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USAID
EL SALVADOR

BRIEFING BOOK

United States Agency for
International Development
San Salvador

USAID/El Salvador Briefing Book
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Country Notes

Area: 8,260 square miles, about the size of Massachusetts

Population: (1988 estimate) 5.5 million. About 50% of the population is urban. Density is approximately 250/square kilometer, the highest in continental Latin America. The infant mortality rate is 53/1000 live births. An estimated 20% of the population live outside of El Salvador, with approximately 500,000 residing in the United States.

Capital and Major Cities (1988 estimates):
San Salvador (capital) - population more than 1 million
San Miguel - 400,000
Santa Ana - 300,000

Literacy: Although no accurate figures available, recent USAID surveys indicated a general literacy rate of approximately 62% overall, with rural literacy at about 20%.

Language: Spanish

Religion: Predominantly Roman Catholic, although Protestant evangelical groups are active throughout the country.

Education: The government of El Salvador maintains a system of free public education through high school, which is theoretically compulsory for ten years. However, the social and economic dislocation caused by the civil conflict and by the disastrous earthquake in 1986 have seriously affected school enrollment. A recent study indicates a non-enrollment rate of some 37% of grammar school age children, and more than 70% of children of high school age, a total of some 600,000 children. Current school enrollment estimates are as follows: basic - 1,409,836; secondary - 90,974; university - 57,881; and vocational - 33,468.

Mass Communications:

Radio - There are some 51 radio stations in El Salvador, 30 of which are located in the capital; the others are repeater stations. There are approximately 3 million radio receivers and approximately 4.5 million daily radio listeners, giving radio the widest audience of any communications medium in El Salvador. Listenership cut equally across all economic classes. Radio remains the best source of breaking local news because of its ability to react immediately to events.

Television - Television is available to the entire population, with repeater stations providing signals to all parts of the country. Television sets are found in large and small communities; reports show that even some guerrillas use portable televisions. There are six national television channels which provide color transmission. Four of these are commercial channels, while the other two are government owned and operated. Viewership is highest in San Salvador and other urban centers, where the majority of sets are located. Audience estimates: television households, 440,000; national audience, 2,288,000.

Pay Television - There are two companies providing pay-to-view stations. These are not cable systems, but U.S. television programming taken from domestic satellites and rebroadcast in scrambled format on local UHF frequencies.

News Programming - There are five TV news programs on the commercial channels, broadcasting more than six hours of news, information and interview programs Monday through Friday. The government channels broadcast identical programs, mostly news, public information and interviews. While television news cannot respond as quickly to breaking stories, in a recent poll of Salvadorans with at least two years of high school education, nearly 75% responded that television was their primary source of news. Viewership is highest in the evening.

Press - Five national newspapers are published daily, carrying local stories, with an extensive use of international wire services (UPI, AP, AFP, DPA, Reuters, ACAN/EFE.) Papers with their estimated circulation are:

La Prensa Grafica	105,000
El Diario de Hoy	87,000
Diario Latino	49,000
El Mundo	61,000
La Noticia	25,000

Additionally, an English/Spanish bilingual newspaper, The El Salvador News-Gazette, is published weekly, and six other weekly newspapers are published outside of San Salvador to cover local news.

Periodicals: The most widely read magazines are of foreign origin and include Selecciones del Readers Digest and Visión. The Jesuit University of Central America (UCA), publishes ECA, a review of politics, economics and society. Recently, several new Salvadoran magazines of news and comment have appeared: Reportaje (1986); Semana (1987); and Analysis (1988).

Government:

President:	Lic. Alfredo Félix Cristiani
Vice President	Sr. José Francisco Merino López
Cabinet Ministers:	
Presidency	Dr. Oscar Alfredo Santamaría
Foreign Relations	Dr. José Manuel Pacas Castro
Planning	Lic. Mirna Liévano de Marques
Interior	Cnel. Juan Antonio Martínez Varela
Justice	Dr. René Hernández Valiente
Finance	Dr. Rafael Eduardo Alvarado Cano
Economy	Ing. José Arturo Zablah Kuri
Education	Lic. Cecilia Gallardo de Cano
Defense	Gen. René Emilio Ponce
Labor	Lic. Mauricio González Dubón
Public Health	Cnel. & Dr. G. Lisandro Vásquez Sosa
Public Works	Ing. José Mauricio Stubig
Agriculture	Ing. Antonio Cabrales
Vice-Ministers:	
Presidency	Lic. Ernesto Altschul
Foreign Relations	Lic. Ricardo Orlando Valdivieso

Vice-Ministers (Continued):

Planning	Lic. Francisco Flores
Interior	Dr. Jorge Martínez Menéndez
Justice	Lic. Rafael Antonio Castro Gomez
Finance	Lic. José Angel Quirós
Economy	Ing. Jorge Díaz
Education	Ing. Carlos Adrian Rodríguez
Defense	Gen. Juan Orlando Zepeda
Security	Gen. Inocente Orlando Montano
Labor	Dr. Rolando Lezama
Public Health	Dr. Gustavo Argueta Rivas
Public Works	Ing. Raúl Castaneda
Housing	Arq. Roberto Paredes
Agriculture	Dr. Jaime Mauricio Salazar

Political Parties (with Secretaries General):

ARENA - Partido Alianza Republicana Nacionalista (Dr. Armando Calderón Sol)
The Nationalist Republican Party was organized in 1982 by conservative Salvadorans who were dissatisfied with the direction of the post-1979 reform programs. Characterized by a strong free-market orientation, ARENA has become a more moderate party since the mid-eighties with the influx of many young technocrats and urban professionals. Arena ran strongly in 1991, gaining a popular majority, but failing to retain its majority in the Asamblea.

PDC - Partido Democrata Cristiano (Dr. Fidel Chávez Mena)
The Christian Democrat Party, a reform-minded party of the center-left, was founded in 1960. Its leading figure throughout all of its history was Jose Napoleon Duarte, who passed away in February, 1990. Under Duarte, the PDC controlled the government from 1984 until 1989. The PDC won 26 seats in 1991.

MAC - Movimiento Autentico Cristiano (Dr. Guillermo Antonio Guevara Lacayo)
The Authentic Christian Movement was formed in 1988 by PDC dissidents. Its principal figure is Adolfo Rey Prendes. It is currently allied with ARENA in the Assembly, but only gained 1 seat in the 1991 elections.

PCN - Partido de Conciliación Nacional (Lic. Ciro Roque Zepeda)
The traditional ruling party prior to the 1979 coup, the National Conciliation Party has lost much of its support to ARENA during the 80's. In the 1991 elections, the PCN won 9 seats, and retained its position on the CCE.

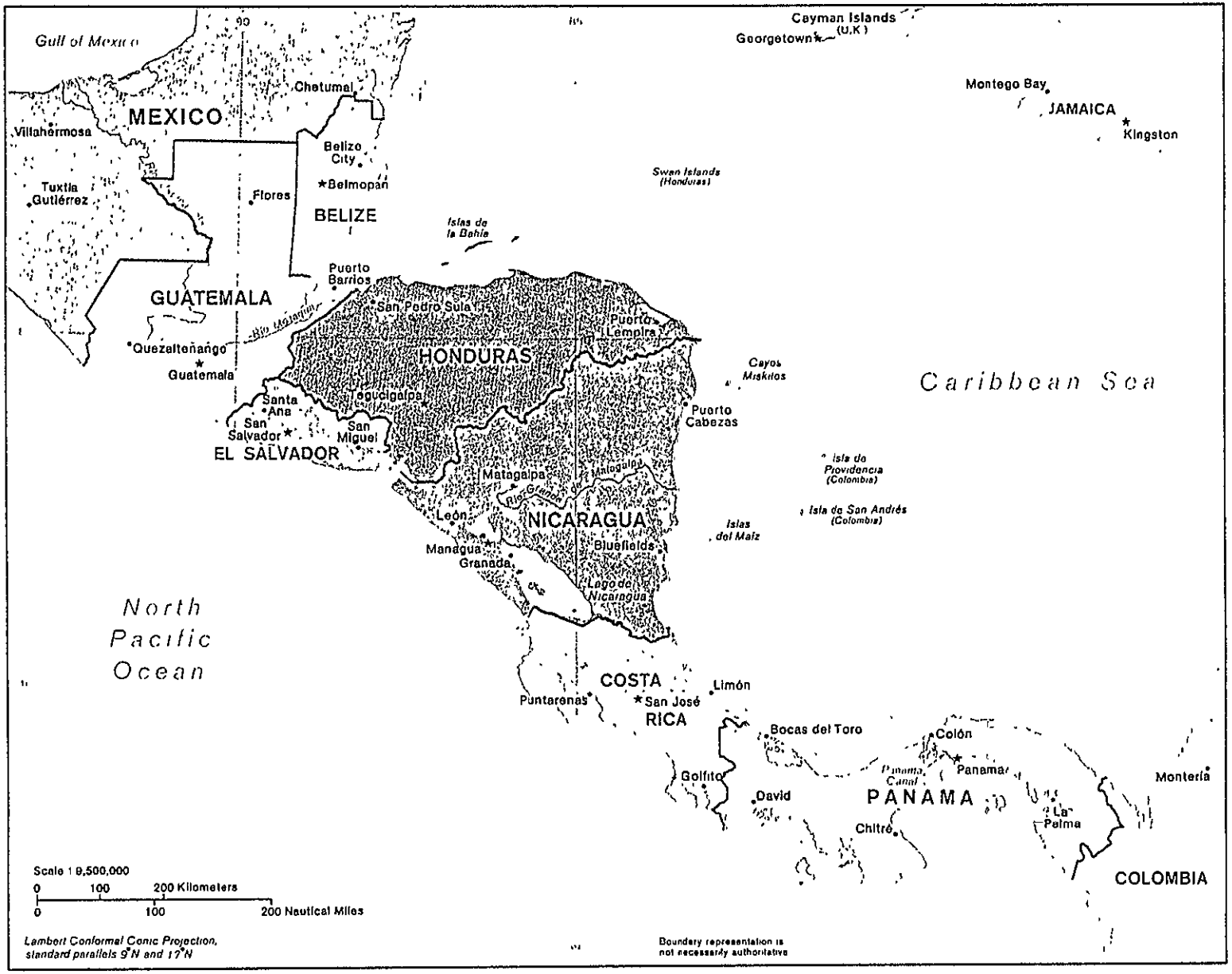
CD - Three component parties make up the Democratic Convergence, a left-of-center coalition which united for the presidential elections of 1988 under the candidacy of Guillermo Ungo. These parties are products of the post-1979 reform movement, and their leadership, in most cases, was previously affiliated with the Revolutionary Democratic Front (FDR), the original political arm of the FMLN. Since the death of Dr. Ungo in 1991, Rubén Zamora has become the chief spokesman for the party. In the 1991 elections, they gained 8 seats in the Legislative Assembly.

MPSC - Movimiento Popular Social Cristiano - Dr. Rubén Zamora
MNR - Movimiento Nacional Revolucionario - René Flores Aquino (Acting)
PSD - Partido Social Democrata - Dr. Mario Reni Roldan

Armed Forces:	
Minister of Defense	Gen. René Emilio Ponce
Vice Ministers:	
Defense	Gen. Juan Orlando Zepeda
Public Security	Cnel. Inocente Orlando Montano
Chief of Staff	Gen. Gilberto Rubio Rubio
Infantry Brigade Commanders:	
1st, San Salvador	Cnel. Francisco Elena Fuentes
2nd, Santa Ana	Cnel. José Humberto Gómez
3rd, San Miguel	Cnel. Ciro López Roque
4th, Chalatenango	Cnel. Rene Arnoldo Mehano Araujo
5th, San Vicente	Cnel. Carlos Rolando Herrarte
6th, Usulutan	Cnel. Julio César Grijalva
7th, Ahuachapan	Cnel. Rigoberto Soto Martínez
Commander, Air Force	Cnel. Héctor Leonel Lobo Pérez
Commander, Navy	Capitan de Navio Fernando Menjivar Campos
Director, National Guard	Cnel. Juan Carlos Carrillo Schlencker
Director, Treasury Police	Cnel. Roberto Pineda Guerra
Director, National Police	Col. Dionisio Ismael Machuca
Director, Army Press Office (COPREFA)	Maj. Baltazar López Hernández

August, 1991

Central America



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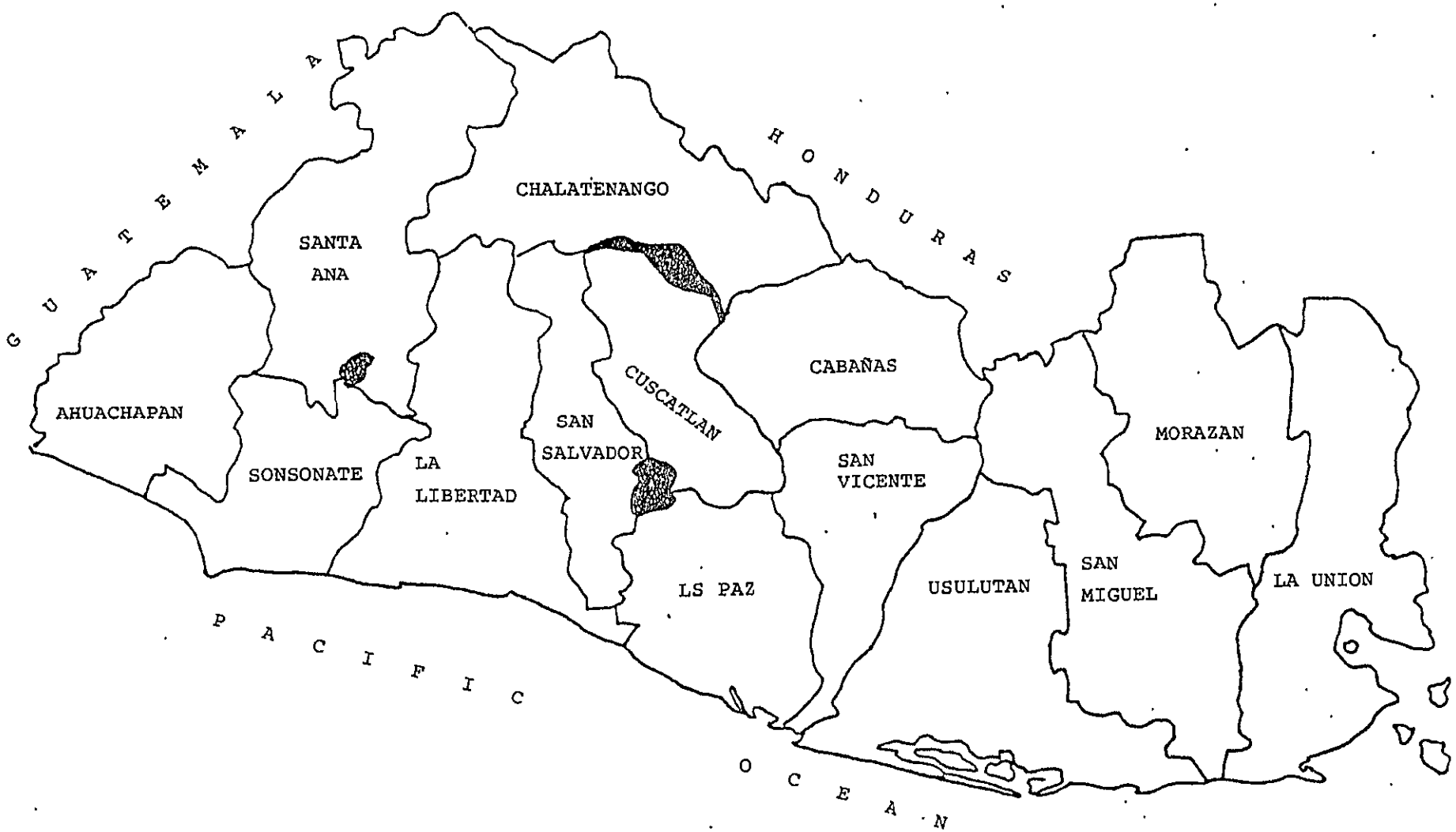
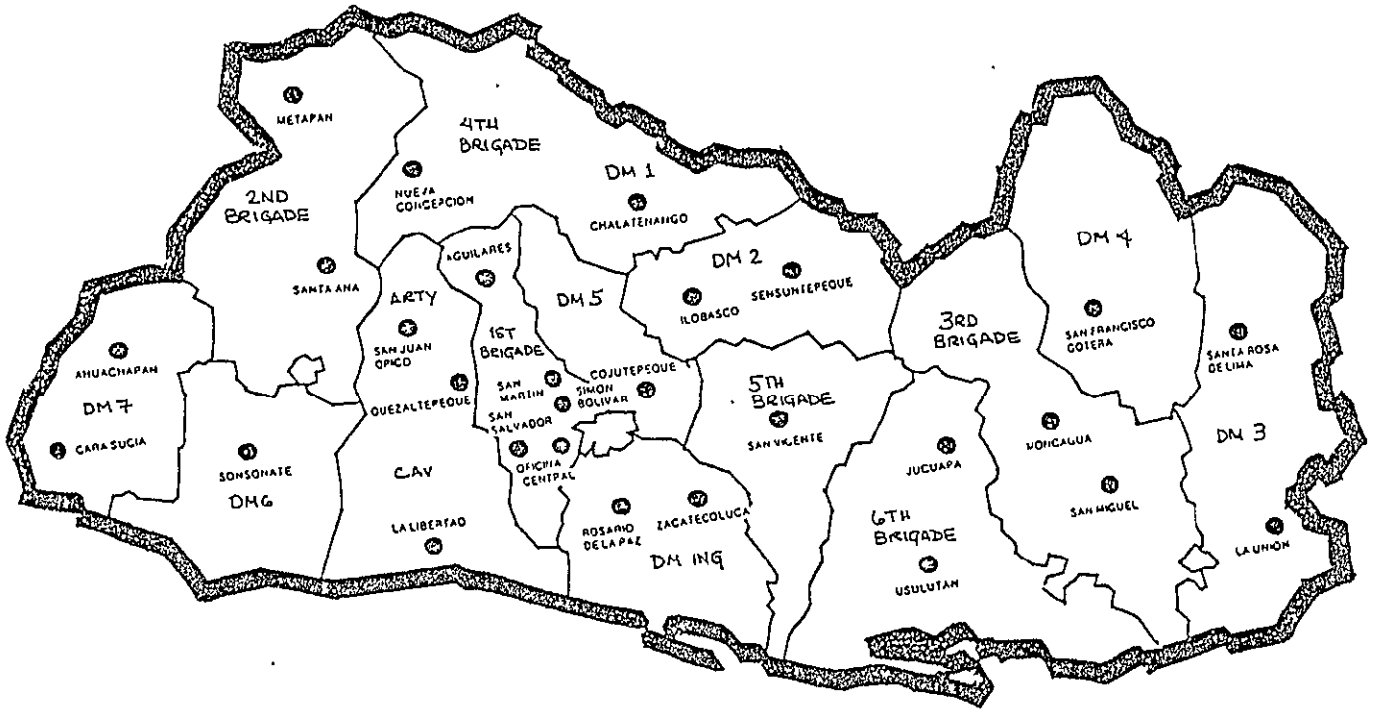
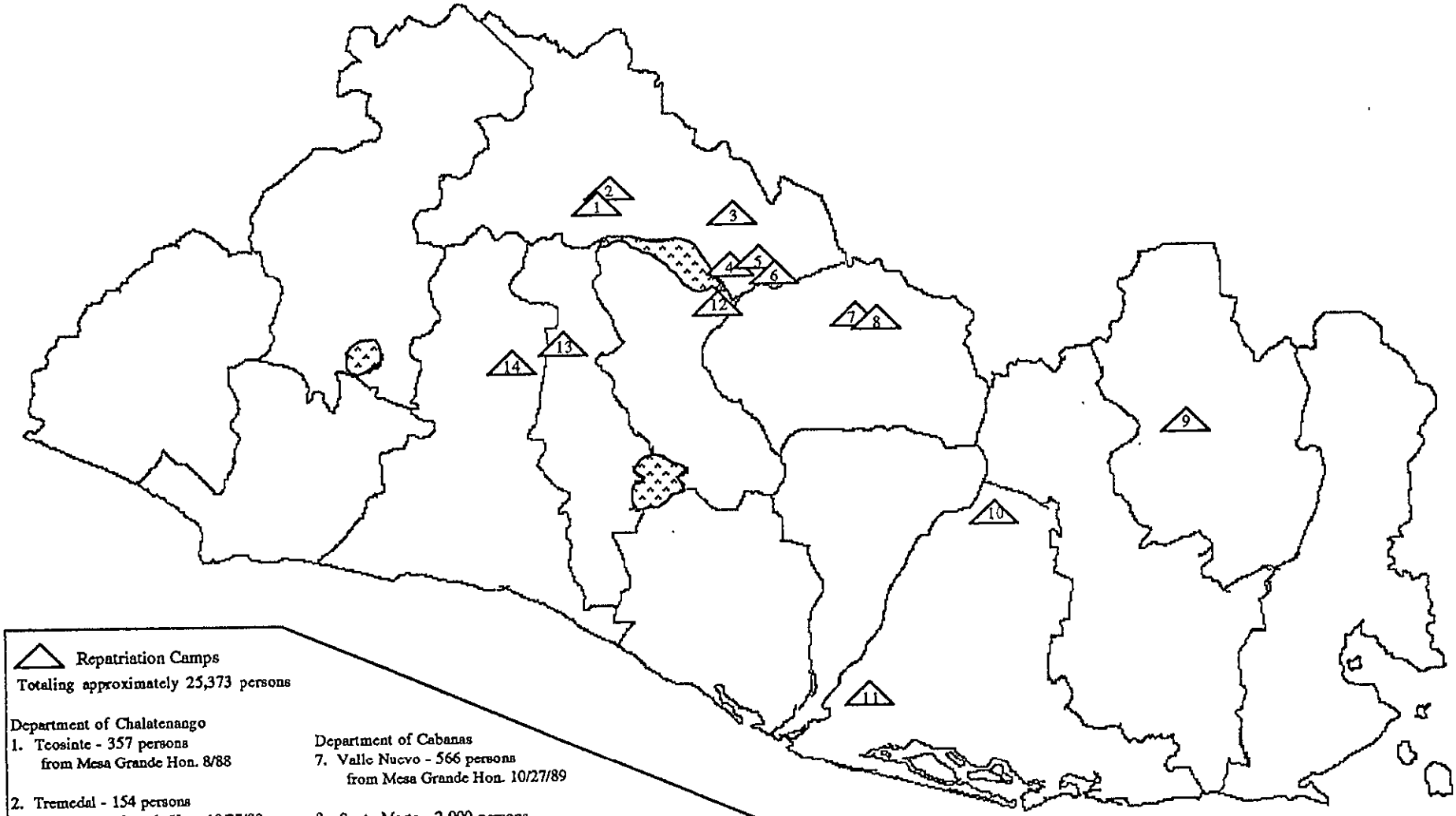
EL SALVADOR'S 14 "DEPARTAMENTOS"





Military Districts



Map of Repatriation Communities in El Salvador, C.A.

Repatriation Camps
Totaling approximately 25,373 persons

Department of Chalatenango
1. Teosinte - 357 persons
   from Mesa Grande Hon. 8/88
2. Tremedal - 154 persons
   from Mesa Grande Hon. 10/27/89
3. Las Vueltas - 2,397
   from Mesa Grande Hon. 10/87
4. Sn. Antonio Los Ranchos
   1,677 persons
   from Mesa Grande Hon. 10/87; 8/88
5. Guarjila - 3,070 persons
   from Mesa Grande Hon. 10/87
6. Guancora - 1,844 personas

Department of Cabanas
7. Valle Nuevo - 566 persons
   from Mesa Grande Hon. 10/27/89
8. Santa Marta - 2,900 persons
   from Mesa Grande Hon. 10/87

Department of Morazan
9. Segundo Montes - 8,500 persons
   from Colomoncagua Hon.
   12/89-2/90

Department of Usulutan
10. Nuevo Gualcho - 1,500 persons
    from San Antonio Hon. 2/90
11. Nancuchiname - 882 persons
    from Ciudad Romero Pan. 1/24/91

Deparatment of Cuscatlan
12. Copapayo - 1,360 persons
    from Mesa Grande Hon. 10/87

Department of San Salvador
13. El Jicaron - 267 persons
    from Nicaragua 3/91

Department of La Libertad
14. Obraje Nuevo - 244 persons
    from Nicaragua 3/91

USAID/ES/IRD/CDD 5/91

Acronyms

AAC	Asociación de Ahorro y Crédito
AAES	Asociación Azucarera de El Salvador
ABANSA	Asociación de Bancos de El Salvador
ABECAFE	Asociación Salvadoreña de Beneficiadores y Exportadores de Cafe
ABS	Asociación Bancaria Salvadoreña
ACES	Asociación Cafetalera de El Salvador
ACOPAI	Asociaciones Cooperativas de Produción Agropecuaria
ADELA	Atlantic Comminity Group for the Development of Latin America
ADS	Asociación Demografica Salvadoreña
AEAS	Asociación de Empresarios de Autobuses Salvadoreños
AES	Asociación de Estudiantes de Secundaria
AGES	Asociación de Ganaderos de El Salvador
AIGRETT	American Institute for Free Labor Development
AMAR	Amigos del Arbol
AMIGOS	Amigos de la Tierra
ANDA	Asociación Nacional de Acueductos y Alcantarillados
ANEP	Asociación Nacional de Empresas Privadas
APSISA	Health Support Project
ARI	Acute Respiratory Infection
ASACMA	Asociación Salvadoreña pro-Conservación del Medio Ambiente
ASI	Salvadoran Association of Industrialists
ASPRODERH	Private Human Rights Commission
AVSC	Association for Voluntary Surgical Sterilization
BANAFI	Banco Nacional de Fomento Industrial
BFA	Rural Development Bank
BOP	Balance of Payments
CACM	Central American Common Market
CAESS	Compañía de Alumbrado Eléctrico de El Salvador
CALMA	Centro de Apoyo a la Lactancia Materna
CAPS	Central American Peace Scholarship Program
CBI	Caribbean Basin Initiative
CCE	Central Elections Council
CDC	Center for Disease Control
CDC	Coordinating Development Committee
CDH	Committee for Human Rights
CDSS	Country Development Strategy Statement
CEL	Comisién Ejecutiva del Río Lempa
CENAP	Centro Nacional de Productividad
CENCAP	Centro Nacional de Capacitación Agropecuaria
CENDEPESCA	Centro Nacional de Desarrollo Pesquero
CENITEC	Centro de Investigaciones Tecnológicas y Científicas
CENREN	Centro de Recursos Naturales
CENTREX	GOES "One Stop" Export/Import Center
CI	Comittee for Investigation
CIDA	Canadian International Development Agency
CITES	Convention on International Trade in Endangered Species
CLASP	Central and Latin American Peace Scholarship Program
CLUSA	Cooperative League of the United States
COEDA	Comisión Empresarial de Asistencia
COEXPORT	Corporación de Exportadores de El Salvador
COMURES	Corporación de Municipalidades de la República de El Salvador
CONAES	Consejo Nacional de Empresarios Salvadoreños
CONARA	Commission of National Reconstruction

CORELESAL	Revisory Commission for Salvadoran Legislation
CORSAIN	Corporación Salvadoreña de Inversiones
CREMA	Comité de Recuperación del Medio Ambiente
CRS	Catholic Relief Services
CSC	Salvadoran Coffee Council
CYP	Couple-Years-Protection
DIVAGRO	Agricultural Diversification Program
DP	Displaced Persons
ENA	National School of Agriculture
ESF	Economic Support Fund
FEDECASAS	Federación de Cooperativas de Ahorro Crédito de El Salvador
FEDECCREDITO	Federaciones de Cajas de Crédito
FENAPES	Federación Nacional de la Pequeña Empresa de El Salvador
FEPADE	Fundación Empresarial para el Desarrollo Económico
FES	Fundación Ecológica Salvadoreña
FIGAPE	Fondo de Financimiento y Garantía para la Pequeña Empresa
FINATA	National Office for Agricultural Financing
FIPRO	Industrial Foundation for the Prevention of Occupational Hazards
FL	Forensic Laboratory
FMLN	Frente Farabundo Martí para la Liberación Nacional
FORTAS	Strengthening of Associations
FUNTER	Fundación TELETON de Rehabilitación
FUSADES	Fundación Salvadoreña para Desarrollo Económico y Social
FUTECMA	Fundación Tecleña del Medio Ambiente
GDP	Gross Domestic Product
GIS	Geographic Information System
GOES	Government of El Salvador
GTZ	German Technical Assistance
HCOLC	Host Country Owned Local Currency
IBRD	World Bank
ICRC	International Commission of the Red Cross
IDB	International Development Bank
IGN	Instituto Geográfico Nacional
IMF	International Monetary Fund
INCAE	Instituto Centroamericano de Administración de Empresas
INCAFE	National Coffee Institute
INPEP	Instituto Nacional de Pensiones de los Empleados Publicos
INSAFI	Instituto Salvadoreño de Fomento Industrial
ISDEM	Instituto Salvadoreño de Desarrollo Municipal
ISSS	Salvadoran Social Security Institute
IUCN	Inter. Union for the Conservation of Nature and Natural Resources
IVU	El Instituto de Vivienda Urbana
LDC	Less Developed Country
MAG	Ministerio de Agricultura y Ganadería
MEA	Municipalidades en Acción
MES	Movimiento Ecológico Salvadoreño
MIPLAN	Ministerio de Planificación y Coordinación del Desarrollo Económico y Social
MOH	Ministry of Health
MOP	Ministry of Public Works
ORT	Oral Rehydration Therapy
ORS	Oral Rehydration Salts
PRONAVIPO	
PVO	Private Voluntary Organization

RENARM	Regional Environmental and Natural Resources Management (AID)
ROCAP	Regional Office for Central America and Panama
SCIS	Sociedad de Comerciantes e Industriales de El Salvador
SETEFE	Secretaría Técnica de Financiamiento Externo
SIU	Special Investigative Unit
SPNVS	Servicio de Parques Nacionales y de Vida Silvestre
UCAFES	Unión de Cooperativas de Cafetaleros de El Salvador
UCA	Universidad Centroamericana "Jose Simeon Cañas"
UES	Universidad de El Salvador
UNICEF	United Nations International Children's Education Fund
UNADES	Union Nacional de Desplazados
USAM	Universidad Salvadoreña "Alberto Masferrer"
USDA	US Department of Agriculture
USGS	US Geological Survey
WMO	World Meteorological Organization

July, 1991

Chronology of Events
The Conflict in El Salvador, 1979-1990

In Disarray: 15 October 1979 to October 1981

1979

October
15 President Carlos Humberto Romero is deposed in a coup led by Colonel Adolfo Arnoldo Majano and Colonel Jaime Abdul Guitérrez.
16 Civil-military junta announces state of siege; suspends constitutional guarantees for 30 days; announces ambitious social and economic reform program; and calls for free elections.
22 Junta names 12-member cabinet that represents all opposition to the Romero government, including Communists.

1980

January
5 Junta dissolves. New Christian Democratic Party/military junta formed.
March
6 Junta announces plans to expropriate all properties of more than 500 hectares and form cooperatives to be owned by families working them.
23 Archbishop Arnulfo Romero assassinated.
October
11 FDR/FMLN organized from the May 1980 union of five insurgent groups.
October/November
600 tons of weapons provided to guerrillas. Some traced back to Vietnam.
December
4 Bodies of four American women - three nuns and one lay worker - are found in shallow grave along highway from airport to San Salvador.
5 U.S. suspends military and economic aid to El Salvador.
15 "Radio Venceremos" starts broadcasting to El Salvador from Nicaragua, inciting people to organize a general insurgency against the Salvadoran government.
17 U.S. restores economic aid to El Salvador.

1981

January
4 Two American labor leaders and head of Salvadoran Institute of Agrarian Reform are assassinated at Sheraton Hotel in San Salvador.
10 Insurgent forces begin 'final' offensive.
14 U.S. resumes military aid to El Salvador.
March
5 Junta announces establishment of electoral commission to prepare for Legislative elections to be held in 1982.
August
4 Government turns over the first land titles to be issued under the Agrarian Reform Program.
France and Mexico give diplomatic recognition to FDR/FMLN.

Insurgent Ascendance from end of 1981 to end of 1984

1981

December
Insurgent forces begin the "general" offensive - a rationalization of the "final" offensive.

1982

January
25 Campaign to elect a Constitutional Assembly opens.
March
25 Elections held for Constituent Assembly.
April
22 ARENA party leader Roberto D'Aubuisson elected president of the Constituent Assembly.
29 Constituent Assembly names Dr. Alvaro Magaña as president of a provisional government to replace junta.

1982-1983

Insurgent forces continue general offensive and specific efforts to disrupt electoral and constitutional processes.

1983

U.S. begins to train Salvadoran battalions and officer candidates in the U.S. and in Honduras.

September
8 Constituent Assembly approves law permitting peasant labor organizations.
December
11 Vice-president George Bush visits El Salvador to make U.S. position clear regarding the necessity to improve human rights situation.
16 Constituent Assembly unanimously approves final version of new constitution.
17 Special unit created to investigate and eliminate death squads.
21 Constituent Assembly becomes national legislature.
31 Insurgent forces stage major attack and take over Fourth Brigade Headquarters at El Paraíso.

1984

March
25 Presidential elections. No candidate wins majority. Run-off election required.
May
6 Run-off election held. PDC Candidate José Napoleón Duarte wins with 53.59 percent of the vote.
24 Five former National Guardsmen are convicted of the December 1980 murder of the four American church women.
June
1 José Napoleón Duarte inaugurated as first freely elected president in 52 years.
Mid-1984
Government forces begin to regain the military initiative.

1984 (Continued)

October
8 President Duarte at U.N. General Assembly calls for dialogue with armed opposition.
15 Meetings between government and FMLN take place at La Palma.
November
30 Additional government-FMLN meetings at Ayagualo.
December
1 Insurgent forces ambush government troops in El Salto in north-eastern La Paz Department.

The War Changes Directions - End of 1984 to End of 1986

Early 1985

Insurgent forces begin to change tactics from relatively large-scale, conventional-type attacks to smaller unit actions. At the same time, more economic and civil population targets come under attack.
March
31 National Legislative Assembly and municipal elections held. PDC takes a majority of seats in the National Assembly and 58 percent of municipal councils.
June
19 Persons dressed as Salvadoran military personnel attack several night clubs in San Salvador's Zona Rosa, killing 13 unarmed people, including 4 off-duty U.S. Marines.
September
10 Inés Guadalupe Duarte Duran, oldest daughter of President Duarte, and her secretary, kidnapped.
October
10 Insurgent forces generate a major attack on the Army's Basic Training Center at La Unión.
24 Inés Guadalupe Duarte Duran, her secretary, and mayors and other municipal officials kidnapped earlier are released in exchange for over 100 insurgent prisoners.
November
A National Reconstruction Plan (Unidos Para Reconstruir) unveiled.

Stalemate: 1986 - 1987

1986

January
8 Government forces initiate "Operation Phoenix" with the intention of driving insurgents from strongholds on the Guazapa Volcano in Cuscatlan Department.
February
26 Gunmen convicted of the 1981 Sheraton murders given maximum 30-year prison sentences.
June
1 Insurgents accept President Duarte's proposal for resumption of peace talks.
October
10 Earthquake devastates San Salvador. Emergency aid flows from all over the world.

1987

January
21 Insurgent forces attack El Paraíso again, killing one U.S. military advisor as well as hundreds of Salvadoran soldiers. This is the first major attack since the effort at La Unión in October 1985.

May
20 Government forces initiate "Operation Monterosa" with intention of disrupting as many insurgent operations as possible. Lasts through August.

Fall
Central American Peace Plan proposed by President Arias of Costa Rica. Receives great acclaim and Arias is given the Nobel Peace prize.

November
6 President Duarte announces a unilateral cease-fire and general amnesty in El Salvador, citing his desire for all critics of the government to return to the country and participate openly in a free and nonviolent electoral process.
7 Insurgent forces initiate the most destructive economic sabotage operation since the beginning of the war.

1988 to the Present: Guerrilla Movement Turns to Increased Urban Terrorism as Salvadoran Military Begin to Gain Upper Hand in Rural Areas

1988

March
19 National Legislative Assembly and municipal elections held. Despite guerrilla declared transportation stoppage ("paro") and sabotage of electrical and water systems, more than 60% of Salvadoran electorate turns out. ARENA wins majority of seats in the Assembly, defeating the Christian Democratic Party.

Mid 1988
Terrorist damage to the electrical grid and other public utilities soars, and is the highest since the early 1980s.

September
21 Ten campesinos are murdered by the Salvadoran armed forces in the rural area of San Sebastian, San Vicente Department. The military alleges that the campesinos were killed when caught in the crossfire of an ambush by guerrilla forces. Further investigations, however, suggest that there was no ambush. The military states that an investigation will be carried out.

FMLN-FDR leaders Guillermo Ungo and Rubén Zamora return from exile, establish and register the "Convergence" party, and present a slate of candidates for the March 1989 Presidential elections.

1989

January
23 FMLN issues a new proposal in which they would agree to support the Democratic Convergence party in the presidential elections if the elections are postponed for six months.

1989 (Continued)

February

3 Newly elected U.S. Vice President Dan Quayle visits and reiterates U.S. support for El Salvador and continued concern with Salvador's human rights record.

20 Guerrilla peace plans are amplified, and include postponing the March Presidential elections until September in order to allow them sufficient time to launch a campaign. President Duarte decides that the political parties must address the plan, and a meeting in Mexico is arranged. Leaders from six political parties attend the Mexico meeting. President Duarte announces a unilateral cease fire, but the insurgents do not respect the halt in fighting. The proposal to postpone elections is rejected.

March

Military announces that it has probable cause for believing that 9 Salvadoran soldiers killed the campesinos at San Sebastian; individuals are turned over to the civilian court.

19 Presidential elections held, despite guerrilla declared transportation stoppage ("paro"), electrical black-out of San Salvador for several days, and armed attacks against numerous civilian and military targets on election morning. Observer delegations declare election process fair and free of fraud. ARENA party candidate, Alfredo Cristiani wins with 56% of the vote.

April

19 The FMLN assassinates Attorney General Roberto García Alvarado.

June

1 Peaceful transfer of power from Christian Democratic President Duarte to President-elect Cristiani.

9 Dr. José Antonio Rodríguez Porth, Minister to the President is assassinated in front of his house by "unknown assailants."

26 Cnel. Roberto Armando Rivera, director general of the Corps of Firemen is assassinated by urban commandos of the FMLN.

27 Dr. Mauricio Gutiérrez Castro is named President of the Supreme Court by the Legislative Assembly.

July

1 The FMLN calls for dialogue with the government to look for a political solution to the war.

19 President Cristiani announces a new Salvadoran economic strategy.

31 The FMLN initiates in the central region of the country a campaign known as "All against the fascist government of ARENA."

August

5 Summit conference of Central American presidents in Honduras results in important agreements for regional peace.

31 The Subcommittee on the Prevention of Discrimination and Protection of Minorities of the U.N. approves a resolution about the situation of Human Rights in El Salvador which condemns the armed forces and forcefully calls for the attention of the government of ARENA.

September

1 The FMLN proposes new dialogue with the GOES, to be held in Mexico in mid-September, and moderated by Mons. Rivera.

5 The headquarters of FENASTRAS is the object of an attempted dynamite attack.

7 President Cristiani agrees to dialogue with representatives of the FMLN in Mexico the 12 and 13 of September.

7 The commanding general of the FMLN announces the suspension of sabotage to infrastructure, and the use of mines and explosive devices.

1989 (Continued)

September

10 The FMLN announces a unilateral cease fire for 10 days, from the 13 to the 23 of September.

12 FENASTRAS marches through San Salvador to protest the capture of two of its members.

13 In meetings in Mexico, the GOES and the FMLN agree to a procedure for monthly talks.

October

President Cristiani tells the U.N. that during the next meeting with the FMLN in Costa Rica, he will propose a complete halt to the hostilities.

10 Unknown assailants assassinate Carmen Sánchez de Fuentes, wife of the editor of El Diario de Hoy. Her 21 year old son, who is injured in the attack dies 5 days later.

15 The second round of negotiations between the GOES and the FMLN begin in Costa Rica.

17 Isabel Casanova Torres, daughter of the chief of the Study Center of the Armed Forces, is brutally assassinated.

19 The homes of Rubén Zamora and his sister-in-law, suffer dynamite assaults.

30 The FMLN attacks Estado Mayor with catapult explosives.

31 The headquarters of FENASTRAS is devastated by a dynamite attack. 10 are killed, and 35 are wounded. CODEFAM also suffers a dynamite attack, and 4 are injured.

November

1 Urban commandos of the FMLN attack the First Brigade with anti-tank weapons.

2 The FMLN calls off peace talks in protest of the FENASTRAS bombing.

3 The home of Col. Orlando Carranza, Commander of the Belloso Battalion is the object of attacks.

11 The FMLN initiates the strongest offensive of the war on seven cities in the country, including the Capitol, simultaneously attacking both the home and the residence of the President, and the homes of the president and vice president of the Legislature.

12 The GOES announces a state of siege and a curfew. Radio Cuscatlan, under the control of the FMLN, announces threats against the Jesuits in UCA.

13 The FMLN announces a transportation paro.

16 Armed men enter the campus of UCA during the early morning and assassinate 6 Jesuit priests, their housekeeper, and her daughter.

19 The Secretary General of the OAS, Joao Clemente Baena Soares, arrives in San Salvador.

21 FMLN forces enter the Sheraton Hotel and take hostages. Baena Soares, who is staying in the Sheraton is rescued by ESAF commandos. The guerrillas also occupy private homes in the Escalon section of San Salvador.

22 The FMLN calls for a cease fire under the auspices of the U.N.

23 A Nicaraguan plane loaded with arms for the FMLN crashes in El Salvador.

26 The GOES suspends relations with Nicaragua.

28 The ex-President of the Supreme Court, Dr. Francisco José Guerrero is assassinated.

30 "Non-essential" U.S. personnel are evacuated from El Salvador.

December

10 In the 6th summit of the Central American presidents in Costa Rica, the FMLN is condemned for its November offensive.

December, 1989 (Continued)

20 U.S. troops invade Panama to capture Gen. Manuel Antonio Noriega, accused of narcotics trafficking.

1990

Harassments, assassinations, and attacks on the power grid continue to be favorite guerrilla activities. President Cristiani declares 1990 to be the Year of Peace in El Salvador due to call for substantive talks from both sides.

January

8 US dependents and others are allowed to return to El Salvador.

24 Col. Carlos Figueroa, Vice Minister of the Interior is attacked by terrorists in front of his home. No one injured.

30 Two guerrillas force a radio station in Col. Montebello to play a five minute propaganda tape. No injuries reported.

February

6 A minivan contracted through the US Embassy to carry children to school is hijacked. The driver and children are released unharmed, but later, someone claiming to be with the FMLN commandos calls and threatens the driver, telling him that he should "let the Americans know that we act when we want to. We are going to teach the Yankee imperialists to be respectful of this country."

28 American School receives bomb threats. No explosive devices found.

March

6 Explosive device found and defused near the US Embassy warehouses.

8 Explosive attacks on many parts of the city during the night. Transformer towers near the volcano are blown up, and many parts of the city lose electricity.

13 Guerrillas release a statement calling for suspension of sabotage on public transportation, commercial establishments, telephone lines, government officials, and civilians who are not involved with the military. The electric system and the military are still targets.

22 Four armed guerrillas enter the Cadena radio station, tie up employees with shoelaces, play a propaganda tape, then leave. No one injured.

24 GOES lifts state of siege so that the tenth anniversary of Archbishop Romero's death can be marked by marches.

April

2 A car bomb explodes in Santa Tecla as cadets from CETIPOL run past. Five people dead and 36 wounded - mostly civilians.

4 The FMLN and the GOES sign an agreement in Geneva to begin U.N. mediated negotiations to end the conflict and reintegrate the FMLN into civilian political life.

25 Although FMLN has called a halt to bus burnings, eight busses are damaged by terrorists during the week - all but one outside of San Salvador. Chamorro is inaugurated in Nicaragua.

26 The House Foreign Affairs Committee votes to cut military aid to El Salvador by 50%.

May

1 Traditional May Day marches are non-violent, but later, there are random attacks on the power grid, and attack in the vicinity of the President's home.

3 First round of peace talks begins in Venezuela between the GOES and the FMLN.

18 Salvadoran peace talks open secretly in Venezuela.

1990 (Continued)

May
21 Preliminary agreement to reach a cease-fire by mid-September reached today first round of peace talks in Venezuela.
27 Aid package to Panama and Nicaragua totaling $420 million signed into law.

June
4 Dr. José Armando Peña Argueta, acting Magistrate of the Appeals Court and former president of the Association of Lawyers in El Salvador is assassinated by three unknown individuals.
24 Torola Bridge, rebuilt through the cooperation of the GOES and USAID, is said to be held by FMLN forces.
26 Second round of peace talks between the GOES and the FMLN come to a close in Mexico. Both sides claim concessions from the other.

July
26 Third round of peace talks ends in Costa Rica. Major agreement reached on Human Rights issues. Reports state that the major sticking points are the reduction of the armed forces and electoral reform. Costa Rica will continue to be the venue for the talks. The next round is set for 17 August.

Economic sabotage lessens, but assassinations of off-duty ESAF personnel go up. Fighting heaviest in the north and East of the country.

August
20 Fourth round of peace talks ends in stalemate. FMLN seen as intransigent for their stand on dissolving the military. Fifth round of talks slated for mid-September. Talk of second offensive is strong.

September
18 Peace talks stagnate around the issue of military reform, and conclude with only an agreement to meet again in Mexico in early November.

November
New "mini-offensive" launched. SAM-14 evidence in country. SAM downs A 37.

December
FMLN guerrillas use high-tech SAM missile to shoot down AC 47 gunship. White House considers restoring U.S. military aid, reasoning that the guerrillas are escalating the war by the use of new technology, and are attacking the civil population in their latest offensive.

1991

January
3 U.S. helicopter on its way back to Soto Cano in Honduras is shot down by guerrillas. Two U.S. soldiers are executed, and a third dies in crash.
9 Salvador prosecutors quit Jesuit case and slam military. FMLN says it holds 2 in Americans' slayings, and will try them according to their rules.
16 Bush says he'll unfreeze military aid to El Salvador.

February
5 Salvadoran army accused by Church and FMLN in massacre of 15 family members in Zapote, just outside of San Salvador. Charges are subsequently proven false.
11 Arsonists destroy Diario Latino. Charges are laid to Army/Government by Church and FMLN.

February, 1991 (Continued)

27 Helicopter crash kills 5 U.S. servicemen in Lake Ilopango. Cause is mechanical failure.

28 Urban commandos attack the western suburb of Escalon.

March

Rebels say they will allow March elections, but not in the territories under their control. Army says it has a plan to let the election go on in disputed areas. Rumors of a UN-sponsored cease-fire, along with rumors of a new offensive continue to contribute to confusion.

9 Salvador rebels vow to support elections, and hit police site in San Salvador.

10 El Salvador votes, with rebels voicing support for process. People in all 14 Departamentos are able to vote, although some are forced to leave their own municipalities to go to urnas in neighboring, less conflictive areas. Election observers see few problems during elections.

11 Defense Minister Ponce sends letter to Supreme Court seeming to agree to allow widening of Jesuit probe to additional members of the Armed Forces.

13 Leftists charge fraud in elections due to slow vote count, finding of cancelled ballots in trash, and other irregularities.

22 Preliminary results of 10 March elections show that ARENA has lost its majority. The CD is the big surprise, increasing its previous count by 250%, and winning 8 seats. The vote in La Libertad is still not official.

March

26 Election results:

ARENA	39	Diputados	CD	8	Diputados
PDC	26	"	AD	0	"
PCN	9	"	UDN	1	"
MAC	1	"			

It is estimated that a somewhat disappointing 52% of the registered voters cast ballots in this election.

March through April

Parties continue to meet in Mexico to obtain a cease fire leading to a peace settlement. The greatest obstacle is now reform of the Constitution - in particular Article 248.

April

4 Latest round of peace talks in Mexico is seen by many as the most important in the long process. For the first time, the two sides are working under a deadline imposed by the Salvadoran Constitution - the closure on April 30 of the 1988-1991 Legislative Assembly, and the opening the next day of the new Assembly. Article 248 of the Constitution stipulates that constitutional changes must be passed by two consecutive assemblies. If no reforms are enacted by the April 30 deadline, negotiations will become more difficult due to a three-year delay before enactment. Many feel that the first Constitutional reform should be the repeal or change of 248, so that there will be more time for negotiations. Even if the talks break down or if there is no agreement reached, it has been suggested that the Government will push through its own reform package as a way of showing good faith. This may backfire if the FMLN has no say in the reforms.

25 Four political parties submit their proposals for Constitutional reform to Asamblea as a reaction to negative reports from Mexico. FMLN rejects proposal.

April, 1991 (Continued)

29 Salvador rebels, government agree on reforms package in Mexico. President Cristiani calls for special session of Asamblea to vote on reforms.

30 Asamblea enacts reform package with minor changes. FMLN charges fraud in reform of elections commission, but does obtain a seat on the proposed new commission in the final four hours of the old Asamblea.

May

1 1991 Asamblea is seated "acalorada". Luis Roberto Angulo Samayoa is elected President; Gloria Gross, First Vice-president; Rubén Zamora, Second Vice-president. Without a cease fire agreement, the new members probably will not vote on reform package.

15 Peace talks to resume in Caracas. These talks end in a stalemate.

June

President Cristiani visits Washington and is warmly welcomed by President Bush. At the National Press Club, no one asks questions about the Jesuit murders.

16 A new round of peace talks begins in Mexico. Representatives of the 5 rebel factions are slated to meet at the talks. There are mixed feelings about the outcome - some predicting cease-fire soon, and others saying nothing comes out of the meeting.

July

8 Mexico rounds between the FMLN and the GOES are slightly on the positive side.

15 Central American Presidents in a cumbre in San Salvador discuss economic initiatives with the common goal of free trade within the region. El Salvador and Guatemala agree on a free trade agreement to begin by the end of the year, with Honduras becoming involved as soon as laws are enacted to allow it to enter into the agreement. Price band system in place in El Salvador is adopted by the other Central American countries. Presidents demand that the FMLN demobilize.

17 Latin American Presidents meet in Mexico. Economics discussed, but there is nothing discussed in the way of progressing toward peace.

July 21, 1991

A Brief Chronology of USAID in El Salvador

1900's - US does not become a donor nation until just before WWI. Until then, US is a receiver nation. There is no aid given during the depression.

1938-1939 - As the war with Germany heats up in Europe, the US becomes more interested in the affairs of Central America for two main reasons: the Panama Canal and German nationals living in the area.

1940's - Roosevelt's "Good Neighbor Policy" has three main activities: agricultural technical assistance for strategic and logistic purposes; improving and building roads (Pan American Highway is built to link Panama Canal with Texas); mapping of the region (begun 1946) for strategic purposes.

1942 - First US technical assistance institution to El Salvador, the Institute of Inter-American Affairs is established; focus of IIAA is on health projects, such as urban sewage disposal. Economic assistance to El Salvador totals U.S. $1.1 million from 1946-48.

Post-WWII - Marshall Plan to Europe creates a more outward-looking US, which spurs a global foreign aid plan to help the poor of the world.

1948 -Economic Cooperation Administration created, and formalizes USG in the development assistance business. From this institution develop follow-on agencies, technical assistance, and development loan fund. Economic assistance to El Salvador totals US $1.3 million from 1949-1952.

1950 -President Truman addresses the subject of aid to the world in his State of the Union Address. His fourth paragraph proposes technical assistance for needy countries. "Point Four," as the plan becomes known is the forerunner of USAID. It is mostly concerned with agricultural assistance.

1950-1959 - Organizations called servicios in health, agriculture and education are established in Central America. In El Salvador, these are jointly managed by USG experts and Salvadoran counterparts. Health focus is on disease control (malaria, yellow fever) and on long-term training for physicians.

1950-1979 - El Salvador experiences a period of high and relatively uninterrupted economic growth - with the highest annual GDP growth of Central America. Even though the middle class grows rapidly, contrasts between the rich and poor remain. The economy does not generate sufficient viable employment for a rapidly growing population with increasing aspirations, nor is there sufficient land for all those who want it.

1961

March - President Kennedy calls on Latin America to join with the US in an "Alliance For Progress."

September - Foreign Assistance Act (FAA) combines the International Cooperation Administration and Development Loan Fund.

November - The United States Agency for International Development (USAID) is created.

December - Agreement signed in El Salvador between USAID and GOES. Servicios are abolished, and existing programs go to ministries.

1962 - The Central American Common Market (CACM) is formed. Industrialization increases in El Salvador.

1962-1973 - Volume of grants and loans in El Salvador and Central America decline from the high levels during the Alliance For Progress. Focus remains on Education (curriculum reform, textbook programs, educational TV, training in the U.S.); Health (malaria, community health development); Agriculture (research, education and extension), joint programs with regional lending institutions such as CABEI and the Inter-American Development Bank (IDB), and continuation of the Loan Program. Food-For-Peace becomes a more important element of the USG's program.

Late 1960's - Loans continue with little change in program. Through CENTA, extension agents are consulted and/or trained. Housing starts in El Salvador are financed by US investors with loans guaranteed by the US government. Rural roads are built to help farmers get their produce to market.

1970's - El Salvador is considered a good risk by the US business community, so loans continue to flow. The country is in very good financial shape compared to other countries in the region.

1974 - Congress mandates that USAID focus on programs for the poor majority. El Salvador's portfolio puts emphasis on agriculture through small farmer development and agricultural extension projects. Education programs focus on rural primary education expansion and basic skill training. In 1975, El Salvador is the first Central American country to sign a project agreement with USAID for family planning.

1975-78 - USAID program levels trickle to a minimum. The political situation has steadily deteriorated throughout the 1970's as a rigid social and economic structure, lack of land for 60% of the agricultural workers, and undemocratic political institutions take their toll.

Military-based regimes, which in the early 1960's had been moderately progressive, become more corrupt and repressive in the 1970's, as evidenced by the benchmark event of the annulment of the 1972 election naming Jose Napoleon Duarte President.

1975-78 (Continued)
The recession of the mid-seventies affects all of Central America and spurs a flurry of loan requests with severe economic and social impacts. Servicing debts becomes difficult as interest rates rise. Central American countries are forced to cut public expenditures for social services and disillusionment and poverty in these countries increases.

1979 - Violence by right and left-wing escalates; guerrilla insurgency gains strength. President Carlos Romero is deposed by a coup in October 1979, and a civilian-military junta is formed. Bottom falls out of loan market.

The country enters a period of negative growth brought on by the civil war and the worldwide recession which reduces demand for El Salvador's traditional exports. Several events help shape US policy toward El Salvador. One is the Sandinista takeover in Nicaragua, another is the growing unrest, and increasing social disintegration in ES. The flight of capital (approaching $1 billion), the flight of leadership, and the flight of foreign investment, are the main reasons for continued US assistance to the country. The economic decline bottoms out in 1982.

1979-1980 - USAID to El Salvador grows 600%

1980 - Duarte of the PDC forms junta (PDC is the only organized party left in ES.) In March, the GOES announces Land Reform to try to answer the problem of unequal distribution of land, and nationalization of banks and export trade to help stem capital flight.

December - U.S. suspends economic and military aid to El Salvador in response to the murder of four American churchwomen by persons dressed in military clothing. Aid is restored the same month.

1981 - First grants are given as emergency aid so that GOES is not further economically burdened. After 1982, almost all assistance is in the form of grants.

1980-1982 - USAID/ES implements important programs in the following areas: agricultural projects to support the GOES Agrarian Reform efforts; implementation of a public services restoration project to restore badly needed services sabotaged by the guerrillas; assistance to displaced persons; private sector loans for small business; labor-reform through the services of AIFLD; judicial reform, municipal code development, and assistance to solicitor general; housing guarantee program at a level of U.S. $15 million.

The economic decline bottoms out in 1982, but the growth rate is only about 0.8%.

1983 - El Salvador experiences threats to its security from Marxist insurgents. There is political violence from the extreme right, and significant human rights abuses. The conflict has already cost as much as $1 billion in economic losses with loss of more than 60,000 lives.

July - Recognizing the crisis in Central America, President Ronald Reagan forms the National Bipartisan Commission on Central America (Kissinger) to determine how to "respond to the challenges of social, economic, and democratic development in the region." A development assistance strategy is developed by the USG and the GOES directed by the Kissinger mandate.

1986
October - Earthquake measuring 5.1 on the Richter scale hits downtown San Salvador. Because the epicenter of the quake is located only kilometers down, and the force moves rapidly to its apex, destruction is more widespread than that of other earthquakes measuring the same. Congress approves funds for disaster relief.

1988-Present - USAID's long-term goals move beyond emergency assistance and are designed to promote sustainable economic growth along with the Kissinger mandates.

July, 1991

USAID/El Salvador Organization

USAID/El Salvador was for many years one of the smallest programs in AID's Bureau for Latin America and the Caribbean (LAC). In response to rapid changes in political, economic and social climates, the program grew in a few short years to one of the largest in AID. Currently, the Mission has 291 positions, including 36 USDH, 41 FNDH, 33 US PSCs, 170 FSN PSCs, 1 TCN, and 10 U.S. dependents.

The Mission has 6 technical offices and 7 staff offices. In the Mission Director's Office (DIR), there are 9 employees, including the Deputy Director, the Associate Mission Director for Operations, and the Regional Legal Adviser.

The Deputy Director (DDIR) supervises the AMDO, six staff offices and one technical office:

Staff Offices:

-- Executive	70 positions	(US, FSN, TCN)
-- Controllers	44 positions	"
-- Project Development	16 positions	"
-- Program	14 positions	"
-- Economic Planning & Analysis	8 positions	"
-- Contracts	10 positions	"

Technical Office:

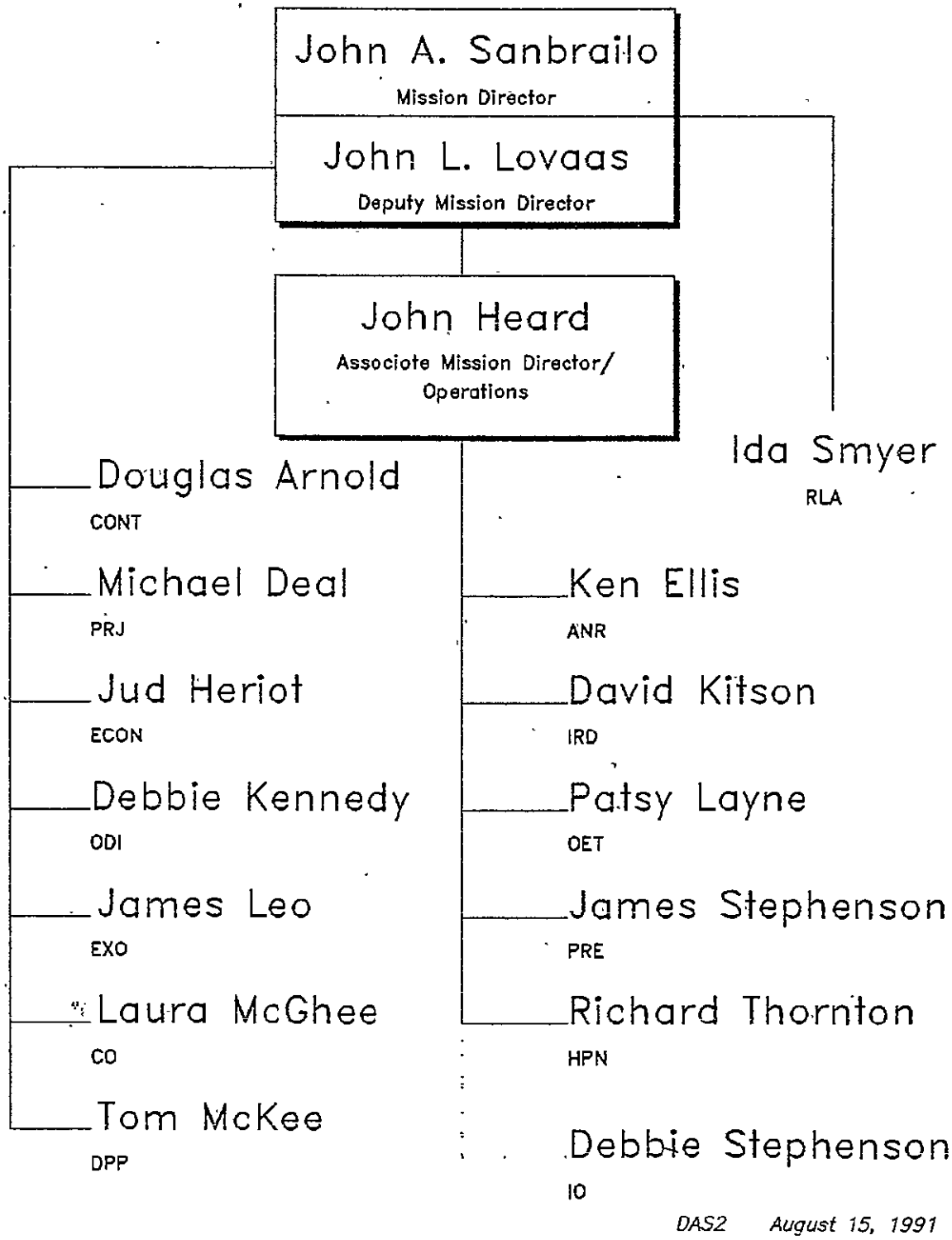
-- ODI	12 positions	"

The Associate Mission Director for Operations (AMDO) oversees the other five technical offices:

-- Infrastructure and Reg. Development	48 positions
-- Education and Training	20 positions
-- Health, Population and Nutrition	13 positions
-- Private Enterprise	14 positions
-- Rural Development	14 positions

July 16, 1991

USAID Mission to El Salvador



DAS2 August 15, 1991

Economic Situation as of the end of CY 1990

In 1991, El Salvador finds itself at a critical turning point in its political and economic history. Now, for the first time in over a decade, the country seems poised for a substantial and sustained period of growth.

Background

For eleven years, El Salvador has successfully fought off a Marxist insurgency which has had a devastating impact on the Salvadoran economy. Between 1978-82 real GDP fell by 23% and real per capita GDP by 28%. More than 500,000 persons were displaced from their homes and hundreds of thousands more migrated to the United States and other countries. Schools, health facilities and municipal centers were destroyed. Dams, power lines, water supplies and railroads were attacked and damaged by the guerrillas. During the first four years of fighting, every major bridge in the country was sabotaged. Foreign investors left and domestic businesses closed their doors. Massive capital flight took place. Between lost production and destroyed infrastructure, the cost ran to some $2.6 billion.

While the Duarte Administration achieved measurable progress during 1984-86 in creating and strengthening democratic institutions and controlling the insurgency, it had only marginal success in coping with the enormous economic problems facing the country. The economy grew slowly during 1984-86: by 2.3%, 2.0%, and 0.6%, respectively. A lack of fiscal discipline, along with accomodative monetary policies, made for a dramatic increase in inflation - from 11.7% during 1984 to 32% by the end of 1986. With USAID support, the GOES developed an economic program for 1987 aimed at arresting the rapidly deteriorating economic situation. Modest, but favorable results were achieved as real GDP grew by 2.7%, and inflation dropped to 25%.

The determination to stabilize the economy extended into 1988, but the favorable performance of 1987 did not. The increase in urban and rural guerrilla attacks on the productive infrastructure, the 1987 drought, and adverse weather conditions early in 1988 that lowered 1988/89 coffee output by 50% all contributed to a drop to 1.6% growth in real GDP compared to expectations of 2.6 %. In spite of the worsening economic situation, the GOES struggled to maintain the integrity of the 1988 program and inflation was further reduced to 20%.

When the new administration took office in June 1989, it inherited a rapidly deteriorating economy. El Salvador was again faced with a poor coffee harvest, which was to reduce coffee export earnings by $128 million in 1989, and an intensification of terrorist attacks on economic infrastructure. In spite of this unfavorable climate, with USAID assistance, the GOES conceived and implemented a bold and effective economic reform and adjustment program which included a carefully designed package of measures to rekindle the growth process as follows:

- o the range of import tariffs was narrowed to between 5%-50% as a first step in making domestic industry more competitive;
- o interest rates were raised to levels above the rate of inflation in order to attract more domestic financial savings and to allocate credit to more productive uses;
- o the exchange rate was devalued in an effort to stimulate exports;
- o the marketing of coffee was opened to the private sector, and many non-price barriers to imports, such as quotas, were eliminated.
- o Real GDP grew by only 1.1%, down from 1.6% in 1988, while inflation continued its downward trend and fell to 18%.
- o After an early year spurt due to an emergency expansion of liquidity to shore up the financial system in the wake of the November, 1989 guerrilla offensive, inflation was brought back under control by year's end and grew at an annual rate of only 11% over the last half of 1990.
- o During the course of implementing the economic program, the GOES was saddled by a sharp drop in coffee prices, the November terrorist offensive that disrupted the economy in the peak months of commercial and industrial activity and an unavoidable wage increase for public sector employees. As a result, export revenues plummeted resulting in a trade deficit of 13% of GDP, the highest ever experienced by El Salvador. Also, increased military expenditures associated with the guerrilla offensive, combined with a major drop in coffee tax revenues caused a public sector deficit 14% higher than expected.
- o The public sector deficit was reduced from 5.8% of GDP in 1989 to 3.6% in 1990.
- o Tax revenues rose 32%.

The GOES pressed ahead with its economic reform program in 1990.

- o The range of import tariffs was further reduced to 5% - 35%.
- o public utility tariff rates were adjusted.
- o fiscal administration was improved.
- o a program to privatize the financial sector was begun.
- o The exchange rate regime was unified at a market-determined rate.
- o Monetary discipline was restored.

Largely reflecting these reforms, economic performance in 1990 showed notable progress nearly across the board:

- o Real GDP grew 3.4%, the highest rate achieved since 1978. Agricultural GDP grew 7.4%
- o Real per capital GDP reversed its eleven year slide and grew 1.2%.
- o Non-traditional exports to extra-regional markets surged 34%.
- o The current account balance of payments dropped from 9.5% of GDP in 1989 to 6.8% in 1991.

Enhanced International Standing

The greatly improved economic policy stance of the Cristiani Government since taking office has enabled it to substantially enhance its standing in the international financial community.

In August 1990, El Salvador signed a Stand-by Arrangement with the International Monetary Fund (IMF). An IMF review at the end of 1990 viewed the Government's performance very favorably. While the Stand-by permits El Salvador access to a SDR 35 million (about $48 million) medium term loan facility, the much higher than expected foreign exchange inflow resulting from the Government's policy reform successes have made such drawings unnecessary for the time being. A Paris Club debt rescheduling agreement was completed in November 1990. More the $138 million in interest and principal payments to the United States, Japan, France, Spain and Canada originally due through September 1991 were rescheduled on favorable terms over a 20 year period.

In February 1991, El Salvador signed a $75 million structural adjustment loan (SAL) with the World Bank which will support, inter-alia, fiscal reforms and privatization of El Salvador's commercial banks. The World Bank and GOES are also designing a social sector rehabilitation program in support of which the GOES has committed itself to increasing the proportions of the national budget allocated to the social sectors.

In December 1990, the Inter-American Development Bank approved a $60 million loan for El Salvador to support Government efforts reactivate domestic production and to strengthen, modernize and privatize the financial system. The program will fund a multi-sectoral credit program to promote private sector investment in the installation, expansion, modernization and diversification of production operations.

El Salvador successfully negotiated accession to the General Agreement on Tariffs and Trade (GATT) in December 1990 demonstrating that its external trade regime has moved substantially closer to international standards. Notably, El Salvador's trade regime is considered to one of the most liberal of any third world nation now in GATT and has thus become the model for other nations seeking to join the GATT. Once the accession agreement is ratified by the Salvadoran Legislative Assembly, hopefully by May 1991, El Salvador's exporters will benefit from most-favored- nation treatment in world markets. In addition, membership will give El Salvador a voice at the GATT table where it can work with other third world nations on trade issues of particular importance to El Salvador.

The Fiscal Sector

The GOES has achieved its program targets in the fiscal sector. Before grants, the deficit of the consolidated nonfinancial public sector (consisting of the Central Government and the rest of the public sector) declined to 3.6% of GDP from 5.8% in 1989. Led by a 32% increase in Central Government tax collections, total public sector revenues showed a gain to the equivalent of 11.0% of GDP in 1990 from 10.8% in 1989. Although this represents a relatively small real increase, it does reverse the trend of prior years when public revenues fell from 16.8% of GDP in 1986 by the equivalent of two percentage points of GDP each year through 1989. However, the strong fiscal effort in 1990 was in expenditure control. While total public sector expenditures rose 11.6% in nominal terms, as a percent of GDP they dropped from 16.6% in 1989 to 14.5% in 1990. Mirroring financial developments in the entire fiscal sector, deficit of the Central Government was reduced from 4.9% of GDP in 1989 to 3.5% in 1990, under the program target of 3.6%.

Even though the GOES met its revenue targets for 1990, it is apparent that a more extensive effort to improve the machinery of collections and further movement towards a more efficient and equitable tax system is needed. The country remains one of the least taxed in the Western Hemisphere. Expenditure restraint enabled the GOES to narrow the fiscal deficit, but this cannot be continued year after year. Public sector investment is already at very low levels and must be increased to support higher real growth rates in the private sector.

The Future

Building on its success in 1990, the GOES plans to accelerate the adjustment process. It is expected that real GDP growth will be 3% or higher in 1991, and that inflation will be held to 10-14%. To achieve this:

- The fiscal deficit will be further reduced.
- Monetary discipline will be maintained with most new credit going to the private sector.
- The market-determined exchange rate regime will be maintained.
- The range of nominal tariff rates will be further compressed to 5-30% in 1991 with the goal of 10-20% by 1993.
- A comprehensive program to reform the tax system will be initiated.
- Privatization of commercial banks and other SOEs will be initiated.

May, 1991

USAID/EL SALVADOR PROJECT LIST ($000)

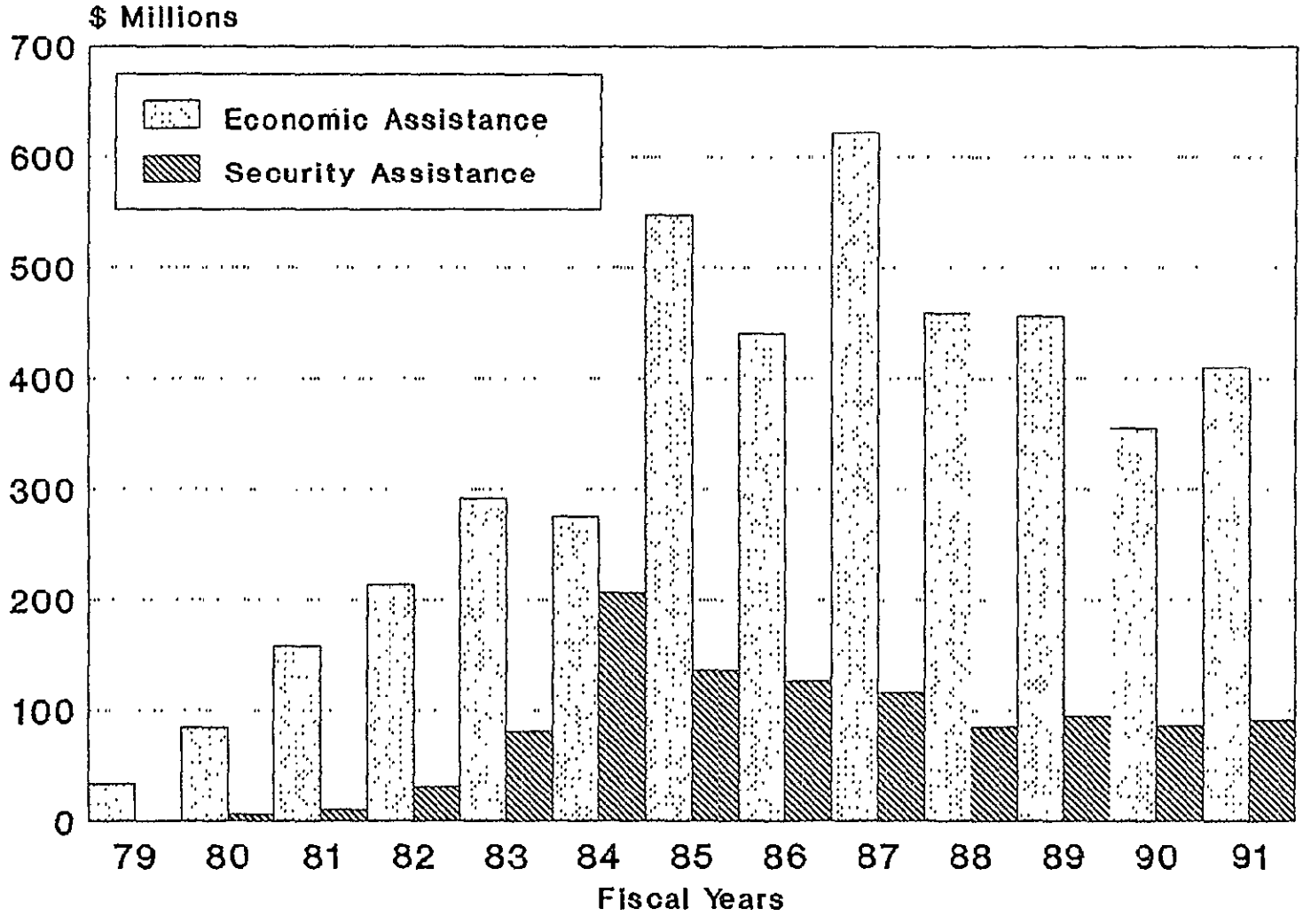
Project Number & Title	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
RDO							
0265 Ag. Reform Sector Supp.	11,000	5,811	--	--	--	--	--
0303 Water Management	8,220	7,024	--	--	--	--	--
0307 Agrarian Ref. Financing	6,500	23,684	10,080	6,186	3,550	--	--
0312 Technoserve OPG	1,050	1,500	1,820	950	--	--	--
0327 Agribusiness Develop.	--	10,116	7,738	11,046	4,100	--	--
0353 Nat.Coop. Business Assn.	--	--	1,900	--	--	--	--
0358 NRECA	--	--	5,000	5,000	--	--	--
0362 Coffee Tech. Enhancement	--	--	--	--	--	3,500	3,000
0381 Alt. Land Tenure CLUSA	--	--	--	--	166	--	--
0382 Technoserve	--	--	--	--	4,500	--	--
0385 Protec. for Environment	--	--	--	--	--	--	7,000
0392 Sml. Farmer Exp. & Mrktg.	--	--	--	--	--	2,500	1,500
0998 Los Alamos	--	--	--	1,750	--	--	--
ODI							
0289 Agr. Reform - AIFLD	1,000	--	--	--	--	--	--
0296 Judicial Reform	--	--	--	1,500	3,000	--	--
0321 AIFLD OPG	2,500	2,500	2,900	3,800	--	--	--
0334 CENITEC OPG	--	600	--	--	--	--	--
0360 Streng. Legis. Assembly	--	--	--	--	490	260	--
0368 AIFLD OPG	--	--	--	--	8,345	4,000	1,555
0372 FIPRO OPG	--	--	--	400	300	340	--
0373 Federation of Bar Assn.	--	--	--	--	500	--	--
0375 CENITEC OPG	--	--	--	--	600	1,000	900
0376 Judicial Sect. Strength.	--	--	--	--	--	--	2,600
0383 MOU St. Dept. Trans./SIU	--	--	--	--	--	1,500	--
0384 Police Training	--	--	--	--	--	1,000	--
0388 Municip. Level Dem. Dev.	--	--	--	--	--	--	6,000
0391 Electoral Assistance	--	--	--	--	--	--	3,500
0794 Elections Assistance	--	--	--	--	--	3,400	--
IRD							
0094 Special Dev. Activities	350	349	350	343	498	200	200
0279 Public Services Restor.	20,000	11,000	16,633	6,000	--	--	--
0281 Disp. Families	8,670	4,725	895	--	3,388	3,939	--
0300 Save the Children OPG	1,300	1,300	1,625	--	--	--	--
0320 Public Services Improv.	--	--	--	8,000	35,434	12,490	8,167
0333 Earthquake Reconstruc.	--	75,000	23,000	--	--	--	--
0343 U.S. Med. Ref.(HOPE) OPG	--	65	--	--	--	--	--
0364 Comm. B. Int. Rural Dev.	--	--	--	2,480	2,525	1,550	1,985
OET							
0295 Ed. Systems Revitaliz.	15,200	6,249	6,925	501	--	--	--
0337 C.A.P.S. Program	--	4,700	5,373	8,127	--	--	--
0344 Ricaldone Inst. Rehab.	--	1,100	--	--	--	--	--
0357 Ed. Sys. Revit.(SABE)	--	--	--	--	3,360	8,900	6,000
0361 C.L.A.S.P.	--	--	--	--	5,000	6,600	3,500
0377 FUNDASALVA-OPG	--	--	--	--	500	1,000	500

Project Number & Title	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
HPN							
0210 Population Dynamics	4,573	1,086	816	--	--	--	--
0275 Demographic Assn. OPG	2,000	--	--	2,000	--	--	--
0308 Health Systems Support	14,900	13,924	11,824	7,352	--	7,135	6,100
0329 Maternal/Child Health	220	--	--	--	--	--	--
0330 Streng. Rehab. Serv.	280	--	--	--	--	--	--
0342 Knights of Malta OPG	--	500	220	--	--	--	--
0346 TELETON Foundation OPG	--	1,435	1,015	900	--	1,500	1,500
0363 Family Health Serv./MCH	--	--	--	--	5,750	6,892	4,100
0367 Mat./Child Survival	--	--	--	--	3,772	4,885	7,493
0370 Mother Child Feeding CRS	--	--	--	70	--	--	--
PRE							
0287 Industrial Recovery	7,000	13,000	--	--	--	9,480	8,000
0304 Urban Small business OPG	1,000	1,000	--	3,000	--	--	--
0311 Empresarios Juven. OPG	350	3,000	--	--	--	--	--
0315 Trng. for Produc. Comp.	--	6,000	--	2,900	4,400	--	700
0316 FUSADES Assn. Streng.	475	1,100	--	--	--	--	--
0318 Microenterprise Dvlmt.	--	--	--	--	4,000	--	3,000
0322 Small Enterprise Dvlmt.	500	500	--	--	--	--	--
0323 Indust. Parks/Infrast.	--	--	5,755	11,790	--	1,000	5,900
0336 Private Sector Init. OPG	--	2,250	2,000	450	--	--	--
0371 IESC Small Enterp. Asst.	--	--	--	400	--	--	--
ECON							
0345 BOP Support	--	30,000	--	--	--	--	--
0328 FY 86 BOP Support	117,000	--	--	--	--	--	--
0348 FY 87 BOP Support	--	157,000	--	--	--	--	--
0354 FY 88 BOP Support	--	--	143,500	--	--	--	--
0355 FY 89 BOP Support	--	--	--	138,500	--	--	--
0356 FY 90 BOP Support	--	--	--	--	97,960	--	--
0369 FY 91 BOP Support	--	--	--	--	--	90,000	--
0378 FY 92 BOP Support	--	--	--	--	--	--	90,000
PL 480 Title I	43,265	37,259	33,936	40,000	40,200	35,000	--
PL 480 Title II	4,750	6,789	12,900	4,400	4,547	3,000	2,812
Section 416	--	4,100	7,900	--	--	--	--
OFDA Relief Fund	--	2,653	--	--	--	--	--
0260 Reform & Policy Plann.	2,282	903	--	--	--	--	--
0349 Tech. Sup./ Trng.	--	--	2,000	8,965	6,035	8,000	--
0999 Local Cost Support	--	1,185	--	--	--	--	--
ESF PD &S	--	1,000	--	--	--	--	--
0167 ARDN PD&S	400	550	671	288	410	377	377
0168 Education PD&S	840	1,150	98	344	237	336	486
0177 SDA PD&S	2,365	2,047	1,300	1,155	619	1,200	802
0178 Health PD&S	850	374	300	105	161	--	135
0181 Population PD&S	100	200	200	373	141	--	--
TOTAL	278,940	444,728	308,674	279,075	244,488*	220,984	177,812
CASA					1,550		
DA					61,836	54,984	55,000
ESF					136,355	128,000**	120,000
PL-480					44,747	38,000	2,812

* Includes 1.55 million CASA funds
** 8.0 million FY 90 Carryover

/16/91 - WPPDPP-107

U.S. Assistance to El Salvador



FOREIGN ECONOMIC TRENDS REPORT

EL SALVADOR

U.S. EMBASSY SAN SALVADOR
(DRAFT REPORT)

JUNE 1991

EL SALVADOR: KEY ECONOMIC INDICATORS

	1989	1990 (preliminary)	1991 (projected)
Domestic Economy			
Population (millions)	5.1	5.2	5.2
GDP (millions of current colones)	32,230.0	41,057.0	47,621.7
Real GDP growth (%)	1.1	3.4	3.0
GDP (millions of dollars) (1)	5,309.0	5,367.0	5,528.0
GDP per capita (1990 dollars)	1,041.0	1,032.0	1,063.0
Consumer Price Index (% change)	23.5	19.3	12.0
Central Govt. revenue, before grants (millions, current colones)	2,660	3,498	4,590
Central Govt. expenditures (millions, current colones)	4,233	4,776	5,760
Central Government deficit (before grants, as a % of GDP)	4.9	3.1	2.5
External Sector (millions of dollars)			
Exports	497.5	580.2	640.0
of which: Coffee	228.6	258.9	250.0
Shrimp	10.1	14.3	16.0
Sugar	13.5	20.3	39.0
Imports	1,161.4	1,262.5	1,260.0
Current account balance	-183.8	-136.6	- 80.0
Current account balance (2)	-466.2	-359.8	-300.0
External debt (year-end)	2,089	2,142	2,336
Debt-service ratio (3)	31.8	27.9	29.1
Net international reserves (year-end)	246.5	363.6	433.6
Prevailing exchange rate (colones/dollar)	5.9	8.0	8.0
Money and Credit (millions of colones)			
Money supply (M1)	3,153.6	3,863.2	4,360.0
Quasi-money	7,622.2	9,748.9	11,210.0
Credit to private sector	7,080.8	7,836.8	9,169.9
Credit to public sector	2,850.1	2,856.1	2,326.4
U.S.- Salvador Trade (millions of dollars)			
U.S. exports to El Salvador (F.A.S.)	513.9	547.0	575.0
U.S. imports from El Salvador (C.I.F.)	243.9	237.5	260.0
U.S. assistance (fiscal year)			
Direct economic	341.0	262.2	235.1
Military	87.0	81.2	84.0

Notes:
(1) Using 1990 exchange rate (7.46 colones/dollar) as base
(2) Excluding official transfers
(3) As percent of export of goods and services; and before rescheduling

CURRENT ECONOMIC SITUATION AND TRENDS

The economy grew by a robust 3.4 percent in 1990, the largest increase recorded since 1978. The recovery can largely be attributed to the comprehensive economic program the government of President Alfredo Cristiani began implementing shortly after it took office in June 1989. The pivotal agricultural sector, which accounts for well over half of the nation's exports and employs a third of its labor force, led the recovery by increasing output by 7.4 percent. Most other sectors posted gains of around three percent -- see table below. Construction is the only sector which contracted, by 12.8 percent, largely because of cuts in public investment. Early indicators in 1991 provide grounds for continued optimism. Inflation continues to fall, imports in the first quarter are up strongly, and business confidence in the government's handling of the economy remains high.

Main Components of GDP IN 1990

	Real Growth (%)	Origin of GDP (at current prices)
Agriculture	7.4	11.2
Manufacturing	3.0	18.6
Construction	-12.8	2.6
Transport and Communications	6.3	4.6
Commerce	3.3	34.8
Government	1.6	7.6
Personal Services	1.8	10.4
Other	3.0	10.2
TOTAL	3.4	100.0

AGRICULTURE is the economic wellspring of El Salvador, providing approximately two-thirds of the nation's exports and employing one third of its labor force. The combination of the removal of price controls, the elimination of monopolies on coffee and sugar trade, and a sharp depreciation of the exchange rate boosted real prices in the sector and led to increased plantings. Improved incentives plus generally favorable weather conditions were reflected in the major gains registered in nearly all agricultural categories in the 1989/90 crop year. Another encouraging signal of the recovery in the agricultural sector is the fact that some temporary farm workers were able to command wages above the government-decreed minimum during the most recent harvest season.

Coffee is by far El Salvador's most important export and cash crop. In calendar year 1990, coffee output and exports increased by 19 and 13 percent, respectively. This, however, was primarily the result of the excellent 1989/90 crop. Preliminary reports suggest that coffee production in 1990/91 may decline 15-20 percent due mainly to adverse weather conditions late in the harvest season and the effects of the normal cyclical downturn in yields.

MANUFACTURING: In the 1970s, El Salvador was the most industrialized nation in Central America, though eleven years of war have eroded this position. In 1990, manufacturing accounted for 18.0 percent of GDP, produced 36 percent of total exports and employed about 15 percent of the work force. Based primarily in the capital city of San Salvador, the industrial sector is oriented largely toward the domestic and Central American market, although that is gradually changing. In 1989 the government began to dismantle the protectionist trade policies that had allowed a generation of inefficient, import-substituting industries to prosper. The industrial sector must now cope with heightened international competition. Imported raw materials have become more dear as a result of the currency devaluation, and lower tariffs on finished goods have encouraged import competition. In addition, the government has pledged to further narrow the tariff schedule over the next three years. The industrial sector, however, is adapting admirably to the new environment; producers are focusing on competitive exports and increasing productivity. Improved productivity has come naturally; perhaps the nation's most important resource is its abundant and energetic labor force. The Salvadoran work ethic is often cited by foreign investors as the primary consideration in the decision to locate manufacturing operations in El Salvador.

Predictably, reduction of bureaucratic obstacles to export and the devalued colon have provided potent incentives for export-oriented firms. The most important growth in El Salvador's manufacturing sector has occurred in apparel assembly. Several foreign investors have recently located textile drawback plants in San Salvador to exploit preferential U.S. trade treatment to El Salvador as a CBI beneficiary. Drawback exports jumped an estimated 50 percent in 1990. The free trade zone, where most draw-back operations are located, is completely filled. However, several new free trade zones are planned and two should be ready to accommodate potential investors within a year. Other growth industries include shoes and pharmaceuticals.

COMMERCE: Commercial activity has been the single dynamic growth sector in the past decade. It increased its share of GDP (measured in current prices) from 22.9 percent in 1980 to 34.8 percent in 1990. The pace of commerce in El Salvador is inextricably linked to the crop cycle; commerce peaks during the November-March coffee harvesting season, tending to decline throughout the rest of the year. Merchants report strong sales in early 1991, linked to the abundance of foreign exchange which is permitting substantial growth in merchandise imports. Merchandise imports grew by 8.7 percent in 1990 and growth in early 1991 is reportedly even faster. Import growth in 1990 was led by consumer goods, which surged 35.4 percent. Raw material imports were up 9.0 percent, but much of that was attributable to the nearly 40 percent hike in the country's petroleum bill, all of which must be imported. Capital goods imports actually fell, by 16.2 percent in 1990, as most manufacturers concentrated on increasing plant utilization rates and productivity. The situation should be somewhat different in 1991, as

FISCAL OPERATIONS: The Cristiani administration has exercised considerable discipline in restraining growth in the public sector. Tough spending cuts and a strong revenue performance led to an impressive improvement in the fiscal picture in 1990. Before grants, the consolidated public sector deficit dropped to 2.5 percent of GDP, down from 4.9 percent in 1989. The decline was largely due to a 40 percent drop in capital spending on public works projects and higher revenue inflows. The austere 1991 budget calls for inflation-adjusted spending cuts of up to 15 percent. In 1990, public sector jobs were frozen and real employee wages fell, and the 1991 budget calls for further reductions in wage spending. Nonetheless, to meet its ambitious 1991 fiscal program, the government will have to undertake politically difficult revenue raising/expenditure reduction measures that include a controversial employee reduction program.

Despite significant improvements, revenue collection continues to be the weak link in the Salvadoran economic program. Revenue collections were up 32 percent in 1990, thanks to better import registration and increased imports of consumer goods. Nonetheless, some analysts estimate that unpaid taxes cut the government's potential revenues inflows in half. After experimenting with several income tax hikes throughout the eighties, the government has opted for a strategy of simplicity and effective tax collection. The Tax Reform Act of December 1989 reduced both corporate and personal income taxes and abolished the real estate transfer tax. However, new utility rate hikes and more aggressive government collection efforts will be needed to generate higher revenues in 1991.

WAGES AND LABOR: The largest share (34 percent) of El Salvador's employed labor force of approximately 1.5 million workers continues to find work in the agricultural sector. This is followed by services (21 percent), commerce (18 percent) and manufacturing (15 percent) In dollar terms, the average industrial hourly wage, including benefits, is approximately forty-eight cents. The average hourly wage including benefits for agricultural laborers is approximately thirty-three cents. There are approximately 150 active unions, employee and peasant organizations, which represent 20 percent of the total workforce. Only a very small percentage of industrial private sector employees are unionized, however.

Real open unemployment--individuals who are actively seeking but unable to find employment--is estimated at only 10 percent of the work force. The effects of external and domestic economic shocks over the past several years have been cushioned in the labor market by a high rate of emigration and absorption into the informal economy. Consequently, while an unexpectedly small portion of the work force is openly unemployed, as much as forty percent of the labor force is probably underemployed. If peace is achieved in El Salvador, tens of thousands of ex-combatants will have to be re-integrated into the workforce, presenting a major challenge to economic policy makers.

EXTERNAL DEBT: Supported by large-scale concessional loans by international development agencies, El Salvador has avoided the crushing debt burdens of most developing countries. Preliminary data shows that total external debt in 1990 rose only 4.4 percent, to approximately 2.2 billion dollars. More than 90 percent of all external debt is owed to official and multilateral lenders, and 80 percent of this is owed to the United States. In August 1990, the International Monetary Fund approved a Stand-by arrangement, which paved the way for a Paris Club debt rescheduling agreement in September 1990. The Paris Club agreement provides exceptional financing, via deferred payments, estimated at 135 million dollars for the period through September 1991. El Salvador had no external debt arrears as of year-end 1990.

ECONOMIC OUTLOOK FOR 1991

Despite the continued uncertainty of the civil war, El Salvador appears to be headed for another year of solid economic growth. The Cristiani administration is staying the course on its bold and successful structural adjustment program, and predicts a growth rate of 3.0 percent for 1991, with inflation contained at under 14 percent. The agricultural sector can be expected to lead the expansion again, as farmers reap the gains of 1990's increased plantings. A smaller 1990/91 coffee harvest may dampen export earnings somewhat, as will the economic slump in the U.S. By contrast, the recovering manufacturing sector should continue to exploit its productivity gains and contribute to export growth.

El Salvador's medium-term economic fortunes will continue to hinge on the war/peace issue. So far in 1991, major progress has been made in the U.N.-sponsored peace negotiations between the government and the FMLN guerrillas. However, the cease-fire agreement, central to a cessation of hostilities, runs the risk of languishing indefinitely on the negotiating table. Thus, although the Cristiani administration's orthodox economic policies have produced a marked upswing in business confidence, major increases in domestic and foreign investment activity will likely await a peace settlement. The government's ability to meet its increasingly ambitious economic goals without slippage will also have long-term implications for sustained economic development.

IMPLICATIONS FOR THE USA

The United States continues to be El Salvador's single most important trading partner. One-third of all Salvadoran imports came from the U.S. in 1990. The Salvadoran market is extremely receptive to U.S. products, and with foreign exchange freely available and import procedures liberalized, importing became easier for Salvadorans in 1990. The U.S. also enjoys a built-in advantage in that many products are purchased through U.S. economic assistance programs and must be U.S.-sourced.

Accomplishments by Sector

Economic Accomplishments

- To date, the Balance of Payments Support Program has helped brake the economic slide and has supported policy reforms designed to restructure the Salvadoran economy toward more reliance on market forces and on the private sector.

- Measures implemented to liberalize the economy include the elimination of quantitative restrictions on imports, adjustment of tariff on public utilities, reform of the tariff structure for imports, removal of price supports on most industrial and agricultural products.)

- After several years of slow growth, real GDP grew at a respectable 3.4% in 1990, the highest rate achieved since 1978.

- The exchange rate regime has been unified at a market-determined rate to reduce distortions and to promote growth of exports. In 1990, non-traditional exports to extra-regional markets grew 34%.

- Fiscal imbalances have been reduced and inflation brought under control.

- The interest rate regime has been adjusted to positive real rates.

- To protect vulnerable groups during the transition phase of the adjustment process, our strategy includes labor-intensive activities which serve the dual purpose of providing the country with badly needed productive infrastructure, while generating short-term employment.

Future

- The program will continue to consolidate and strengthen the economic policy framework now in place. Our main task will be to convince and to assist the government to stay the course in the face of political opposition.

Democratic Initiatives Accomplishments

- A Special Investigative Unit (SIU) and forensic lab have been established and are major investigative arms in sensitive cases.

- The court center housing all of the first instance judges and the justices of the peace for the city of San Salvador was reconstructed and equipped after the 1986 earthquake.

- Twelve major legislative reform laws have been passed by the National Assembly, including the National Council for the Judiciary, which was created to decrease the political nature of the judiciary by introducing merit selection into the process of nominating judges.

Democratic Initiatives Accomplishments (Continued)

- o A public defender's office has been established to offer legal assistance to the needy throughout the country.

- o USAID funds helped create the Governmental Human Rights Commission (CDH) in 1983. In 1990, the CDH assisted 951 people who requested information on missing or jailed persons: interviewed 5,270 detainees, many of whom were released to CDH representatives: and conducted seminars on human rights to 35,548 police, military and civilian personnel.

- o The Attorney General's Office created a special Human Rights Division now staffed with 14 prosecutors. This division prosecutes special cases involving human rights violations.

- o In 1990, 3,500 union members were trained in such areas as collective bargaining, arbitration, negotiation, trade union organization and management, occupational safety and health, and voter participation.

Future

- o We will encourage the GOES to expand and strengthen the public defender's office so that more Salvadorans have the legal assistance to which they are entitled under an equitable judicial system.

- o We will continue to support the CDH to resolve the complaints of detainees and their families.

- o Continued reduction in corruption in the court system by encouraging the GOES to provide increased financial support to the judiciary, select judges on bases of merit, increase supervision and discipline, and other measures.

- o Priority legislative reforms needed to improve prosecution of human rights cases and the functioning of the judicial system will be encouraged through USAID financing for expatriate legal experts to assist the newly created (1991) Technical Unit for Judicial Reform in the Ministry of Justice.

- o We will continue to improve working relationships between labor and management.

- o We will strengthen the capacity of the legislative branch of government to analyze and debate issues and legal reforms and reach consensus that reflects broad interests of Salvadoran society.

Rural Development Accomplishments

- o 23% of farm land has been redistributed to 25% of the farmers, and 43,000 individual land titles have been issued.

Rural Development Accomplishments (Continued)

- o $268 million in production credit has been provided to the agrarian reform sector.
- o Beneficiary rights legislation to allow agrarian reform beneficiaries freedom to choose their land tenure system is now before the legislature.
- o Non-traditional agricultural exports have increased 20% since 1985, and coffee marketing has been privatized.
- o A price band system for importing basic grains has been established to secure equitable prices for farmers and give them incentives for increased production.
- o An independent land bank to facilitate voluntary land sales to landless farmer beneficiaries has been enacted by law.

Future

- o Abandoned and semi-abandoned cooperatives will be parceled to provide land to landless rural families;
- o A loan guarantee fund to help share the financial risk of lending to the reform sector will be established;
- o Small farmer land reform beneficiaries are linking processors and exporters to increase investment, production, and export of non-traditional agricultural exports;
- o A natural resources management project will be implemented in 1991.
- o A project to privatize coffee research and extension functions will be implemented in 1991.
- o Public sector grain storage and handling facilities will be privatized beginning in 1991.

Private Sector Accomplishments

- o Policy dialogue has resulted in legislation to facilitate privatization of state-owned enterprises; non-traditional exports; and financial sector reform.
- o A Presidential Commission on Privatization is operational.
- o USAID assistance has enabled the creation of a strong private development foundation that promotes investment and exports in non-traditional agriculture and industry, creating jobs and foreign exchange.
- o A new private investment finance institution has been created.

Private Sector Accomplishments (Continued)

- o $150 million in credit is being annually provided for productive enterprises in the principal export sectors.
- o A terrorism insurance program usually provides $150 million in needed coverage - and thus incentive - to productive sectors.
- o USAID assistance is helping to create badly needed factory space in both public and private free trade zones, with five private free zones under development.
- o Credit and technical assistance is being provided to small and micro enterprises, and a nation-wide village banking system is being implemented. Two new credit institutions are now operational.
- o A national export and investment development strategy has been adopted.
- o The nationalized financial system is being privatized.

Future

- o Expand programs for micro enterprise;
- o Assist in the creation of a stock exchange by late 1991.
- o Continue financial sector reform efforts to include privatization of the bank financial system;
- o Implement ambitious plans for privatization of a variety of state enterprises and autonomous services.
- o Assist in the implementation of the national export and investment development strategy.
- o Promote foreign investment to take advantage of the improved policy framework and business climate.

Infrastructure and Regional Development Accomplishments

Regional and Urban Development

- o Approximately 2500 small municipal projects have been implemented each year in 242 of the 262 municipalities. 530 regional development projects have been carried out in priority areas.
- o More than 620 open town meetings with more than 150,000 participants have been held each year to establish municipal priorities.

Earthquake Reconstruction

- o More than 6000 families have been assisted with new or repaired homes.
- o More than 900 classrooms have been repaired or rebuilt, 5 health facilities rebuilt, 27 miles of highway repair have been contracted, and 15 markets are complete, or are being completed.

Earthquake Reconstruction (Continued)

- More than 4500 new homes and 1000 classrooms are under development, as well as many other health, market, orphanage and community facility projects.

- Two major road projects into isolated repatriate communities have impacted 1,700 people.

Community Development

- The displaced population has been reduced from approximately 400,000 persons to approximately 107,000.

Major Infrastructure

- More than 1169 GWH standby power generated; 3915 transmission towers restored; 1715 KM of new transmission lines built; 3550 KM of roads repaired; 90 bridges rebuilt; 107 railroad engines or cars rebuilt; and 288 water-pumping stations kept operating. Electric service restored on average within 6 hours.

Future

- We will implement a local development strategy which will lead to a stronger, sustainable development capability.

- All earthquake projects will be completed by September of 1992.

- The displaced will be reduced to 25,000 people, and normal welfare assistance will be secured for them.

- We will begin major public services improvement programs including: rural water system construction to serve 600,000 people; rural road rehabilitation (1600 KM), and; other important reconstruction activities with an emphasis on permanent solutions.

Education and Training Accomplishments

- More than 3,000 classrooms have been constructed or restored, furnished and better equipped, affecting more than 300,000 children in grades K through 6.

- The Regional Technical Aid Center II (RTAC-II) Project has distributed 153,900 textbooks at low prices to university students; and 455,000 informational pamphlets and booklets to all sectors of the country.

- Through cooperation with the Business Foundation for Educational Development (FEPADE), special technical programs, management courses, non-traditional export courses, and instructor scholarships have assisted in increasing the production, productivity and competitiveness of the private sector.

Education and Training (Continued)

- With Central American Peace Scholarships (CAPS), 1,400 socio-economically disadvantaged Salvadoran youths have received training in the United States to assume roles in the development of their country and to further stimulate development of democratic processes.

Future

- Strengthening Achievement in Basic Education (SABE), a basic education project, will improve the quality of education at the primary level and strengthen and decentralize the MOE's administrative system.

- 300 young Salvadorans and an estimated 1,580 Salvadoran leaders from key sectors and institutions will receive training through scholarship programs.

- FEPADE will expand vocational training efforts to meet El Salvador's emerging manpower needs.

- Through the end of September, 1991, 173,000 textbooks and 475,000 pamphlets and booklets will be delivered, and technical assistance provided to publishers, private bookstores and university bookstores.

Health, Population and Nutrition Accomplishments

- AID-supported child survival programs, such as vaccination, ORT and ARI have reduced infant mortality from 85/1000 in 1980 to 48/1000 (live births) in 1990; and acute child malnutrition from 18% in 1978 to 15% in 1988.

- AID-assisted family planning programs have increased contraceptive prevalence of women of fertile age in union from 34% in 1978 to 50% in 1990. Population growth rate dropped from 3.0% in 1978 to 2.5% in 1988.

- AID has assisted the Ministry of Health to develop effective computerized systems for determining need, and for procuring, warehousing and distributing pharmaceuticals, contraceptives and medical supplies.

- An AID-assisted rehabilitation program has provided up to 60 prosthetic devices per month for civilian amputees. More than 1,222 have been provided, and more than 760 have been repaired.

Future

- Increase contraceptive prevalence through our new family health services project from 50% in 1990 to 54% in 1995;

- Decrease infant mortality from 48/1000 in 1990 to 41/1000 in 1995;

Health, Population and Nutrition Future (Continued)

- Increase immunizations of children under two years old from 66% in 1988 to 78% in 1995;
- Make potable water available to more than 800,000 rural people by 1994, as compared to an estimated 315,000 in 1989;
- Have the prosthetic workshop fully sustainable and continuing to produce at least 60 prostheses per month, in addition to producing orthotic devices.

PL 480 Titles I and II

- Local currency generations from the sales of Title I commodities have been used to expand credit to small farmers, agrarian reform cooperatives, and micro-enterprises; to support the redistribution of lands under the agrarian reform program; to provide water and electricity to rural areas; to provide financing for medicines; and to construct rural roads and schools.
- The Maternal Child Health Program provides food to 130,000 mothers and children every month.

Future

- The U.S. Congress has passed a new Farm Bill, which shifts responsibility of managing Title I from AID to USDA. It is unlikely the new program will generate local currency, and the future of Title I in El Salvador is uncertain.
- An evaluation report of the Title II program to determine its impact is being drafted. The results of the evaluation will determine the future of Title II.

July, 1991

El Salvador Country Strategy
1990-1994

During the decade of the 80's, civil war and poor economic policies battered the economic and social fabric of El Salvador. The insurgency has cost the country in excess of $1.25 billion in damage to economic infrastructure and $2.0 billion in loss of investment and damage to major export crops. It has caused more than 65,000 deaths, displaced more than 500,000 people within El Salvador (approximately 90,000 remain displaced), and has precipitated the flight of another 800,000 individuals to countries overseas -- primarily the U.S. and Canada. Until 1989, the GOES pursued economic policies that discouraged export diversification and growth and depressed farm incomes. Strapped by the burdens of the war, the GOES has been forced to reduce budget allocations for social services such as health and education.

To address these problems, the GOES has undertaken a comprehensive economic reform program with the objective of bringing about sustained economic growth with equity. This program is creating the conditions which will give Salvadorans an enhanced economic and political stake in their own society, thereby eliminating the root causes of the insurgency. Accordingly, our macroeconomic objective is to assist the GOES to pursue these goals and achieve sustainable economic growth without continued dependence on compensatory balance of payments assistance. The Mission will support the GOES in its quest to reduce the rate of inflation without a decrease in real GDP. We will also encourage the GOES to continue market oriented policies with respect to exchange rate and interest rate adjustment and eliminate remaining quantitative restrictions on imports and price controls on agricultural and manufactured commodities.

To further enhance progress in macroeconomic reform, the Mission will focus more strongly on public sector efficiency, a major constraint affecting the implementation of the overall USG program. Improving public sector efficiency will embrace three distinct, but interrelated areas: (1) reform of tax policy and tax administration, (2) building integrated financial management and auditing and (3) improving the efficiency and effectiveness of the public sector (including the privatization of some government services).

The Mission and the GOES recognized that the macroeconomic structural reform may have a temporary negative impact on the urban poor and the rural landless. To cushion the shock, our strategy includes a series of labor-intensive infrastructure activities (e.g., construction of rural roads, water systems, schools and repair of the electrical grid) to be carried out through the MEA, Public Services Restoration, Public Services Improvement, Displaced Persons and Earthquake Reconstruction programs. These efforts will serve the dual purposes of providing the country with badly needed productive infrastructure and generating short-term employment.

In addition to macroeconomic policy reform, our blueprint for achieving long-term economic growth emphasizes continued USG assistance to increase production and productivity. We support investment in the production of both traditional and nontraditional exports and the continued development of the small and micro business sectors which, in the main, produces to satisfy domestic consumption. Our strategy also calls for a shifting of emphasis in our rural development portfolio from land reform to assisting small farmers, land reform beneficiaries and others to increase their production and income.

It is our judgment that this strategy of diversifying and reorienting the economy toward an export-led drive by the private sector will have important equity dimensions in addition to fostering sustained economic growth. The export-led strategy will result in expanded employment opportunities for the labor force and, given adequate pricing policies and market driven exchange rates, greater income opportunities for small farmers.

Support for the consolidation of democracy, specifically the strengthening of democratic institutions, processes and values, has risen to the top of USAID's priority scale. In pursuing this objective, the Mission program includes assistance targeted on the strengthening of key democratic institutions -- the judiciary, the legislative branch, and local representative government -- as well as activities within sectoral project initiatives, such as support for the development of a civics curriculum within the basic education project. The bulk of AID resources have and will continue to be invested in efforts designed to enhance the capability and effectiveness of the public bodies that form the core of a democracy, so that they will better serve the needs of Salvadorans and gain the confidence of political and military leaders, citizens, and investors. Concurrently, we hope to broaden efforts to increase citizen participation in democratic decision-making, through leadership training efforts such as CLASP, support for civic education programs, and additional improvements to the electoral process. As the Judiciary, the Legislature, the labor unions, human rights commission, municipal government and the electoral process become stronger and improve their records in serving the public, they will give Salvadorans confidence that they can voice their views and may seek redress through the democratic process.

While the root cause of the insurgency is the lack of adequate employment and income for the country's poor, there are also inequities in access to social services. Accordingly, our strategy includes continued involvement in these sectors to improve the quality of life of the poor majority and to ensure that they can take advantage of opportunities presented by the economic growth.

In education, USAID has launched a program supporting GOES efforts to improve the quality of education through teacher training, revised curricula and decentralizing the administration of fundamental education. We will also maintain our commitment to upgrading the quality of technical training.

In the field of health, we will support government efforts to expand rural health services. The emphasis will be on the provision of comprehensive preventive health care, including access to potable water to combat severe health and child survival problems faced by this segment of the population. We will also expand our current nation-wide effort of providing family planning services to reduce the population growth rate.

While the provision of social services to urban and rural poor is essential, we fully recognize that without economic growth, the GOES will not be able to underwrite the cost of these activities. Accordingly, we must exercise caution in the rate of expansion of such services to avoid overstepping the bounds of the GOES's ability to sustain them.

July, 1991

Economic Reform and Objectives for 1989/1990
The Need for Adjustment

The Salvadoran economy was at the point where economic adjustment could no longer be ignored. In 1984-86, the GOES achieved measurable success in beginning to build democratic institutions and extending essential services to the poorer segments of the Salvadoran population. However, the GOES had had less success in stabilizing the country's economy, and since 1984, real GDP growth had averaged about 1% annually, as growth and development of industry and agriculture were constrained by serious imbalances in the external, fiscal and financial sectors.

In 1987, with AID encouragement and support, the GOES succeeded in arresting the economic deterioration that was evident at the end of 1986: GDP grew by an estimated 2.7%, the balance of payments registered a surplus of $51 million in spite of a large increase in the trade deficit, and the rate of inflation, as measured by the annual average increase in the consumer price index, was reduced to 25% in 1987 (from a 32% increase in 1986). Unfortunately, these favorable developments did not continue in 1988. An increase in urban and rural guerrilla attacks on the productive infrastructure, the 1987 drought, and adverse weather conditions early in 1988 that lowered 1988/89 coffee output all contributed to no growth in real GDP compared to expectations of 2.6 percent growth. Timely tax payments by INCAFE (the national coffee institute), a containment of current outlays, and an under-execution of capital expenditures, kept the overall central government deficit at slightly below the level in 1987. However, as both current and capital accounts balances worsened, the balance of payments showed a deficit of $64 million.

The 1989 GOES economic program envisaged a 0.9% real GDP growth, a further reduction in inflation to 18%, the same level of reserves as 1988, a $35 million increase in payment arrears, and an 11% increase in banking system credit. Although the targets were modest, the GOES faced an extraordinary task in executing a successful economic program. The 1989 Economic Program was implemented in the face of:

- the negative impact of the 1988/89 coffee harvest resulting in a reduction of export earnings by $128.0 million in 1989;
- an increasingly overvalued colon;
- a growing fiscal deficit;
- government tightening of credit to the private sector to limit foreign reserve losses and reduce inflationary pressures;
- intensified terrorist attacks on economic infrastructure.

In spite of this unfavorable climate, the GOES drafted an economic program that called for a modest 1.2% real GDP growth and a further reduction in inflation to 18%.

During the course of implementing the economic program, the GOES was saddled by a sharp drop in coffee prices, the November terrorist offensive that disrupted the economy in the peak months of commercial and industrial activity and an unavoidable wage increase for public sector employees. As a result:

- The public sector deficit was 14% higher than anticipated. Lower coffee prices and slower economic activity in November-December lowered fiscal revenues while military expenditures associated with the guerrilla offensive raised expenditures.
- Lower coffee prices and lower than anticipated exports for November and December resulted in a trade deficit of $609 million, the highest ever experienced by El Salvador.

At year end, official estimates for 1989 indicated that real GDP grew by 1.0%, down from 1.6% in 1988. In most sectors, performance fell short of estimates. The rate of inflation (as measured by the Consumer Price Index) for the year was 17.6%, very close to program target of 18%.

In June 1989, in spite of these difficulties, the new ARENA government began to implement a series of measures designed to revive the economy:

- the range of import tariffs was narrowed to between 5% and 50%;
- interest rates were raised to levels above the rate of inflation to attract domestic savings and to allocate credit to more productive uses;
- the exchange rate was devalued;
- the marketing of coffee was opened to the private sector, and;
- many non-price barriers to imports were eliminated.

Public sector finances also experienced a sharp deterioration in 1989. Consolidated operations of the Central Government registered an overall deficit, including grants, of ₡1,107.4 million, ₡185.2 million more than the programmed target of ₡922.2 million. The higher deficit reflected:

- public sector wage increase;
- lower than budgeted inflows for new revenue categories;
- lower than anticipated coffee tax collection;
- larger than estimated defense expenditure in November and December; and
- lower revenue because of the intensification of the terrorist attacks.

As a consequence of worse than expected performance in the fiscal and trade accounts, the Salvadoran economy weakened. GDP growth for 1989 was 1.1% (as compared to 1.6% in 1988, as much of the economic activity generated by mid-year was lost through the disruption of commercial and manufacturing activity during the offensive. Although the GOES met its annual inflation target, inflationary trends were clearly on the rise by year end. Measured on a December to December basis, inflation was 23.5% at the end of 1989.

The GOES successfully weathered these setbacks, and by mid-year 1990 began to reap the beneficial effects of the economic reforms. With the exception of the offensive-induced loss of monetary control at year end 1989, the GOES exercised sound economic management throughout the crisis. The deterioration in the external and fiscal sectors were contained through further liberalization of the exchange rate regime and sound management of money and credit. More than anything else, these actions preserved the beneficial effects of the adjustment measures taken in 1989.

Balance of Payments

The reforms in the foreign trade sector, along with a Paris Club rescheduling of bilateral debt made possible by lender confidence in the reform program, significantly strengthened the balance of payments in 1990.

- The current account deficit in the balance of payments fell from the equivalent of 9.5% of GDP in 1989 to 6.6% of GDP in 1990. A major improvement in the service account (drawback exports rose almost 50%), a 17% increase in merchandise exports, and a 46% increase in recorded remittances from Salvadoran living abroad were key factors in the decline.

- The merchandise trade deficit did not change significantly between 1989 and 1990. The $101 million growth in imports (a 9% increase) in 1990 - reflecting higher real growth in the economy - was almost offset by a $82 million improvement in exports. It is worth noting that nontraditional exports to extra-regional markets surged 33% in 1990.

- A dramatic improvement was registered in the capital account as net private capital inflows (including errors and omissions), increased from a negative $16 million in 1989 to a positive $161 million in 1990. This, combined with a $36 million net inflow recorded in the official and financial sector accounts, pushed the capital account balance to $196 million, a major gain from $86 million in 1989.

Overall, with the improvement in the current and capital accounts, the balance of payments registered a surplus of nearly $60 million during 1990 - a marked improvement compared to the deficit of almost $100 million in 1989.

Money Supply

The performance of the money supply was one of the most noteworthy developments in 1990. Exchange rate stability and higher real rates of interest on deposits in the banking system have led to an increase in the demand for money, i.e, the willingness of the nonbank public to hold monetary assets in the domestic financial instruments. The desire of the public to hold more colones (and not trade them for dollars or speculative assets) has given the monetary authorities more flexibility over monetary programming and taken the pressure off the balance of payments and inflation. Overall net domestic credit growth in 1990 was 7.7%; growth in credit to the public sector was almost nil and credit to the private sector grew by about 11%. Banking sector liabilities to the private sector, however, surged by nearly 29%. The consequence of these financial developments was overall broad money growth of 28%.

Summary

Sound economic management in 1990 allowed the Salvadoran economy to respond favorably to the stabilization and adjustment measures initiated in 1989. Improved performance in the balance of payments and in the fiscal and monetary sectors led to real GDP growth of 3.4%, the largest increase recorded since 1978. This was considerably above the 2-3% target and up sharply from the 1.1% real growth in 1989.

The best performance in 1990 was registered in the agricultural sector. The devaluation of the real exchange rate, the removal of price controls, and the abolition of state trading in coffee and sugar sharply boosted price incentives and increased plantings throughout the agricultural sector. Preliminary figures indicate a 7.4% real growth rate for GDP originating in the agricultural sector in 1990. Benefitting from the improved policy regime and favorable weather conditions, almost all agricultural categories registered impressive gains. Record harvests were achieved for both corn and beans, the two most important staples for domestic consumption and an important source of income for small farmers. With both improved yields and greater areas under cultivation, bean production rose more than 30%, sorghum 11%, and the corn harvest, while only showing 2.4% growth, bettered its earlier record. Coffee output is estimated to have increased by about 19% in calendar year 1990. This, however, is the result primarily a strong 1989/90 harvest which showed an almost 80% increase over the previous crop year. The 1990/91 coffee crop showed show a 15-20% drop due to irregular rains and heavier than normal winds during November and December.

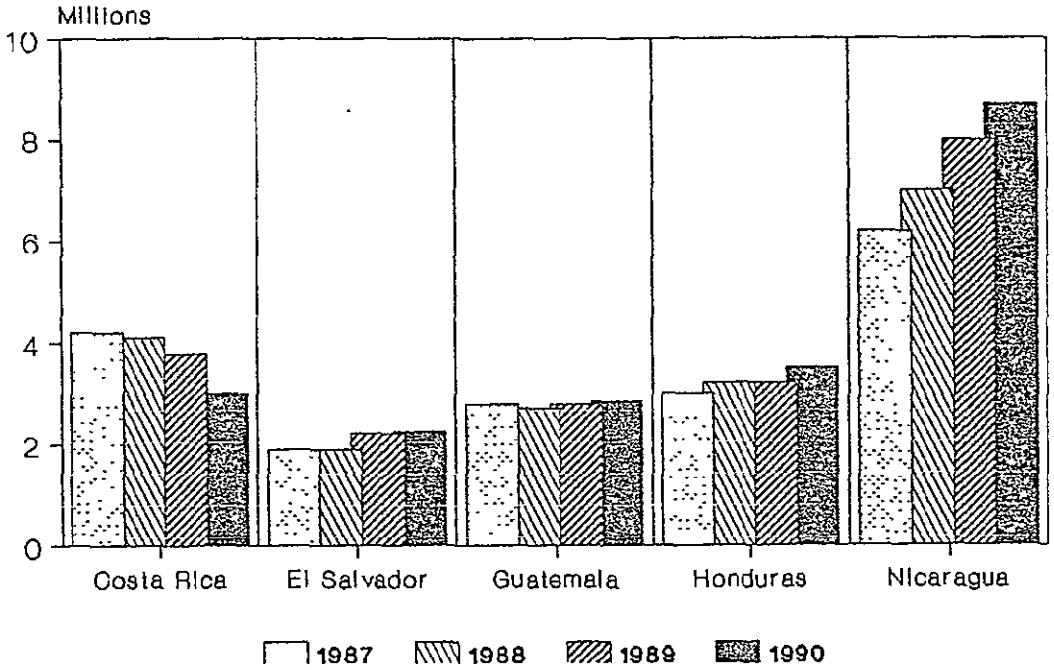
Real growth in manufacturing was somewhat slower, at 3%. The reforms in the trade and exchange regime hit hard at import substitution industries. Construction activity also continued to be depressed. Slow implementation of the public sector investment program and reduced demand for private sector housing construction led to a 13% fall in real GDP originating in the construction sector.

Strict adherence to the monetary program was instrumental in bringing inflationary pressures under control in 1990. Without the sudden jump in petroleum prices after the start of the Persian Gulf crisis, inflation would have been about 15-16%, well within the 15-18% target range for the year (on an end-of-period basis). Even with the shock of higher oil prices in the last quarter of 1990, the inflation rate for 1990, 19.3%, was only one percentage point above the high end of the target range and much lower than the 23.5% rate for 1989. This success in battling inflation eased the shock of the adjustment program on the Salvadoran people.

Also contributing to a lower inflation rate were slower increases in food prices. The bumper 1990 harvest in basic grains helped keep the food component of the CPI below a 13% annual rate for the last half of 1990. This was a major improvement compared to the 25% annual rate recorded during the first half of 1990 and the 32% annual rate during the last half of 1989.

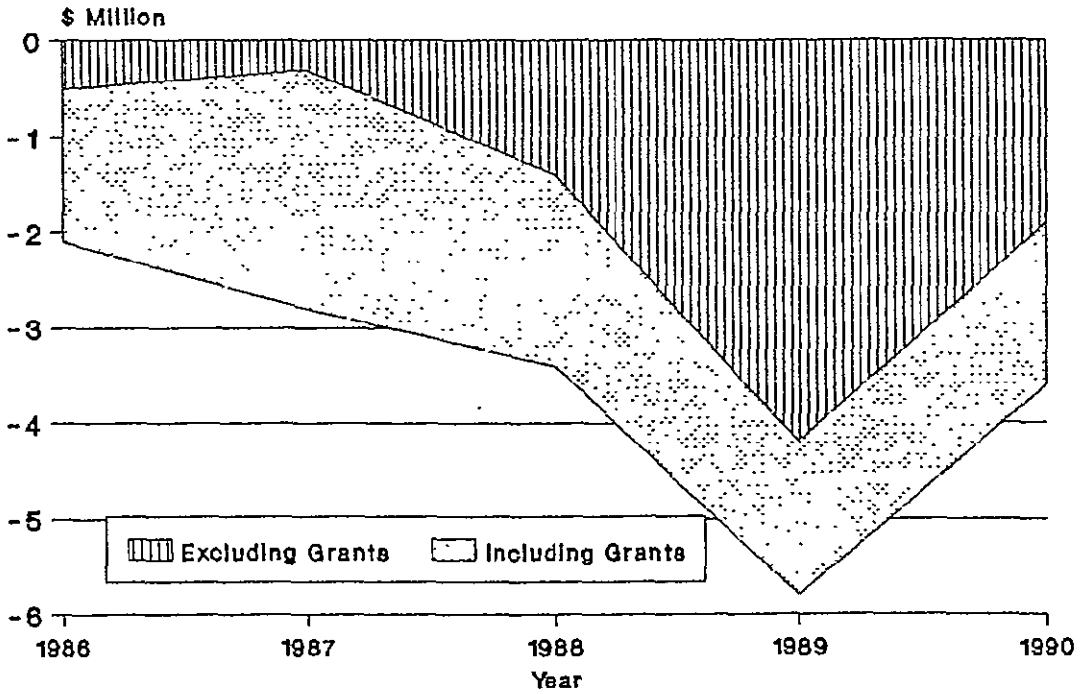
July, 1991

External Debt
Central American Countries



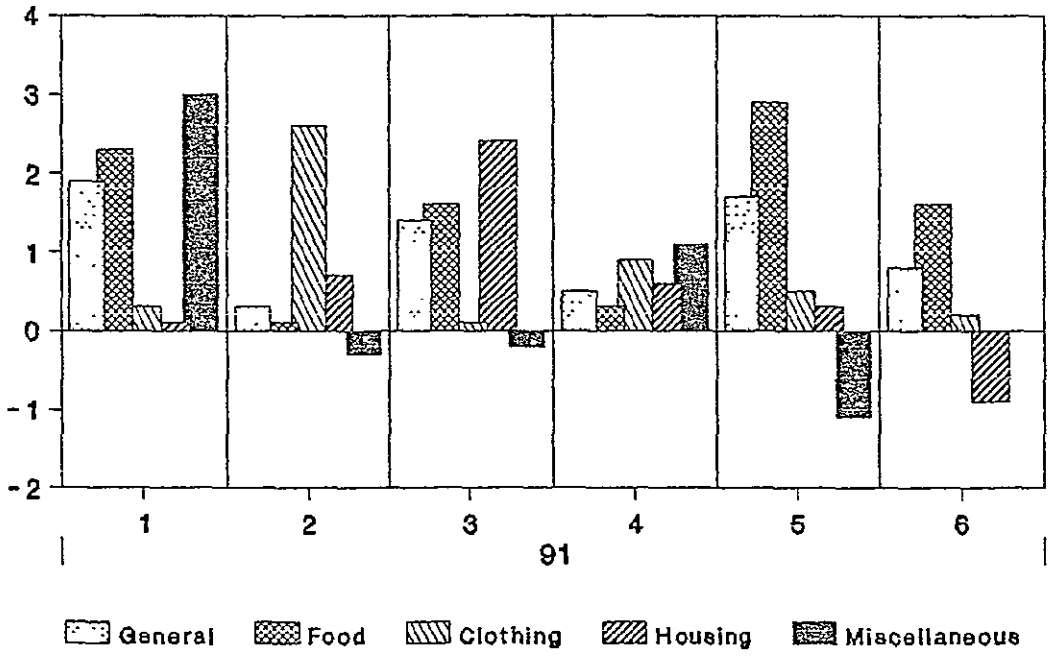
Source: CEPAL

El Salvador
Deficit



Source: Central Reserve Bank of ES

Consumer Price Index
By percent change 12/90-6/91



(Base 1978 = 100)

Update on Conditionality
for the First Disbursement/1991 Balance of Payments Support Program

The following is from a memorandum to the files by Michael Deal, PRJ, dated August 8, 1991. The purpose of the memorandum was to document compliance with the measures contained in the policy dialogue matrix jointly agreed to by AID and the GOES. The following are the four measures and their status:

Conditionality from Matrix	Status
1. Macroeconomic Program	
Continue to implement GOES Economic Program.	GOES is in full compliance per Peterson/Dugan memo.
2. Agrarian Reform Obtain passage of Beneficiary Rights legislation.	Done - Régimen Especial del Dominio de la Tierra Comprendida en la Reforma Agraria, signed on April 12, 1991.
3. Public Sector Efficiency (a) Improve tax policy and administration (PMM). Begin the implementation of comprehensive fiscal reform as laid out in the action plan recently approved by GOES.	GOES is in full compliance per Peterson/Dugan memo.
(b) Strengthen integrated financial management auditing. With the participation of the MOF and the Court of Accounts, establish a committee to review and evaluate the GOES strategy for integrated financial management and auditing.	Done - Committee has been formed.
(c) Rationalize public sector employment.	
-- Presidential Commission established for liquidation and privatization of state-owned enterprises.	Done - Inaugurated on May 16.
-- Privatization law drafted and presented to Legislative Assembly.	Done - Passed in May.
-- Priorities for privatization set by Commission.	Done - Received and approved in action plan.

4. Judicial Reform
Strengthen administration of justice in El Salvador. The GOES will initiate a program for the modernization of the Salvadoran judicial system, which will consist of the following actions:

-- Create a technical support unit within the MOJ.	Done - Unit established in June.
-- Begin a public awareness campaign and open public hearings to discuss a judicial reform program to promote the efficient administration of justice.	Done - First Iberoamerican Conference on Judicial Reform in El Salvador was held in June. Work on action plan continuing this public awareness campaign is underway and financing has been earmarked for public hearings on specific reform proposals.
-- With technical assistance, carryout a study of selection process and terms of office of key positions of the Judicial Branch.	Constitutional Reforms, approved in April by the Assembly and awaiting ratification by the present assembly, will change the appointment process and terms of office of the Supreme Court magistrates. By providing greater independence to the Court, the Constitutional Reforms make the study no longer necessary.

July, 1991

1991 BALANCE OF PAYMENTS SUPPORT PROGRAM

	JUNE 1991 (First Disbursement)	OCTOBER 1991 (Second Disbursement)
1. Macroeconomic Program	Continue to implement GOES Economic Program. Performance targets include: reduction of fiscal deficit to 2.6% of GDP, BOP current account deficit of 5.5% of GDP, and monetary targets consistent with 3% real GDP growth and 10-14% inflation. 1/	Continued satisfactory progress in achieving macroeconomic targets. Adjust CEL, ANDA, and CEPA rates to levels consistent with program's fiscal targets.
2. Agrarian Reform	Obtain passage of Beneficiary Rights Legislation.	
3a. Public Sector Efficiency Improve tax policy and administration (PMM).	Begin the implementation of comprehensive fiscal reform as laid out in the action plan recently approved by GOES.	Under this Action Plan, specific actions to be completed by October are: Convert the current specific tax on alcoholic beverages to an ad-valorem basis. Eliminate remaining exemptions to tariffs and stamp taxes. Eliminate official paper tax. Improve tax administration by raising penalty interest to market rates and requiring banks to transfer tax proceeds to Treasury within 3 working days.
3b. Public Sector Efficiency: Strengthen integrated financial management and auditing.	With the participation of the MOF and the Court of Accounts, establish a committee to review and evaluate the GOES strategy for integrated financial management and auditing.	Committee approval of the GOES strategy. A technical group formed by the Committee to begin drafting new legislation for GOES budgeting, treasury, accounting and Court of Accounts.

1/ These targets are subject to revision upon receipt of final draft of monetary targets.

	JUNE 1991 (First Disbursement)	OCTOBER 1991 (Second Disbursement)
3c. Public Sector Efficiency: Rationalize public sector employment.	Presidential Commission established for liquidation and privatization of state-owned enterprises. Privatization law drafted and presented to Legislative Assembly. Priorities for privatization set by Commission.	Complete an analysis of public sector employment and salary levels. Based on the analysis, prepare a plan for employment and salary adjustments.
4. Judicial Reform: Strengthen administration of justice in El Salvador.	The GOES will initiate a program for the modernization of the Salvadoran judicial system. The program will consist of the following actions: 1. Create a technical support unit within the MOJ.	The new technical unit in MOJ, with internal and external technical assistance, will have prepared a legislative agenda, and have adopted broad operating procedures to permit public debate of proposed legislation.
	2. Begin a public awareness campaign and open public hearings to discuss a judicial reform program to promote the efficient administration of justice.	Continue public awareness campaign.
	3. With technical assistance, carry out a study of selection process and terms of office of key positions of the Judicial Branch.	The GOES will organize public hearings to discuss recommendations of the study.
		4. Submit legislation to the Legislative Assembly modifying the composition of the National Council for the Judiciary in order to broaden the representation of other interested groups in the selection of 1st and 2nd Instance Judges.

The 1991 Economic Adjustment Program

The GOES has made it very clear that it is not content to rest on its successes in 1989-1990. Although significant progress has been made, further efforts are needed to ensure the reforms are sustainable, and that there is no backward slippage. The adjustment effort must continue until the Salvadoran economy has achieved self-sustaining, noninflationary growth. The GOES now has much more external support for its economic program and is constructing a more ambitious economic program for 1991 and beyond.

The first objective of the program is to achieve higher growth and lower inflation in 1991. Supported by the IMF upper tranche Standby Arrangement, the GOES will attempt to further reduce inflation to the 10-14% range and to strengthen the balance of payments so as to create favorable conditions for real GDP growth of 3% or higher in 1991. To achieve these two objectives, the GOES has targeted:

- A reduction in the overall deficit of the non-financial public sector to a level that can be supported by external grants and concessional loans from bilateral and multilateral creditors, without recourse to additional financing from the banking system.

- The continuation of a monetary program designed to contain pressures on domestic prices and the balance of payments while simultaneously permitting growth targets to be achieved.

- A further narrowing of the current account deficit of the balance of payments.

- Additional strengthening of the Central Reserve Banks international reserve position in order to maintain gross reserves at a level equivalent to the value of 5 months of imports.

The achievement of these targets will contribute to the ability of the GOES to sustain noninflationary growth in the long run, thereby raising the real per capita incomes of the Salvadoran people and laying the basis for sustained social and economic development.

The second broad objective in 1991 is to continue and extend the structural adjustments begun in 1989. The GOES is now outlining a further two year program of comprehensive structural reform. Many of these actions have already been the focus of USG-GOES negotiations and USAID financed technical assistance. The program includes:

- Continued Liberalization of the Exchange and Trade Regimes - The GOES will maintain the unified and flexible exchange rate regime, adjusting nominal rates as domestic and world conditions change. The range of nominal import tariffs will be further compressed to 5-30% in 1991 with the goal of 10-20% by 1993. The remaining nontariff barriers, such as import authorizations for certain categories of food imports, will be abolished.

- Strengthening of Public Sector Finances - Following the adjustment and rationalization of tax rates in 1989, the GOES will initiate in 1991 a multi-year program to improve the administration of tax collections. A strategy to strengthen budgeting, treasury operations, financial management and the Court of Accounts will be developed in 1991 with a program of activities to begin late in the year.

- Financial Sector Strengthening - Following on the adjustment of interest rates in 1989, the GOES has agreed with the World Bank to implement a flexible interest rate regime in which the loan and deposit rates will adjust to market conditions in 1991. Now that the legal basis for a private financial system has been established, the GOES will initiate a program to restructure the portfolios of problem banks and S&Ls, divest itself of ownership in these institutions, and develop a strong and independent financial system supervisory and regulatory body.

- Further Removal of Distortions in the Productive Sectors - In 1991, the system of price bands has been extended from corn to include rice and will soon be extended to sorghum. The GOES will also continue its program to privatize the assets of INAZUCAR and INCAFE, the state trading boards for sugar and coffee, and IRA, the now defunct state agency for basic grains marketing.

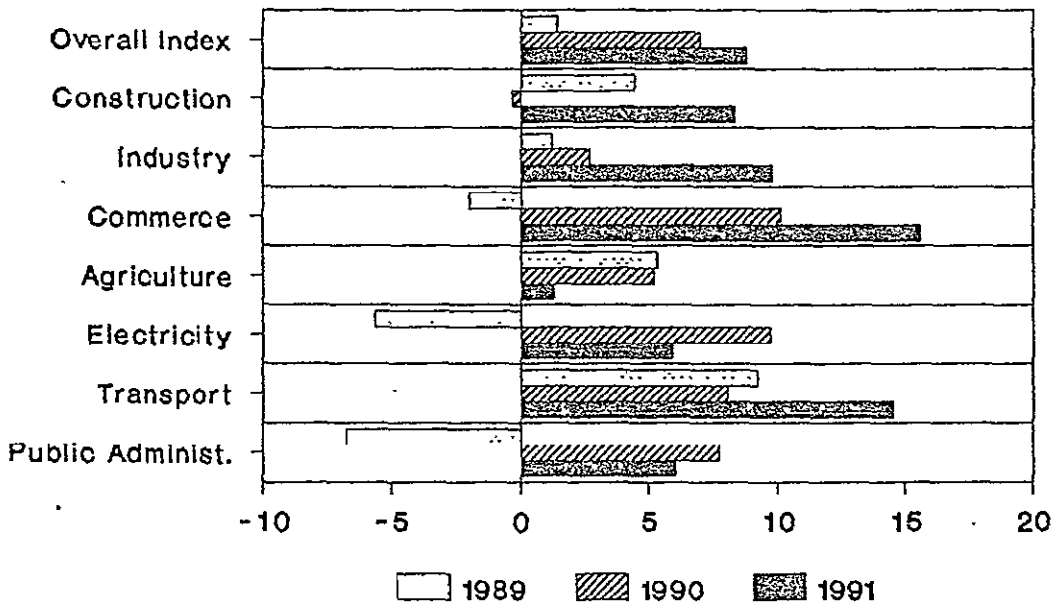
- Passage of the Beneficiary Rights Legislation - The GOES has obtained passage of legislation that was introduced to the Legislative Assembly as part of the 1990 program. The legislation provides for freedom for Phase I Agrarian Reform beneficiaries to choose their own terms of ownership (i.e., cooperative, individual, etc.)

Other Donor Efforts

The increased participation of external donors will broaden the basis of support for economic stabilization and adjustment in El Salvador. USG policy dialogue, reinforced by technical assistance and the ESF cash transfer program, was instrumental to the GOES in their extensive reform efforts in 1989-90. Other donors will now build upon the earlier successes and support the GOES in the continuation of their program in 1991-92. The IMF program continues in 1991, with a possible follow-on program in 1992. The World Bank has approved a $75 million Structural Adjustment Loan for 1991-93. The IDB is planning major sector lending. The World Bank-led Consultative Group convened in May of this year, and other bilateral donors were encouraged to assist El Salvador. While the multilaterals are already on board with financing and plans for more, the European and Japanese seem to be holding back, pending a settlement of the long civil war.

August, 1991

Volume Index of Economic Activity (IVAE)
January - April



July 12, 1991
(Base 1984 = 100)

El Salvador Judicial Reform Update: 1984 To the Present
Background and Constraints

The U.S Govt. first focused on the need for judicial reform in El Salvador in the early 1980's as a result of U.S. public outrage over the inability of the Salvadoran justice system to successfully resolve several internationally publicized crimes. There followed a series of studies that identified extensive weaknesses in the system; strengths were few and far between. At every level the officials involved -- prosecutors, justices of the peace, judges, police investigators -- were poorly paid and poorly trained. As was true of other government sectors suffering through years of economic crisis, resources were severely limited, and the scarcity of basic materials and equipment would have crippled a system that was otherwise problem-free. Justices of the peace and judges did not even have copies of the basic laws, or sufficient paper to carry out their work. Laws were antiquated and contradictory. The criminal justice system, established in more tranquil years, was overwhelmed by the growing flood of crimes arising from a society racked by years of war and economic crisis, and characterized by a rapidly growing population. Less tangible, but even more detrimental to the credibility of a system of justice, was the influence and intimidation exerted by powerful interest groups, a reflection of an historically polarized and stratified society. The structure of the judicial branch itself -- the method of selecting judges and their terms of office -- reflected a politicization of the system that made impartial justice a remote likelihood.

Given the magnitude of the problem, project activities which began in 1984 and 1985 could have begun with any number of proposed solutions. In fact, the design of project activities was largely defined by the Congressional appropriation which earmarked funds for, "promotion of the creation of judicial investigative capabilities, protection of key participants in pending judicial cases, and modernization of penal codes." A fourth component was added to address the need to improve the overall administrative capability of the court system.

The areas defined by the Congressional earmarks were directed principally at impediments to bringing to justice the accused perpetrators of the heinous crimes which originally gave rise to the program. Although all were legitimate areas on which to focus attention, in retrospect, a more comprehensive strategy for addressing this very complex problem would have been desirable, if for nothing else than to heighten our own awareness of the magnitude of the problems and to set realistic expectations for improvements.

Furthermore, the assumption from the beginning seemed to be that we were focusing on a discrete system, albeit one burdened with serious weaknesses. In fact, the judicial system in El Salvador, as anywhere, does not operate in isolation; it is a reflection of the social and political structures and values of the society in general, and of the distribution of power. What we were really seeking in El Salvador with a relatively modest judicial reform effort was an overhaul of Salvadoran social structures -- reform of the military, redistribution of power, greater respect for the individual, a reduction in authoritarianism -- which had lying behind them centuries of tradition.

Adding to the difficulty of achieving reform of the judiciary is the fact that El Salvador has been experiencing two overriding crises for the past ten years: an economic crisis and a civil war. Both have touched the lives of most Salvadorans in a very personal way; at some level, many fear for their lives and for their ability to provide for their families, and these fears have persisted year after year. Regardless of how necessary the changes are, it is very difficult under these circumstances for the legal community, which is conservative under normal conditions, to break with long tradition and seek a bold reorganization of the legal structure. Even for those who have acquired and/or managed to maintain the progressive attitudes needed to be advocates of change, very basic impediments exist. In an economy where jobs are scarce, many lawyers are reluctant to challenge the status quo and risk offending those on whom their employment depends (e.g., the Court). Furthermore, many of the problems reflected in the current system are related to the war. The Jesuit case is a classic, but not isolated, example. Trying to sort out the problems related to the war as well as those that existed prior to the war while the conflict continues is exceedingly difficult.

A third disadvantage which El Salvador faces in its judicial reform efforts, but often overlooked as an impediment, is the decline of the higher education system. Eighteen years ago the University of El Salvador was a respected institution with high academic standards, full-time professors, and all the other indicators of a leading university. With its increasing politicization, private universities were founded to provide alternative educational opportunities. Only one of the law faculties attached to private schools has existed more than ten years. Not one has full-time professors; in fact, only one has a full-time dean. None have the resources, the research capability, or the independence to serve as the intellectual spearhead for judicial reform efforts, as is the case in other countries. The decline in the quality of legal education is a serious problem in itself, but the lack of academic leadership in the legal field puts El Salvador at a great disadvantage in its judicial reform efforts.

Within the above context, the judicial reform program in El Salvador has achieved some successes, and has had some setbacks. Although signed in July 1984, the Project Agreement was not ratified until after the March 1985 Assembly elections which resulted in a political realignment. On balance, with relatively modest amounts of money (US$ 7 million plus approximately US$ 8 million worth of local currency counterpart expended thus far), it has served to reinforce democratic principles in El Salvador. The four components of the Judicial Reform Project are discussed below.

Component I: CORELESAL/Technical Support for Judicial Reform.

Component I of the project created the National Legislative Revisory Commission (CORELESAL) to address the need to modernize the penal codes. The Commission, which was created by Legislative Decree 39 on June 13, 1985, was composed of representatives of all institutions related to the justice system. The purpose in creating the Commission with diverse representation was to guarantee a thorough airing of proposals by the groups most affected by potential

changes, and to reach consensus among these groups before introducing the legislation in the Assembly. Additionally, the structuring of the Commission was designed to promote an apolitical approach to changing the judicial system, an element that was considered crucial for achieving real results. Besides addressing the penal codes, CORELESAL was assigned the task of providing the legal basis otherwise needed to restructure the judicial system and improve its functioning.

Although CORELESAL has drafted fifteen laws, twelve of which have been enacted, a recent evaluation determined that these laws have not had a serious impact on the criminal justice system in El Salvador. The reasons for this are numerous:

- the Salvadoran lawyers who composed the technical unit were not used to working as part of a team, and it took time for them to adjust to this new working mode;
- debate within CORELESAL was not as vigorous as it should have been, partially attributable to a chilling effect which the members from the Supreme Court had on the others;
- introduction of new ideas was too limited, because few members had experience outside their own system and were not able to avail themselves sufficiently of external technical assistance;
- real changes, including a restructuring of the court system itself, require amendments to the Constitution, and CORELESAL did not see changes at that level as included in its mandate;
- political opposition, particularly from the Supreme Court, resulted in some of CORELESAL's proposed legislation being changed, thereby reducing its effect.

CORELESAL was not able to overcome the strong political interests opposing reform and build the public support essential to achieving a lasting reform. However, CORELESAL did make several contributions to the overall reform process. First, despite limited results in terms of specific legislative changes, an important by-product of its activities was a contribution to increasing the level of debate on judicial reform within the Salvadoran legal community, paving the way for more serious legislative reform efforts in the future.

Second, CORELESAL established a new standard of professionalism in the mechanics of researching and drafting legislation. Legislative drafting in El Salvador has traditionally been a haphazard process at best. The technical standard set by CORELESAL serves as an example which should upgrade the legislative process.

Finally, as demonstrated by a project-financed public opinion survey, Salvadorans at all levels are conscious of the need for judicial reform. Debate on judicial reform is constantly on-going in newspaper articles, bar association meetings, seminars, and conferences. Although the approach is still somewhat passive, many Salvadorans have been engaged in reform efforts.

In January, 1991, the Mission decided to discontinue financing CORELESAL, which, because of its semi-autonomous nature and composition was unable to build consensus on more fundamental reforms. Instead, legislative reform efforts will be supported by a new technical unit within the Ministry of Justice, the

governmental entity which is the traditional home of such activities. The new arrangement will both eliminate the Supreme Court's dominance of the reform efforts and more actively engage the Executive Branch. Conditionality included in this year's balance of payments program will seek to correct some of the problems identified with CORELESAL. The GOES has just established, with the help of outside technical assistance, a clear agenda for legislative reform and a timetable for achieving established goals.

Also as required by conditionality, external assistance will be brought in to work with the Salvadorans on all draft laws, in order to ensure that new ideas are breathed into the system and that someone whose economic future is not on the line is available to prompt debate when needed and probe the difficult issues. Additionally, new operating procedures will be adopted to ensure that proposals are thoroughly aired before and during the drafting stage. What the new arrangement seeks to ensure is that proposed legislative measures really signify an advance, and that sufficient consensus is reached about the benefits of the legislation both to ensure its passage by the Legislative Assembly and to secure its implementation once passed.

Component II: Judicial Protection Unit

Component II of the project created a Judicial Protection Unit (JPU) within the MOJ to address the problem of intimidation of judges, witnesses, prosecutors, and others involved in cases - a problem recognized in the Specter Amendment which appropriated funds for judicial reform. Although initiated in the summer of 1984 to provide security for participants in the U.S. Churchwomen's trial, the Unit was not formally created until September 25, 1985. It was composed of 60 prison guards attached to the MOJ who were given training at the Federal Law Enforcement Center in Georgia and specially equipped for their task.

The JPU is perhaps the least successful element of the Judicial Reform Project. It was disbanded after serving at two trials, the Churchwomen's case and the Sheraton case, and this component has lain dormant since. The problem of intimidation is complex and difficult to solve. Added to the difficulty, is our reluctance to create another armed force, of whatever potential good, in a country where official armed groups have a history of abuse. In the meantime, protection services have been provided through a private contractor on an individual basis.

Component III: Commission for Investigations

Component III was designed to address the inadequate investigative capabilities in El Salvador. Police investigators lacked the training and equipment needed to carry out successful investigations of crimes. Often, in addition to spelling failure during the investigative stage of cases, it also meant that the police and courts relied excessively on confessions - a characteristic of the Salvadoran judicial system which sometimes led to human rights abuses. In order to professionalize the investigative process and reduce the number of human rights abuses, the Commission for Investigations was created under civilian control by Decree 58 adopted on July 27, 1985. The Commission is chaired by the Minister of Justice,

and includes the Vice Minister of Interior and a representative of the President of the Republic. The Fiscalia now participates informally, as well. These civilians provide policy direction for the organization. Reporting to the Commission is an Executive Office which manages the Special Investigative Unit (SIU), the Forensic Unit (FU), and a legal and administrative unit.

The Commission currently has 40 investigators and 23 professional forensic scientists. Six units of the lab - ballistics, fingerprint analysis, photography, polygraphy, planimetry, and document examination - were established in 1987 and are fully functional. Eight professional staff returned from long-term training in the U.S. in December of 1990 and will establish the four remaining units, serology, trace evidence, chemical analysis, and toxicology.

Both the Special Investigative Unit and the Forensic Unit have gained international recognition as highly trained, professional investigative units, dedicated to their work. Wesley Pomeroy, currently the Executive Director for the Independent Review Panel of Metro-Dade law enforcement agencies and former director of the Law Enforcement Assistance Administration, noted during a recent visit that the SIU is "well-thought of by everyone with whom I talked (including FMLN guerrillas in the field)."

The SIU has investigated 136 cases since it was organized in 1985. It currently has an active portfolio of 26 cases. Despite the SIU's achievements on the investigative side, however, inadequacies in the rest of the judicial system continue to frustrate the successful prosecution of crimes.

In an important step forward for the Salvadoran criminal system, the Commission has introduced the concept of using physical evidence instead of relying on confessions. During the period June 1987 to March 1991, the lab received more than 670 requests for analysis. However, since 1985, the lab has performed more than 3480 actual analyses, because each request may involve several different types of analysis. Requests for analysis have come from many sources, including the Attorney General's Office, judges, public defenders, the Ministry of Defense, the Ministry of the Treasury, the Central Bank, and the Governmental Human Rights Commission. Individual judges have accounted for approximately 20% of the requests submitted to the lab since 1987, and approximately 40% of the requests thus far in 1991.

The Commission has established an active outreach program to overcome the lack of familiarity with the use of physical evidence. It is providing two-week training programs for all prosecutors, public defenders, judges and justices of the peace, following a similar program given by ICITAP for the magistrates of the Supreme Court and selected judges.

The Commission distributes yearly a detailed list of forensic services available at the lab to all judges and other justice and law-enforcement agencies. The average monthly number of requests handled by the lab is up from 10 in 1987 to 40 in the first three months of 1991, indicating a growing familiarity with its services.

Two organizational problems continue to undermine the Commission's credibility in the eyes of both Salvadorans and international observers. The first is the fact that the Executive Director and Deputy Director are both military officers, and the majority of the employees are on detail from other parts of the Ministry of Defense, although some lab technicians are civilians. The second problem is that the forensic lab is still located within the Estado Mayor.

Last year the Commission requested that CORELESAL draft legislation that would eliminate all links between the Commission and the military, but no resolution has yet been reached. There is full consensus on the need to break the investigative unit and lab away from the armed forces; the difficult issues are what the new organization should look like and where in the government it should be housed. Attempts by the Supreme Court to bring the SIU directly under its power, which is opposed by both the Executive Branch of the GOES and USAID, have delayed the reorganization process. Once achieved, reorganization will eliminate doubts that have been raised about the admissibility of evidence developed by the SIU.

A new forensic lab has been in the planning stages for the past four years. The original plan was to relocate the lab within the new police academy compound, but construction of the lab building was delayed because of a title dispute over the academy property. With the return from long-term training of eight professional employees of the forensic lab, the GOES has been forced to seek an alternative solution. The Commission has now purchased a residence to house the new lab, which will increase the capacity and services of the lab. This move will further reinforce the impending reorganizational break from the military.

Component IV: Court Administration and Training.

Despite limitations, progress has been made under this component, which was designed to address the overall deficiency in training, resources, and organization of the court system. Implementation of this component was slow; additionally, differences with the Supreme Court over advancement of key cases and policy matters have twice resulted in the suspension of activities with the court during the life of the project.

Specific problems were defined by an exhaustive study of the courts carried out jointly by CORELESAL and ILANUD. Lack of reference materials available to judges and lawyers was identified early as a pressing need, and three law libraries were established in the main three judicial centers. A printing office was established in the Supreme Court which allowed it for the first time in ten years, to begin printing its Revista Judicial, containing jurisprudence and Supreme Court opinions. The Court also printed an updated version of the most basic laws and distributed it to all the judges and justices of the peace, many of whom had no legal reference books available to them prior to that time.

A second obvious problem was the inadequate capabilities of many judges and justices of the peace. As a first step, fifty justices of the peace were sent to a course in the U.S. specially designed to orient them in their roles and to impress upon them the importance of their work. Following that course, all 300 of the justices of peace received two consecutive years of training from ILANUD on

basic laws and procedures. For most, this was the only training they had ever received. A variety of courses were offered to higher level judges and support staff. ICITAP twice gave its "Overview of Investigative Techniques" course for approximately 30 judges and magistrates. ILANUD organized a seminar designed to stimulate discussion of the "mixto-moderno" system beginning to be adopted in other Latin countries. A few judges were sent on a USIS-sponsored tour to the U.S. to observe administrative practices and to Spain for training in substantive matters. Additionally, judges have attended regional training courses sponsored by ILANUD and ICITAP, and six publicly employed lawyers have participated in the graduate program at the University of Costa Rica sponsored by RAJO. A long-term advisor, financed by the project, was scheduled to begin working with the Court in 1990 to begin organizing a Judicial School to replace these ad hoc efforts. Although activities with the Court were suspended before the advisor was in place, the Court has continued the effort, and the Judicial School was opened in June, 1991.

The deplorable physical conditions of many of the courts could not be ignored. Plans were made early in the project to repair courthouses throughout the country with local currency. However, the 1986 earthquake destroyed the San Salvador court center, and repair of this center displaced the others as a priority. For almost two years San Salvador judges and justices of the peace operated out of uncomfortable temporary facilities that offered no security either to the judges or to court documents. In August, 1988, construction of more adequate temporary facilities was completed with project funds, which have permitted them to operate fully until a new permanent center can be constructed with World Bank funds. With completion of the temporary facilities, repair and construction of other courts resumed.

Project and counterpart funds have purchased essential equipment for the courts, has upgraded equipment in most of the San Salvador courts, and basic equipment has been provided to the higher level courts outside the San Salvador area. The Supreme Court has continued this program of upgrading physical facilities with its own funds since our activities with them were suspended.

Additionally, an administrative unit which relieved the Supreme Court magistrates of planning and budgeting work was organized during the early years of the project, improving the court's use of its limited resources. A long-term advisor was scheduled to begin assisting the court in 1990, but the activity was suspended shortly before it began.

The Public Ministry - Prosecutors and Public Defenders - During the early years of the project, activities with the Attorney General's Office and the Public Defender's Office were not included under the project per se, but were financed entirely with local currency counterpart funds. In 1986, ₡1,200,000 were programmed to augment the ordinary budget of the Attorney General's Office. By 1991, this amount had risen to ₡5,600,000 colones, most of which were used for general budgetary support. Specific activities were creation of a Human Rights Division, which has grown from four prosecutors in 1987 to fourteen in 1991, and this year's creation of an Anti-Drug Trafficking Unit.

In a country where the majority of the people do not have the economic resources to hire an attorney, access to legal counsel alone is a major step forward in providing equal justice. Local currency support allowed the Public Defender's Office - financed by USAID in the early 1980's but forced to close in 1983 when external support ended - to reopen its doors in 1986. The staff of attorneys will grow from seventeen to one hundred and four, with four offices providing nationwide coverage. The office has served nearly 8000 people, resulting in the release of more than 2000 from prison. Last year both the Attorney General's Office and the Public Defender's Office were incorporated into the dollar-funded activities under Component IV of the Project.

In addition to some commodity procurements, a major training program, being implemented by Checchi & Co., began in January. A training needs assessment identified that, because of the weaknesses of the law schools, the program will need to include basic courses as well as specialized training. The courses will also seek to prepare the prosecutors and defenders for the eventual introduction of more modern procedures, such as oral debate, into the system.

The Law Schools were also incorporated into the project in 1989, in something of a pilot effort. Defining a program for the law schools represented a challenge, since there are 16 schools, with greatly varying capabilities and ideological orientations. A direct donation to any one of them was out of the question, and no umbrella group existed or appeared to be feasible. The program was therefore designed to be implemented directly by the contractor, Checchi, with all the schools invited to participate.

In a series of meetings preceding project design, the deans themselves identified the activities they wanted to see undertaken. The first activity is a visiting professor program, designed to upgrade the quality of teaching as well as generally to stimulate academic debate of legal issues. Professors from Colombia, Chile, and Argentina have worked from one to three months. The program has been enthusiastically received by the deans, as well as other groups. Already, the professors have been asked by CENITEC to give a series of lectures open to the public, and the Inter-American Bar Foundation plans to invite them to visit the bar associations in neighboring countries. Dr. Leopoldo Schiffrin, a constitutional expert from Argentina, was in special demand as the peace negotiations focused attention on the Salvadoran constitution.

A second activity will finance writing and printing of four textbooks over the next two years, since very few texts are currently available in the country, and those that are available are prohibitively expensive. For this reason, textbooks per se are rarely used in Salvadoran law schools. Two teams of four and five respectively, all Salvadorans - two of whom attended the graduate law program at the University of Costa Rica - have been chosen by the law school deans to draft texts on Constitutional Law and Criminal Procedure. They will be advised in their work by the visiting professors. This activity has several objectives: to help Salvadoran legal academicians, relatively isolated over the past decade, become current with new trends of thinking; to give Salvadorans the experience of drafting their own texts, thus encouraging a greater degree of academic analysis in the legal area; and to encourage the use of texts in law schools and make them available at a reasonable cost.

A quarterly law journal will also be published and distributed under the project to complement the textbook activity. Although most of the articles will be written by Salvadoran professors and law students, the journal will also include analyses of Salvadoran court opinions by foreign legal experts.

One positive by-product of the law school program is that the deans have organized into an informal group to discuss and decide upon project issues. This is the first time that the deans have had a forum for discussing common issues and problems; we hope to encourage this group to become one of the focal points for other judicial reform efforts.

Public Awareness Campaign - The mission will soon add one other sub-component to the project. In November, 1990, a public opinion survey was financed to find out what Salvadorans felt about their justice system. The survey revealed that there was general consensus that the justice system needs reforming - especially among elite groups which also agreed on the urgency of reform. On the basis of this survey, the Mission is assisting the GOES to design a public awareness campaign to carry through to the end of the project. The basic thrust of the campaign will be to support on-going reform activities by increasing the communication between interested parties through mailings of books, pamphlets, documents, etc., and thus to increase both the level and the quality of debate. The campaign includes a component to provide basic legal education to the public. It began with a three day conference in June, 1991, where reform efforts throughout Latin American were discussed by experts in the field and compared with reform activities in El Salvador.

A separate project with the Inter-American Bar Foundation complements the Judicial Reform Project. The Foundation has entered into an agreement with the Federation of Bar Associations, comprised of eight separate bar associations, to carry out two main activities: a continuing legal education program for lawyers, and a law-related education program directed at the general public. In addition to these activities, the project will seek to strengthen the Federation - historically dominated by the Supreme Court - and to increase its capacity to play a stronger role in shaping the judicial system.

Because the Federation is so weak, the project is off to a slow start. However, we believe that by requiring Salvadorans to take responsibility for carrying out the activities, by emphasizing the need for financial self-sufficiency, and by allowing the project to develop at its own pace, the organization will be stronger than if it were forced to develop at an artificially rapid pace with excessive outside assistance.

The groundwork is now being laid for design of a new judicial reform project to begin in 1992. The basis for the project will be a strategic framework that is in development. A team consisting of two Argentines and one Costa Rican, contracted through Checchi, provided a draft in late March. Although the draft contained some good analysis, it failed to take the Salvadoran reality into account, nor did it lay out a clear strategy. The team which is working with the Ministry of Justice on the legislative reform agenda has agreed to help USAID finalize this document, since the tasks are interrelated. The strategic framework should be finished by early September.

Finally, policy dialogue efforts have complemented project activities. This year for the first time, conditionality on judicial reform issues is being included in our Balance of Payments Agreement with the GOES. Terms already agreed to by the Government require it to create a technical unit within the MOJ to replace CORELESAL (this has been accomplished); to prepare a legislative reform agenda with the help of external technical assistance to be finalized in August, 1991; to carry out a public awareness campaign to discuss judicial reform; to carry out a study of the selection process and terms of office of the Supreme Court; to organize public hearings to discuss the recommendations of the study; and to submit legislation to the Assembly modifying the composition of the National Council for the Judiciary in order to improve the process of selecting lower court judges.

Proposed Amendments to Constitution

Two important points covered in the conditionality were included among the Amendments to the Constitution recently approved by the outgoing Legislative Assembly as part of the peace process. These amendments revise the term of office and selection process of Supreme Court Justices to establish that one-third of the Court will be selected by a two-thirds majority of the Assembly every three years, for a nine-year term of office that may be extended for an additional nine years. Under current provisions, all members of the Court are selected at the same time by a simple majority of the Assembly for five-year terms. The amendments provide that selection must be made from a list submitted by the National Council for the Judiciary, which is given jurisdiction over the selection of justices of the peace for the first time. Selection of the members of the National Council itself is also to be by a two-thirds majority of the Assembly, giving the Council greater autonomy from the Court. If these and other proposed amendments affecting the judicial system are adopted, they will establish a structure that will give project activities a greatly enhanced chance for success.

Laws Submitted to the Legislative Assembly — Updated 7/91

Definition of Small Farmer Law

Submitted: 11/86
Approved: 11/17/86

Objective: Facilitate the acquisition by peasants and farmers of agricultural land surplus affected by Agrarian Reform, and to comply with the Constitutional provision requiring that the expressions, "small farmer or peasant" be defined by law.

State of Exception Criminal Procedure Law

Submitted: 2/23/87
Approved: 11/16/89

Objective: Establish legislation to create a balance between the need to protect the government's stability and the need to continue to protect the rights of the individual and give procedure for the trying of crimes against the state and public peace, as well as crimes of international transcendence.

Amendments to Criminal Code, Criminal Procedure Code, and Code of Military Justice — Submitted: 7/31/87

Objective: Accelerate criminal procedure and conform the codes to changes in the 1983 Constitution, such as elimination of the death penalty.

Use of Surname Law — Submitted: 2/9/88 Approved: 2/22/90

Objective: Eliminate discrimination against both women and against children born out of wedlock. To implement a new Constitutional principle designed to prevent interference with any political, social or individual right to use a surname.

National Council for the Judiciary — Submitted: 6/27/88 Approved: 10/4/89*

Objective: Implement constitutional principle that creates the National Council for the Judiciary as the office in charge of proposing to the Supreme Court the candidates for the appointment of Second Instance Magistrates and First Instance Judges. The principle will decrease the political nature of the judiciary and, conversely, increase its independence from other government branches; and will introduce an element of merit selection into the process of nominating judges.

* Resubmitted to the Legislative Assembly by the Supreme Court, with the Court's changes, on 8/14/89.

Reforms to the Jury System and Plenary Phase of the Criminal Procedure — Submitted: 11/9/88 Approved: 6/28/90

Objective: Modernize and adapt the current jury system to existing social needs, and transform the existing jury system into a reliable and operational institution. Reforms to the plenary phase of the criminal procedure are also designed to accelerate the processing of criminal cases.

Constitutional Procedure Law — Submitted: 6/27/89

Objective: Amend the Constitutional Procedure Law of 1960 to conform to changes introduced in the 1983 Constitution. The changes are designed to accelerate and implement proceedings which protect constitutional rights and principles.

Adoption Law — Submitted: 6/27/89

Objective: Replace the current adoption law with modern standards for the adoption of children as well as major juridical advances in this area. Emphasizes the protection of the children involved.

Procedural Law for the Imposing of Arrests and Administrative Fines.

Submitted: 6/27/89
Approved: 3/1/90

Objective: Establish procedures to regulate the authority given by the Constitution to administrative officers to impose arrests and fines in the case of violation of an administrative law, by-law, or administrative order, in order to protect the right of due process of the individual under these circumstances.

Amendments to Criminal, Criminal Procedure, and Minors Codes in relation to Protection of the Family and Protection of Minors

Submitted: 6/27/89
Approved: 2/15/90

Objective: Provide broader protection for the family, especially minors. The reforms introduced to the Criminal and Criminal Procedure Code are intended to clarify the text of some articles and to increase the penalty in specific crimes committed against minors. The reforms to Minors Code are intended to give control to the Salvadoran Council for Minors ("Consejo Salvadoreño de Menores") over any private or public center that is dedicated to the protection and assistance of minors.

Amendments to Criminal Procedure Code in Relation to Reversals and Absolute Nullity Declarations

Submitted: 6/27/89
Approved: 9/28/89

Objective: Protect the rights of the parties who had no recourse against a judge's decision to reverse an earlier decision or declare it null. Creates a complete procedure to attack these types of decisions.

Judicial Career Law

Submitted: 3/9/90
Approved: 7/12/90

Objective: Implement the constitutional principle that creates the judicial career and the operational system of the judiciary. The law introduces a new administrative system with several benefits intended to produce desirable work conditions, so that employees will contribute to achieving prompt and speedy justice.

Amendments to the Organic Law of the Judiciary

Submitted: 3/9/90
Approved: 10/15/90

Objective: Various amendments are intended to conform the Organic Law to the changes introduced by the Judicial Career Law, and to redefine the role of the President of the Supreme Court in administrative matters.

Amendments with Respect to Legal Assistance and Public Defense

Submitted: 9/5/90

Objective: Institutionalize the Public Defender's role in the Criminal Procedure, and establish the legal defense as a

social-service requirement for certifying law school graduates as attorneys. To avoid abuses attributed to the Organos Auxiliares when interrogating the defendant, the proposal requires the appointment of a defense attorney at the start of investigations.

Regulations of Crimes Related to Drug Trafficking — Submitted: 12/13/90, Approved: 3/05/91

Objective: Substitute new regulations of the Criminal Code in drug trafficking matters for old. The proposal was approved as an independent law which defines crimes related to drug trafficking and regulates the import and domestic trade of chemical products containing drugs or chemicals which can be used to produce drugs. The law also creates the "Anti-drug Commission," whose executive unit is established as a new Orgáno Auxiliar with exclusive authority to investigate drug trafficking crimes.

Law to Release Non-Convicted Prisoners — Submitted: 4/5/91, Approved: 4/91

Objective: Calls for the release of inmates without prior criminal record and conviction. Defendants charged with committing minor crimes are released if they have no prior criminal record. Those involved in major crimes are released after a period of imprisonment. This law will be in effect one year, during which time, it is expected that at least 25% of the current non-convicted prisoners will be released.

Organization of the Judicial System in El Salvador

The names of the judicial entities in descending hierarchical order are: Whole Supreme Court (Corte Plena); Chambers of the Supreme Court (Salas de la Corte Suprema de Justicia); Chambers of Second Instance (Appeals Courts) ((Cámaras de Segunda Instancia); First Instance Judges (Jueces de Primera Instancia); and Justices of the Peace (Jueces de Paz).

There are 14 Magistrates of the Supreme Court, as stipulated in the Constitution, 28 Magistrates of the Second Instance, 101 Judges of the First Instance, and 303 Justices of the Peace.

All judges above the level of Juez de Paz must be attorneys. A Justice of the Peace must be a Salvadoran, at least twenty-one years old, and of good character. Many have only high school certificates, but in larger cities, the Supreme Court requests that law students fill these positions.

The magistrates of the Supreme Court are named, according to the Constitution, by the Legislative Assembly, and may be removed without cause after a five-year term. Prior to 1991, the Supreme Court named all other judges, but with the enactment of the law establishing the National Council of the Judiciary (Consejo Nacional de Judicatura) in October of 1989, merit selection was introduced into the process of naming the First and Second Instance judges.

The Supreme Court is the highest court in El Salvador. It hears appeals from the appellate courts, decides writs of habeas corpus and constitutional questions, and settles disputes between the legislative and executive branches of the government. The Supreme Court, by disposition of the Constitution, is divided into four Chambers: Constitutional, Criminal, Civil, and Government Litigation. Each Chamber has three Magistrates, with the exception of the Constitutional, which has five. Included in this number is the President Magistrate, who presides over meetings. The President of the Constitutional Chamber also serves as the President of the Whole Court and of the Judicial Branch. The other members of the Chambers are called vocals (vocales).

Members of the Supreme Court cannot be either spouses or blood relatives to the fourth degree, of other Supreme Court Magistrates. The annual salary for Supreme Court magistrates is ₡98,700.

Chambers of Second Instance (Appeals Courts) hear appeals from the trial courts. They consist of two magistrates named by the Supreme Court, upon consideration of the recommendations given by the National Council of the Judiciary. The First Designate Magistrate is the President of the Chamber. They do not have a set term of office, but the Constitution guarantees that, once named, they cannot be removed unless misconduct or serious negligence is proven.

The three sections of the Second Instance Chambers are the Central, Western, and Eastern. San Salvador has six Chambers; Santa Ana, two; San Miguel, two; and one each in Usulután, Cojutepeque, San Vicente, and Nueva San Salvador.

The annual salary for Second Instance Judges is between ₡42,200 and ₡62,100.

Courts of First Instance may be specialized (civil, penal, labor, agrarian, etc.) or general. About one-third of them have jurisdiction over both civil and criminal cases. In criminal cases, they take over from the Juez de Paz, although they may also take original jurisdiction. The First Instance judge tries a case if he is reasonably certain that a crime has been committed and that the accused may be guilty.

The term of office for the Judges of First Instance is the same as that of the Magistrates of the Chambers of Second Instance. There is a First Instance Judge in each of the department's capitals and in every other city designated by law, for a total of 102 Their annual salary ranges between ₡30,000 and ₡52,800.

The Justice of the Peace (Juez de Paz) is the level at which most Salvadorans enter the legal system. Judges at this level tend to be unspecialized and have only the authority to punish misdemeanors, hear minor civil cases, and settle disputes by mediation. They make the first inquiries into common crimes.

They serve two-year terms. Currently, there are 303 Justices of the Peace, annually earning between ₡13,800 and ₡29,580.

In criminal matters, the three police forces, the Auxiliary Organs (Organos Auxiliares de la Administración de Justicia) are required to carry out the directions of the judicial bodies. Technically, even a Juez de Paz can give an order to the Chief of Police. The Auxiliary Organs are responsible for handling the extralegal investigations and any technical research ordered by a judicial body, such as ballistics tests. For evidence to be accepted by a judge or magistrate, it must be gathered by an Auxiliary Organ or by the court itself. The SIU, therefore, must be staffed by Auxiliary Organs, since the SIU itself has no legal authority before the court. It is the amount of quality evidence that they collect which determines whether someone will be provisionally detained or not. The Auxiliary Organs are subordinate to the Vice Minister of Defense for Public security, and to the Judiciary for the purpose of individual case investigations.

Another body that participates in the Judicial activity is the Public Ministry (Ministerio Público) which is independent of any other body. It has two branches: the Fiscalía General de la República (Attorney General or Public Prosecutor) and the Procuraduría General de la República (Solicitor General) which includes the Public Defenders Office. The Attorney General and the Solicitor are named by the Legislative Assembly for three-year periods. In simple terms, the Fiscalía prosecutes criminals, and the Procuraduría defends the needy.

Financial History of the Judicial Reform Project

The governments of El Salvador and the United States of America, through the Agency for International Development (AID), first signed a grant agreement for the Judicial Reform Project on 7/13/84 for an original amount of $765,000.00. The agreement was ratified by the Legislative Assembly through Decree No. 1717 on the 8/16/84, establishing two components: the Revisory Commission of Criminal Law and the Judicial Protection Unit (JPU).

Amendment No. 1, dated 5/14/85, expanded the agreement to four components: The Revisory Commission; JPU; Commission for Investigations; and Court Administration and Training. It also increased the subject matter of the first component, renaming it the Revisory Commission of Salvadorean Legislation (CORELESAL). This Amendment also increased the original financing of the Project to a total of $3,234,000.00.

Amendment No. 2 on the 7/24/85, increased the financing of the Project by AID to a total amount of $9,234,000.00.

Amendment No. 3, signed on the 9/28/89, increased the AID Grant Funds to a total of $10,734,000.00, and foretold of a future obligation of $3,000,000.00 Also included in this amendment was the expansion of Component IV to include the Attorney General's Office, the Public Defender, and the law schools.

Amendment No. 4, signed on 5/18/90, added a final $3,000,000 to the project.

Judicial Reform Project Financing

		Grant (US $)	Counterpart (US $)
I.	Technical Support for Judicial Reform	3335.0	
	A. Technical Assistance/Training	3014.3	980.4
	B. Operating Expenses/Equipment	320.7	- 0 -
II.	Judicial Protection Unit	539.3	934.6
III.	Commission on Investigations	5408.0	
	Special Investigative Unit	3246.2	1820.0
	Forensic Unit	1788.4	220.5
	Contingencies/Construction	373.4	500.0
IV.	Judicial Administration & Training	3396.3	
	Technical Assitance/Training	1881.2	- 0 -
	Personnel/Ops Expenses Courts	196.9	3285.0
	Court Equipment	348.2	- 0 -
	Public Ministry Equipment	585.0	- 0 -
	Personnel/O.E./Pub. Ministry	- 0 -	3000.0
	Contingencies	385.0	- 0 -
	A.I.D. Project Administration	802.6	
	Audits/Evaluations	252.8	
	TOTAL	13,734.0	10,740.5

Funding for the Inter-American Bar Foundation is $500,000 over four years.

Labor Program

The objective of AID's labor program is to strengthen the political center of the country by giving support to democratic labor unions and to activities aimed at decreasing polarization between management and labor. The program consists of support to American Institute of Free Labor Development (AIFLD) and the Industrial Foundation for the Prevention of Occupational Hazards (FIPRO).

AIFLD - Support to the Labor Unions

On May 31, 1990, USAID/El Salvador entered into a three-year $14.4 million Cooperative Agreement with the American Institute for Free Labor Development (AIFLD), with the stated purpose of promoting the process of democratization through a strong and vigorous democratic labor movement which represents the interests of urban and rural workers in a progressively more open and pluralistic society. This is intended to strengthen the democratic center of the country and reduce polarization, extending and deepening the commitment to democratic practices and values. Accomplishments to date include: joint labor-management participation in housing reconstruction and vocational training; establishment of a media exposure program to present a positive image of the democratic labor

movement; continuation of work by cooperative management teams in 25 Phase I and III agrarian reform cooperatives; operational support to unions; and technical assistance to upgrade the management and technical capabilities of the unions.

Under the agreement, AIFLD will also assist in the establishment of a labor-management foundation to address housing, health, vocational, and training needs of the working poor. The objective of the Labor Management Foundation of El Salvador (FOES), is to promote social and economic development within the country's disadvantaged groups. It will promote activities which support the concepts of economic growth and equitable distribution of benefits of such growth, and will establish mechanisms to enhance participation and access to benefits by people who have had limited access to social services and economic opportunity. In the first year of the Cooperative Agreement, AIFLD is focussing on providing technical expertise in legal matters, organization and management, and accounting systems.

AIFLD has also participated actively in the Labor-Management Committee for National Reconstruction (COPPARN), which was created in response to the need to reconstruct homes damaged during the guerrilla offensive in November, 1989. It is unique in that it is made up of labor, management, and government, thus improving both labor-management and labor-government relations. To date, more than 600 homes have been repaired and 400 more are planned by August, 1991. SUTC, the largest union of construction workers in El Salvador, has been strengthened by their increased respectability as a responsible labor organization which looks after the interests of its workers. Positive effects promoted by AIFLD have further marginalized communist and company controlled unions.

FIPRO

Since November 6, 1986, the Industrial Foundation for the Prevention of Occupational Hazards (FIPRO) has been promoting safety methods to improve the health and physical integrity of workers in El Salvador. FIPRO was originally financed through donations by its affiliated members (currently 37), FORTAS (Association Strengthening program), and the Rafael Meza Ayau Foundation.

On August 31, 1989, FIPRO and USAID signed a Cooperative Agreement to enable FIPRO to greatly expand its program, which is designed to assist companies establish worksite safety programs to conserve the health, life, and physical integrity of urban and rural workers. During the three-year, $1,000,000 project, roughly 25,000 workers will benefit directly from the program. The program includes: promotion and organization of events which provide technical training assistance to companies in all areas of occupational safety; and direction of educational efforts toward increased awareness by businesses and workers of the need for and the benefits of occupational safety programs.

One of the primary goals of the FIPRO project, in addition to promoting worker safety, is to contribute to the depolarization of Salvadoran society by bringing labor and management together on occupational safety and health issues. One of FIPRO's major activities will be to form the Intersectoral

Commission on Occupational Health, which will be composed of management, labor, and government representatives, and will address occupational health issues on a national level. To date, FIPRO has sponsored workshops and seminars about the need for occupational health programs and the formation of the Commission for both labor and management.

Accomplishments in 1990 include:
- o an increase in affiliates from 22 to 37
- o presentation of various seminars, workshops, and conferences
- o an increase in on-site inspections of occupational safety and health conditions.

The Ministry of Labor

AID presently provides the Ministry of Labor intermittent support on an ad hoc basis. Recent training has been provided in the areas of collective bargaining and occupational safety and health, and labor relations.

Salvadoran Elections

AID has provided assistance for all Salvadoran elections since 1982. In 1983, a grant was made:
- o to improve the electoral registry, including purchasing of new computer equipment and giving technical assistance
- o to assist in disseminating information on voting procedures to the electorate
- o to improve voting and vote-count procedures
- o to fund observers programs.

An additional ₡11.4 million in counterpart funds was allocated for the electoral registry component of the program. From 1986-1988, ₡10.3 million in counterpart funds was allocated to the CCE for the registration process, and an additional $320,000 was granted to the Ministry of Foreign Relations for its International Observer Program for the 1988 elections.

Before the presidential election of March 1989, the Mission provided financial support to the CCE for voter registration and distribution of voter registration cards (carnets). During the election, the Mission continued to support the GOES election observer program. Mission financial support to the CCE for these activities totaled about $2 million from ESF local currency counterpart resources jointly programmed by USAID and the GOES.

In December, 1990, AID signed a $105,000 grant with the Inter-American Institute of Human Rights (IIHR). The Center for Electoral Assistance and Promotion (CAPEL) division of the IIHR provided technical assistance to the CCE for training 1450 party representative members of electoral boards for the March, 1991, Municipal and legislative elections. These members in turn, were responsible for training the roughly 25,000 representatives who sat on the boards on election day. The grant also included technical assistance to the CCE for the registration process, distribution of carnets, and for printing 30,000 training manuals for the political parties.

An additionally $2.7 million was programmed to bring observer groups from the U.S. and the OAS to validate the electoral process. The Mission also supported the GOES election observer program in which approximately $300,000 was channeled through the Ministry of Foreign Relations to fund observers from 50 countries.

The CCE reported that 2,180,000 Salvadorans had carnets and were eligible to vote in the March, 1991 elections. An additional 50,000 - 80,000 Salvadorans who met the deadline for registering but did not receive their carnets were, by virtue of a last-minute change in the rules, permitted to vote with their cedulas and a copy of their voter registration form. Approximately 53% of those eligible (1,153,013) actually voted in the 1991 municipal and legislative elections.

Procedures for Registering and Voting - Carnets were issued for the first time for use in the 1988 elections. Prior to that time, cedulas were issued for identification against the voter registration lists. However, since a person could easily obtain cedulas from several municipalities, the system was open to abuse, and there were many allegations or irregularities and multiple voting. The issuance of carnets and improvements in the validation process during the last seven years have significantly reduced the potential for abuse.

In order to be incorporated into the Electoral Registry and be eligible to vote, a Salvadoran citizen must comply with the following procedures:

1. He must present his identity card (cedula) or any other acceptable identification to the representatives of the Central Election Council (CCE) at any of the CCE's 120 registration centers, and fill out an application for inscription in the Electoral Registry (SIRE). Prior to the 1991 elections, the Electoral Code required that this application process be suspended in time to have the Electoral Registry established 90 days before an election. Changes last year in the Electoral Code that were recommended by the U.N. reduced this period to 30 days.

2. Applications are sent to the CCE's Data Processing Center in San Salvador and cross-checked against birth registries and other information to prevent multiple registration and voting. If the validation process reveals a problem, the application will either be rejected or additional documentation will be requested.

3. If no problems show up, the applicant's name will be added to the Electoral Registry and a codified registration card will be prepared and sent to the registration center where the applicant indicated he would like to vote, which may be different from the center where he applied. There is no mechanism for notifying people of the status of their application. A report prepared last year by three electoral experts at the request of the U.N. stated that the validation process takes about five weeks, less erratic and more timely than in the past. The CCE claims that the time is from one to three weeks.

4. When the applicant goes to the registration center to pick up his card, his photo is taken and a laminated carnet is prepared using the information on the

codified card sent by the Data Processing Center. The original codified registration card is sent back to the Data Processing Center, indicating that the carnet has been received. Prior to last year, the applicant's name was then added to the list of eligible voters. However, 1991 changes in the Electoral Code, also recommended by the U.N., eliminated this second list. The list of eligible voters is now the Electoral Registry prepared on the basis of those who have registered to vote. Carnets are now given out up until 8 days before an election.

5. The final list of eligible voters is prepared and organized by municipality. Each municipality list is then organized alphabetically, and subdivided into lists of 400 voters who are assigned to particular electoral tables.

6. On election day, the voter must find his assigned list and present his carnet to the CCE representatives at his electoral table. The representative checks the validity of his carnet, marks his name, and gives him a ballot and a black marker pen. The voter marks the party he is voting for by writing an "X" over the symbol of the party, folds the ballot, and places it into a bag. One of his fingers is then marked with indelible ink and his carnet returned to him.

The Human Rights Commission (CDH)

One response by the GOES to the problem of human rights in El Salvador was to create the governmental Human Rights Commission in 1983. The CDH has provided thousands of Salvadorans a safe, effective means of informing their government about illegal abuses of authority by government officials, guerrillas, and others who have taken the law into their own hands. The majority of the funding for the CDH comes from ESF local currency counterpart resources jointly programmed by USAID and the GOES. For 1991, the CDH will receive the equivalent of $500,000 in these funds.

In addition to its main office in San Salvador, the CDH has 6 regional offices with staffs of about 10. From these offices, the CDH carries out several activities. The staff assists people who request information on relatives and friends held in custody and assists in protecting those who have received threats of death or bodily harm. CDH personnel visit military and civilian jails to monitor the conditions in which prisoners are held, and interview people in custody. They interview judges and tribunals to monitor cases and request information on reasons why people have been detained. It also serves as a source of information on human rights in El Salvador in response to both national and international inquiries. Finally, the CDH holds human rights training seminars for the police and military.

Among its accomplishments during 1990, the CDH:
- o assisted 951 people requesting information on missing of jailed persons;
- o interviewed 656 people who had been detained, an estimated 483 of which were later released to CDH representatives;
- o provided seminars and talks on human rights to 35, 548 police and military forces as well as to civilians.

CENITEC

CENITEC, the Center for Scientific and Technological Investigations, is a private, voluntary organization that was organized in 1986. Its objective, according to its internal by-laws, is to contribute to the overall development of El Salvador by promoting a more democratic, humane, and participative society. It is governed by a Board of Directors and receives funding from three sources: the Konrad Adenauer Foundation; its membership (the 300 founders); and USAID, which supplies approximately 66% of the funding.

On August 21, 1987, USAID signed a cooperative agreement with CENITEC for $600,000 to assist it to expand its public education and outreach activities to promote public policy and development issues within and among sectors of Salvadoran Society. Specifically, the funding was to enable CENITEC to:

- o conduct studies of various contemporary issues in El Salvador;
- o sponsor seminars designed to bring together different sectors of Salvadoran society to discuss contemporary issues; and
- o disseminate the results of the studies and seminars through publications.

On March 30, 1990, USAID signed a follow-on four year cooperative agreement with CENITEC to enable it to expand its work. The authorized expenditure for the length of the project is $2.5 million. By the extension of this project, CENITEC will also address social problems, prepare problem-solving proposals and promote discussion of issues among the leaders of different sectors of society.

During the first year of the agreement, the research studies unit carried out 14 research studies. Examples include: "The Salvadoran Financial System Before and After the Naturalization," "The Policy of Promotion of Non-traditional Exports in the 80's," "How the Poor Survive in El Salvador," and "The Agrarian Reality Before and After the Reform."

Monthly seminars have been successful. Different sectors of society, government institutions, labor unions, professionals, financial institutions, etc., have participated in these seminars, either as speakers or audience. Among the seminars have been: "Analysis of Draft Family Code," "The Election of the National Assembly Members and the Central American Parliament According to the Most Recent Electoral Reforms," "The Privatization of the Banking System," and "The Social Strategy for the GOES."

The Legislative Assembly

The Constitution of 1983 established the Legislative Assembly as a unicameral body and the first power of state. Until the March, 1991 elections, it was governed by 60 Diputados, or Congressmen, who were elected for a period of 3 years, and eligible for re-election. The number was subsequently increased to 84. Votes are cast for a party slate, rather than for individuals, and Assembly seats are won according to a quotient roughly equivalent to the percentage of votes received by each party.

In the March, 1991 elections, seven parties competed, and the 84 winning Diputados were drawn from six parties: 39 from ARENA, which also holds the Presidency; 26 from the Christian Democratic Party (PDC); 1 from the Authentic Christian Movement (MAC), which had broken away from the PDC in the previous election; 9 from the National Conciliation Party (PCN); 8 from the Convergencia (CD); and 1 from the National Democratic Union (UDN). A board of directors, consisting of a President, two Vice-presidents, and six Secretaries is elected from within the Assembly.

The seats are apportioned according to the population of each of the fourteen departments. Currently, 19 Diputados represent the Department of San Salvador, while each of the 13 other Departments have from 3 to 6. Seven of the Diputados are women. While there is no requirement for them to live in the Department they represent, they must have legal residence there.

The Legislative Assembly operates with an approximate budget of $2.0 million a year, out of which $1.3 million is used for salaries (for Diputados, technical commissions advisors, administrative personnel, etc.). The rest is use for materials, supplies and other expenses.

The Legislature works through eleven permanent Commissions: Legislative; Foreign Relations; Justice; Culture and Social Services; Defense and Public Security; Finance; Treasury and Budget; Public Works and Interior; Labor and Social Welfare; Exonerations; and Economic and Agricultural National Policy. The Assembly also houses two special commissions: Agrarian Reform Evaluation and Anti-corruption.

Each commission is formed by 10 Diputados chosen on the basis of their political positions and their academic backgrounds. A President is elected to head each commission, and a technical advisor with a legal/academic background is assigned to each commission. Technical advisors are usually brought to the Assembly on a political patronage basis.

The Oficial Mayor is the Legislative Assembly manager; his duties include the reception of correspondence (draft bill proposals) and the administration and operation of the Assembly. Although he is usually a political appointee, the key to his tenure is his ability. The present Oficial Mayor is a career civil service employee and has held the post for about twenty years. He directly supervises 40 persons, including accountants, service personnel and secretaries.

USAID Assistance to the Legislative Assembly

In 1986, USAID signed a Grant Agreement aimed at improving the professional skills and knowledge of the members of the Legislative Assembly, and improving the efficiency of Assembly operations. The project consisted of two main components:

1) Financing for the Legislative Library, the Data Bank Center, and various support equipment (e.g. a power plant, typewriters, motorcycles, etc.). An annotated and indexed version of the 1983 Constitution was also prepared.

2) Financing for two legislative seminars, one in October of 1986 and the second in June of 1989, to discuss practical and theoretical issues related to the functioning of a modern legislature.

Project for Strengthening the Legislative Assembly

On August 29, 1990, USAID signed an additional agreement to grant $490,000 to assist the Legislative Assembly. The amount was increased by $260,000 on March 29, 1991, bringing the total amount of funding available under the grant to $750,000 with a completion date of January 29, 1993.

The purpose of the project is to strengthen the ability of the Legislative Assembly to engage in more analytical and informed policy dialogue internally and with other branches of government. The project consists of three closely related components: 1) technical support services; 2) infrastructure; and 3) constituency services.

Under the first component, project funds will be used to make analytical data readily available to the legislators for their debates, and Assembly Library functions will be expanded into a pro-active Data Resource Center. Eight policy analysts will be hired and trained; the analytical research will be complemented by assistance to the Assembly for developing a strategy for systematically organizing existing laws. Assembly members will also be given training to upgrade their skills as legislators.

Under the Infrastructure Component, project resources will finance a space utilization study to determine the most efficient and cost-effective way of providing each representative with semi-private office space to improve contact with constituents. Office equipment to enhance operational efficiency may also be recommended to allow the Diputados to carry out their duties and responsibilities more effectively.
The final component, Constituency Service, will finance technical assistance materials and other operational support for a pilot public education program to improve citizen understanding of the role and function of the Legislature in a democratic society.

July, 1991

Infrastructure and Reconstruction

USAID's support for infrastructure reconstruction and repair includes projects to assist the GOES to:

- o quickly restore vital public services when they are interrupted by guerrilla sabotage;
- o reconstruct and rehabilitate housing, vital infrastructure (roads, schools, hospitals, and water/sewage systems), and small businesses affected by the October 10, 1986 earthquake;
- o expand and improve access to potable water and improve the rural roads;
- o continue rural electrification; and
- o construct numerous municipal level infrastructure projects financed with local currency and other dollar-funded projects.

To date, more than $300 million has been obligated for these activities.

Infrastructure Reconstruction and Repair Program

On November 11, 1989, the FMLN guerrillas launched a second "final offensive" which lasted for one and a half months, and cost the country approximately $7.9 million in damages to the public infrastructure.

GOES entities responded in an effective manner: Within days, the Ministry of Public Works had started its emergency recovery program. It repaired seven of the ten bridges blown during the offensive; helped the GOES Central Emergency Committee by storing and managing the fuel for vehicles, equipment, etc.; removed 6,000 cubic meters of debris from the battle areas in the main cities; and loaned vehicles and machinery to other entities.

The Electric Utility Agency repaired 161 transmission and sub-transmission lines.

The Water Utility Agency provided 280,000 gallons of water to the population that had been cut from this service because of lack of power.

Even before this new offensive, USAID and the GOES were working together to respond quickly to the needs for public services restoration.

The Public Services Restoration Project, the predecessor of the Public Services Improvement Project, finances the technical advice, training, tools, repair parts, equipment and other services needed for quick-response capability for repair and restoration of the country's economic infrastructure. The project helped to prevent further deterioration of social and economic conditions in El Salvador by assisting the GOES to restore essential services that have been targets of sabotage. A total of $111.6 million in loans and grants have been authorized to assist the GOES meet these needs.

Since the project began in 1981, USAID has provided the following funding:

GOES Entity	$000
Executive Hydroelectric Commission of the Lempa River (CEL)	$ 61,925
National Administration for Aqueducts and Sewerage Systems (ANDA)	12,533
Autonomous Executive Ports Commission (CEPA)	5,597
National Telecommunications Administration (ANTEL)	1,645
Ministry of Public Works (MOP)	23,047
Ministry of Planning (MIPLAN)	3,199
Project Assistance Support	1,488
Contingencies	2,200
Total	$111,634

The Public Services Improvement Project

The years of civil conflict and economic stagnation have created a wide range of problems for the people and the government of El Salvador. Damage to, lack of expansion of, and the failure to perform maintenance on infrastructure has reduced the provision of public services, specially in rural areas, and has contributed to poor health, and reduced economic productivity. Infrastructure restoration and expansion is critical to productivity, to public health, and to economic and social stability. This project addresses four aspects of the problem: (1) restoration and indirect damage to principal public utilities; (2) deferred maintenance and repair of secondary, tertiary, and lower class roads; (3) rural water and health; and (4) institutional strengthening and improvements in the infrastructure policy framework.

The purposes of the project are three:
- To restore and preserve vital public services provided by the infrastructure agencies;
- To improve and sustain the access of rural populations to markets; and
- To increase access to potable water supply and sanitation systems for rural populations, and to increase the proper utilization of water and sanitation systems in beneficiary families.

Benefits that will derive from this project are:
- facilitate the economic, and thus social, progress of at least half of the people of El Salvador;
- immediate savings in time expended to obtain water and reduce the incidence of some diseases;
- the roads are expected to directly help nearly a fourth of the rural population and the water/sanitation/health education will aid at least 600,000 persons in small towns and villages;
- approximately 9,000 persons-years of new-employment opportunities will be provided and women will be special beneficiaries through new employment opportunities and in a reduction in their water-hauling chores.

The life of the project is designed to be five years with a total equivalent expenditure of $135 million in foreign exchange and local currency combined.

Funding for Public Services Improvement Project

Total Projected Expenditures

COMPONENT	BUDGET ELEMENT	TOTAL/ ELEMENT ($000)	TOTAL/ COMPONENT ($000)
Public Services Restoration	ANDA	8,750	
	CEL	18,070	
	CEPA	8,490	
	MOP	1,150	36,460
Deferred Maintenance & Repair of Roads	MOP	34,710	34,710
Water Supply, Sanitation, and Health	ANDA	26,190	
	MOH	3,880	30,070
Institutional Strengthening and Project Support		12,400	12,400
Evaluation/Audit		3,000	3,000
Inflation and/or Contingency		18,360	18,360
GRAND TOTAL			135,000

Public Services Restoration
(Terminated FY 1990)

Economic sabotage has exacerbated the decline of the Salvadoran economy. Although not all the decline can be attributed to the violence, the guerrillas have made it clear that the economy is the principal target of their military strategy. Since 1980, some 3,532 attacks (640 in 1989 alone) on the approximately 2,076 existing high-tension electrical towers have been carried out. In both urban and rural zones, the interruption of electrical power invariably provokes an interruption in water service as 90 percent of potable water is pumped from wells. Moreover, power outages at hospitals and clinics pose a direct threat to life.

The water and sewer systems of El Salvador were an early target of terrorist attacks. Heavy equipment, as well as light equipment and tools are frequently destroyed in guerrilla attacks.

Due to frequent ambushes, several important rail lines are now only marginally useful. The railroad is in poor condition, the cars are old and most are obsolete, and the locomotives have all been seriously damaged. The track is in poor condition. Tonnage haul has been reduced by 50% and passenger service was suspended during the 1989 offensive. The armed forces must provide security for all scheduled runs. Road transportation, too, has been affected by the damage or destruction of approximately 119 bridges (11 bridges in 1989).

The Electrical System - USAID has provided training, tools, equipment, materials and repair part stocks, international procurement assistance and helicopter services leasing to the Comisión Ejecutiva Hidroeléctrica del Río Lempa (CEL). With these helicopters, CEL can rapid respond to electrical emergencies. The helicopters have cut reaction time and have significantly reduced the amount of foreign exchange required for fuel to operate standby generators.

Emergency generators have been provided to supply backup power to hospitals and water supply systems throughout the country. A 22.1 megawatt generator was purchased and installed in San Miguel, reducing the vulnerability to power outages in the eastern third of the country.

Railroads - USAID has supplied locomotive parts, rolling stock and track and car repair equipment, including a crane and rail motor cars.

Roads and Bridges - The response capability of the Ministry of Public Works has been strengthened by training, provision of heavy equipment and stockpiling of Bailey Bridges. Since the project began in 1981, 35 Bailey Bridges have been built.

Telecommunications - USAID has supplied standby generator and uninterrupted power source equipment to maintain telephone service during power outages, and has assisted in equipment purchases that have helped to meet repair and restoration needs.

Water and Sewers - USAID has supplied pumping station equipment, chlorinators, pipe, drilling rigs, standby generators and electrical components, vehicles and repair parts, etc., to replace equipment destroyed or damaged due to attacks.

Earthquake Projects

At 11:49 on 10 October 1986, San Salvador was struck by a major earthquake. The earthquake measured 5.4 on the Richter scale with an epicenter 5 kms. south of downtown San Salvador at a depth of 5 to 8 kms. The shallowness of the earthquake, its high rate of vertical acceleration and its location almost directly beneath the city were major factors contributing to the extensive damage.

The earthquake aggravated the already serious social, economic, political and military problems by adding additional requirements to an already overextended government and by competing for a large share of the available financial, human and organizational resources. The earthquake left in its wake financial losses in the magnitude of $1.5 billion. On the human side, 300,000 people were left homeless, 1500 perished and over 20,000 persons were injured.

In response to this disaster, the GOES conducted a highly effective rescue and relief program immediately following the disaster and moved swiftly into a successful $50 million recovery program to provide interim solutions to the myriad problems in the housing, public utilities and public services, infrastructure development and small business sectors of the economy.

By all accounts, initial rescue, relief and restoration activities following the earthquake were swift, decisive and successful. Relief operations began almost simultaneously with rescue measures with the homeless the focus of the attention. Efforts were directed toward the distribution of emergency health, shelter, and food assistance. Concurrent with relief operations were the monumental tasks of assisting the injured and restoring vital public services. Although early operations were largely bilateral, within days resources were extended from numerous countries throughout the free world.

Recovery

Congress responded to the emergency rapidly, appropriating $50 million for recovery assistance to El Salvador to be administered by USAID for the provision of temporary solutions in the interim between relief measures and permanent reconstruction activities. The Recovery Program consisted of: employment generation and rubble removal; credit for housing repairs and reconstruction and reestablishment of small businesses; temporary housing and relocation; infrastructure development; and restoration of public services. Through this project:

- 8,000 families received credit to rebuild their homes;
- 3,300 businesses were reestablished;
- more than 36,000 families received building materials to erect temporary shelters;
- basic public services were restored;
- 724 classrooms were constructed, and another 240 were repaired;
- temporary hospital wards, operating rooms, clinics, warehouses, and offices were built, and temporary public markets were established;
- municipal government buildings were restored, and nearly 50 temporary offices and buildings were built to house governmental agencies in six major complexes.

Furthermore, the city of San Salvador was reopened to pedestrian and vehicular traffic through the removal of 115,000 cubic meters of rubble, generating employment in the order of 900,000 person/days of work. This project was completed within a one-year time frame. Given the magnitude of damage, compared to other earthquake disasters, most observers conclude that the Salvadoran Recovery Project was completed in record time. It has undergone two complete audits and continuous financial

management review, and is, to date, in full compliance with AID practices and procedures. The Inspector General for AID issued an audit report to Congress in March, 1988 indicating the project is a model for providing disaster assistance throughout the world.

Reconstruction

The GOES is now embarked on a much greater reconstruction effort, which entails large investments in major infrastructure for permanent repairs, new construction, and credit provisions for the restoration of housing, private sector health, education and small businesses. USAID has contributed a total of $98 million - $75 million from FY 1987 supplemental resources, and an additional $23 million from FY 1988 obligations.

Major Outputs:

- More than 10,000 families have benefited from the housing component.
- At least 1,950 primary classrooms are being upgraded, reconstructed and constructed. On average, 156,800 students will benefit annually.
- 26 loans have been made to private schools, medical facilities and small businesses which suffered damages.
- Nine important market serving low-income families are being reconstructed, or demolished and constructed anew.
- The San Salvador-Comalapa Highway is being repaired and fortified against further seismic activity.
- All of the city's major public health facilities are being reconstructed.
- ANDA's capacity to respond to future emergencies is being fortified.

The World Bank has loaned the GOES $67 million for a three year program which began in 1988. Significant contributions have also come from France, Germany, Italy and Canada. These long-term investments include:

World Bank: $65 million loan for reconstruction of schools and public buildings, and assistance for roads and public services, and lines of credit for housing and micro-enterprise.

Inter-American Development Bank: $18.1 million loan program with health, sanitation, transport, energy, and telephone service components. The IDB is also providing a $7.1 million grant for turgurio rehabilitation.

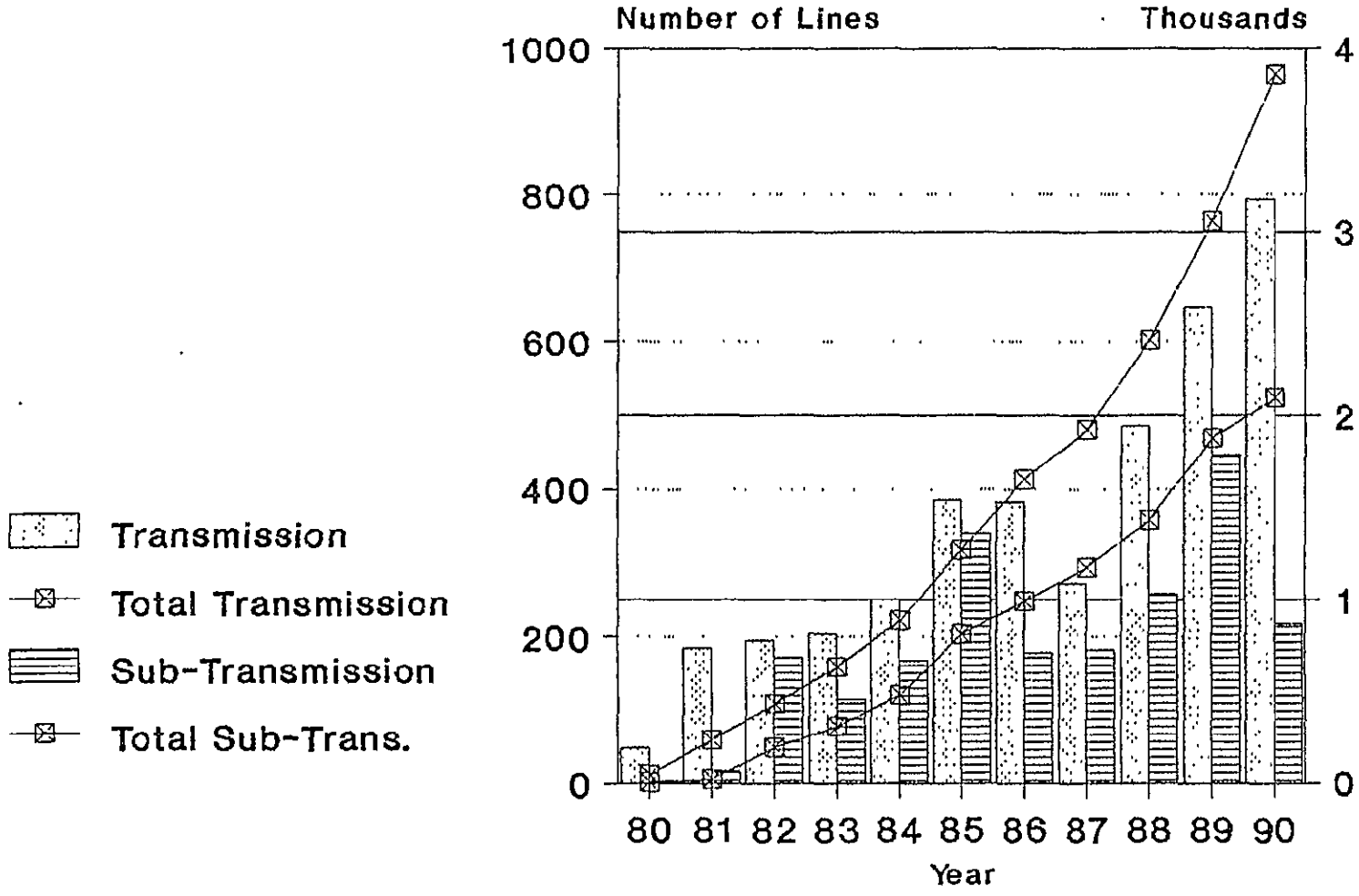
FRG Credit Bank: $15.0 million grant for reconstruction of the original Bloom Hospital.

Italy: $100 million grant/loan has been promised to include housing, sanitation, health and seismic studies.

France: $20.0 million loan and grant to reconstruct Rosales Hospital.

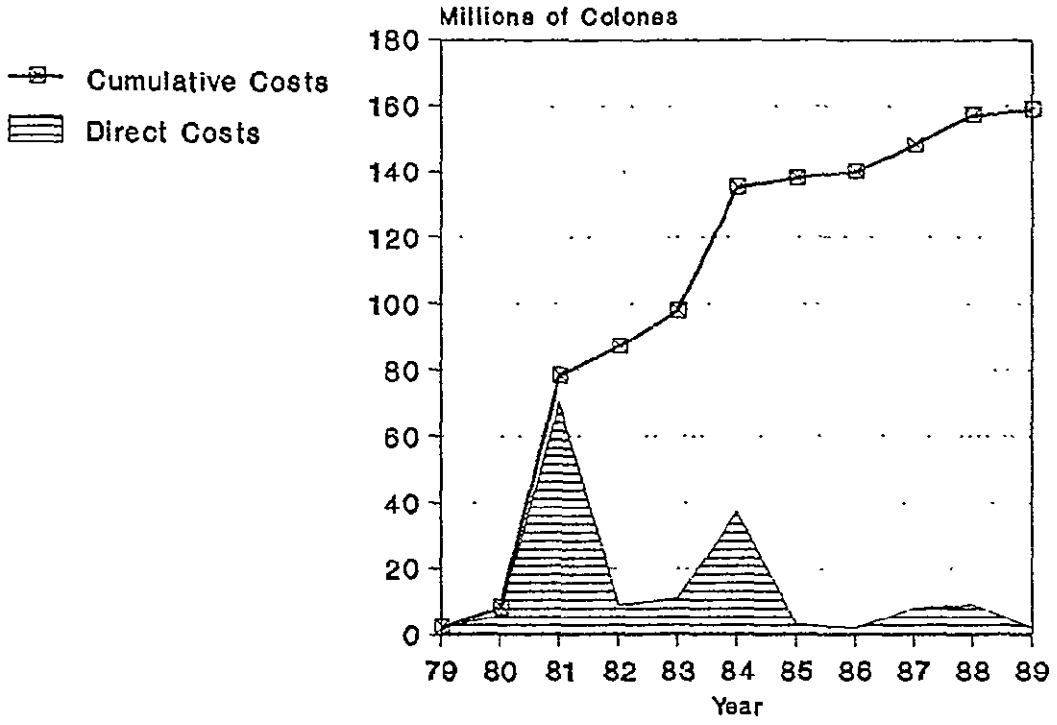
July, 1991

Attacks on Power Lines
1980-1990

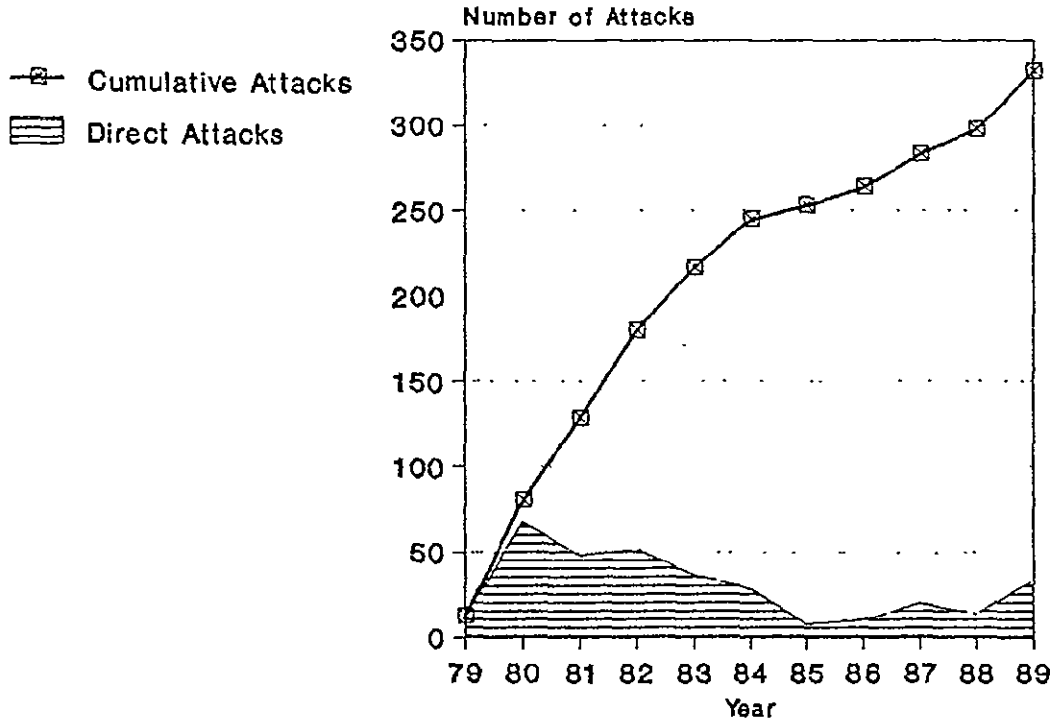


Source: CEL

Attacks on Public Works



Attacks on Public Works



Agricultural Diversification
Background and Trends

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

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

Traditional export crops (cotton, sugar cane and coffee) account for 55% of the value of output of the agricultural sector. In recent years, however, the production of all traditional export crops has declined.

Cotton production in El Salvador peaked in 1978 after almost three decades of steady growth. Since that time, high production costs have made it uneconomical to produce, and it no longer supplies even domestic requirements. It's decline has left more than 50,000 hectares of former cotton land, most of it in the fertile coastal plain, available for other crops. About 15,000 hectares of this land have been converted to sugar cane and sesame since 1978. The trend toward planting sugar cane was fueled by higher than world price sales made under the U.S. sugar quota.

The traditional export sector is increasingly based on coffee. Coffee is a Salvadoran institution and now accounts for almost all the value of traditional agricultural export production. It is produced on 170,000 hectares by some 40,000 farmers, most of whom own less than five hectares each. Moreover, seasonal harvest labor provides the only cash income available to an estimated 600,000 Salvadorans in rural areas when production levels are high; but coffee production declined in El Salvador throughout the 1980's. After slowly rising to a level of production of approximately 4.3 million hundredweight in 1979-80, production declined by more than 65% to approximately 1.5 million hundredweight in 1988 - levels lower than the early 1960's. Since 1989; production has increased to approximately 3.0 million hundredweight, but its recovery has been slowed by somewhat poor weather and low world prices.

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

Non-traditional agricultural export production accounts for 10% of the value of sector output and is increasing, but currently this production is best characterized as an "infant industry."

Like many other Central American countries, El Salvador is searching for the right combination of products, technology and market opportunity to reduce dependence on coffee and expand the agricultural sector's contribution to the economy.

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

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

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

In addition, USAID is developing a major new coffee project to revitalize the country's research and extension capabilities. The project will privatize these formerly public functions and direct them to small producers.

Impact on Target Group - The strategy will assist hundreds of thousands of small farmers to increase their production of basic grain crops and non-traditional agricultural products. A substantial improvement in the

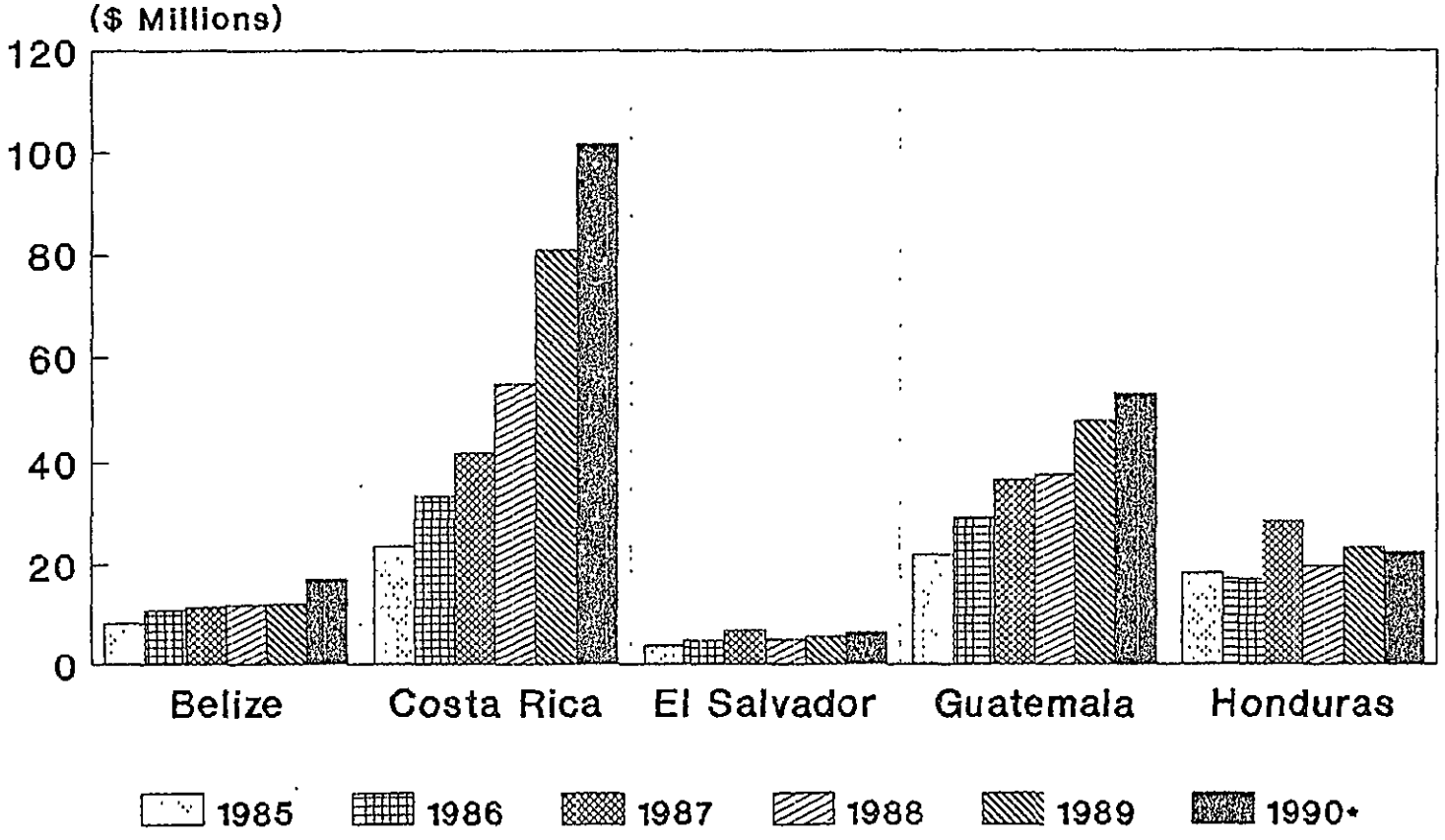
income of basic grains farmers can be made from even a slight diversification in production. The difference in annual income of farmers growing only basic grains and farmers growing basic grains plus some additional cash crop is striking. Basic grains farmers earn an equivalent of $424 per year; those growing grain and another crop earn the equivalent of $788 annually.

Targets

- o Increase the value of non-traditional agricultural exports by an average 25% per year.
- o 72,000 NTAE small farmers will derive higher incomes as a result of increased production incentives, better marketing opportunities and technological improvements in production techniques.
- o Processing and export firms will provide technical assistance to small producers.
- o 50,000 basic grains producers will receive credit and extension services.
- o Improved training of financial sector employees will accelerate loan application processing for NTAE projects.

July, 1991

Agricultural Exports to the U.S.
From Central American Countries



*1990 projections based on
January-October 1990 data
Source: U.S. Department of Commerce

Agrarian Reform Program
Background

As the smallest, most densely populated mainland country of the hemisphere, nearly all land suitable for agriculture in El Salvador has been placed into production, and large areas not capable of sustained agriculture are being exploited by subsistence farmers. Historically, the social fabric of El Salvador - wealth, social status, political influence and even survival - depended on ownership of land. Prior to 1979, a few leading families owned most and the best agricultural land, producing mainly for export. The majority of the country's farmers eked out a living growing food on small plots which they often rented or share-cropped.

Because of the rapidly-growing population, the number of small farmers and landless laborers has increased. Added to that is the extension of commercial agriculture (particularly cotton) over the last several decades, so the demand for land has not been met. Every government since 1930 has faced problems trying to meet the need of rural poor people for land.

The first attempts at land reform occurred in 1932 following the largest popular uprising in the history of Central America in which more than 10,000 peasants massacred by the military. The government began to buy estates for redistribution to small holders and to offer housing, credit and technical assistance. These and subsequent efforts over the next 50 years failed because of commercial landholder resistance and government unwillingness to expropriate land.

In 1965, newly enacted minimum wage laws accelerated the decline of the "patron" system, because landlords were increasingly unable to live up to their responsibilities to their workers. They began to evict from their plantations all subsistence farmers not in their permanent labor force, swelling the ranks of landless poor. A United Nations study reported that, from 1960 to 1975, the number of people without access to land rose from 12% to 40% of the rural population. At this time, land ownership was so skewed that six families held more land than did the 133,000 small farm families; more than 70% of the land was owned by less than 1% of the population.

When reform-minded military officers seized power in 1979, a social time bomb exploded. The social injustice that centered on land ownership and systematic political disenfranchisement fed the discontent. Violent demonstrations occurred weekly and, at one point, 300 farms were occupied by dissidents. In January 1980, a crowd of 100,000 people - predominantly farmers - responded to leftist calls for demonstrations and marched in San Salvador.

The situation reached near anarchy, and the first junta fell. A second junta of military officers and Christian Democrats came to power and initiated sweeping reforms designed to prevent the nation's political collapse, and to improve the existing social and economic structure by drastically altering the land tenure situation. Banking and major agricultural export marketing systems were nationalized in order to reinforce agrarian reform and to break the power of the people who controlled those systems.

The agrarian reform was designed to undercut the radicalization of the rural poor by the Marxist-Leninist left. The three phases of the reform were intended to affect 30% of the rural poor and more than 33% of farm land.

In Phase I, properties of more than 1,235 acres were expropriated and formed into collective cooperatives. Some 317 cooperatives were formed from 542,044 acres with 31,359 direct beneficiaries. All Phase I expropriations have been completed.

Phase II would have affected all holdings larger than 250 acres. In 1983, this was changed from 250 to 605 acres, and land in excess of this was to be sold within three years to campesinos, their associations or to small farmers. This phase would have provided approximately 30,000 acres for distribution to small farmers and landless rural poor, but it has not been impelmented.

Phase III, the "Land-to-the-Tiller Program," allowed renters and sharecroppers to apply for title for up to 17.3 acres which they had tilled in 1980. When the titling process finishes in 1991, more than 40,000 people will hold title to 240,000+ acres of land.

Consolidating the Reform

While land in all phases continues to be titled to its new owners, much remains to be done before the reform can be considered to have completely accomplished its objectives. The remaining tasks and issues are often grouped under the rubric of consolidating the reform. Major issues of consolidation include:

Beneficiary Rights - On April 12, 1991 the GOES passed a long-awaited law which allows agrarian reform beneficiaries to choose their own land tenure model. The law allows for the parcelization of the collective cooperatives if the coop members want individual plots of land. The law also allows beneficiaries under the "Land to the Tiller" phase of the Agrarian Reform (Decree 207) to transfer their land at any time as long as they transfer it to another campesino.

Distribution of More Land - A continuing irony in El Salvador is that land lies idle within sight of people who need it. As much as 75,000 hectares is either abandoned or under-utilized within the Phase I cooperatives. If this land were distributed to individual landless families, as many as 210,000 people could benefit. Another 120,000 people will benefit from the Land Bank, which will help small farmers finance land purchases when it becomes fully operational in late 1991.

USAID has assisted the GOES with its land reform since its inception, and will continue to provide credit assistance to beneficiaries and to support selected activities which promote the distribution of agricultural land to individual owners. In addition, USAID's agricultural project portfolio, which is expanding into intensified coffee production, agribusiness, non-traditional export promotion and technology transfer, will support El Salvador's long-neglected agricultural community and land reform beneficiaries.

Agricultural Credit - The Agrarian Reform Financing Project will continue to support the agricultural diversification in the Phase I reform cooperatives and/or to small farmers. The Salvadoran Central Bank is providing additional credit for refinancing delinquent loans, restructuring debts and establishing investment credit lines.

Water Management and Agribusiness - These two USAID-assisted projects provide financing, technical assistance and other support for the development of precision irrigation and non-traditional agricultural export enterprises. These projects provide assistance to both the reform and traditional farm sectors.

Technology Transfer - The Agribusiness Development Project was expanded in FY89 to $13 million over a four-year period, and is dedicated primarily to a transfer of private sector technology to non-traditional export crops. A new project with the National Cooperative Business Association (NCBA) will expand the already successful CLUSA model for providing assistance to agrarian reform coops in the area of marketing non-traditional export crops such as vegetables, melons and shrimp. The new project, as well as substantially increasing the number of coops receiving technical assistance, will also provide assistance in cooperative development, and will strengthen the ties between local coops and coops in the United States.

Coffee Technology Transfer - This new project will create a non-government organization (NGO) representing coffee industry interests. The NGO will collect a "check-off" from producers and use the reserves to finance coffee research and extension (with a particular interest in small and medium size farmers.)

Natural Resource Management - This project will assist the public and private sectors to increase their ability to manage and preserve El Salvador's fragile natural resources. The project has components for policy, education, institutional strengthening and an action program to improve coastal zone management.

Accomplishments

In terms of the political reasons for which it was undertaken, the agrarian reform has been a success. The country has not fallen into the hands of the extreme left, and 25% of the rural population now has a greater stake in their society because they have received land, credit, and technical assistance through the reform effort.

In economic terms, the agrarian reform has not been as successful. Former laborers need time to learn to run the major agribusiness enterprises that most of the Phase I cooperatives represent. These enterprises are almost entirely debt-financed and have limited abilities to diversify. In addition, private investment, scared off by the reform and the accompanying uncertainty, is only now returning. Although participation in the benefits of growth has been broadened, the agrarian reform will not solve all of El Salvador's economic and social problems. The country does not have enough land to support its people on agriculture alone. Progress will depend largely on development of light industry, agro-industry and non-farming as sources of employment and foreign exchange.

July, 1991

TOTAL USAID ASSISTANCE (1)
($000)

		USAID	GOES	TOTAL
I.	Credit	143,775.00	124,700.00	268,475.00
II.	Agribusiness Development	17,854.10	0.00	17,854.10
III.	Rural Enterprise	25,350.00	0.00	25,350.00
IV.	Irrigation/Water Management	21,044.00	5,400.00	26,444.00
TOTAL		277,993.10	160,739.30	438,732.40

(1) Does not include resources allocated to the Agrarian Reform Compensation fund (USAID $46.0 million; GOES $41.8; Total $87.8).

July, 1991

Status of the Agrarian Reform

As of	12/31/88	12/31/89 5/	03/31/90 5/	04/30/90 5/	06/20/91 7/
PHASE I					
Total Number of Properties Affected 1/	469	477	477	477	244
Estimated Direct Beneficiaries	38,739	42,067 4/	42,067 4/	42,067 4/	42,717 8/
Total Beneficiaries 2/	232,434	252,402	252,402	252,402	244,302
Land Area Affected (Acres)	542,044	542,044	542,044	542,044	521,182
Properties Compensated	448	456	457	457	464
Compensation Paid (U.S. Dollars)	241,948,803	254,536,712	254,613,812	254,613,812	261,826,622
- Compensation paid in cash	18,681,463	20,470,512	20,489,772	20,489,772	20,585,457
- Compensation paid in bonds	223,267,340	234,066,200	234,124,040	234,124,040	241,241,165
Titles Issued to Cooperatives	236	253	253	253	254
Number of Cooperative Managers 3/	242	N/A	N/A	N/A	N/A
Number of Cooperative Accountants 3/	242	N/A	N/A	N/A	N/A
PHASE III					
Number of Direct Beneficiaries	56,188	56,188	56,188	56,188	56,188
Total Beneficiaries 2/	337,128	337,128	337,128	337,128	337,128
Land Area Affected (Acres)	240,054	240,054	240,054	240,054	240,475
Title Petitions Filed	79,142	79,142	79,142	79,142	79,142
Provisional Titles Issued	62,160	62,160	62,160	62,160	23,388
Definitive Titles Issued	37,190	38,270	38,512	38,527	39,728
Property Owners Compensated	4,898	5,117	5,189	4,797 6/	5,143
Compensation Paid (U.S. Dollars)	28,437,366	31,292,827	31,566,113	31,334,268 6/	31,335,270
Number of Titles Registered	30,709	35,904	36,816	37,022	40,677

1/ Does not include the 103 pre-reform held by ISTA
2/ Assumes six persons per rural household
3/ Presently employed
4/ Includes 3,555 beneficiaries with individual parcels
5/ The exchange rate for 1989 and 1990 has been calculated $1.00 = ¢5.00.
6/ FINATA revised April, 1990 due to changes in ownership, abandonment of parcels in conflictive zones, etc.
7/ The exchange rate for 1991 has been calculated at $1.00 = ¢8.00.
8/ According to 2 census done by ISTA in May, 1990 (Depto. Asociaciones Agropecuarias)

July, 1991

Partial List of Policies for 1991 Ag Sector

I. Trade and Price Measures

A. Elimination of existing exonerations and exemptions to tariffs. These exist primary in particular institutions (COPAL and cotton products and milk for industrial uses) and in the "leyes de fomentos" (Poultry, livestock, cotton, etc.)

B. Remove continuing Non-Tarrif Barriers to trade. These NTB's are primarily in the form of permissions to import (DGEA for basic grains) and export.

C. Equalize tariffs across the range of food imports (including wheat, vegetable oil, etc.) at the level of the fixed tariff on corn imports (currently 20%). This is particularly important on wheat which substitutes for corn and on vegetable oil if we want to foster the development of oil crops (such as soybeans).

Also, while wheat currently enjoys a 1% tariff, wheat flour endures a 30% tariff, yielding a 29% unearned profit (subsidy) to the wheat millers.

II. Institutional

A. Sale of GOES owned sugar mills (INAZUCAR).

B. Removal of BFA from non-banking activities.

C. Elimination of COPAL monopoly.

III. Other Policies

A. Credit availability for the import and domestic purchase/storage of basic grains by farmers and merchants/importers (BFA). This is a necessary condition for the efficient functioning of the price band.

B. Development of a policy on technology. Recent policies reforms, if pursued vigorously, have the capability to restore profitability to agriculture. Once producers enjoy the benfits of increased revenues, their ability and willingness to adopt new technology increases. The GOES must be positioning itself to decide what new technology it will deliver to who and how.

C. A natural resources managment strategy and action plan must be developed.

D. Linkage of debt reduction of Phase I cooperatives to performance in servicing existing debt. This could be part of the privatization of the banking system.

Proyecto de Protección del Medio Ambiente Salvadoreño

Background Information:

- El Salvador faces impending disaster due to mismanagement of the natural resources
- USAID is designing a seven-year project, called PROMESA, to assist the GOES and non-governmental organizations (NGOs) to improve the management of the country's natural resources.

The four components of the PROMESA Project:

- The Policy Reform component assists the GOES in developing appropriate policies and relations to preserve and protect the country's natural resource base for substantial economic use and the well-being of people.
- The Industrial Strengthening component enhances public and private sector capabilities and trains personnel to plan and implement environmental and natural resources activities.
- The Environmental Education component develops and disseminates environmental education materials in the formal and informal education systems throughout the country.
- The Coastal Area Protection and Regeneration component funds field activities which solve priority environmental and natural resource problems in the coastal zone (CA), the areas between 700 meters on El Salvador's coastal slope and its 12-mile ocean limit.

Project Activities and Outputs will help all of El Salvador because:

- Policies and methods developed and tested in the project will apply to all of the country.
- Improved public and private institutions and trained personnel will be better able to undertake ecological activities throughout El Salvador.
- A more aware and better educated population will recognize the importance of the environment and its linkage to economic and social well-being throughout the country.
- Sustainable economic growth associated with the proper management of natural resources will increase employment, incomes and foreign exchange earnings for all of El Salvador.

Initial project activities will take place in the coastal area because:

- The CZ is a geographically definable ecological area with distinct economic and ecological significance for El Salvador. In the CZ, the linkages between utilization and natural resources and sustainable economic activity can be clearly demonstrated.
- Many existing development activities of the GOES and USAID depend upon or impact upon resources in the CZ, i.e. diversified agriculture, irrigation, etc.
- Natural resource degradation in the CZ is less severe than in other areas, making sustainable resource use in the CZ more readily attainable, less costly, and of potentially higher economic benefit than in other ecological zones.
- Successful natural resource management strategies developed throughout PROMESA for the CZ may be replicated throughout the country.

July, 1991

USAID Trade and Investment Strategy
El Salvador

The AID trade and investment program in El Salvador was initiated in 1984 in response to the mandates of the Kissinger Bi-Partisan Commission and the need to arrest the economic free-fall that El Salvador had experienced since 1979, the start of the civil war. Although much of the economic free-fall was attributable to the war and poor economic policy, El Salvador had also suffered from the general world recession of the early 1980's; price and market instability for traditional exports of coffee, sugar and cotton; and the decline of the CACM. Exports to the CACM fell from $283 million in 1978, to $91 million in 1986; cotton exports declined from $98 million in 1978, to virtually zero by the end of the 1980's; the sugar market remained unstable; and by 1989, coffee exports had fallen from $615 million to $229 million. By 1989, total exports were half of the 1980 levels, in spite of modest growth in regional and extra-regional non-traditional exports experienced at the end of the decade.

Arrest of the decline was accomplished in 1984, through massive infusions of budget support, while attempts were made to lever the adoption of economic policies which would effect real economic stabilization and initiate recovery. At the same time, programs were initiated to create an expanded private sector of small producers, microentrepreneurs, and businessmen from all socioeconomic levels as an effective vehicle for generating real economic growth and distributing more equitably its benefits. Given the instability of the CACM and traditional products, the AID program focused on the development of non-traditional exports (NTE) to extra-regional markets. Major constraints to successful implementation were as follow:

- The war was the greatest obstacle to significant growth of foreign investment and to stemming capital flight.
- Poor economic policies were a disincentive to investment.
- Credit rationing, excessive state involvement, and interest rate manipulation inhibited investment.
- The ineffectual nationalized banking system slowed service to investors.
- Lack of sound organization, management financial and information systems hindered growth.
- There was a lack of industrial space suitable for NTE industries.
- The lowest level of microentrepreneurs had no access to formal credit.

In response to these constraints, AID developed a strategy to aggressively promote nontraditional exports on a broad front; expand participation in the economy by assisting the increasing number of small and microenterprises; strengthen private and public sector institutions; forge improved working relationships between the public and private sectors; and effect through policy dialogue the economic policy framework required to encourage investment.

The Mission's initial move was to develop an institutional mechanism, the Salvadoran Foundation for Social and Economic Development (FUSADES), to channel assistance to the private sector. FUSADES engaged in programs to upgrade the capabilities of private sector entities, improve private sector productivity, seize market opportunities, and improve the policy environment for private enterprise. It organized a number of subsidiaries to accomplish these objectives, which include:

- o FORTAS Association Strengthening Program
- o PRIDEX Export and Investment Promotion Program
- o DIVAGRO Agricultural Diversification Program
- o FIDEX Export Investment Credits
- o PROPEMI Small Business Credit and Technical Assistance
- o DEES Economic Studies and policy analysis

In addition to the programs with FUSADES, the Mission channeled substantial local currency credit resources, using rediscount facilities in the Central Bank. A major terrorism insurance program was initiated to promote productive investments. Assistance was given to the GOES to develop public sector institutions, such as a one stop export documents processing center, and to develop capacity to support NTE. Various credit and tecnical assistance efforts to assist small and micro-enterprise were initiated. Assistance to promote NTE was provided to local entrepreneurs by the IESC. And, finally, a major effort was undertaken to develop, finance and promote free trade zones.

Although our programs were successful in creating or strengthening institutions, by 1989, there was little to show in terms of increased foreign exchange earnings, employment or investment. We were the glue that had held the financial system together, and much had been done to promote NTE; but the economic policy framework was not conducive to investment, and investor confidence continued to lag.

This changed with the election of the Cristiani Government in March, 1989. First, President Cristiani named qualified technocrats to the economic cabinet. (Many came from FUSADES.) Second, he agreed to an ambitious economic structural adjustment program, and agreed with AID to implement an austere monetary program. Commitment to this program was maintained in spite of the 1989 offensive and disastrous coffee harvest. Although the raising of interest rates (from 17% to 22%) may have slowed investment, the freeing of the exchange rate and simplification of exchange controls were major factors in boosting NTE exports to a 34% increase in 1990. Inflation was brought down from a point-to-point level of 29% (April 1990) to 13.5% by April, 1991. In 1990, El Salvador experienced a 3.4% growth in GDP and, it appears, will achieve a similar increase in 1991.

While the structural adjustment program was being implemented, the Mission supported the GOES programs to privatize the nationalized financial system; reform and strengthen regulation of the financial system; remove the Central Bank from commercial banking activities; establish a program for the privatization of state-owned enterprises; and improve tax laws and administration.

Through AID-supported efforts, a bolsa de valores will begin operations in September, 1991. A national export and investment development strategy was developed by the GOES and the private sector, and the importance of the export sector was ratified by the decision to establish a Commission, to be appointed by the President, to coordinate the implementation of the export and investment development strategy. El Salvador has acceded to the GATT and has either signed or is preparing to sign several bilateral trade agreements.

FUSADES has strongly supported the economic structural adjustment. At the same time, it has revised its own export development strategy and shifted emphasis from concentration on the development of local export resources, to the promotion in the U.S. of investment in El Salvador. Renewed emphasis has been placed on the development of private free trade zones, and the first five are presently under development. Laws and regulations needed to make El Salvador competitive with other exporting countries have been either created or revised. Increased cooperation between the GOES and the private sector is only now beginning to pay dividends, which should increase as more impediments to growth are removed.

In early 1989, the Mission adjusted its CDSS from one concentrated upon the development of NTE to one which focuses more broadly upon growth across the economy and activities in privatization, financial sector reform and industrial reconversion. In addition to extra-regional NTE, the GOES strategy for export and investment development takes into account the importance of NTE exports to the CACM, and the need to increase exports of coffee. The AID program supports implementation of that strategy, while also supporting the growth of the informal small and microenterprise sectors, which are often uninvolved in regional or extra-regional trade. PROPEMI, which was created by FUSADES with USAID support, has since 1986, made more than 2,500 loans, and benefited some 35,000 people. During the period 1991-1995, it will make 5,400 loans and indirectly benefit some 50,000. The new Microenterprise Development Project provides $10 million to create another financial that is providing very small credits through village banks, and will eventually cover the entire country. These kinds of efforts have been indirectly supported by assistance to local private and voluntary organizations, such as Junior Achievement, which trains 7000 youths each year in entrepreneurial skills.

CDSS targets are as follow:

Trade & Investment Targets

Export and Investment Promotion

- o Increase the value of non-traditional exports by 15% per year (34% achieved in 1990)
- o Construct at least one private sector-owned free trade zone and privatize the GOES-owned free zone at San Bartolo
- o Attract $100 million in new investment
- o Create 75,000 jobs in export industries and free zone operations

Financial Sector Reform

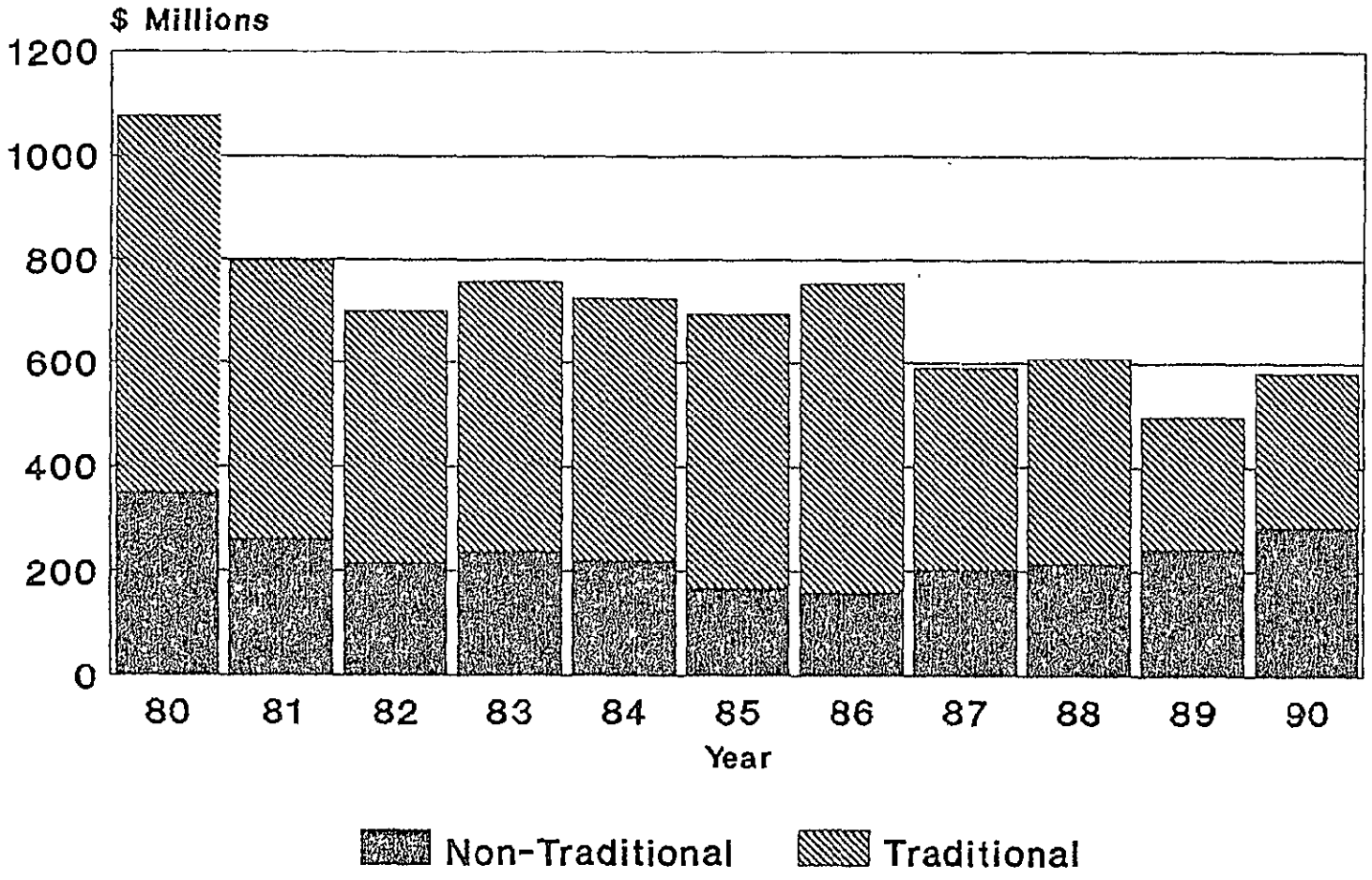
- o Privatize the nationalized financial system
- o Establish a stock market which trades both debt and equity, provides for market liquidity, and offers investor protection mechanisms
- o Establish FIDEX, S.A. as a private diversified financial institution to better serve the non-traditional export sector
- o Extend a total of 6,800 loans to small, medium and large businesses.
- o Create a total of 50,000 jobs by 1994

Accomplishments

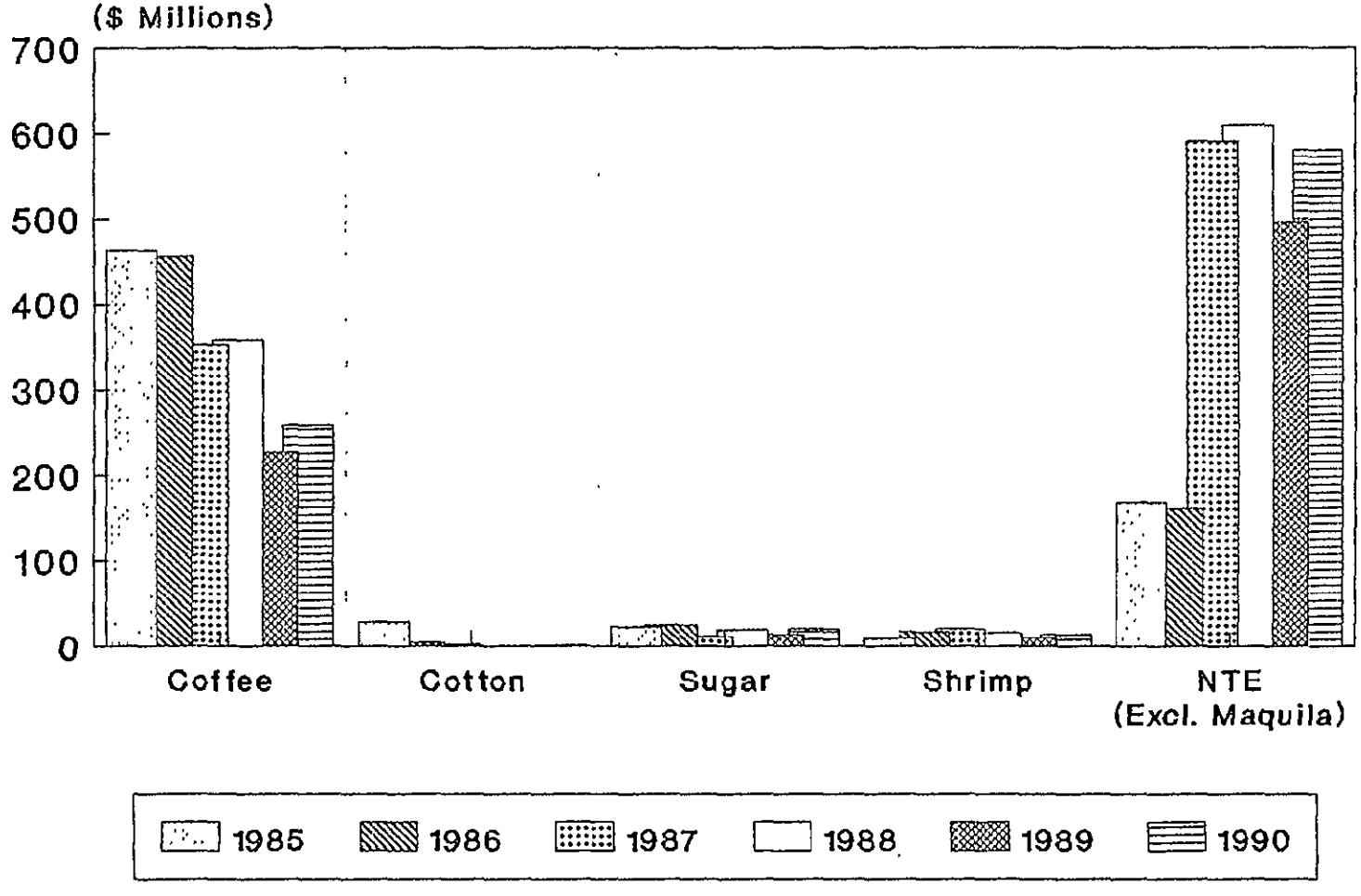
- o An independent superintendency of banks has been established.
- o Financing has been approved for the first two privately-owned free trade zones with three others under development.
- o A national export and investment strategy has been developed.
- o Privatization of the financial system is under way.
- o FIDEX, S.A. is chartered.
- o Non-traditional exports grew by 34% in 1990, economic growth by 3.4%
- o Foreign and domestic investment in NTE has increased significantly.
- o The economy continues to gain strength and exhibit signs of health.
- o PROPEMI is self-sufficient and serves three regional centers.
- o The Microenterprise Support Center is operational with 240 village banks planned by end 1991.

July 19, 1991

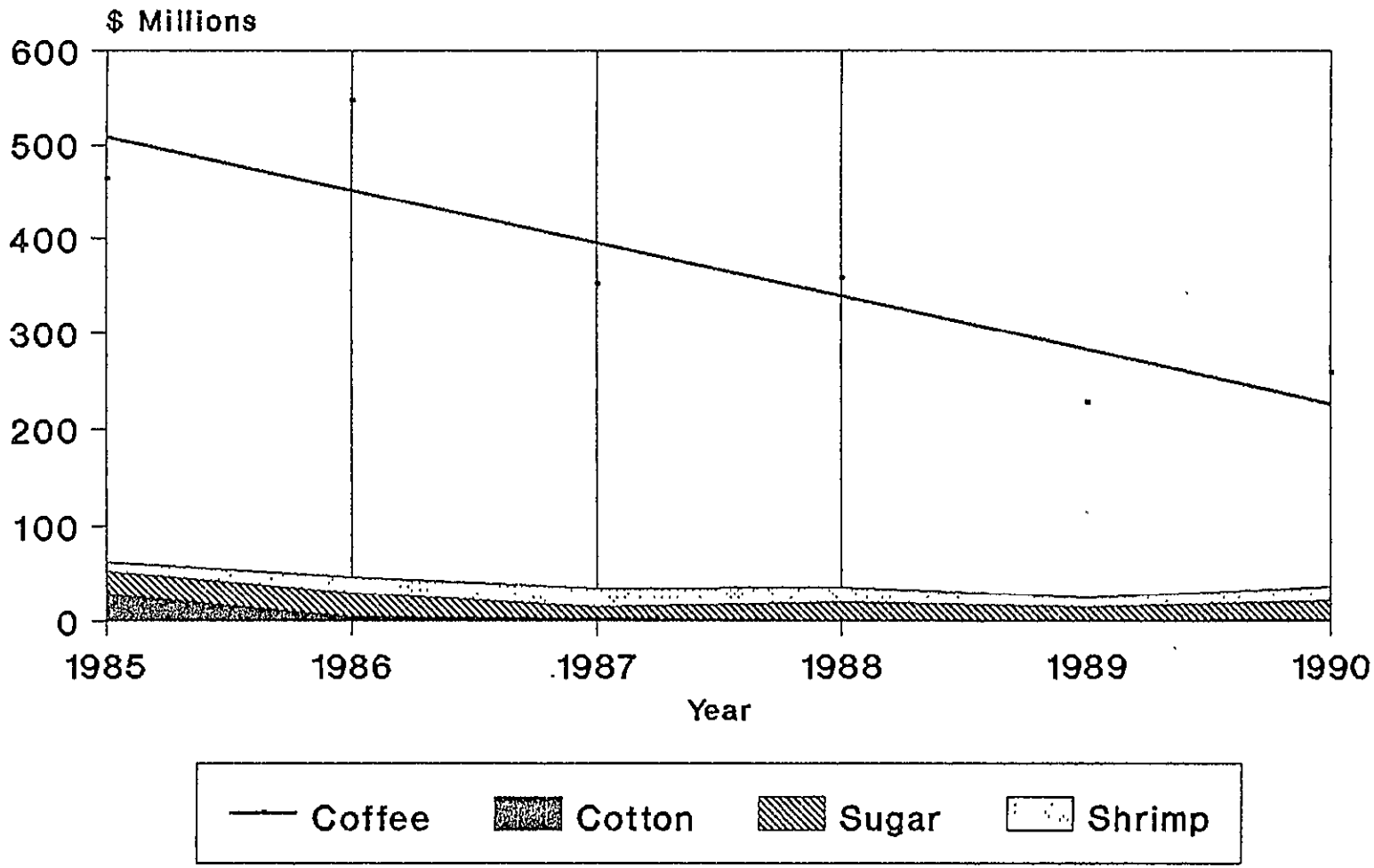
El Salvador Exports
Traditional/Non-Traditional



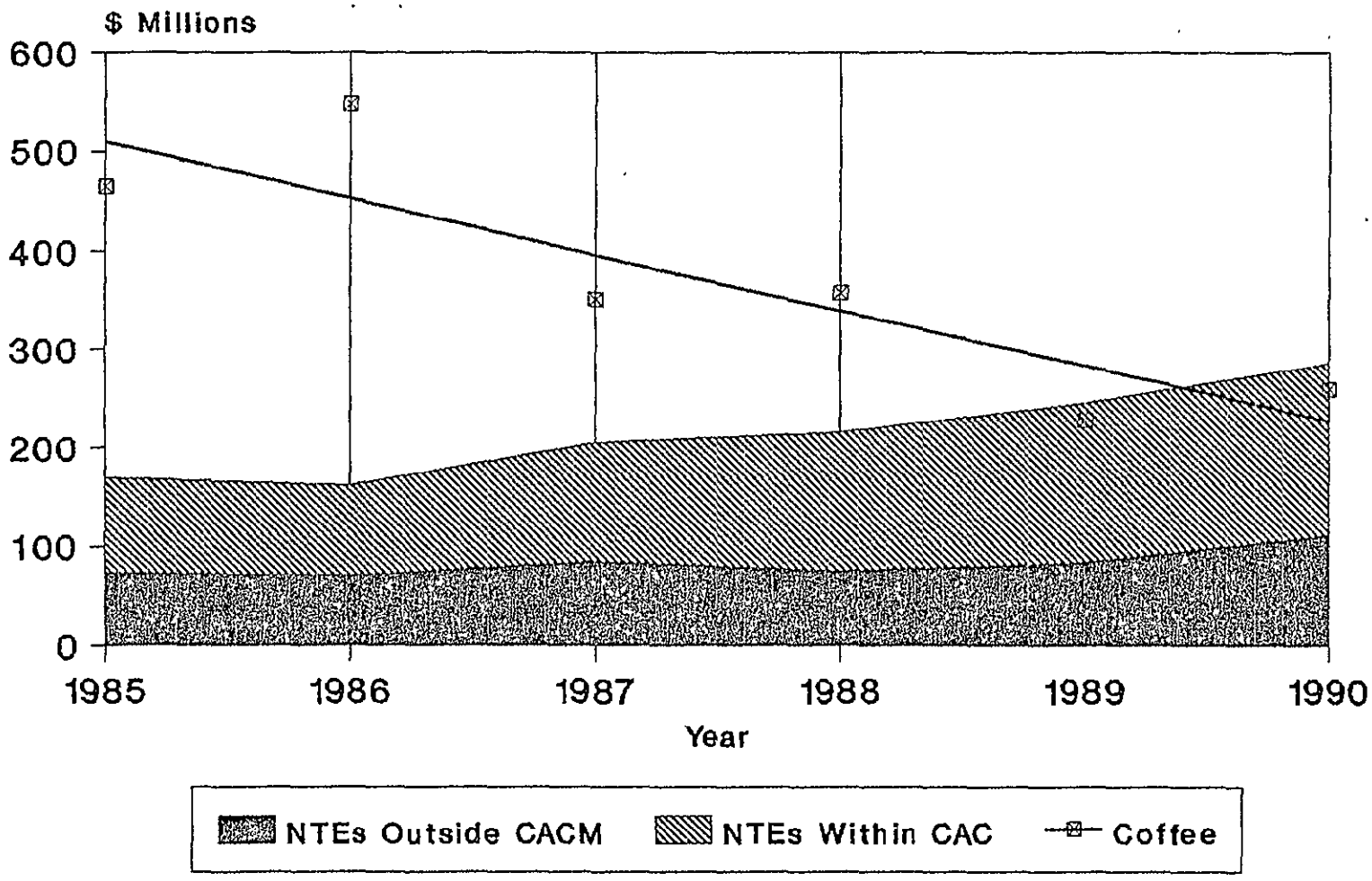
El Salvador Exports
Traditional/Non-Traditional



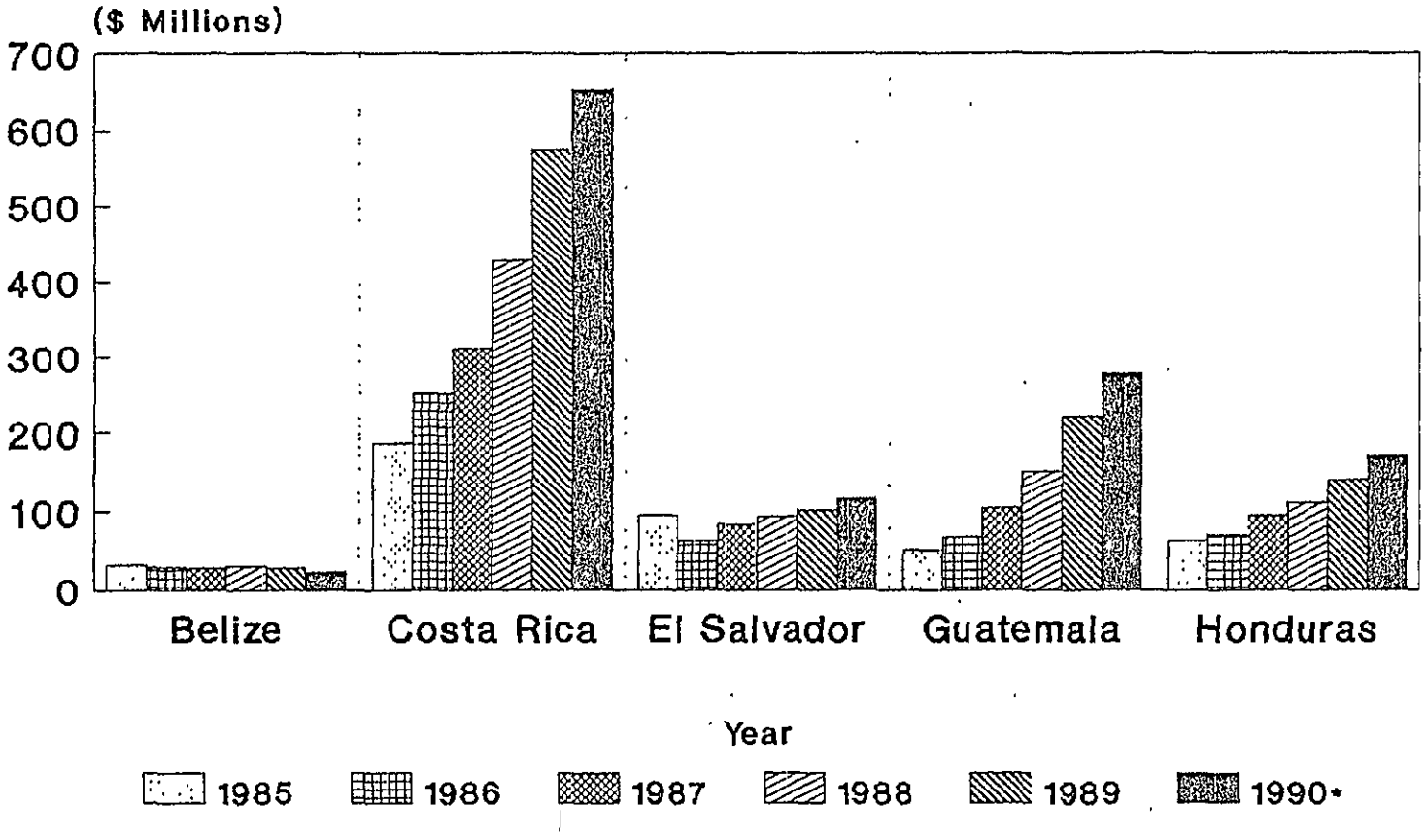
Trends in Traditional Exports
From El Salvador



Trends in Non-Traditional Exports
Compared to Coffee Exports

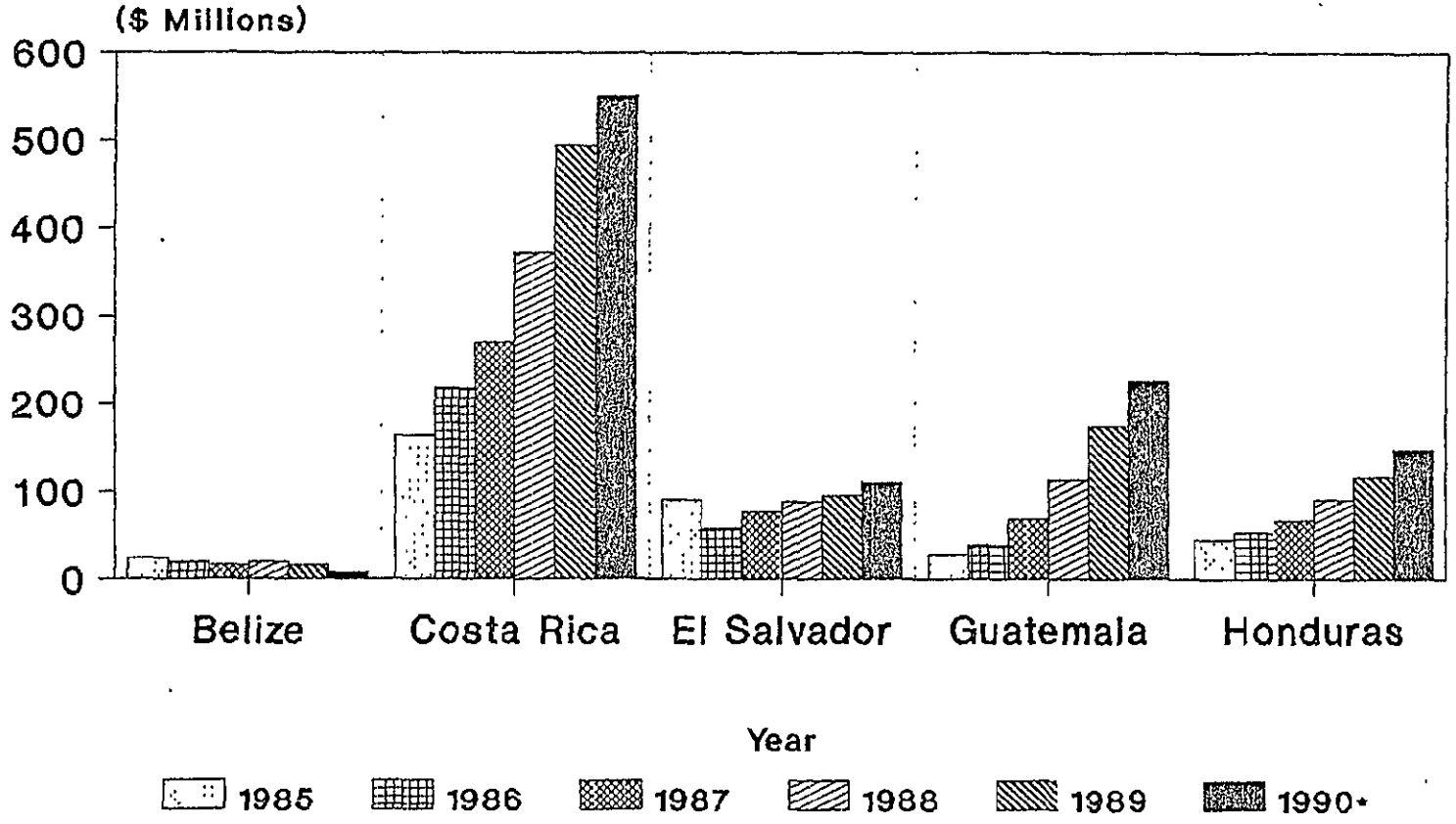


Non-Traditional Exports to U.S.
From Central American Countries



*1990 projections based on
January-October 1990 data
Source: U.S. Department of Commerce

Manufactured Exports to the U.S.
From Central American Countries



*1990 projections based on
January-October 1990 data
Source: U.S. Department of Commerce

Health Sector Summary

Selected Health Indicators (1990)

o Malaria cases reported:		9,287
o Infant Mortality Rate:		48/1000
o Child Mortality Rate:		23/1000
o Percent of population with access to potable water:	Urban	90.0%
	Rural	18.0%
o Annual Rate of Population Growth:		2.5%
Contraceptive Prevalence:		50.0%

Leading Causes of Mortality

- o Neonatal causes
- o Accidents/all types
- o Acute Respiratory Infection
- o Diarrheal Diseases

Other Important Background Points

- o The Ministry of Health (MOH) budget has declined 50% since 1980. Presently, it can meet only personnel and limited operations costs.
- o Most of the MOH's operational budget for other than salaries is provided by the donor community.
- o The medical profession and the MOH still have an urban/curative preference.
- o Planning and coordination are continuing problem areas throughout MOH/GOES.

AID Assistance to the GOES (MOH) 1983-1990

- o Rapid infusion of vital pharmaceuticals, medical supplies, vehicles and other equipment into the Health Care System;
- o assisting in the initiation of improved systems of data collection, procurement, inventory management and maintenance;
- o direct program support for basic service delivery to high risk groups (1988)
- o attacking the major causes of mortality through:

vaccinations	environmental sanitation
potable water	treatment for diarrheal diseases
growth monitoring	health and nutrition education
pre-natal care	assistance to civilian amputees
family planning	

Major Health Sector Projects (1988-1992)

Title	Planned Obligations ($000)				
	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992
Salvadoran Demographic Association (SDA)	7,353	2,000	-	-	-
Population Dynamics	10,000	-	-	-	-
Family Health Serv.	-	-	5,750	7,000	5,450
Health Systems Support Project (APSISA)	40,648	7,352	-	7,000	7,000
PVO/OPGs - Save the Children	-	2,600	2,000	2,000	-
Teleton Rehab.(G)	2,450	900	-	1,500	1,500
Potable Water	-	8,000	4,000	5,000	5,000
PVO Maternal/CS	-	-	3,658	8,000	8,000

Accomplishments

- o Infant mortality reduced from 75/1000 in 1980 to 48/1000 in 1990;
- o Malnutrition (NCHS-II/III weight for age) in children under 5 reduced from 18% in 1977 to 15.4% in 1988
- o Teleton established permanent prosthetic workshop for civilian amputees. From May 1988-Dec. 1990, 1,222 prostheses for upper and lower limb amputees were produced and delivered;
- o 95% of the MOH's 390 health facilities are open and functioning.

July 16, 1991

Health Sector Overview
Background and Trends

During the late 1940's and 1950's, the beginning of a modern public health service was organized in El Salvador with the active involvement of US-educated Salvadoran public health experts, the Pan American Health Organization (PAHO), the Rockefeller Foundation, and Tulane University. In the 1970's, rural health services were expanded to include services in 123 health posts, one specialized vaccination post and 10 mobile community posts. These posts referred patients to 84 health units, 8 health centers (with beds) and 14 hospitals. In 1977, the GOES began a USAID financed pilot project to train a network of Rural Health Aides (RHAs) to provide community oriented health education and primary care including family planning counselling and contraceptives. However, this community-based paramedical concept did not receive the full support of the Ministry, and only 250 were trained and deployed.

Despite these attempts to improve public health, many Salvadorans, especially those in rural areas did not have access to preventive public health services. Services were largely curative, basic drugs were often not available, and administrative support for clinic services was weak and disorganized. As a result, rural people often consulted village healers and local pharmacists rather than travel to an inadequate health post. When illness was perceived as serious, families went directly to the regional capital or to San Salvador for hospital care. Constraints to improved health included then, as they do today, poor environmental sanitation, low literacy, low levels of health awareness and personal hygiene and limited contact with the formal public health services system.

- A 1980 study estimated infant mortality at 85/1000 country-wide.
- About 40% of all mortality occurred in children under 5, usually from preventable diseases.
- Two-thirds of children under 5 showed some degree of malnutrition.
- The average life expectancy of 59. 1 years at birth had risen little in a decade.
- The public health system was beset by administrative problems at both the national and local levels.

In 1983, faced with a deteriorating system and a budget crisis, the GOES requested AID assistance in meeting its most critical, short-term health needs. A review indicated that a basic system of health facilities existed and was adequately if not ideally staffed. However, budget cuts had left serious gaps in the availability of basic pharmaceuticals, medical supplies and equipment. In addition, the evolutionary strengthening and development of public health services had been halted by the political and economic crisis of 1979.

Constraints:

Financial:
- o Between 1980 and 1987, the cumulative effect of inflation resulted in a 50% reduction in the MOH's budget in real terms; and
- o family incomes have remained low while medicines and food have become more expensive

Institutional:
- o There is no comprehensive, well-articulated national health plan;
- o weak management hinders efficient operations; and
- o there is a lack of programs that train professionals to work with the growing number of disabled.

Social - The War:
- o Over the last 10 years, the MOH has experienced restricted service delivery to certain rural population;
- o medical personnel continue to be in danger when delivering services in rural areas, thereby exacerbating the already low coverage of high risk populations; and
- o 25 of the 100 health units and posts in the eastern region of the country, as well as numerous other health facilities in other parts of the country have been closed because of the conflict.

Infrastructure:
- o Access to potable water, particularly in rural areas, continues to be a major constraint to improving health status. The 1988 WASH Assessment estimates that the rural population's access to potable water decreased from approximately 30% in 1984 to 16% in 1989. The internal conflict and concomitant displacement of people, high population growth rates, and lack of maintenance for existing systems are blamed for the drop in coverage.

The Response:

The Health Systems Vitalization Project was designed to rapidly infuse the health system with essential medicines, supplies and equipment, while strengthening MOH systems of supply management, procurement, drug quality control, maintenance and management information. It also supported the MOH malaria program. The emphases of the project were to arrest the decline of the public health service and to ensure adequate operating levels, while laying the basis for a longer term development effort.

The current Health Systems Support Project is an 8-year project that provides assistance to keep health system operating, and emphasizes the development of the national public health system. It builds on previous efforts to strengthen drug and medical supply management and the repair and maintenance of vehicles and equipment. It will also strengthen MOH training, supervision, and health education systems in order to support cost-effective delivery of primary health care. The recent Project Amendment adds considerable emphasis to improving cost-recovery, decentralization and increased budgetary allocations for preventive care.

The goal of the Maternal Health Child Survival Services Project is to improve the health status of the rural and marginal population by increasing access to basic health services, including, but not limited to immunization, prenatal care, family planning and curative care for common illnesses. These services will be provided by a network of 35 to 50 PVOs.

A new project to improve Public Services will increase access to potable water and sanitation services. Potable water access will increase from 13. 5% to 30%, and to sanitary services from 35% to 50%. 600,000 rural people will benefit directly from this project.

With USAID assistance, the Teleton Foundation Pro-Rehabilitation, FUNTER, a private voluntary organization, is providing improved rehabilitation services to civilian amputees via a modern prosthetic laboratory with a production capacity of 60 prostheses a month. Support is also provided for a program to train prosthetic technicians, and to provide medical and social services including psychological and physical therapy and job orientation. Outreach services to rural areas are also addressed through the program.

Accomplishments 1984 to 1990

- More than $25 million worth of pharmaceuticals, medical supplies and equipment have been procured and delivered to the MOH, and computer equipment worth $206,000 has been purchased and installed.
- Cold-chain equipment was procured and installed in health facilities to ensure adequate storage of vaccines and perishable pharmaceuticals.
- For the 1985-90 Vaccination Campaigns, which vaccinated around 400,000 children each year, approximately $2 million in syringes, cold chain equipment, mass media messages and health education materials were donated.
- The total number of hospital/health center outpatient visits has risen nearly 5%, and visits to health units and posts in the countryside have remained relatively stable despite the conflict situation.
- A 1,500 m^2 medical supplies warehouse has been built and equipped.
- Physical and operational improvements have been made to the five regional warehouses.
- A complex of six prefabricated warehouses was erected at Zacamil (San Salvador) to replace warehousing destroyed by the 1986 earthquake.
- A pharmaceutical and medical supply management unit was established in the MOH to ensure that GOES, USAID and other donor programs respond to national health priorities, but do not overlap. This unit enabled the MOH to receive and distribute medical disaster relief supplies following the 1986 earthquake.
- A basic drug list of 395 products has been developed, reducing by 52% the number of products being used.
- A drug formulary was developed to help doctors rationalize the use of pharmaceuticals.
- For the Malaria Program, USAID has procured insecticides, equipment and anti-malarial drugs. Detected cases during CY 89 showed a 40% reduction over CY 86, reflecting both improved implementation and sharper program focus on malaria.
- Vehicle "downtime" has been reduced by almost 40% and there has been a 25% increase in the repair and maintenance of bio-medical equipment.
- Vaccine-preventable diseases such as diphtheria, whooping cough, tetanus, and measles declined or stabilized during the period 1982-88.

Population Sector Overview
Background

El Salvador, with 250 people per square kilometer of land, is the most densely populated mainland country in Latin America. Population growth and crude birth rates have traditionally been high. In 1950, the population was 2.0 million and the growth rate was 2.7%. In 1971, the country had 3.5 million people with a growth rate of 3.4%. By 1991, the country had grown to an estimated 5.3 million with a growth rate (natural increase) of 2.5%.

The GOES has been aware of its population problem since the mid sixties and USAID has been funding population activities since 1964. Although the Ministry of Planning established a population policy in 1974 and modified it in 1988, not enough emphasis has been placed on family planning policy and service delivery.

From 1985-1990, the Population Dynamics Project was designed to improve and expand provision of family planning and reproductive health services, by strengthening those public service institutions which presently provide services to Salvadoran couples. The public sector service activities were carried out by the Ministry of Health which has now incorporated family planning in the Health Systems Support project.

Achievements:

- In 1990, the SDA's Social Marketing Program served 41,300 users (275% increase over 1984).
- 1990 figures show that approximately 450,000 couples are actively using contraception.
- A new contraceptive method, NORPLANT, is being tested and will be incorporated into the general Salvadoran Family Planning Program.

Outputs:

- Improved collaboration between MOH and SDA in planning and carrying out family planning activities.
- A major media campaign for family planning messages.
- Improved GOES capacity to provide family planning information and education at the community level.
- Training for more than 25,000 midwives, medical and paramedical personnel.
- Improved management information system.
- Printing and distribution of more than 4,000,000 pamphlets.

USAID has funded the Salvadoran Demographic Association (SDA) to improve and expand non-governmental family planning delivery programs because it is felt that Salvadoran couples will continue to rely more heavily on the non-governmental sector in the immediate future.

Major Outputs:

- 200,000 couple-years of protection under the Social Marketing Program;
- 145,000 couple-years of protection of family planning methods;
- A commercial retail sales network with 2,000 outlets;
- A mass media campaign reaching 100% of the target population;

The purpose of the Family Health Services Project is to continue and to expand the delivery of birth spacing and maternal and child health services offered by the SDA to high risk populations in rural and marginal urban areas. The major focus of the project will be the continued expansion of family planning services through the SDA, and to add select maternal child health services. The secondary focus will be the introduction of select child survival interventions into family planning programs operated by private sector agencies.

As currently envisioned, the Project will have the following major activities:

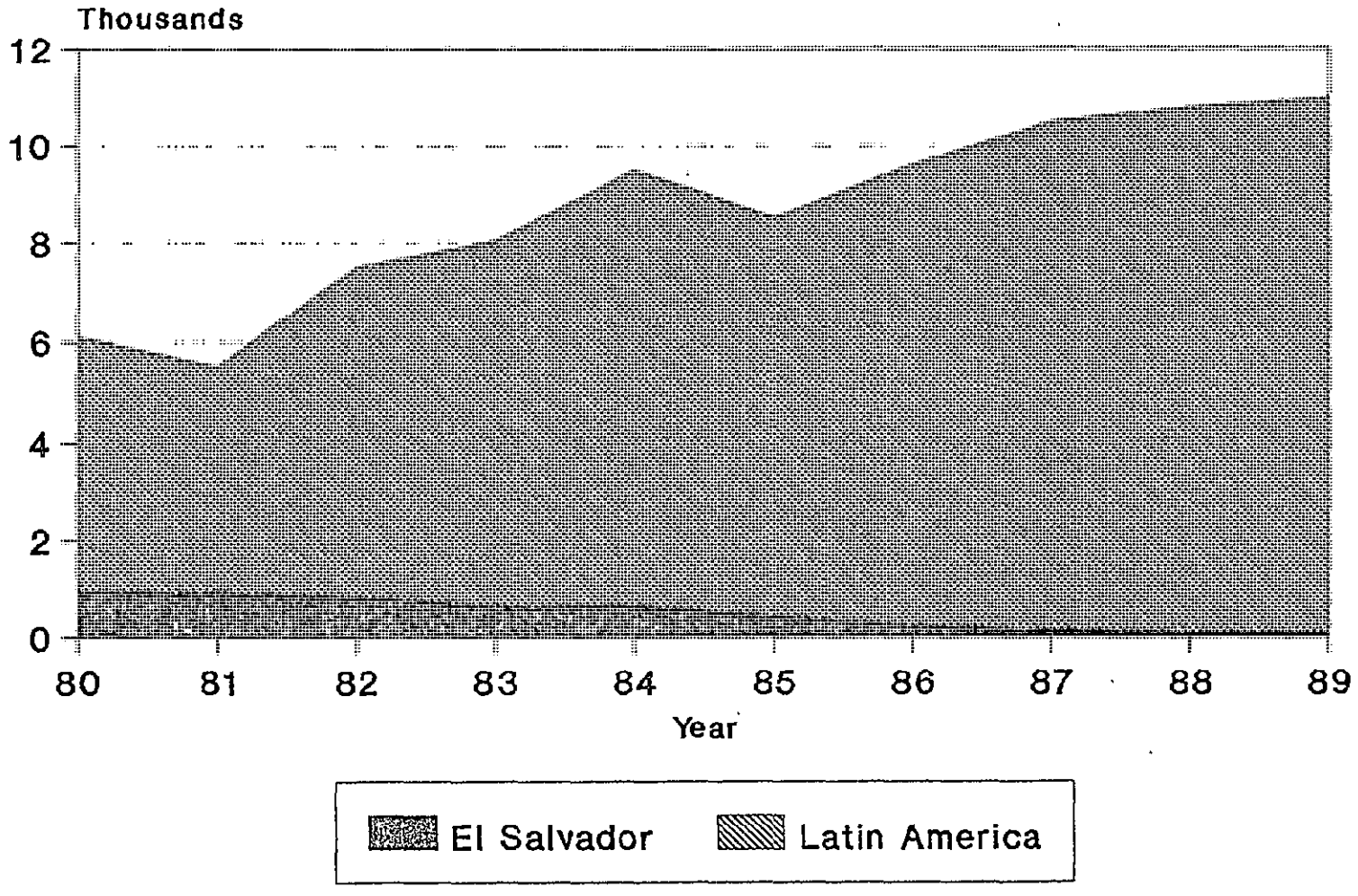
- o Increase couple/years of protection from 120,000 to 200,000.
- o Increase treatment of diarrheal cases by ORS by 20%.
- o Increase rural contraceptive prevalence from 34% to 40%.

Centrally-Funded Activities in Population

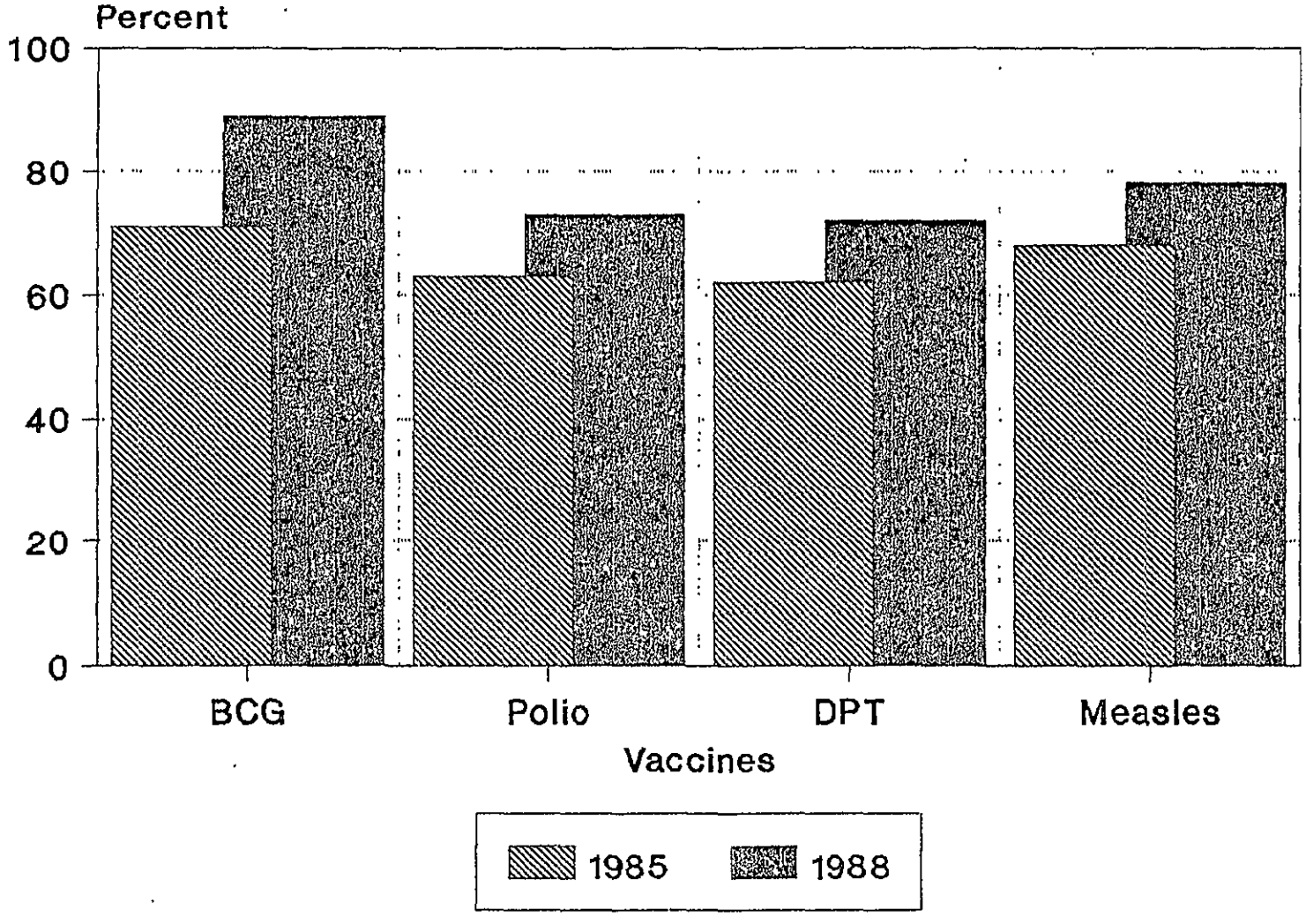
Family Health International is implementing three small projects: clinical trials of the NORPLANT contraceptive method; and development of new AIDS detection techniques in El Salvador. The Academy for Educational Development will provide technical assistance in AIDS communications.

July 16, 1991

Malaria Morbidity
1980-1989

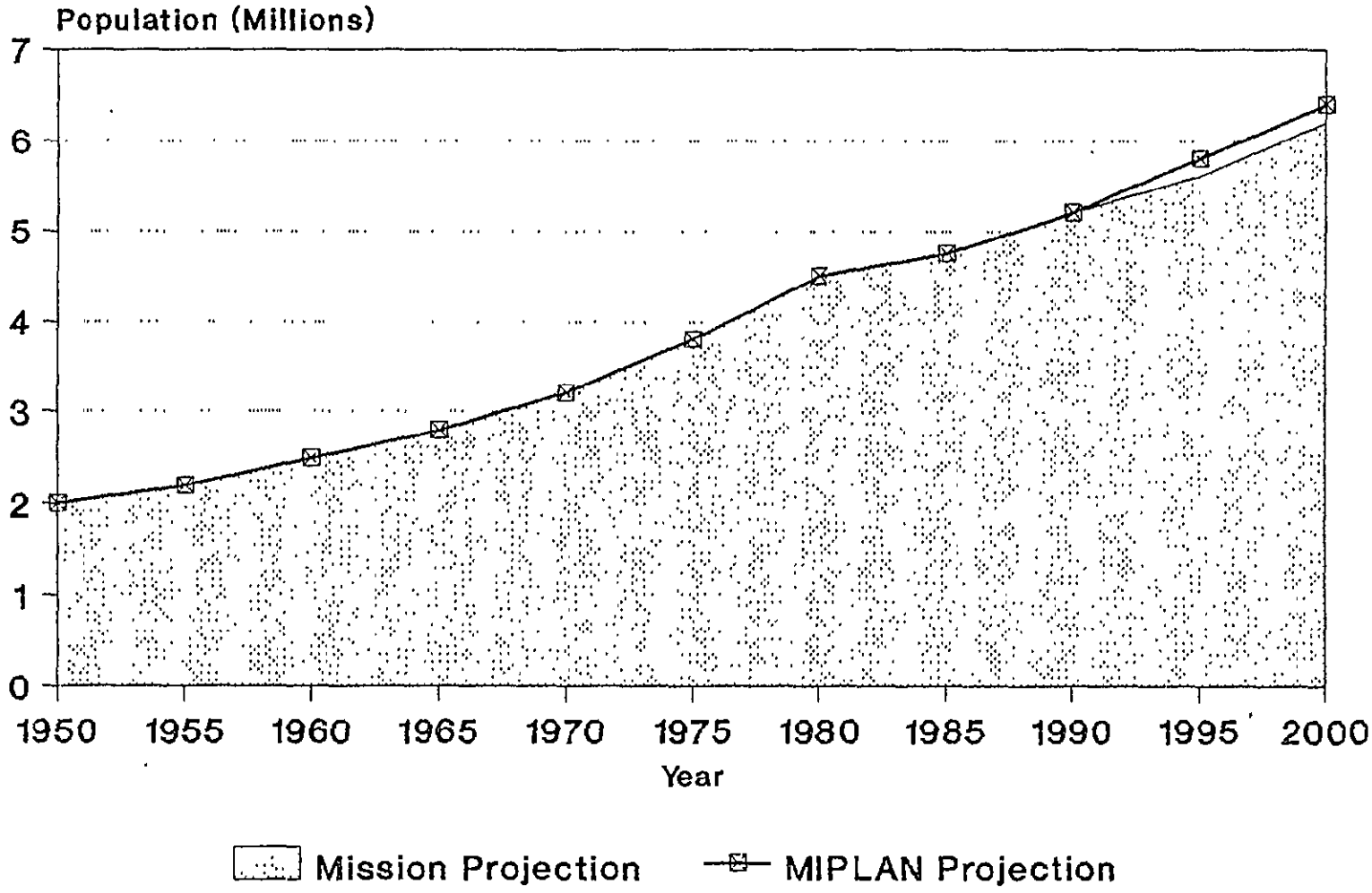


Immunization Coverage in El Salvador

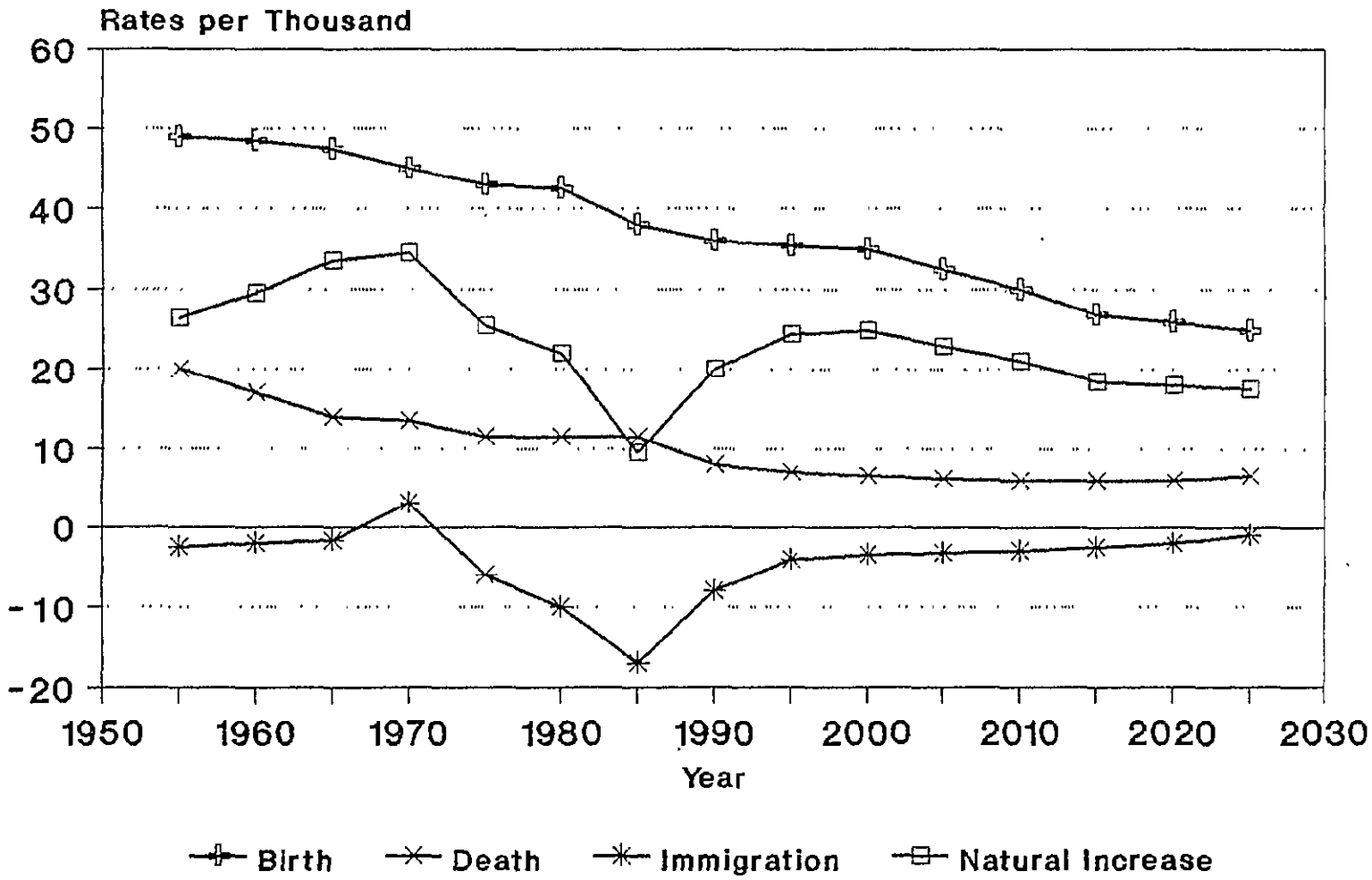


Source: DHS-85 & DHS-88

Population Projections for El Salvador



Growth Rates for El Salvador



Source: MIPLAN

Educational Opportunities
Background

Before 1978, the Ministry of Education was increasing access to primary schools through school construction and by hiring new teachers. Since the outbreak of the armed conflict, however, the educational system has suffered significant set-backs, including: closing of more than one half of the schools; destruction of approximately 800 schools; and declining budgets which have limited investment in textbooks, teacher training, and materials for teachers and students.

Substantial U.S. assistance has enabled the country to maintain the educational system and to void any significant declines in the country's educational level. Thus, the educational problems of the 1990's are not much different from those found in 1978: low literacy rates (32% among men and 38% of women); low school enrollment and attendance (approximately 35% of school-aged children remain out of school); repetition rates of approximately 60%; and an inefficient educational system (it takes an average of 10.9 years for a student to complete the sixth grade.)

Paralleling declines in access and quality of basic education has been a sharp drop in productivity of the labor force. The violence of the late 1970's and early 1980's caused significant capital flight and the outmigration of El Salvador's skilled technical and managerial work force. Only a small number of vocational and technical training institutes exist in El Salvador today, and these are ill-equipped to meet the manpower demands of the economy. Technologies are outdated, teachers are poorly trained, and GOES policies prohibiting tuition increases inhibit expansion or improvement of most of these institutions. According to a recent manpower assessment survey, unmet demand for 17,000 skilled and semi-skilled workers and 2,000 foremen and mid-level supervisors currently exists in construction, clothing manufacture, non-traditional agriculture and other exports, auto mechanics, and electricity/electronics sectors.

USAID's program in education is built around a three track strategy:

The Basic Education Program will improve the quality and efficiency of basic education through development of teacher and instructional materials, upgrading teachers and supervisors by in-service training, and through decentralization of the public school system. The Mission strategy is founded on the following assumptions:

- increased access to basic education is the sine-qua-non for improving quality of life, participating in a modern economy, reducing the birth-rate, protecting the environment, and producing effective citizens in an emerging democracy;
- increased efficiency will increase access without increasing cost;
- additional resources must be invested to meet needs created by civil strife and the high birth-rate; and
- parents, communities, and the private sector must assume more responsibility for education.

Improving System Efficiency will be accomplished by expanding access to primary education through more effective learning assessment, supervision and management and through more cost-effective and innovative teaching methods.

The Education System Revitalization Project ended June 30, 1990, and a major new follow-on project (SABE - Strengthening Achievement in Basic Education) will focus on increased efficiency through improved management at all levels, improved instructional materials, and teacher training, community support and involvement in schools and innovative use of new technologies. Primary curriculum will be overhauled and the system's administration decentralized.

Expanding Vocational/Technical Programs will restore the productivity and competitiveness of the Salvadoran work force by developing essential skills, primarily in the private sector. Spearheading this effort is FEPADE, which is equipped to assess vocational/technical education needs and serve as a catalyst for the establishment of programs to respond to them. USAID is assisting FEPADE expand its educational credit program for needy students enrolled in priority vocational and technical programs and upgrade the capabilities of these schools through the provision of grant resources to expand facilities and through teacher fellowships.

USAID also supports the efforts of other private organizations, such as the Salesian Society, to provide short and long-term training in professions related to priority sectors of the economy such as irrigated agriculture, business management, and construction trades.

The Central American Peace Scholarship Program (CAPS) complemented priority Mission activities in the strengthening of democratic institutions and processes, agricultural diversification, and small business development. CAPS has evolved to become the $28.5 million Caribbean and Latin American Scholarship Program (CLASP II). The target population of CLASP is disadvantaged rural leaders and youth with potential for future leadership roles.

Other Programs

The Anti-Drug Foundation of El Salvador Project (FUNDASALVA) supports a PVO education program to prevent drug abuse. RTAC II, a regional project which supplies affordable, high-quality U.S.-developed university-level textbooks, is developing the infrastructure necessary for institutionalizing distribution.

Policy Dialogue

The Mission is pursuing two main policy dialogue lines:

- Policy changes are required to decentralize the Ministry of Education by increasing delegations of management and financial authority to regional offices and by transferring functions such as school construction, rehabilitation, and maintenance to local governments. Personnel policies must be revised to effect improved performances and efficiency. USAID is attempting to influence such reforms, as well as promoting an increased share of the national ordinary budget for education, which was down from 20% in 1978 to only 13% in 1986.

- Policy decisions will also be sought which will provide for: increased participation of parents and the private sector in policy formulation and in assumption of some of the cost of education; increased public/private collaboration for improved quality, efficiency, and access; and, removal of tuition ceilings for private educational and vocational schools and provision for expanded, and legally-supported, private school lending and repayment activity.

The Mission's current education and training portfolio is comprised of five projects:

I. Strengthening Achievement in Basic Education (SABE)
II. Central American Peace Scholarships (CAPS/CLASP)
III. Training for Productivity and Competitiveness (FEPADE)
IV. Regional Technical AID Center II (RTAC-II)
V. Anti-Drug Foundation of El Salvador (FUNDASALVA)

July, 1991

Is It Money Down A Rat Hole?

Were it not for our $3.0 billion in economic assistance over the last eleven years:

- The government and the economy of El Salvador probably would have collapsed. The void probably would have been filled by a Marxist or a right-wing military dictatorship. Unemployment would be running at 50% or more. There would have been little or no investment by either the public or the private sector. Much of the productive capacity of the country would have been destroyed. Capital flight would have soared. Foreign investors would have left long ago, along with much of the Salvadoran human capital base. Traditional exports, including coffee, would have been unable to move, and there would be almost no foreign exchange.

- Progress toward democracy would have halted, and the rule of law would have broken down more or less completely. Repression would be the order of the day.

- Health care delivery systems would have disintegrated. There would be an ongoing crisis of lack of viable medicines and of trained medical practitioners in the countryside. Malnutrition and preventable diseases would be on the rise, with no hope in sight for recovery.

- The ranks of displaced persons would have swelled to well over half a million.

- Basic infrastructure in the country would be in a shambles. Blackouts lasting days or weeks would be the norm in the capital, months throughout the rest of the country. Many primary arteries would be impassible.

- The country would still be reeling from the effects of the 1986 earthquake, which left thousands homeless, and businesses and schools in ruins. Government services of health, education, water and transportation could not have been restored.

- Education today would reach only into the metropolitan areas of San Salvador, leaving more than a million children without access to this essential service.

- Implementation of the Agrarian Reform would be at a standstill. Little titling would have been accomplished, and more than 480,000 campesinos would have lost the opportunity to share in the nation's most precious asset. Land invasions would be the norm.

- There would have been a more marked increase of Salvadoran refugees into the U.S. for both economic and political reasons, creating a significant additional direct cost to our already heavily burdened social support systems.

Because of our assistance since 1980:

- The economy bottomed out between 1982 and 1983. Real output, which fell 22% over 1979-1982, showed positive growth through the rest of the 80's. In 1990, the economy grew 3.4%, the highest since 1978. Inflation has been brought under control and private sector investment has grown at an average rate of 8% in real terms over the last eight years. Credit is available for private sector production and investment, and terrorism insurance is available, reducing the risk to the investor. Unemployment is about 10%, although under-employment and low wages remain problems. Non-traditional agricultural and industrial exports are growing at a combined rate of approximately 34%.

- Our earthquake emergency assistance and reconstruction programs have touched most of the people living in San Salvador. Of the fifteen neighborhood markets to be reconstructed, six were finished in 1990, two more have been inaugurated this year, and the others will soon follow. Almost 10,000 families who were displaced by the earthquake have been given the tools and materials to reconstruct their homes and their lives. More than 50,000 jobs were created during the past three and one half years, putting people back to work and addressing social and fiscal problems of affected families. Roads, water, and other major infrastructure projects have been completed or are under construction.

- The democratic process has not only survived, momentum has increased. Very significant achievements have been recorded, especially in the case of free and fair elections, of which there have been four since 1984. The March, 1991 elections included on the ballot two parties of the far left. Independent election observers called it a clean and peaceful election. Free labor unions are operating, and gaining strength and credence through working in an open framework with the government of El Salvador. Basic human rights have improved, but attention will still need to spotlight this area. Municipal government has been strengthened through the Municipalidades en Accion (MEA) program which backs participatory democracy through open town meetings.

- The number of Salvadoran political refugees has fallen, and there are many returning populations. USAID repatriation and relocation activities have helped 11,000 families (approximately 55,000 people) made homeless by civil unrest. The program has assisted many of these displaced families gain title to land, build houses, apply for credit, and produce their first crops.

- As of 1990, USAID has remained the only donor assisting in repairing direct and indirect damage inflicted by guerrilla activity. More than 5,500 electric transmission and sub-transmission lines destroyed by the Marxist insurgents have been replaced. Electric systems have continued to function, and some reconstruction requirements have been met. There are eighteen Bailey bridges in operation, one the longest Bailey span in the world, which permit commerce to continue unabated. Rural electrification has increased to 24% coverage from less than 7% in 1978.

- Access to basic health services and medicines has been maintained and extended in marginal areas -rural and urban, and there have been no major epidemics. Incidences of malaria, which had been at the highest level in Central America in the early 1980's, have dropped, and statistics now show that El Salvador has a rate of only 6% - lower than any other country in Central America. Infant mortality continues to decrease, and overall, nutrition status is on the rise. Access to potable water, while at 90% in the urban areas, remains low (18%) in the rest of the country, but should improve dramatically in the next few years, thanks to heavy USAID and other donor investments to this sector now underway.

- Although some 600,000 children remain outside the system, access to primary education has increased dramatically throughout the country. More than 3,000 classrooms have been built or reconstructed by USAID since 1985, and the foremost technical vocational training center in Central America was rehabilitated and reequipped after the 1986 earthquake. USAID assistance since 1987 has provided 8,900 workers new job skills, 3,700 workers managment training, and 2,000 people export-related training.

- Titling of land to small farmers under the Agrarian Reform is now almost complete. To date, more than 43,000 campesinos have received titles. Agrarian Reform beneficiaries are now contributing to the growth of their country by producing more than 25% of the basic grains consumed in El Salvador, and a steadily growing portion of non-traditional crops for export. Non-traditional export crops generated $41 million in foreign exchange in 1989, and are expected to reach $50 millon in 1990.

- Salvadorans from all socio-economic levels are starting to come home and rebuild. Investment in the country is up, as are cash reserves. With a sound economic framework now in place, certified by the International Monetary Fund, and supported by USAID and the major multilateral donors, IBRD and IDB, growth in the country could become self-sustaining by the middle of the decade.

We are at a critical juncture in our assistance to El Salvador. With peace in sight, and the economy starting to rebound, El Salvador could, once again, become one of the most economically viable countries in Central America, and as such a strong trading partner for the United States as well as a powerful growth pole and economic stimulus to the region. The country will need assistance through the early stages of peace in order to restore services damaged by the insurrection and to assist neglected sectors regain vital coverage and scope.

There is an enormous productive potential and energy in the people of El Salvador. Given opportunity and access to resources, the country will be able to surpass its achievements of the 70's. We must never lose sight of that potential.

April 9, 1991

Social Shock Absorber Program
Coping With Adjustment

The Mission is cognizant that the economic adjustment program will, in the short-run, have a negative impact on certain sectors of the population. Over the longer term, however, economic adjustment will lead to a 8.7% increase in real per capita GDP by 1994, as contrasted with a no-change scenario that would lead over the same period to a decrease in real per capita GDP of 8.4%. The issue, therefore, is not one of whether to implement the economic program, but rather how to "cushion" the blow on that segment of the Salvadoran population which, without assistance, would suffer income losses that would endanger their health and that of their families.

The individuals most affected will be those who are currently living in extreme poverty and employed in non-agricultural related fields -- that is, largely urban residents who will be unable to purchase a nutritionally adequate food basket. According to 1988 data collected by the Ministry of Planning in their Annual Multipurpose Household Survey of Urban Areas, approximately 150,000 individuals live in households with a monthly income insufficient to purchase a nutritionally adequate food basket. These individuals have a monthly income of less than 614 colones per month (approximately $77.) According to the best Mission estimates, the number of these individuals could possibly double to 300,000 during the first year of economic adjustment.

It is they who will be most affected by the increase brought about by measures to raise producer prices of basic grains and dairy products. To the extent that these people are employed in credit intensive industries, they may also lose a source of income if the industry becomes unprofitable due to the adjustment in interest rates.

The GOES, in concert with USAID and other donors, has instituted a program to assist the most vulnerable groups to weather the impact of the economic structural adjustments. It must be emphasized, however, that this program serves to ameliorate the trauma of adjustment. It will not eliminate the shock nor will it be able to reach the entire universe of people that are affected. Our best estimates are that in the urban areas, additional employment will be available for as many as 50% of those 150 thousand individuals who fall below the poverty line.

To respond quickly to the situation in the urban areas, the Mission and the GOES have drawn on the current inventory of projects, both dollar and local currency funded, to create jobs. When feasible, we have accelerated the rate of implementation of certain ongoing efforts, financially replenished and geographically expanded other activities already in progress and, where necessary, have launched new initiatives. With the advance implementation of the $98 million Earthquake Reconstruction project, significant employment in the greater San Salvador metropolitan area, about 243,000 person/months of work was generated by the end of 1990. In addition, the local currency funded Municipalities in Action (MEA) program targeted the poor in metropolitan San Salvador, as well as the principal regional population centers of San Miguel and Santa Ana. In total, these activities generated additional employment opportunities for 30,000 individuals per month during the remainder of 1989 and up to 50,000 individuals per month during 1990.

Also in the short-term, jobs produced by the USAID/El Salvador program will complement those generated by other donors. For example, the Inter-American Development Bank's (IDB) ongoing urban water and sanitation project and the World Bank's earthquake reconstruction effort have generated substantial employment.

For the rural poor population, even though increased wages will likely offset higher food costs, there have been some temporary reductions in income. In anticipation of these short-term needs, added emphasis was given to getting our planned FY 90 labor-intensive projects underway as well as expanding other labor-intensive local currency financed initiatives. All together, these activities have generated an average of 35-40 thousand jobs monthly in the rural areas.

- The new $75 million Public Services Improvement project will generate jobs via the repair of the power grid, the installation of rural water systems and the upgrading of rural roads.
- We are replenishing and expanding the local currency financed Municipalities in Action program which creates rural employment through small scale infrastructure projects in rural townships throughout the country.
- In addition, the ongoing Health and Jobs for Displaced Persons project provides a targeted jobs program for this vulnerable population.

While we recognize that the jobs created may be of an intermittent nature (i.e., any given individual may not have a job for the entire 18 month period), we do believe that this gross number of positions will, in significant measure, prevent a deterioration in the health status of poorer Salvadoran families.

This shock absorber program has multiple impacts. First, the jobs created will enable the beneficiary families (the extreme rural and urban poor) to have not only a source of income during the period of adjustment, but also help them to cope with an anticipated increase in the cost of the food basket.

Second, society at large will benefit from the economic and social infrastructure that will be put in place through these public works programs.

Third, with particular reference to the MEA, urban-MEA, Chalatenango 88 and Oriente 89 activities, the democratic processes of the country will be strengthened. These programs have been, and will continue to be, based on open town meetings in which the citizens select local improvement activities. Experience has demonstrated that this approach has enhanced the role of the local mayors and enabled the populace to participate directly in decisions which affect their lives and livelihoods. On both counts, it has demonstrated the effectiveness of the democratic process at the grass roots level.

Finally, in addition to the aforementioned employment-related efforts, the GOES has access to food stocks sufficient to serve an estimated 602,000 per quarter during CY 90, through the World Food Program and the USAID-administered Title II program. These food resources are already programmed for the 90/91 period, for programs such as supplemental school feeding, food basket distributions, and food-for-work activities.

July, 1991

Minimizing Corruption

The process to see that corruption does not occur in any form begins in the project design stage and continues throughout the life of a project. This oversight includes vigorous actions by the Mission to assess and improve financial management capabilities through a combination of well-coordinated activities consisting of:

- o Establishing financial management assessments as conditions precedent to funding grants.
- o Contracting major US CPA firms to perform assessments and provide technical assistance to grantees.
- o Establishing a Financial Management Assistance Unit.
- o Monitoring financial management operations of particular grantees.
- o Instituting comprehensive audit coverage of grantees.

Financial Management Assessments

Financial management assessments or pre-award surveys of newly-created entities, or entities with which the Mission has not previously worked, are being performed by the Mission. For organizations where past Mission experience has not been totally satisfactory, financial management assessments are performed to verify that proper controls, procedures, and systems are currently in place to adequately safeguard AID funds. In these two situations, the project agreements and amendments contain a condition precedent to funding requiring the USAID/Controller's certification of financial management capability before funds are released to grantees.

In some cases, recent audits constitute the assessment and the satisfaction of audit recommendations is included as a condition precedent to disbursement. Assessments are not deemed necessary in cases where the Mission has had recent experiences with an organization's financial management capabilities and judges them to be acceptable.

US CPA Contracts

The Mission recently signed IQCs for two years duration with two major U.S. CPA firms (Ernst & Young and Price Waterhouse) to provide financial management assessments of grantees. These firms will be called upon to assess financial management capabilities of prospective implementing entities at the project design stage.

When an assessment reveals significant operating problems or that an organization's operations will be significantly impacted by the proposed grant, technical assistance is provided to ensure that appropriate financial management procedures are implemented. If during project implementation, it is determined that the recipient entity's systems and practices do not meet the standards required by AID, the CPA firms will provide technical assistance to grantees to correct identified problems.

Financial Management Assistance Unit

The Mission has created a Financial Management Assistance Unit to review grantee financial operations. This one-of-a-kind unit consists of four professionals with audit or other financial management experience.

The Unit provides the Mission with the capability to conduct on-site reviews of grantee accounting records and operations. The Unit's mission is to identify and correct grantee financial problems in early stages of project implementation. In its short period of existence, the Unit has examined the supporting records of several grantees and has identified a number of adjustments, resulting in the recovery of substantial numbers of ineligible costs.

By establishing the Financial Management Assistance Unit, the Mission has moved from a post facto audit response mode to a proactive approach which ensures that grantees follow sound financial management procedures.

Financial Operations Monitoring

In those organizations where past experience has not been satisfactory, where oversight has been mandated by Congress, or where correction of the identified problems may require several months to fully implement, the Mission has contracted with various CPA firms to perform concurrent operations monitoring. The two IQCs previously mentioned will be utilized to perform periodic operations monitoring activities as well.

In the past we had problems with CONARA's Financial Systems. Therefore, the USAID contracted the services of Price Waterhouse (PW) to do concurrent audits through 1993. Under the contract PW has also followed up on old audit recommendations to ensure compliance with them.

Audit Coverage

Extensive audit coverage is also being used to improve Mission accountability. Most Mission projects now require annual financial audits by U.S. affiliated CPA firms, using GAO standards to be performed on a prospective basis from the very start of the project. That is, audits and financial reviews are contracted in advance or at the beginning of the period to be audited. Interim audit steps (e.g., review of internal controls, observation of inventory counts, surprise payroll inspections and cash counts, etc.) are performed throughout the period being audited. In this way, the Mission is more likely to be provided advance notice of any serious financial management deficiencies in time to correct the problems. The IQCs previously mentioned for financial management assessments and services will also be utilized to perform financial reviews.

In addition, the Mission is implementing the RIG/A/T's suggestion that all local PVOs (e.g., FEPADE, CENITEC, FUNTER, FIPRO, and FUSADES) contract for annual financial audits using a scope of work provided by AID and CPA firms prequalified by the RIG.

Other Efforts

In line with the new AID/W guidance on Host Country Contracting, the Mission has recently contracted for comprehensive assessments of four agencies with host country contracting responsibility and the commodity management systems of fourteen other agencies.

In addition the USAID has under consideration a new PAAD for the Balance of Payments Program whose conditionality clauses include efforts towards the establishment of a uniform system of integrated financial management and auditing for the GOES consisting of: A budget process; a treasury function which will include cash flow and debt management; a reformed accounting function; and a Court of Accounts to perform independent post-audits of GOES organizations, programs, activities and functions.

Furthermore, to increase cooperating government awareness, the Mission has been financing participation of GOES Officials at seminars and conferences dealing with subjects such as financial management improvement, how to combat white collar crime, embezzlement, etc.

Local Currency Program

The Mission has taken strong steps including increased audit coverage and greater technical assistance to improve the financial responsibility of entities funded by local currency.

During CY-1989, SETEFE conducted audits of all GOES Implementing Units being funded from the AID Local Currency Program, the field work for these reports was done in 1989, the cut-off date was June 30, 1988. These audits generated sixty-two reports. Follow up on all recommendations has been made by SETEFE. Of 782 recommendations, only 61, or 7.8% remain open as of March 31, 1991; from a total of ₡112,514,275 Questioned Costs, only ₡9,600,811 or 8.5% remain open at the same date.

Under the 1990/1991 SETEFE Audit Program, 84 contracts have been signed with local representatives of U. S. firms to cover 378 different activities.

Corruption

Whenever corruption is suspected, indicated or communicated to the Mission, the following steps are normally taken:

- The validity of the allegation is evaluated by the Controller's Office and project personnel and reported to the Director's Office.
- If the charges have merit, the Mission consults with the RIG, which decides whether to audit or to investigate the charges.
- The Mission cooperates fully with the decisions of the RIG.
- In consultation with the RIG, the Mission decides upon the action to take. This may involve suspension of all financial operations, or sanctions against individuals.
- If the situation warrants, the RIG may request the assistance of the Salvadoran Special Investigative Unit (SIU).

In conclusion, El Salvador's AID Program is one of the most frequently audited and closely monitored programs in the world. Due to the heavy workload generated by the many audits, the Mission has a U. S. Direct-hire person in the Controller's Office responsible for audit liaison and direction of the Financial Management Assistance Unit.

July, 1991

Basic Grains Price Band—What It Is and What It Isn't

There appears to be misunderstanding related to the proposed price band system as it applies to basic grains in El Salvador. In general, most people think the system does more than it really does. The price band's limits are not domestic price controls. This document is intended to provide a better understanding of the system, its method of operation and its expected impacts. Corn is used as an example throughout the memo, because preliminary data have been developed for corn and are available from the "Unidad Tecnica de la Banda de Precios".

The Corn Market in El Salvador

Corn is produced mostly by small subsistence farmers. Over the last decade they have seen the real price of corn, and their incomes, decline by more than 60 percent. Corn is harvested in El Salvador during October, November and December; and during these months of abundant supplies the price is at its lowest. As domestic supplies are consumed, the price increases to its peak in June, July and August.

In addition to domestic production, imports of corn occur throughout the year. The imports can be commercial ones made because the cost of domestic corn has increased to a point where it is profitable to import corn. The imports can also be concessionary ones (like PL-480) which often arrive regardless of local market conditions. These may go on the domestic market when prices are at their highest (good) or when prices are at their lowest, depressing farmers' incomes even more (bad).

Untimely imports increase uncertainty in the local corn market and decrease efficiency. Farmers are afraid to plant for fear that imports will cut the price. Consumers postpone purchases in hopes of the same. The objective of the price band is to reduce this uncertainty and give both producers and consumers more information on prices, thereby increasing efficiency in the corn market.

Introduction to the Theory of the Price Band System

The price band seeks to stabilize prices and reduce uncertainty by giving incentives to import corn when domestic prices are high and restraining imports when domestic prices are low. The price band system accomplishes these tasks by adjusting the price of imported corn to a pre-determined level through the use of tariffs and tariff rebates.

In other words, when international prices of corn are low and likely to compete with domestic production, a tariff will raise the cost of imports to the lower level of the price band, or "floor". This affords a measure of protection to the domestic producer. When international prices of corn are high and there is little incentive to import, even when domestic prices exceed the upper limit of the band, incentives are given to importers to supply the domestic market with imported corn. These incentives protect the consumer from price increases above the "ceiling".

Because the limits of the band are established on the basis of international prices, producers and consumers, even while being protected from immoderate price fluctuations, are being exposed to the competitive forces of the international corn market. Over time, this exposure will force Salvadoran corn producers to become more efficient.

Calculating the Limits of the Band

Establishing the limits of the band is a purely mechanical exercise:

1. Obtain the pertinent international prices for the last 60 months' of the commodity under consideration (In this case, #2 yellow corn, FOB, US Gulf).
2. Adjust the prices for inflation by multiplying by the producer price index for the U.S.
3. Rank the resulting real prices from lowest to highest, discard the highest and lowest fifteen observations and choose observation #16 as the "floor" and observation #46 as the "ceiling".

In the exercise conducted for corn, the limits of the band are real prices of $88.45/M.T. and $121.06/M.T., FOB, US Gulf.

Adjusting World Prices to Relevant Domestic Ones

The above levels form the basis of the price band, but they are not the prices which face importers or which compete with local production. The costs of importing corn and putting it in the San Salvador market, including the prevailing tariff, must be added to the real FOB prices limits calculated above.

A fixed tariff is imposed when international prices are between the limits of the band. A proportional variable tariff is added, or a tariff rebate given, when international prices are below or above the band's limits.

In the case of corn, the adjustments increase the price band limits for the San Salvador market to $146.66/M.T. and $187.40/M.T. assuming a 20% tariff rate. These prices are then converted to colones/quintal and announced in the spring as the "floor" and the "ceiling" of the price band. In the example used, the announced prices would be 53.22 colones/QQ and 68.00 colones/quintal @ 8.00 colones/US$1.00. (See Figures #1 and #2.)

In review:

Item	Lower Price	Upper Price
#2 Yellow Corn, FOB, US Gulf	$ 88.45/M.T.	$121.06/M.T.
Plus the cost of importation including a 20% tariff	$146.66/M.T.	$187.40/M.T.
Converted to colones/quintal @ 8.00 colones/US$1.00	$ 53.22 col/QQ	$ 68.00 col/QQ

Announcing the Band

The band is calculated and announced for a 12 month period beginning in the spring before planting decisions are made. Each farmer and each importer can then make their own decisions regarding whether or not to plant and whether or not to import.

Given the band limits and knowing the FOB price of imports, each importer can calculate the tariff which will be charged on any particular shipment.

Domestic Price Response

When local prices fall below the band's lower limit, a fixed plus the variable tariff forces up the price of imported corn in the domestic market to equal the lower level of the band. Local corn is consumed, imports are discouraged by the tariffs and the domestic price rises. When local prices exceed the upper level of the band, variable rebates on the fixed tariff reduce the cost of imported corn which enters the market and forces down domestic prices to the level of the band's upper limit.

World Prices and Imported Commodities

Because the price band system uses international prices as the basis of the band, it is useful only for commodities which are traded on the world market. As such, it is appropriate for corn, rice and sorghum in El Salvador, but it is not appropriate (as is) for the beans consumed in El Salvador which are only traded regionally and for which reliable price data do not exist.

In a country which is self-sufficient in the production of a commodity, the price band system will not work because the system depends on the equilibrating impact of more or fewer imports to stabilize domestic prices. For any given commodity, the price band's system of import incentives and disincentives increases or decreases the total supply of a commodity and thus stabilizes the commodity's domestic price within the band. The system's "rules" make explicit the mental calculations which consumers of corn go through..."Is it less expensive for me to buy domestic corn or to import corn?"

Alternatives to the Price Band System

Isn't there an easier way to achieve the same effect? Why don't we just take the international price of corn and say the band will be X% above or below that? Empirical studies show that world prices, over time, are inherently less stable than domestic prices. A simplistic system based on international prices would import world price instability into the local market.

Why don't we just pick two politically acceptable colon prices for the band and permit or disallow imports when prices move above and below them? Because the parameters of the band would not then be linking Salvadoran producers to

the world market and forcing them, over time, to compete under world market conditions. Moreover, the setting of domestic prices each year would be subject to an arbitrary political process.

Issues Raised by the Price Band System

The price band system raises several issues. First, a fixed tariff is necessary to compensate Salvadoran producers for subsidies given to producers in the major corn exporting nations, chiefly the US and the EEC. Setting the tariff level is a political decision the GOES must make with plenty of economic advice. The World Bank study team suggested a level above 10%. Once the fixed tariff is determined, it should only be altered under the "rules" of the system which proportionally increase or decrease the variable tariff based on the international price level.

A second issue is the exchange rate. The price band system should not be implemented until a relatively stable exchange rate is achieved. An unstable exchange rate will lead to distortions during the year that the announced band is in effect. An overvalued exchange rate will encourage imports.

Figure 3 shows the impact of different fixed tariff and exchange rates on the "floor" and "ceiling" prices converted to colones/quintal.

Concessionary imports raise another issue. El Salvador receives a large volume of concessionary imports, such as PL-480. These have a tendency to distort the domestic market. It is essential that concessionary imports be imported subject to the rules of the price band with international price values imputed to them. In-kind donations for needy groups would still be imported and distributed without resort to the price band's tariff regime.

Supporting Actions

Since the operation of the price band depends upon imports there are several supporting elements which are necessary to make the system function efficiently. One is information. Producers and importers need to know what are the international and domestic prices of the commodities subject to the band. Access to credit, foreign exchange and ease of imports are other important elements essential to the consumer protection afforded by the band's upper limit. When domestic prices exceed the upper limit of the band, importers must have access to the credit, foreign exchange and import documents in a timely fashion in order to prevent an undue rise in consumer prices.

The current domestic price of corn at the wholesale level in El Salvador is 78 colones/quintal. Under the proposed system, this price would be above the band's upper limit, and importers would be receiving tariff rebates to encourage imports. Credit, foreign exchange and ease in meeting import requirements would have to be available to them.

Since in the long run, the tariff is expected to be reduced, Salvadoran farmers will increasingly be exposed to world market forces. In order to compete they will have to have technical assistance to either produce corn more cheaply or switch to other crops with greater comparative advantages.

Conclusion

The price band system provides a means of moderating annual price variation by increasing harvest prices to producers and decreasing inter-harvest prices to consumers. The "rules" of the system provide for a rational import policy in response to relative domestic and international price levels. The price band system minimizes intervention by the government in the basic grain market, and the intervention that does occur is visible to all and known beforehand. It also links domestic producers to world markets and increases efficiency.

FIGURE 3

Price Band Floor and Ceiling Prices Under
Various Fixed Tariff and Exchange Rate Assumptions
(Based on World Prices of US$88.45/M.T. and US$121.06/M.T.)

		Exchange Rate (Colones/US $1.00)		
Fixed Tariff Rate		8.00	8.50	9.00
1.	0%			
	Floor	45.40/QQ	48.24/QQ	51.08/QQ
	Ceiling	57.79/QQ	61.40/QQ	65.81/QQ
2.	5%			
	Floor	47.36/QQ	50.32/QQ	53.28/QQ
	Ceiling	60.34/QQ	64.12/QQ	67.89/QQ
3.	20%			
	Floor	53.22/QQ	56.55/QQ	59.87/QQ
	Ceiling	68.00/QQ	72.25/QQ	76.50/QQ
4.	30%			
	Floor	57.13/QQ	60.70/QQ	64.27/QQ
	Ceiling	73.11/QQ	77.68/QQ	82.25/QQ

July, 1991

Review of Economic Results from Presidential Cumbre in San Salvador

The ANR Office received a copy of the communique issued by the Presidents of the Central American countries at the conclusion of the recent cumbre in San Salvador. Several economic measures are addressed. A review of the statement for measures which might affect agriculture and the Salvadoran economy yields these brief and "unofficial" observations as follows:

1. Liberalized agricultural trade - The official statement indicates that liberalized agricultural trade applies to, for all intents and purposes, basic grains. If implemented, this is no mean accomplishment.

The agreement states that free trade in basic grains will commence between the CA countries by June 30, 1992. As a pre-condition to this action, all countries will adopt, by December 31, 1991, the "price band mechanism" as it is currently applied to corn and rice (and soon to be applied to sorghum) in El Salvador.

The Mission is pleased to see the other Central American countries adopting a policy which it thinks has been good for El Salvador and could serve the region equally well. Common adoption of the mechanism means, however, that any advantage Salvadoran producers gained from the band, at least relative to neighboring producers, will be eliminated.

As a result, El Salvador must improve the efficiency of its entire grain production, storage and marketing chain. Policies like closing IRA and developing a modern grain trading system in El Salvador are key to maintaining an edge. Activities under the PRISA loan and planned USAID assistance from the Food and Feed Grains Institute take on increased importance.

2. Tariff policies - It was agreed that by December 31, 1992, all CA countries will fix tariffs between 5-20 percent. Within this range each country will set its own tariff on individual items, and exceptions for items of particular interest to a country will be tolerated.

3. Central American regional trading block - It was agreed that the CA countries will negotiate with the US, Mexico, Venezuela, etc. as a block. It is important to note, however, that this will not preclude bilateral agreements between individual CA countries and outside trading partners. While this may seem contradictory, it is good news for those who were worried that a CA trading block agreement would reduce all participating countries to the level of the lowest common denominator, and thus penalize the more progressive trade regimes (of which El Salvador is probably the most progressive).

4. Guatemala/El Salvador free trade agreement - Guatemala and El Salvador agreed to negotiate a comprehensive free trade agreement within 90 days. This is an ambitious timetable, even though implementation of whatever is negotiated may be phased in over the next several years, say 1991-1996.

This could be quite significant and is part of the Northern Tier Strategy.

4. Northern Tier Strategy - This strategy holds that while Costa Rica will probably continue to negotiate most trade agreements bilaterally, a progressive, common regime presented by the Northern Tier Countries (Guatemala, El Salvador and Honduras) would be more appealing to outside trading partners and compensate for Costa Rica's traditional "favorite son" status.

The Guatemala/El Salvador free trade agreement (above) is the first step toward implementing this strategy. Currently, Honduras has legislative impediments to joining its two northern tier neighbors, but President Callejas apparently agreed to seek legislative relief from these. Supposedly, he will try to get Honduras into the pact before the August 1991 regional trade meetings with the US in Costa Rica.

5. Partnership for Democracy and Development (PDD) - It was agreed that the PDD is a positive thing...a good forum for the CA countries to discuss economic reforms with the rest of the world. This should make ROCAP happy as it was suggested at the trade and investment conference in Costa Rica that ROCAP should shepherd the PDD.

6. EEC Common Payment Mechanism - It was agreed that the CA countries and the EEC will conduct a joint review of the EEC sponsored common payment mechanism over the next 90 days. As a result of the review, the system will be maintained, revised or scrapped. In my opinion the mechanism has always been suspect as it facilitates perpetuation of overvalued exchange rates.

July, 1991

The National Plan
Background

In 1983, reacting to the insurgency's threat of gaining widespread popular support, the GOES formulated a strategy for restoring order and for strengthening civil governments in areas targeted by the guerrilla forces. This strategy, labeled the National Plan, was two-fold:

- o eliminate the insurgents via military intervention, and
- o establish strong local government and provide essential public services.

CONARA, the National Commission for Area Restoration, was created to implement the Plan.

In 1983 and 1984, the Plan focused on two guerrilla stronghold areas - the Departments of San Vicente and Usulután. After initial successes establishing a military shield, providing public services, and launching small and medium scale infrastructure projects, the effort was stalled for three reasons:

- o Military units had to be withdrawn to respond to guerrilla offensives in other areas.
- o Financial resources for public services restoration were insufficient.
- o Central government services ministries gave low priority to the Plan.

Since then, the Plan has undergone a series of adjustments that have strengthened it. In 1985, Combined Civic Actions (CCA's) were added to its inventory. During these one day affairs, CONARA distributed food and medicines and provided medical care to residents in conflictive areas while the military provided security. In 1987, there were 30 CCA's per month, and that number grew to 40 per month. In 1990, CONARA terminated the Combined Civic Actions program, which was the last minor link that CONARA had with the ESAF. At its peak, the CCA's represented less than 6% of CONARA's total budget.

In 1986, the Municipalities in Action (MEA) program was developed. Resources were channeled directly to municipalities from CONARA. The communities could then select and carry out investments they most needed. It was begun on an experimental basis in 14 geographic zones, and within 12 months, it was expanded to 210 of the country's 262 municipalities. Simultaneously, CONARA launched a nationwide program to train mayors and other municipal officials in public administration and planning and management of their infrastructure investments.

The National Plan, originally a program for reestablishing government services in areas regained from the insurgents, now includes 240 of the country's 262 municipal jurisdictions. Its activities comprise regional development programs which address the economic problems of villages, small towns and isolated rural areas. Most of these communities have no schools, health posts, community or municipal buildings, potable water or sanitation, nor a voice in establishing priorities for municipal activities.

In November, 1988 the MEA initiated a special regional development project targeting areas of the country where the insurgency had had a prolonged, strong

presence and which had received little attention from the central government. These special projects were amplifications of the MEA program which had been carried out in relatively secure areas. This approach was initiated in two Departments: Chalatenango, in three successive phases, with 24 target municipalities; and Morazán (Eastern Region), initially focused on 18 municipalities. The selected municipalities received grants above the levels received under the MEA program, and national ministries complemented these activities with resources for social infrastructure, and donated credit and technical assistance for agricultural production.

From 1986 to 1988, the following major legislation was enacted, further advancing the 1983 Constitutional guarantees of municipal autonomy: the 1986 Municipal Code; the Salvadoran Institute of Municipal Development (ISDEM)/1987; the Socio-Economic Development Fund/1988; and the National Municipal Corporation (COMURES)/1986.

In August 1988, ISDEM requested transfer of the MEA program from CONARA to ISDEM, and transfer of some training and technical assistance activities from COMURES to ISDEM. At that time, the entire municipal development portfolio was placed under the responsibility of a single USAID Division, IRD/RUD. In 1988, ISDEM initiated operations with 1.5 million colones in local currency financing.

In September 1989, MEA was given an additional focus. Responding to the anticipated negative effects of their proposed economic package on the urban poor, the GOES sought to provide for a "social safety net" through an urban program which would target the 16 municipalities with the largest marginal populations. Increased emphasis was placed on local level economic reactivation through project funded utilization of labor and materials.

In November, 1989, the guerrillas launched a major offensive in the capital and in other parts of the country. The populations principally affected by this offensive were residents of areas already targeted under the urban MEA program, making emergency relief efforts (distribution of food and reconstruction materials) simpler. The collaboration among OPAMSS, ISDEM and CONARA effected a timely response to those most affected by the offensive.

Targets and Outputs - CY 1991

- Continue to encourage democratic community participation through open town meetings.
- Encourage association of mayors at national and departmental levels to deal with inter-municipal problems.
- Continue with a modified Municipalities in Action program which establishes incentives such as matching grants which reward municipalities that increase revenues on their own.
- Train mayors in the areas of fiscal responsibility and project management.
- Continue to encourage and facilitate coordination and collaboration among CONARA and the numerous other actors in the municipal sphere.
- Finish approximately 1,500 infrastructure projects in 250 municipalities at a cost of $24 million.

Funding

- The CONARA program is funded with Host Country Local Currency from PL-480 and ESF on a yearly basis. The annual level of funding has grown from $2 million to its present level of $33 million.
- After FY 1991, CONARA will no longer be funded through the extraordinary budget. If the GOES decides to continue the program, it will receive its funds from the GOES ordinary budget. Because the GOES calendar runs 12 to 18 months behind the USG Fiscal Year, it is expected that CONARA will continue to use allocated FY91 funds until September, 1993, at which time USAID funding for the project will be sharply reduced.

Summary

A main Mission objective of the CONARA program is to strengthen the democratic process in El Salvador. Prior to the MEA program, mayors tended to be political hacks with little power or authority. With the advent of the Municipal Code, which promoted municipal autonomy, and financial input from CONARA to facilitate this autonomy, the mayors have been able to lead a peaceful democratic revolution. The Open Town Meetings, which are convoked by the mayors, encourage community participation in the decision-making process, and establish fundamental democratic values and processes.

Assuring the development of local revenue bases to take the place of AID funding, and encouraging the growth of community participation in their own futures are remaining goals, but much has been accomplished in changing the attitudes of rural Salvadorans toward their government.

July, 1991

Displaced Persons Program
Background

The rural population of El Salvador historically has been migratory. Because of unequal land distribution and high population density on available agricultural land, landless agricultural workers have traditionally followed the export crops, earning a meager living harvesting cotton, coffee and sugar cane. The worldwide recession of the 1970's curtailed demand for many of these traditional Salvadoran agricultural products, and increased the number of rural unemployed and underemployed. In search of a livelihood, migrants swelled urban areas; establishing the pattern of rural-to-urban migration in El Salvador that is prevalent in most of Latin America.

The civil conflict that began in 1979 added to this problem with the involuntary migration of displaced families. Caught between the Army and the insurgents, campesinos fled the conflict zones and joined the ranks of the migrant and the economically displaced. Forced to "make do," they squatted on vacant land wherever they could find it, beside roads, on railroad rights-of-way, on empty lots in towns and cities, even in abandoned factories and buildings. Many moved in with friends or relatives, often creating further hardship for others in the process.

Beginning in 1986, with the improvement of security throughout the country, some of the displaced began to return to the zones they had abandoned. This returnee movement started gradually and appears to be increasing. CONADES assistance to the displaced populations is reflected here:

Number of People Helped Per Year Through CONADES

1981	85,000	1982	249,000	1986	405,000
1987	320,000	1988	125,000	1989	100,000
1990	90,000				

Other assistance to the displaced population reflects that in 1986, approximately 125,000 persons were being assisted in conflict areas by the International Committee of the Red Cross (ICRC), and that in 1988 approximately 25,000 displaced persons were assisted by church groups and other institutions.

Most of the displaced are poor, but were, at one time, able to grow food for subsistence or to find occasional jobs. Now, this population has become dependent on outside assistance to meet even their basic needs.

USAID is assisting the Government of El Salvador, private voluntary agencies (PVOs), and private sector groups provide humanitarian assistance to thousands of displaced persons by means of a "safety net" of food, health services, and temporary jobs. In 1986 this program shifted its focus, moving from a dole program to one which emphasized reintegration of the displaced into the economy. Food programs have been converted from handouts to food-for-work activities, and more emphasis is being placed on helping people become economically productive through training and agricultural projects.

Special assistance, such as minimum shelter, temporary employment, productive projects and agricultural inputs, is being provided to displaced families returning to their homes or permanently relocating. Families not able to return home or relocate may participate in vocational skills training programs. Families which cannot become self-sufficient will be identified and continue to receive welfare assistance from the Ministry of Health or Ministry of Interior programs.

Within this strategy there are five components as follows:

- Jobs Program - To provide income-earning opportunities for displaced persons and upgrade communities to which they are returning or relocating in order to improve living conditions.

- Health Services - To provide preventive and curative health services to reduce life-threatening deficiencies in health, sanitation, and nutrition.

- Food Distribution and Nutrition - To provide a daily food basket of 1,600 calories to approximately 100,000 displaced using food from the World Food Program.

- Returnee and Permanent Relocation - To reintegrate displaced families into society. This is a three track program. (1) "Starter" packages of seed and other agricultural supplies, as well as assistance to repair long abandoned homes, are given to returning agricultural producers. (2) Temporary employment opportunities are focused on returnee communities. (3) Temporary food distribution is made available to these returnees.

- Training - To provide basic skills, primarily in the construction field, to help returnees obtain employment.

Accomplishments

The following are accomplishments of the Displaced Persons Program since its inception in May, 1982.

- More than 3,300 work projects have been completed, with an average of 250 in progress monthly; an average of 50 workers per project lasting approximately 10 weeks each.
- 11,000 jobs have been provided each month, generating income for more than 75,000 family members per month.
- 8.3 million person/days of work have been generated, benefitting 132 municipalities as of December 1987.
- An average of 1,000 displaced persons have received training in masonry, electricity, plumbing, baking, and in raising pigs and goats.
- 42,000 displaced persons per month have received medical care.
- More than 100,000 home visits have taken place to provide care to displaced persons.
- More than 81,000 referrals have been made to other health institutions.
- Food baskets of up to 1600 calories have been provided to more than 100,000 people daily.

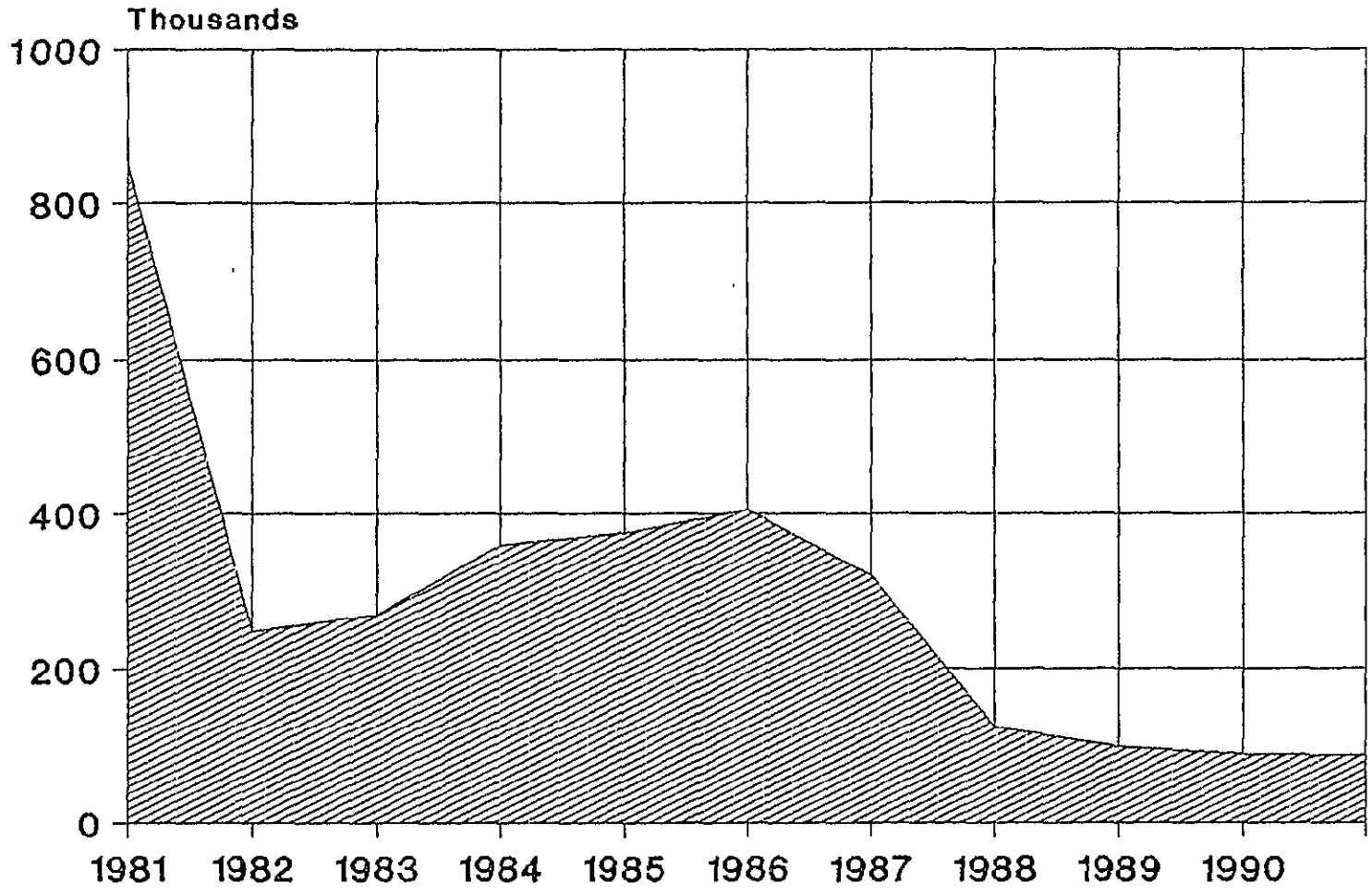
DISPLACED PERSON PROGRAM FUNDING
($ Millions)

	PL-480 FOOD 3/					
	USAID 1/	GOES 2/	USAID		WFP	OTHER
TOTAL						
Work Program	34.670	.200	--	--	--	34.870
Health and Envir.	2.693	6.690	--	--	.838	10.221
Food Distribution	.276	15.146	2.480	24.477	1.940	44.319
Pilot Relocation	13.409	.942	--	---	--	14.351
Program Mgmt.	4.366	--	--	--	--	4.366
International T/A	3.554	--	--	--	--	3.554
Evaluation & Audit	2.623	--	--	--	--	2.623
PVOs & Inst. Cont.	18.261	--	--	--	--	18.261
TOTAL	79.852	22.978	2.480	24.477	2.778	132.565

1/ USAID Project funds for Displaced Families Assistance Programs
2/ GOES counterpart contributions for Displaced Families Programs
3/ Equivalent value of food

July, 1991

El Salvador
Displaced Persons Per Year



Local Currency

Part of the U.S. Security Assistance Program, the Economic Support Fund (ESF), helps promote economic and political stability in regions where the United States has special security interests. Administered by USAID, ESF resources in El Salvador are used by the GOES to meet a variety of needs, including balance-of-payments support. Dollars in the fund are matched by the GOES at the market rate, and the local currency generated is used for infrastructure repair, capital projects and other development programs.

The FY 1991 PL-480 Title I (Food for Peace) agreement calls for an agricultural commodity loan of $35 million. Commodities bought with these funds from U.S. producers are sold by the GOES to local private commercial importers to generate local currency.

Agreements for the use of these funds are programmed bilaterally through negotiations between USAID and the GOES. This local currency is then used in three ways: as counterpart funds for USAID and other donor development programs; for private sector support; and as budget support for essential programs in health, education and agriculture. USAID and the GOES have agreed on the following uses:

ESF and PL 480 Title I Generated Funds

Components	FY 1991 $ Amount Millions	%	FY 1992 $ Amount Millions	%
GOES counterpart for A.I.D. projects	$ 40.0	32	$ 45.0	50
GOES development projects	46.4	37	0.0	0
A.I.D. OE and Program Trust Fund	13.6	11	12.8	14
GOES budget support	25.0	20	32.2	36
TOTALS	$125.0	100	$ 90.0	100

Uses of Pl 480 Title I Generated Local Currency
FY 1988 Through FY 1990
(in 000 U.S. dollars equivalent)

Development Programs	FY 1988 1	FY 1989 1	FY 1990 2
Agricultural Development	10,686	10,445	10,068
Education	5,914	3,600	1,000
Health System Support	5,619	5,000	5,000
Vol. Family Planning	140	200	0
Ag. Reform Guarantee Fund	0	8,000	5,524
Infrastructure	0	9,255	4,730
Audits	0	0	473
Rural Reg. Development	10,944	3,500	13,405
TOTALS	$33,303	$40,000	$40,200

Exchange rate (Colon:Dollar) 1/ (5:1) 2/ (7.4:1)

Section 416 Program - Uses of Local Currency for FY 1988 Through FY 1990
(in 000 U.S. dollars equivalent)

Development Programs	FY 1988 [1]	FY 1989 [1]	FY 1990 [2]
Agricultural Development	4,158	0	0
Education	0	0	0
Health System Support	353	0	0
Vol. Family Planning	0	0	0
Priv. Sect. Credit Lines*	0	0	0
Infrastructure	1,004	0	0
Rural Reg. Development**	2,385	0	0
TOTAL	$ 7,900	0	0

1/ ₡5 = US $1
2/ ₡7.5 = US $1
*For small business, agribusiness and overall economic reactivation
**Potable water, school desks/ supplies, health, electrification and roads

July, 1991

P.L. 480 Titles I and II
Background

In cooperation with the United States Department of Agriculture, PL (Public Law) 480, the Food for Peace Program, provides food aid to many developing countries. El Salvador receives assistance under both Titles I and II of this legislation.

Title I is a concessional sales program which provides developing countries long-term, low-interest loans to purchase U.S. farms products. In exchange, these countries agree to carry out self-help measures and use local currency generated to fund programs such as agricultural development, rural development; nutrition, and population planning as well as measures aimed at increasing agricultural production, and improving storage, transportation, and distribution of commodities.

Title II provides donations of food to needy countries for distribution to undernourished poor families and other vulnerable population groups (i.e. pregnant women and children under 5).

Title I

In El Salvador, the PL-480 Title I program began in 1980 with a modest $2.9 million agreement. Since then, the program has increased substantially, with total aid between 1980 and 1990 reaching approximately $370.2 million. In 1991, the program amounts to $35 million.

To implement the Title I program, the Government of the United States (USG) and the Government of El Salvador (GOES) sign agreements for the sale of U.S. agricultural commodities, such as wheat, wheat flour, tallow, corn, sorghum, edible vegetable oil and tallow. Such agreements specify the terms of the sale and repayment, as well as specific self-help measures which the recipient government agrees to undertake to increase agricultural production and improve storage, transportation, and distribution of food commodities. In El Salvador these self-help measures have included the distribution of land to campesinos and small farmers, improvements to farm to market roads, cooperation with international efforts to eradicate pests (e.g., screwworm) and exotic diseases which affect fruit and vegetable crops and livestock, and development of a natural resources management plan.

The Government of El Salvador also agrees to make available the proceeds from the sales of the commodities to the private sector for development programs which benefit the rural poor. In El Salvador, these local currency generations have been used primarily to expand credit to small farmers, agrarian reform cooperatives, and microenterprises; to support the redistribution of lands to campesinos under the agrarian reform program; to provide water and electricity to previously unserved rural areas; and to provide financing for medicines and rural road and school construction.

In accordance with the terms of the Agreement, agricultural commodities are imported by the GOES using commercial transport arrangements, and sold through commercial agents to El Salvador's private sector for the production of

final goods, notably flour, bread, margarine, cooking oils, and soap. Funds generated from the sales are deposited in separate P.L. 480 local currency accounts in El Salvador's Central Reserve Bank, and subsequently used to fund development programs, such as those noted above, jointly agreed to by the GOES and A.I.D. The Ministry of Planning and AID work closely together in the identification of eligible activities, the review of "Action Plans and Budgets" required of agencies which receive local currency funding, and the monitoring and auditing of activities financed with these resources.

Commodity imports financed under the FY 1990 Title I Sales Agreement are expressed below in terms of dollar amounts (in millions) and metric tons:

Commodities	FY 1990 $	FY 1990 MT	FY 1991 $	FY 1991 MT
Vegetable Oil	11.0	17,970	9.0	16,500
Tallow	7.0	21,240	9.0	30,000
Protein Meal	0.0	0	2.0	9,000
Yellow Corn/Sorghum	3.0	27,800	0.0	0
Wheat	19.2	129,230	15.0	137,000
Total	40.2	196,240	35.0	192,500

The 1991 Title I Agreement, signed in December, 1990, includes the following self-help measures:

- o Privatization of selected public sector agricultural entities;
- o Expansion of the basic grains pricing policy;
- o Elimination of import-export administrative processes;
- o Protection of natural resources and environment;
- o Expanding the investigation of the existence of exotic pests that affect fruit and vegetable crops;
- o Preventing the introduction and spread of exotic diseases to Salvadoran livestock herds;
- o Continuing activities to eliminate screwworm (Chochliomyia hominivorax) in El Salvador;
- o Improvement of the storage, off-loading and distribution facilities at Acajutla Port; and
- o Increasing emphasis on rural health care.

Title II

The PL-480 Title II program in El Salvador has been invaluable in the Government's efforts to respond rapidly to the nutritional needs of the thousands of war displaced persons, and other needy individuals. Donated food products, including corn, rice, beans, vegetable oil, and wheat-soy blend, will be imported into El Salvador and used to supplement the nutritional intake of the approximately 125,000 displaced families and another 575,000 rural and urban poor.

In FY-91 approximately 27,472 MT of PL 480 Title II commodities will be imported into El Salvador. These Title II commodities will provide food assistance to a total of 725,000 needy Salvadorans through World Food Program and USAID programs. The WFP commodities will provide food assistance to approximately 450,000 beneficiaries. These beneficiaries are enrolled primarily in Displaced Person Programs (DP's), Mother/Child/Health, (MCH), School Feeding and various Community Development Food programs (Food for Development).

Food from the USAID Title II Program is distributed by the CRS/CARITAS Maternal Child health Program, which imports and distributes 7,936 MT of commodities, providing food rations to a total of 130,000 mothers and children every month.

CRS/CARITAS Maternal Child Health Program - Metric Tons

	1990 Actual	1991 Estimated	1992 Projected
Rice	2,122	2,031	2,122
WSB	1,404	685	1,404
Oil	624	719	624
Red beans	1,277	901	1,277
Corn meal	2,509	2,410	2,509
Total	7,936	6,746	7,936

The commodity breakdown for the USAID Title II programs for 1990, 1991 and projection for 1992-1993 follows:

USAID Total Food Imports

	Metric Tons	Dollar Value
1989	15,423	6,354,070
1990	12,472	4,866,000
1991 (Estimated)	6,746	2,361,000
1992 (Projected)	7,936	2,812,000
1993 (Requested)	7,936	3,093,000

March 25,1991

Uses of Local Currency for FY 1989 THRU FY 1991
(in 000 U.S. dollars equivalent)

Development Programs	FY 1988 [1]	FY 1989 [1]	FY 1990 [2]	FY 1991 [3]
1. Agricultural Development	5,900	8,400	11,300	11,300
2. Education	6,172	3,600	3,500	3,500
3. Health System Support	4,200	5,000	4,100	4,100
4. Voluntary Family Planning	200	200	200	200
5. Private Sector-Credit Lines*	8,057	8,000	0	0
6. Expand/Improve Infrastructure	0	11,300	6,700	6,700
7. Rural Regional Development**	0	10,971	3,500	9,200
TOTAL	$24,529	$47,471	$29,300	$35,000

SECTION 416 PROGRAM

Uses of Local Currency for FY 1987 THRU FY 1990
(in 000 U.S. dollars equivalent)

Development Programs	FY 1987 [1]	FY 1988 [1]	FY 1989 [1]	FY 1990 [2]
1. Agricultural Development	4,100	4,158	0	0
2. Education	0	0	0	0
3. Health System Support	0	353	0	0
4. Voluntary Family Planning	0	0	0	0
5. Private Sector-Credit Lines*	0	0	0	0
6. Expand/Improve Infrastructure	0	1,004	0	0
7. Rural Regional Development**	0	2,385	0	0
TOTAL	$ 4,100	$ 7,900	0	0

1 ₡5 = US $1
2 ₡7.5 = US $1

*For small business, agribusiness and overall economic reactivation
**Potable water, school desks/ supplies, health, electrification and roads

The Importance of Coffee in El Salvador
Background and Trends

In El Salvador, coffee is agriculture's predominant crop, and the nation's most basic economic activity. It is cultivated on about 170,000 hectares (approximately 12 % of El Salvador's arable land) by a few more than 35,000 producers (about 12% of the agricultural producers), but these figures understate its significance to the country.* Coffee is El Salvador's primary source of employment, foreign exchange, fiscal revenues and natural resource conservation.

Employment - Coffee is labor-intensive. On average, each hectare of coffee requires 85 person/days of labor to produce and 95 person/days to harvest, and the resulting production requires 25 person/days to transport and process. As a result, at levels of production prevalent during the late 1980's, the cultivation, harvest and processing of coffee provided 35-40 million person/days of labor per year, or between 140-160 thousand full-time jobs (based on 250 days/year.) At an average wage of 15 colones/day, the coffee industry injects 500-600 million colones in wages per year into the economy. Moreover, most employment created and wages paid are in the rural areas where job opportunities are limited. Coffee is the major source of off-farm cash income for landless laborers and small farmers.

Foreign Exchange - Coffee has traditionally been El Salvador's primary earner of foreign exchange, and given the decrease in other economic activity, especially the decline in cotton, coffee's role in support of the balance of payments has become critical. Since 1983, coffee has constantly accounted for 58-72% of El Salvador's value of exports (Table I.) Taking into account that dollar earnings from coffee finance not only imports, but also a large portion of El Salvador's external debt, coffee's importance as an earner of foreign exchange is self-evident.

Table I - Value of Coffee Exports
(Millions of US$)

Year	1984	1985	1986	1987	1988	1989	1991/1
Coffee Exports	449.8	463.7	546.8	351.5	358.0	227.5	258.9
Total Exports	725.9	695.9	754.9	590.9	608.8	496.5	580.2
Coffee/Total (%)	61.9	66.7	72.4	59.4	58.8	45.8	44.6

/1 Preliminary figures.

* The actual number of hectares of coffee is a matter of interpretation. A recently completed land-use study indicates that as many as 200,000 hectares may be planted in coffee, but much of this may have been abandoned or is underutilized. The most commonly accepted figure for the area in which coffee is worked is 170,000 hectares. The intensively cultivated area is certainly less.

Fiscal Revenues - Until 1988, coffee had provided the government of El Salvador, on average, approximately 20% of its total tax revenue (Table II.) In 1989, however, coffee export revenue decreased 36.5% compared to the 1988 level, and amounted to only 5% of the total tax revenue, mainly due to a 31.3% decrease in exported volume. The coffee export tax rate is determined by a formula based on world prices, and is collected as an export tax, which is levied on producers in lieu of an income tax.

Table II - Coffee Tax Revenues
(Millions of Colones)

Year	1985	1986	1987	1988	1989	1990
Coffee Tax Revenues	357.0	855.0*	431.0	368.0	124.0	253.7
Total Tax Revenues	1,659	2,702	2,517	2,532	2,457	3302.4
Coffee/Total Tax (%)	21.5	35.3	17.2	14.5	5.0	7.7

*Includes 464 million colones in tax surcharges

Although the 1989 world price of coffee dropped, this had no significant impact on revenue collection, since most of the coffee had already been sold. Neither did a coffee tax reform which eliminated the surtax, because it was not implemented until late December, 1989. In the short term, however, the coffee tax revenue is expected to increase because government regulation of this revenue was eliminated in October, 1989, stimulating higher levels of investment, production and marketing.

Natural Resource Conservation - In addition to the above mentioned roles, coffee has provided crucial conservation benefits to El Salvador's fragile natural resources. It is estimated that only 12% of El Salvador's national area possesses adequate vegetation cover, and that 43% of the national area is subject to significant soil erosion. Areas planted in coffee and coffee shade trees prevent soil erosion, provide fire wood, add to the water table, and offer habitats for wildlife in El Salvador. Without coffee, the country's already degraded natural resource base would deteriorate even more rapidly, especially in the mountains and on the slopes where coffee is generally planted, and where erosion is most likely to occur.

Coffee's role as a provider of firewood should not be overlooked. More than 60% of all energy consumed in El Salvador is provided by wood, and more than 77% of the population depends on wood as its primary cooking source. Properly maintained shade trees within coffee plantings require annual pruning. It is estimated that these prunings provide 36% of the wood consumed for domestic purposes. In addition, both the coffee husks and pulp are burned to produce energy, often for the coffee processing facilities, themselves. The cultivation of coffee, therefore, reduces the demand to cut scarce forest resources.

Production - Although El Salvador has been Central America's premier producer, recent trends show that its share, as well as its absolute quantity have been decreasing. During the period from 1975-1980, El Salvador's share of coffee

production within the major Central American Countries was 36%. This fell to 31% during the 1981 to 1985 period. Bad weather reduced the total amount of coffee produced in Central America for the 1988/89 harvest, and at that time, El Salvador's share fell to only 17%. Even with excellent conditions for the next harvest, El Salvador's estimated 2.4 million bags will represent only 24% of the total production for the region. This decline in production relates most directly to a lack of willingness by coffee producers to invest in technological advances and cultivation practices which intensify yields.

Yields - The intensity with which Salvadoran coffee is cultivated decreased during the 1980's, as indicated by lower yields per hectare. Coffee producers of all sizes have been unable or unwilling to invest in rehabilitation or renovation measures to maintain or to increase intensity. Data indicate that during the 1980's, national average coffee yields per hectare fell from 24 quintales to fewer than 11 quintales. A study of 100 actively cultivated coffee farms indicates yields of as low as 7 quintales/hectare in some cases, compared to a possible 50 quintales/hectare on rehabilitated plots.

These higher yields would directly lower the average costs of production, but declining yields raise them, reduce income to producers, and decrease their financial ability to invest in sound, productive cultural practices and technological innovations. In general, small producers depend more heavily on their coffee incomes, and operate closer to economic margins than large producers; therefore, the impact of lower yields and higher costs falls more heavily on these producers than on the large ones.

Prices - El Salvador's position vis a vis other coffee producing nations within the International Coffee Organization (ICO) has reached a critical stage. A breakdown in the ICO quota agreement and unrestricted coffee exports has resulted in a sharp decline in 1990 prices for Central America's "Other Milds".

The breakdown in the agreement, however, probably forestalled a reduction in El Salvador's quota allocation. This move would have been based on declining Salvadoran coffee production and insufficient coffee stocks to meet its quota. Although the decline in price has negatively affected producers, it has bought the country time to rebuild production and to position itself for the time when a new agreement is reached.

Table III - Coffee Prices for "Other Milds"
(US $)

Year	Price/Pound
1984	$1.44
1985	1.46
1986	1.93
1987	1.12
1988	1.35
1989	1.12
1990	.81

Constraints to Salvadoran Coffee Production

Generally weak prices, increasing costs of inputs, new diseases and pests have affected production in all of Central America during the 80's, but El Salvador has also had to contend with a fractious agrarian reform and civil violence. While certainly a factor in certain areas, this disorder does not satisfactorily explain the general demise in the Salvadoran coffee industry, or the real constraints which face its producers.

During the decade of the 80's, the most obvious constraint to coffee production in El Salvador has been a series of macroeconomic and sectoral policies which reduced profitability and incentives. A 1987 study calculated that tax, trade and exchange rate policies consumed approximately 60% of coffee earnings. The resultant investment decline lessened the demand and froze technological underpinnings of Salvadoran coffee production at pre-1980 levels.

At the same time, El Salvador started Phase I of the Agrarian Reform, which expropriated 11% of the country's best coffee land. Under Phase II, an additional 11% of coffee land was left with uncertain tenure until 1986, when threat of expropriations abated. Moreover, under Phase III, up to 7 hectares of rented land was subject to expropriation, causing more uncertainty about ownership rights. As a result, few coffee producers were willing to continue investment in these lands.

During this time, the banking system was nationalized, and as part of the Agrarian Reform, export marketing of coffee was also nationalized under the Instituto Nacional de Cafe (INCAFE.) INCAFE was notoriously late in making payments to producers, which raised costs of production and decreased incentives for investment. The nationalized banking system failed to respond to the needs of the private sector, delaying and diverting credit, and upsetting the institutional support network, particularly in the manner and level in which small producers were assisted.

To make matters worse, when coffee prices rose 33% in 1986, the GOES proclaimed coffee a national resource, and INCAFE imposed a surtax which prevented producers from capturing any significant returns, thereby hardening their resolve not to increase investment.

Throughout the 1980's, the hostile policy climate led producers to reduce investment in technology in order to lower their total costs of production. While the banking system recommends an investment level of at least 6,500 colones/hectare, a recent study by the Salvadoran Foundation for Economic and Social Development (FUSADES) found that on actively cultivated farms, the costs of production averaged 4,350 colones/hectare, and, in some cases, were as low as 1,800 colones/hectare. Some have even adopted a strategy of making essentially no investment, harvesting the coffee which grows on their properties as a wild crop, resulting in lowered quality, and reducing the value and income generated.

Decreased expenditures on the part of producers are evident in the types of cultural practices and the level of technology employed on their farms. A 1988 survey indicates that newer, improved "paca" varieties are planted on only 20% of the coffee producing lands. Among small and medium producers, only 25%

report replanting part of their trees annually. Fewer than 40% of these producers fertilize even once a year, and only 4% fertilize the recommended three times a year; 35% do not prune the shade trees; 15% do not weed their plots; and 25% do not prune their trees. Although 75% of them report that their trees are afflicted with coffee rust, 60% cannot combat the disease; and while 60% have trees infested with the "broca" beetle, 80% do nothing to combat this pest.

With the major policy changes, the major constraint facing the Salvadoran coffee industry today is the low level of technology which characterizes current coffee production. Producers who felt that the policy environment during the 80's was too hostile for investment, now find that even with a favorable policy climate, without substantial investment in new technology Salvadoran coffee will not be competitive, and will not reach its pre-1980 levels. Addressing this constraint is the crux of the problem.

May, 1991

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