USAID/EL SALVADOR

FY 1994 ESF

MODERNIZATION OF THE STATE

PROGRAM ASSISTANCE APPROVAL DOCUMENT

July 8, 1994

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MODERNIZATION OF THE STATE
FY 1994 NON PROJECT ASSISTANCE
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LIST OF ABBREVIATIONS AND ACRONYMS

(Alphabetical Order)

AIFLD	American Institute for Free Labor Development
ANSP	National Academy for Public Security
APSISA	Support to the Health Systems
ANEP	Private Enterprise National Association
BCIE	Central American Bank for Economic Integration
CAESS	San Salvador Electric Light Company
CAPS	Central American Peace Scholarships
CEL	Hydroelectric Commission for the Lempa River
CENITEC	Technical and Scientific Investigation Center
CEDEM	Center for Democratic Studies
CIF	Cost Insurance Freight
CLUSA	Cooperative Liaison of the U S A
CNFPS	Consolidated Non Financial Public Sector
CRECER	Rural Equitable Economic Growth
EDUCO	Education with Community Participation
ESAF	El Salvador Armed Forces
ESEN	Economics and Business School
ESF	Economic Support Fund
EU	European Union
FEPADE	Foundation for Entrepreneurs for Educational Development
FIS	Social Investment Fund
FMLN	Farabundo Martí National Liberation Front
FOES	Salvadoran Labor Management Foundation
FUNDAUNGO	Dr Guillermo Manuel Ungo Foundation
FUNDE	Economic Development Foundation
FUSADES	Salvadoran Foundation for Economic and Social Development
FY	Fiscal Year
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GOES	Government of El Salvador
HCOLC	Host Country Owned Local Currency
HDI	Human Development Index
HIID	Harvard Institute for International Development
IBRD	International Bank for Reconstruction and Development
ICITAP	International Criminal Investigation and Training Assistance Program
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
ILO	International Labor Organization
IMF	International Monetary Fund
ISL	Investment Sector Loan (Inter-American Development Bank)
ISTA	Salvadoran Institute for Agrarian Reform
ISSS	Salvadoran Social Security Institute
LAC	Latin America and the Caribbean
LCP	Local Currency Program
MEA	Municipalities in Action
MOE	Ministry of Education

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MOH	Ministry of Health
MPHS	Multipurpose Household Survey
NAFTA	North American Free Trade Agreement
NCBA	National Cooperative Business Association
NCJ	National Council for the Judiciary
NGOs	Non-Governmental Organizations
NPA	Non-Project Assistance
NRP	National Reconstruction Program
OE	Operating Expenses
ONUSAL	United Nations Organization for El Salvador
ORS	Oral Rehydration Salts
PAAD	Program Assistance Approval Document
PAHO	Pan American Health Organization
PNC	National Civilian Police
PRSP	Policy Reform Support Program
SABE	Strengthening Achievement in Basic Education
SAL	Structural Adjustment Loan (World Bank)
SETEFE	Technical Secretariat for External Financing
SILOS	Local Health Systems
SIU	Special Investigative Unit
TA	Technical Assistance
UCA	Jose Simeon Cañas Central American University
UCLA	University of California at Los Angeles
UEA	Special Narcotics Unit
UNICEF	United Nations Infant and Child Emergency Fund
UNFPA	United Nations Fund for Population Activities
USAID	U S Agency for International Development
USG	United States Government
VAT	Value added tax
WHO	World Health Organization

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I. PROGRAM SUMMARY

This document presents the Mission's proposed FY 1994 ESF Modernization of the State Program The $25 million program is designed to support GOES actions to reduce poverty through well-focussed measures to modernize the state, and, in particular, improve the social service delivery system Two disbursements ($15 and $10 million) are proposed to support GOES measures to expand the coverage and enhance the quality of basic education and primary health services, and accelerate municipal development In addition, the proposed program supports other measures targeted toward relieving remaining important constraints to sustained economic growth, maintaining momentum in the legal and judicial reform process, supporting greater NGO participation in the NRS strategic plan (Secretariat for National Reconstruction), and achieving progress in reforming the Electoral Code The program also supports adherence to the Peace Accords, an absolutely necessary condition for the success of the Modernization of the State Program and of the USAID Program in general

The focus of the program deviates significantly from cash transfers in the past. The program was designed following the approach for Non-Project Assistance (NPA) developed by the Africa Bureau and contained in "Bureau for Africa -- Non Project Sector Assistance Guidance," October 1992 Specifically, the Modernization of the State Program supports longer-term development and growth at the sectoral level through the alleviation of identified policy constraints. The Mission intends to link its technical assistance projects in the social sector to support the policy reforms initiated by this ESF program. Furthermore, the objectives are defined in terms of their impact on poor people or households, including improved health care, and more equity and quality of basic education The assistance is justified based on the benefits that would result from increased expenditures in the social sectors accompanied by more effectiveness and efficiency of institutions delivering social services A significant proportion of the local currency generated by the program will help defray part of the incremental costs that would result from the implementation of social sector reform measures supported by the Modernization of the State Program

Over the last few years El Salvador has gone through a major transformation On January 16, 1992, the GOES and the Farabundo Martí National Liberation Front (FMLN) signed a peace agreement in Chapultepec, Mexico, which brought an end to El Salvador's 12-year civil war. Since then, the FMLN has demobilized its 8,500 ex-combatants, the military has been cut in half from 60,000 to 30,000 members, and an unprecedented purging of the top 100-plus military officers has been completed successfully A new National Civilian Police Force has been established and, as new police officers complete training, is gradually being deployed around the country, replacing the former National Police Force under military control A United Nations-negotiated land transfer program has provided 94,000 acres of land to FMLN and ESAF ex-combatants Hundreds of thousands of ex-combatants and civilians in the formerly conflictive areas of the country were documented and voted in the March 20 national elections In addition, major judicial, electoral and human rights reforms have been implemented, including the enactment of a new electoral code, the creation of a more representative National Council for the Judiciary, the passage of a new law guaranteeing individuals the right to public defense, the strengthening of the Supreme Electoral Tribunal, the establishment of a new Human Rights Ombudsman Office, the civilianization and integration of the Special Investigative Unit into the National Civilian Police (PNC), and the near-unanimous approval by the Legislative Assembly on April 21, 1994, of modifications to the labor code that will strengthen the protection of internationally recognized workers' rights The labor code reform represents a large degree of tripartite consensus (government, labor and private entrepreneurs) and was considered by an ILO expert to constitute a major improvement over the legislation it modifies The outgoing Legislative Assembly approved several constitutional amendments which, if ratified by the current Assembly, will strongly reinforce due process in El Salvador Chief among these is the elimination of extra-judicial confessions

Although the road has not always been smooth and many challenges remain, the peace process has proceeded remarkably well The cease-fire called for by the Chapultepec Accords has remained intact, and relatively few incidents of political violence have been reported On December 15, 1992, the United Nations Secretary General declared El Salvador's war officially over While some delays occurred, overall implementation of the Peace Accords has been impressive, as evidenced by the timing of the progress listed above

El Salvador's national elections in March and April of this year marked a major milestone in the country's transition to a lasting peace On March 20, 1994, open and competitive elections were conducted for President, deputies to the Legislative Assembly and other national and local positions Five weeks later a runoff election was held for the offices of President and Vice President Participation by Salvadoran voters was higher than anticipated, no significant act of election-related violence occurred, and only a few election irregularities were reported. As a result of this electoral process, a peaceful transition of power to a new political administration was achieved The new administration is committed to continuing President Cristiani's leadership of the peace and national reconciliation process The FMLN has completed its transition from an armed opposition group to a legal political party competing effectively in the recent national elections and gaining enough votes to move into second place among El Salvador's political parties. FMLN members hold 20 seats in the Legislative

Assembly, including the Vice Presidency of the Assembly and several local posts.

After the peace accords were signed, the GOES initiated implementation of a $1.4 billion National Reconstruction Program (NRP) designed to assist in the demobilization of ex-combatants, the rehabilitation of the country's war-damaged infrastructure, the reintegration of the formerly conflictive areas into the national economy, and a major extension of social services into the ex-conflictive zones To date, the NRP has provided various forms of assistance to over 100,000 beneficiaries This progress has been instrumental in the successful consolidation of peace and democracy in El Salvador It has also contributed importantly to El Salvador's continuing economic expansion.

The country's economic recovery actually predates the end of the war A comprehensive economic reform program initiated in 1989 has been highly successful in reorienting the economy toward more reliance on market forces and a competitive private sector The program has resulted in four years of accelerating real economic growth, lower inflation, improved fiscal performance, major gains in investment, substantially higher employment, and increases in nontraditional exports. The overall balance of payments position has strengthened, as net international reserves have increased sharply In addition, the urban unemployment rate has been reduced and urban poverty rates have declined, albeit only modestly. No data are available on recent changes in rural poverty, but increases in basic grains production suggest a reduction in rural poverty as well

These economic gains, which materialized well before the end of the war, should be considered a major factor contributing to the achievement of peace in El Salvador The economic gains clearly visible in 1990 and 1991, along with greatly improved economic prospects for 1992 and beyond, helped set the stage for successful negotiations Both sides realized that demobilization of forces and their reintegration into an expanding national economy would be much easier than reintegration during a period of economic stagnation or decline. Thus, while consolidation of the peace process has indeed increased investor confidence and contributed to improved economic performance, the positive gains resulting from the economic reform program initiated in 1989 helped achieve the peace in the first place

As El Salvador looks to the future, several challenges remain First, notwithstanding the remarkable achievements to date, the nascent peace in El Salvador must be vigorously protected and the democratic process strengthened A surging crime wave threatens public security and complicates the transition to a civilian police force The implementation of the peace accords is the highest national priority, and is a necessary condition for the successful implementation of the Modernization of the State Program

Although impressive gains have been registered, El Salvador's economic recovery remains fragile, as the policy reforms implemented in recent years have yet to be fully consolidated Moreover, notwithstanding four consecutive years of solid economic growth, in real terms per capita income is only equal to 83 percent of that achieved in 1978 Although experiencing some noteworthy growth in recent years, the value of El Salvador's exports in 1992, when adjusted for inflation, is significantly lower than in 1979, the country's peak year for exports. Surging family remittances and official grants and loans reached 17 percent of GDP in 1992, and these inflows have tended to appreciate the real exchange rate and thus reduce export competitiveness As these inflows are of a fairly long-term nature, there are no good policy options to remedy the situation, as has been indicated by a thorough study carried out by Dr Arnold Harberger (UCLA) Although marked improvement in the fiscal accounts was observed in 1993, fiscal performance continues to be the Achilles heel of the Salvadoran economy A decline in the public sector deficit would reduce foreign financing requirements and would tend to depreciate the real effective exchange rate

Some modest progress has been achieved over recent years in many social/poverty indicators The economic reforms in El Salvador have resulted in improved incentives and greater opportunities for lower-income groups to be more productive and thereby increase their incomes Moreover, GOES social measures in recent years, financed largely by the USG and other international donors/lenders, have provided an important cushion to vulnerable groups during the economic adjustment process Also, the recent surge in family remittance inflows, encouraged by exchange-rate and financial-market liberalization, has had a major favorable impact on the poor.

Nonetheless, poverty remains a major problem in El Salvador, and it represents a major threat to the the strengthening of democracy. The high rate of poverty also contributes importantly to the country's deteriorating crime situation Almost half of El Salvador's population still lives in poverty Access to essential education and health services are required to both improve the quality of life and better equip low-income Salvadorans to take advantage of the greater opportunities made available by the expanding economy

Therefore, while it is still important for the GOES to continue its program to further liberalize its economy and permit markets to work, we believe it should now place added attention on direct measures to more effectively combat poverty Reaching close to 100 percent coverage of basic health and primary education services of a minimum level of quality would be an achievable goal in five to ten years if more resources were spent and if the effectiveness and efficiency of public institutions were increased markedly Increases in effectiveness and efficiency, however, could only take place with a significant modernization of public institutions in health and education. Such changes would require, among other measures, the decentralization of government functions and a greater role for NGOs and the private sector in the provision of social services.

The key ministries providing social services (Health and Education) are overly centralized and thus do not allow citizens to influence the manner in which those services are delivered The line ministries have low levels of internal efficiency that are manifested, for example, in high rates of teacher absenteeism (which may reach 40 percent in the rural areas). Their personnel management systems are based on archaic hiring processes and contain no incentives for improved performance. There is too much reliance on foreign financing, particularly for inputs such as medicines, textbooks, school supplies and teacher training, and therefore programs are not sustainable in the medium term as donor resources decline. Finally, per capita expenditures in the social sector are quite low compared to countries of similar per capita income.

Decentralization of public health and education services can contribute to increased effectiveness and efficiency of programs Decision-making would be closer to the beneficiaries, and therefore it can be expected that resource allocation and monitoring would be improved Equally important, decentralization would permit greater citizen participation in the design, implementation and monitoring of programs that affect them importantly and on a daily basis

Measures to increase efficiency should be accompanied by higher levels of financing Undoubtedly, El Salvador needs to spend more on social programs, but such increases will be more difficult with the loss in financing from the USG Further improvements in tax administration can result in major increases in fiscal revenue, particularly by reducing tax evasion, which is presently pervasive A USAID-financed tax administration activity (MOST) has developed state-of-the-art systems to identify individuals and/or companies that are evading taxes In our view, the GOES must now use those sophisticated tools aggressively to force increased compliance with the tax law Measures are needed to increase the capability of municipalities to raise revenues to fund local activities Increased transfers from the Central Government to many smaller municipalities will also be required

The agricultural sector faces many restrictions. Cooperatives, which hold a large proportion of the land in El Salvador, are severely constrained by antiquated and paternalistic legislation that does not permit them to compete with others in the private sector

Electricity is provided by a highly inefficient state-owned institution (CEL). Rapid economic growth in the future would be constrained unless electricity services expand rapidly Privatization would permit the expansion of those services without increasing public indebtedness, and the proceeds of the sales could be used to increase investment in human capital At the same time, it must be recognized that privatization proceeds are a one-time-only windfall, thus making it essential that the government continue seeking permanent sources of increased domestic revenues to finance investment in human capital

The greatest need in El Salvador is to decrease poverty, which has been estimated to affect about half of the population The 1994 ESF Program will support policy reforms designed to increase the assets of the poor, principally their human capital, and to accelerate economic growth. Of particular importance, the proposed program will support a new GOES administration which took office on June 1, 1994. The timing of the proposed program has been set to maximize its impact during the transition period and over the first year that the new GOES administration is in office.

The measures supported by the program are summarized in the matrix presented below

POLICY MATRIX FOR ESF PROGRAM FY 1994

Feb 24/95

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
1 SOCIAL SECTOR			
Decentralization	Increase the level of citizen participation in decisions which affect them directly	Initiate the preparation of a national strategy for decentralization and municipal development	Approve the national strategy for decentralization and municipal development and prepare an action plan to implement the strategy
		Prepare tentative decentralization strategies for health and education/[1] in the framework of an institutional modernization Prepare action plans to initiate the decentralization process in health and education	Satisfactory progress in the implementation of the action plans to decentralize health and education
		Form a Commission with members from MIPLAN, the Ministry of Finance (Integrated Financial Management AFI), Court of Accounts, Health, and Education, to prepare a proposal to simplify the mechanisms to finance decentralized/private solutions for the provision of education and health services	Approve the proposal to simplify the mechanisms to finance decentralized/private solutions for the provision of education and health services
		Approve a pilot program to contract NGOs to offer the Minimum Health Package in priority zones with easy financing mechanisms	Implement the pilot program and analyze its results

[1]/ Decentralization Delegation of functions to municipalities contracting of NGOs, community organizations or private companies for the provision of public services

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
		Prepare an action plan to strengthen the SILOS (Local Health Systems) and other forms of community participation Initiate preparations to establish 1,000 new EDUCO sections	Initiate the implementation of the action plan Establish 1,000 new EDUCO sections Initiate a pilot plan with other methods for decentralizing education
Increase the Effectiveness and Efficiency of the Ministries of Health and Education	Provide greater coverage in health and family planning, allowing a greater role to health promoters and midwives Improve the performance and quality of the civil servant Improve the teacher hiring process and give greater incentives for enhanced teacher performance	Make the necessary reforms to allow a greater role to health promoters and midwives Draft a proposal to reform the Civil Service Law, to flexibilize the management of human resources and of an adequate incentives system Draft a proposal to reform the Teachers Salary Law (Ley de Escalafón Docente) and Administrative Personnel (taking into account incentives for teaching in rural areas)	Finalize the training plan for health promoters and midwives that will allow them to assume a greater role in the provision of health services Submit to the Legislative Assembly the reforms to the Civil Service Law Consult with different sectors on the reforms to the Teachers Salary Law and the proposal of incentives for teaching in rural areas

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
Strengthening of Social Sector Finances	Cost recovery in health establishments in order to release resources for primary care	Initiate the implementation of the cost recovery program in 15 hospitals of the Ministry of Health, by type of establishment and in accordance with tariffs established by type of service and socio-economic classification/[2] and consequent with an improvement in the quality of the services	Satisfactory progress in the implementation of the cost recovery program in 15 Health Centers
	Improve the process of allocation of resources through a better budget disposition in the Ministries of Health and Education	Design a new budget format for the Ministries of Health and Education, based on services programmed and not on historical allocations	Prepare the Education and Health budgets for 1996 based on this new format
	Increase resources available for health and education	Increase the 1995 budgets for the Ministries of Health and Education by ¢307 6 and ¢226 8 millions, respectively Increase the budget allocations and assign it to priority areas in health and education /[3]	Make sure that the Ministries of Health and Education have full access to the resources programmed for 1995

[2]/ Advances must be made in cost recovery, not forgetting the idea of turning over to private administration the hospitals under the Ministry of Health and the Social Security Institute This will allow the Government to release resources presently destined to hospital care and assign them to primary health care It must be remembered that the basis of the new health strategy is to destine the most resources possible to primary care

[3]/ The 1995 budget data from the Ministry of Finance are ¢1,632 4 and ¢1,169 5 millions for the Ministries of Health and Education, respectively, compared to ¢1,405 6 and ¢881 9 millions in 1994

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
	Increase fiscal revenues	Measures to improve tax and customs administration	Measures to improve tax and customs administration
		* Contracting of 50 additional auditors	* Contracting of 50 additional auditors
		* Apply the "Superconsulta" System for the development of integrated audits (Income, IVA and Customs)	* Continue applying the Superconsulta System for the development of integrated audits (Income, IVA and Customs)
		* Modified Tax Offences Law and Anti-Contraband Law	* Application of the reformed Tax Offences Law
			* Application of the reformed Customs Offences Law, to reduce contraband
		* Initiate the administrative restructuring process in Customs	* Continue with the administrative restructuring in Customs, including actions for the privatization of warehouse management
		* Follow-up on tax revenues to check that the extraordinary revenues from coffee are duly complied with	
		* Develop plans to verify the compliance with IVA forms, which would broaden the tax base	

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
	Increase municipal revenues to allow for the performance of the decentralization stragegy	Good faith effort to obtain the Legislative Assembly's approval of a new law giving a greater financial capacity to the municipalities to guarantee their autonomy Increase Central Government transfers to the municipalities by ¢35 million	Make sure that the municipalities have full access to the resources programmed for 1995
2 AGRICULTURAL SECTOR			
Development of Agricultural Cooperativism	Modernize the legal framework governing agricultural cooperatives to increase their capacity to compete with the private sector	Identify the reforms to the Cooperative Associations General Law and its regulations, the Agricultural Associations Special Law, and the Agricultural Cooperative Associations Bylaws Regulations	Submit to the Legislative Assembly the reforms to the Cooperative Associations General Law and its regulations, the Agricultural Associations Special Law, and the Agricultural Cooperative Associations Bylaws Regulations
3 ELECTRICITY AND TELECOM-MUNICATIONS			
Regulatory Framework	Establish a regulatory framework favoring private investment in electricity and telecommunications	Submit to the Legislative Assembly the laws that will norm and regulate the electricity sector and that will promote private participation, good faith effort to obtain their approval	Prepare the regulations to rule the operation of the laws that will norm and regulate the electricity sector and promote the participation of the private sector Initiate preparation of the laws that will norm and regulate the telecommunications sector and that will promote private sector participation

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
4 MACROECONOMIC FRAMEWORK	Maintain macroeconomic stability and continue with the structural adjustment program	Maintain macroeconomic stability and continue with the modernization of the state program	Maintain macroeconomic stability and continue with the economic modernization of the state program
5 LEGAL/JUDICIAL FRAMEWORK	Maintain momentum of the legal and judicial reforms process	Maintain momentum of the legal and judicial reforms process	Maintain momentum of the legal and judicial reforms process
6 PEACE ACCORDS	Continue implementing the Peace Accords	Continue implementing the Peace Accords At least 90% of the ex-combatants who have received land and/or certifications to obtain it under the USAID-financed land transfer program, should also have received an agricultural credit finaced by USAID Efforts will be made to provide adequate technical assistance	Continue implementing the Peace Accords The GOES should have provided ex-combatants with credit lines for at least ¢100 million, for ex-combatants benefitted under the land transfer program financed by USAID

AREA	OBJECTIVE	FIRST DISBURSEMENT Oct /Nov , 1994	SECOND DISBURSEMENT April/May, 1995
7 ELECTORAL REFORM		Develop and approve an action plan for reform of the Electoral Code which will include, for example a) issuance of a single identity/voter card, b) registration and voting at the local level, c) proportional representation on municipal councils, and d) professionalization of the Supreme Electoral Tribunal (TSE) staff by elimination of the "clave" system	Satisfactory progress in the implementation of the approved action plan for reform of the Electoral Code Study the feasibility and legislation required to establish a non-partisan Supreme Electoral Tribunal
8 NRS		Include the NGO community's key recommendations in a NRS strategic plan The plan should ensure a greater participation and financing of the local organizations and NGOs that represent the population in ex-conflictive zones	Satisfactory progress toward implementation of the strategic plan demonstrating greater participation and financing of NGOs compared to 1994 levels The NRS will design a methodology for and begin implementation of a micro-projects fund for the NGO community

February 24, 1994
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II. BACKGROUND

A. Economic Performance

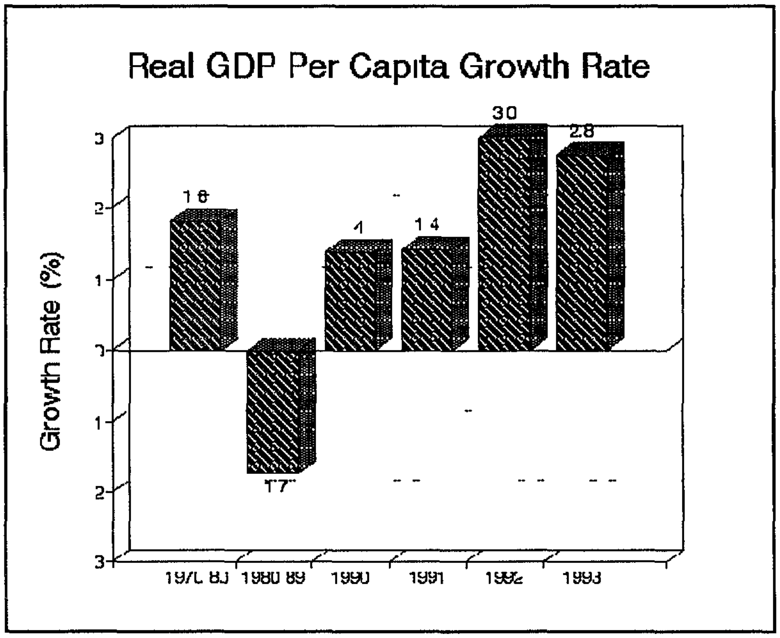
In 1989, the GOES initiated a comprehensive economic stabilization and structural adjustment program aimed at restoring internal and external balance and reorienting the economy toward more reliance on competitive market forces The stabilization component included fiscal austerity to reduce the Central Government's domestic financing requirements and improved monetary control designed to limit monetary and credit expansion to levels consistent with reduced inflation The marked reduction in domestic financing of the public sector deficit permitted adequate financing of private investment through the banking system, thus permitting achievement of economic growth targets The stabilization component also included the establishment of a flexible, market-determined exchange rate system to replace an overvalued, fixed-rate regime, improving El Salvador's export competitiveness while rationalizing import purchases and increasing private-sector confidence

Complementing the stabilization component was a structural adjustment program designed to reduce economic distortions and lay the basis for sustained economic growth over the medium term Key macro and sectoral structural adjustment measures included, inter alia, external trade liberalization, revitalization and re-privatization of the financial sector, the elimination of price controls on over 200 items, leaving only a few on items subject to monopolistic or oligopolistic market situations; the dismantling of government monopolies in coffee export marketing and domestic sales of basic grains; a reduction in public utility subsidies, and privatization of state-owned assets such as a major hotel and a free trade zone

A near-complete overhaul of the tax system was implemented This included the elimination of all taxes on exports; simplification of the personal and corporate income tax structure, a reduction in the top marginal income tax rate from 60 percent to 25 percent, the introduction of a value added tax, the enactment of a critical law making tax evasion a criminal offense, and improved automation, auditing and enforcement In addition, the import duty schedule has been greatly simplified and protection of inefficient industry has been reduced, while the Salvadoran economy has become more competitive As a result of tax reforms and improved administration, tax revenues (excluding the coffee export tax) have increased to 9 4 percent of GDP in 1993, compared to 7 2 percent in 1989 Moreover, trade has become greatly liberalized while improvements in customs operations have enabled the GOES to maintain revenue levels (See Annex 15 for more detailed information on GOES economic policy reform performance)

Output: The response of the Salvadoran economy to the improved policy framework has been impressive El Salvador is completing its fourth consecutive year of accelerating growth Real GDP grew by 5 1 percent in 1993, resulting in a GDP 18 4 percent higher in 1993 than that recorded in 1989 In per capita terms, real GDP grew by an annual rate of 2 2 percent in the 1989-93 period, a much better performance than the 1980s, when GDP per capita declined at an annual rate of 1 7 percent, and slightly better than the 1970s, when GDP per capita increased by 1 8 percent per year (see Graph 1).

GRAPH 1



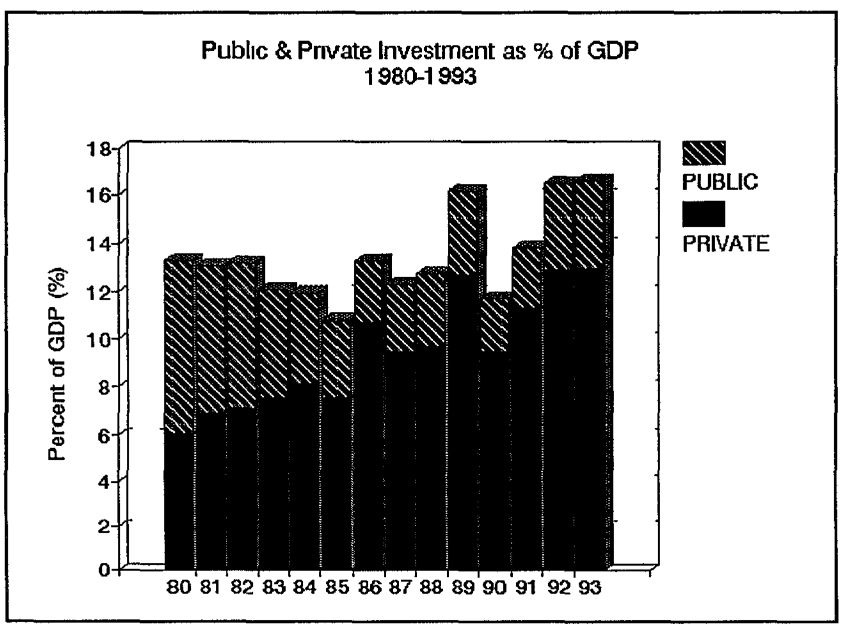
Agriculture led the initial phase of El Salvador's economic recovery, responding vigorously to a major improvement in incentives to producers resulting from better exchange rate policies, the elimination of most price controls and reduced state intervention in basic grains and coffee marketing This response was particularly noted in the increase in area planted for basic grains Record basic grains harvests were registered in 1990 and 1992. A severe mid-year drought in 1991 prevented what would have been another record In 1990, real GDP originating in the agricultural sector grew 7 4 percent While there was no growth in the drought-affected year of 1991, it was followed by 9 0 and 0 5 percent real growth rates for 1992 and 1993, respectively

In 1991, the recovery spread from agriculture to other economic sectors (manufacturing, construction, and utilities)

Average real growth in these sectors accelerated from 1 1 percent in 1990 to 5.9 percent in 1991, 6 9 percent in 1992 and 9 2 percent in 1993 Reflecting major increases in public and private investment, GDP originating in the construction sector grew at an average annual rate of 10.8 percent over the 1991-93 period In 1993, the real growth rate for the utilities sector was 14 8 percent, boosting the average annual rate for 1991-93 to 9 5 percent. Services grew at an average annual rate of 4.0 percent over the 1991-93 period

Investment and Savings: The improved economic policies adopted since 1989, along with the consolidation of peace, have led to greater degrees of confidence in the Salvadoran economy Gross fixed capital formation, grew from 12 8 percent of GDP in 1988 to 16 6 percent in 1993 Private investment jumped from 9 7 percent of GDP to 13 0 percent over the same period, reflecting a 11.5 percent average annual real rate of growth (see Graph 2) Reflecting the advent of peace and initiation of national reconstruction activities, public investment averaged 36 percent of GDP in 1992 and 1993, up from 2 3 and 2 5 percent registered in 1990 and 1991, respectively Nonetheless, public investment remained well below the 6.8 percent of GDP average during 1980-1982 Through the decade of the 1980s, the public investment budget, as well as recurrent spending on social programs, was sacrificed to meet increasing war-related security costs

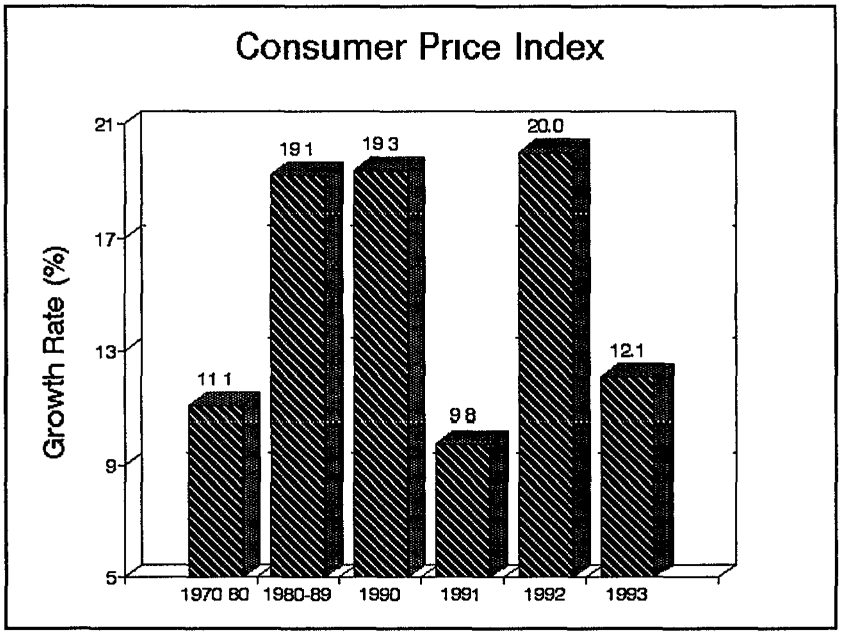
GRAPH 2



Financing for this increase in investment came primarily from national savings, which as a percent of GDP more than doubled from 5.2 percent in 1990 to 13 percent in 1993. A major component of national savings, family remittances, grew from 6.4 percent to 10.8 percent of GDP over that same period. Gross domestic savings, which excludes remittances and other factor service inflows, rose from 0.7 percent to 3.4 percent of GDP during the same period. Contributing to greater rates of savings were improved financial intermediation through the revitalization of the financial sector, resulting in greater confidence in the banking system, and gradual liberalization of deposit rates to give savers positive real returns. El Salvador still relies on substantial foreign savings to finance investment. Foreign savings (measured as the current account deficit in the balance of payments -- including remittances but excluding official transfers) was equivalent in 1993 to 4.2 percent of GDP. Nonetheless, this was less than the 6.7 percent figure recorded in 1990.

Prices: Inflation has been essentially brought under control. The disciplined monetary policies of 1990 and 1991 lowered annual (point-to-point) inflation rates at the consumer level to 19.3 percent in 1990 and 9.8 percent in 1991, lower than the 23.5 percent inflation during 1989 and the 25 percent average over the 1985-88 period. In 1992, the rate of price increases doubled to 20 percent because of temporary lapses in fiscal/monetary discipline, the introduction of the 10 percent value added tax, and major adjustments in public utility rates in September 1992. The rapid monetary expansion occurred primarily because of the need for the Central Government to spend on, and the Central Bank to finance, GOES commitments under the January 16, 1992 Chapultepec Peace Accords. Restoration of fiscal/monetary restraint near the end of 1992 and throughout 1993 contributed to a reduction of the inflation rate for 1993 to 12 percent, meeting the GOES's 1993 Economic Program target for 1993. An 8-10 percent inflation rate is programmed for 1994, and is feasible if fiscal and monetary discipline are maintained (Graph 3).

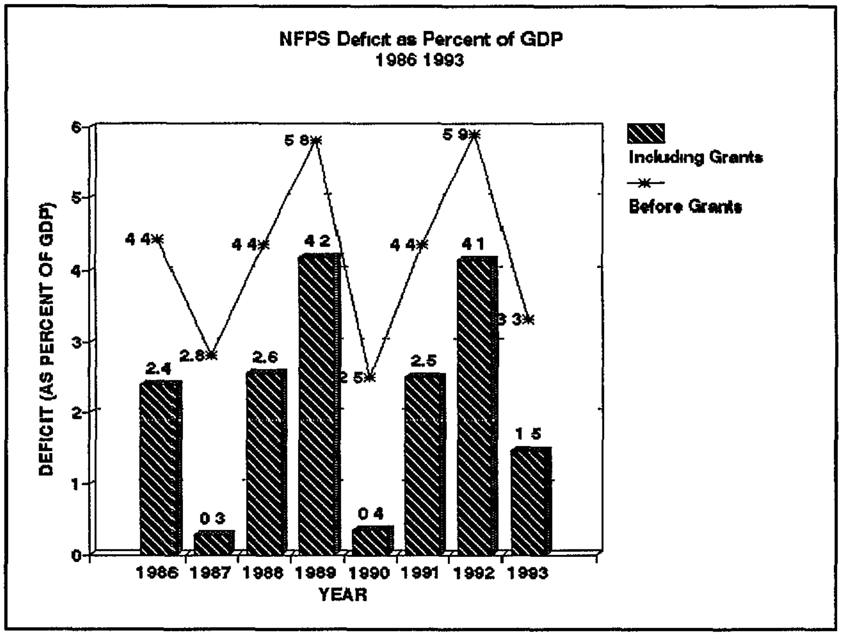
GRAPH 3



Fiscal Accounts: Overall fiscal performance in recent years has been encouraging The combination of marked improvement in revenue collections with generally successful efforts to restrain expenditures has resulted in a drop in the overall deficit of the consolidated nonfinancial public sector (CNFPS), excluding grants, from 5 8 percentage points of GDP in 1989 to 3.3 percent in 1993

The deficit dropped sharply in 1990 to 2 5 percent of GDP. While increases in revenues and a small drop in current expenditures contributed to the lower deficit, the main factor was a major contraction in public investment from 4 percent of GDP in 1989 to 2.4 percent in 1990 This drop reflected a number of factors, including the November 1989 FMLN offensive which paralyzed the capital city and implementation delays associated with the review and redesign of several investment projects by the new Cristiani Administration, which took office in June 1989 (Graph 4).

GRAPH 4

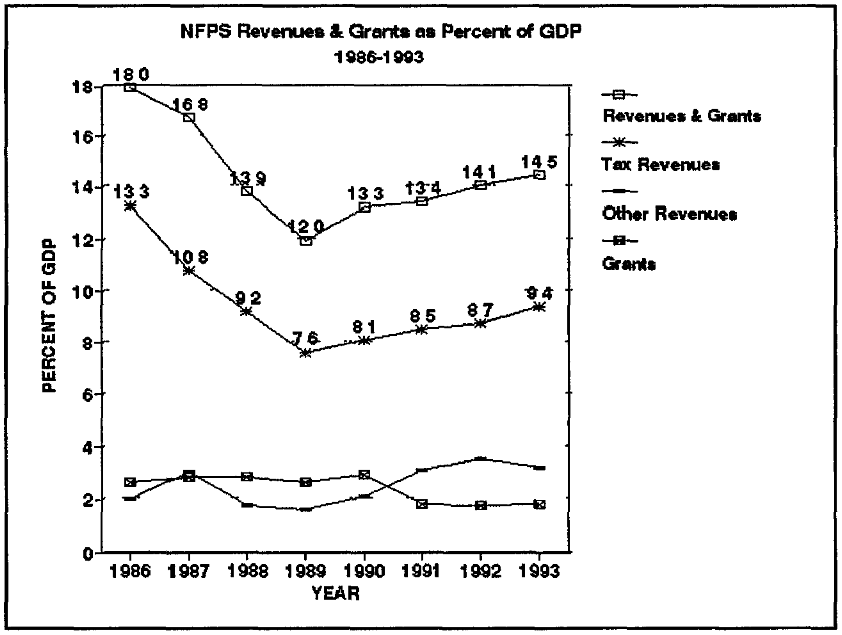


In 1991, interest payments more than doubled due to a public sector debt consolidation exercise in late 1990, and transfers to the energy parastatal surged because of higher operating losses due to poor pricing policies, the use of more expensive thermal generation to replace cheaper hydroelectric power whose output dropped due to a severe drought, and the purchase of much more costly electricity from Guatemala. These factors more than offset further revenue gains and continued austerity on other current public expenditures, resulting in a CNFPS deficit of 4 4 percent of GDP

The fiscal balance deteriorated further in 1992 primarily due to a major increase in expenditures required by the implementation of the January 16, 1992 Chapultepec Peace Accords. Additional fiscal slippage occurred as the GOES delayed both introduction of the value added tax (VAT) and public utility subsidy cuts Moreover, net lending to the private sector (to cushion the blow of falling international prices on coffee producers) added almost one full percentage point of GDP to total expenditures for the year Therefore, notwithstanding modest but steady improvement in tax collections, and continuing fiscal austerity on non-peace accord expenditures, the overall CNFPS deficit, excluding grants, jumped to 5 9 percent of GDP, the highest since 1983.

Substantial improvement in fiscal performance was noted in 1993 Benefitting from the first full-year effect of the new VAT, which replaced an outdated and failing turnover tax, as well as tighter tax enforcement and improvements in administration, tax collections rose to 9 4 percentage points of GDP, well above the 8.7 percent recorded in 1992 and nearly two percentage points higher than the 7 6 percent figure for 1989

GRAPH 5

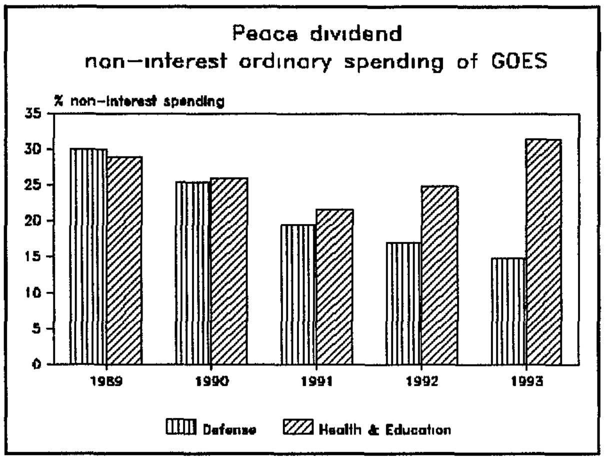


Current expenditures dropped to 11 8 percent of GDP resulting in public sector savings (before grants) of 0 7 percent of GDP Reflecting slower than programmed implementation of public investment projects, capital expenditures dropped noticeably to 4 2 percent of GDP compared to 5 2 percent in 1992 Stronger tax performance, lower investment expenditures, and a sharp decline in net lending brought down the 1993 CNFPS deficit, excluding grants, to 3.3 percent of GDP, 2 6 percentage points lower than the deficit for the year before

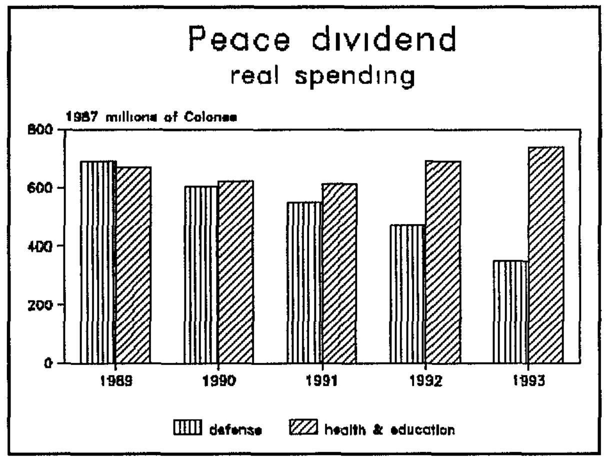
Financing of the CNFPS deficit in 1993 came almost entirely from official transfers (1.8 percent of GDP) and net external borrowing (1.8 percent of GDP). Domestic financing of the deficit dropped to -0 3 percent from a positive 0 6 percent of GDP in 1992 and 2 6 percent of GDP in 1989

Peace Dividend: In 1989, the first year of the current administration, defense spending made up 30 percent of non-interest ordinary spending of the GOES The amount was about ¢700 million, in 1987 Colones At the same time, about the same proportion of the budget and the same amount of money was devoted to education and health (including social assistance) Since 1989 the amounts and budget shares devoted to defense have been declining Indeed, between 1989 and 1993 defense spending has declined from 30 percent of non-interest ordinary budget to less than 15 percent In real terms, defense spending declined by about 40 percent over the period

GRAPH 6



GRAPH 7



It was not until 1992 that education and health spending started to rise in real terms, i e., that there began to be a substantial "peace dividend" in terms of rising social spending Together they rose from 22 percent of non-interest spending in 1991 to over 30 percent by 1993 This translates into a real increase of about one-sixth during the same period.

The 1994 budget holds defense spending to last year's level in nominal terms This translates into a decline in its share of non-interest spending to about 12 percent and represents a real decline of about 8 percent. Meanwhile, health and education spending are slated to maintain their share in non-interest spending, which translates into a real increase of about 15 percent.

Although the GOES has a long way to go to cover the dire social needs of its population, especially its poor, it is certain that without the peace the country is now enjoying and its budgetary "peace dividend" this progress in social spending could not have come about

Money and Credit: Over the last four years, the GOES has successfully managed a generally austere monetary program. With the exception of 1992, when net domestic credit growth exceeded 30 percent, credit expansion has been held in check In 1993, overall net domestic credit growth slowed to 18 percent. The growth rate of net domestic credit to the public sector dropped to 1 2 percent in 1993 from 15 3 percent in 1992 and an average of 33 percent for 1990-91 This enabled more credit to be made available for private investment and production In 1993, net domestic credit to the private sector grew by 17 percent and accounted for 83 percent of overall net domestic credit expansion for the year Growth in the basic money supply (M1) slowed to 17 5 percent in 1993, a significant drop from the 31 0 percent growth in 1992 Also, the broad money supply (M2) grew by 26 4 percent in 1993 after expanding by 33 0 percent the year before

Interest-rate liberalization over the past two years has contributed to a significant change in the composition of the monetary aggregates The basic money component (M1), consisting of currency in circulation and sight deposits, increased from 8.6 percent of GDP in 1991 to 9 9 percent in 1992 and then declined to 9.6 percent in 1993 The quasi-money component (M2 less M1), consisting of savings and time deposits, showed a marked expansion from 16 7 percent of GDP in 1991 to 19.8 percent in 1993, a clear reflection of greater public confidence in the financial system

Balance of Payments: El Salvador's exports, which had more than halved from $1,133 million in 1979, the country's record year for export revenue, to $498 million in 1989, jumped 17 percent in 1990 to $582 million. However, in 1991-92 export growth stagnated, primarily due to sharply declining international terms of trade, mainly because of lower coffee prices The $598 million export figure for 1992 was only 53 percent of the 1979 figure Export performance has been affected negatively by the real appreciation of the exchange rate, which has resulted primarily from surging family remittances and capital inflows In 1993, exports rose to $731 7 million, reflecting both greater volumes and improved prices for coffee as well as an 18 8 percent increase in nontraditional exports Drawback exports, considered as services and therefore not included in the merchandise export totals, grew over 375 percent from $15 million (net value added basis) in 1989 to $71.1 million in 1993

Notwithstanding the strong export growth achieved in 1990 and 1993, a major surge in imports has widened El Salvador's merchandise trade deficit to a sizable $1.2 billion, or 15.5 percent of GDP Reflecting stronger economic growth and El Salvador's more open trading regime, merchandise imports nearly doubled (in current dollar terms) from just over $1 0 billion in 1988 to $1 9 billion in 1993 El Salvador's imports from the United States more than doubled from $377 million to $885 million over the same period

El Salvador has had little trouble financing its huge trade deficit in recent years Continuing high levels of official transfers, along with increased family remittances, private capital inflows and official external borrowing, have enabled El Salvador to improve its net international reserve position to $645 million at the end of 1993. El Salvador's gross official reserves are equivalent to 4 4 months of imports of goods and is almost $400 million higher than in 1989

Since the beginning of the reforms in 1989, the nominal Colon/U S. dollar exchange rate has registered a 43 percent cumulative depreciation However, in real effective terms, the exchange rate, after a noted 18 percent depreciation during 1990, has appreciated by 19 percent since January 1991, a result of surging family remittances and capital inflows This has caused concern regarding El Salvador's international competitiveness, but given the medium- to long-term nature of family remittances, there are few good policy options for the authorities, as has been demonstrated in a thorough analysis of this issue by Dr Arnold Harberger (UCLA) In order to achieve a depreciation in the **real** exchange rate, policy measures which affect **real** economic variables, as distinct from financial, must be pursued Such measures would include a reduction of the public sector deficit and of its foreign financing and further reductions in the effective rate of tariff protection Nominal devaluations not backed by changes affecting real variables would only result in successive rounds of devaluations and higher inflation. Some exporters could realize temporary windfall profits, but El Salvador's overall economic efficiency and export competitiveness would suffer

B. Social Development

In tandem with its economic reform program, the GOES in 1989 initiated a program to reduce poverty The program was based on a three-part strategy (1) increase economic growth in order to provide greater opportunity for productive employment, (2) improve the delivery of education and health services to enhance the ability of poor people to take advantage of the new opportunities made available by an expanding economy, and (3) provide a social safety net for those not able to improve their income generating capabilities

1. Economic Adjustment and Growth

As described in Section A above, the first component of the GOES poverty alleviation strategy has been highly successful The economic adjustment process in El Salvador over the last four years has created a macroeconomic environment with better incentives and support for lower-income groups to become more productive, and therefore has increased their incomes. Four consecutive years of accelerating economic growth have increased employment by as much as 120,000 jobs, reducing the open unemployment rate from 10 percent in 1990 to below 8 percent in 1991 and 1992.

This growth has also contributed to a reduction in poverty rates and improvements in other social indicators The proportion of urban households reporting incomes below that required to purchase a basic basket of goods and services and, therefore, considered to be living in relative poverty declined from 55.5 percent in 1989 to 53 7 percent in 1992. However, regarding those living in absolute poverty, i.e , those households where the combined income of all members is less than that required to buy a basic food basket, there has been little change over the last three years, with the proportion holding about steady at 23 percent These figures are based on official data obtained through the Multipurpose Household Survey, and, due to substantial under-reporting of income, they overestimate the extent of poverty However, trends observed with the survey data are likely to reflect real trends. No data are available on recent changes in rural poverty, but increases in basic grains production suggest that rural poverty rates may be falling

Other social indicators where recent improvement has been noted include urban homes with piped water -- up to 65 percent in 1992 from 58 percent in 1989, urban homes with indoor toilets -- up to 53 percent in 1992 compared to 48 percent in 1989, and urban homes with electricity -- up to 89 percent in 1992 from 84 percent in 1989

2. Education and Health Services

The second component of the GOES poverty alleviation strategy includes programs and activities to improve the educational status and health conditions of the poor and hence their capacity to respond to the increased opportunities for productive employment.

Traditionally, the main factors that determined the quality of education services available to citizens have been socioeconomic status and rural vs urban residence. The Ministry of Education (MOE) has been addressing both factors through a variety of programs, using ordinary budget resources and international financing. First, several training programs (CAPS and SABE, financed by USAID) have specifically addressed problems faced by low-income students by providing special training for their teachers Other programs, like EDUCO, permit local parent groups to hire and supervise the teachers in area schools. These programs help address problems such as access and community involvement, especially those faced in low-income rural areas, where SABE has provided critical inputs such as textbooks and other materials SABE is developing a new curriculum, providing textbooks and educational material The MOE is providing additional funds to rural areas, especially ex-conflictive zones, through an innovative program called District Funds This program allows communities to identify their particular educational needs and secure funds to address them Second, the urban/rural problem has been addressed by the MOE's dialogue with schools in the ex-conflictive areas formerly cut off from the official educational system. Specifically, materials are being delivered, some teachers have been trained, and the MOE is working to upgrade the skills of unofficial teachers, or "maestros populares." Currently, the Concertacion Educativa (an umbrella group representing some 40 FMLN NGOs involved in education) and a technical team in the MOE's Department of Planning are refining a proposal to train over 1,000 "maestros populares" USAID has worked to facilitate the development of the proposal through regular meetings with both groups, making clear its intention to support the consensus training plan The proposal offers distance education opportunities to maestros populares, first to raise academic levels and subsequently to provide teaching credentials to facilitate their qualification as recognized MOE teachers The MOE and the Concertacion working together have nearly completed a field verification of location and academic levels of the maestros populares

As in education services, health care services have also traditionally reflected major discrepancies based on socioeconomic status and residence, with San Salvador residents having greater access to higher quality health care services than those in other urban areas, those in rural areas have had less access to health care, and quality has been lower. The recent civil conflict exacerbated these differences The Ministry of Health (MOH), using ordinary budget resources and international assistance, and in cooperation with the NGO community, has worked to reduce this gap in health care services

* The MOH has strengthened its ability to deliver health care services by initiating the decentralization of certain functions to the Regional level, initiating the first steps of a cost recovery plan, and improving the national commodities and logistics systems (USAID financed APSISA Project) The latter effort has enabled even rural health posts and centers to receive medicines and supplies on a timely basis Increasing its own budget for medicines and supplies and using coordinated donor aid from USAID and the World Bank to purchase them has greatly increased levels of medicines and supplies to amounts approaching adequate.

* Increasing the number of trained community health promoters nationwide and training midwives (APSISA Project), with a special focus on those in rural and ex-conflictive areas, has greatly enhanced community awareness and use of basic health services

* Focussing on the repair and reconstruction of the water and sanitation systems of health facilities in ex-conflictive zones (APSISA Project) has supported the work

of the community health promoters by enabling them to make referrals

* The MOH has focussed on nutritional deficiencies in 78 high-risk rural municipalities with World Bank financing. These municipalities were identified using a height and weight survey Medicines, vitamin A supplements, iodized salt, child growth monitoring, nutrition education, and basic equipment for midwives have been provided to these high-risk rural locations.

* The MOH has worked well with the health NGOs to train their health promoters and support their placement in rural areas difficult for the MOH to serve.

* The MOH has increased its focus on specific health interventions that have helped reduce infant and child mortality Specifically, through the APSISA Project, the malaria incidence has been greatly reduced and the use of oral rehydration therapy to treat diarrheal diseases has greatly increased In concert with UNICEF, the immunization of children has reached record levels

* Finally, the MOH participated in a national health sector assessment with the ISSS, NGO community and commercial sector, which will be the basis for future health sector policy and program reform The results of the health sector assessment have been presented in numerous open forums that have been permitted ample citizen participation

3. Social Safety Net

A vital complement to the first two components is the implementation of social safety net programs for those poor groups who do not benefit immediately from the new opportunities resulting from the economic adjustment program, and those who are not able to improve their income-generating capabilities in the short run even with better health and education services It is interesting to note that these social safety net programs have been implemented by decentralized entities, i e , not through central government ministries Indeed, these programs have depended greatly on local communities, municipal governments and the private sector for much of their implementation The main components of the GOES social safety net program include the following:

Municipalities in Action Program (MEA): The largest of these safety net activities has been implemented by the USAID-funded MEA program, in great part executed by local governments Through this program, members of poor communities gather in open town meetings ("cabildos abiertos") to establish local investment priorities from which specific projects are chosen to be implemented. In 1991, MEA completed approximately 480 education, health, and potable water projects and other employment-generation activities In 1992, over 900 new projects were added outside the National Reconstruction Program (NRP) An additional 1,297 activities were implemented in 1993, also outside the NRP Overall, MEA activities have benefitted over 2 million low-income individuals during the economic adjustment period

Social Investment Fund (FIS): In 1990, the GOES created the FIS to finance small-scale, labor-intensive projects identified mostly by NGOs and local community groups. The projects are targeted to the poorest areas of the country and are designed to promote domestic production, including local investments in infrastructure and occupational training, as well as to help low-income groups meet their basic education, health and nutritional needs From 1991 to 1993 the total value of FIS projects implemented reached $64 million. These resources financed vocational training for about 14,000 individuals, reforestation of about 1,000 acres, 94 nutrition projects benefitting about 25,000 children, construction of 86,000 latrines, provision of 70,000 fuel-efficient stoves, and construction and equipping of about 3,000 classrooms and 44 health centers Through the implementation of these 3,192 projects, FIS has contributed to the creation of about 20,000 jobs The principal source of funds for the FIS has been the IDB, with additional contributions from the European Union and several bilateral donors

National Reconstruction Plan (NRP): With the advent of peace, the GOES initiated implementation of its $1 4 billion National Reconstruction Program (NRP) to rebuild the country, and to reintegrate formerly conflictive areas into the growing national economy The first two years' focus was to assist the transition of ex-combatants to enjoy the benefits of the peacetime economy by providing training, employment, and other benefits The focus of the NRP in 1994 is to broaden basic health and education services to the formerly conflictive areas, to continue the transfer of land to ex-combatants and small farmers; and to rehabilitate the country's war-torn infrastructure To date, USG assistance represents more than 80 percent of the total donor contributions to the NRP

During the NRP's first two years of operation, the following have been accomplished

* Nearly 2,000 small-scale social and economic infrastructure projects have been initiated in the 115 municipalities in the ex-conflictive areas targeted by the USAID-funded MEA program These projects include more than 20 schoolrooms, more than 35 health posts, almost 150 community buildings, almost 500 rural roads, about 50 potable

water projects, and 120 electricity projects.

* A program has been initiated to provide land to 22,000 ex-combatants and 25,000 poor squatters. To date, approximately 94,000 acres of land have been negotiated for and approved for sale to more than 14,000 beneficiaries Of these, approximately 60 percent are FMLN ex-combatants, 20 percent ESAF ex-combatants, and the remainder, squatters

* Agricultural starter packages were provided for 7,500 FMLN and 1,200 ESAF ex-combatants who chose agriculture for their livelihoods Household furnishings were provided to 10,100 FMLN ex-combatants About 4,200 ESAF ex-combatants have received vocational/agricultural training

* A total of 112 NGOs are participating in the National Reconstruction Program, some of which are administering more than one type of project. Of these, six have their principal office in the United States, and the rest are local organizations.

* More than 75,000 personal identification cards (cedulas) have been provided, allowing the beneficiaries to register to vote

* More than 35,000 people have received agricultural or microenterprise credit,

* 4,000 teachers have received training, 1,450 schools have been provided equipment and supplies, and 150 classrooms have been rehabilitated or reconstructed, extending the benefits of education to areas that were underserved in the past Approximately 120 health facilities are being supplied regularly with medicines

C. <u>International Support</u>

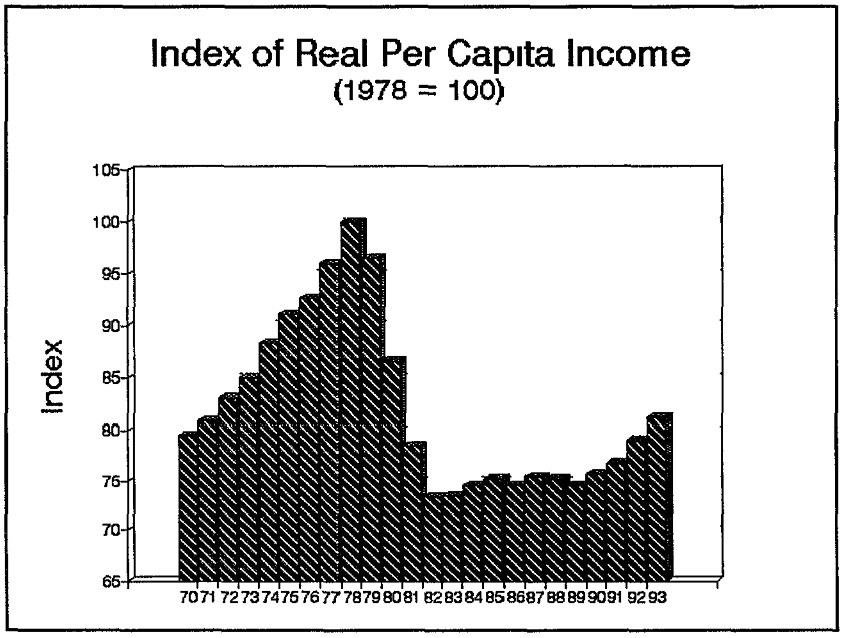
El Salvador's improved economic policy framework since 1989 has opened the doors to increased cooperation and support from major international lending agencies and other donors Since 1990, three IMF stand-by arrangements supporting monetary and fiscal stability and rational exchange-rate policies have been implemented by the GOES The World Bank completed its first structural adjustment loan (SAL I) over the 1991-92 period and is now implementing its SAL II program, which supports structural and sectoral adjustment in the public sector, tax and customs reform, an improved poverty alleviation strategy, and better environmental protection policies The Inter-American Development Bank approved an Investment Sector Loan (ISL) in November 1992 to support policy reforms designed to improve the investment climate by strengthening financial intermediation, increasing savings, modernizing telecommunications, and upgrading infrastructure In early 1991, after major advances in trade liberalization, El Salvador was able to accede to the GATT The terms under which El Salvador acceded were considered to be more open than most, making El Salvador the model for developing nations wishing to accede to GATT

III. PROGRAM RATIONALE AND RELATIONSHIP TO OTHER PROGRAMS

A. Poverty Trends

GDP per capita fell by more than 25 percent in the period 1978 to 1982, and it remained roughly constant until 1990 when it started to rise As a result of the poor economic performance of the late 1970s and of the 1980s, poverty increased during that period The following graph illustrates the trend in per capita income

GRAPH 8



While the data are not perfectly comparable, urban poverty (using the "poverty line" method, and based on the income necessary to purchase two "canastas basicas," i.e. the income per capita that would allow the purchase of two commodity baskets providing minimum nutritional needs per person) increased from 50 percent of the total urban population in 1976 to 61 percent in 1988 Since then, there has been a decline in urban poverty to 54 percent in 1992 These data overestimate the level of poverty because they are based on the Multipurpose Household Survey (MPHS), which most analysts agree underestimates income, but the trends in the data may approximate real trends

The World Bank has adjusted the poverty figures to compensate for the under-reporting of income In their most recent report on this topic, El Salvador--The Challenge of Poverty Alleviation (June 22, 1993) they present the adjusted data For 1992, urban poverty, using the poverty line method, is estimated at 43 percent, compared to 54 percent using the unadjusted MPHS data The World Bank report estimates rural poverty at 56 percent and total poverty at 48 percent

Although there are significant data problems, it can be concluded that poverty increased sharply in the period preceding the economic adjustment program as a result of the economic decline associated with the war, the general crisis affecting Latin America and the inappropriate economic policies followed by El Salvador However, there has been a noticeable, albeit modest, decline in poverty rates since the adjustment program began in the late 1980s

B. Program Rationale

Notwithstanding the recent decline in poverty rates, the poor represent roughly one half of the population of the country, and therefore the greatest imperative in El Salvador is to reduce poverty Additionally, poverty reduction is a necessary condition for maintaining the peace The reduction of poverty will require continued labor-intensive economic growth as well as programs to increase the accumulation of assets by the poor, particularly through an increase in human capital Compensatory programs, designed to provide vulnerable groups a minimum of protection, will continue to be necessary

As discussed in Section II, the GOES has implemented a series of economic reform measures designed to promote economic growth, and these measures have altered significantly the "rules of the game" faced by economic agents As a result, there has been a vigorous response that is manifested in the relatively high rates of growth of the past four years The GOES, however, has made little effort to modernize the state, and this will constitute a critical constraint to future economic growth and will make it very difficult to carry out programs designed to increase the access to assets by the poor Continuing physical infrastructure needs may cause bottlenecks to future economic growth The public sector will not be able to make the needed investments to alleviate these bottlenecks, but structural changes will improve the legal and regulatory framework and encourage the private provision of these services, including electricity, ports, telecommunications, and water.

A more modern state in El Salvador would need to spend more on social programs, but spending also needs to be more productive and better targeted At the same time, the government continues to spend on many unproductive activities and in areas that should be left to the private sector To achieve improved efficiency and effectiveness, a greater role in the implementation of programs should be given to the municipalities and other decentralized levels of government, to NGOs, and to the private sector If services are provided by institutions closer to the beneficiaries, accountability and efficiency could increase, and governance would be enhanced

C. A Participatory Policy Dialogue Process

A major change in the role of the central government is a very ambitious goal, but apart from long-term economic growth it is probably the only feasible way to reduce poverty significantly The policy measures described in Section IV have been designed to reduce poverty through a modernization of the state The USAID Mission recognizes that the implementation of these measures will require the forging of a national consensus on the need to modernize the state, and therefore USAID/El Salvador is financing a series of activities designed to promote a collaborative policy dialogue

These activities include.

1) A seminar on trade liberalization and the modern state, sponsored by ANEP, at which USAID/El Salvador Mission Director Charles Costello, Dr Claudio Gonzalez-Vega and Dr Nicolas Ardito Barletta spoke on the need to modernize the state This seminar took place in November 1993, and was attended by close to 100 legislators and private sector representatives

2) Assistance to the GOES on the formulation of a Five-Year Development Plan. The Plan was completed in early March 1994, and gives the greatest emphasis to poverty reduction and the modernization of the state USAID is now supporting the preparation of a 90-day action plan to implement the priority policy recommendations contained in the Plan While USAID/El Salvador financed a number of the consultants who contributed importantly to the formulation of the Plan, the final product is wholly "owned" by the GOES professionals who worked on it

3) Assistance to FUNDAUNGO to develop a proposal to improve the social security system Technical assistance to FUNDAUNGO is being provided by Dr Carmelo Mesa-Lago, a Professor at the University of Pittsburgh and a leading authority on social security issues USAID supported a seminar sponsored by FUNDAUNGO and where the preliminary conclusions of the social security study were presented Assistance on social security issues has also been given to the Ministry of Planning and to the Central Bank, and USAID is presently trying to obtain assistance to the GOES from an actuary working for the U S Social Security Administration

4) The Mission's Public Finance Advisor recently led a group of Salvadoran officials on a tour of Customs in Mexico, a

country that was able to transform a notoriously inefficient and corrupt government institution The officials were very favorably impressed and have written a document setting a strategy and plan of action for modernizing customs in El Salvador Modernizing customs would result in increased fiscal revenue and decreased corruption, and would facilitate international trade

5) A seminar on February 16, 1994, before the national elections, where the main economic and social policy research institutes (FUNDAUNGO, FUNDE, CENITEC and FUSADES) presented their proposals for the future in three main areas· macroeconomic management, including trade policy, poverty reduction strategy; and the role of the state in society These institutes represent a wide range of economic and social philosophy, and each has strong links to different political parties The presentations by the different local institutes received comments from leading authorities in those fields from the U S , Colombia and Chile The seminar was sponsored by the Centro de Estudios Democraticos (CEDEM), an institution with the reputation of impartiality, and it received support from the International Center for Economic Growth The conclusions of the seminar were published by April, and the document has been quoted widely in the press

The results of this seminar are quite relevant for determining the feasibility of the proposed 1994 ESF Program There was general agreement that poverty was the key issue facing El Salvador, and that the social sectors had been neglected Therefore, the next administration had to increase resources to those sectors sharply There was also consensus that the delivery mechanisms for social services were grossly inefficient and centralized, and that decentralization and the modernization of the state could contribute to efficiency and to greater citizen participation On decentralization, some concern was expressed that a large number of the municipalities in El Salvador, because of their small size, may be unable to manage programs efficiently All institutes felt that privatization was necessary but that adequate regulatory frameworks must be established when monopolies exist, and the privatization process has to be more transparent than in the past There was total agreement that the greatest emphasis on the fiscal side must be to improve tax administration to reduce evasion On commercial policy, some institutes and candidates seemed to favor a return to protectionism to assure self-sufficiency in food production, and one institute did not seem to recognize that small, open economies should strive to avoid fiscal deficits In summary, there was a great deal of consensus on the need to emphasize the social sectors and to modernize the state, but there was less consensus on the need to maintain fiscal discipline and an open trading regime

6) In May 1994, USAID financed a seminar on "Decentralized/Private Solutions to Public Problems." This seminar explored ways in which infrastructure, telecommunications,

education, health and other services can be provided more efficiently by decentralized public institutions, NGOs and the private sector. Papers for the seminar were prepared by Salvadorans, comments were provided by international experts, and the proceedings will be published The seminar was attended by 280 individuals representing wide-ranging views on economic and social policy. It elicited numerous articles in the local press, and it received ample T V and radio coverage

7) A reduction of poverty will require more and better-targeted government spending A study of tax policy and administration was undertaken by a foreign consultant assisted by a professor from the Universidad Centroamericana Jose Simeon Cañas (UCA) Another study on government spending is being undertaken by another UCA professor jointly with USAID/El Salvador's Public Finance Advisor These studies will provide an analytical framework for analyzing the fiscal implications of poverty alleviation programs The results of the studies will be presented at a seminar that will be co-sponsored by the Escuela Superior de Economía y Negocios (ESEN) in August 1994.

8) A study on fiscal federalism was completed in May 1994 Different options for financing local governments were analyzed, and the results will constitute a critical element of the decentralization strategy Specifically, the fiscal federalism study analyzed the viability of a land or real estate tax that would be collected at the municipal level, as well as a system of general and specific grants that would be used to equalize access to basic services among jurisdictions with different resource bases The conclusions of the study have been presented to policy-makers

Additionally, major studies of the education and health sectors have been financed by USAID, with the latter also receiving support from the Pan American Health Organization/World Health Organization (PAHO/WHO), the World Bank and the Inter-American Development Bank (IDB) These are described in the next section

Many of these seminars and studies took place during the pre-electoral period and during the political transition, and therefore the key policy measures supported by the ESF program were the subject of a broad national dialogue before the new administration took office in El Salvador We believe that this approach to the policy dialogue, with greater participation by groups representing a wide range of philosophies about economic and social policy, is conducive to the design of better economic and social policies, and can contribute to improved governance Moreover, replacing the conventional top-down approach used by most donors with one that relies heavily on Salvadorans to carry out most of the research, has contributed to greater local "ownership" of the recommended reforms We expect that this will contribute to greater policy stability

D. Relationship to USAID Technical Assistance Programs

The proposed program complements and reinforces several technical assistance and other activities supporting the Mission's policy dialogue process In 1993, the Mission initiated major sector assessments for education and health. The preliminary results of those assessments have been used to identify proposed policy reform measures geared toward achieving major improvements in coverage and quality of the health and educational service delivery systems to be supported by the FY 1994 ESF program, as well as to define potential project interventions

The Education Sector Assessment, carried out during September-December 1993, used an innovative and participatory methodology to open a national dialogue on education sector reform A technical team composed of the Harvard Institute for International Development (HIID) and two Salvadoran institutions, the private, Jesuit University of Central America (UCA) and the Foundation of Entrepreneurs for Educational Development (FEPADE), worked as partners in the research and writing of the assessment An advisory committee representing a broad spectrum of Salvadoran society worked with the team to provide continuous feedback during the assessment process Now that the study is complete, the advisory committee's role has expanded, with Salvadoran private and governmental organizations serving as leader/promoters to disseminate the study further and recommend concrete reforms in the areas needed.

The Health Sector Assessment, initiated in September 1993 and completed in May 1994, included several unique features a new intensity of donor coordination, inclusion of not just the MOH, but also the Institute of Social Security, health NGOs and the commercial health sector, and local participation and review of the assessment Led and organized by USAID, the World Bank, PAHO and the IDB helped finance the core assessment team and several special supplementary studies Other donors, including UNICEF and UNFPA, participated in the planning and review of the assessment Local Salvadoran participation and review in the process were intense Government interests, including the MOH, ISSS and Ministry of Planning, and NGO and commercial sector interests, were represented in the initial planning and discussion stages, town meetings with local leaders, health and government officials, religious leaders, mayors, health professionals and others were held in 10 locations to review the technical reports, a Leaders Retreat with national-level health and government officials and donors was held to review the initial findings and recommendations and seek consensus, and an informal donors meeting was held in Washington, D C with technical staff, donor leaders and Salvadoran leaders to elicit donor technical review, seek consensus on the issues and recommendations, provide expressions of potential donor interest and support, and discuss the next steps In addition, the final Health Sector Assessment Report was presented at a National Workshop The team leader of the assessment also presented its main conclusions at the USAID-financed seminar, "Decentralized/Private Solutions to Public Problems," which took place in May 1994

The results of the education and health sector assessments form the basis for the design of the Social Sector Reform Project scheduled to start in FY 1995. The Project will strengthen the capacity of the GOES and the private sector to analyze social sector issues, design and test new social service delivery models, and promote needed sectoral policy reforms, including those initiated by this ESF Program The project will involve both public and private institutions and coordinate closely with multilateral and bilateral donors. An appropriate blend of technical assistance and training to help implement sectoral reforms will be provided to the Ministries of Education and Health, the Salvadoran Social Security Institute, training institutions, and NGOs.

The Social Sector Reform Project will build on the policy reform implementation achievements supported by USAID-funded technical assistance provided over recent years to the Ministry of Education (MOE) through the SABE Project and to the Ministry of Health (MOH) through the APSISA Project The SABE Project, in addition to the textbook and curriculum activities described above in Section II.B , assisted the MOE in developing a more appropriate budget format to aid policy makers in improving the allocative efficiency of public resources for education. It also supported activities related to decentralization, increased community involvement, GOES absorption of USAID-funded recurrent costs, and adequate compensation and increased retention of qualified teachers The APSISA Project, as described in Section II B , helped the MOH to decentralize certain health functions to the regional level, and to design and introduce a cost-recovery program.

In addition, the Mission has initiated the Municipal Development Project, which seeks to strengthen democratic institutions at the local level and enhance the financial viability of municipal governments The proposed FY 1994 ESF program continues support initiated with earlier ESF programs for decentralization measures, including those to strengthen municipal finances The program will support a number of actions to increase the efficiency of the education system It complements and reinforces directly the SABE project

Another important area where the proposed program complements Mission TA is public finance. The Mission has mounted a major effort to assist the Ministry of Finance in the modernization of the country's tax system Indeed, impressive gains have been achieved to date in improving the efficiency, effectiveness and equity of the tax regime Still, important policy decisions are required for further actions needed to raise revenues to levels enabling the GOES to finance important social investment programs on a sustainable basis and ensuring that those able to pay taxes do contribute their fair share The proposed ESF program will support fiscal measures aimed at such improvements, and thereby maximize the impact of Mission-funded technical assistance A presentation was made by the USAID-financed technical assistance team to President-elect Calderon and members of his team, and the issue of tax evasion and improved tax administration became a major theme of the inauguration speech by Calderon Sol

Poverty is particularly a rural problem in El Salvador Programs to enhance the human capital of the poor will improve rural productivity and income, and will increase the benefits of the planned Rural Equitable Economic Growth Project (CRECER) This new activity scheduled to start in FY 1995, will support important agricultural-sector policy reforms designed to reduce transaction costs, increase productivity, and raise incomes in the rural sector. It will also strengthen rural cooperatives, producer associations, and other rural NGOs that demonstrate potential to raise members' productivity and incomes, and mobilize grassroots support for key agricultural sector policy reforms.

E. Relationship to Programs of International Financial Institutions (IFIs)

The leverage provided by the FY 1994 NPA program reinforces that contained in the programs of other international financial institutions, particularly the International Monetary Fund (IMF), the World Bank (IBRD), and the Inter-American Development Bank (IDB) As a result of El Salvador's improved economic and social policies and democratic reforms, these institutions have commenced major policy-based lending programs in El Salvador in recent years In addition to continued support for essential economic reforms, all three organizations have placed added attention on social development performance Key areas where the proposed FY 1994 ESF program reinforces measures supported by the IFIs include encouraging the GOES to provide greater budgetary resources to social sectors, decentralization, expanded coverage and improved quality of social services, further progress toward a more equitable and efficient tax system, public sector accountability and anti-corruption measures, actions to improve agricultural productivity and hence the incomes of the rural poor, and steps toward relieving major constraints to sustainable growth in the electricity sector Experience has shown that the additional leverage provided by the Mission's ESF programs can be decisive in achieving the needed policy reforms This is especially important for those measures of particular interest and importance to the USG

F. Relationship to Mission Strategy

The 1994 ESF Program and the series of seminars on Modernization of the State support directly four of the five Mission Strategic Objectives The measures are designed to increase broadly-based economic growth; to improve the health and education status of Salvadorans, with an emphasis on the status of the poorest Salvadorans, to increase the control of ordinary citizens over their lives, thus improving governance and enhancing freedom and democracy, and to reduce poverty, therefore contributing to the transition from war to peace Some proposed measures, such as rationalizing electricity pricing and taxing hydrocarbons, would have beneficial effects on the environment The 1994 ESF Program will initiate policy reforms that will be supported by planned projects in the agricultural and social sectors.

IV. PROGRAM DESCRIPTION

A. Program Design Considerations

A poverty reduction strategy must be based on two equally important elements The first is to promote the productive use of the poor's most important asset, i e labor. It calls for policies to encourage labor-intensive economic growth The second, and equally important, is to assure the provision of basic social services to the poor, which in its turn will raise their productivity and increase their earning power Primary health care, family planning, nutrition and basic education are especially important, and should be available to all Salvadorans with an adequate level of quality.

The two elements are mutually reinforcing; one without the other is not sufficient Additionally, certain vulnerable groups, such as the sick, the old and those who live in regions where the natural endowment is extremely deficient, will continue to suffer deprivation even if the two basic elements of the strategy are followed. Thus, a program of well targeted transfer and safety nets is necessary, particularly in a country such as El Salvador with pockets of extreme poverty in areas where the resource endowment may not permit even marginal increases in income

The Modernization of the State Program is designed to support policies to promote economic growth as well as policies to increase the human capital of the poor Over the past four years the GOES has implemented a comprehensive economic reform program designed to increase economic growth The main economic issues are to avoid policy reversals, and to eliminate some remaining constraints, particularly in the electricity sector Therefore, the Modernization of the State Program will give greater emphasis to the second part of the poverty reduction strategy, i e to measures designed to increase the human capital of the poor, an area where there has been inadequate progress during the past five years While there has been considerable progress in the implementation of the peace accords, continuation of this process is a necessary condition for the successful implementation of the Modernization of the State Program and of all other USAID programs in El Salvador Support of the Peace Accords will continue as a top USG priority in El Salvador

B. Program Goal and Purpose

The program goal is to reduce poverty This non-project assistance (NPA) program will support key policy measures that will result in a modernization of the state. The measures are designed to give a greater role in the provision of services to decentralized institutions such as the municipalities, non-governmental institutions (NGOs) and the private sector We believe that the decentralization of government activities has two dimensions, one economic and one democratic, and they are both equally important. From the economic point of view, it can be expected that decentralization of government programs and empowerment of individuals should improve the allocation of resources, as the beneficiaries of those programs have much greater knowledge of their needs than civil servants sitting in offices in San Salvador Additionally, there is greater knowledge at the local level of the quality of programs, and therefore monitoring would be based on better information From the democratic point of view, allowing individuals to participate in making decisions that affect them in important ways and on a daily basis increases participation in the political process, and promotes democracy in its purest sense

C. The Proposed Program

The proposed program will support policy reforms in six areas social sectors, agricultural sector, electricity, macroeconomics, legal/judicial framework, and the peace accords The unifying theme is poverty reduction through the modernization of the state The program emphasizes support for measures designed to promote decentralization and private solutions to public problems, and to increase equality and participation by all Salvadorans These measures are expected to result in a modern state, more efficient and effective, and what is equally or more important, responsive and accountable to its citizens

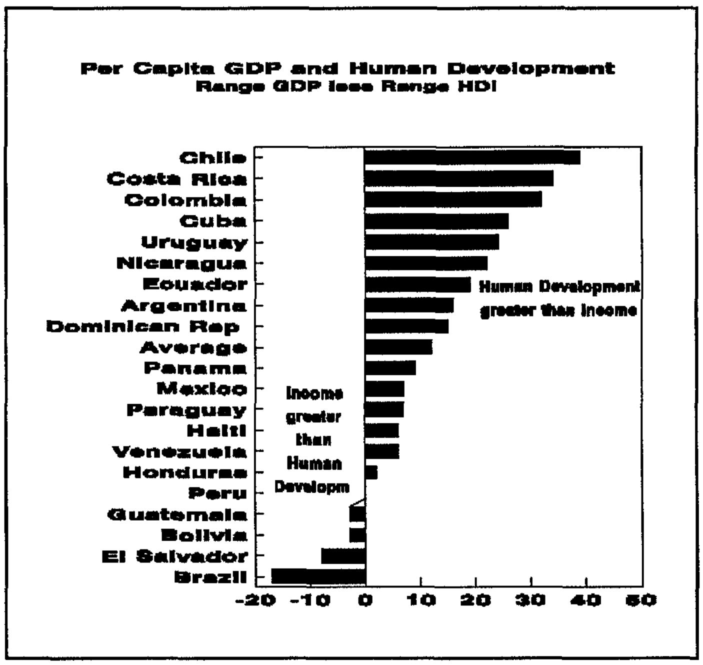
While several policy areas are supported, the focus of the program is on social sector reform This reform is based on four principles. First, priority should be given to interventions that are cost-effective for poverty reduction, such as primary education and basic health services Second, public sector expenditure should be targeted on the poor Third, the effectiveness and efficiency of service delivery must be increased We consider that decentralization, which transfers responsibility for the delivery of services to institutions closer to the beneficiaries, can contribute importantly to increased effectiveness and efficiency. Fourth, public sector expenditures in the social sectors are quite low by international standards and therefore must increase sharply While the "peace dividend" has permitted some increases in social sector expenditures in the past two years, much greater efforts in that direction must be made in the immediate future

1. Social Sectors[2]

In general, social welfare in El Salvador is very low The most recent UNDP report on human development (1993) ranks El Salvador 110 according to the Human Development Index (HDI) In Latin America, the only countries with a lower classification are Nicaragua (111), Guatemala (113), Honduras (116), Bolivia (122) and Haiti (137)

El Salvador's HDI rank is not congruent with its level of per capita national income If one ranks Latin American and Caribbean countries according to the difference between the GNP per capita rank and the HDI rank, El Salvador would be in the penultimate place, just above Brazil (see graph) Brazil, of course, is notorious for having experienced high rates of national income growth that were not accompanied by a significant improvement in the welfare of the majority of its population

GRAPH 9



Social indicators in El Salvador are among the worst in Latin America Infant mortality, despite recent improvements, is 45 per 1,000, and the adult literacy rate is 76 percent for males

[2] Greater detail on social policy issues is given in Juan A B Belt and Anabella de Palomo, El Salvador Política Social y Combate a la Pobreza, April 25, 1994, attached as Annex 2

and 70 percent for females This low level of social development is the result of restricted access to social services by the poor, who are mostly in the rural areas of the country, and the 12-year civil conflict

High mortality rates reflect the inadequate coverage of services -- notwithstanding recent Ministry of Health efforts to expand coverage, only 32 percent of pregnant women and only 29 percent of children under two years of age have access to some health service About 50 percent of children under five years of age suffer from malnutrition, and malnutrition is higher in rural areas The most important cause of death of children under one year of age is diarrhea, the result of lack of access to potable water and lack of knowledge about hygienic practices

The state of education is equally bad, and is characterized by inadequate coverage of primary education and high rates of repetition and dropout In 1992, 75 percent of children did not have access to pre-school, and 24 percent of children between 7 and 12 years of age and more than four-fifths of children between 16 and 18 years of age were not attending school Besides the problem of lack of access, which has a very negative effect on social equity, there is a severe problem with the quality of education children in all grades are receiving low-quality education and are leaving school poorly prepared for productive employment The purpose of the proposed measures is to increase the effectiveness and efficiency of programs and thus reduce the child mortality rate and increase literacy

The most important problems facing the social sectors are

a A high degree of centralization of the Ministries of Health and Education, which is inherently inefficient and does not allow for citizen participation in decisions about issues that affect them importantly and on a daily basis.

b. A low level of internal efficiency of public institutions in health and education, which is manifested, for example, in high repetition and desertion rates in schools

c An archaic and defective civil service system suffering from deficient salary scales, poor hiring practices, outdated job descriptions and ineffective evaluation systems

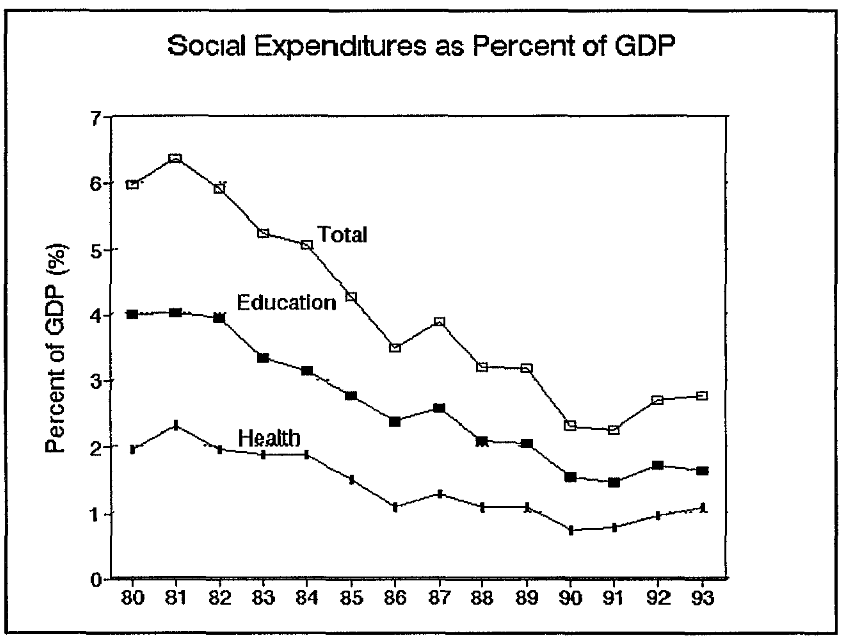
d A system of personnel management that gives very little incentive to improved performance by teachers and health workers For example, teachers in rural areas are absent up to 40 percent of the time

e Too much reliance on foreign financing for inputs such as medicines, books, school materials and teacher training, essential inputs for permitting a minimum level of quality Therefore, as foreign financing is reduced, the sustainability of ongoing problems will be jeopardized unless the efficiency of programs is improved.

f. Ordinary budget resources for the health and education sector deteriorated severely in the 1980s, although that declining trend was arrested beginning in 1991 (see graph below) Health and education expenditures are very low in comparison to other countries, and unless these expenditures are increased sharply, it will be impossible to improve social equity or compete in the global economy

g Budget formats used by the Ministries of Health and Education do not provide adequate information on expenditures by level of service provided New formats are needed to enable policy-makers to monitor progress toward increasing investment priorities to primary education and preventive health care

GRAPH 10



h Low tax effort[3] Notwithstanding recent

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[3] More information on tax issues is given in Juan Carlos Méndez and Lisandro Abrego, Estudio del Sistema Tributario y Arancelario de El Salvador (Annex 8) and in Mark Gallagher, El Salvador's Tax System (Annex 9 in this report)

improvements in tax policy and administration discussed in Section II above, El Salvador's tax collections are relatively low by world standards and well below levels required to finance major improvements in human resources and an adequate social safety net Extremely high marginal tax rates have been lowered to reasonable levels. Moreover, USAID-, IMF-, and IDB-funded technical assistance programs have equipped the Ministry of Finance with a state-of-the-art tax information system and enhanced administrative capabilities These reforms, and recently passed legislation making tax offenses criminal acts, greatly enhance the GOES's ability to pursue delinquent taxpayers To date, however, the GOES has not made full use of these tools. Unless real efforts are made to enforce the tax code, overall revenue yields are likely to decline, and the tax reform efforts the GOES has made, which have been supported with considerable donor assistance, will have gone for nought The GOES must follow through with its tax reform program and quickly demonstrate a solid commitment to tough tax law enforcement Current estimates suggest that the tax-to-GDP ratio could be raised by at least 3-4 percentage points through improved enforcement alone, i e , without increases in tax rates If the GOES fails to make a major effort to reduce tax evasion and fraud, the sustainability of education, health and other social investment activities will be jeopardized In their first meeting with the USAID Mission during the political transition period, President-elect Calderon Sol and his economic team, all stressed their commitment to a much greater effort on tax administration. Moreover, since assuming office on June 1, the new GOES economic team has indicated to USAID that it intends to increase penalties for tax evasion and contraband The new Minister of Finance has also made several public statements announcing heightened GOES efforts to combat tax evasion

i. Financial sustainability of Municipalities As donor funding for municipal development activities subsides, new sources of financial resources are necessary to fund investment in local infrastructure and other municipal projects. Potential sources include property taxes, and specific and general transfers (see Annex 10, Oscar E Melhado and M Gallagher Propuestas para el Federalismo Fiscal en El Salvador)

Program-supported measures to address social sector issues include the following

Decentralization

Objective: Increase the level of citizen participation in decisions that affect them directly

Specific Measures:

- Prepare and approve a national strategy for decentralization and municipal development and prepare an action plan for the implementation of the strategy (The strategy and action plan will include measures deigned to strengthen the financial capacity of the municipalities)

- Prepare tentative decentralization strategies for health and education within the context of their institutional modernization Prepare action plan to decentralize health and education and demonstrate satisfactory progress in its implementation [4]

- Prepare and approve a proposal to simplify the mechanisms for financing decentralized/private solutions for the provision of health and education services

- Approve, initiate, and implement pilot programs for contracting NGOs to offer the minimum health package in priority zones and analyze results

- Develop and initiate implementation of an action plan to strengthen SILOS and to initiate other forms of community participation (This will permit the SILOS to respond to local needs).

- Establish 1,000 new EDUCO sections Initiate a pilot plan using other methods to decentralize education

Increase Effectiveness and Efficiency of the Ministries of Health and Education

Objective: Provide greater coverage in health and family planning, allowing a greater role for health promoters and midwives.

Specific Measure:

- Initiate the necessary administrative reforms to allow a greater role for health promoters and midwives Design, initiate, and finalize a training plan towards this end (This will permit health promoters and midwives to provide primary

[4] Decentralization in the provision of social services aims at increasing efficiency, effectiveness, equity, and participation by allowing capable private and/or governmental institutions closest to the beneficiaries to assume a central role in management and provision of resources While the central government may maintain a normative and facilitative role, to the extent possible management should be delegated to the entity closest to the community with the capacity to provide the needed service The specific form that decentralization takes will obviously vary depending on the service in question and individual conditions within the communities Decentralization may mean delegation of authority at the governmental level to municipalities, districts, or departments, and at the non-governmental level to NGOs, community organizations, and private institutions or firms

health and family planning services which are presently provided by medical doctors, thus reducing the unitary costs of health care delivery)

Objective: Improve the teacher hiring process and give greater incentives for enhanced teacher performance

Specific Measures:

- Present to the Legislative Assembly reforms to the Civil Service Law to improve the flexibility in the management of human resources and provide an adequate system of incentives

- Present to the Legislative Assembly reforms to the Teaching Profession Law to adapt it to the new Civil Service Law The reforms should provide incentives for teachers to specialize in a given level and to teach in remote areas

Strengthening of Social Sector Finances

Objective: Cost recovery in health facilities to provide funds for primary care

Specific Measures:

- Initiate the implementation of a cost recovery program for hospitalized patients in 15 hospitals and 15 health centers. The cost recovery schedule will be based on the type of establishment and will include fixed rates by type of service and according to the patients' socio-economic classification The charges will be commensurate with improvements in the quality of health services

- Satisfactory progress in the implementation of the cost recovery program

Objective: Improve the process of allocation of resources through a better budgeting of the Ministries of Health and Education

Specific Measure:

- Design a new budget format for the Ministries of Health and Education that would permit the allocation of revenues on the basis of services programmed and not on historical allocations. Prepare and submit to the Legislative Assembly the 1996 budget for education and health based on this format.

Objective: Increase resources available for health and education

Specific Measure:

- Increase the budgets for the Ministries of Health and Education with respect to GDP in the 1995 budget (amount to be determined) Increase budget allocations for selected programs in health (with emphasis on primary care) and education (with emphasis on basic education and inputs to increase the quality of education) Ensure that the Ministries of Health and Education have full access to the resources programmed for 1995

Objective: Increase fiscal revenues.

Specific Measure:

- Implement measures to improve tax and customs administration

Objective: Increase municipal revenues so that the decentralization strategy may function

Specific Measure:

- Increase Central Government transfers to the municipalities from 17 million colones to 100 million colones Ensure that the municipalities have full access to the resources programmed for 1995

2. Agricultural Sector

The current laws governing agricultural cooperatives are inconsistent and antiquated They reside in different bodies of law--civil, commercial, and agrarian--and govern almost every aspect of cooperative life and operations This paternalism and state control restrict the options for innovative association and economic development under the cooperative model

The agrarian reform cooperatives, in particular, were founded with a number of structural limitations Most importantly, they were not given full title to the land, so members do not have the normal entrepreneurial options of renting out part of the land, mortgaging it, or selling all or part of it In addition, although the cooperatives are joint enterprises, the mechanisms for distributing earnings and capturing profits are restricted by law, adversely affect profit retention, and make it extremely difficult to capitalize the cooperative As a result, the incentives for investing time and financial resources in the cooperative are practically nil

Other laws are equally prejudicial to sound enterprise management within the cooperative system. One law, for instance, requires that all cooperatives submit annual statements to be reviewed and approved by the Ministry of Agriculture's Office of Agricultural Associations Another law requires that all members of the Board of Directors of agricultural cooperatives be elected every two years. There is no provision for staggering membership and re-election is restricted Consequently, every two years, all cooperatives suffer a complete turnover in board membership and loss of continuity in management

These paternalistic and excessive controls that currently encumber cooperatives are constraints to using them to solve a variety of problems, rural and urban. During their recent visit to El Salvador, the Board of Directors of the National Cooperative Business Association (NCBA-CLUSA) identified antiquated and inappropriate laws as "the major constraint to cooperative development in El Salvador "

The Program will support the modernization of the legal and regulatory environment governing agricultural cooperatives to incorporate market-oriented principles and facilitate the formation of for-profit service cooperatives The GOES will develop a strategy statement and action plan to make agricultural and agrarian reform cooperatives economically more competitive. Subsequently, legislation will be drafted aimed at

-Reforming Decree 297 and Decree 747 to remove all restrictions that currently prevent an agrarian reform cooperative recipient from leasing, renting, transferring (except because of death) or encumbering his property

-Reforming Decree 124 to remove the restrictions and guidelines currently affecting the use and distribution of cooperative funds and profit retention, and

-Reforming Decree 124, Article 33 to require the re-election of the Cooperative Board of Directors (Consejo de Administracion) every 4 years, rather than every 2 years, and permitting board members to be re-elected for 2 consecutive terms The Board election procedures will be restructured to ensure a staggering of board members subject to re-election at any one time, thereby ensuring that an entire board is not replaced at once

Agricultural Cooperative Development

Objective: Modernize the legal framework governing agricultural cooperatives to increase their ability to compete with private sector firms

Specific Measure:

- Identify legal reforms required to modernize and rationalize legal and regulatory framework governing agricultural cooperatives. Prepare and present to the Legislative Assembly draft laws to modernize and rationalize legal and regulatory framework governing these cooperatives

3. Electricity

To compete in the global economy, entrepreneurs and workers in El Salvador will require reliable electricity

For the economy to grow at 5-6 percent per year during the next 15 years, it has been estimated that an investment of about US$1 7 billion (on a present value basis) will have to be made in the electricity sector In the past, CEL, the state-owned power company, has not demonstrated that it can implement an investment plan of that magnitude, and therefore it is likely that economic growth will be constrained unless a greater role is given to the private sector in the electricity sector

Electricity rates are much lower than costs The implicit subsidies received by the users are regressive, that is, they benefit higher-income households more, as the poor consume relatively less electricity Yet these services are so poor and unreliable that they require businesses to spend large amounts on alternatives Thus, reform of these sectors would lower costs of business, hence raising the country's competitiveness

Research by the World Bank suggests that sustained private investment in utilities will take place only if an adequate regulatory system is in place Only then will there be a credible commitment to a set of rules that would protect private investors against capricious administrative action and society against monopoly power

Modern regulation of utilities, as practiced in the United Kingdom and Chile, depends less on regulatory bodies and relies more on market-based competition [5] In electricity, for example, those two countries have liberated the markets for electricity generation, have established rules for transmission, and have instituted regulation mechanisms for electricity distribution, particularly for small consumers. A regulatory framework for El Salvador along those lines would require passage of a legislative package that may include up to three laws. Drafting of this legislation was supported by the 1993 ESF Program The USAID Mission has coordinated closely with the World Bank in this area. Following on the legislative approval of the new

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[5] The rationale for an improved regulatory framework for the electricity sector is given in Juan A B Belt, Monopoly Regulation Some Economic and Institutional Aspects with Particular Reference to the Electricity Sector, LAC Bureau, Development Issues Discussion Papers No 5, May 1994 (Annex 11)

regulatory framework, the next step would be the reprivatization of the electricity distribution companies, the privatization of the thermal plants owned by CEL (the state-owned electricity company) and the adjudication of at least one concession for electricity generation by the private sector It is expected that privatization actions will be part of a planned World Bank power sector loan

A more modern electricity sector will contribute to sustainable economic growth, but achieving this objective will require a greater role for the private sector Additionally, the funds obtained from privatization can be used to finance investment programs in the social sectors, particularly those targeted to the poor For example, selling only one of the distribution companies (CAESS) could yield about US$35 million

Program-supported measures to address these issues are

Regulatory Framework

Objective: Establish a regulatory framework favoring private investment in electricity

Specific Measures:

- Submit to the Legislative Assembly all legislation necessary to encourage greater private participation in the sector Good-faith effort to obtain their approval

- Prepare regulations to make operative the laws encouraging a greater private participation in the sector.

4. Macroeconomic Framework

The maintenance of an adequate macroeconomic framework is absolutely necessary to guarantee the success of the growth-promoting policy measures described above. Additionally, the most immediate result of a failure of macroeconomic stability is higher rates of inflation, and inflation has its greatest negative effect on the poor, as currency constitutes a large proportion of their total assets The condition of an adequate macroeconomic framework has been included in the 1994 Program essentially to encourage the avoidance of major policy reversals

5. Legal/Judicial Framework

Since 1992, the USAID/El Salvador ESF Policy and Democratic Reform program has included conditionality measures related to structural, legal and policy improvements in the administration of justice Substantial progress has been made through the combination of policy leverage provided by the ESF Program and technical assistance available under the Judicial

Reform I and Judicial Reform II Projects. Specific measures include the drafting and presentation of numerous legal reform proposals to the Legislative Assembly, the enactment of the Public Defenders Law, increased resource allocations and salaries for prosecution, public defense and the court system, and the integration of the Special Investigative Unit into the National Civilian Police The momentum of the reform process, now being guided by Salvadorans, must be maintained by the new administration in 1994 Good-faith efforts by the administration to support enactment of the legal reforms to the criminal and criminal procedure codes and the provision of adequate budget resources to maintain existing programs and implement the new laws such as the Family Code are essential to building citizen confidence in democratic systems and maintenance of the peace. The condition of maintaining momentum of the legal and judicial reform process is included to encourage further important reforms and avoid policy reversals.

6. Peace Accords Issues

The NPA will support GOES efforts to continue to implement the Peace Accords and further consolidate the peace process

a. Efforts to Consolidate Democratic Reforms and Initiatives

(1) Background

The deepening of the Salvadoran peace process and strengthening of key democratic institutions continued during 1993, with reforms in the judicial system and labor code, the training and deployment of a new civilian police force, a widened role for the Human Rights Ombudsman, prompt government support for investigation of crimes where political motivation is suspected, and a growing tolerance for open debate and political opposition -- highlighted by the open and actively competed electoral contest in March and April 1994

These national elections were undoubtedly the major public event to mark the consolidation of democracy in El Salvador, culminating in the peaceful transition to power of a new political administration committed to continuing President Cristiani's leadership of the peace and national reconciliation process, and bringing significant representation of the once-armed opposition, the FMLN, into the Legislative Assembly and local governments in several municipalities While falling short of universal voter registration, and also encountering logistical and other problems at the polls, the effective registration rate of 90 percent of eligible voters, and actual first-round turnout of some 55 percent of those registered-- in absolute terms 40 percent more voters than in the last presidential election in 1989-- marks a watershed in democratic participation in Salvadoran civic life

A large number of non-governmental organizations and community associations have appeared since the signing of the Accords Throughout 1993 they initiated new activities to represent citizens' interests, advocate policy change, or deliver basic services Under the new, post-electoral legal framework, debate on social and economic reforms for continued productive growth and equity has continued, and several key legal reforms and/or programmatic initiatives have been made that help to consolidate the peace process and strengthen key democratic institutions

- Progressive transfer of police powers to the National Civilian Police (PNC), trained in police duties and human rights obligations in the new National Academy for Public Security and recently deployed in all of the country's 14 departments, and agreement between the GOES, FMLN, and U N Observation Mission on a new timetable to complete demobilization of the old police force, and to establish close civilian disciplinary oversight of the PNC

- Justice sector reform, including the revision of basic legal codes to modernize the legal structure, while including a more explicit recognition of basic human and legal rights, organizational reforms to improve the effectiveness of the independent Attorney General's office and the Office of Public Defense, and structural and legal reforms to the judiciary, to increase its overall independence and effectiveness, as well as that of individual judges, within a rule-of-law framework

- A new Labor Code, passed by the Legislative Assembly in April 1994, meeting labor's demands to bring the benefits of trade unionism to new categories of workers and guarantee the right to organize by agricultural workers The Code amplifies protection to union members, and establishes a National Labor Council to promote debate and consensus on labor-related social and economic issues

(2) Progress to date

The April 1994 report of the UN Secretary General notes that remaining military issues stemming from the Peace Accords have been substantially resolved demobilization targets have been met and severance pay for demobilized military personnel will be completed in the coming months Another central concern to the peace process, and a prime factor in public confidence with regard to the guarantee of citizens' rights and the probity of government, has been the training and deployment of the

National Civilian Police (PNC) to replace the National Police, which was frequently accused of human rights abuses in the pre-Peace Accords period

The PNC may be considered the most important new institution created by the Peace Accords and, since its first deployment in March 1993, it has been well received by the public Training of PNC recruits at the National Academy for Public Security (ANSP) accelerated in 1993, reaching a total of 4,500 graduates by June 1994, the original target of 5,700 trained PNC officers is expected to be reached by October 1994. PNC units have been deployed in all fourteen departments of the country, and, in a timetable agreed to by the GOES, the FMLN, and ONUSAL in May 1994, the PNC will replace National Police contingents where jurisdiction is still shared, by January 31, or at the latest, March 31, 1995 The GOES is about to appoint an Inspector General with legal and human rights training USG support for the International Criminal Investigation and Training Assistance Program (ICITAP) of the Justice Department will continue to provide training at the ANSP, and technical assistance to the PNC's Control and Disciplinary Investigation Units

Progress in the area of **justice sector** reform has continued apace over the past year, though much remains to be done Technical progress will need to be bolstered by legislative resolve, since currently the passage of new laws lags behind the drafting process Nonetheless, the GOES now has a series of draft laws revising major legal codes under public discussion, with key pieces having been approved by the Assembly The outgoing Assembly, moreover, approved several constitutional amendments which, if ratified by the current Assembly, will strongly reinforce due process in El Salvador Chief among these is the elimination of extra-judicial confessions

Key legal reforms include a law on Public Defense (guaranteeing a detainee's right to a public defender), a new Family Code (which substantially improves the legal rights of women and children), and a Juvenile Offenders' Law Drafted and under public discussion, but still not before the Assembly, are reformed Criminal and Criminal Procedures Codes, and new Family Procedures and Administrative laws The GOES has also begun work on a new Civil Procedures Code and a new Commercial Code Passage and implementation of the Family Code has furthermore allowed the GOES to establish a procedure for coordinated implementation of new legislation, something which will become even more important when the criminal legislation is approved

Progress has also been made in efforts to professionalize and depoliticize the judiciary and other sector professionals, and to reduce vertical Supreme Court control of judicial officials The National Council for the Judiciary (NCJ) has been in operation for over a year, and during this period has completed the preselection for roughly 300 Justices of the Peace, 42 candidates to the Supreme Court, and a number of mid-level judges The NCJ has completed its first mandated evaluation of all 600 seated judges, and is, with external assistance, developing an in-service training program for all sector professional and administrative staff By the first quarter of 1994, 600 professionals had received training, and an estimated three times that number will be trained over the rest of the year While efforts to increase the Council's powers by way of constitutional amendments did not succeed, parallel efforts did result in a proposed amendment which, if ratified, should bring the NCJ closer to effective financial independence

Another amendment approved by the outgoing Legislative Assembly, and subject to ratification, creates a new Council of Lawyers and Notaries to apply disciplinary measures (including disbarment) to lawyers, a function now held by the Court. If ratified, this measure will reduce outside pressures on lawyers in the conduct of judicial and other professional duties.

In a November 1993 report, an ILO specialist recommended changes to 49 articles of the previous **Labor Code** to meet international standards for the protection of workers' rights Subsequently, the Socio-Economic Forum, grouping business, labor, and government, reached consensus on 41 of these articles, which were incorporated into the revised labor code proposed by the GOES and passed in April 1994 by the Legislative Assembly Two new categories of unions proposed by labor groups were created, one of "independents", including self-employed workers, a category which allows for the possibility of sector-wide unionization of agricultural and seasonal laborers, and another for "various enterprises "

The new code also amplified protection from summary firing for union board members and extended it to other union promoters. In addition, it created a National Labor Council to institutionalize dialogue and promote labor-management discussion and consensus on social and economic issues. Not all labor factions were satisfied with the labor code passed in April, seen by some to be overly restrictive in securing rights under the "various enterprises" category, for example. However, in a review of the code, the ILO has stated that the code adequately protects workers' rights In the post-electoral period, the focus of discussion has largely shifted to the means to strengthen other parts of the code, and to improve its application by public authorities

The several legal and institutional reforms, and growing experience in new forms of democratic participation during the past year-- both the formal electoral process and an increasing involvement by Salvadorans in the many NGOs and the community and workplace associations that have taken root in the richer soil of El Salvador's civil society-- increase the chances that peace will endure and that democracy will flourish in El Salvador. At the same time, and despite increasing political integration, not all historical causes of the conflict have been wholly overcome, nor have all Salvadoran institutions adapted adequately or come to be perceived by citizens as fully open, effective, and accountable

(3) Main Constraints

(a) The National Civilian Police

Despite its successes since first deployments in generating new public confidence and improving the security situation, training for the PNC at its National Academy is still deficient in some aspects, and must be accelerated to meet agreed deployment target dates An absence of fully transparent procedures to select and promote PNC agents and Academy personnel still compromises public confidence in the institution The GOES, in addition to meeting agreed deployment targets, must also satisfy concerns that transfers from among former public security personnel, the Special Investigative Unit (SIU) and Special Narcotics Unit (UEA), meet agreed limits and criteria for placement and rank.

(b) Justice Sector Reform

The justice sector reform process continues in a critical stage Considerable momentum has been achieved in recent years, from the 1991 Constitutional reforms through the legal reform efforts and educational programs in 1992 and 1993 The Constitutional reforms in particular addressed some important structural constraints to the fair and impartial administration of justice -- notably through the creation of the National Council for the Judiciary and its screening of judicial candidates, evaluation of seated judges, and maintenance of in-service training for the sector However, here as with the legal reform program, and the various structural changes achieved through ordinary legislation, the process remains only half done Its successful completion will require not only continued and perhaps greater financial and political support from the GOES, but also a willingness to recognize and resolve problems that have emerged along the way One obstacle to continued progress may be a tendency to declare victory and cease forward movement, with the danger that certain reforms become only symbolic achievements

The National Council for the Judiciary, for example, was introduced to resolve problems ranging from political intervention in the selection of the judiciary to the concentration of powers within the Supreme Court Created in 1989, six years after initial inclusion in the Constitution, the NCJ took its current form in 1993, after its structure was modified by the

1991 amendments It has only slowly begun to assume the tasks with which it is charged, and has yet to produce notable differences in the quality of the people it selects, evaluates or trains While the Truth Commission report had recommended still greater functions for the NCJ, concern remains as to whether it can adequately carry out even its current mandate Certainly, this is unlikely if the government does not provide it with an adequate budget One of the constitutional amendments given preliminary approval in May 1994 by the outgoing Legislative Assembly included the NCJ in a four percent mandatory budget allocation to the "Judicial Organ." However, if ratification of the amendment is not buttressed by secondary law to allow the NCJ to prepare and present its budget to the Assembly for separate approval, its independence will remain partial and its activities subject to potential veto by the Court

Similarly, legal reforms to date provide the basis for real change, but definitive change will depend on the effective implementation of legislation Currently, approval of a new criminal code is threatened by concerns that proposed legislation is soft on crime However, the process can be as easily halted by failures to provide the human, organizational and financial resources needed to implement new laws Required is a continued program of support that focuses on such details as overcoming the institutional weaknesses in the Public Defenders' and Prosecutor's Offices to allow them to fulfill their critical roles in new legislation, and providing more financial and other resources to the various parts of the justice system -- not just the court, but prosecution, defense, prisons, police, the NCJ, and the Human Rights Ombudsman

(c) Labor-Management Cooperation

The passage of a labor code meeting international standards for workers' rights, and acceptable to broad sectors of management and organized labor groups, is an important gain The National Labor Council established by the new code represents an important step toward institutionalizing a continuing dialogue to reach agreements between management and labor to solve specific disputes and issues Private groups and specialized NGOs, such as the USAID-supported Salvadoran Labor-Management Foundation, will increase and focus efforts to promote dialogue and work-site activities that demonstrate the benefits of cooperation. However, sustained progress in labor-management relations, and fully effective guarantees for workers, will be constrained by continuing weaknesses at the Ministry of Labor In the near term, the Ministry will need to adapt its Organic Law and organizational structures to meet the mandate given by the new labor code Going beyond these formal changes, the Ministry needs to streamline internal procedures for registration of unions The Ministry must train staff to certify unions and collective bargaining agreements, and to inspect work conditions and enforce compliance with labor code provisions In the long run, the

Ministry will need to adequately compensate and provide career promotion potential to retain qualified staff

b. The Land Transfer Program

(1) Background

The Peace Accords signed on January 16, 1992 in Chapultepec, Mexico, contained dramatic commitments responding to specific requirements for terminating the armed conflict Despite an Agrarian Reform implemented during the decade of the 1980s that distributed more than 415,000 manzanas of land (705,500 acres) to almost 82,000 families, the land tenure profile of El Salvador was still characterized by "minifundismo " Almost 80 percent of all farms were smaller than 3 5 hectares (approx. 8 acres), representing only 15 percent of total farm land The number of landless peasants had increased over the decade, and by 1987 represented 51 3 percent of the total rural population Thus, despite changes in land concentration patterns after the reform, the diversification of agriculture and the character of land use patterns had not been greatly altered

Land and landless were clearly among the principal underlying themes of the conflict The Peace Accords called for the transfer of land to any and all ex-combatants from both sides and "squatters" who so desired and could prove their origins in the rural sector Those same Accords, however, were silent on the mechanisms and specifics of such an enormous land transfer program Difficulties between the FMLN and GOES in reaching agreements on the issue of land distribution led the United Nations force in El Salvador, in accordance with its mandate to insure compliance with the Accords, to offer a proposal for land transfer USAID was a significant player in the design of that proposal Recommending a schedule for land transfers, the proposal was based on a diagnosis of needs and resources that identified 47,500 potential beneficiaries, including demobilized forces of the FMLN and the Salvadoran Armed Forces, as well as landless small cultivators in the area. The total quantity of land required to complete the land transfers was estimated at between 175,000 and 237,500 manzanas (297,500 and 403,750 acres) valued at between $105 and $143 million The proposal recommended implementing the program in phases and provided mechanisms for supervision and monitoring of the process

(2) Progress to Date

Phase I of the Land Transfer Program, which was implemented from October 1992 through May 1994, transferred land to over 14,000 beneficiaries This clearly fell far short of the Peace Accord projections, and the Government, FMLN, and ONUSAL announced a streamlining plan to overcome bureaucratic and administrative problems which had plagued the program. The new plan, known as Phase II, includes the opening of regional Land Bank offices to better locally attend the beneficiary population It also includes the distribution of certificates (Certificados de Asignacion de Tierras) to almost 24,000 beneficiaries. The certificates authorize the beneficiary to personally negotiate the purchase of up to 30,000 colones (approximately $3,500 worth of property) As of June 15, 1994, over 9,000 certificates had been distributed, with the remaining 15,000 to be distributed by the end of July The certificates are valid until April 30, 1995, at which date the GOES plans to officially declare the Peace Accords Land Transfer Program completed The total potential universe of beneficiaries under both phases of the Land Transfer Program is approximately 38,000

(3) Main Constraints

The need to overcome obstacles and accelerate the land distribution has been an urgent priority, and any continued delays should be seen as a serious potential cause of destabilization. Many of the initial constraints have been successfully dealt with The inability (or unwillingness) of the FMLN to produce accurate lists of ex-combatants as beneficiaries of land transfers has been resolved The final lists have been submitted and verified The bureaucratic and administrative constraints encountered by the Land Bank and ISTA, which brought the pace of program implementation to a slow crawl, have been addressed by the creation of Phase II The financial constraints have been resolved by combining donor resources from USAID, the EU, the BCIE and the GOES The major factor that resolved the funding shortfall was a joint programming by the GOES and the USG of $16 5 million worth of local currency generated by the FY 1993 ESF Program into the Land Transfer Program

D. Financial and Economic Analysis

1. Economic Benefits of Proposed Program

The proposed Modernization of the State Program is multisectorial, and its economic benefits are difficult to quantify Essentially, the program goal is to reduce poverty through a modernization of the state The modernization of the state would alleviate some important constraints to economic growth and would increase the efficiency of delivery of key social services, i.e health and education to permit an increase in the human capital of the poor The reduction of poverty will contribute importantly to sustainable economic growth and to the peace process

A key constraint to economic growth is the inadequate supply of electric power The Modernization of the State program will address this constraint by promoting a regulatory environment that would permit much greater private participation in the sector The participation of the private sector is expected to increase the internal efficiency of the sector, reducing unitary costs, and also to save fiscal resources as a large proportion of future investment could be carried out by the private sector instead of the public sector Additionally, the program would support measures to increase the efficiency of cooperatives by permitting them to operate more like private firms. Given the importance of cooperatives in the agricultural sector, increases in their efficiency can contribute importantly to higher levels of economic growth.

<u>The core of the program is social sector reform</u> While rapid economic growth is a necessary condition for poverty reduction, it is not sufficient Poverty reduction also requires increases in the human capital of the poor, i e improved health and education While these improvements in the human capital of the poor could, in theory, be achieved through increases in the allocation of fiscal resources to public institutions, the inefficiency which characterizes those institutions would probably result in a significant waste of resources Any major increase in resources, therefore, must be accompanied by a modernization of the institutions providing social services

The design of the social sector policy reform agenda supported by the Modernization of the State Program was based on four principles. First, <u>priority</u> would be given to interventions such as primary education and preventive health care, which are expected to have high economic rates of return Second, public subsidies should, whenever possible, be <u>targeted</u> to the poor Third, <u>the effectiveness and efficiency</u> of public institutions would have to be improved Fourth, <u>fiscal resources</u> should be increased sharply without jeopardizing financial stability.

The program gives particular <u>priority</u> to the expansion of primary education, which has an extremely high economic rate of return, an estimate of the economic rate of return to primary education in El Salvador exceeds 30 percent (see Annex 1, pp 4-5) The program also will improve preventive health care by supporting a pilot project that would use NGOs to provide those services Additionally, a reduction of subsidies to hospitals (by implementing a cost recovery program) would free some resources that could be used to expand preventive health care. Improved primary health care can reduce the incidence of disease markedly Good health is obviously a crucial part of well-being Additionally, improved health contributes to economic growth in at least three ways it reduces production losses resulting from worker illness; it increases school attendance and improves learning capability; and frees for alternative uses resources that would be used for curative care

The program also supports the targeting of resources to the poor. Targeting would improve the cost-effectiveness of the poverty alleviation strategy supported by the Modernization of the State Program Given the extent of poverty in El Salvador, and the relatively low level of administrative capacity, it has been determined by the GOES (and USAID agrees) that targeting through individual assessment mechanisms would not be feasible generally The only exception would be for the proposed cost recovery scheme in hospitals, which would consider socioeconomic condition as a variable for establishing the fees. The program would support group targeting by emphasizing the expansion of services in rural areas, where the concentration of poverty is the highest For example, the expansion of EDUCO will be exclusively in the rural areas, and the proposed health pilot program and the SILOS which will be strengthened will also be in rural areas. There would also be some self-targeting, as primary health care services and rural schools are not demanded, in general, by the non-poor.

The effectiveness and efficiency of institutions providing social services must be increased The program supports increases in efficiency of the line ministries, and also supports alternative social service delivery mechanisms that are expected to be more effective and efficient that the traditional ones Measures to improve the efficiency of the line ministries include the reform of the civil service law and of the teachers' salary-scale law, increasing the attributions and responsibility of health promoters and the establishment of a programming and budgeting system that would permit improved resource allocation. Measures to promote alternative social service delivery mechanisms include strengthening of SILOS, expansion of EDUCO, decentralization and a greater role for municipalities in the delivery of social services. The effectiveness and efficiency of institutions would free resources that could be used in other productive activities

Concomitant with an increase in the efficiency and effectiveness of delivery mechanisms for social services, the program would support major increases in the health and education public sector budgets The real increases (after accounting for inflation) for health and education have been estimated at 23 percent and 12 percent, respectively These resources would come from increased taxes, the result of improved tax administration, reallocations from other sectors, other areas of the public budget, and from the proceeds of privatization of public utilities Higher levels of public resources would permit an increase in the human capital of the poor, permitting them to increase their productivity and take advantage of the opportunities offered by economic growth Additionally, research conducted by Nancy Birdsall and Richard Sabot (presented at the American Economic Association meeting of December 1993) concludes that lower levels of poverty are associated with higher rates of economic growth

The implementation of the Modernization of the State

Program is expected to benefit 2.5 to 3 million individuals Table 1 presents the estimated beneficiary-level effects of the different measures

TABLE 1
POPULATION BENEFITTED BY MEASURES

	TOTAL (thousands)
Improved financial system effect on existing EDUCO students	53
New EDUCO sections improved education in the poorest areas of the country	30
New students in other modalities	17
Population in region of pilot health program	15
Strengthening of SILOS in Sonsonate and Usulutan	672
Training of 1740 health promoters (1500 inhabitants per promoter)	2620
All users of medicine by public health system	2500

2. Program Impact on Fiscal Accounts

The proposed program includes a number of measures that will have a substantial impact on El Salvador's fiscal accounts during 1995 and beyond Mission estimates indicate that full implementation of the measures supported by the FY 1994 NPA Modernization of the State Program will result in a 801 million colon increase in the GOES ordinary budget spending for 1995 Almost 88 percent of this increase represents higher spending in the social sectors, i e , education, health and municipal development.

For education, the NPA program calls for a 22 6 percent nominal increase, or about a 12-13 percent real rise, in GOES ordinary budget spending on education in 1995. This adjustment includes a 10 percent real hike in teachers' salaries; coverage of an additional 47,600 students, 30,000 of which are to be covered by 1,000 more EDUCO sections, and a 46 percent increase in expenditures on education materials and services, including the absorption by the GOES ordinary budget of 36 5 million colones of expenditures currently covered by the USAID-funded SABE Project which ends in 1994 This increment would enable education's share of total GOES budget resources to remain about constant, growing only slightly from 15 2 percent of GOES ordinary spending in 1994 to 15.3 percent in 1995 As a percent of El Salvador's GDP, spending on education would grow to 2.1 percent in 1995, up significantly from the 1 9 percent in 1994 and 1.7 percent recorded over 1990-1993 While this represents a positive trend, El Salvador is still way below the 4 percent of GDP achieved in the early 1980s and the current Latin American average of 3 5 percent of GDP.

In the health sector, the NPA requires a 33.6 percent nominal increase, or about a 23-24 percent real increase in expenditures in 1995 over 1994 This would result in a 296 million colon rise in GOES ordinary budget health expenditures and raise health expenditures to 1 4 percent of GDP in 1995 from 1 2 percent in 1994. Over one-third of this increase is accounted for by 100 million colones in added spending for medicines and medical supplies -- 80 million colones to absorb that currently covered by the USAID-funded APSISA project which ends in 1994, and another 20 million colones to expand coverage from about 80 percent of the population, estimated to be currently covered by the APSISA project, to 100 percent The remainder of the programmed increase includes funding for a real increase in the salaries of medical professionals and medical aides of 10 and 5 percent, respectively, 65 million colones to fund previously neglected maintenance of physical infrastructure, the costs of implementing pilot health programs with NGOs, and a 10 percent adjustment for expected inflation Cost recovery programs designed to collect service charges from those patients able to pay should generate up to 50 million colones. These funds could be used to provide minimum preventive health packages for up to 500 thousand individuals.

A third major category for greater spending in social investment supported by the NPA is municipal development The program provides for an increase of GOES Central Government specific and general transfers to the municipalities to 100 million colones in 1995, up 83 million colones from 17 million colones budgeted for 1994 This increase is designed to maintain total municipal spending levels at about 200 million colones per year. The USAID-funded Municipalities in Action program, or MEA by its Spanish acronym, will provide approximately 100 million colones in 1995 for local infrastructure projects carried out by municipalities before terminating at the end of that year

Other activities supported by the NPA that will require GOES financing in 1995 include improvement of the GOES financial transfer system and implementation of civil service reform measures

Official grants and loans from donors and international financial institutions are expected to contribute only 15 million colones to finance the implementation of these measures, mostly through provision of technical assistance and training Thus, nearly the entire increase in GOES expenditures resulting from the implementation of the measure supported by the NPA will have to be financed by the GOES's own resources.

Complementing its emphasis on raising the level of budgetary resources devoted to social investment, the FY 1994 NPA Program also supports GOES measures to enhance revenue collections through tighter enforcement of existing tax laws and by expanding the tax base Mission estimates suggest that, through the implementation of such measures, the GOES could raise tax revenues by at least one percentage point of GDP, or about 850 million colones. Increases in tax rates should not be needed to achieve this revenue figure.

Privatization of the publicly-owned electricity company is also supported by the NPA program Once implemented, this measure will provide additional revenues to assist the GOES finance programmed increases in social sector investment Moreover, once private investors have acquired ownership of the sector, it will be those private investors, and not the GOES, who will provide the estimated nearly 600 million colones annually in investment capital to increase generating capacity to levels sufficient to meet El Salvador's growing demand for electricity.

The FY 1994 NPA Program provides $25 million to the GOES, of which an estimated $13 7 million (119 million colones) will finance specific development activities through the GOES extraordinary budget and an estimated $7.7 million (67 million colones) will be available for ordinary budget support

TABLE 2
IMPACT ON FISCAL ACCOUNTS

		Million ¢	Million US$
1	**ADDITIONAL EXPENDITURES**		
	Decentralization strategy for education	7 7	0 9
	Improve mechanisms for financial transfers by computer interconnection	1 8	0 2
	Pilot health program with NGO	3 7	0 4
	Strengthen SILOS in Usulután and Sonsonate	45 0	5 2
	Establish 1,000 new EDUCO sections	30 8	3 5
	Other decentralized solutions	5 0	0 6
	Training of health promoters	12 2	1 4
	Technical assistance for Civil Service reform	13 9	1 6
	Teachers pay scale reform	7 8	0 9
	Costs of implementing cost recovery program	1 6	0 2
	Improved budgeting system for Ministry of Education	0 3	0 0
	Increased Education budget (excluding interventions discussed above)	292 2	33 6
	Increased Health budget (excluding interventions discussed above)	296 0	34 0
	Increased transfers to municipalities	83 0	9 5
	Sub-total	**801 0**	**92.1**
2.	**ADDITIONAL REVENUES**		
	Increased tax revenue (1% of GDP)	850 0	97 7
	Land tax	94 0	10 8
	Cost recovery in hospitals	50 0	5 7
	Public sector savings resulting from private participation in electricity	592 0	68 0
	Sub-total	**1586 0**	**182 3**
3	NET	785 0	90 2

V. USE OF DOLLAR AND LOCAL CURRENCY RESOURCES

A. Dollar Resources

1. Dollar Deposits

The Central Reserve Bank of El Salvador (BCR) will open separate, interest-bearing accounts in U S banks exclusively for the deposit and retention of funds from the 1994 Modernization of the State Program, USAID Program No 519-0414 Hereinafter, these various accounts will be collectively referred to as the "Separate Account." The BCR will request disbursement of funds under this Grant to USAID/El Salvador by submitting a letter of request together with USAID Form 1130-2, indicating the names of one or more U S commercial banks, their complete addresses, American Banking Association (ABA) numbers, BCR account numbers, and amounts to be deposited. The request shall be submitted to the Office of the Controller, USAID/El Salvador

Upon receipt of a disbursement request from the BCR, the Office of the Controller, USAID/El Salvador, will arrange for deposit to the Separate Account as specified in the BCR's disbursement request All funds deposited to the Separate Account will be retained and withdrawn in accordance with the terms and conditions prescribed by the Grant Agreement and its Project Implementation Letters Unless otherwise agreed to in writing, any interest earned on funds in the special account shall be returned to the Government of the United States (per 94 State 205189)

Within two (2) working days of receipt of bank notification of deposit of funds to the Separate Account, the BCR will deposit in a local special account an amount in local currency equivalent to the dollar amount disbursed by USAID to the Separate Account Within five (5) working days of receipt of the deposit notification from the U S bank or banks, the BCR shall inform the Controller, USAID/El Salvador, in writing of the amount of dollars received, the exchange rate used and the amount of local currency deposited.

The amount of local currency to be deposited shall be determined by the unified floating exchange rate established by the BCR on the date of deposit of U S dollars to the Separate Account.

2. Eligibility Dates

Funds originally deposited to the Separate Account and interest thereon may be withdrawn for eligible transactions for which the External Financing Department of the BCR has evidence that foreign exchange was disbursed to support the import on or after the effective date of the Grant Agreement until the Separate Account balances are fully liquidated or twelve (12) months from the signing of the Agreement, whichever occurs first, and unless modified in writing by USAID/El Salvador.

The document that defines this date will be the "formulario unico" and/or the accounting document or debit note of the institution that made the transaction; i e , the date of foreign exchange sale to the importer

Funds redeposited to the Separate Account as a result of the independent verification process shall only be withdrawn for eligible transactions for which the External Financing Department of the BCR has evidence that foreign exchange was disbursed to support the import on or after the date of the redeposit.

3. Eligibility Criteria

All transactions funded through the Separate Account shall meet the following eligibility criteria and be properly identified by code, source and amount as specified below

a PRODUCT CATEGORY

Product category	CODE
Raw material	A
Intermediate goods	B
Capital goods	C
Spare parts	D
Agricultural inputs	E
Petroleum	F

b. ECONOMIC SECTOR DIVISION

Economic sector division	CODE
Manufacturing	1
Agricultural	2
Agroindustrial	3
Commercial	4
Construction	5
Transportation	6
Communications	7
Energy	8
Services	9

c TYPE OF PRODUCT

Type of product	CODE
SAC classification	Standard Code

d SOURCE

To be eligible under the Agreement, the source of all products imported must be the United States of America, to include its possessions and the Commonwealth of Puerto Rico

Duty-free ports do not constitute a source point under the terms of this Agreement When a product is shipped from a free port or bonded warehouse in the form in which it was received therein, the "source" means the country where the product was produced and shipped to the free port or bonded warehouse.

e. AMOUNT

The maximum amount for each transaction eligible for funding from the Separate Account shall be the total cost of the import, payable in dollars to the exporter The document which will define this cost is the CIF or C&F value stated in the commercial invoice When evidence exists, such cost may include handling, bank charges and insurance paid to United States companies

As a mean to reduce the administrative costs of the Policy Reform Support Program (PRSP) to both the BCR and USAID/El Salvador, the BCR will use only transactions greater than or equal to US$25,000 in value for financing under the Project

4. Direct Payments from the Separate Account

For each transaction meeting the eligibility criteria for funding under this Project, the BCR may pay the exporter directly from the Separate Account under the following procedures

a The External Financing Department of the BCR will verify that all documentation (as specified in Section VII) is complete and in the BCR transaction file, that the transaction meets the eligibility criteria and eligibility dates set forth in the Grant Agreement and its Project Implementation Letters

b In the case of a Supplier's Credit, the External Financing Department of the BCR will make payment in the form of a check or direct wire transfer to the supplier from the Separate Account

c. In the case of a Letter of Credit, the External Financing Department of the BCR will allocate and reserve funds from the Separate Account from which the Letter of Credit will be paid

d After the BCR has instructed its correspondent bank to pay to the U S exporter directly or via letter of credit, the BCR will transmit to each of the U S exporters and for each of the transactions being financed through the Separate Accounts, the letter shown as "Annex A "

5. Direct Reimbursements from the Separate Account

Transactions determined to be eligible for financing from the Separate Account will be applied in the order received by the BCR (first-in, first-out basis) Since the transaction collection process will be continuous and capture all eligible transactions with values greater or equal to US$25,000, the BCR may have eligible transactions in excess of its needs in any given period These transactions must be applied to the next dollar withdrawal request before any transactions of the subsequent period are applied

For each transaction meeting the eligibility criteria for funding under this Project but which has already been paid to the exporter with non-USAID funds, the BCR may make reimbursement from the Separate Account under the following procedures

a The External Financing Department of the BCR will verify that all documentation (as specified in Section VII) is complete and in the BCR transaction file, and that the transaction meets the eligibility criteria and eligibility dates set forth in the Grant Agreement and its Project Implementation Letters

b Based upon the cost to the importer of one or more eligible transactions (as specified in Section III.5), the External Financing Department of the BCR will transfer the equivalent amount of U S dollars directly from the Separate Account to the account of the institution that initially provided the importer with the foreign exchange, using any generally accepted banking mechanism

c. The External Financing Department of the BCR will clearly identify, by Separate Account withdrawal identification number in the reporting system, which transactions support each withdrawal from the Separate Account and which financial institution received reimbursement from the Separate Account, and place a copy of the withdrawal document in each transaction file

d. After the BCR has reimbursed the institution that initially provided the importer with the foreign exchange, the BCR will transmit to each of the U S exporters and for each of the transactions being financed through the Separate Accounts, the letter shown as "Annex A "

6. Independent Verification and Redeposits to the Separate Account

The Office of the Controller, USAID/El Salvador or its designee, will conduct an independent verification of transactions contained in the BCR Report of Eligible Transactions specified in Section VIII One hundred percent (100%) of the transactions will be independently verified in accordance with Generally Accepted

Auditing Standards The independent verification will be performed annually or more frequently as determined by USAID/El Salvador

USAID/El Salvador and/or its designee will communicate the results of the independent verification to the BCR for its review and comment within five (5) working days of the BCR receipt of this data Subsequently, USAID/El Salvador shall formally notify the BCR of the official results of the independent verification The BCR shall reimburse the Separate Account, within thirty (30) calendar days of receipt of the official notification from USAID/El Salvador, for any transactions which USAID/El Salvador determines to be ineligible

The BCR will maintain a record of redeposits to the Separate Account and clearly identify the transactions used to support subsequent withdrawals of these funds from the Separate Account Eligible transactions for subsequent withdrawals of redeposited funds are limited to those imported products paid after the date of the redeposit The BCR will maintain adequate records to document those transactions

USAID/El Salvador shall notify the BCR by means of a Project Implementation Letter of its final acceptance of all eligible transactions and Separate Account withdrawals after the completion of the final independent verification Such written notification shall serve as evidence of the final liquidation of USAID's disbursements to and interest earned on the Separate Account under this Project

7. Documentation Requirements

The External Financing Department of the BCR shall enter the data (as specified in Section VIII 4 herein) on a daily basis from the source documents specified in this Section and ensure that each transaction file contains all necessary documentation before a transaction is used as a basis for withdrawal from the Separate Account.

Documentation for each transaction substantiating Separate Account eligibility criteria will be retained in the External Financing Department of the BCR As a minimum the documentation will consist of the following.

1 Copy of the "formulario unico "
2 Copy of the commercial invoice.
3 Copy of the shipping documents (e g Airway Bill, Bill of Lading, etc.)
4. Copy of the Import Certificate (Poliza)
5. Evidence of reimbursement to commercial banks or foreign exchange facilities (for direct reimbursement only)
6. Copy of the signed letter sent to the U S

exporter for the transactions financed by the ESF Program (see Annex 14)

The BCR may propose changes in procedures during the implementation of this Project by informing USAID/El Salvador in writing of the proposed changes USAID/El Salvador shall evaluate these changes and notify the BCR by means of a Project Implementation Letter of its concurrence or non-concurrence with the proposed changes

The BCR shall maintain the files containing documentation for each transaction accepted by USAID for a period of three (3) years commencing with the date that USAID/El Salvador issues formal notification of final documentation of final liquidation of all Project funds and acceptance of all eligible transactions

8. BCR Reports

The External Financing Department of the BCR shall provide to USAID/El Salvador, as applicable, the following information and reports:

a. The BCR shall report within five (5) working days of receiving notification of dollar deposits to the Separate Account

    1) The amount of each deposit to each U S bank
    2) The exchange rate used to determine the equivalent amount of local currency
    3) The amount of local currency deposited

b. Subsequent to the first deposit of dollars and until all funds, including earned interest, have been exhausted from the Separate Account, the BCR will provide USAID/El Salvador, on a monthly basis, copies of all bank statements and corresponding reconciliation reports

c Beginning with the month in which the first disbursement was made, and monthly thereafter, the BCR will provide USAID/El Salvador, within five (5) working days after month end, a Report of Separate Account Withdrawals This report will specify, for each withdrawal during the month, the withdrawal identification number and the following data elements from the Policy Reform Support Project (PRSP), for each transaction supporting each individual withdrawal

    1) Identification number
    2) Total U S dollars withdrawn
    3) The name of the institution being reimbursed, or in the case of direct payments, the name of the exporter being paid

d Beginning with the month in which the first disbursement was made, and monthly thereafter, the BCR will provide USAID/El Salvador, within five (5) working days after month end, a Report of Eligible Transactions for the entire Project period, on a cumulative basis, with totals for all U.S dollar-value columns. The following data elements for each transaction shall be reported

1) PRSP identification number
2) "Formulario unico" number
3) Name of the exporter
4) Date of foreign exchange transaction
5) Product category
6) SAC code
7) Economic sector
8) Source of the imported goods
9) Separate Account withdrawal ID number.
10) Total U S. dollars allowable from the Separate Account
11) Total U S. dollars withdrawn from the Separate Account
12) Financial Institution reimbursed from the Separate Account
13) Verified amount
14) Separate Account redeposit amount [6]
15) Independent verification date

a) If the transaction has not been independently verified, the Separate Account (SA) redeposit amount will be equal to

   Total U S dollars withdrawn from the SA (minus) total U S dollars allowable from the SA

b) If the transaction has been independently verified, the Separate Account (SA) redeposit will be equal to

   Total U.S dollars withdrawn from the SA (minus) verified amount

e Within thirty (30) days after USAID/El Salvador officially notifies the BCR of the results of each independent verification, the BCR will record the independent verification date and verified amounts (items 11 and 13 above), in the PRSP database and will provide USAID/El Salvador with a Report of Verified Transaction Amounts for each of the following data elements and combination of data elements

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[6] This amount is calculated as described below, but only values greater than zero will be printed in the report

1) Product category
2) Economic sector code
3) Source and origin
4) SAC code
5) Product category by economic sector code
6) Product category by source.

B. Local Currency Resources

1. Background

During the last quarter of 1990, the Mission and the GOES initiated significant reforms in the management of the Local Currency Program (LCP) in order to focus on principal target areas and project results and to streamline regulations and procedures, while maintaining appropriate levels of accountability Reforms took into account the fact that the GOES, through SETEFE, had significantly improved systems for management, control and accountability, and should assume greater responsibility

While in effect now for almost four years, the reform program has demonstrated positive results and greater efficiencies in implementation, e g reducing the number of action plans from 100 in 1990 to 30 in 1993, and reducing within the Mission the average review and approval period for new action plans from eight weeks to three Also, SETEFE has been increasingly assuming primary responsibility for allocating local currency generations, taking the decision-making lead on financial reprogramming and minor activity changes, thereby easing the burden on Mission Staff

Beginning in 1989, and in order to promote fiscal transparency and strengthen the budgeting and accounting system of all GOES implementing units which are beneficiaries under the LCP, SETEFE, assisted by USAID/El Salvador staff, implemented a strong audit and certification program with well-defined scheduling benchmarks and a penalty system This program has encouraged recipient entities to significantly improve their accounting systems

2. FY 1993 ESF Program Update

The 1993 ESF dollar disbursement will generate the equivalent of U S $55 million in Host Country-Owned Local Currency (HCOLC) The Mission and the GOES jointly programmed, via a Memorandum of Understanding, these funds for the following components

a. Development Activities: US$ 31.7 million. Under this category, $16 5 million in FY 1993 ESF local currency generations was programmed to finance the Credit and Land Transfer Program implemented under the National Reconstruction Program Also, the HCOLC is financing GOES counterpart requirements for existing USAID-financed dollar projects through the extraordinary budget, such as the Peace and National Recovery, the Health System Support and the Strengthening Achievement in Basic Education projects, priority projects presented by indigenous PVOs, a new endowment program and participant training

b. Fiscal Deficit Reduction: US$ 19.7 million. HCOLC programmed under this category will help to reduce the GOES internal deficit (to meet macroeconomic targets under the IMF stand-by agreement and the World Bank SAL II agreement), while encouraging responsible allocation of resources within the GOES budget to finance critical activities such as major judicial and human rights reforms, a significant increase in the Health and Education Budgets, and counterpart requirements for newly-authorized dollar projects such as Municipal Development and Environmental Protection

c. USAID OE Trust Fund: US$ 3.6 million. The amount under this category corresponds to the levels approved by AID/W for operating expenses The Mission also manages the funds provided by the GOES for participant training and for the AIFLD-supported Salvadoran Labor Management Foundation (FOES) Funds for these two purposes are included under the development activities category described above

3. FY 1994 ESF Program

HCOLC generations from the ESF agreement will continue to be programmed bilaterally with the GOES. Now that the war is over and that peace and reconciliation are becoming a lasting reality, these resources will play a vital role to further United States Government development and policy objectives in El Salvador, as well as to enhance the capacity of the new GOES administration to design, manage and support its economic and social development plan

These resources are directly supporting the Agency's goals Encouraging Broad-Based Economic Growth, Protecting the Global Environment, Stabilizing World Population Growth, and Supporting Democratic Institutions The local currency generations also support the five Mission Strategic Objectives Assisting El Salvador to Make the Transition from War to Peace, Broad-Based Economic Growth, Enduring Democratic Institutions, Improved Quality with Equity in Health and Education, and

Improved Environmental and Natural Resource Management

The Mission will apply the basic policy framework for the design and implementation of local currency program established in Policy Determination No 18, dated July 30, 1991, to the generations to be accrued from the FY 1994 dollar disbursements The current program either matches or surpasses the requirements in the policy guidance Nevertheless, the guidance requires that certain issues be addressed in the PAAD document for AID/W consideration

a. The General Assessment

In 1990, the Mission completed the General Assessment of Accountability and Vulnerability It reported that the Mission had an overall medium- to high-level of confidence in the budgeting and financial systems of the GOES. Specifically, the report said that "the budgeting and reporting systems of the host country are reasonably adequate to report allocations and expenditures from the general (ordinary budget) fund "

SETEFE, which manages the special account and the extraordinary budget, is generally recognized as a capable organization. The Mission works closely with SETEFE in all aspects related to the management of the Local Currency Program· jointly programming local currency generations, approving action plans, tracking action plan goals, purposes, targets and activities; reviewing program and financial reports, and participating in the audit program In the past two years, SETEFE has greatly improved its financial management capabilities This is evidenced by the substantial decrease in audit findings and questioned costs reported by the CPA firms contracted by SETEFE to carry out audits of the accountability, internal controls, and uses of the local currency generations While SETEFE is not a perfect institution, the Mission has a high level of confidence in its overall capabilities

b. Programming

USAID will program the local currency primarily to. (1) assist the GOES to implement the peace accords, (2) support the Mission's five strategic objectives, and (3) finance essential elements of the Mission's strategy for poverty alleviation and equitable distribution of the benefits of economic growth

The Mission and the GOES will channel these resources to the following categories·

(1) Development Activities

Under this category, the Mission will continue providing resources to support and promote long-term development and growth objectives at the sectoral level, e g. improved health care, access to basic education, increased income and employment, which are consistent with the Mission's poverty alleviation strategy

These local currency generations will finance counterpart to USAID-financed dollar activities and GOES high-priority projects aimed at (a) promoting reconciliation and the economic reactivation of the zones most affected by the civil war and assisting the democratic reintegration of their population, (b) supporting and strengthening delivery of basic health care services, (c) improving the relevance, effectiveness, and efficiency of basic education, (d) increasing the availability of affordable electricity in order to increase the productivity and standard of living of rural population, (e) enhancing the participation of indigenous PVOS as a means to support the economic and social development of the local communities, especially in the rural areas, and (f) strengthening labor-management relations

Following up on an earlier decision, the Mission and the GOES will not program funds for counterpart to newly-authorized dollar projects (e.g. Land Tenure Security or Social Sector Reform), or for GOES priority projects (stand-alone activities managed by GOES implementing entities without supporting dollars) As mentioned before, the GOES counterpart requirements will be provided via the GOES's Ordinary Budget using resources other than USAID's The only exception to this Mission Policy may be some limited funding for the NGO program and for administration/audit of the extraordinary budget Both activities are managed by SETEFE

(2) Social Sector Support

The Mission will program local currency resources to support GOES efforts to modernize the social sectors and increase the efficiency of health and education service delivery systems.

(3) USAID OE Trust Fund

The Mission will set aside funds for its operating expense Trust Fund in accordance with AID/W guidance Also, we will program funds to fully fund the AIFLD-supported Salvadoran Labor Management Foundation (FOES) Funds for the latter purpose are included under category "A" above

c. Illustrative Planning Levels

Although the Mission has not yet discussed the FY 1994 program with the GOES, we have estimated the following requirements

(1)	Development Activities	US$ 13.7 million
(2)	Social Sector Support	7.7 million
(3)	USAID OE Trust Fund	3.6 million
	TOTAL	US$ 25.0 million

STATISTICAL APPENDIX

A <u>Domestic Output</u>

1. Gross Domestic Product By Sector of Origin, 1970-1993
   a. In Constant 1962 Prices
   b In Current Prices
   c GDP Deflators
2 Gross Domestic Product By Sector of Final Demand, 1970-93
   a. In Constant 1962 Prices
   b. In Current Prices
   c. GDP Deflators
3 Savings and Investment, 1988-1993

B. <u>Prices</u>

1 Consumer Price Index by Major Categories and GDP Deflator, 1980-1993
2 Consumer Price Index Annual, Quarterly and Monthly Indices, 1980-1993
3 Consumer Price Index Annual, Quarterly and Monthly Rates of Change, 1980-1993

C <u>Fiscal Accounts</u>

1 Consolidated Operations of the Nonfinancial Public Sector, 1986-1993
   a. In Millions of Current Colones
   b. Annual Growth Rates
2. Consolidated Central Government Operations, 1986-1993
   a. In Millions of Current Colones
   b Annual Growth Rates
3 Central Government Revenue and Grants by Category, 1986-1993

D <u>Monetary Accounts</u>

1 Monetary Data - Quarterly Report
   a. Consolidated Banking System
   b. Central Reserve Bank
2. Monetary Analysis - Quarterly Trends (Annualized Growth Rates)
   a Consolidated Banking System
   b Central Reserve Bank
3 Monetary Analysis - Annual and Semi-Annual Trends (Annualized Growth Rates)
   a Consolidated Banking System
   b. Central Reserve Bank
4. Monetary Flow Analysis (Flows in million colones)
   a Consolidated Banking System
   b Central Reserve Bank
5 International Reserves of the Central Reserve Bank

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E. External Accounts

1. Balance of Payments, 1989-1993
2. Detailed Balance of Payments, 1989-1993
3. Merchandise Exports (F.O.B.) by Principal Groups, 1985-1993
4. Merchandise Imports (C.I.F.) by Principal Groups, 1985-1993
5. Selected Economic Data, 1986-1993

F. Other

1. Selected Economic, Social, and Demographic Indicators 1988-1993
2. ESF Cash Transfers Relative to Macro Variables, 1980-1993
3. Selected Social Indicators
4. Social Indicators Evolution
5. Satisfaction of Basic Needs

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STATISTICAL APPENDIX

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Table A.1 a. El Sal[illegible]s Domestic Product by Sector of Origin 1970-1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 1/
In Constant 1962 Prices.										**Millions of 1962 Colones**														
Gross Domestic Product	2393.6	2504.2	2645.9	2759.0	2956.4	3122.9	3246.9	3443.9	3664.7	3601.6	3289.3	3016.8	2847.7	2870.4	2935.6	2963.6	3012.5	3063.6	3143.6	3177.6	3285.0	3401.9	3590.1	3761.7
Primary Production	630.8	654.2	664.2	676.2	745.7	791.8	729.2	755.0	860.3	891.1	845.0	791.3	754.4	730.5	754.7	746.6	723.6	739.1	732.4	736.0	790.0	790.1	861.5	866.4
Agriculture and Related Sectors	627.2	650.7	660.3	672.0	740.8	787.3	725.2	751.3	856.6	887.4	841.1	787.5	750.6	726.8	750.9	742.8	719.7	734.7	727.7	731.1	785.5	785.1	855.9	860.1
Mining	3.6	3.5	3.9	4.2	4.9	4.5	4.0	3.7	3.7	3.8	3.9	3.8	3.8	3.7	3.8	3.8	3.9	4.4	4.7	4.9	4.5	5.0	5.6	6.3
Secondary Production	547.1	588.4	635.1	656.2	702.1	778.6	822.4	906.4	935.1	908.5	803.3	721.7	671.1	687.5	691.4	719.3	737.4	766.2	792.9	811.8	820.9	869.1	928.8	1014.6
Manufacturing	438.3	468.9	486.9	519.6	552.2	578.0	628.6	661.5	691.5	656.8	586.2	525.0	480.9	490.5	496.9	515.4	528.3	544.1	560.5	574.4	591.6	620.4	657.7	709.0
Construction	63.8	70.6	93.9	77.4	85.7	128.0	115.9	157.1	147.0	143.9	111.4	94.3	90.4	92.2	86.9	90.9	93.3	104.0	112.2	116.2	101.3	111.5	124.9	137.8
Utilities	45.0	48.9	54.4	59.2	64.2	70.5	77.9	87.6	96.6	107.7	105.7	102.4	99.6	104.6	107.6	113.0	115.6	118.1	120.2	121.2	126.0	137.2	146.2	167.6
Services	1215.6	1261.6	1346.6	1426.6	1510.6	1554.5	1695.3	1782.4	1869.3	1802.0	1641.0	1503.8	1422.2	1452.4	1489.5	1527.7	1551.5	1568.2	1618.5	1629.2	1674.1	1741.7	1789.6	1880.7
Transportion and Communications	127.9	129.5	136.0	140.6	164.1	172.9	195.6	214.3	223.3	208.6	193.7	172.5	161.3	170.9	175.6	176.6	179.7	183.0	186.7	189.0	201.0	215.1	226.2	247.0
Commercial Services	565.6	576.1	613.5	657.3	681.9	709.2	770.0	803.4	828.5	759.7	625.0	531.9	468.3	476.1	487.1	489.5	491.0	497.9	500.1	516.9	533.0	555.5	579.6	620.1
Financial Services	51.0	51.9	59.8	67.9	75.7	77.7	88.3	101.5	103.9	106.1	102.6	93.1	96.5	96.7	99.7	102.7	104.2	106.7	106.8	98.5	100.5	104.5	110.0	119.7
Housing	90.4	93.1	99.4	102.9	106.6	110.4	114.3	118.3	122.5	126.9	130.0	133.8	137.3	140.1	142.3	144.4	144.6	148.5	152.7	156.4	160.3	164.7	169.3	174.4
Public Administration	182.8	199.4	213.7	223.5	243.4	243.9	274.3	288.2	320.3	332.2	341.8	348.0	356.3	366.3	384.5	411.6	430.1	447.4	462.6	457.7	464.6	479.2	471.5	475.6
Other Services	197.9	211.5	224.3	234.1	238.9	240.4	252.9	258.6	270.7	268.4	247.9	226.5	200.5	198.3	200.3	200.7	201.7	204.7	207.6	210.7	214.5	222.7	231.2	243.9
										Annual Growth Rates (in percent)														
Gross Domestic Product		4.6	5.7	4.3	7.2	5.6	4.0	6.1	6.4	1.7	-8.7	-8.3	-5.6	0.8	2.3	2.0	0.6	2.7	1.6	1.1	3.4	3.5	5.3	5.1
Primary Production		3.7	1.5	1.6	10.3	6.2	7.9	3.5	13.9	3.6	-5.2	-6.4	-4.7	-3.2	3.3	1.1	-3.1	2.1	-0.9	0.5	7.3	0.9	9.0	0.6
Agriculture and Related Sectors		3.8	1.5	1.6	10.2	6.3	7.9	3.6	14.0	3.6	5.2	-6.4	-4.7	3.2	3.3	1.1	-3.1	2.1	1.0	0.5	7.4	-0.0	9.0	0.5
Mining		2.8	11.3	6.6	17.3	-6.8	11.3	-8.4	-0.4	3.1	3.0	2.6	0.0	2.6	2.7	0.0	2.6	12.8	6.6	4.3	-8.2	11.3	11.8	12.5
Secondary Production		7.5	7.9	3.3	7.0	10.6	5.9	10.2	3.2	-2.9	11.6	10.2	7.0	2.4	0.6	4.0	2.5	3.9	3.5	2.4	1.1	5.9	6.9	9.2
Manufacturing		7.0	3.8	6.7	6.3	4.7	8.7	5.2	4.5	5.0	10.8	10.4	-8.4	2.0	1.3	3.7	2.5	3.0	3.0	2.5	3.0	4.9	6.0	7.8
Construction		10.6	33.0	17.5	10.7	49.3	9.4	35.5	-6.4	2.1	22.6	15.4	-4.1	2.0	5.7	4.6	2.6	11.5	7.9	3.6	12.8	10.1	12.0	10.3
Utilities		8.6	11.3	8.9	8.4	9.9	10.4	12.7	10.1	11.5	1.9	3.1	2.5	5.0	2.7	5.0	2.5	2.0	1.6	0.6	5.6	7.2	6.6	14.6
Services		3.8	6.7	5.9	5.9	2.9	9.1	5.1	4.9	-3.6	-8.9	-8.4	-5.4	2.1	2.6	2.6	1.6	2.4	1.9	0.7	2.8	4.0	2.8	5.1
Transportion and Communications		1.2	5.0	3.6	16.5	5.4	13.1	9.6	4.2	-6.5	7.2	10.9	-6.5	6.0	2.8	1.6	0.5	1.8	2.0	1.2	6.3	7.0	6.1	9.2
Commercial Services		1.9	6.5	7.1	3.7	4.0	8.6	4.3	3.1	-8.3	17.7	14.9	12.0	2.1	1.9	0.5	0.3	1.4	0.4	3.4	3.1	4.2	4.3	7.0
Financial Services		1.7	15.2	13.6	11.6	2.6	13.6	15.0	2.3	2.1	-3.3	9.3	5.6	0.2	1.0	3.0	1.5	2.4	2.0	-9.5	2.0	4.0	5.3	8.8
Housing		3.1	6.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5	2.5	2.9	2.6	2.0	1.6	1.5	0.3	2.6	2.8	2.4	2.5	2.8	2.8	3.0
Public Administration		9.1	7.1	4.6	8.9	0.2	12.5	5.1	11.1	3.7	2.9	1.2	3.0	2.8	5.0	7.0	4.5	4.0	3.4	1.1	1.6	3.1	1.6	0.9
Other Services		6.9	6.0	4.4	2.0	0.7	5.2	1.4	5.5	-0.8	7.6	-8.6	11.5	1.1	1.0	0.2	0.5	1.5	1.4	1.5	1.6	3.8	3.8	5.5
										As Percent of Total GDP														
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Primary Production	26.4	26.1	25.1	24.5	25.2	25.4	22.5	21.9	23.5	24.7	25.7	26.2	26.5	25.4	25.7	24.9	24.0	23.9	23.3	23.2	24.0	23.2	24.1	23.0
Agriculture and Related Sectors	26.2	26.0	25.0	24.4	25.0	25.2	22.3	21.8	23.4	24.6	25.6	26.1	26.4	25.3	25.6	24.8	23.9	23.7	23.1	23.0	23.9	23.1	23.9	22.9
Mining	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2
Secondary Production	22.6	23.5	24.0	23.8	23.7	24.9	25.3	26.3	25.5	25.2	24.4	23.9	23.6	24.0	23.6	24.0	24.5	24.8	25.2	25.6	25.0	25.6	25.9	27.0
Manufacturing	18.3	18.7	18.4	18.8	18.7	18.5	19.4	19.2	18.9	18.2	17.8	17.4	16.9	17.1	16.9	17.2	17.5	17.6	17.8	18.1	18.0	18.2	18.4	18.8
Construction	2.7	2.8	3.5	2.8	2.9	4.1	3.6	4.6	4.0	4.0	3.4	3.1	3.2	3.2	3.0	3.0	3.1	3.4	3.6	3.7	3.1	3.3	3.5	3.7
Utilities	1.9	2.0	2.1	2.1	2.2	2.3	2.4	2.5	2.6	3.0	3.2	3.4	3.5	3.7	3.7	3.8	3.8	3.8	3.8	3.8	3.9	4.0	4.1	4.5
Services	50.8	50.4	50.9	51.7	51.1	49.8	52.2	51.8	51.0	50.0	49.9	49.8	49.9	50.6	50.7	51.0	51.5	51.3	51.5	51.3	51.0	51.2	50.0	50.0
Transportion and Communications	5.3	5.2	5.1	5.1	5.5	5.5	6.0	6.2	6.1	5.8	5.9	5.7	5.7	6.0	6.0	6.0	6.0	5.9	5.9	5.9	6.1	6.3	6.4	6.6
Commercial Services	23.6	23.0	23.2	23.8	23.0	22.7	23.7	23.3	22.6	21.1	19.0	17.6	16.4	16.7	16.6	16.4	16.3	16.1	15.9	16.3	16.2	16.3	16.2	16.5
Financial Services	2.1	2.1	2.3	2.5	2.6	2.5	2.7	2.9	2.8	2.9	3.1	3.1	3.5	3.4	3.4	3.4	3.5	3.4	3.5	3.1	3.1	3.1	3.1	3.2
Housing	3.8	3.7	3.8	3.7	3.6	3.5	3.5	3.4	3.3	3.5	4.0	4.4	4.8	4.9	4.8	4.8	4.8	4.8	4.9	4.9	4.9	4.8	4.7	4.6
Public Administration	7.6	8.0	8.1	8.1	8.2	7.8	8.4	8.4	8.7	9.2	10.4	11.5	12.5	12.8	13.1	13.7	14.3	14.5	14.7	14.4	14.1	14.1	13.2	12.6
Other Services	8.3	8.4	8.5	8.5	8.1	7.7	7.8	7.4	7.4	7.5	7.5	7.5	7.0	6.9	6.8	6.7	6.7	6.6	6.6	6.6	6.5	6.5	6.5	6.5

Source Central Reserve Bank.

1/ Estimated values

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Table A.1 b El Sal[illegible]s Domestic Product by Sector of Origin 1970-1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	19[illegible]	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	[illegible]1	1992	1993 1/
											Millions of Colones													
In Current Prices.																								
Gross Domestic Product	2571	2704	2882	3324	3944	4479	5706	7167	7992	8607	8917	8646	8966	10152	11657	14331	19763	23141	27306	32230	41057	47792	54061	66356
Primary Production	736	733	733	942	1006	1036	1622	2382	2057	2518	2492	2119	2089	2176	2338	2631	3996	3237	3648	3825	4664	4963	5265	5814
Agriculture and Related Sectors	731	729	728	937	999	1028	1614	2374	2049	2508	2480	2106	2075	2161	2320	2611	3969	3198	3601	3767	4599	4881	5167	5690
Mining	4	4	4	6	7	7	8	8	8	10	11	13	14	15	18	21	27	38	47	58	65	82	99	125
Secondary Production	596	640	708	755	907	1107	1238	1480	1656	1842	1834	1835	1882	2159	2474	3118	4051	5252	6158	7426	9512	11348	13272	16447
Manufacturing	485	519	563	605	707	831	933	1047	1205	1338	1339	1359	1382	1572	1837	2346	3086	4045	4809	5836	7647	8957	10348	12639
Construction	72	80	102	107	146	219	216	327	320	337	306	284	301	343	355	437	547	710	815	984	1072	1310	1640	2073
Utilities	39	40	43	43	54	57	90	107	131	167	189	192	200	244	281	335	418	497	535	606	793	1082	1284	1734
Services	1240	1331	1442	1626	2030	2335	2845	3304	3979	4248	4591	4693	4995	5817	6846	8582	11716	14652	17300	20979	26881	31481	36424	44095
Transportion and Communications	128	132	140	148	173	188	211	243	291	292	314	328	347	412	481	613	816	1061	1206	1416	1697	2274	2678	3298
Commercial Services	544	587	644	728	965	1112	1412	1601	1936	2005	2038	2028	2089	2510	2995	3696	5627	7275	8721	10832	14187	16751	19664	24299
Financial Services	57	62	66	97	104	128	157	234	260	286	302	295	331	356	392	442	584	640	779	795	924	1171	1445	1663
Housing	95	100	107	118	142	172	192	227	285	318	384	412	471	538	630	747	939	1182	1520	1893	2366	2721	3066	3500
Public Administration	200	219	239	266	338	384	486	571	718	784	917	944	1050	1177	1366	1603	1977	2207	2365	2714	3232	3578	3660	4330
Other Services	216	231	247	270	306	351	388	429	489	562	637	687	706	823	982	1278	1794	2286	2749	3330	4275	4986	5710	6804
											Annual Growth Rates (in percent)													
Gross Domestic Product		5.2	6.6	15.3	18.6	13.5	27.4	25.6	7.3	11.9	3.6	-3.0	3.7	13.2	14.8	22.9	37.9	17.1	18.3	17.8	27.4	16.4	15.0	20.7
Primary Production		-0.3	-0.1	28.6	6.8	2.9	56.6	46.9	13.6	22.4	1.0	15.0	1.4	4.2	7.5	12.5	51.8	19.0	18.9	-0.6	21.9	6.4	6.1	10.4
Agriculture and Related Sectors		-0.3	-0.1	28.6	6.7	2.9	57.0	47.1	13.7	22.4	1.1	15.1	1.5	4.1	7.4	12.5	52.0	19.4	18.8	-0.9	22.1	6.1	5.9	10.1
Mining		2.7	1.9	26.9	29.4	2.2	5.0	3.5	5.2	12.6	18.4	10.6	6.6	11.6	19.7	13.7	29.0	42.7	23.4	23.6	12.4	25.2	20.4	26.3
Secondary Production		7.3	10.6	6.7	20.1	22.0	11.8	19.5	11.9	11.2	-0.4	0.0	2.6	14.7	14.6	26.1	29.9	29.7	17.2	20.6	28.1	19.3	16.9	23.9
Manufacturing		7.1	8.3	7.6	16.7	17.7	12.2	12.2	15.1	11.0	0.1	1.5	1.7	13.8	16.9	27.7	31.5	31.1	18.9	21.4	31.0	17.1	15.5	22.1
Construction		10.7	27.5	4.5	37.2	49.8	1.4	51.3	2.3	5.3	9.2	7.1	5.8	14.2	3.5	23.0	25.2	29.8	14.7	20.8	8.9	22.2	25.2	26.4
Utilities		3.6	6.9	0.8	25.2	4.2	58.0	19.0	23.4	27.1	13.1	1.3	4.2	22.1	15.3	19.2	24.7	18.9	7.7	13.1	30.9	36.5	18.6	35.1
Services		7.3	8.3	12.8	24.8	15.0	21.9	16.1	20.4	6.8	8.1	2.2	6.4	16.5	17.7	25.4	36.5	25.1	18.5	20.8	28.1	17.1	15.7	21.1
Transportion and Communications		2.6	6.1	5.7	17.5	8.2	12.6	15.0	19.8	0.3	7.4	4.7	5.6	18.7	16.8	27.6	33.0	30.0	13.6	17.4	34.0	19.9	17.8	23.2
Commercial Services		8.0	9.7	13.0	32.5	15.3	26.9	13.4	20.9	3.6	1.6	-0.5	3.0	20.1	19.3	30.2	44.4	29.3	19.9	24.2	31.0	18.1	17.4	23.6
Financial Services		8.1	5.5	47.8	7.3	23.3	22.4	49.4	10.7	10.3	5.5	2.2	12.1	8.2	9.6	12.7	27.6	13.5	21.6	2.0	16.2	26.8	23.4	26.9
Housing		5.6	6.6	10.5	20.4	20.9	11.6	18.1	25.5	11.7	20.6	7.3	14.4	14.2	17.0	16.7	25.7	25.8	28.6	24.5	25.0	15.0	12.8	14.1
Public Administration		9.4	9.0	11.3	27.3	13.5	26.5	17.5	25.9	9.1	16.9	2.9	11.3	12.1	16.1	17.3	23.3	11.7	8.1	13.8	19.1	10.7	7.9	12.2
Other Services		7.1	7.1	9.4	13.6	14.2	10.4	10.5	14.2	14.9	13.3	7.8	3.1	16.3	19.4	30.1	40.4	27.4	20.2	21.2	28.4	16.6	14.5	19.2
											As Percent of Total GDP													
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Primary Production	28.6	27.1	25.4	28.3	25.5	23.1	28.4	33.2	26.7	29.3	27.9	24.5	23.3	21.4	20.1	18.4	20.2	14.0	14.1	11.9	11.4	10.4	9.6	8.8
Agriculture and Related Sectors	28.4	27.0	25.3	28.2	25.3	23.0	28.3	33.1	26.6	29.1	27.8	24.4	23.1	21.3	19.9	18.2	20.1	13.8	13.9	11.7	11.2	10.2	9.4	8.6
Mining	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Secondary Production	23.2	23.7	24.6	22.7	23.0	24.7	21.7	20.7	21.5	21.4	20.6	21.2	21.0	21.3	21.2	21.8	20.5	22.7	22.5	23.0	23.2	23.7	24.1	24.8
Manufacturing	16.8	19.2	19.5	18.2	17.9	18.6	16.3	14.6	15.7	15.5	15.0	15.7	15.4	15.5	15.8	16.4	15.6	17.5	17.6	18.1	18.6	18.7	18.8	19.0
Construction	2.8	3.0	3.5	3.2	3.7	4.9	3.8	4.6	4.2	3.9	3.4	3.3	3.4	3.4	3.0	3.0	2.8	3.1	3.0	3.1	2.6	2.7	3.0	3.1
Utilities	1.5	1.5	1.5	1.3	1.4	1.3	1.6	1.5	1.7	1.9	2.1	2.2	2.2	2.4	2.4	2.3	2.1	2.1	2.0	1.9	1.9	2.3	2.3	2.6
Services	48.2	49.2	50.0	48.9	51.5	52.1	49.9	46.1	51.7	49.4	51.5	54.3	55.7	57.3	58.7	59.9	59.3	63.3	63.4	65.1	65.5	65.9	66.3	66.5
Transportion and Communications	5.0	4.9	4.8	4.4	4.4	4.2	3.7	3.4	3.6	3.4	3.5	3.8	3.9	4.1	4.1	4.3	4.1	4.6	4.4	4.4	4.6	4.8	4.9	5.0
Commercial Services	21.1	21.7	22.3	21.9	24.5	24.8	24.7	22.3	25.2	23.3	22.9	23.5	23.3	24.7	25.7	27.2	28.5	31.4	31.9	33.6	34.6	35.1	35.8	36.6
Financial Services	2.2	2.3	2.3	2.9	2.6	2.9	2.7	3.3	3.4	3.3	3.4	3.4	3.7	3.5	3.4	3.1	2.9	2.8	2.8	2.5	2.2	2.5	2.6	2.6
Housing	3.7	3.7	3.7	3.6	3.6	3.6	3.4	3.2	3.7	3.7	4.3	4.8	5.3	5.3	5.4	5.2	4.8	5.1	5.6	5.9	5.8	5.7	5.6	5.3
Public Administration	7.8	8.1	8.3	8.0	8.6	8.6	8.5	8.0	9.3	9.1	10.3	10.9	11.7	11.6	11.7	11.2	10.0	9.5	8.7	8.4	7.9	7.5	7.0	6.5
Other Services	8.4	8.5	8.6	8.1	7.8	7.8	6.8	6.0	6.4	6.5	7.1	7.9	7.9	8.1	8.4	8.9	9.1	9.9	10.0	10.3	10.4	10.4	10.4	10.3

Source Central Reserve Bank
1/ Estimated values

06-Jul 94

Table A.1 c El Sal[illegible]s Domestic Product Deflators by Sector of Origin 1970-1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	[illegible]	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	[illegible]	1992	1993 1/
a. Deflators 1962 = 100																								
Gross Domestic Product	107.4	108.0	108.9	120.5	133.3	143.4	175.7	208.1	209.9	239.0	271.1	286.6	314.9	353.7	397.1	478.7	656.0	748.0	878.5	1014.5	1249.8	1408.2	1536.2	1764.0
Primary Production	116.6	112.1	110.3	139.3	134.9	130.6	222.5	315.5	239.1	282.5	294.9	267.7	276.9	297.8	309.8	352.4	552.2	437.9	525.4	519.7	590.4	628.1	611.2	671.1
Agriculture and Related Sectors	116.6	112.0	110.3	139.4	134.9	130.6	222.6	316.0	239.2	282.7	294.9	267.4	276.5	297.3	308.9	351.5	551.5	435.3	522.3	515.3	585.5	621.7	603.7	661.5
Mining	117.4	124.0	113.6	135.2	149.2	163.5	193.4	218.6	230.6	252.2	289.7	328.9	357.9	410.6	478.9	544.7	684.6	865.9	1000.0	1187.8	1453.3	1634.7	1760.7	1976.2
Secondary Production	108.9	108.7	111.4	115.1	129.2	142.6	150.6	163.3	177.1	202.7	228.4	254.2	280.5	314.1	357.8	433.6	549.3	685.5	776.7	914.9	1159.7	1305.7	1428.9	1621.0
Manufacturing	110.6	110.7	115.5	116.5	128.0	143.6	148.4	158.2	174.2	203.6	228.5	258.9	287.4	320.5	369.7	455.1	584.1	743.4	857.9	1016.1	1292.8	1443.7	1573.4	1782.7
Construction	113.3	113.5	108.6	137.6	170.6	171.4	186.5	208.3	217.5	234.1	274.6	301.4	332.5	372.5	408.9	480.7	586.4	683.1	725.9	847.1	1058.0	1174.3	1312.9	1504.4
Utilities	86.3	82.5	79.2	73.3	84.7	80.3	115.0	121.4	136.1	155.2	178.9	187.1	200.1	232.7	261.3	296.7	361.1	421.0	445.3	499.6	619.3	788.6	878.1	1033.4
Services	102.0	105.5	107.1	114.0	134.4	150.2	167.8	185.4	212.9	235.7	279.8	312.1	351.2	400.5	459.8	561.7	755.2	922.8	1072.6	1287.7	1605.7	1807.4	2035.1	2344.6
Transportion and Communications	100.3	101.6	102.6	104.8	105.6	108.5	107.9	113.3	130.3	139.8	161.8	190.3	214.9	240.8	273.7	343.0	454.0	579.7	645.7	749.1	943.9	1057.1	1173.4	1335.3
Commercial Services	96.1	101.9	104.9	110.7	141.5	156.6	183.3	199.3	233.6	264.0	326.0	381.2	446.0	524.9	614.6	796.3	1145.9	1461.2	1743.9	2095.5	2661.7	3015.5	3392.6	3918.6
Financial Services	112.6	119.7	109.7	142.7	137.3	165.0	177.7	230.9	249.8	269.8	294.2	317.1	335.8	362.5	393.3	430.4	541.3	599.8	716.2	807.1	919.0	1120.6	1313.7	1556.7
Housing	105.0	107.7	107.6	114.6	133.5	155.8	166.2	191.6	232.4	250.8	295.3	307.8	343.0	383.9	442.4	517.6	648.7	796.0	995.6	1210.0	1476.2	1651.8	1812.2	2007.1
Public Administration	109.5	109.8	111.7	118.9	138.9	157.4	177.1	198.0	224.3	235.9	268.1	272.7	294.6	321.3	355.3	389.4	459.5	493.3	515.5	592.9	695.3	746.8	818.7	910.4
Other Services	108.9	109.1	110.2	115.5	126.6	148.1	153.3	167.0	180.8	209.5	257.0	303.2	353.1	415.1	490.5	636.9	889.6	1117.0	1324.0	1580.6	1993.1	2238.9	2469.6	2789.6
Annual Growth Rates (in percent)																								
Gross Domestic Product		0.5	0.9	10.6	10.6	7.6	22.6	18.4	0.9	13.9	13.4	5.7	9.9	12.3	12.3	20.6	37.0	14.0	16.4	16.5	23.2	12.4	9.2	14.9
Primary Production		-3.9	1.6	26.3	-3.2	-3.1	70.1	41.8	24.2	18.1	4.4	9.2	3.4	7.6	4.0	13.8	56.7	-20.7	20.0	1.1	13.6	6.4	-2.7	9.8
Agriculture and Related Sectors		3.9	1.6	26.4	3.2	-3.2	70.5	41.9	24.3	18.2	4.3	9.3	3.4	7.5	3.9	13.8	56.9	21.1	20.0	1.4	13.6	6.2	2.9	9.6
Mining		5.6	6.4	19.0	10.4	9.6	18.3	13.0	5.6	9.2	14.9	13.5	8.8	14.8	16.6	13.7	25.7	26.5	15.5	18.8	22.4	12.5	7.7	12.2
Secondary Production		-0.2	2.5	3.3	12.3	10.3	5.6	8.5	8.4	14.5	12.7	11.3	10.3	12.0	13.9	21.2	26.7	24.8	13.3	17.8	26.7	12.7	9.4	13.4
Manufacturing		0.1	4.3	0.8	9.8	12.4	3.2	6.6	10.1	16.9	12.2	13.3	11.0	11.5	15.4	23.1	28.3	27.3	15.4	18.4	27.2	11.7	9.0	13.3
Construction		0.1	-4.1	26.7	23.9	0.4	8.8	11.6	4.4	7.6	17.3	9.8	10.3	12.0	9.8	17.6	22.0	16.5	6.3	16.7	24.9	11.0	11.8	14.6
Utilities		-4.5	-4.0	7.5	15.5	5.2	43.2	5.6	12.1	14.0	15.3	4.6	6.9	16.3	12.3	13.5	21.7	16.6	5.8	12.2	24.0	27.3	11.3	17.7
Services		3.4	1.5	6.5	17.9	11.8	11.7	10.5	14.8	10.7	18.7	11.6	12.5	14.0	14.8	22.2	34.4	22.2	16.3	20.1	24.7	12.6	12.6	15.2
Transportion and Communications		1.3	1.0	2.1	0.8	2.7	-0.5	5.0	15.0	7.3	15.8	17.6	13.0	12.0	13.7	25.3	32.4	27.7	11.4	16.0	26.0	12.0	11.0	13.8
Commercial Services		6.0	3.0	5.5	27.8	10.9	16.9	8.7	17.2	13.0	23.5	16.9	17.0	17.7	17.1	29.5	43.9	27.5	19.3	20.2	27.0	13.3	12.5	15.5
Financial Services		6.3	-8.4	30.1	3.8	20.2	7.7	29.9	8.2	8.0	9.1	7.8	5.9	7.9	8.5	9.4	25.8	10.8	19.4	12.7	13.9	21.9	17.2	18.5
Housing		2.6	-0.1	6.7	16.2	16.7	8.0	14.1	21.2	7.9	17.7	4.2	11.5	11.9	15.2	17.0	25.3	22.7	25.1	21.5	22.0	11.9	9.7	10.8
Public Administration		0.3	1.7	6.4	16.8	13.3	12.5	11.8	13.3	5.2	13.7	1.7	8.0	9.1	10.6	9.6	18.0	7.3	4.5	15.0	17.3	7.4	9.7	11.2
Other Services		0.2	1.0	4.8	11.5	13.4	4.9	8.9	8.3	15.9	22.7	18.0	16.5	17.5	18.2	29.9	39.7	25.6	18.5	19.4	26.1	12.3	10.3	13.0

Source Central Reserve Bank of El Salvador

1/ Estimated values

Table A.2 a. El Salv... s Domestic Product by Sector of Final Demand 1970-1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	19..	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	[illegible]
In Constant 1962 Prices.	Millions of 1962 Colones																							
Gross Domestic Product	2393.6	2508.8	2646.0	2779.8	2958.4	3122.8	3247.0	3443.7	3664.6	3601.7	3289.3	3016.9	2847.7	2870.4	2935.6	2993.0	3012.5	3093.5	3143.8	3177.9	3285.0	3401.9	3580.1	3761.7
Gross Domestic Expenditure	2443.1	2567.3	2659.2	2938.0	3101.8	3145.1	3480.3	4034.9	4165.8	3767.6	3330.2	3112.3	2875.9	2868.1	2971.6	3059.4	3140.1	3153.5	3259.9	3436.1	3304.0	3462.8	3663.1	3796.7
Consumption Expenditures	2155.0	2217.2	2331.6	2513.1	2586.4	2664.4	2948.3	3271.2	3379.6	3161.5	2918.1	2716.1	2520.1	2542.5	2636.3	2742.6	2755.5	2785.1	2823.3	2848.7	2914.2	2985.2	3058.1	3153.0
Private Sector	1903.7	1980.6	2054.0	2203.5	2288.8	2340.7	2573.6	2878.0	2943.3	2714.2	2495.7	2278.8	2084.6	2113.7	2175.3	2250.6	2244.9	2259.2	2284.3	2316.0	2376.6	2424.2	2496.1	2583.1
Public Sector	251.3	236.6	277.6	309.6	297.6	323.7	374.7	393.2	436.5	447.3	422.4	437.3	435.5	428.8	461.0	492.2	510.6	525.9	539.0	532.7	537.6	561.0	562.0	569.9
Gross Domestic Investment	288.1	350.1	327.6	424.9	536.4	480.7	532.0	763.7	786.0	606.1	412.1	396.2	355.8	325.6	335.3	316.6	384.6	368.4	436.6	587.4	389.8	477.6	605.0	642.7
Gross Fixed Capital Formation	259.1	283.6	365.8	351.0	401.5	519.1	535.0	677.4	695.5	586.7	422.3	376.7	338.7	313.5	320.8	353.6	380.1	414.7	430.2	469.2	388.0	461.2	577.8	638.8
Private Sector	195.6	209.3	272.0	245.7	281.0	320.3	355.1	430.8	495.3	371.2	189.4	161.3	163.7	178.0	199.4	241.9	285.8	306.8	305.1	318.5	293.8	350.9	413.5	466.6
Public Sector	63.5	84.3	113.8	105.3	120.5	198.8	179.9	246.6	200.2	215.5	232.9	215.4	175.0	135.5	121.4	111.7	94.3	107.9	125.1	150.7	94.2	110.3	164.3	172.2
Changes in Inventories	29.0	56.5	58.2	73.9	133.9	38.4	-3.0	86.3	90.5	19.4	10.2	19.5	17.1	12.1	14.5	-37.0	4.5	-46.3	6.4	118.2	1.6	16.4	27.2	3.9
Net Exports	-49.5	-58.5	13.2	158.2	143.4	-22.3	-233.3	-591.2	-501.0	165.9	-40.9	-95.4	-28.2	2.3	-36.0	-65.8	127.6	-60.0	116.1	-259.1	19.0	-61.8	-83.0	-34.0
Exports of Goods and Nonfactor Serv	510.1	554.4	649.8	625.0	666.6	747.1	676.5	597.2	719.7	979.9	837.6	690.4	588.4	696.1	674.4	648.1	566.4	636.6	576.8	476.1	718.9	707.4	786.9	900.6
Imports of Goods and Nonfactor Servi	559.6	612.9	663.0	783.2	810.0	769.4	909.8	1188.4	1220.7	1145.8	878.5	785.8	616.6	695.8	710.4	713.9	694.0	696.6	692.9	735.2	737.9	769.2	869.9	934.6
Net Factor Payments	19.6	-23.4	-24.5	-31.4	-39.7	-47.9	-9.7	-34.7	-62.1	-25.3	-47.0	-51.9	72.7	104.5	-86.3	73.9	72.0	70.1	-58.5	-56.0	-62.0	-58.5	-31.6	-20.4
Gross National Product at Market Pr	2374.0	2485.4	2621.5	2748.4	2918.7	3074.9	3237.3	3409.0	3602.7	3576.4	3242.3	2965.0	2775.0	2765.9	2849.3	2919.7	2940.5	3023.4	3085.3	3121.9	3223.0	3342.5	3548.5	3741.3
	Annual Growth Rates (in percent)																							
Gross Domestic Product	3.0	4.8	5.5	5.1	6.4	5.6	4.0	6.1	6.4	1.7	-8.7	-8.3	-5.6	0.8	2.3	2.0	0.6	2.7	1.6	1.1	3.4	3.5	5.3	5.1
Gross Domestic Expenditure		5.1	3.6	10.5	5.6	1.4	10.7	15.9	3.2	-9.6	11.6	-6.5	7.6	-0.3	3.6	3.0	2.8	0.4	3.4	5.4	-3.8	4.8	5.8	3.6
Consumption Expenditures		2.9	5.2	7.8	2.1	3.8	10.7	11.0	3.3	-6.5	7.7	-6.9	7.2	0.9	3.7	4.0	0.5	1.1	1.4	0.9	2.3	2.4	2.4	3.1
Private Sector		4.0	3.7	7.3	3.0	3.2	10.0	11.8	2.3	7.8	-8.1	-8.7	-8.5	1.4	2.9	3.5	-0.3	0.6	1.1	1.4	2.6	2.0	3.0	3.5
Public Sector		5.6	17.3	11.5	-3.9	6.6	15.8	4.9	11.0	2.5	5.6	3.5	-0.4	1.5	7.5	6.6	3.7	3.0	2.5	1.2	0.9	4.4	0.2	1.4
Gross Domestic Investment		21.5	-6.4	29.7	26.0	10.2	10.7	43.6	2.9	-22.9	-32.0	-3.9	10.2	-8.5	3.0	-5.6	21.5	-4.2	18.5	34.5	-33.6	22.5	26.7	6.2
Gross Fixed Capital Formation		13.3	31.4	9.0	14.4	29.3	3.1	26.6	2.7	15.6	28.0	10.8	10.1	7.4	2.3	10.2	7.5	9.1	3.7	9.1	17.3	18.9	25.3	10.6
Private Sector		7.0	30.0	9.7	14.4	14.0	10.9	21.3	15.0	25.1	-49.0	14.8	1.5	8.7	12.0	21.3	18.1	7.3	-0.8	4.4	7.8	19.4	17.8	12.6
Public Sector		32.8	35.0	7.5	14.4	65.0	9.5	37.1	18.8	7.6	6.1	7.5	18.8	22.6	10.4	-8.0	15.6	14.4	15.9	20.5	-37.5	17.1	49.0	4.8
Changes in Inventories																								
Net Exports																								
Exports of Goods and Nonfactor Services		6.7	17.2	3.8	6.7	12.1	9.4	11.7	20.5	36.2	14.5	17.6	14.8	18.6	3.4	-3.9	12.6	12.4	-9.4	17.5	51.0	1.6	11.2	14.4
Imports of Goods and Nonfactor Services		9.5	8.2	18.1	3.4	5.0	18.2	30.6	2.7	-6.1	23.3	10.6	21.5	12.6	2.1	0.5	2.6	0.4	-0.5	6.1	0.4	4.2	13.1	7.4
Net Factor Payments		19.5	4.6	27.9	26.5	20.6	79.7	257.8	78.6	-88.3	86.3	10.3	40.1	43.9	17.4	14.4	-2.6	-2.5	16.6	-4.3	10.6	-8.7	-46.0	-35.4
Gross National Product at Market Prices		4.7	5.5	4.8	6.2	5.4	5.3	5.3	5.7	-0.7	-9.3	-8.6	-6.4	-0.3	3.0	2.5	0.7	2.8	2.0	1.2	3.3	3.7	6.2	5.4
	As Percent of Total GDP																							
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross Domestic Expenditure	102.1	102.3	100.5	105.7	104.8	100.7	107.2	117.2	113.7	104.6	101.2	103.2	101.0	99.9	101.2	102.2	104.2	101.9	103.7	108.2	100.6	101.8	102.3	100.9
Consumption Expenditures	90.0	88.4	88.1	90.4	86.7	85.3	90.8	95.0	92.2	87.8	88.7	90.0	88.5	88.6	89.8	91.6	91.5	90.0	89.8	89.7	88.7	87.8	85.4	83.8
Private Sector	79.5	78.9	77.6	79.3	76.7	75.0	79.3	83.6	80.3	75.4	75.9	75.5	73.2	73.6	74.1	75.2	74.5	73.0	72.7	72.9	72.3	71.3	69.7	68.7
Public Sector	10.5	9.4	10.5	11.1	10.1	10.4	11.5	11.4	11.9	12.4	12.8	14.5	15.3	14.9	15.7	16.4	16.9	17.0	17.1	16.8	16.4	16.5	15.7	15.2
Gross Domestic Investment	12.0	14.0	12.4	15.3	18.1	15.4	16.4	22.2	21.4	16.8	12.5	13.1	12.5	11.3	11.4	10.6	12.8	11.9	13.9	18.5	11.9	14.0	16.9	17.1
Gross Fixed Capital Formation	10.8	11.7	14.6	12.6	13.6	16.6	16.5	19.7	19.0	16.3	12.8	12.5	11.9	10.9	10.9	11.8	12.6	13.4	13.7	14.8	11.8	13.6	16.1	17.0
Private Sector	8.2	8.3	10.3	8.8	9.5	10.3	10.9	12.5	13.5	10.3	5.8	5.3	5.7	6.2	6.8	8.1	9.5	9.9	9.7	10.0	8.9	10.3	11.5	12.4
Public Sector	2.7	3.4	4.3	3.8	4.1	6.4	5.5	7.2	5.5	6.0	7.1	7.1	6.1	4.7	4.1	3.7	3.1	3.5	4.0	4.7	2.9	3.2	4.6	4.6
Changes in Inventories	1.2	2.3	2.2	2.7	4.5	1.2	-0.1	2.5	2.5	0.5	-0.3	0.6	0.6	0.4	0.5	1.2	0.1	1.5	0.2	3.7	0.1	0.5	0.8	0.1
Net Exports	-2.1	-2.3	-0.5	-5.7	-4.8	-0.7	7.2	17.2	13.7	-4.6	1.2	-3.2	1.0	0.1	1.2	2.2	-4.2	1.9	-3.7	-8.2	-0.6	1.8	-2.3	-0.9
Exports of Goods and Nonfactor Serv	21.3	22.1	24.6	22.5	22.5	23.9	20.8	17.3	19.6	27.2	25.5	22.9	20.7	24.3	23.0	21.6	18.8	20.6	18.3	15.0	21.9	20.8	22.0	23.9
Imports of Goods and Nonfactor Servi	23.4	24.4	25.1	28.2	27.4	24.6	28.0	34.5	33.3	31.8	26.7	26.0	21.7	24.2	24.2	23.8	23.0	22.5	22.0	23.1	22.5	22.6	24.3	24.8
Net Factor Payments	-0.8	-0.9	-0.9	1.1	1.3	1.5	-0.3	1.0	1.7	-0.7	1.4	1.7	2.6	-3.6	-2.9	-2.5	-2.4	-2.3	1.9	1.8	1.9	1.7	-0.9	-0.5
Gross National Product at Market Pr	99.2	99.1	99.1	98.9	98.7	98.5	99.7	99.0	98.3	99.3	98.6	98.3	97.4	96.4	97.1	97.5	97.6	97.7	98.1	98.2	98.1	98.3	99.1	99.5

Source Central Reserve Bank of El Salvador
1/ Estimated values

Table A.2 b El Sal[illegible]s Domestic Product by Sector of Final Demand 1970-1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1[illegible]	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	[illegible]/
In Current Prices.											**Millions of Colones**													
Gross Domestic Product	2571	2704	2882	3332	3944	4478	5706	7167	7692	8607	8917	8646	8966	10152	11657	14331	19763	23141	27366	32230	41057	47792	54961	66356
Gross Domestic Expenditure	2564	2758	2854	3432	4275	4709	5779	7117	8405	8622	8835	9244	9477	10702	12448	15415	20628	24786	29138	35605	45641	53700	63570	75943
Consumption Expenditures	2223	2336	2446	2823	3383	3719	4659	5439	6570	7066	7652	8013	8291	9478	11054	13860	18009	21926	25637	30373	40791	47093	54527	64911
Private Sector	1948	2061	2138	2474	2954	3218	3973	4834	5574	5933	6405	6644	6877	7871	9184	11640	15206	18744	22153	26443	36141	41821	48738	58420
Public Sector	276	275	307	349	429	501	686	605	996	1133	1247	1369	1415	1607	1869	2220	2803	3181	3484	3930	4649	5272	5789	6491
Gross Domestic Investment	341	422	408	609	892	990	1120	1679	1834	1556	1183	1231	1185	1224	1394	1554	2619	2861	3501	5232	4851	6606	9043	11032
Gross Fixed Capital Formation	308	359	474	521	718	1031	1145	1521	1652	1512	1210	1173	1130	1180	1336	1723	2594	3158	3456	4293	4834	6435	8763	10988
Private Sector	236	264	346	377	508	674	791	995	1202	990	575	539	585	716	881	1251	2091	2481	2607	3169	3904	5226	6762	8583
Public Sector	72	96	128	144	210	357	354	525	449	522	636	634	545	464	455	473	502	677	848	1124	930	1209	2001	2405
Changes in Inventories	33	62	-66	88	174	-40	26	158	182	44	27	58	56	44	59	169	26	297	45	938	17	171	280	44
Net Exports	7	-54	28	101	-332	-232	73	50	713	15	82	-597	-510	-550	791	1064	-865	1645	1772	-3375	-4584	-5908	-8609	-9587
Exports of Goods and Nonfactor Serv	639	666	838	998	1278	1480	2028	2735	2326	3182	3046	2307	2042	2486	2536	3199	4875	4395	4327	4261	6528	7055	7459	9074
Imports of Goods and Nonfactor Servi	631	720	811	1099	1610	1711	2101	2686	3041	3197	2964	2904	2553	3036	3327	4263	5740	6040	6099	7636	11113	12963	16068	18662
Net Factor Payments	-21	-25	-27	-38	-53	-69	17	72	130	-60	128	149	-229	-370	-343	-354	-472	-525	-509	-568	775	-822	-485	-360
Gross National Product at Market Pr	2550	2679	2855	3294	3891	4409	5689	7095	7562	8547	8789	8498	8737	9782	11314	13977	19291	22616	26857	31662	40282	46970	54476	65996
											Annual Growth Rates (in percent)													
Gross Domestic Product		5.2	6.6	15.6	18.4	13.5	27.4	25.6	7.3	11.9	3.6	-3.0	3.7	13.2	14.8	22.9	37.9	17.1	18.3	17.8	27.4	16.4	15.0	20.7
Gross Domestic Expenditure		7.5	3.5	20.3	24.6	10.1	22.7	23.2	18.1	2.6	2.5	4.6	2.5	12.9	16.3	23.8	33.8	20.2	17.6	22.2	28.2	17.7	18.4	19.5
Consumption Expenditures		5.1	4.7	15.4	19.8	9.9	25.3	16.7	20.8	7.5	8.3	4.7	3.5	14.3	16.6	25.4	29.9	21.7	16.9	18.5	34.3	15.5	15.8	19.0
Private Sector		5.8	3.8	15.7	19.4	8.9	23.5	16.6	20.3	6.4	8.0	3.7	3.5	14.5	16.7	26.7	30.6	23.3	18.2	19.4	36.7	15.7	16.5	19.9
Public Sector		-0.3	11.8	13.5	22.9	16.9	36.8	17.3	23.8	13.8	10.1	9.7	3.4	13.6	16.3	18.7	26.2	13.5	9.5	12.8	18.3	13.4	9.8	12.1
Gross Domestic Investment		23.8	-3.2	49.2	46.5	11.0	13.0	49.9	9.3	15.2	24.0	4.1	-3.7	3.2	13.9	11.5	68.5	9.2	22.4	49.4	7.3	36.2	36.9	22.0
Gross Fixed Capital Formation		16.6	32.0	9.9	37.9	43.4	11.1	32.8	8.6	-8.5	19.9	3.1	3.7	4.4	13.2	29.0	50.5	21.8	9.4	24.2	12.6	33.1	36.2	25.4
Private Sector		11.8	31.3	9.0	34.9	32.5	17.5	25.8	20.8	17.7	-41.9	-6.2	8.5	22.3	23.0	42.0	67.2	18.6	5.1	21.6	23.2	33.9	29.4	26.9
Public Sector		32.4	33.9	12.3	45.9	70.0	-0.8	48.3	14.4	16.2	21.7	-0.3	14.1	14.8	1.9	3.8	6.3	34.8	25.3	32.5	17.3	30.0	65.6	20.2
Changes in Inventories																								
Net Exports																								
Exports of Goods and Nonfactor Services		4.3	25.9	19.0	28.1	15.7	37.1	34.9	14.9	36.7	-4.3	24.3	11.5	21.7	2.0	26.2	52.4	9.9	1.5	1.5	53.2	8.1	5.7	21.6
Imports of Goods and Nonfactor Services		14.0	12.6	35.6	48.5	6.3	22.8	27.8	13.2	5.1	7.3	2.0	12.1	18.9	9.6	28.8	34.0	5.2	1.0	25.2	45.5	16.6	24.0	16.1
Net Factor Payments		19.0	5.9	40.8	40.7	29.7	75.2	323.8	80.4	-53.7	111.3	16.6	53.9	61.6	7.3	3.2	33.4	11.1	-3.0	11.6	36.5	6.1	-41.0	-25.7
Gross National Product at Market Prices		5.0	6.6	15.4	18.1	13.3	29.0	24.7	6.6	13.0	2.8	-3.3	2.8	12.0	15.7	23.5	38.0	17.2	18.8	17.9	27.2	16.6	16.0	21.1
											As Percent of Total GDP													
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross Domestic Expenditure	99.7	102.0	99.0	103.0	108.4	105.2	101.3	99.3	109.3	100.2	99.1	106.9	105.7	105.4	106.8	107.6	104.4	107.1	106.5	110.5	111.2	112.4	115.7	114.4
Consumption Expenditures	86.5	86.4	84.9	84.7	85.8	83.1	81.7	75.9	85.4	82.1	85.8	92.7	92.5	93.4	94.8	96.7	91.1	94.7	93.7	94.2	99.4	98.5	99.2	97.8
Private Sector	75.7	76.2	74.2	74.3	74.9	71.9	69.6	64.7	72.5	68.9	71.8	76.8	76.7	77.5	78.8	81.2	76.9	81.0	80.9	82.0	88.0	87.5	88.7	88.0
Public Sector	10.7	10.2	10.7	10.5	10.9	11.2	12.0	11.2	12.9	13.2	14.0	15.8	15.8	15.8	16.0	15.5	14.2	13.7	12.7	12.2	11.3	11.0	10.5	9.8
Gross Domestic Investment	13.2	15.6	14.2	18.3	22.6	22.1	19.6	23.4	23.8	18.1	13.3	14.2	13.2	12.1	12.0	10.8	13.3	12.4	12.8	16.2	11.8	13.8	16.5	16.6
Gross Fixed Capital Formation	12.0	13.3	16.5	15.6	18.2	23.0	20.1	21.2	21.5	17.6	13.6	13.6	12.6	11.6	11.5	12.0	13.1	13.6	12.6	13.3	11.8	13.5	15.9	16.6
Private Sector	9.2	9.7	12.0	11.3	12.9	15.0	13.9	13.9	15.6	11.5	6.4	6.2	6.5	7.0	7.6	8.7	10.6	10.7	9.5	9.8	9.5	10.9	12.3	12.9
Public Sector	2.8	3.5	4.4	4.3	5.3	8.0	6.2	7.3	5.8	6.1	7.1	7.3	6.1	4.6	3.9	3.3	2.5	2.9	3.1	3.5	2.3	2.5	3.6	3.6
Changes in Inventories	1.3	2.3	2.3	2.6	4.4	-0.9	-0.5	2.2	2.4	0.5	-0.3	0.7	0.6	0.4	0.5	1.2	0.1	1.3	0.2	2.9	0.0	0.4	0.5	0.1
Net Exports	0.3	-2.0	1.0	-3.0	-8.4	-5.2	1.3	0.7	-9.3	-0.2	0.9	-6.9	-5.7	-5.4	-6.8	7.6	-4.4	7.1	-6.5	10.5	11.2	12.4	15.7	14.4
Exports of Goods and Nonfactor Serv	24.8	24.6	29.1	30.0	32.4	33.0	35.5	38.2	30.3	37.0	34.2	26.7	22.8	24.5	21.8	22.3	24.7	19.0	15.8	13.2	15.9	14.8	13.6	13.7
Imports of Goods and Nonfactor Servi	24.5	26.6	28.1	33.0	40.8	38.2	36.8	37.5	39.5	37.1	33.2	33.6	28.5	29.9	28.5	29.9	29.0	26.1	22.3	23.7	27.1	27.1	29.2	28.1
Net Factor Payments	-0.8	-0.9	-0.9	1.1	1.3	1.5	-0.3	1.0	1.7	-0.7	1.4	1.7	2.6	-3.6	2.9	2.5	-2.4	-2.3	1.9	1.8	1.9	1.7	-0.9	-0.5
Gross National Product at Market Pr	99.2	99.1	99.1	98.9	98.7	98.5	99.7	99.0	98.3	99.3	98.6	98.3	97.4	96.4	97.1	97.5	97.6	97.7	98.1	98.2	98.1	98.3	99.1	99.5

Source Central Reserve Bank of El Salvador
1/ Estimated values

Table A.2 c El S[illegible]ross Domestic Product Deflators by Sector of Final Demand 1970 1993

	1970	1971	1972	1973	1974	1975	1976	1977	1978	[illegible]	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 1/
a. Deflators 1982 = 100																								
Gross Domestic Product	107.4	107.8	108.9	119.9	133.3	143.4	175.7	208.1	209.9	239.0	271.1	286.6	314.9	353.7	397.1	478.7	656.0	748.0	870.5	1014.5	1249.8	1405.2	1535.2	1764.0
Gross Domestic Expenditure	104.9	107.4	107.3	116.8	137.8	149.7	166.0	176.4	201.8	228.8	265.3	297.0	329.5	373.1	418.9	503.8	656.9	786.0	893.8	1036.2	1381.4	1550.8	1735.4	2000.8
Consumption Expenditures	103.2	105.4	104.9	112.3	131.6	139.8	158.0	166.3	194.4	223.5	262.2	295.0	329.0	372.6	419.3	505.3	653.6	787.2	906.0	1066.2	1399.7	1577.6	1783.0	2056.7
Private Sector	102.3	104.1	104.1	112.3	130.2	137.5	154.4	161.0	189.4	218.8	256.6	291.6	329.9	372.4	422.2	517.2	677.4	829.7	969.6	1141.7	1520.7	1725.1	1952.5	2261.6
Public Sector	109.7	116.2	110.6	112.7	144.1	154.6	183.0	204.7	226.2	253.3	295.3	313.0	324.8	374.6	405.5	451.0	546.9	604.9	646.4	737.6	864.6	939.6	1030.1	1136.9
Gross Domestic Investment	118.2	120.4	124.6	143.3	166.6	206.1	210.4	219.8	233.4	256.7	287.1	310.7	333.1	375.8	415.9	491.0	681.0	776.5	801.8	890.6	1244.4	1383.2	1494.7	1716.6
Gross Fixed Capital Formation	118.9	122.4	122.9	148.4	178.9	196.5	214.1	224.5	237.5	257.7	266.5	311.4	333.5	376.3	416.4	487.4	682.3	761.5	803.3	915.0	1245.7	1395.2	1516.5	1720.1
Private Sector	120.5	125.9	127.2	153.4	180.9	210.3	222.9	231.1	242.8	266.6	303.4	334.3	357.4	402.1	441.6	517.0	731.7	806.6	854.6	995.0	1326.6	1489.3	1635.2	1839.5
Public Sector	113.9	113.6	112.7	136.8	174.3	179.6	196.8	212.9	224.5	242.2	272.9	294.2	311.2	342.5	375.0	423.1	532.8	627.5	676.2	746.0	987.3	1095.7	1217.9	1396.6
Changes in Inventories	112.3	110.4	113.5	119.1	129.8	104.4	661.6	183.3	201.6	229.3	265.7	297.9	325.7	362.8	403.4	456.5	571.1	642.3	704.7	793.7	955.6	1045.1	1030.5	1133.3
Net Exports																								
Exports of Goods and Nonfactor Service	125.2	120.1	129.0	159.7	191.6	198.1	299.8	458.0	323.5	324.7	363.7	334.1	347.1	356.1	376.0	493.6	660.7	690.3	750.1	895.0	908.1	997.3	947.9	1007.6
Imports of Goods and Nonfactor Service	112.6	117.4	122.3	140.3	196.6	222.4	230.9	226.0	249.1	279.0	337.4	369.6	414.0	436.4	486.3	599.9	627.1	667.1	860.1	1038.6	1506.0	1685.2	1847.1	1996.7
Net Factor Payments	107.4	107.8	108.9	119.9	133.3	143.4	175.7	208.1	209.9	239.0	271.1	286.6	314.9	353.7	397.1	478.7	656.0	748.0	870.5	1014.5	1249.8	1405.2	1535.2	1764.0
Gross National Product at Market Price	107.4	107.8	108.9	119.9	133.3	143.4	175.7	208.1	209.9	239.0	271.1	286.6	314.9	353.7	397.1	478.7	656.0	748.0	870.5	1014.5	1249.8	1405.2	1535.2	1764.0
Annual Growth Rates (in percent)																								
Gross Domestic Product		0.3	1.1	10.0	11.2	7.6	22.6	18.4	0.9	13.9	13.4	5.7	9.9	12.3	12.3	20.6	37.0	14.0	16.4	16.5	23.2	12.4	9.2	14.9
Gross Domestic Expenditure		2.3	-0.1	8.9	18.0	8.6	10.9	6.2	14.4	13.4	15.9	12.0	10.9	13.2	12.3	20.3	30.4	19.6	13.7	15.9	33.3	12.3	11.9	15.3
Consumption Expenditures		2.1	-0.4	7.1	17.3	5.9	13.2	5.2	16.9	15.0	17.3	12.5	11.5	13.3	12.5	20.5	29.3	20.5	15.3	17.4	31.3	12.7	13.0	15.5
Private Sector		1.7	0.0	7.8	16.0	5.6	12.3	4.3	17.6	15.4	17.4	13.6	13.1	12.9	13.4	22.5	31.0	22.5	16.9	17.7	33.2	13.4	13.2	15.8
Public Sector		5.9	-4.7	1.6	27.8	7.5	18.2	11.6	11.5	11.0	16.6	6.0	3.8	15.4	8.2	11.2	21.7	10.2	6.9	14.1	17.2	8.7	9.6	10.6
Gross Domestic Investment		1.9	3.4	15.0	16.3	23.6	2.1	4.5	6.2	10.0	11.8	8.2	7.2	12.8	10.7	18.1	38.7	14.0	3.3	11.1	39.7	11.2	8.1	14.8
Gross Fixed Capital Formation		2.9	0.4	20.8	20.6	10.9	7.6	4.8	5.8	8.5	11.2	8.7	7.1	12.8	10.7	17.0	40.0	11.6	5.5	13.9	36.1	12.0	8.7	13.4
Private Sector		4.5	1.0	20.6	17.9	16.2	6.0	3.7	5.1	9.8	13.8	10.2	6.9	12.5	9.8	17.1	41.5	10.5	5.7	16.4	33.5	12.1	9.8	12.5
Public Sector		-0.3	-0.8	21.4	27.5	3.0	9.6	6.2	5.4	7.9	12.6	7.6	5.8	10.1	9.5	12.8	25.9	17.8	8.1	10.0	32.3	11.0	11.1	14.7
Changes in Inventories		1.7	2.8	4.9	9.0	19.6	725.5	76.7	10.0	13.7	15.9	12.1	9.3	11.4	11.2	13.1	25.1	12.5	9.7	12.6	20.4	9.4	1.4	10.0
Net Exports																								
Exports of Goods and Nonfactor Services		-4.0	7.4	23.8	20.1	3.3	51.4	52.8	29.4	0.4	12.0	-8.1	3.9	2.6	5.6	31.3	74.4	19.6	8.7	19.3	1.5	9.8	5.0	6.3
Imports of Goods and Nonfactor Services		4.1	4.1	14.6	41.7	11.9	3.8	2.1	10.2	12.0	20.9	9.5	12.0	5.4	7.3	28.1	37.9	4.6	1.5	18.0	45.0	11.9	9.6	8.1
Net Factor Payments		0.3	1.1	10.0	11.2	7.6	22.6	18.4	0.9	13.9	13.4	5.7	9.9	12.3	12.3	20.5	37.0	14.0	16.4	16.5	23.2	12.4	9.3	14.9
Gross National Product at Market Prices		0.3	1.1	10.0	11.2	7.6	22.6	18.4	0.9	13.9	13.4	5.7	9.9	12.3	12.3	20.6	37.0	14.0	16.4	16.5	23.2	12.4	9.2	14.9

Source Central Reserve Bank of El Salvador
1/ Estimated values

Table A.3
El Salvador Savings and Investment, 1988-1993
(millions of colones)

	1988	1989	1990	1991	Prel 1992	Prel 1993
(Current Prices)						
Gross Domestic Investment	3500.8	5231.6	4850.7	6606.1	9042.9	11032.7
Gross Fixed Capital Formation	3455.7	4293.4	4833.5	6434.7	8762.6	10988.5
Private Sector	2607.3	3169.2	3903.5	5226.1	6761.6	8583.6
Public Sector	848.4	1124.2	930.0	1208.6	2001.0	2404.9
Changes in Inventories	45.1	938.2	17.2	171.4	280.3	44.2
Gross National Savings	2258.5	2201.3	2089.5	4235.7	5848.8	8247.0
Private Sector	2174.3	2703.7	2219.7	4567.7	5736.8	7777.0
Public Sector	84.2	-502.4	-130.2	-332.0	112.0	470.0
Foreign Savings 1/	1242.3	3030.3	2761.2	2370.4	3194.1	2785.7
(As percent of GDP at current prices)						
Gross Domestic Investment	12.8	16.2	11.8	13.9	16.5	16.6
Gross Fixed Capital Formation	12.6	13.3	11.8	13.4	15.9	16.6
Private Sector	9.5	9.8	9.5	10.9	12.3	12.9
Public Sector	3.1	3.5	2.3	2.5	3.6	3.6
Changes in Inventories	0.2	2.9	0.0	0.4	0.5	0.1
Gross National Savings	8.3	6.8	5.1	8.9	10.6	12.4
Private Sector	7.9	8.4	5.4	9.6	10.4	11.7
Public Sector	0.3	-1.6	-0.3	-0.7	0.2	0.7
Foreign Savings 1/	4.5	9.4	6.7	5.0	5.8	4.2
(Constant 1962 Prices)						
Gross Domestic Investment	436.6	587.4	389.8	477.6	605.0	642.7
Gross Fixed Capital Formation	430.2	469.2	388.0	461.2	577.8	638.8
Private Sector	305.1	318.5	293.8	350.9	413.5	466.6
Public Sector	125.1	150.7	94.2	110.3	164.3	172.2
Changes in Inventories	6.4	118.2	1.8	16.4	27.2	3.9
Gross National Savings	281.7	247.1	167.9	306.2	396.9	484.8
Private Sector	271.2	303.6	178.4	330.2	373.7	440.9
Public Sector	10.5	-56.4	-10.5	-24.0	7.3	26.6
Foreign Savings 1/ 2/	154.9	340.3	221.9	171.4	208.1	157.9
(As percent of GDP in constant 1962 prices)						
Gross Domestic Investment	13.9	18.5	11.9	14.0	16.9	17.1
Gross Fixed Capital Formation	13.7	14.8	11.8	13.6	16.1	17.0
Private Sector	9.7	10.0	8.9	10.3	11.5	12.4
Public Sector	4.0	4.8	2.9	3.3	4.6	4.6
Changes in Inventories	0.2	3.7	0.1	0.5	0.8	0.1
Gross National Savings	9.0	7.8	5.1	9.0	11.1	12.9
Private Sector	8.6	9.6	5.4	9.7	10.4	11.7
Public Sector	0.3	-1.8	-0.3	-0.7	0.2	0.7
Foreign Savings 1/ 2/	4.9	10.7	6.8	5.0	5.8	4.2

1/ Balance of Payments Current Account excluding official transfers
2/ Foreign savings deflated by the gross domestic investment deflator

Table B 1
El Salvador
Consumer Price Index by Major Categories and
GDP Deflator
1980-1993

	Weights	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
							(December 1992=100)								
							I. Period Averages								
General	100 0	12.4	14.3	16 0	18.0	20.2	24 7	32.5	40 6	48.6	57.2	70.9	81.2	90.3	107 0
Foodstuffs	41 6	9 8	11 5	12.7	14 4	16 4	19 5	25 7	32.3	41 8	53 0	66 7	78 6	88 7	111 5
Clothing	7 1	17 8	21 5	25 1	28 3	31 0	38 6	52.1	61.2	65 6	70 1	79 0	85 0	93 3	103 1
Housing	23 0	18.2	19 9	22.2	25 6	28 0	37.2	48 6	60 6	65 1	66 6	84 5	91 7	96 5	102.9
Miscellaneous	28 3	16.5	18 3	20 6	22.6	24 5	29 0	38 4	49 0	55 7	61 3	72.2	79 4	89 5	104 6
							II. End of Period								
General		13.3	14.8	16 8	19.3	21.2	27 9	36 4	43.6	51.5	63.6	75.9	83 4	100 0	112.1
Foodstuffs		10 4	11 9	13 2	15 6	17 3	22.0	28 7	35 1	45 9	60 8	72.2	81 1	100 0	121.2
Clothing		18 7	22.5	26 2	29 8	32.6	43 3	58 8	63 7	67 4	74 0	81 7	85 9	100 0	105 2
Housing		19 8	20 4	24 2	27 0	29 0	42.5	53 6	64 4	64 6	68 9	88 3	93 5	100 0	104 2
Miscellaneous		17 1	19 1	21 6	23 7	26 2	33.2	43 6	51 7	56 9	66 7	76 7	81 4	100 0	106 8
GDP Deflator		271 1	286 6	314 9	353 7	397 1	478.7	656 0	748 0	870.5	1014.5	1249.8	1405.2	1535.2	1764 0
							(Annual percentage changes)								
							I. Period Averages								
General			14 9	11 7	13 1	11 7	22.3	31 9	24 9	19.8	17 6	24 0	14.4	11.2	18.5
dstuffs			17 6	10 6	13 4	14 1	18 8	31 9	25 4	29 4	27 0	25 8	17.9	12.8	25 8
ing			21 1	16 5	13 0	9 6	24 4	35 0	17 3	7 3	6 8	12.6	7 6	9 8	10 5
sing			9 2	11 7	15 0	9 4	33 0	30 6	24 7	7 4	2.3	26 9	8 5	5.2	6 7
Miscellaneous			10 9	12.6	9 9	8 2	18 4	32.7	27 6	13 6	10.2	17 7	10 1	12.7	16 9
							II End of Period								
General			11 7	13.4	14 8	9.8	32.0	30.3	19 6	18.2	23.5	19.3	9.8	20 0	12.1
Foodstuffs			14 4	11 1	17 8	10 6	27 5	30 3	22.5	30 6	32.6	18 7	12.2	23 4	21.2
Clothing			20 2	16 5	13 6	9 6	33 0	35 6	8 4	5 8	9 9	10 4	5 1	16 5	5.2
Housing			3 0	18 4	11 8	7 4	46 7	26 1	20 0	0 4	6 6	28.2	5 8	7 0	4.2
Miscellaneous			11 4	12.9	10 0	10 5	26 8	31 3	18 6	10 0	17 1	15 1	6 0	22.9	6 8
GDP Deflator			5 7	9 9	12.3	12.3	20 6	37 0	14 0	16 4	16 5	23.2	12.4	9 3	14 9

Source General Directorate of Statistics and Census (DIGESTYC) and Central Reserve Bank of El Salvador (CRB)

30-Jun-94

Table B.2
El Salvador
Consumer Price Index
Annual Quarterly and Monthly Indices
1980-1993
(December 1992 = 100)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Annual	9.15	10.60	12.43	14.28	15.95	18.04	20.15	24.65	32.53	40.61	48.64	57.22	70.95	81.16	90.27	106.98
Quarter I	8.53	10.07	11.49	13.64	15.14	17.06	19.55	22.13	29.29	37.73	45.11	52.78	66.71	77.89	84.19	102.21
Quarter II	8.92	10.38	12.30	14.16	15.78	17.51	20.01	23.76	31.51	40.30	48.41	55.24	70.81	80.25	86.12	104.88
Quarter III	9.46	10.77	12.82	14.54	16.20	18.51	20.25	25.41	33.63	41.37	50.02	58.86	71.78	83.25	91.74	109.54
Quarter IV	9.67	11.16	13.13	14.76	16.68	19.09	20.80	27.31	35.67	43.03	51.01	61.99	74.48	83.25	99.02	111.28
January	8.55	9.90	11.24	13.47	14.97	16.93	19.43	21.60	28.44	37.20	44.30	51.84	65.14	77.35	83.85	102.16
February	8.53	10.09	11.41	13.68	15.06	17.00	19.47	22.09	29.41	37.45	44.90	52.84	66.57	77.61	84.08	101.83
March	8.52	10.24	11.82	13.78	15.38	17.24	19.76	22.70	30.02	38.56	46.13	53.66	68.43	78.71	84.64	102.63
April	8.73	10.30	12.08	14.01	15.58	17.24	19.96	23.20	30.79	39.84	47.42	53.92	69.94	79.12	85.53	103.08
May	8.92	10.40	12.33	14.13	15.77	17.47	20.02	23.64	31.46	40.26	48.37	54.74	70.50	80.49	85.91	104.39
June	9.13	10.43	12.48	14.34	16.00	17.81	20.06	24.43	32.27	40.80	49.43	57.06	71.98	81.15	86.92	107.17
July	9.40	10.55	12.77	14.46	16.05	18.10	20.15	24.96	32.69	41.12	51.08	58.08	72.32	83.10	88.61	109.40
August	9.40	10.67	12.79	14.54	16.08	18.56	20.25	25.32	33.76	41.26	49.34	59.00	71.19	83.24	91.18	109.60
September	9.56	11.09	12.91	14.62	16.46	18.88	20.36	25.95	34.43	41.73	49.64	59.49	71.84	83.42	95.44	109.61
October	9.62	11.11	13.02	14.71	16.55	18.93	20.39	26.60	35.03	42.44	50.67	60.81	73.01	83.45	97.61	110.75
November	9.65	11.17	13.09	14.76	16.67	19.04	20.82	27.38	35.55	43.08	50.85	61.55	74.51	82.96	99.46	110.99
December	9.75	11.20	13.27	14.82	16.81	19.29	21.18	27.95	36.43	43.57	51.52	63.62	75.92	83.35	100.00	112.09

General Directorate of Statistics and Census.

Table B.3
El Salvador
Consumer Price Index
Annual Quarterly and Monthly Rates of Change
1980-1993

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
a. Annual Percentage Change-- Period Average 1/															
Annual	15.9	17.3	14.8	11.7	13.1	11.7	22.3	31.9	24.9	19.8	17.6	24.0	14.4	11.2	18.5
Quarter I	18.0	14.0	18.7	11.0	12.7	14.6	13.2	32.4	28.8	19.5	17.0	26.4	16.8	8.1	21.4
Quarter II	16.3	18.5	15.1	11.5	10.9	14.3	18.7	32.6	27.9	20.1	14.1	28.2	13.3	7.3	21.8
Quarter III	13.9	19.1	13.4	11.4	14.3	9.4	25.5	32.3	23.0	20.9	17.7	22.0	16.0	10.2	19.4
Quarter IV	15.4	17.6	12.5	13.0	14.5	9.0	31.3	30.6	20.6	18.6	21.5	20.1	11.8	18.9	12.4
b. 12 Month End-of Period Percentage Change 2/															
January	15.8	13.5	19.8	11.2	13.1	14.7	11.2	31.7	30.8	19.1	17.0	25.7	18.8	8.4	21.8
February	18.2	13.1	19.9	10.1	12.9	14.5	13.4	33.1	27.4	19.9	17.7	26.0	16.6	8.3	21.1
March	20.2	15.4	16.6	11.6	12.1	14.6	14.9	32.2	28.4	19.6	16.3	27.5	15.0	7.5	21.3
April	18.0	17.3	15.9	11.3	10.7	15.8	16.2	32.7	29.4	19.0	13.7	29.7	13.1	8.1	20.5
May	16.6	18.6	14.6	11.6	10.8	14.6	18.1	33.1	28.0	20.1	13.2	28.8	14.2	6.7	21.5
June	14.3	19.6	14.9	11.6	11.4	12.6	21.8	32.1	26.4	21.2	15.4	26.1	12.7	7.1	23.3
July	12.2	21.0	13.2	11.0	12.8	11.3	23.8	31.0	25.8	24.2	13.7	24.5	14.9	6.6	23.5
August	13.6	19.8	13.7	10.6	15.4	9.1	25.1	33.3	22.2	19.6	19.6	20.7	16.9	9.5	20.2
September	15.9	16.5	13.3	12.6	14.7	7.8	27.4	32.7	21.2	19.0	19.8	20.8	16.1	14.4	14.8
October	15.6	17.2	12.9	12.5	14.4	7.7	30.5	31.7	21.1	19.4	20.0	20.1	14.3	17.0	13.5
November	15.8	17.1	12.8	12.9	14.2	9.3	31.5	29.8	21.2	18.0	21.1	21.1	11.3	19.9	11.6
December	14.8	18.6	11.6	13.4	14.7	9.8	31.9	30.4	19.6	18.2	23.5	19.3	9.8	20.0	12.1
c. Moving 12 Month Period Average Percentage Change 3/															
January		15.7	17.9	14.1	11.9	13.3	11.4	24.0	31.9	23.9	19.6	18.4	23.4	13.5	12.3
February		15.2	18.4	13.3	12.1	13.4	11.4	25.7	31.3	23.3	19.4	19.1	22.6	12.8	13.4
[illegible]h		14.9	18.5	12.9	12.1	13.6	11.4	27.1	31.0	22.6	19.1	20.1	21.5	12.2	14.5
[illegible]		14.9	18.3	12.6	12.1	14.0	11.5	28.5	30.7	21.7	18.6	21.4	20.1	11.8	15.6
[illegible]y		15.1	18.0	12.3	12.0	14.3	11.9	29.7	30.3	21.1	18.0	22.7	18.9	11.1	16.8
June		15.5	17.6	12.0	12.0	14.4	12.7	30.6	29.8	20.8	17.5	23.6	17.8	10.6	18.1
July		16.3	16.9	11.9	12.1	14.3	13.7	31.1	29.3	20.7	16.6	24.5	17.1	10.0	19.5
August		16.8	16.4	11.6	12.5	13.7	15.1	31.8	28.4	20.5	16.7	24.5	16.8	9.4	20.4
September		16.8	16.1	11.6	12.7	13.1	16.7	32.2	27.4	20.3	16.8	24.5	16.4	9.3	20.4
October		16.9	15.7	11.5	12.9	12.5	18.6	32.3	26.5	20.2	16.9	24.4	16.0	9.6	20.0
November		17.0	15.4	11.6	13.0	12.1	20.5	32.1	25.8	19.9	17.2	24.4	15.2	10.4	19.2
December		17.3	14.8	11.7	13.1	11.7	22.3	31.9	24.9	19.8	17.6	24.0	14.4	11.2	18.5
d. Monthly Percentage Change															
January	1.5	0.4	1.5	1.0	0.7	0.7	2.0	1.8	2.1	1.7	0.6	2.4	1.9	0.6	2.2
February	1.9	1.6	1.6	0.6	0.4	0.2	2.3	3.4	0.7	1.4	1.9	2.2	0.3	0.3	-0.3
March	1.5	3.6	0.8	2.1	1.4	1.5	2.8	2.1	2.9	2.7	1.5	2.8	1.4	0.7	0.8
April	0.6	2.2	1.6	1.3	0.0	1.0	2.2	2.6	3.3	2.8	0.5	2.2	0.5	1.0	0.4
May	1.0	2.1	0.9	1.2	1.3	0.3	1.9	2.2	1.1	2.0	1.5	0.8	1.7	0.4	1.3
June	0.3	1.2	1.5	1.5	2.0	0.2	3.3	2.6	1.3	2.2	4.2	2.1	0.8	1.2	2.7
July	1.1	2.3	0.8	0.3	1.6	0.5	2.2	1.3	0.8	3.3	1.8	-0.5	2.4	1.9	2.1
August	1.2	0.2	0.6	0.2	2.5	0.5	1.5	3.3	0.4	-3.4	1.6	-1.6	0.2	2.9	0.2
September	3.9	1.0	0.6	2.4	1.7	0.5	2.5	2.0	1.1	0.6	0.8	0.9	0.2	4.7	0.0
October	0.3	0.9	0.6	0.5	0.3	0.1	2.5	1.8	1.7	2.1	2.2	1.6	0.0	2.3	1.0
November	0.5	0.5	0.3	0.7	0.6	2.1	2.9	1.5	1.5	0.3	1.2	2.0	-0.6	1.9	0.2
December	0.2	1.4	0.4	0.9	1.3	1.8	2.1	2.5	1.2	1.3	3.4	1.9	0.5	0.5	1.0

Source General Directorate of Statistics and Census.

1/ Quarterly figures represent change from same quarter of previous year

2/ Change in index of indicated month compared to same month of previous year

3/ Change in average of index for twelve-month period ending with indicated month compared to preceeding twelve-month period

29-Jun-94

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Table C 1.a. El Salvador: Consolidated Operations of the Nonfinancial Public Sector 1986-1993.

a. In Millions of Current Colones	1986	1987	1988	1989	1990	1991	1992	Prel. 1993
enue and grants	3628 9	4021.5	4057.2	3852.2	5440 1	6419 0	7747 0	9616 0
rent revenue	3314 4	3414 1	3514 7	3307 4	4538 9	5538 0	6781 0	8311 0
Tax revenue	2746 6	2816 9	2839 3	2457 0	3330 1	4061 0	4805 0	6246 0
Nontax revenue	362.4	325 7	399 0	688 3	916 5	1174 0	1504 0	1470 0
Operating surplus of public enterprises	205 4	271 5	276 4	162.1	292.3	303 0	472.0	595.0
Capital revenue	2.7	19 8	0 5	12.2	16 9	0 0	0 0	82.0
Foreign grants	311 8	587 6	542.0	532.6	884 3	881 0	966 0	1223 0
Expenditure and net lending	3728 8	4089 4	4436 9	5196.3	5586.8	7619 0	10022.0	10597 0
Current expenditure	2795 0	3149 8	3430 5	3809 8	4669 1	5869 0	6669 0	7841 0
Non-interest current expenditures	2353 7	2745 0	3025 3	3466 6	4170 8	4778 0	5587 0	6600 0
Consumption	2213 4	2555 5	2781 5	3121.9	3673.2	4202.0	4745 0	5579 0
Current transfers	140 3	189 5	243 8	344 7	497 6	576 0	842.0	1021 0
Interest	441 3	404 8	405.2	343.2	498 3	1091 0	1082.0	1241 0
Capital expenditure	855 1	920 4	946 1	1297.2	971 5	1728 0	2856 0	2767 0
Fixed capital formation	752.1	849 9	946 1	1254 9	880 8	1618 0	2727 0	2594 0
Capital transfers	103 0	70 5	0 0	42.3	90 7	110 0	129 0	173 0
Net lending	78 7	19.2	60 3	89 3	53 8	22.0	497 0	-11 0
Current account deficit ( )	519 4	264 3	84.2	-502.4	-130 2	-331 0	112 0	470 0
Current account excluding interest payments	960 7	669 1	489 4	-159.2	368 1	760 0	1194 0	1711 0
Overall deficit ( ) before grants	-411 7	-655 5	-921 7	-1876 7	-1031 0	-2081 0	-3241 0	-2204 0
Overall deficit (-)	-99 9	-67 9	-379 7	-1344 1	-146 7	-1200 0	-2275 0	-981 0
External financing (net)	260 7	206 2	318.3	509 6	541 5	869 0	1960 0	1188 0
sbursements	526 5	437 9	565 6	715 0	589 8	1223 0	2010 0	2317 0
rtization	265 8	231 7	247 3	205 4	452.1	567 0	624 0	1030 0
er	0 0	0 0	0 0	0 0	403 8	213 0	574 0	-99 0
Internal financing (net)	-160 8	-138 3	61 4	834 5	-394 9	333 0	314 0	-208 0
Banking System	297 7	0 6	156 1	838 9	19.2	450 0	576 0	86 0
Central Reserve Bank	285 5	138 7	-27 4	913.3	61 0	541 0	761 0	-43 0
Banks	-12.2	-138 1	128 7	74 4	-41 8	-91 0	185 0	129 0
Bonds outside banking system	55 0	16 9	-33 2	-1 8	4 9	37 0	-36 0	0 0
Other 1/	81 9	-155 8	250 7	-2.6	-419 0	154 0	226 0	294 0

Source: Central Reserve Bank.

1/ Includes payment arrears and other adjustments for cash basis.

Table C 1 b. El Salvador Consolidated Operations of the Nonfinancial Public Sector 1986 1993
(Completed)

b Annual Growth Rates	1986	1987	1988	1989	1990	1991	1992	Prel 1993
evenue and grants	0 0%	10 8%	0 9%	-6 1%	41.2%	18 0%	20 7%	24 1%
Current revenue	0 0%	3 0%	2.9%	-5 9%	37.2%	22.0%	22.4%	22.6%
Tax revenue	0.0%	2.6%	0 8%	-13.5%	35 5%	21.9%	18 3%	30 0%
Foreign grants	0 0%	88 5%	-7.8%	-1 7%	66 0%	-0 4%	9 6%	26 6%
Expenditure and net lending	0 0%	9 7%	8.5%	17 1%	7.5%	36 4%	31.5%	5 7%
Current expenditure	0 0%	12.7%	8.9%	11 1%	22.6%	25 7%	13 6%	17 6%
Capital expenditure	0.0%	7 6%	2.8%	37 1%	25 1%	77.9%	65.3%	-3 1%
Fixed capital formation	0 0%	13 0%	11.3%	32.6%	-29 8%	83 7%	68 5%	-4.9%
c. As percent of GDP								
Revenue and grants	18 4%	17 4%	14 8%	12 0%	13 3%	13 4%	14 1%	14 5%
Current revenue	16 8%	14 8%	12.8%	10 3%	11 1%	11 6%	12.3%	12.5%
Tax revenue	13 9%	12.2%	10 4%	7 6%	8.1%	8.5%	8.7%	9 4%
Foreign grants	1 6%	2.5%	2.0%	1 7%	2.2%	1.8%	1 8%	1 8%
Expenditure and net lending	18 9%	17 7%	16.2%	16 1%	13 6%	15 9%	18.2%	16 0%
Current expenditure	14 1%	13 6%	12.5%	11 8%	11 4%	12.3%	12.1%	11 8%
Consumption and interest	13 4%	12.8%	11 6%	10 8%	10.2%	11 1%	10 6%	10 3%
Non-interest current expenditures	11 9%	11 9%	11 1%	10 8%	10.2%	10 0%	10.2%	9 9%
Capital expenditure	4 3%	4 0%	3.5%	4 0%	2.4%	3 6%	5.2%	4.2%
Fixed capital formation	3 8%	3.7%	3 5%	3.9%	2.1%	3.4%	5 0%	3.9%
Current Account Deficit ( )	2.6%	1 1%	0.3%	-1 6%	-0.3%	-0 7%	0.2%	0 7%
Current Account Deficit ( ) Excluding Interest	4 9%	2.9%	1 8%	-0 5%	0 9%	1 6%	2.2%	2.3%
erall deficit ( )								
ncluding Grants	-0 5%	-0 3%	1 4%	-4.2%	-0 4%	-2.5%	-4 1%	1 5%
Excluding Grants	-2.1%	2.8%	-3 4%	5 8%	2.5%	-4 4%	-5 9%	-3 3%
External financing (net)	1 3%	0 9%	1.2%	1 6%	1 3%	1 8%	3.6%	1 8%
Internal financing (net)	-0 8%	-0 6%	0 2%	2.6%	1 0%	0 7%	0 6%	-0 3%
Banking System	-1 5%	0 0%	-0 6%	2.6%	0 0%	0.9%	1 0%	0.1%
Central Reserve Bank.								

Source Central Reserve Bank.

Table C.2.a. El Salvador Consolidated Central Government Operations, 1986 1993

a. In Millions of Current Colones	1986	1987	1988	1989	1990	1991	1992	Prel. 1993
venue and grants	3159.2	3306 2	3385.8	3182 6	4436 7	5246 0	6440 0	8004 0
rrent revenue	2711 7	2731.2	2728 9	2617 4	3535 4	4364 0	5379 0	6534 0
Tax revenue	2537 5	2613 3	2562.5	2457 0	3330 1	4061 0	4805 0	6246 0
Nontax revenue	174.2	117 9	166 4	160 4	205 3	303 0	574 0	288 0
Current transfers from public enterprises	133 3	29 3	114 9	42.5	30 5	31 0	99 0	166 0
Capital revenue	2.4	0 0	0 0	0 1	1.5	0 0	0.0	81 0
Foreign grants	311 8	545 7	542.0	522.6	869 3	851 0	962.0	1223 0
Expenditure and net lending	3438.2	3592.8	3690.2	4232.6	4881 8	6602 0	8081 0	8761 0
Current expenditure	2567.2	2761 8	3042.2	3398 4	4147 5	5159 0	5783 0	6749 0
Wages and salaries	1456 9	1708 7	1821 0	2059 0	2404 9	2613 0	2781 0	3289 0
Goods and services	384 8	449 8	511 3	500 3	578 6	630 0	890 0	750 0
Interest	260 0	241.2	243 8	287 6	442.7	1091 0	1072.0	1207 0
Transfers	465 5	362.1	466 1	551 5	721 3	825 0	1040 0	1503 0
Rest of general government	216 2	232.8	238 5	309 8	357 4	407 0	451 0	802.0
Public enterprises	176 0	42.4	113.2	50 5	52.3	63 0	26 0	18 0
Public financial intermediaries	0 0	0 0	0 0	25 0	0 0	19 0	4 0	43 0
Private sector	67 7	78 6	105 0	157 3	300 1	336 0	523 0	592.0
Abroad	5.6	8 3	9 4	8 9	11 5	0 0	36 0	48 0
Capital expenditure	601 8	703 4	588 0	745 9	752.9	1112.0	2049 0	1907 0
Fixed capital formation	484 6	532.4	468 2	642.6	409 4	874 0	1572.0	1618 0
Transfers	117.2	171 0	119 8	103 3	343 5	238 0	477 0	289 0
Rest of general government	14 3	56 5	119 8	61 0	114 7	31 0	49 0	34 0
Public enterprises	0 0	44 0	0 0	0 0	138 1	97 0	299 0	81 0
Public financial intermediaries	101 7	65 1	0 0	9 9	76 6	81 0	102.0	119 0
Private sector	1.2	5 4	0 0	32.4	14 1	29 0	27 0	55 0
Net lending to	269 2	127 6	60 0	88 3	18 6	331 0	249 0	105 0
Rest of general government	169 0	107 4	0 0	2.0	1 3	8 0	21 0	70 0
Public enterprises	-2.0	1 3	0 0	1 0	33 9	301 0	156 0	61 0
Public financial intermediaries	35.0	0 0	0 0	50 7	56 7	11 0	114 0	26 0
Other	67 2	18 9	60 0	38 6	2.9	11 0	0 0	0 0
urrent account deficit ( )	277 8	-1.3	-198 4	-738 5	-581 6	-764 0	-305 0	-49 0
Overall deficit before grants	-590 8	-832 3	-846 4	-1572 6	-1314 4	-2207 0	2603 0	-1980 0
Overall deficit (-)	-279 0	-286 6	-304 4	-1050 0	-445 1	-1356 0	-1641 0	-757 0
External financing (net)	321 1	279 5	278 0	199 9	483 7	700 0	1320 0	1007 0
Disbursements	492.6	416 4	453 8	354 0	415 5	886 0	1165 0	1571 0
Amortization 1/	171 5	136 9	175 8	154 1	335 6	399 0	419 0	465 0
Other	0 0	0 0	0 0	0 0	403 8	213 0	574 0	-99 0
Internal financing (net)	-42 0	7 1	26 4	850 1	-38 6	657 0	320 0	250 0
Banking System	-186 9	142.7	162.4	985 4	222.0	973 0	804 0	58 0
Central Reserve Bank	-301 5	84 4	-69 6	888.2	279 9	849 0	817 0	-125 0
Banks	114 6	58 3	-92.8	97.2	57 9	124 0	13 0	183 0
Bonds outside banking system	51 8	4 2	-39 0	1 3	0 0	37 0	-46 0	0 0
Other 2/	196 7	-139 8	227 8	-136 6	260 6	-353 0	-438 0	-309 0

Source: Central Reserve Bank.

1/ Includes amortization of loans which were on lent or passed on to the rest of the public sector

2/ Includes payment arrears and other adjustments for cash basis.

Table C.2.b El Salvador Consolidated Central Government Operations, 1986 1993
(Completed)

b Annual Growth Rates	1986	1987	1988	1989	1990	1991	1992	Prel. 1993
venue and grants	39 0%	4 7%	2.4%	-6 0%	39 4%	18.2%	22.8%	24.3%
urrent revenue	42.7%	0 7%	-0 1%	-4 1%	35 1%	23 4%	23 3%	21 5%
Tax revenue	41 4%	3.0%	-1 9%	-4 1%	35 5%	21 9%	18 3%	30 0%
Nontax revenue	64 8%	-32.3%	41 1%	-3 6%	28 0%	47 6%	89 4%	-49 8%
Foreign grants	109 1%	75 0%	-0 7%	-3.6%	66 3%	-2.1%	13.0%	27 1%
Expenditure and net lending	34 5%	4 5%	2.7%	14 7%	15 3%	35.2%	22.4%	8.4%
Current expenditure	31 1%	7 6%	10.2%	11 7%	22.0%	24 4%	12.1%	16 7%
Wages and salaries	16 5%	17 3%	6.6%	13 1%	16 8%	8 7%	6.4%	18 3%
Goods and services	56 0%	16 9%	13.7%	-2.2%	15 7%	8.9%	41 3%	-15 7%
Interest	47 1%	-7.2%	1 1%	18.0%	53 9%	146 4%	-1 7%	12.6%
Transfers	63 9%	-22.2%	28 7%	18 3%	30 8%	14 4%	26 1%	44 5%
Capital expenditure	7 7%	16.9%	-16 4%	26 9%	0 9%	47 7%	84 3%	-6 9%
Fixed capital formation	15 9%	9 9%	-12.1%	37.2%	-36 3%	113 5%	79 9%	2.9%
Transfers	-16 6%	45 9%	-29 9%	-13 8%	232.5%	-30 7%	100 4%	-39 4%
c As Percent of GDP								
Revenue and grants	16 0%	14 3%	12.4%	9 9%	10 8%	11 0%	11 7%	12.1%
Current revenue	13 7%	11 8%	10 0%	8.1%	8 6%	9 1%	9 8%	9 8%
Tax revenue	12.8%	11 3%	9 4%	7 6%	8 1%	8.5%	8 7%	9 4%
Foreign grants	1 6%	2.4%	2.0%	1 6%	2.1%	1 8%	1 8%	1 8%
Expenditure and net lending	17 4%	15 5%	13.5%	13 1%	11 9%	13 8%	14 7%	13.2%
Current expenditure	13 0%	11 9%	11 1%	10 5%	10 1%	10 8%	10 5%	10.2%
Wages and salaries	7 4%	7 4%	6 7%	6 4%	5 9%	5 5%	5 1%	5 0%
Goods and services	1 9%	1 9%	1 9%	1 6%	1 4%	1 3%	1 6%	1 1%
Interest	1 3%	1 0%	0 9%	0 9%	1 1%	2.3%	2.0%	1 8%
Transfers	2.4%	1 6%	1 7%	1 7%	1 8%	1 7%	1 9%	2.3%
Capital expenditure	3.0%	3 0%	2.1%	2.3%	1 8%	2.3%	3.7%	2.9%
Fixed capital formation	2.5%	2.3%	1 7%	2.0%	1 0%	1 8%	2.9%	2.4%
ansfers	0 6%	0 7%	0 4%	0 3%	0 8%	0 5%	0 9%	0 4%
t lending	1 4%	0 6%	0.2%	0 3%	-0 0%	0 7%	0 5%	0.2%
Current account deficit (-)	1 4%	-0 0%	-0 7%	-2.3%	-1 4%	-1 6%	-0 6%	-0 1%
Current account deficit (-)								
Excluding interest	2.7%	1 0%	0.2%	-1 4%	-0 3%	0 6%	1 4%	1.5%
Overall deficit (-)								
Excluding Grants	-3 0%	-3 6%	-3 1%	-4 9%	-3.2%	-4 6%	-4 7%	-3 0%
Including Grants	1 4%	-1.2%	-1 1%	-3 3%	1 1%	2.8%	-3 0%	1 1%
External financing (net)	1 6%	1.2%	1 0%	0 6%	1.2%	1.5%	2.4%	1 5%
Internal financing (net)	-0.2%	0 0%	0 1%	2.6%	-0 1%	1 4%	0 6%	-0 4%
Banking System	-0 9%	0 6%	-0 6%	3.1%	0 5%	2.0%	1 5%	0 1%

Source: Central Reserve Bank.

1/ Includes amortization of loans which were on lent or passed on to the rest of the public sector

Table C 3 El Salvador Central Government Revenue and Grants by Category 1986 1993

In Millions of Current Colones	1986	1987	1988	1989	1990	1991	1992	Prel 1993
Total revenue and grants	3094.3	3299.2	3374 4	3182 6	4436 7	5249 0	6857 0	8353 0
Current revenue	2646 8	2724.2	2717.5	2617 4	3535 4	4367 0	5533 0	6623 0
Tax revenue	2579.3	2588.2	2531 9	2457 0	3330 1	4060 0	4876 0	6215 0
Direct taxes	525 7	711 1	739 0	758 1	922.6	1227 0	1379 0	1663 0
Income tax	432.8	560 5	560 7	581 4	725 4	961 0	1062.0	1409 0
Wealth tax	57 1	108 6	119 8	118 9	124 8	169 0	168 0	165 0
Property transfer tax	35.8	42.0	58 5	57 8	72.4	97 0	149 0	89 0
Taxes on foreign trade	1168 4	701 5	592.2	445 5	720 0	864 0	875 0	1175 0
Import taxes	204 1	258 6	214 3	312.8	464 8	642.0	847 0	1166 0
Export taxes	964 3	442.9	377 9	132.7	255 2	222.0	28 0	9 0
Of which on coffee	955.1	431 7	368 3	123 9	253 2	222.0	28 0	9 0
Taxes on domestic transactions	885.2	1175 6	1200 7	1253 8	1577 6	1965 0	2693 0	3377 0
Nontax revenue	109 3	110 9	155 0	160 4	205.3	307.0	657 0	408 0
Transfers from private sector (fees,fines, etc)	28 4	32.1	66 3	45 4	45 5	65.0	42.0	23.0
Income from public service	32.9	38 3	33 1	31 5	38 8	57 0	105 0	94 0
Sale of goods and services	29 8	17 3	26 3	28 3	34 5	38 0	27 0	4 0
Interest, rent, and dividends	13 7	15 4	23 0	42.5	44.2	74 0	99 0	145 0
Other	4 5	7 8	6 3	12.7	42.3	73 0	384 0	142.0
Adjustment for tax/interest arrears	-41 8	25 1	30 6	0 4	-109 9	-4 0	71 0	0 0
Current transfers from public enterprises (public enterprises profits)	133 3	29 3	114 9	42 5	30 5	31 0	99 0	145 0
Capital revenue	2.4	0 0	0 0	0 1	1.5	0 0	263 0	362 0
Foreign grants	311 8	545 7	542 0	522 6	869.3	851 0	962 0	1223 0
Annual Growth Rates								
Revenue and grants	49.5%	6 6%	2.3%	-5 7%	39 4%	18.3%	30 6%	21 8%
Current revenue	45 1%	2.9%	-0.2%	-3 7%	35 1%	23 5%	26 7%	19 7%
Tax revenue	55 6%	0 3%	2.2%	-3 0%	35 5%	21 9%	20 1%	27 5%
Nontax revenue	15 6%	1 5%	39 8%	3 5%	28 0%	49 5%	114 0%	-37 9%
Foreign grants	107 0%	75 0%	-0 7%	-3 6%	66 3%	-2.1%	13 0%	27 1%
c As Percent of GDP								
Revenue and grants	15 7%	14 3%	12.3%	9 9%	10 8%	11 0%	12 5%	12.6%
Current revenue	13 4%	11 8%	9 9%	8 1%	8 6%	9 1%	10 1%	10 0%
Tax revenue	13 1%	11 2%	9 3%	7 6%	8 1%	8 5%	8 9%	9 4%
Nontax revenue	0 6%	0 5%	0 6%	0 5%	0 5%	0 6%	1 2%	0 6%
Foreign grants	1 6%	2.4%	2.0%	1 6%	2.1%	1 8%	1 8%	1 8%

Source Central Reserve Bank.

TABLES D 1-5 WILL BE HAND CARRIED TO AID/WASHINGTON

Table E.1
El Salvador
Balance of Payments 1989-1993
(Millions of Dollars)

	1988	1989	1990	1991	Prel 1992	Prel. 1993
Current Account 1/	-234 4	-466 2	-358 6	-296 3	-378 0	-320 2
Trade balance	-397 3	-663 8	-681 0	-818 0	1101 0	-1180 5
Exports f o b	609 6	497 5	581 5	588 0	597 5	731 7
Coffee	358 1	228 6	260 2	219 5	151.2	225 2
Other traditional	35 5	24.2	36.0	52.6	66 0	57 1
Nontraditional	216 0	244 7	285 3	315 9	380 3	449 4
CACM	140 0	160 6	173 0	193 6	257 3	310.2
Rest of the world	76 0	84 1	112.3	122.3	123 0	139.2
Imports c i f	1006 9	1161 3	1262.5	1406 0	1698 5	1912.2
Net factor payments	-120 6	-121 3	-124 1	-127 0	-57 4	-41 4
Of which interest	-80 3	78.2	-113 3	-112.9	-98 9	-110 1
Other services (net)	62.5	82.1	101 1	105 9	72.5	78 5
Private transfers 2/	221 0	236 8	345 4	542.8	707 9	823.2
Official transfers	287 6	282 4	223 2	178 5	226 5	220 3
Of which ESF		157 0	98 0	45 0	86 0	41 0
	53.2					
Capital Account	186 3	150 9	226 8	66 0	133 3	255 5
Nonfinancial public sector	26 0	150 2	1 1	29 3	89 4	140 8
Disbursements	81 9	186 2	71.2	149 1	207 5	266 0
Amortization	55 9	36 0	70 1	119 8	118 1	125 2
Financial Sector	51 6	67 1	37 5	-84 9	1 7	-45 3
Disbursements	98 6	127 1	101 7	84 2	139 2	12.3
Amortization	150 2	60 0	64 2	169 1	140 9	57 6
Private capital and net errors and omissions	-160 7	-66 4	188 2	121 6	45 6	160 0
Overall balance	133 1	-32 9	91 4	-51 8	18 2	155 6
Net change in arrears (decrease)	27 9	69 5	-58 1	-8 4	8 6	-39 1
Rescheduling	60	0 0	83 8	102.2	69 4	5 0
Capital gain buyback		—	—	—	—	22.8
Change in net official reserves (increase)	35 1	-36 6	117 1	-42.0	-59 8	144 3
Memorandum Items						
Gross Official Reserves ($)	238 1	393 1	541 4	471 9	573 0	700 8
In Months of Imports	2.8	4 1	5 1	4 0	4 0	4 4
GDP (millions US $)	5163 4	4958 5	5332.1	5974 0	6504 3	7627 1
Real GDP Growth Target Rate	0 0	1 1	3 4	3 5	5 3	5 1
Debt Service	286 4	174.2	247 6	371 9	281 7	292.9
(As percent of GDP)						
Trade balance		13 4	-12.8	-13 7	-16 9	-15 5
Current account balance		-9 4	-6 7	-5 0	-5 8	-4.2
Official transfers		5.7	4.2	3.0	3.5	2.9
Capital account balance		3.0	4 3	1 1	2.0	3 3
Overall balance		-0 7	1 7	-0 9	-0 3	2.0
(As percent of exports of goods and services)						
Total debt service		21 7	27 4	40 0	29 2	25 6
Of which interest		9 7	12.5	12.1	10 2	9 6

SOURCE Central Reserve Bank (CRB)

1/ It does not include official transfers

2/ Increase in remittances since 1992 is due to an increment in inflows and improvement in CRB s data collection

3/ Includes $ 45 0 millions in FY 1991 ESF originally programmed for CY 1991

Table E.2
El Salvador Detailed Balance of Payments, 1989-1993
(Millions of U S. Dollars)

	1989			1990			1991			1992 Prel			1993 Prel		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
~~rent Account 1/			-486 2			-356 6			-296 3			-378 0			-320 2
~~ds and Services	803 0	1506 0	703 0	904 7	1808 7	704 0	929 9	1769 0	-839 1	966 1	2052 0	1085 9	1147 6	2291 2	1143 4
Merchandise trade 2/	497 5	1161 3	-663 8	581 5	1262.5	-681 0	588 0	1406 0	-818 0	597 5	1698 5	1101 0	731 7	1912.2	1180 5
Services	224 5	258 3	-33 8	323 2	346 2	-23 0	341 9	363	-21 1	368 6	353 5	15 1	416.1	379 0	37 1
Transportation	68.9	45.6	23 3	71 0	48.0	23 0	74 0	54 0	20 0	79 4	59 0	20 4	80 0	61 7	18.3
Travel	62.4	60 0	2.4	68 5	54 8	13.7	71 0	57 0	14.0	73.4	58.0	15 4	78.5	60 8	17 7
Factor income	17 5	138 8	121 3	18 6	142.7	124 1	22.0	149 0	-127 0	24 7	128 5	103.8	25 4	142.2	116.8
Direct investment	-	40 0	-40 0	18.6	29 4	-10 8	22.0	36.1	14 1	24 7	29 7	-5 0	25 4	32.1	-6.7
Interest	17 5	98 8	-81 3	0.0	113.3	113.3	0.0	112.9	112.9	0 0	98 9	-98 9	0 0	110 1	110 1
Government transactions	75 7	13.9	61 8	76.1	14 1	62.0	76 1	15 0	61 1	78.8	16 0	62.8	83.8	16.8	67 0
Other services	81 0	86.4	-5.4	89 0	86 6	2.4	96 8	86 0	10.8	112.5	92.0	20 5	148.4	97 5	50 9
Of Which Drawback:	71 9	56 9	15 0	83.0	65.0	18.0	131 6	111.2	20 4	210 5	168 4	42.1	239.5	168.4	71 1
Private Transfers	237 4	0.6	236 8	346 0	0.6	345 4	543.5	0 7	542.8	708 6	0.7	707 9	823.9	0 7	823.2
Oficial Transfers	284 2	1.8	282.4	225 0	1 8	223.2	180 3	1 8	178 5	228 3	1 8	226 5	222.1	1.8	220 3
Capital Accounts	301 4	162.4	150 9	399 3	134 3	226 8	354 9	268 9	86 0	392 3	259 0	133 3	438 3	182.8	255 5
Private Capital	0 0	66 4	-66 4	264 6	0 0	264 6	121 6	0 0	121 6	45 6	0 0	45 6	160 0	0 0	160 0
Direct investment															
Medium and long-term loans															
Short term loans (including net errors and omissions)	0 0	66 4	-66 4	264 6	0.0	264 6	121 6	0 0	121 6	45 6	0 0	45 6	160 0	0.0	160 0
Nonfinancial Public Sector	186 2	36 0	150 2	71 2	70 1	1 1	149 1	119 8	29 3	207 5	118 1	89 4	266 0	125 2	140 8
Central Government 3/	110 1	26 2	83 9	47 8	43.2	4 6	149 1	119 8	29 3	87 1	36 1	51 0	165 5	41 3	124 2
Rest of general government	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	61 9	29 6	32.3	40 7	23.9	16.8
Public enterprises	76.1	9 8	66 3	23 4	26 9	-3.5	0 0	0.0	0 0	58 5	52.4	6.1	59 8	60 0	-0.2
Financial Public Sector	115 2	60 0	67 1	63 5	64 2	-38 9	64 2	169 1	-84 9	139 2	140 9	1 7	12.3	57 6	-45 3
Central Reserve Bank 4/	115 2	60 0	55 2	63 5	64 2	-0 7	64 2	169 1	-84 9	139 2	140 9	1 7	12.3	57 6	-45 3
Deposit and mortgage banks			11 9			-38 2								-	
Long term (net)			0 0												
Short term (net)			0 0												
Other public financial ~~termediaries									-						
~~ll Balance (Deficit)			-32 9			91 4			-51 6			18 2			155 6
~~nge in arrears (-decrease)	69 5	0 0	69 5	46 4	104 5	-58 1			-8 4			8 6			-39 1
Rescheduling of medium-term liabilities			0 0			83 8			102.2			69 4			5.0
Capital Gain Buyback															22.8
Change in net official reserves of the Central Reserve Bank (increase)			-36 6			117 1			-42.0			-59 8			149 4
Memoranda															
Net Services			-39 2			-23 0			21 1			15 1			37 1
Goods and Nonfactor Services	785 5	1367.2	-581 7	886 1	1466 0	-579 9	907 9	1620 0	712.1	941 4	1923 5	-982 1	1122.4	2149 0	1026 6

SOURCE Central Bank of El Salvador and IMF
1/ Excludes official transfers
2/ Exports f o b and imports c i f
3/ Excludes government dollar bonds issued to refinance arrears but includes repayments of government dollar bonds
4/ Excludes medium-term liabilities converted from short term

Table E.3
El Salvador
Merchandise Exports (F O B)
By Principal Groups
1985 1993

	1985	1986	1987	1988	1989	1990	1991	1992	Prel. 1993
	(Value in millions of U S dollars volume in thousands of quintals unit price in U S. dollars per quintal)								
Total exports (F O B)	695 1	755 0	590 9	608 8	497 5	581 5	588 0	597 5	731 7
Traditional exports	525 7	593 6	386 4	393 5	252.8	296 2	272.1	217 2	282.3
Coffee									
value	463 7	546 8	351 5	358 0	228 6	260.2	219 5	151.2	225.2
volume	3456 0	2937 0	3383 0	2729 0	2058 7	3231 8	2771 0	2720 8	3532.0
unit value	134 2	186.2	103 9	131.2	111 0	80 5	79.2	55.6	63 8
Cotton									
value	29 0	4 5	2.3	0 3	0 7	1.3	0 7	1.5	0.2
volume	514 0	131 6	58 0	8 0	14 7	21 0	8 3	19 0	1.2
unit value	56 4	34 2	39 7	37 5	47 6	61 9	84 3	80 0	166 7
Sugar									
value	23 2	25 3	12.1	19.2	13.5	20 3	32.0	44 7	31 1
volume	2422.0	2144 3	821 4	1702.0	622.2	973 4	1745 0	3566 0	2375 6
unit value	9 6	11 8	14 7	11 3	21 7	20 9	18 3	12.5	13 1
Shrimp									
value	9 8	17 0	20 5	16 0	10 0	14 4	19 9	19 8	25 8
volume	2565 0	4364 0	3576 0	3712.0	2162.0	3087 0	3175 0	3215 0	4514 0
unit value 1/	3 8	3 9	5 7	4 3	4 6	4 7	6 3	6.2	5 7
Nontraditional exports	169 4	161 3	204 5	215 3	244 7	285 3	315 9	380 3	449 4
CACM	95 7	91 0	119 6	139 8	160 6	175 0	193 7	257 3	310 2
to other markets	73 7	70 3	84 9	75 5	84 1	110 3	122.2	123 0	139 2
Memorandum									
Non Coffee Exports	231 4	208 2	239 4	250 8	268 9	321 3	368 5	446 32	506 5
	(Annual percentage change)								
Total exports	-4 2	8 6	21 7	3 0	18 3	16 9	1 1	1 6	22.5
Traditional exports	4 1	12.9	-34 9	1 8	-35 8	17 2	-8 1	-20 2	30 0
Nontraditional exports	-23 3	-4 8	26 8	5 3	13 7	16 6	10 7	20 4	18 2
CACM	-39 1	-4 9	31 4	16 9	14 9	9 0	10 7	32.8	20 6
To other markets	15 7	-4 6	20 8	11 1	11 4	31 2	10 8	0 7	13 2
Memorandum									
Non-Coffee Exports	16 2	10 0	15 0	4 8	7.2	19 5	14 7	21 1	13 5
	(In percent of total value)								
Total exports	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Traditional exports	75 6	78 6	65 4	64 6	50 8	50 9	46 3	36 4	38.6
Nontraditional exports	24 4	21 4	34 6	35 4	49.2	49 1	53.7	63 6	61 4
CACM	13 8	12.1	20.2	23 0	32.3	30 1	32.9	43 1	42.4
To other markets	10 6	9 3	14 4	12.4	16 9	19 0	20 8	20 6	19 0
Memorandum									
Non-Coffee Exports	33 3	27 6	40 5	41.2	54 1	55 3	62.7	74 7	69.2

Source Central Reserve Bank of El Salvador
1/ In U S dollars per kilogram

100

Table E.4
El Salvador
Merchandise Imports (C.I.F.)
By Principal Groups
1985-1993

	1985	1986	1987	1988	1989	1990	1991	1992	Prel 1993
					In millions of U.S. dollars				
Total Imports (C.I.F.)	961.3	934.9	994.1	1006.7	1161.3	1262.5	1406.0	1698.5	1912.2
Consumer Goods	258.8	207.0	240.5	258.2	294.6	398.8	372.7	489.1	522.0
Nondurables	210.9	181.8	208.4	224.9	258.0	361.3	322.0	417.8	440.8
Durables	47.9	25.2	32.1	33.3	36.6	37.5	50.7	71.3	81.2
Raw Materials	544.8	453.4	501.3	496.2	577.2	629.2	710.0	778.4	825.4
Agriculture	75.5	41.2	39.1	35.9	52.2	58.0	67.7	70.8	70.2
Of which Fertilizers	39.5	24.7	27.3	23.5	32.5	29.8	30.2	30.2	33.7
Industry	417.5	363.2	394.3	390.5	414.4	486.4	547.4	606.4	630.1
Of which Petroleum imports	133.2	82.0	104.3	81.0	87.0	121.8	126.8	128.2	123.0
Construction Materials	46.2	44.0	60.5	63.3	98.9	78.3	85.9	90.6	111.0
Other	5.6	5.0	7.4	6.5	11.7	6.5	9.0	10.6	14.1
Capital Goods	157.7	224.5	252.3	252.3	279.7	234.5	323.3	431.0	564.8
Agriculture	13.5	10.3	13.2	8.0	9.2	8.9	11.1	11.8	10.9
Industry	43.3	58.7	72.4	79.1	77.4	71.1	89.2	121.4	170.5
Transport	67.9	123.6	123.9	121.8	141.5	102.6	148.9	205.5	257.4
Construction	6.2	6.4	10.6	11.2	17.0	8.3	11.5	15.4	29.6
Other	26.8	25.5	32.2	32.2	34.6	43.6	62.6	76.9	96.4
Not Elsewhere Classified 1/		50.0	-		9.8			-	
					(Annual percentage change)				
Total Imports (C.I.F.)	-1.7	-2.7	6.3	1.3	15.4	8.7	11.4	20.8	12.6
Consumer Goods	-6.4	20.0	16.2	7.4	14.1	35.4	-6.5	31.2	6.7
Nondurables	11.6	13.8	14.6	7.9	14.7	40.0	10.9	29.8	5.5
Durables	26.1	-47.4	27.4	3.7	9.9	2.5	35.2	40.6	13.9
Raw Materials	-4.2	16.8	10.6	1.0	16.3	9.0	12.8	9.6	6.0
Agriculture	31.8	-45.4	5.1	-8.2	45.4	11.1	16.7	4.6	-0.8
Of which Fertilizers	58.0	-37.5	10.5	13.9	38.3	-8.3	1.3	0.0	11.6
Industry	-8.2	13.0	8.6	1.0	6.1	17.4	12.5	10.8	3.9
Of which Petroleum imports	2.2	-38.4	27.2	22.3	7.4	40.0	4.1	1.1	-4.1
Construction Materials	-8.7	-4.8	37.5	4.6	56.2	20.8	9.7	5.5	22.5
Other	-11.1	10.7	48.0	12.2	80.0	-44.4	38.5	17.8	33.0
Capital Goods	19.3	42.4	12.4	-0.0	10.9	16.2	37.9	33.3	31.0
Agriculture	3.8	-23.7	28.2	-39.4	15.0	-3.3	24.7	6.3	7.6
Industry	1.6	35.6	23.3	9.3	2.1	-8.1	25.5	36.1	40.4
Transport	27.2	82.0	0.2	-1.7	16.2	-27.5	45.1	38.0	25.3
Construction	19.2	3.2	65.6	5.7	51.8	51.2	38.6	33.9	92.2
Other	48.9	-4.9	26.3	0.0	7.5	26.0	43.6	22.8	25.4

Source: Central Reserve Bank of El Salvador and Fund staff estimates.
1/ Includes emergency relief after the earthquake of 1986 and donations after the outbreak of civil war in late 1989.

Table E 5

EL SALVADOR SELECTED ECONOMIC DATA, 1986-1993

	1986	1987	1988	1989	1990	1991	1992	1993 Prel
POPULATION 1/								
Thousands	4809	4888	4976	5071	5172	5279	5395	5517
Growth Rate (%)	1 5	1 7	1 8	1 9	2 0	2 1	2 2	2 3
NATIONAL ACCOUNTS								
GDP, Curr prices (m colones)	19763	23141	27366	32230	41057	47792	54961 1	66355 7
GDP, 1962 prices (m colones)	3012	3094	3144	3177	3285	3401	3580 1	3761 7
Real GDP Growth Rate (%)	0 6	2 7	1 6	1 0	3 4	3 5	5 3	5 1
Real Per Cap GDP (1962 col)	626 3	632 9	631 8	626 5	635 2	644 3	663 6	681 8
Real Per Cap GDP Growth Rate (%)	0 9	1 1	0 2	0 8	1 4	1 4	3 0	2 7
Gross Domestic Investment/GDP (%)	13 3	12 4	12 8	16 2	11 8	13 7	16 5	16 6
Private (Nominal) 2/	10 7	9 4	9 7	12 7	9 6	11 2	12 8	13 0
Public	2 5	2 9	3 1	3 5	2 3	2 5	3 6	3 6
Gross National Savings/GDP (%)			8 6	7 2	5 2	9 3	10 8	12 4
Private (Nominal)			8 3	8 8	6 6	10 0	10 6	11 7
Public			0 3	-1 6	-1 4	0 7	0 2	0 7
Foreign Savings/GDP (%)	2 6	5 4	4 6	9 4	6 7	5 0	5 8	4 2
PRICES								
GDP Price Deflator (1962 = 100)	656 1	747 9	870 4	1014 5	1249 8	1405 2	1535 2	1764 0
Annual Change (%) 3/	37 1	14 0	16 4	16 6	23 2	12 4	9 2	14 9
Consumer Prices 4/	333 6	416 6	498 9	586 9	727 8	832 6	926 0	107 0
Average Annual Change (%)	31 9	24 9	19 8	17 6	24 0	14 4	11 2	18 5

1/ Revised population data is based on MIPLAN s 1992 projections and estimates NOTE Preliminary census data show that at the end of 1992 El Salvador's population was 5,096,962 However, no official interpolation has been performed Therefore, a revised population series is not yet available

2/ Private investment includes changes in inventories

3/ GDP figures are calculated not on a monthly basis but on an annual basis

4/ From 1986 to 1992, December 1978 = 100 percent, and from 1993, December 1992 = 100 percent

Table E 5

EL SALVADOR SELECTED ECONOMIC DATA, 1986-1993 (concluded)

	1986	1987	1988	1989	1990	1991	1992	Prel 1993
BALANCE OF PAYMENTS ($ millions)								
Current Account Balance	107 0	238 0	235 0	-466 0	-359 0	-296 3	-378 0	-320 2
Exports, FOB	755 0	591 0	609 0	497 0	581 5	588 0	597 5	731 7
Imports CIF	935 0	994 0	1007 0	1161 0	1262 5	1406 0	1698 5	1912 2
Trade Balance	180 0	-403 0	-398 0	-664 0	-681 0	-818 0	1101 0	-1180 5
Services, net	-87 0	-30 0	58 0	-39 0	-23 0	21 1	15 1	37 1
Private Transfers net	160 0	195 0	221 0	237 0	345 0	542 8	707 9	823 2
Capital Account Balance				502 8	475 7	338 3	437 8	464 5
Official Transfers net	224 0	378 0	287 0	282 4	223 2	178 5	226 5	220 3
Direct Investment, net								
Private, M T & L T, net				-66 4	188 2	121 6	45 6	160 0
Private, Short Term net								
Official net				150 2	1 1	29 3	89 4	140 8
Financial Intermediaries, net				67 1	37 5	-84 9	1 7	-45 3
Other, net (rescheduling)				69 5	25 7	93 8	78 0	-11 3
Overall balance, net				36 8	116 7	42 0	59 8	144 3
EXTERNAL PUBLIC DEBT 5/								
Debt Outstanding 12/31 ($ m)	1808 0	1716 0	1761 0	2089 0	2130 0	2101 0	2337 5	1985 0
Debt Outstanding/GDP (%)	43 5	40 6	39 6	42 5	42 7	35 2	35 9	26 0
Debt Service/Exports of Goods & Non-factor Services (%)	35 9	38 7	36 4	31 8	27 1	42 3	38 8	30 9
CONSOL. NONFIN PUB SECTOR								
As Percent of GDP								
Current Revenue	16 8	14 8	12 8	10 3	11 1	11 6	12 3	12 5
Current Expenditure	14 1	13 6	12 5	11 8	11 4	12 3	12 1	11 8
Current Surplus/Deficit	2 6	1 1	-0 3	-1 6	-0 6	-0 7	0 2	0 7
Capital Revenue	0 0	0 1	0 0	0 0	0 0	0 0	0 0	0 1
Capital Expenditure	4 3	4 0	3 5	4 0	2 4	3 6	5 2	4 2
Net Lending 6/	0 4	0 1	0 2	0 3	-0 1	0 0	0 8	0 0
Overall Surplus/Deficit	2 1	2 8	-3 4	5 8	2 5	-4 4	-5 9	-3 3

5/ A key factor for the the debt reduction in 1993 was the $464 million in US debt forgiveness

6/ Net lending is used in the operations of the Nonfincial Public Sector as a conciliatory account

Table F 1
El Salvador
Selected Economic Social, and
Demographic Indicators
1988 - 1993

	1988	1989	1990	1991	1992	1993
Population (in millions) 1/	5 0	5 1	5.2	5 3	5 4	5 5
Population Growth Rate	1 8	1.9	2.0	2.1	2.2	2.3
GDP Real Growth Rate (percent)	1 6	1 1	3 4	3.5	5 3	5 1
Real Per Capita Growth Rate (percent)	-0.2	-0 8	1 4	1 4	3 0	2.8
GDP per capita ($)	1038	978	1031	1132	1206	1382
Prices						
Consumer Price Index						
End of Period (percent)	18.2	23 5	19 3	9 8	20 0	12.1
Period Average (percent)	19 8	17 6	24 0	14 4	11.2	18 5
GDP deflator 1962=100 (percent)	16 4	16 5	23.2	12 4	9.2	14 9
Real Effective Exchange Rate 1980=100 2/	16 3	-1 8	-17 9	5 4	6 7	8 4
Real Wages (percent) 3/	0.2	-15 0	-5 9	-2.2	3 3	-3 1
Labor Market (urban)						
Employment (000s)	716	790	885	890	947	N/A
Unemployment Rate	9 4	8 4	10 0	7 5	7.9	N/A
Underemployment Rate (visible)	11 8	12 8	18 2	7 5	3 5	N/A
Percent of Urban Population 1/						
Total Poverty	61 0	55 5	60 2	56 1	53 7	N/A
In Relative Poverty	31 7	31 9	32 1	32 9	30 5	N/A
In Absolute Poverty	29 3	23 6	28 1	23.2	23 3	N/A
Exports Growth Rate	2 9	-18 3	16 9	1 1	1 6	22 5
Excluding Coffee	4 4	7 1	19 5	14 7	21 1	13 5
Nontraditional Exports	5 3	13 7	16 6	10 7	20 4	18 2
CACM	16 9	14 9	9 0	10 7	32 8	20 6
Outside CACM	-11 1	11 4	31 2	10 8	0 7	13.2
As Percentage of GDP						
BOP Current Account Deficit (Excluding Official Transfers)	4 6	9 4	6 7	5 0	5 8	4 2
Public Sector Fiscal Deficit (Excluding Grants)	3 4	5 8	2 5	4 4	5 9	3 3

1/ Based on 1972 census Preliminary information from 1992 census shows population of 5 047925 million
2/ Increases denotes local currency appreciation
3/ Nominal minimun wages deflated by the consumer price index.

Table F 2
El Salvador
ESF Cash Transfers Relative to Macro Variables
1980 - 1993
(By calendar year)

Year	Amount (Millions of dollars)	ESF Cash Transfers As Percent of GDP	Exports	Imports	B O P Current account deficit		Central government fiscal deficit
1980	20	1 1	1 9	2.1	65 6	1/	14 6
1981	0	—	—	—	—		—
1982	100	5 6	14 3	11 7	83 5		65 5
1983	120	5 9	15 8	13 4	372.7		67 1
1984	135	5 8	18 6	13 8	202.7		98 7
1985	160	5 6	23 0	16 6	433 6		149 4
1986	130	3 3	17 2	13 9	93 5	1/	110 0
1987	204	4 4	34 5	20 5	85 5		122 6
1988	155	3 0	25 5	15 4	65 9		97 1
1989	157	3 2	31 6	13 5	33 7		64 9
1990	98	1 8	16 9	7 8	27 3		57 4
1991	45	0 8	7 7	3 2	15 2		16 3
1992	86	1 3	14 4	5 1	22 8		27 9
1993	41	0 5	5 6	2 1	12.8		18 0
TOTAL	1451	2 6	15 0	9 1	49 5		56 4

Source USAID
1/ Surplus

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Table F 3
Social Indicators

	1988	1989	1990	1991	1992
EDUCATION					
Illiteracy Rate	12.6	11 7			11 7
Illiteracy as Percent of the Economic Active Population		30 0			25 2
Average Years of School	5 6	6 1			2.6
Repitency Rate					
First Grade		18 8			18 5
Second Grade		9 1			8 8
Third Grade		6 6			6 3
Desertion Rate					
First Grade		18 2			17 3
Second Grade		10 5			8 5
Third Grade		9 4			8 9
HEALTH					
Infant Mortallaty Rate (per 1000 live births)		56 0			42.0
Undernourishment Levels					
Children Under 5 years					
Weight/age	15 0				11 0
Height/age	30 0				23 0
Trained Health Promoters		579			1182
Trained Midwives		2792			3355
HOUSING					
Corrugated Asbestos Roofing Sheets	37 5	40 7			
With Concrete of Brick & Concrete Walls	65 3	71 3			
Cement or Tile Floors	62.9	67 0			
Access To Potable Water		46 0			54 9
Access to Latrines		60 0			69 3
Access to Sanitation Services		60 0			69 3

Source Ministry of Planning (MIPLAN)

Table F 4
Social Indicators Evolution

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gross enroll ratio, prim (% schll age pop)	85	75	75	74	83	86	87	91	91	92	93	92	93	94	94	0
Gross enroll ratio, sec (% schll age pop)	22	19	24	0	23	26	27	0	0	29	29	26	26	0	0	0
Illiteracy rate (% of pop age 15+)	0	0	33	0	0	0	0	31	0	0	0	0	27	0	25	0
Infant mortality rate (per thous live births)	103	92	84	82	78	75	72	68	64	61	58	55	52	50	47	45
Life expectancy at birth, (years)	58	58	57	57	57	57	59	60	61	62	63	64	64	65	66	67

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Table F 5 a
El Salvador- Satisfaction of Basic Needs
(% of Urban Households)

	1989	1991	1992	1993
Basic Needs Met 1/				
Adequate Housing	67 9	69 6	68 5	71 5
Potable Water	76 1	76 4	80 1	80 3
Sanitary Facilities	95 8	96 8	95 4	96 0
Schooling	66 9	60 0	61 2	N/A
One Unmet	43 5	42 5	41 4	N/A

Source MIPLAN's Multipurpose Household Surveys

1/ Less than three persons per bedroom access to water, sanitation services, children 7 to 10 attending school
services, children 7 to 10 attending school

Table F 5 b
El Salvador- Satisfaction of Basic Needs
(% of Rural Households)

	1989	1991	1992	1993
Basic Needs Met 1/				
Adequate Housing	N/A	N/A	37 1	39 4
Potable Water	N/A	N/A	27 5	28 1
Sanitary Facilities	N/A	N/A	59 2	62 3
Schooling	N/A	N/A	78 8	N/A
One Unmet	N/A	N/A	90 8	N/A

Source MIPLAN's Multipurpose Household Surveys

1/ Less than three persons per bedroom access to water sanitation services children 7 to 10 attending school
services, children 7 to 10 attending school

USAID

U S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-94-25

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location	:	El Salvador
Project Title		Modernization of the State Program
Project Number	:	519-0414
Funding	•	$ 25 Million (ESF)
Life of Project	:	One Year
IEE Prepared by	:	Peter Gore, Environmental Officer, USAID/El Salvador
Recommended Threshold Decision		Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments		Categorical Exclusion issued under 22 CFR 216.2 (c)(2)(vi) is approved. Concurrence shall be subject to covenants incorporated into the Grant Agreement which shall specify that. (a) funds from this grant shall not be used to support timber extraction or significant deforestation, including the procurement or use of equipment that could be used in deforestation activities; (b) funds shall not be used for the procurement or use of pesticides; and (c) that funds proceeding from this program shall have no negative effects on endangered species or critical habitats.

_______________ Date 9/6/94

Jeffrey Brokaw
~~Acting~~ Chief Environmental Officer
Bureau for Latin America
and the Caribbean

320 TWENTY FIRST STREET N W WASHINGTON D C 20523

Copy to		Harry W Reynolds, Acting Director, USAID/El Salvador
Copy to	•	Peter Gore, Environmental Officer, USAID/El Salvador
Copy to	:	Susan Alexander, LAC/SPM
Copy to	:	Wayne Williams, REA/CEN
Copy to	:	Kathleen Barrett, LAC/CEN
Copy to	:	IEE File

EF

Drafted by EFAJER·EF·08/31/94 EES\IEE\IEE94-25.etd

Clearance

LAC/RSD/E. KMenczer KM Date 9/1

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A I D MISSION TO EL SALVADOR
c/o AMERICAN EMBASSY
SAN SALVADOR, EL SALVADOR, C A

ENVIRONMENTAL THRESHOLD DECISION

Project Location	El Salvador
Project Title and number	Modernization of the State Program, 519-0414
Funding	$25,000,000 (ESF)
Life of Project	1 year
IEE Prepared by	Peter Gore PG Environmental Officer USAID/El Salvador
Recommended Threshold Decision	Categorical Exclusion
Mission Threshold Decision	Concur with Recommendation
Date Prepared	August 4, 1994
Comments	The Grant Agreement will contain a condition indicating that no pesticides will be procured without first completing an environmental assessment and having it approved by AID/W

Henry W Reynolds
Acting Mission Director

8/12/94
Date

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Description

This program consists of a cash transfer of $25,000,000 to support the Government of El Salvador's (GOES) continuation efforts to consolidate the peace process and to increase confidence in its economic reform program designed to promote greater private sector investment This assistance supports the Grantee's policies and programs designed to (i) increase citizen participation in delivery of health and education services, (ii) increase the effectiveness and efficiency of the Ministries of Health and Education, (iii) strengthen social sector finances, (iv) modernize the agricultural cooperative law, (v) promote private investment in electrical generation and distributing, (vi) maintain macroeconomic stability, and (vii) sustain the judicial reform process The assistance will finance the importation of raw materials, intermediate and capital goods, spare parts, agricultural inputs, petroleum and petroleum derivatives from the U S , and other imports, as may be agreed to between the Grantee and USAID, for private sector use Availability of funds under this Program is contingent upon GOES progress in meeting economic objectives

Determination

Pursuant to A I D environmental regulations expressed in 22 CFR, Section 216 2(c)(1) (ii), an IEE is generally not required when "AID does not have knowledge of, or control over, and the objective of AID in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID "

Moreover, Handbook 3, Appendix D, Section 216 2(c) (2) (vi) states that "Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project of projects" are not subject to AID's environmental procedures The above exemptions do not apply, however, to assistance for the procurement or use of pesticides

The FY 94 program will not provide support for the purchase or use of pesticides A condition will be placed in the Grant Agreement indicating that no pesticides will be procured or used without first completing an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer

Recommendation That no further environmental study be undertaken for this PAAD and that you sign the Environmental Threshold Decision facesheet, indicating your approval of a categorical exclusion for this program

APPR: JB JB
DRAFT: EF (EF)
CLEAR: ( )
UNCLASSIFIED
CLEAR: ( )
CLEAR: ( )
CLEAR ( )
CLEAR: ( )

AID/LAC/RSD/E:EFAJER:EF:IEE94-25.CAB
09/16/94 647-5677
AID/LAC/RSD/E:JBROKAW

LAC/SPM SALEXANDER (INFO) LAC/CEN: KBARRETT (INFO)

ROUTINE SAN SALVADOR

AIDAC SAN SALVADOR FOR PETER GORE

E O. 12356: N/A

TAGS:

SUBJECT ENVIRONMENTAL THRESHOLD DECISION FOR MODERNIZATION OF THE STATE PROGRAM (519-0414)

1. LAC CHIEF ENVIRONMENTAL OFFICER, JEFFREY BROKAW HAS REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A CATEGORICAL EXCLUSION WITH THE FOLLOWING MODIFICATION.

2. COVENANTS WILL BE INCORPORATED INTO THE GRANT AGREEMENT WHICH SPECIFY THAT. (A) FUNDS FROM THIS GRANT SHALL NOT BE USED TO SUPPORT TIMBER EXTRACTION OR SIGNIFICANT DEFORESTATION, INCLUDING THE PROCUREMENT OR USE OF EQUIPMENT THAT COULD BE USED IN DEFORESTATION ACTIVITIES; (B) FUNDS SHALL NOT BE USED FOR THE PROCUREMENT OR USE OF PESTICIDES; AND (C) THAT FUNDS PROCEEDING FROM THIS PROGRAM SHALL HAVE NO NEGATIVE EFFECTS ON ENDANGERED SPECIES OR CRITICAL HABITATS.

3 IEE NUMBER IS LAC-94-25. COPY OF THE ENVIRONMENTAL THRESHOLD DECISION IS BEING SENT TO MISSION FOR INCLUSION IN PROJECT FILES. YY

UNCLASSIFIED

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To	Peter Gore@PRO@SAN SALVADOR
Cc:	Alex Segarra@LAC DR@AIDW
Pcc	
n	Karen Menczer@LAC DR@AIDW
ject	re IEE and cable
Date	Wednesday, October 5, 1994 15 17 44 EDT
Attach	
Certify	Y
Forwarded by:	

Putting conditions a and c into the PIL is fine

Reviewing the proposed activities for this project, it doesn't seem like it'd be too difficult to ensure that these activities will not have a negative impact on threatened or endangered species or their critical habitats Most of the acitivites won't have any impact on the environment It seems that the only activity that could indirectly affect the environment is modernization of the agricultural law I would imagine that a modern agricultural law would have some standards in it about protecting habitat of threatened and endangered species If this is not the case, I guess it would be a good avenue for a little technical assistance!

This clause in the IEE about TES is pretty standard language for us now

I'll send my itinerary shortly My plans right now are to come in on Sat so ould get some back up reading done before starting out (since it's ossible to get anything done at my desk here) But I might change those plans to arrive Sun, since it's a pretty early arrival time, I'd still have some time Sun to review documents

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CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

DATE December 19, 1994

We wish to inform you of proposed actions in the Agency's programs during Fiscal Year 1995

El Salvador - Modernization of the State

The attached notification was sent to the Hill on December 19, 1994. Obligation may be incurred on January 3, 1995.

Barbara Bennett
Program Presentation Division
Bureau for Legislative and Public Affairs

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Clearances:

LAC/SPM:CSchoux	(draft)	Date	8/19/94
LAC/DPP:RMeehan		Date	
LAC/CEN:KEllis		Date	
ARA/CEN:JHamilton	(draft)	Date	12/12/94
GC/LAC:RMeighan	RM	Date	12/13/94
FA/B/PA:BGreene	BTG *	Date	12/12/94
LAC/DPB:EZallman		Date	12/9/94 (received 12/9)
PPC/CDE:JLambardo	(draft)	Date	12/12/94
DAA/LAC:NParker		Date	12/13/94
AA/LAC:MSchneider		Date	12/13/94
LPA/LEG:NLevine		Date	12/16/94

Drafter DLoudis:LAC/SPM/CEN&CAR:jb:x79146:8/15/94 U:\DRPUB\CEN&CAR\SALVADOR\MOS.APC

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DEC 1 9 1994

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Country	:	El Salvador
Project Title	:	Modernization of the State
Project Number	:	519-0414
FY 1995 CP Reference	:	None
Appropriation Category	:	Economic Support Fund
Life-of-Project Funding	:	$25,000,000 (G)
Intended FY 1995 Obligation	:	$25,000,000 (G)

This is to advise that USAID intends to obligate $25 million for the Modernization of the State Program The objective of the program is to encourage and support the continuing implementation of the Peace Accords and promote vital reforms in health and education; the judiciary, electoral procedures; the agriculture sector, including the provision of production credit for beneficiaries of the USAID-funded land purchase program, management of the National Reconstruction Program, and a growth-oriented economic framework.

Annex: Activity Data Sheet

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AGENCY FOR INTERNA AL DEVELOPMENT
ACTIVITY DA A SHEET

PROGRAM El Salvador

CP 81-05 (4-85)

TITLE	FUNDING SOURCE	PROPOSED OBLIGATION (In thousands of dollars)	
Modernization of the State	ESF	FY 95	LIFE OF PROJECT (Auth) 25,000

NUMBER 519-0414 GRANT ☒ LOAN ☐	NEW ☐ CONTINUING ☒	PRIOR REFERENCE None	INITIAL OBLIGATION FY 95	ESTIMATED FINAL OBLIGATION FY 95	ESTIMATED COMPLETION DATE OF PROJECT FY 96

Purpose To support key policy measures that will result in the effective decentralization of services and modernization of the state

Background: Since the Chapultepec Accords of January 1992, the combatants of both sides have demobilized and the transition to peace is well under way

Despite impressive gains, El Salvador s economic recovery remains fragile as the policy reforms to date have yet to be fully consolidated The GOES is now moving ahead strongly to redress the causes of poverty which contributed to the war

Program Description: The Modernization of the State program will support GOES actions to reduce poverty through a series of well-focussed reforms Two disbursements ($15 million and $10 million) are proposed to support GOES reforms

The proposed program will support policy reforms in six areas social sectors peace accords (including electoral reform), judicial framework, agricultural sector electricity and a growth- oriented economic framework The program emphasizes decentralization and private solutions to public problems, while increasing equality and participation by all Salvadorans Such measures should result in a more efficient and effective GOES which is responsive and accountable to its citizens

The program gives priority to primary education and basic health services Public sector expenditures in these areas will be increased sharply and will be targeted on the poor the effectiveness and efficiency of service delivery will be increased through decentralization, which transfers responsibility for the delivery of services to agencies closer to the beneficiaries

The program will assist the GOES to implement key elements of the Peace Accords Specifically, it calls for the provision of production credit to recent beneficiaries of land transfer and changes in the management of the National Reconstruction Program in order to increase participation of NGOs The judicial reform process will support enactment of reforms to the criminal and criminal procedure codes and the provision of adequate budget resources Legal reforms include the right to a public defender, substantial improvement in the legal rights of women and children, and a Juvenile Offenders Law

In addition, the program will support changes to the laws governing agricultural cooperatives These include land titling and the ability to capture profits In the energy sector, the program will help establish a regulatory framework favoring private investment in electricity The program will also support the maintenance of an adequate macroeconomic framework necessary to guarantee the success of the growth-promoting policy measures described above and avoid high inflation which has its greatest negative effect on the poor

Relationship to the A I D Country Strategy The Modernization of the State program directly supports USAID El Salvador s Strategic Objectives It will 1) improve the health and education status of Salvadorans, with an emphasis on the poor 2) reduce poverty thus consolidating the transition from war to peace 3) increase the control of ordinary citizens over their lives, thus improving governance and enhancing freedom and democracy, and 4) increase broadly-based economic growth The Program will initiate policy reforms that will be supported by planned projects in the agricultural and social sectors

Beneficiaries (Population Benefited by Measures in Thousands)

Improved financial system effect on existing EDUCO students	53
New EDUCO sections: improved education in the poorest areas of the country	30
New students in other modalities	17
Population in region of pilot health program	15
Strengthening of SILOS in Sonsonate and Usulutan	672
Training of 1740 health promoters (1500 inhabitants per promoter)	2620
All users of medicine by public health system	2500

Host Country and Other Donors El Salvador s improved economic policy framework has increased support from the International Monetary Fund, international lending agencies and other donors The World Bank supports structural and sectoral adjustment in the public sector, tax and customs reform, an improved poverty alleviation strategy, and better environmental protection policies The Inter-American Development Bank supports reforms to strengthen financial intermediation increase savings, modernize telecommunications, and upgrade infrastructure

Inputs	**Dols $000**
Dollar funds	25,000
Illustrative Local Currency Uses	
Development Activities	13,700
Social Sector Support	7 700
USAID OE Trust Fund	3,600

U S FINANCING (In thousands of dollars)

	Obligations	Expenditures	Unliquidated
Through September 30, 1993	0	0	0
Estimated Fiscal Year 1994	0	0	
Estimated Through September 30 1994	0	0	0
		Future Year Obligations	**Estimated Total Cost**
Proposed Fiscal Year 1995	25,000	0	25,000

PRINCIPAL CONTRACTORS OR AGENCIES
Implementing Organizations Ministry of Plan for GOES and NGOs\PVOs

BEST AVAILABLE COPY