para capital de trabajo a la pequeña y mediana industria.-

- ₡ 12.5 millones para capitalizar al Banco Nacional de Fomento Industrial (BANAFI) los cuales igualmente serían utilizados para préstamos a la mediana y pequeña industria para capital de trabajo con plazos flexibles hasta por cinco años y con intereses preferenciales en ciertos casos.-

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- ₡ 7.5 millones al Fondo de Financiamiento y Garantía para la Pequeña Empresa (FIGAPE) para préstamos de capital de trabajo a la pequeña industria.-

- ₡ 2 millones para financiar una escuela técnico-vocacional que adiestrará mano de obra calificada para el sector industiral, dando particular énfasis a la capacitación de la mujer. Este colegio será una entidad privada sin fines de lucro. Los alumnos preferencialmente serán escogidos entre varones y señoritas campesinos.-

- ₡ 3 millones para financiar proyectos de empresas de auto gestión por medio de un fondo manejado por BANAFI, lo cual permitirá que hasta un 15% del financiamiento que se otorgue sea como donación no reembolsable a fin de permitir que las pequeñas industrias de trabajadores, tengan acceso a gerencia y asesoría técnica calificada.-

Toda regulación de estos fondos para financiamiento industrial, incluyendo la línea de redescuento del Banco Central de Reserva, antes de emitirse será sujeta a la opinión de ASI , SCIS y FENAPES, y a la aprobación de AID. También para efectos de este proyecto, la clasificación de pequeña y mediana industria estará contenida en la referida regulación, de acuerdo a criterios establecidos por el Gobierno.-

En la seguridad de que nuestra solicitud pueda ser considerada y atendida favorablemente, aprovecho la oportunidad para expresarle las muestras de mi consideración y estima.-

ATILIO VIEYTEZ
MINISTRO.-