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PROGRAMME PLANNING

Country and intercountry programmes and projects

FOURTH PROGRAMME FOR EL SALVADOR*

<u>Programme period</u>	<u>Actual resources programmed</u>	<u>\$</u>
1987-1991	IPF for 1987-1991	9 030 000
	Resources from the third cycle	330 000
	Other resources programmed	100 000
	Total	9 460 000

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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; (e) distribution of new country programme by sector.

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I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. As a result of the unstable political situation in the area, the difficulties of the Central American Common Market and the fall in export prices, the economy of El Salvador began to weaken in 1979 and the gross domestic product (GDP) at market prices gradually declined during the period 1979-1983, to \$3,300 million in 1983 itself, which represents only 77 per cent of the 1978 figure. In per capita terms the GDP was \$632 in 1983, a level which had been exceeded in constant values in the 1960s.
2. In 1984, following some relaxation of the stringently restrictive economic policy and a massive influx of foreign resources (mainly from the United States), the downward trend of GDP was checked and there was even a modest GDP increase of 1.5 per cent. In growth-rate terms, GDP had achieved average rates of 4.5 per cent between 1965 and 1970, and 3.2 per cent in the decade of the 1970s. The rate was -8.5, -5.3 and 0 per cent in constant values in the three years 1981-1983.
3. In sectoral terms, the performance of the farming sector is of fundamental importance for economic development, for it remains the most important of the productive sectors for jobs (40.1 per cent). Agriculture made a slight recovery of 1 per cent in 1984, as a result of an improvement in the production of basic grains, especially maize, beans and rice. The manufacturing industry, which provides 13.8 per cent of jobs, also tended to stabilize, and the expansion of domestic demand created the conditions for a revival of certain branches in this sector, with a consequent increase in the level of activity in the order of 1.8 per cent. The most dynamic sector in the recovery was basic services (38 per cent of jobs), which improved by some 2.8 per cent in 1984. This was due mainly to the increased activity in the other productive sectors. Unfortunately, the construction sector, which accounts for 5 per cent of jobs, continued along the lines of the past five years and showed a drop of 5 per cent in 1984. This sector is closely linked with the people's expectations as to changes in the social, political and economic situations and the economic recovery, and it has a large impact on employment and incomes in the sector itself and in other sectors, on which it has a locomotive effect.
4. Despite the slight recovery in 1984, the country's economy began to show a downward trend which caused declines in all economic sectors. Between 1979 and 1981 manufacturing fell by 29 per cent, construction by 35 per cent and trade by 24 per cent. Agriculture, as a result of these changes and in adjustment to the changes brought about by the agrarian reform, declined by 14 per cent.
5. The two pillars of growth during the 1970s - investments and exports - dropped sharply. Fixed real investment declined by 25 per cent in the public sector and by 69 per cent in the private sector between 1978 and 1981, while total investment fell by 20 per cent between 1980 and 1983. Exports, mainly coffee, cotton and sugar, declined by 22 per cent between 1980 and 1983 in real terms, and there was a similar trend in imports, but in 1984 the improvement in the price of coffee prompted increases of 3.5 per cent in exports and 9 per cent in imports.

6. The balance of payments moved in step with the other indicators. The balance on current account showed deficits (following a surplus of \$31 million in 1980) of \$250, \$152, \$95 and \$310 million in the four years 1981-1984. This deficit was principally from the capital account, largely by means of official transfers.
7. The foreign debt grew from \$927 million in 1980 to \$1,361 million in 1982 and to \$2,000 million in 1984, and it represents more than double the value of the country's annual exports of goods and services. In 1983 debt service began to reach dangerous levels, for in that year it represented 62 per cent of the total value of exports and in 1984 50 per cent. In El Salvador expenditure was always higher than the annual debt service, but from 1984 the country became a net exporter of capital when the debt/expenditure coefficient moved above one (1,10).
8. The central Government saw its costs increase and its revenue decline as a result of the lower level of economic activity. This was reflected in the decline in fiscal saving from 2.5 per cent of GDP in 1975 to -0.7 per cent in 1980, -2.7 per cent in 1982 and -1.8 per cent in 1983. Capital expenditure fell from 33 per cent of fiscal expenditure in 1980 to 25 per cent in 1982 and 21 per cent in 1983.
9. El Salvador's economic prospects are not very good in the short term. The economic situation will continue to be affected by the continuing internal conflict and by the difficulties it causes in transport, electricity supplies and other services, as well as by the problems generated by the large number of persons displaced by the conflict.
10. An improvement in security and business confidence - envisaged in the development plan - will help to strengthen the economy. Failing that, the only growth factor would be an increase in exports and a revival of the manufacturing sector.
11. Ninety per cent of the urban and 28 per cent of the rural population have access to drinking water. Access to electricity is provided for 44.7 and 14.4 per cent, respectively. There are 3,366 inhabitants per doctor and 721 per hospital bed. The average food consumption represents 90 per cent of the minimum calorie requirement, and the consumption of proteins is 54 grams per inhabitant. The adult literacy rate is 63 per cent, and 80 per cent of children attend primary school.

B. National development strategies

12. The Government has drafted a comprehensive development plan entitled "A Road towards Peace" for the five-year period 1985-1989, containing political, social and economic proposals. The general scope of this plan embraces: peace, humanization of the conflict, democratization, participation and economic recovery. There is no doubt that the social, political and economic proposals are interdependent, and any action taken under one of them will certainly have an impact on the others. However, for the purposes of this country programme it has been decided that the emphasis should be on economic recovery. It must of course be realized that the whole structure of the economic recovery and its social impact are founded on the

consolidation and improvement of the great agrarian, financial, banking and foreign-trade reforms. In order to achieve the goal of economic recovery, efforts will be made to diversify production, establish new businesses and strengthen existing ones. This will lead to increases in production (productivity) and generate jobs (social sector). In other words, the country's basic development strategies are focused on productivity and social progress.

C. Technical co-operation priorities

13. The Government has decided that technical co-operation resources should be used to attain two basic goals: increased production and support for the less favoured social sectors.

14. The assistance will be negotiated within the conceptual framework of integrated development programmes, and the aim will be to make the sectoral actions mutually supportive. A close relationship will be established between technical and financial assistance, with a view to encouraging more investment and co-ordinating the various sources of assistance to avoid duplication. The transfer of technology promoted by external assistance will have to be adapted to the country's absorption capacity and its specific circumstances.

15. The specific programmes for increased production will cover agro-industries, export promotion, reactivation of the industrial plant and support for small and medium-sized businesses. In the social sectors priority is given to primary health care and general support for displaced persons, and to education, literacy, curriculum development and special education and, lastly, to urban and rural housing development.

16. Under the 1985-1989 economic and social development plan, all the technical co-operation activities will be designed to facilitate the plan's implementation and the transfer of technology, with the emphasis on training.

II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

17. The current third country programme, covering the period 1984-1986, was approved by the Governing Council at its thirty-first session in June 1984. The indicative planning figure (IPF) approved for the programme period was \$5,601,000.

18. There have been some problems in the implementation of the current country programme, and as a result the sectoral goals have not been attained. However, this was due less to the lack of success of the projects put into operation than to the non-implementation of the central projects envisaged in the programme. This situation is reflected in the programme's financial implementation. When the third programme was being prepared, it was estimated that 53 per cent of IPF financial resources would be used in projects in operation (already a high figure) and the remaining 47 per cent in new projects. The actual delivery shows that only 32 per cent will have been used in new projects by the end of the cycle, which means that 68 per cent will have been used to finance old projects from the second programme.

19. The main factors which impeded the start-up of the programme as a whole and the attainment of the goals are listed below:

(a) The third programme period coincided with years of severe political instability in the country. This situation has affected the implementation of the programme and its projects because of the discontinuity of government programmes, multiplicity of development plans, and changes of authority and counterpart staff;

(b) The internal armed conflict has restricted the operating possibilities throughout the country and has created insecurity and other similar conditions. There have been heavy population migrations within the country and to foreign countries. These are factors for political, economic and social destabilization;

(c) The national economic crisis accompanying the two factors referred to above has meant the imposition of budgetary restrictions impeding the provision of funds and resources to fulfil the national counterpart requirement.

20. Six areas were defined in the third programme for technical co-operation to be financed by UNDP: farming, industry, construction, education, foreign trade, and economic and social planning. The following areas and objectives were specified for each of these sectors.

21. In the farming sector the objectives are:

(a) Support for the livestock sector. Assistance for the Centre for Livestock Development (CLD) in its livestock extension services; revival of national livestock production through genetic improvement and artificial insemination; better use of the sector's credit facilities;

(b) Support for fisheries development. Assistance for small-scale fishing businesses (organization, conservation and preservation, administration of wharves and marketing;

(c) Increased food production, especially products which are used as inputs in agro-industry, and raw materials for industry and for export.

22. The first-priority objectives of the farming sector were not attained, as the relevant project was not implemented. This project would have covered assistance for the livestock sector through a number of activities ranging from institutional support for the CLD and genetic improvement to administration of loans.

23. Under the sector's second objective - support for fisheries - a project for the development of small-scale fishing was put into operation. This project began in October 1984 and has still not produced any results as it is still in the initial phase of introduction and acceptance.

24. Increased food production is the third objective of the farming sector. Under this objective a project is being carried out for the development of rural communities, together with a project for the establishment of storage centres for small farmers. The two projects are in full operation and are beginning to show positive results. Their objectives should have been attained by the end of 1986.

The project on training of farm workers began in 1978 and has achieved some of its goals. The institutional support activities for the Training Centre (CENCAP) were completed, but there was no follow-up after the completion of project activities in 1983, owing to staff changes in the Ministry of Agriculture and Livestock and the unsafe conditions in some parts of the countryside, which impeded the extension of the training to peasant farmers.

25. In the industrial sector the objectives are:

(a) Industrial recovery. Reduction of idle capacity and selective rehabilitation of enterprises, mainly in the textile and engineering sectors;

(b) Prefeasibility studies, with specific attention given to agro-industry (installations, administration, production and marketing);

(c) Industrial property and transfer of technology. Strengthening of the sector's administrative structures in these areas.

26. UNDP's technical assistance in the revival of industry was to be concentrated in the textiles and engineering branches. As is well known, the textiles branch was one of the most dynamic in the industrial sector in the 1970s. In 1984 it was estimated to have 36 per cent of its capacity idle. Up till now there have been no UNDP technical-assistance activities, since in 1983 approval was given only for preparatory assistance, which was not followed up.

27. With regard to technical co-operation in the agro-industrial sector, a fairly large project is being carried out and it is producing good results and attaining its targets. Among the main achievements to date are the support given to the institutional strengthening of the agro-industrial sector, the training provided on project formulation and administration, quality control and co-operatives, the start-up of the processing plants for tomatoes and cassava and of the brickette factory, and the establishment of the Food Processing Department in the National Agricultural School. This is one of the projects which carries out pre-investment activities in the form of feasibility and prefeasibility studies.

28. In the area of industrial property and transfer of technology, approval was given to a project using short-term consultants which is giving satisfactory results. Collaboration is taking place in the modernization of administrative and legal structures, involving the adaptation of the legal and administrative machinery for dealing with questions of industrial property and transfer of technology, and the training of personnel to operate this machinery. A technological information and data base was established for this purpose, upgrading the country's negotiating capacity with respect to the transfer of technology.

29. The industrial promotion project which began in 1978 obtained some results from activities carried out up to 1983. However, the work was fragmented, for this project covered such disparate areas as feasibility studies for agro-industry, search for investors, construction of a solar generator, etc.

30. In the construction sector the objectives are:

(a) Use of technical solutions and new procedures to increase technical, economic and financial efficiency in the construction of rural and urban housing;

(b) Promotion of self-built housing in rural areas;

(c) Encouragement of the self-help system of housing construction in marginal urban communities.

31. In this sector two projects were designed (in 1983 and 1985) for urban and rural housing development. Both remained at the stage of preparatory assistance, and only a few activities have been carried out with the initial preparatory assistance (1983). These are the formulation of housing policies for medium- and low-income family groups, rural pilot projects (self-building) and training of technical staff.

32. The objective of the education sector is to integrate the formal services of the education system, with a view to community development within the framework of a regionalized education structure.

33. As was stated in the document of the third programme, the education sector continued to receive technical assistance up to 1985 through the project for in-service teacher training which began in 1979. No activities have been carried out in connection with the new objective of the education programme.

34. In the trade sector the objectives are:

(a) Promotion of exports of non-traditional products;

(b) Promotion of investment in export industries.

35. Since 1978 UNDP has been financing a project for collaboration with the Government in the promotion of non-traditional exports, in conformity with this sector's priorities, as was indicated in the third country programme. The project concluded in 1985, having produced results by using the short-term consultant system, especially with respect to market studies for non-traditional export products (handicrafts, live plants, cut plants and flowers, fresh farm products, and semi-processed foodstuffs), formulation of two export consortiums and installation of a computer centre. Approval is being considered for a new project for assistance with exports of handicraft products, which will probably start up in 1986. No activities have been carried out in connection with this sector's second priority established in the third UNDP programme: promotion of investment in export industries.

36. In the planning sector the objective is to strengthen the machinery for monetary and financial programming and annual operational programming.

37. The main results obtained from technical co-operation in this area are: design of planning tools, such as the input-output matrix, indicators for monitoring the economy, and a system of periodic forecasts of its performance; the preparation of development plans which included the various economic policies of

the various Governments of the period; improvement of the management of a number of bodies in the public sector, such as the Ministries of Planning, Housing, Public Health and Social Assistance, the Central Reserve Bank and the Municipality of San Salvador; training of technical staff by means of joint work with the experts assigned to the various projects and through courses held in the country and abroad; and the establishment of a computer system which has improved the information and forecasting systems.

B. New programme proposal

38. In the light of the Government's economic and social development objectives described in the first part of this document and in conformity with the technical co-operation priorities established by the Ministry of Planning, the fourth UNDP country programme and the technical co-operation provided by the agencies in the United Nations system for El Salvador will be focused on the following specific areas: (a) strengthening of the national planning system; (b) support for economic recovery; and (c) support for the social sector, including assistance for displaced persons. The first two areas fall under the first priority objective of technical co-operation: increased production. The third area relates to the second objective: support for the less favoured social sectors. Planning support also relates to the second objective.

Support for the planning system

39. The Government continues to give priority to UNDP's technical assistance for the planning system. The specific activities to be carried out concern the preparation of short-term plans, with special emphasis on the Government's programmes of economic stabilization. Assistance is also required with the preparation of a system for the standardization of investment projects (project bank). It is thought that the technical assistance for the programming of external technical co-operation and its periodic evaluation and for training in project preparation and design should be continued. With respect to support for the system of national accounts, the Government requests continuation of the co-operation with the Central Reserve Bank provided by UNDP and the Department of Technical Co-operation for Development of the United Nations through the mechanism of horizontal co-operation. It is therefore envisaged that the project on assistance with planning, economic forecasting and public investment will be continued.

40. The programme support project will be continued, since it has become an effective mechanism for prompt response to any contingent problems confronting the Government in the implementation of the country programme. This project has contributed, *inter alia*, to the economic revival, the evaluation of macro-economic and taxation problems, the definition of strategies and policies for investment programming, the design of a system for project monitoring and control, and the assessment of technical and pre-investment assistance provided by bilateral and multilateral sources between 1982 and 1986.

41. In view of the importance of the farming sector, UNDP and the Food and Agriculture Organization of the United Nations (FAO) will support with a new project the efforts to restructure and strengthen the Sectoral Planning Office of the Ministry of Agriculture and Livestock.

42. A proposed new project will provide assistance with education planning, in co-operation with the United Nations Educational, Scientific and Cultural Organization (UNESCO).

Support for economic revival

43. In the second area marked down for assistance from UNDP and the United Nations system - support for economic revival - the technical co-operation activities will be focused on the following economic factors: farming, industry and foreign trade.

44. The priority areas set out in the Ministry of Agriculture and Livestock's five-year plan for the farming sector for 1985-1989 are: guaranteeing the people food security; promoting the diversification of agricultural, livestock, forestry and fisheries production; encouraging the substitution of imports of farm and fisheries products; and consolidating the process of agrarian reform.

45. Within these broad policies, and in addition to assistance for the Sectoral Planning Office of the Ministry of Agriculture and Livestock provided in conjunction with FAO, the technical assistance from UNDP and the United Nations system will continue to be used to support the food production programme (agro-industrial project), the development of small-scale sea fishing, and rural community development. The new areas covered by UNDP and FAO assistance include support for the livestock sector by way of programmes for restocking cattle herds. The technical co-operation will be concerned mainly with improvement of the country's existing artificial insemination services.

46. Furthermore, as a means of supporting the reformed sector of agriculture, technical assistance will be given with farming extension services (new project). The aim is to strengthen the technical assistance services of the Ministry of Agriculture through the Division of Farming Extension Services and Rural Development, with a view to incorporating in the economic process the large number of beneficiaries of the agrarian reform.

47. FAO will collaborate with the Ministry of Agriculture, using its regular resources, in a programme for the development of productive farming projects (institutional strengthening) and in a project to strengthen rural businesses in the reformed sector.

49. In the industrial sector the technical co-operation activities will be concerned with the following of the sector's branches and sub-branches: continuation of technical assistance for the development of agro-industry by allocating additional resources for the third phase of the current project.

49a. A new project for assistance to small- and medium-sized businesses is envisaged, with a budget of \$350,000.

50. In the foreign trade sector support will be continued for the promotion of exports of non-traditional products, mainly handicraft items, the promotion of investment in export industries, and support services for exporters.

Support for the social sector

51. The technical assistance furnished by UNDP and the United Nations system in the social sector will be concentrated on housing, health, education and co-operatives, as well as on the displaced-persons sector, which is mentioned below.

52. In the health sector the United Nations Fund for Population Activities (UNFPA), the World Food Programme (WFP), the United Nations Children's Fund (UNICEF) and UNDP will collaborate in extending the cover of the programmes of mother and child health/nutrition/family planning, with a view to improving the efficiency of these programmes as part of the 1985-1989 five-year health plan. UNDP will also support the work of the Pan-American Health Organization (PAHO) and UNICEF in the infant-survival programme, in particular the plan for diarrhoea control, by continuing the project to improve the supply of drinking water and sanitation facilities for the affected population and, envisaging resources from the fourth cycle in an amount of \$550,000, they will carry out prefeasibility studies under this project for a loan of \$21 million from the Inter-American Development Bank (IDB).

53. In view of the high priority attached by the Government to the policy for building urban and rural housing, the United Nations Centre for Human Settlements (HABITAT) and UNDP will support the Vice-Ministry of Housing and Urban Development of the Ministry of Public Works by continuing a project for the establishment of a national system for the management and planning of human settlements (\$450,000). In addition, WFP will support a programme for the construction of low-cost housing which is to deliver some 5,000 units in rural areas (reformed sector). HABITAT has also suggested starting up renovation and improvement projects in vulnerable urban communities (destitute and displaced persons) with the participation of the Urban Housing Institute and the municipalities. These projects will require financial support from other sources.

54. The rural development of El Salvador is directly linked with the reduction of the rate of rural adult illiteracy, so as to enable countryfolk to contribute to overall development. To this end, the Government proposes effective regionalization and nuclearization of educational and cultural services. The United Nations system will support this undertaking with the technical assistance furnished under the UNESCO regional programme which exists for this purpose and by means of a national project. An education planning project will also be prepared.

55. The new projects for assistance with adult literacy and education and education planning are in the preliminary design stage, with costs estimated at \$330,000, but they have not yet been drawn up in detail. In the co-operative subsector there are plans for starting a programme of technical co-operation in the organization of small associative and co-operative enterprises in rural areas. The project does not yet have a precise budget, as it is at the preliminary design stage, but a sum of \$600,000 is allocated to it.

56. Displaced-persons subsector. Within the framework of the State's jobs-promotion strategies, especially with respect to the displaced urban population, UNDP will finance in conjunction with other external sources technical assistance for the establishment of a programme of accelerated vocational training

to provide training in various occupations for individual displaced persons, set up and organize small businesses, and encourage them to develop along co-operative lines. It is also considered that support should be given to displaced persons who remain in the rural sector by establishing programmes of accelerated training in the operation and maintenance of farm machinery.

57. Support will be continued for the emergency actions taken under the national strategy for assisting displaced persons, which was established by the Government, particularly in the programming and implementation of plans designed to meet the basic needs of the displaced population by providing certain education, health and nutrition services, as well as work training programmes. The drinking-water project will also benefit the displaced population. The ongoing project "Promotion of handicrafts for export" may also benefit part of the marginalized population.

Co-ordination with the United Nations system and other multilateral and bilateral co-operation agencies

58. Several United Nations agencies are going to participate in the implementation of the programme through UNDP and its regular programmes. The pre-investment projects have been designed, in conjunction with the United Nations agencies, in a continuous process of discussion in which the joint efforts are co-ordinated with a view to their subsequent financing by the World Bank, IDB and the United States International Development Agency.

59. In 1979-1985 IDB provided \$9.2 million from non-reimbursable funds and in soft loans for investment projects to be used for infrastructure studies (roads sector), institutional support, fisheries and energy development, health, and foreign trade (exports). Since 1982 it has also been assisting in the areas of economic recovery, agro-industries, depressed sectors, and adult literacy, inter alia, which are linked to the programme supported and to be supported by UNDP. For 1986 IDB has programmed \$1 million for a planning-support project (macro-economic models) which complements the programme financed by UNDP in this area.

60. IDB will make a loan of \$21 million for activities based on prefeasibility studies to be carried out with UNDP funds during the fourth cycle for improvement of the drinking-water supply and sanitation facilities of the affected population.

61. USAID furnished a total of approximately \$1,298 million in assistance to El Salvador made up of the following activities: development programme covering the farming, health, education and other sectors in an amount of \$305 million; \$700 million in economic support (for balance of payments); imports of farm products (PL480, titles I and II) - \$238 million; \$20 million in guarantees for popular housing; and \$18 million in support for refugees and disaster-relief assistance. The 1986 projections for a total of \$308.4 million would cover economic support programmes (\$154.6 million) and imports of farm products (PL480, titles I and II) (\$53.8 million).

C. Unprogrammed reserve

62. The Government has decided to set aside \$1 million as the unprogrammed reserve, to meet emergency situations not covered in the present programme.

Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

<u>A. UNDP-administered sources</u>	\$	\$
Third cycle IPF balance	330 000	-
Fourth cycle IPF	9 030 000	
Subtotal IPF		9 360 000
Special Measures Fund for the Least Developed Countries	-	
Special programme resources	-	
Government cost-sharing	100 000	
Third-party cost-sharing	-	
Operational funds under the authority of the Administrator	-	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds		100 000
 <u>B. Other sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
Subtotal, other sources		-
 TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		<u>9 460 000</u>

II. USE OF RESOURCES

Ongoing projects	3 080 000	
New project proposals	2 900 000	
Programmed reserve	2 480 000	
Subtotal, programmed resources		8 460 000
Unprogrammed reserve		<u>1 000 000</u>
 TOTAL USE OF RESOURCES		<u>9 460 000</u>
