

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

LOAN TO THE BANCO CENTRAL DE RESERVA OF EL SALVADOR

(ES0063)

LOAN PROPOSAL

AUGUST 1961

LOAN TO THE BANCO CENTRAL DE RESERVA OF EL SALVADOR

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY OF LOAN APPLICATION	1
RECOMMENDATION OF THE PRESIDENT AND DRAFT RESOLUTION	6
ANALYSIS OF THE PROJECT	14
I. The Application	14
II. The Borrower	14
A. Organization	14
B. Nationalization of the Banco Central de Reserva	15
C. Administration	16
D. Background - Experience	17
E. Legal Powers to seek Credits Abroad	18
F. Resources - Financial Position	18
III. The Project	21
A. Development of Manufacturing and Agricultural Industries	21
B. Lempa River Authority	27
C. Development of Zapotitán Valley	34
D. National Water Supply and Sewerage Administration	45
IV. Justification of the Loan	54
A. Economic Development of the Country	54
B. Relation to the Economic Development of El Salvador	56
ANNEX I. Tabla 1 - Estado Comparativo de Balances Tabla 2 - Estado Comparativo de Pérdidas y Ganancias	
ANNEX II. Antecedentes Legales y Otros Requisitos	
Reference: Situación Económica de El Salvador (See Doc. DED/61/58 (CO/61/DP-26 Annex 5))	

SUMMARY OF LOAN APPLICATION

COUNTRY: EL SALVADOR

1. The Projects:

- a. Development of manufacturing and agricultural industries;
- b. Rural electrification, under the direction of the Comisión Ejecutiva del Río Lempa (CEL);
- c. Development of the Zapotitán Valley (Ministry of Agriculture); and
- d. Water supply and sewerage systems (Ministry of Public Works) for San Salvador, Santa Ana, San Miguel, Santa Tecla and Sonsonate.

2. The Applicant: The Ministry of Economy, in the name and on behalf of the Government of El Salvador.

3. Date of Application: June 12, 1961.

4. Amount and Currency:

- a. US\$ 2,500,000 for the development of manufacturing and agricultural industries
- b. US\$ 225,000 for rural electrification
- c. US\$ 1,675,000 for irrigation in the Zapotitán Valley
- d. US\$ 2,100,000 for water supply and sewerage systems

Total: US\$ 6,500,000 in dollars

5. Purpose of Loan

a. Manufacturing and Agricultural Industries

The required funds will be loaned to and channeled through the Banco Central de Reserva of El Salvador, which, in turn, will make them available to the Banco Hipotecario, the Instituto Salvadoreño de la Producción (INSAFOP) and other banking institutions in the country previously authorized by the Banco Central. The funds would be used to finance specific projects

for manufacturing and agricultural industries in El Salvador. The loan funds will be distributed, following the receipt of individual application from the clients of these banking institutions, in the sectors already mentioned by means of medium- and long-term loans for varying amounts.

The maximum term for both the over-all credit and the individual loans would be 13 years, including a 3-year grace period; repayment would be made on a gradually increasing annual scale during the remaining ten years.

Reinvestment of the funds recovered from the medium-term loans would be permitted, provided the expiration dates of such investments do not exceed the final term of the over-all credit. The credit institutions referred to above would prepare the individual projects and, prior to a decision on each credit application, the Banco Central of El Salvador would analyze the project to be financed. No subceiling would be stipulated for the individual loans to be financed; however, any loans in excess of US\$100,000 would be submitted previously to the IDB for approval.

In the best interests of economic development in El Salvador, no fixed percentages would be set for financing the local currency costs of each individual project; instead, it would be agreed in the over-all loan contract that, in toto, a reasonable percentage would be utilized to finance foreign currency costs convertible to dollars. It is proposed that this loan be granted from the ordinary resources of the IDB, at an interest rate of 5-3/4% per annum, and that the Banco Central charge a commission of 0.25% for its services, with a rate of interest of 3% per annum for the intermediary institution; consequently, the maximum rate paid by each individual borrower will be 9% per annum, which is the maximum rate set by the Banco Central.

Utilization of this loan by INSAFOP would be subject to reorganization of that agency in the best interests of its stated objectives; actually, the applicant has already requested technical assistance from the IDB for this purpose.

b. Rural Electrification (CEL)

This project consists of financing a pilot plan for rural electrification in eleven towns located in Olocuilta, Department of La Paz, at a cost of US\$225,000. The Comisión Ejecutivo Hidroeléctrica del Río Lempa will administer the project; the Comisión owns 90% of all electric power generating facilities in El Salvador. It has a current installed generating capacity of 60,000 kilowatts and is initiating installation of 15,000 additional kilowatts.

As of April 30, 1961, its capital and reserves amounted to US\$10,800,000; it has been financed by local resources obtained from bond issues, loans from the International Bank for Reconstruction and Development, and contributions by the State.

The Rural electrification plan consists of the creation of a department of rural electrification within the framework of a general organization, in order to encourage at a later date the creation of consumer societies in which the CEL would retain any shares not bought by the future users or by the municipalities. As the market developed and CEL sold its shares, these funds could be reinvested in the development of other areas of the country.

The applicant requests that the IDB loan be granted to the Banco Central de Reserva of El Salvador, on a term of 25 years, at an interest rate of 4% per annum, and that repayment begin on the ninth year, by means of gradually increasing installments. These proposed terms are based on economic studies which indicate that the administrative agency for the zone would probably show a deficit for a period of eight years; consequently, it is requested that within this period only interest on the loan be paid. Therefore, it is recommended that if this loan is approved, it be granted from the special funds of the IDB, on the terms and conditions proposed. The intermediary and guarantor of the operation, the Banco Central de Reserva of El Salvador, would not receive any commission for its services.

c. Development of the Zapotitán Valley

Detailed studies of this project have been entrusted to the firm of N. V. Grontmij, Grondverbettering in Ontginning Maatschapij, Holland, which has agreed to deliver them on July 1, 1961. The project includes flood control in the Valley, a drainage canal system, an irrigation canal system, and a road network. Cost estimates indicate that the project would amount to approximately US\$2,575,000, of which US\$1,000,000 would be used to acquire the necessary equipment. The Ministry of Agriculture has already invested US\$67,000 in the necessary studies. The work schedule is estimated at three years, beginning October 1, 1961. Consequently the IDB is asked to furnish the amount of US\$1,675,000, at a term of 20 years, including a three-year grace period, at an interest rate of 5-3/4% per annum; the balance required to complete the total cost of the project will be financed from the ordinary resources of the Ministry of Agriculture.

If the loan is approved on the conditions outlined above, it would be granted from the ordinary resources of the IDB.

The project would cover an area of 4,610 hectares. This area lies 460 meters above sea level and is formed chiefly of volcanic deposits. The Valley formerly contained a small lake, but an

alluvium and accumulated deposits from various rivers have filled it to such an extent that it has become a densely vegetated swamp.

The lack of good drainage results in extremely poor agricultural conditions and 3,900 hectares cannot be cultivated during the rainy season. Therefore, during the dry season from November to April, 3,200 hectares are farmed intensively, utilizing the high residual humidity supplemented by irrigation. However, the problem then becomes a matter of misuse of irrigation water by certain landowners.

This zone needs to be fully incorporated into national production, since it is one of the richest areas in the country, because of the richness of its soil and its favorable location between three great urban centers: San Salvador, Santa Ana and Sonsonate. Such incorporation would secure a more stable market for Valley products than exists in other regions.

Prior to the year 1930, the entire Valley and much of that surrounding land was owned by a single family. During that critical era, the area was bought by the government for settlement purposes. The land was subdivided without the benefit of any studies on the quality and productivity of the soil, and the area was not provided with a suitable network of roads and irrigation and drainage canals.

d. Water Supply and Sewerage Systems

The cost of this project is US\$350,000,000, which would be invested in San Salvador, Santa Ana, San Miguel, Santa Tecla and Sonsonate, with a total population of 372,000 inhabitants; because of the importance of this group of cities in the economic activities of the country, it is expected that they will be able to amortize the investment. Investments by the Government of El Salvador in these cities to improve water supply and sewerage services amounted to more than six million dollars during the past ten years; consequently total government investment in these cities will reach more than 9.5 million dollars, of which only 22%, or 2.1 million dollars, would be financed by the IDB loan. The remaining cost of the project, that is, US\$1,400,000, would be paid by the Government of El Salvador, which agrees to allot the necessary amounts in its forthcoming budgets. The loan would be granted from the ordinary resources of the IDB on a term of 20 years, including a 3-year grace period, at an interest rate of 5-3/4% per annum.

In most of the cities of El Salvador, water supply services are insufficient to ensure the health of the inhabitants; this situation has resulted in a high percentage of infant mortality from gastrointestinal diseases. As proof of this statement, the applicant points out that during the last three years the average rate of infant mortality in El Salvador was 84.8 per thousand.

The present condition of sewerage systems in Salvadorean urban centers is truly deplorable. In those cities where no sewerage service is provided sewage is emptied into the nearest river or stream, constituting a serious health threat to the surrounding communities. To solve these problems, the Ministry of Public Works has prepared a four-year master plan covering 80 cities with a total population of 725,000 inhabitants, at an estimated cost of US\$10,800,000. Actually, the project under consideration forms part of this plan, designed as it is to provide these services in five of the main cities of the country.

6. Guarantee: The operation would be guaranteed by the Republic of El Salvador.
7. Recommendation: That several loans totaling US\$6,500,000 be authorized to the Banco Central de Reserva of El Salvador, pursuant to the terms and conditions set forth in the attached resolutions.

RECOMMENDATION OF THE PRESIDENT

The President of the Bank recommends the adoption of the following resolution:

LOAN TO THE BANCO CENTRAL DE RESERVA DE EL SALVADOR

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such officer as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Central de Reserva de El Salvador, as principal debtor, and the Republic of El Salvador, as guarantor, for the purpose of granting a loan to the Banco Central to finance, through banking institutions in that country, specific projects of private companies or individuals for the development of enterprises of industry, agriculture, live-stock raising and handicrafts. This loan shall be subject substantially to the following provisions:

1. Amount and Currencies: Up to US\$2,100,000 in dollars, or its equivalent in currencies of other member countries for expenses in foreign currencies and up the equivalent of US\$400,000 for local currency costs. Payments of amortization and interest shall be made proportionately in the currencies loaned.
2. Source of Funds: The ordinary capital resources of the Bank.
3. Guarantee: The obligations of the debtor shall be guaranteed by the Republic of El Salvador.
4. Amortization: The debtor shall amortize the loan in a period of 13 years from the date of signature of the contract, by means of 20 consecutive semiannual installments for the amounts shown in the annexed Plan of Amortization, the first of which shall be payable 3 1/2 years after said date.
5. Interest: 5-3/4% per annum (including the 1% special commission of the Bank) on principal amounts outstanding, payable semiannually commencing six months after the date of the contract.
6. Commitment Fee: 3/4% per annum commencing to accrue twelve months from the date of the contract on the amount by which the undisbursed balance of the loan exceeds 50% of the total thereof. Payment shall be made in dollars except that the payment corresponding to the amount of the loan authorized in colons shall be made in that currency.

7. Disbursement: Total disbursement of the loan shall be made within a period of two years.

8. Special Conditions

(a) No part of the loan may be used as working capital or to finance coffee production.

(b) Prior approval by the IDB shall not be required for credits of less than US\$100,000, or the equivalent thereof, which are granted through a bank to a single natural or juridical person. All other credits shall be subject to prior approval by the IDB, upon recommendation by the Banco Central. Similar approval shall be required for an additional credit to a single natural or juridical person which causes the total amount to exceed the limit indicated.

(c) Funds received from service of the credits granted by the Banco Central which accumulate in excess of the amounts needed to service the loan may be used in similar projects on the same conditions as the original credits, provided they are repayable within the term of the over-all loan.

(d) Banks and other intermediate institutions shall not charge an interest rate higher than 9% per annum to the borrowers benefitted by credit made from the proceeds of the IDB loan.

(e) The resources of the loan shall preferably be used to finance projects that will help to improve the balance of payments of El Salvador by reducing imports or by increasing exports or both.

(f) Likewise, preferential attention shall be given to projects for industrial and agricultural development of the areas of Zapotitán and Olocuilta where projects financed with IDB loans will be carried out.

(g) Through agreement between the IDB and the Banco Central, a part of the loan shall be devoted to promoting handicrafts.

(h) Without prejudice to the provisions of the preceding paragraph, not less than 40% of the total costs of the projects benefitted by the loan, in their entirety shall be provided by the borrowers from other resources.

ANNEX - AMORTIZATION SCHEDULE

BANCO CENTRAL DE RESERVA OF EL SALVADOR

<u>End of</u>	<u>% of amount disbursed</u>	<u>Amortization of principal</u>
7th semiannual period	3	75,000
8th semiannual period	3	75,000
9th semiannual period	3.5	87,500
10th semiannual period	3.5	87,500
11th semiannual period	4	100,000
12th semiannual period	4	100,000
13th semiannual period	4.5	112,500
14th semiannual period	4.5	112,500
15th semiannual period	5	125,000
16th semiannual period	5	125,000
17th semiannual period	5.5	137,500
18th semiannual period	5.5	137,500
19th semiannual period	6	150,000
20th semiannual period	6	150,000
21st semiannual period	6	150,000
22nd semiannual period	6	150,000
23rd semiannual period	6	150,000
24th semiannual period	6	150,000
25th semiannual period	6.5	162,500
26th semiannual period	<u>6.5</u>	<u>162,500</u>
	100.0	US\$2,500,000

RECOMMENDATION OF THE PRESIDENT

The President of the Bank recommends the adoption of the following resolution:

LOAN TO THE BANCO CENTRAL DE RESERVA DE EL SALVADOR

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such officer as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Central de Reserva de El Salvador, as principal debtor, and the Republic of El Salvador, as guarantor, in order that the Banco Central may, in turn, make a loan to the Comisión Ejecutiva Hidroeléctrica del Río Lempa to finance a rural electrification pilot project in eleven towns located in the area of Olocuilta, Department of La Paz. This loan shall be subject substantially to the following provisions:

1. Amount and Currency: Up to US\$165,000 in dollars, or the equivalent in currencies of other member countries, for foreign exchange costs and up to the equivalent of US\$60,000 in colons for local currency costs. Payments of amortization and interest shall be made proportionately in the currencies loaned.
2. Source of Funds: The Fund for Special Operations.
3. Guarantee: The obligations of the debtor shall be guaranteed by the Republic of El Salvador.
4. Amortization: The debtor shall amortize the loan in a period of 25 years from the date of signature of the contract, by means of 34 equal and consecutive semiannual installments, including amortization and the interest accruing during the corresponding period. The first installments shall be payable 8-1/2 years after said date.
5. Interest: 4% per annum on principal amounts outstanding. The interest for each of the first 16 semiannual periods shall be payable at the end of the respective period, without amortization of principal.
6. Commitment Fee: None.
7. Disbursement: Total disbursement of the loan shall be made within a period of one year after the date of the contract, or within such longer period as may be agreed upon by the Bank.
8. Special Conditions: None.

RECOMMENDATION OF THE PRESIDENT

The President of the Bank recommends the adoption of the following resolution:

LOAN TO THE BANCO CENTRAL DE RESERVA DE EL SALVADOR

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such officer as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Central de Reserva de El Salvador, as principal debtor, and the Republic of El Salvador, as guarantor, in order that the Banco Central may, in turn, make a loan to the Ministry of Agriculture and Animal Husbandry of El Salvador to assist in financing the agricultural development of the Zapotitán valley. This loan shall be subject substantially to the following provisions:

1. Amount and Currencies: Up to US\$1,050,000 in dollars, or the equivalent in currencies of other member countries for expenses in foreign currencies and up to the equivalent of US\$625,000 in colons for local currency costs. Payments of amortization and interest shall be made proportionately in the currencies loaned.
2. Source of Funds: The ordinary capital resources of the Bank.
3. Guarantee: The obligations of the debtor shall be guaranteed by the Republic of El Salvador.
4. Amortization: The debtor shall amortize the loan in a period of 20 years from the date of signature of the contract, by means of 32 equal and consecutive semiannual installments, including amortization and the interest accrued during the corresponding period. The first installment shall be payable 3-1/2 years after said date.
5. Interest: 5-3/4% per annum (including the 1% special commission of the Bank) on principal amounts outstanding. The interest for each of the first six semiannual periods shall be payable at the end of the respective period without amortization of principal.
6. Commitment Fee: 3/4 of 1% per annum on the undisbursed portion of the loan, commencing to accrue 60 days after the date of the contract and dates designated for payment of interest. The fee shall be payable in dollars, except for the fee on the portion of the loan disbursed in colons, which shall be payable in that currency.
7. Disbursement: Total disbursement of the loan shall be made within a period of three years.
8. Special Conditions: None.

RECOMMENDATION OF THE PRESIDENT

The President of the Bank recommends the adoption of the following resolution:

LOAN TO THE BANCO CENTRAL DE RESERVA DE EL SALVADOR

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such officer as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Central de Reserva de El Salvador, as principal debtor, and the Republic of El Salvador, as guarantor, in order that the Banco Central may, in turn, make a loan to the Administración Nacional de Acueductos y Alcantarillados to assist in financing the expansion and improvement of the water supply systems in the cities of San Salvador, Santa Ana, San Miguel, Santa Tecla, and Sonsonate. This loan shall be subject substantially to the following provisions:

1. Amount and Currencies: Up to US\$1,260,000 in dollars, or the equivalent thereof in currencies for expenses in foreign currencies. Payments of amortization and interest shall be made proportionately in the currencies loaned.
2. Source of Funds: The ordinary capital resources of the Bank.
3. Guarantee: The obligations of the debtor shall be guaranteed by the Republic of El Salvador.
4. Amortization: The debtor shall amortize the loan in a period of 20 years from the date of signature of the contract, by means of 32 equal and consecutive semiannual installments, including amortization and the interest accruing during the corresponding period. The first installment shall be payable 4 1/2 years after said date.
5. Interest: 5-3/4% per annum (including the 1% special commission of the Bank) on principal amounts outstanding. The interest for each of the first six semiannual periods shall be payable at the end of the respective period, without amortization of principal.
6. Commitment Fee: 3/4 of 1% per annum, in dollars, on the undisbursed portion of the loan, commencing to accrue 90 days after the date of the contract and payable on the dates designated for payment of interest.
7. Disbursement: Total disbursement of the loan shall be made within a period of three years.
8. Special Conditions: None.

RECOMMENDATION OF THE PRESIDENT

The President of the Bank recommends the adoption of the following resolution:

LOAN TO THE BANCO CENTRAL DE RESERVA DE EL SALVADOR

The Board of Executive Directors

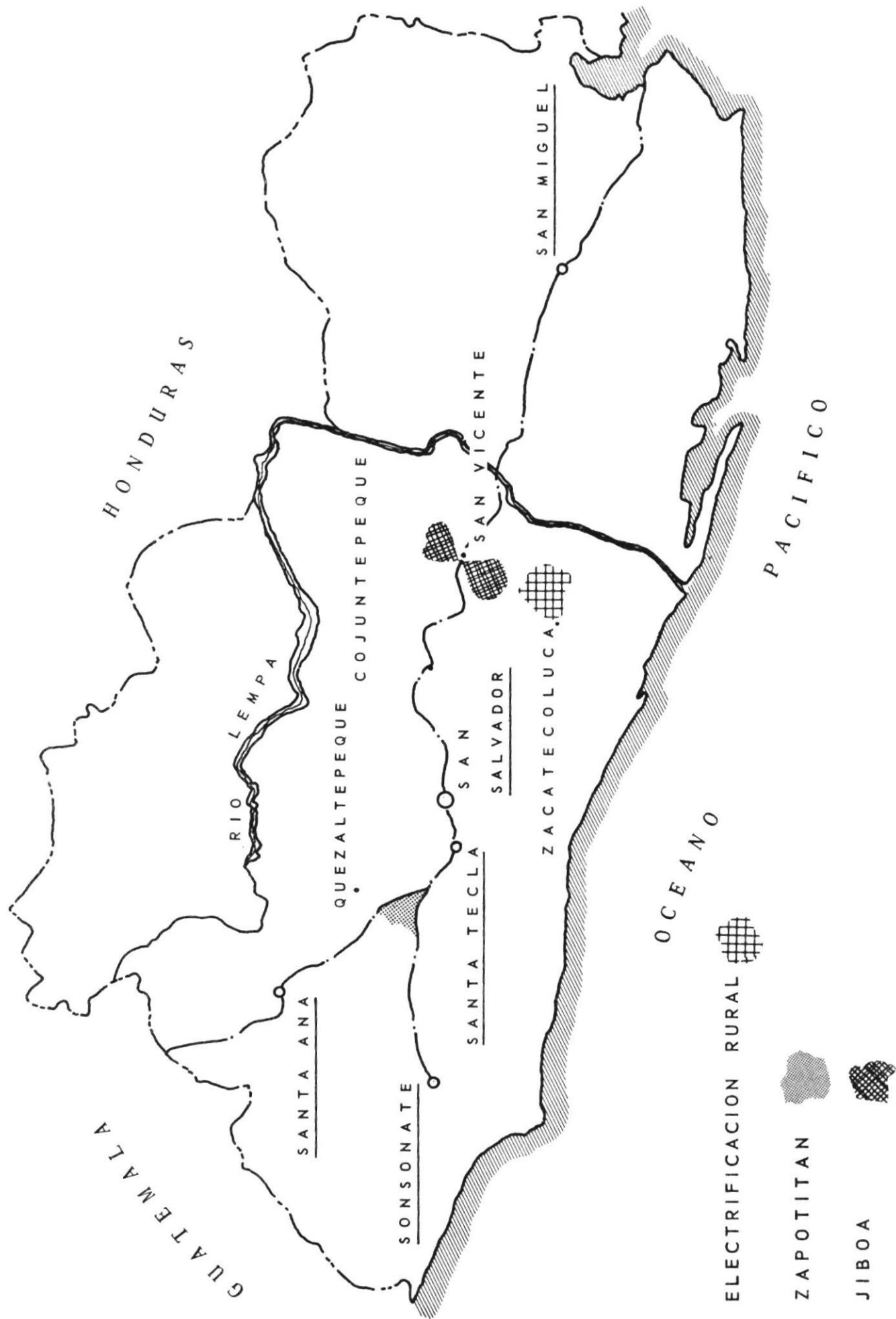
RESOLVES:

That the President of the Bank, or such officer as he shall designate, is authorized, in the name and on behalf of the Bank, in its capacity as Administrator of the Social Progress Trust Fund, to enter into such contract or contracts as may be necessary with the Banco Central de Reserva de El Salvador, as principal debtor, and the Republic of El Salvador, as guarantor, in order that the Banco Central may, in turn, make a loan to the Administración Nacional de Acueductos y Alcantarillados to assist in financing the expansion and improvement of the sewerage systems of the cities of San Salvador Santa Ana, San Miguel, Santa Tecla and Sonsonate. This loan shall be subject substantially to the following conditions:

1. Amount and currency: Up to US\$840,000. Payments of amortization and interest shall be made in the national currency of the borrower, in an amount sufficient, in each case, to assure that the payment be equal in value to the amount due stipulated in dollars.
2. Guarantee: The obligations of the debtor shall be guaranteed by the Republic of El Salvador.
3. Amortization: The debtor shall amortize the loan in a period of 30 years from the date of signature of the loan agreement, by means of 60 consecutive semiannual installments computed on a progressive scale, in accordance with the Schedule of Amortization annexed to this resolution.
4. Service Charge: $3/4\%$ per annum, in dollars, on principal amounts outstanding payable semiannually on the same dates as payments of amortization.
5. Interest: $2-3/4\%$ per annum on principal amounts outstanding, payable semiannually on the same dates as payments of amortization.
6. Disbursement: Total disbursement of the loan shall be made within a period of two years after the date of the contract.
7. Special Conditions: None.

<u>End of</u>	<u>% of amount disbursed</u>	<u>Installment per semiannual period</u>	<u>Amortization of principal</u>
1st to 4th semiannual periods	0.5 per period	US\$ 4,200	US\$ 16,800
5th to 18th " "	1.0 " "	8,400	117,600
19th to 32nd " "	1.5 " "	12,600	176,400
33rd to 46th " "	2.0 " "	16,800	235,200
47th to 60th " "	2.5 " "	21,000	294,000
<hr/>			
Totals 60 semiannual periods	100%		US\$ 840,000

El Salvador



ANALYSIS OF THE PROJECT

I. THE APPLICATION

1. In a communication dated June 12, 1961, and addressed to the President of the Inter-American Development Bank, Economic Affairs Minister Rafael Glower Valdivieso applied formally for several credits to finance part of an intensive two-year economic and social development program. This application followed close on the heels of an IDB mission to El Salvador. The mission was able to discuss and examine the projects included in this program which the provisional Government of El Salvador proposes to undertake in order to prepare and initiate a broader over-all program to be carried out, as the Minister of Economic Affairs states, by subsequent administrations. To implement this program, the government reckons on its own resources and those of its autonomous institutions, on IDB credit, technical assistance from international institutions and the resources of the Inter-American Social Progress Trust Fund.
2. Lastly, Minister Glower Valdivieso states in his application that, as a general rule, all the requested loans be included within a single line of credit granted by the IDB to the Banco Central de Reserva of El Salvador which, consequently, will be regarded in this document as the borrower.

II. THE BORROWER

A. Organization

3. The Banco Central de Reserva of El Salvador was established by Decree No. 64, dated June 19, 1934, to provide the country with a stable currency and with elastic credit to fit economic requirements. As set forth in this decree, the Banco Central emerged from a reorganization of the Banco Agrícola Comercial, after the Banco Occidental and the Banco Salvadoreño had relinquished their right to issue paper currency. At the same time, gold and assets deemed acceptable under its statutes were transferred to the Banco Central, while unacceptable assets were transferred to the special deposit account of the government; all these operations were transacted in sums equivalent to the paper currency issues and other obligations of the Banco Agrícola Comercial. Furthermore, the Banco Central was empowered to redeem the circulating paper of the former issuing banks by its own notes, thus becoming the sole institution of issue.
4. Since the U.S. dollar had been revalued on January 31, 1934, the Charter of the Banco Central de Reserva of El Salvador specified that the revalued gold would be entered on the Banco Central's books at the rate of 2 colons per dollar and that the available portion of

the book profit resulting from this revaluation would be applied to cancel the state's debt with the Banco Central itself. All the legal provisions referring to the constitution of this Banco Central indicate that it emerged as a private entity free from government intervention. However, the Banco Central assumed functions proper to a regulator of the banking system, and powers were vested in it to compel commercial banks to maintain cash reserves on deposit in the Banco Central, apart from funds deposited with other banks. Commercial banks were also obliged to subscribe shares for a free value of 150,000 colons to constitute the initial capital of the Banco Central, which obligation was made applicable to all credit institutions established in the future.

5. The original stockholders of the Banco Central also included the Asociación Cafetalera de El Salvador, which received shares for a value of 600,000 colons; the Asociación was obliged to hold permanently and integrally when it was made a public utility foundation. This led to the designation of the first Board of Directors of the Banco Central de Reserva, as follows:

The President of the Asociación Cafetalera
 1 director appointed by the share-holding banks
 2 directors appointed by the Organizing Committee.

These four directors elected the President of the Banco Central, bringing the number of board members to five. The appointment of the President-elect was subject to confirmation by the Executive Branch.

6. The Charter was approved by Legislative Decree No. 65, dated June 19, 1934, which also established an authorized capital of 1,650,000 colons; all foreign governments and the national government were excluded by special provision from either direct or indirect participation as share-holders in the institution.
7. The Charter included provisions concerning the operations in which the Banco Central was empowered to engage, including discounting and rediscounting, buying and selling of foreign exchange, receiving deposits, purchasing securities, granting advances, etc. The minimum requirement in gold and foreign exchange to cover the emission of notes in circulation and sight drafts was fixed at 25%.
- B. Nationalization of the Banco Central de Reserva
8. This situation subsisted until April 20, 1961, when the Civilian-Military Board, considering that, by granting exclusive right of issue, the State had assured the growth and prosperity of the Banco Central de Reserva de El Salvador Corporation without having reserved for itself the authority to guide monetary and credit policy for the benefit of the national economy, and that it was the duty of the State to guide monetary policy in order to create optimum conditions for national economic growth, deemed it advisable, by virtue of the powers

vested in it by the Constitution, to decree that the Banco Central de Reserva de El Salvador Corporation become a public government agency of indefinite duration with its own juridical personality to exercise rights and incur obligations of all kinds.

9. In this manner, all the assets and liabilities of the Banco Central de Reserva de El Salvador Corporation, were transferred to the new institution, particularly the exclusive authority to issue monetary currency, which would circulate without restriction as legal tender for payment of all debts. This authority did not suspend the legal tender status of paper currency and coins previously issued by the Banco Central, as so stated in the decree nationalizing the institution
10. On the other hand, this decree sets forth precise rules for regulating bank obligations, assigning the Banco Central the power to set and change legal cash deposit requirements, establish quantitative and qualitative credit controls, set commercial banking rediscount and interest rates, authorize bank investments in shares, and establish monetary sanctions for violations of its rules.

C. Administration

11. Concurrently with the provisions relating to nationalization of the institution, the decree issued by the Civilian-Military Board provided that the Banco Central would be governed by a Board of Directors composed of 7 members as follows:
 - a) A Chairman and a Vice-Chairman appointed for five years by the President of the Republic or his representative;
 - b) One director and one alternate elected by the banking institutions of El Salvador;
 - c) One director and one alternate elected jointly by the agricultural and stock raising sectors;
 - d) One director and one alternate elected by the Salvadorian industrial associations.

In addition, the Ministers of Economic Affairs, Finance and Agriculture would be ex-officio directors empowered to delegate their functions to their respective Under Secretaries or to prominent officials in their respective fields.

12. In order to avoid interruptions in the operations of the Banco Central, it was established that, until the Charter was decreed, the institution might use the reserves referred to in Article 40 of Decree No. 65, dated June 19, 1934, to protect the stability of Salvadorian currency abroad, and that it would continue to operate under such provisions of Decrees 64 and 65, dated June 19, 1934, as do not run counter to the

terms of the Nationalization Decree. The same criterion was established for the Board of Directors of the Bank, which was to exercise the powers vested by the aforesaid decrees and their amendments in the Regular Shareholders Assembly and in the Board of Directors of the Banco Central de Reserva of El Salvador.

13. Lastly, it was decided that the Banco Central would purchase the shares legally registered under the names of shareholders for cash at face value.

D. Background - Experience

14. The Government of El Salvador has utilized foreign financing by floating bond issues in the capital markets of New York and London. In the past these obligations have been incurred directly, without mediation by any bank or credit institution. Foreign loans have also been used to finance some public utility works, such as those completed by the Lempa River Authority (Comisión Ejecutiva del Río Lempa) and the Acajutla Port Authority (Comisión Ejecutiva del Puerto de Acajutla). The former was established to implement and administer the Lempa River hydro-electric project with the financial help of the World Bank and domestic resources, and the latter to build the Acajutla project on the Pacific Coast.
15. The Banco Central de Reserva has participated in all these operations as fiscal agent without assuming any obligations, which belong to the respective issuing institutions, guaranteed by the government, or to the Republic of El Salvador directly, as in the case of the foreign debt in dollars and sterling, which was contracted for US\$13.8 million and amounted on December 31, 1960, to US\$2,468,000. This sum is part of the total foreign debt of El Salvador, which has been amortized punctually and amounted on December 31, 1960, to US\$24 million. (See IDB report on El Salvador).
16. Among the more recent instances in which the Banco Central de Reserva has acted to obtain financing abroad are the loan of US\$2.5 million obtained by the Banco Central as a precautionary measure from the Chase Manhattan Bank of New York in 1958 and the US\$7.5 million stand-by credit it negotiated with the International Monetary Fund but did not use that year. In 1959 the Banco Central also obtained a short-term loan from the Federal Reserve for US\$8 million for which it put up a guarantee of US\$12.82 million from its own monetary reserves. The IMF stand-by credit was increased to US\$11.3 million in September 1959, after the quota of El Salvador in that international organization was raised, but this credit was totally utilized. At the end of the same year the Banco Central obtained another short-term loan for US\$1.0 million from the Bank of America. Thus, after some of these obligations had been cancelled and others incurred, the Banco Central's total foreign exchange liabilities amounted in March 1961 to US\$20.3 million against a net reserve of US\$32.2 million.

17. As can be inferred from the foregoing, the experience of the Banco Central de Reserva in the use of foreign financing has been limited to handling short-term credit lines with international banking institutions and with governmental and private banks. In no case has its intervention in foreign financing been used to channel resources so obtained to development institutions or to private banks which would reloan them to their clients for specific agricultural, industrial or livestock development projects.
18. These circumstances do not imply that the institution has gained no experience in the management of its relations with banking institutions abroad. On the contrary, the contacts it has maintained with banks in other countries have helped it to exercise running control over its obligations with a view to their more punctual fulfillment.
19. However, it would be necessary to appoint an IDB officer as administrator of the loans considered in the present document, who would maintain an office in the building of the Banco Central itself and would control the execution and utilization of the funds intended for these projects and of other operations pending negotiation with the IDB

E. Legal Powers to Seek Credits Abroad

20. Since, in the case in hand, the IDB has to do with a de facto government, this matter has been carefully studied by its Legal Division. The opinion arrived at is annexed to the present document.

F. Resources - Financial Position

21. Until September 1960, economic conditions in El Salvador were satisfactory, as shown by the economic indices. In consequence, however, of a substantial increase in exports and a flight of capital that took place in connection with the military coup which overthrew the government in October, foreign exchange reserves declined by US\$18.2 million. This decline in reserves affected the financial position of the Banco Central, which had to draw on foreign credit to compensate for its loss of foreign exchange. It may be mentioned as an example that the net foreign exchange reserves of the country declined from US\$44.9 million in December 1958 to US\$13.4 million in May 1961, and that those of the Banco Central de Reserva were reduced from US\$35.3 million to US\$11.9 million.
22. The following chart illustrates the foreign exchange turnover throughout the banking system:

International Reserves

In millions of dollars

	<u>Banco Central</u>		<u>Other Banks</u>		<u>Total</u>
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Net Reserves</u>
December 1958	37.8	35.3	10.2	9.6	44.9
December 1959	37.7	25.0	9.7	8.8	33.8
March 1960	41.9	38.7	8.7	7.8	46.5
June 1960	40.6	38.4	6.1	4.9	43.3
September 1960	34.1	29.1	3.6	1.6	30.7
December 1960	33.0	12.0	4.4	0.5	12.5
March 1961	32.2	11.9	3.8	1.5	13.4

Source: These figures were prepared by the International Monetary Fund Mission to El Salvador on a different basis than the one used for other figures in this document; this accounts for the discrepancy between the sets of figures.

23. The most important factor in the deterioration of the international position of El Salvador was the great expansion of banking credit in 1960 and the loss of liquid assets held by the public in the form of money and investments in credit instruments.
24. To begin with, credit was expanded at year's end by 17.6 million dollars, i.e., by more than 13 per cent, without producing any contraction through public holdings. Credit to the government was also increased during this same period, but this increase was less than in previous periods.
25. The commercial banks were able to expand banking credit because of the considerable increase in rediscounts issued by the Banco Central de Reserva which rose to a total of US\$41 million at the end of 1960, the highest they have ever been. The commercial banks, in turn, considerably increased their lending in the last quarter of 1959, by US\$17.4 million.
26. With the rise of imports to a record level of US\$122.4 million (CIF) in 1960 and with exports of US\$116 million, the government was compelled for the first time, on April 1, 1961, to introduce exchange controls, which became effective on May 1, 1961.
27. The annex to the present document contains a comparative chart of Banco Central de Reserva balances as of December 31 for the years 1956 through 1960, and the most recent balance as of May 31, 1961. These balances show the movement in the chief items of monetary reserves and issues, which have been affected by the previously described factors.

28. The Charter of the Banco Central states that issued currency must be 25% backed by solid gold; this has been possible owing to the foreign financing this institution has obtained. The Banco Central recently renewed its stand-by agreement with the International Monetary Fund and, according to reports received by the IDB, is negotiating a stabilization loan with the Eximbank in Washington.

III. THE PROJECT

A. DEVELOPMENT OF MANUFACTURING AND AGRICULTURAL INDUSTRIES - US\$2,500,000

Purpose

29. The Banco Central de Reserva proposes to channel the resources requested from the IDB through the Banco Hipotecario of El Salvador, the Instituto Salvadoreño de la Producción and other banking institutions operating in the country that have been authorized by the Banco Central to handle these loan funds, which would be used to finance specific projects. It is thereby expected that the loaned funds will be made accessible to the largest possible number of borrowers, who will be able to obtain medium- and long-term funds according to their needs.
30. The Banco Hipotecario of El Salvador, one of the institutions which will handle the funds, is a registered corporation established under a Legislative Decree dated September 25, 1930, to grant loans secured by mortgages on real estate and to issue its own obligations in the form of certificates. It can also engage in any other type of operation compatible with its nature, including the granting of loans for farming, stock raising, industrial or commercial purposes. As of May 31, 1961, its capital and contingency and reserve funds totaled US\$6,752,000.
31. The Instituto Salvadoreño de la Producción (INSAFOP) is an autonomous public service agency created by Legislative Decree No. 139, dated October 3, 1955, with capital and reserves of US\$3,209,000 as of December 31, 1961. According to that Decree, its purpose is to serve as an active instrument of the State in carrying out and financing national plans aimed generally at promoting the economic development of the country, raising the standard of living of the population and:
 - a) enlarging, diversifying and rationalizing production in agriculture, stock raising, fisheries, mines, industry and any other line of activity in the country for both the domestic and export markets;
 - b) improving existing national distribution systems in order to bring the benefits of production to the bulk of the population; and,
 - c) encouraging other economic activities aimed at providing permanent and remunerative employment for Salvadorean workers and strengthening the national economy.
32. However, participation in this line of credit by INSAFOP is contingent on its reorganization with a view to improved performance of its functions. To this end, the applicant has requested technical assistance from the IDB. Owing to political influences, INSAFOP has been administering enterprises that have shown losses, such as the Monte Cristo mines and a dairy. It has ~~also~~ been engaging in economic planning activities that are not part of its functions.

33. The other credit banking institutions which will draw on the IDB loan resources are commercial banks whose authorization to do so will be subject to the decision of the Banco Central; they will be required to submit complete financial statements to the IDB before commencing disbursement.
34. Hence, the applicant believes that, in this manner, a more effective distribution of investments would be attained, which will help to increase national production and to raise the economic activity indices. To these ends, the applicant relies on infrastructural works which are now adequate or being expanded (ample electric power supply, paved roads, water supply, etc.). There is likewise abundant manpower and raw materials for industrialization (cotton, corn, vegetable fibers, etc.). Agriculture and livestock credits will be channeled preferentially into the production of commodities which can be processed locally in turn, such as: meat, vegetables, milk products, fish, etc. For the integral development of the Zapotitán Valley (see Section III-C of the present document), preferential treatment should be given to the credit applications of farmers in this region.
35. The Banco Central de Reserva of El Salvador also believes that loan funds could be used to develop farming and stock raising and that the following activities could be benefited:

1. In manufacturing industries

36. For acquiring equipment, machinery and capital goods for installation of new industries, expansion and improvement of existing industries and construction of industrial buildings, by providing borrowers with additional funds (approximately 50%) for their execution. In connection with these activities, the following industries are cited as possible beneficiaries of loan funds:

- Textiles, including manufacture of yarns and printed fabrics
- Foodstuffs for human consumption
- Vegetable oil extraction
- Chemicals and pharmaceuticals
- Furs
- Animal feeds
- Fishing
- Fertilizer
- Construction.

In listing these sectors, the replacement of imports based on 1960 figures has been borne in mind. These figures show that commodity import lines of more than US\$100,000, including fuels, lubricants, electrical equipment, machinery, automobiles, etc., accounted for up to US\$88 million out of an estimated FOB import total of about 104 million dollars.

37. Following is a reclassification of part of the imports for 1960, divided into fourteen commodity lines:

	FOB
1. Foodstuffs	10,464.8
2. Textiles and apparel	8,123.8
3. Hides and manufactures	577.8
4. Metals	6,523.9
5. Chemicals	14,672.6
6. Motors and electrical appliances	13,106.4
7. Oils, greases and fuels	7,327.5
8. Paper and cardboard	2,482.0
9. Liquors and tobacco	1,503.0
10. Livestock	2,135.5
11. Feeds	518.7
12. Construction materials	2,633.6
13. Office equipment and toys	2,360.2
14. Transportation equipment	15,571.4
	<u>US\$88,001.2</u>

This list, from which, as noted, lines of less than US\$100,000 have been omitted, gives an idea of potential industrial development and its financial requirements. Moreover, it is considered that the economic integration of Central America will stimulate investment in the industrial sector and that the country needs to expand its production to benefit from the larger market and from the easy access to it afforded El Salvador's geographical position.

2. In agriculture and stock raising industries

38. The foregoing list of foodstuff and raw material imports reveals that in this field there are possibilities for accelerated development of the Salvadorian economy if production is diversified into lines that will reduce dependence on imports and on a single export product, and if production techniques and low outputs are improved. Hence the concern for mechanization of farming practices, which require the purchase of equipment, machinery and implements; this equipment, together with local funds, will also supplement the financing of specific projects. As a matter of fact, investments in the agricultural sector could help to increase livestock and poultry production; they could also help to extend irrigation and to recover presently uncultivated areas through drainage. As a supplement to this program of agricultural development, consideration has also been given to the acquisition of transportation equipment for hauling produce to industrial distribution or consumption centers, in order to meet the great demand for imported foodstuffs with local products. To attain these ends, the applicants believe that they could grant loans for the importation of purebred livestock and for the construction of suitable breeding installations.

39. With the country's present livestock production in view, studies have been conducted on the installation of a model slaughter house in the capital and a factory to manufacture sausage enriched with cottonseed flour, which would stimulate livestock production. Lastly, the applicant adds that, in the interest of optimum utilization of the loan, both manufacturers and farmers be allowed to apply a percentage of the funds to finance local currency expenditures not to exceed 20% of the value of the loan.

Credit Utilization Procedure

40. An over-all credit is proposed for the sum of US\$2.5 million to be invested in the sectors indicated in Section III-A (Purpose). In order that the Banco Central may channel these funds to the financing institutions that will utilize them, and the latter may grant medium-and short-term loans, it is suggested that the loan be repayable in 13 years, including a 3-year grace period.
41. Although it is possible that the funds may be utilized or invested during the 3-year grace period, this term is considered reasonable owing to the difficulties currently being experienced by the Salvadorian economy, which the loan would help to overcome.
42. The following procedure is suggested for utilization of the resources:
- a) The Banco Central de Reserva will designate the banking and development institutions that may participate in the funds obtained under the over-all credit;
 - b) The interested institutions will submit to the Banco Central de Reserva of El Salvador the loan applications they wish to process, following negotiation and analysis. All applications will be accompanied by certification that the credit in question has been approved in principle by the management of the applicant bank;
 - c) No limit will be placed on the amount of loans to be financed, but applications for sums in excess of US\$100,000 will be submitted to the IDB for approval;
 - d) Each loan application will be accompanied by all information necessary for complete identification of the loan, including the following data:
 - i. Description of the project to be financed, stating whether a new or established enterprise is concerned.
 - ii. Total cost of the project, describing local and foreign expenditures, and indicating financing sources.
 - iii. Names of the company directors.

- iv. General balance sheet and profit and loss statement for the last three fiscal years; when the enterprise is a new one, the following information will be required; type of enterprise, amount of authorized capital, and of amount and structure of paid-in capital.
- v. Estimate of income and costs for the next three fiscal years.
- vi. In the case of a new enterprise, statements will be attached by the applicants and, where possible, from other quarters, evaluating the market for the commodities to be produced.
- e) Before deciding on a credit application, the Banco Central will analyze the project to be financed from the point of view of the enterprise, the possibilities of the market and the economic advantage to the country, and the possible reduction of imports or increase of exports so as to improve the balance of payments;
- f) Banks will execute loan contracts with their clients following approval by the Banco Central and in accordance with the conditions laid down by it;
- g) The Banco Central will make the fund available to the banks after having verified that the terms of the credit granted meet the conditions on which it has been approved to the re-lending bank.

Utilization - IDB Disbursements

- 43. Once the credit contract has been executed, the Banco Central may draw on the over-all credit to the amount of US\$300,000 for loans of under US\$100,000.
- 44. Subsequently, if the Banco Central de Reserva of El Salvador desires to make another draft for the same purpose it will have to supply the IDB with sufficient proof that previous drafts have been used for the purpose and on the terms agreed upon when the loan was granted. Where loans in excess of US\$100,000 are involved, drafts will be made individually in each case after the operations have been approved by the IDB on the recommendation of the Banco Central de Reserva of El Salvador. After INSAFOP has been reorganized, loans in which it acts as intermediary must be submitted to the IDB, or to its representative, regardless of the amount involved.

Terms for Individual Operations

- 45. The term for loans granted by credit institutions in El Salvador shall not exceed the maximum term of 13 years established for the over-all credit. The minimum term will depend upon the nature of the operations to be financed and the size of the sums loaned, as well as the maturity date of the over-all line. It is also possible that, within the maximum over-all credit term, the Banco Central may reinvest recoveries on loans granted, since, as can be seen below, the amortization proposed is scaled in progressively larger payments. Furthermore, the Banco Central of El Salvador will grant a grace period for commencement of amortization payments by users in order that recoveries on the loans may begin no later than the end of the third year.

Interest

46. It is proposed to grant this loan from the ordinary resources of the IDB at an interest rate of 5-3/4% per annum. The interest rate applicable to individual credits to be financed from the over-all loan would be 3.25% over and above the interest rate charged by the IDB. This difference would be broken down into 0.25% for the Banco Central de Reserva of El Salvador and 3% for the intermediary institution. As a result, each individual borrower would pay a minimum rate of 9%, which is the maximum rate set by the Banco Central for commercial banks at present. The Project Committee recommends that the interest on this loan be payable semiannually, beginning six months after the date of the contract.

Amortization Plan for the Over-all Credit

47. The following amortization plan is proposed to permit utilization of the funds as often as permitted by the term of the IDB contract and the requirement that amortization begin in the third year. The requested gradual amortization plan is presented as follows:

<u>End of</u> <u>(1)</u>	<u>Percentage of Amount</u> <u>Utilized</u> <u>(2)</u>	<u>Amortizations of</u> <u>Principal</u> <u>(3)</u>
4th year	6	150,000
5th year	7	175,000
6th year	8	200,000
7th year	9	225,000
8th year	10	250,000
9th year	11	275,000
10th year	12	300,000
11th year	12	300,000
12th year	12.5	312,500
13th year	12.5	312,500
	<u>100%</u>	<u>2,500,000</u>

Even should the Banco Central de Reserva of El Salvador have made no recoveries on any of its investments from the loan, it will engage to make the payments in proportion to the utilized amounts of the credit. This plan shows that the sums that the Banco Central would have to pay are relatively small and that they would be even smaller if the line of credit were not fully utilized.

B. LEMPA RIVER AUTHORITY (COMISION EJECUTIVA HIDROELECTRICA DEL RIO LEMPA)

The Borrower

48. The Lempa River Authority, better known as CEL, is one of the best-administered public service agencies in Latin America. Established as an autonomous body in 1945, this organization now operates hydroelectric stations with a combined output power of 60,000 kilowatts and their transmission networks to the chief cities of El Salvador, the construction of which has been partially financed by IBRD loans. The system is currently being expanded by the construction of a new hydroelectric station at Guajoyo which will begin generating an additional 15,000 kilowatts by the end of 1963.
49. This concentrated effort has resulted in industrial development on a substantial scale, considering the area and population of this Central American country. CEL sells its power chiefly to private companies which then distribute it in the principal urban centers.
50. The Authority is controlled by a Commission of 7 directors; four of whom are appointed by the Executive Branch of the government through the Ministries; 3 represent private interests. Of the latter, one represents private banking, another the agricultural and industrial associations and the third holders of bonds (in local currency).

Operations

51. CEL is operating efficiently in the field of urban services; under its contract with the World Bank, it earns profits of at least 9% through the application of suitable rates. However, it has been greatly concerned with the permanent increase of its electric power networks throughout the country. Growth to meet urban demand, the chief factor in its economic development, will probably continue to be financed by the World Bank, but CEL, in its desire to extend its services to rural areas as well, has planned expansions in its networks for distribution to these areas, with a consequent improvement of economic and social conditions. ^{1/}

Rural Electrification

52. Technical studies have already been prepared for a considerable number of rural areas. Such is the case of a group of eleven towns located in Olocuilta, Department of La Paz, which lies between the capital and the city of Zacatecoluca. A pilot plan has been set for this area, inhabited

^{1/} Under its contract with the World Bank, CEL is obliged to consult the Bank in regard to urban programs, but is free, on the other hand, to undertake rural programs with its own resources or with the aid of other financing sources.

by about 14,000 people, which could serve as a model not only for projects in El Salvador but in other Latin American countries as well. The towns which will benefit from this pilot plan are the following:

<u>Town</u>	<u>Urban Population</u>
San Juan Tepezontes	1,200
San Miguel Tepezontes	1,800
San Antonio Masahuat	1,000
San Pedro Masahuat	1,400
Rosario de La Paz	1,500
Tapalhuaca	600
San Juan Talpa	1,900
San Luis Talpa	600
Olocuilta	2,100
Cuyultitán	600
San Francisco Chinameca	<u>1,400</u>
Total	14,100

53. This group of 11 towns is typical, inasmuch as it is estimated that there are at least 170 unserved municipalities with populations under 3,000 inhabitants. Privately-owned enterprises cannot extend their distribution networks to these towns because in most cases they would incur losses or recover their investments only over a very extended period.
54. CEL has drawn up a General National Electrification Plan, involving an estimated cost of 14 million colons. If the experimental project to be financed by the proposed loan is successful, funds could later be sought to put the entire Plan into practice. CEL would encourage the formation of local consumer cooperatives which would eventually take over operation of these rural systems. CEL would retain any shares that could not be sold to consumers.

The Project

55. The project will consist of the installation of a 22,000-volt line from a sub-station in El Salvador to the town of Olocuilta, at the edge of which a sub-station would be built to step down the voltage from 22,000 to 7,200 volts, which is the voltage accepted by the Rural Electrification Administration of the United States. The 7,200-volt line would be run from this sub-station to the town of Rosario de la Paz, and suitable rates would be charged for service to the various towns along the route.
56. The studies, conducted by the technical staff of the Authority, have been completed. An estimated budget has been prepared for the projects as follows:

<u>Item</u>	<u>Purpose</u>	<u>Cost</u>
1	Cost of sub-transmission lines between San Salvador and towns in the zone	C/ 212,000
2	Circuit-breaker system for protection of line	11,000
3	22,000-7,200-volt step down sub-station	30,000
4	Distribution network (11 towns)	162,000
5	Meters and home service	90,000
6	Equipment and maintenance supplies	32,500
7	Operating fund	<u>25,000</u>
Total		C/ 562,500
Equivalent to		US\$ 225,000

These cost estimates have been based on the experience gained by CEL from similar projects it has carried out in other towns under approximately the same conditions.

57. The loan would be utilized in the following manner:

<u>Purpose</u>	<u>Colons</u>	<u>Foreign Exchange</u>	<u>Total in Colons</u>
Construction cost	125,000	380,000	505,000
Equipment and maintenance supplies	<u>25,000</u>	<u>30,000</u>	<u>55,000</u>
Total	150,000	410,000	560,000

58. Importable equipment and supplies would be acquired through competitive bids; the projects would be carried out by the technical staff and workers of the Authority, who are highly experienced, having done other similar work for CEL. It is estimated that this program could be completed within a maximum of 8 months after signature of the contract.
59. In estimating the power consumption of the various towns, CEL has taken as a basis the consumption of the following towns, which are similar to those included in the pilot plan:

<u>Town</u>	<u>Top Kilowatt Demand</u>	<u>Monthly Kwh Consumption</u>	<u>Population</u>	<u>Watts Per Capita</u>	<u>Kwh Per Capita Per Month</u>
Tecoluca	16	4,225	1,830	8.8	2.31
San Isidro	14	3,700	1,095	12.8	3.58
San Sebastián	53	15,330	3,051	17.4	5.03
Santa Rosa	<u>44</u>	<u>14,500</u>	<u>2,923</u>	<u>15.0</u>	<u>4.97</u>
Totals	127	37,755	8,899	14.2	4.2

60. The power would be bought from CEL by the consumer associations at standard prices, i.e., C/50.00 per kilowatt per year plus C/0.03 per kilowatt-hour of power. The attached table showing the financial forecast for this rural electrification operation shows that the program will not be able to commence partial payment to CEL for the power supplied until the fourth year, but that it will be possible to pay for all consumption starting in the ninth year. It has been assumed that CEL would charge consumers an additional 4% to cover the IDB interest charges on the loan.

Receipts

61. The power rates will be those currently in force in the town of Usulután (12,276 inhabitants), that is:

The first 70 kilowatt-hours consumed at C/0.15 per kilowatt-hour;

The following 40 kilowatt-hours consumed at the rate of C/0.10 per kilowatt-hour;

Further consumption at the rate of C/0.05 per kilowatt-hour.

In the Usulután area this rate has resulted in a current average price to the consumer of C/0.12 per kilowatt-hour.

62. These forecasts show that the project would be self-financing, provided that a loan is obtained, repayable in 25 years with a grace period of eight years, during which only interest charges would be paid, amortization of the principal to start in the ninth year.

Conclusions and Recommendations

63. 1. The current activities of the Lempa River Authority (Comisión Ejecutiva Hidroeléctrica del Río Lempa) prevent it from carrying out its rural electrification programs within the General National Electrification Plan with its own funds.
64. 2. The interests of El Salvador would be served by the implementation of a pilot plan of rural electrification that would stimulate the social and economic development of essentially agricultural areas.

65. 3. Supplying electric power to these areas would make possible the installation of small household industries, handicraft, etc., and would generally help to raise the standard of living of the inhabitants.
66. 4. It would be advantageous to stimulate civic spirit and mutual collaboration through the establishment of consumer cooperatives.
67. 5. The Lempa River Authority is highly qualified, both administratively and technically, to carry out this program. It may be noted that this agency is very highly thought of in the World Bank.
68. 6. Therefore, based on the project analysis, it is recommended that a loan be granted to the Lempa River Authority, through the Banco Central de Reserva for US\$225,000 to be drawn from the Fund for Special Operations of the IDB owing to the special circumstances surrounding the project, which would be feasible only on the basis of long-term financing that did not have to be amortized immediately. Up to the equivalent of US\$60,000 would be utilizable in colons. The loan would be repayable in 25 years, at an interest rate of 4% per year, and would be amortized starting in the ninth year in equal semiannual payments.

COMISION EJECUTIVA HIDROELECTRICA DEL RIO LEMPA - SAN SALVADOR

TABLA No. 1

(PROYECTO PILOTO DE ELECTRIFICACION RURAL)

PRONOSTICO DE LA SITUACION FINANCIERA

EN MILES DE COLONES

INGRESOS	A OCTUBRE 10.	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
INGRESOS BRUTOS VENTAS ENERGIA		71	78	87	94	104	133	146	161	177	195	245	270	297	327	359	395	435	478	526	579
<u>COSTO DE OPERACION</u>																					
COMPRAS DE ENERGIA		28	31	34	38	41	46	50	55	61	67	73	81	89	98	108	118	130	143	157	173
OTROS GASTOS DE OPERACION		49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68
DEPRECIACION		15	15	15	15	15	15	15	15	15	15	15	16	16	17	18	18	19	20	20	21
TOTAL		92	96	100	105	109	115	120	126	133	140	147	157	166	177	189	200	214	229	244	262
INGRESOS NETOS DE OPERACION		-21	-18	-13	-11	- 5	18	26	35	44	55	98	113	131	150	170	195	221	249	282	317
INTERESES PRESTAMO PROPUESTO BID		22	23	22	23	22	23	22	23	22	21	20	18	17	16	14	13	12	10	9	8
INTERESES A CEL SOBRE ENERGIA		1	2	4	5	7	6	7	7	7	7	7	6	6	6	6	6	5	4	3	1
TOTAL DE INTERESES		23	25	26	28	29	29	29	30	29	28	27	24	23	22	20	19	17	14	12	9
UTILIDAD NETA (O PERDIDA)		-44	-43	-39	-39	-34	-11	- 3	5	15	27	71	89	108	128	150	176	204	235	270	308
<u>MOVIMIENTO EFECTIVO</u>																					
<u>ENTRADAS</u>																					
UTILIDAD NETA (O PERDIDA)		-44	-43	-39	-39	-34	-11	- 3	5	15	27	71	89	108	128	150	176	204	235	270	308
DEPRECIACION		15	15	15	15	15	15	15	15	15	15	15	16	16	17	18	18	19	20	20	21
COMPRAS DE ENERGIA (NO CANCEL.)		28	31	34	38	41	46	50	55	61	67	73	81	89	98	108	118	130	143	157	173
TOTAL DE ENTRADAS		-1	3	10	14	22	50	62	75	91	109	159	186	213	243	276	312	353	398	447	502
<u>SALIDAS</u>																					
AMORTIZACION PRESTAMO BID		-	-	-	-	-	-	-	-	33	33	33	33	33	33	33	33	33	33	33	33
ADICIONES EN EL SERVICIO		-	-	-	-	-	-	-	-	-	15	15	15	20	20	20	25	25	25	30	30
PAGOS DE UDA ENERGIA		-	-	-	10	20	30	40	50	60	70	80	90	90	100	110	130	150	170	190	220
TOTAL		-	-	-	10	20	30	40	50	93	118	128	138	143	153	153	188	208	228	253	283
SALDO MONETARIO ANUAL		- 1	3	10	4	2	20	22	25	- 2	- 9	31	48	70	90	123	124	145	170	194	249
SALDO MONETARIO ACUMULADO		-	2	12	16	18	38	60	85	83	74	105	153	223	313	436	560	705	875	1069	1318

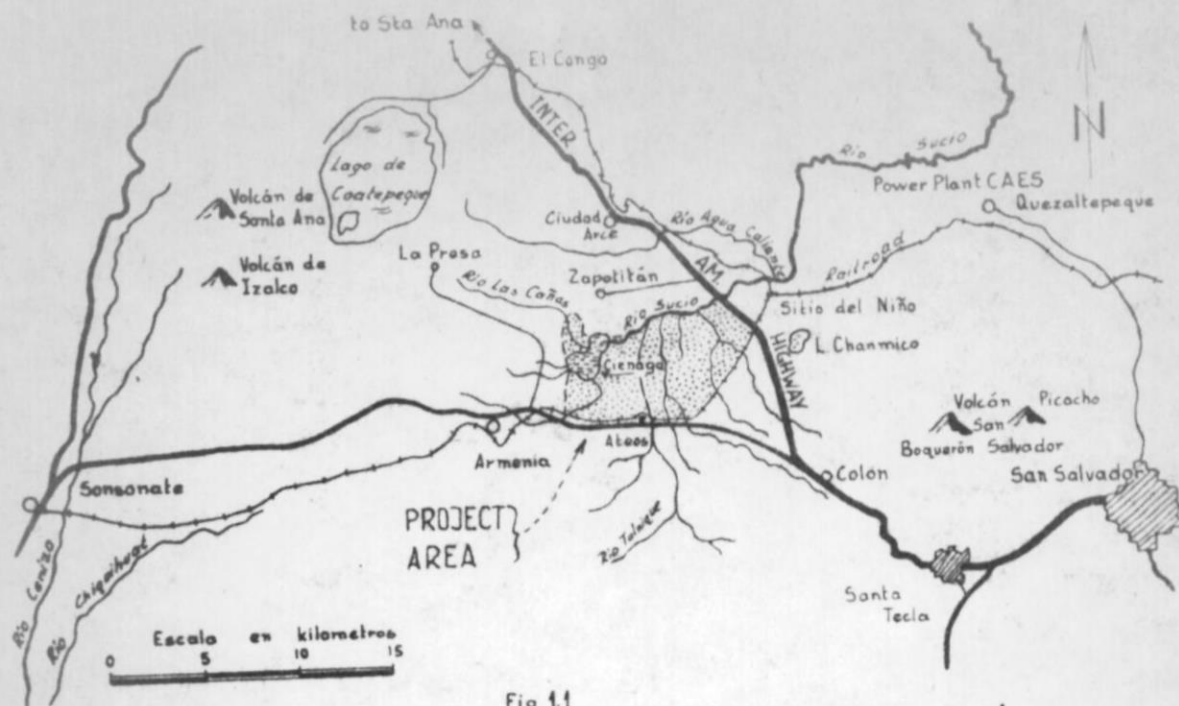


Fig 1.1

C. DEVELOPMENT OF THE ZAPOTITAN VALLEY

The Borrower

69. The Ministry of Agriculture is the government department responsible for preparation and implementation of the Salvadorean Government's development plans. Among other projects, the Ministry has programmed the agricultural development of the Zapotitán Valley as a pilot project, designed to improve land utilization. To this end, in April 1960, it awarded a contract to the firm of Grontmij Ltd., of De Bilt, The Netherlands, for a complete study of such a project. The study was delivered to the Government on July 1, 1961.

The Area

70. The Zapotitán Valley, for the purposes of the application, is bordered on the east, by the Sonsonate-Sitio del Niño railroad; on the north, by the Pan American Highway from its intersection with this railroad to the bridge over the Sucio River; on the south, by the highway to the new port of Acajutla from kilometer 26 to the bridge over the Copapayo River; and on the east, by the boundary of the Zapotitán farm, the Copapayo River, the Zapotitán swamp and the Sucio River. The area thus delimited, the subject of this project, covers 4,610 hectares. It has an average altitude of 460 meters above sea level and is formed mainly of volcanic deposits originating in the mountainous massifs of Lake Coatepeque and the Coastal Range and in the San Salvador volcano.
71. Starting in 1930, when these lands were sold to the Government, a program of land subdivision was begun, without previous study of the quality and productivity of the soils and without any financial or technical assistance to the new owners. In spite of this, there is an acceptable subdivision of the land in this valley, without going to the extreme of tiny marginal farms. A census of the present landholding system, held in 1959, produced the following data.

CATEGORY (By number of hectares)	NUMBER OF LANDOWNERS	TOTAL AREA FOR CATEGORY (in hectares)	% OF TOTAL AREA IN VALLEY
0- 2	6	6	0.1
2- 5	157	506	11.0
5- 10	45	313	6.8
10- 20	26	370	8.0
20- 50	17	477	10.4
50- 100	6	484 ^{1/}	10.5
Over 100	5	2378 ^{2/}	51.6
Unclassified	-	76	1.6
<hr/>			
T o t a l	262	4610	100.0

^{1/} Including 157 hectares of government lands.

^{2/} Including 912 hectares of government lands, of which 270 are covered by swamps.

72. Owing to the utter lack of drainage, barely 700 hectares are cultivated throughout the entire year. During the dry season (November to April) 3,200 hectares are intensively cultivated but do not produce satisfactory yields because of the shortage of irrigation facilities and of access roads. Nevertheless, this area, close to three large cities (San Salvador, Santa Ana and Sonsonate) could be made into one of the most fertile regions in the country owing to the productivity of its soil and the easy marketability of its products.
73. The valley has been the subject of preliminary studies since 1947 but only during the abovementioned study have all technical aspects been investigated and an outline prepared of the operations to be completed.
74. The Ministry of Agriculture is aware of the necessity of executing this pilot plan, not only because these operations will result in permanent incorporation of the area into the national economy, with its consequent benefits, but also because it will provide practical information on the following aspects:
 - 1) The attitude of the landholder toward operations of this type.
 - 2) The legislation necessary for such operations.
 - 3) The time necessary to permit a grower to replace his present system of extensive cultivation with an intensive cultivation of areas provided with adequate irrigation.
 - 4) The most suitable size and shape of farm tracts.

The Project

75. Pursuant to the recommendations of the consulting engineers, the operations can be said to consist of:
 - i) Flood-control operations;
 - ii) A drainage canal system;
 - iii) An irrigation canal system;
 - iv) Access roads; and
 - v) Soil reclamation.
- i) Flood control
76. The purpose of the flood-control operations is to prevent the damage caused by the annual overflow of the Sucio River and its tributaries by straightening and broadening the river channels and constructing levees and supplementary facilities. The highest flood crests have been taken as the basis of the plan; the various operations recommended were decided upon after careful analysis of the field data obtained by the technical staff of National Hydrological and Meteorological Services and the consulting engineers.

77. In 1956, the Ministry of Agriculture carried out a very limited operational program that has produced good results, but only in the immediately adjacent areas. The prime necessity is to widen and deepen the river beds and build protective walls to prevent seasonal changes of course. It will also be necessary to build weirs to control the movement of silt which causes great damage during floods. The protective walls for channel control and the weirs will be constructed of concrete or reinforced masonry; mechanized equipment will be used to widen and deepen the stream beds.
78. Included among the proposed projects is construction of a canal to allow the Copapayo River to empty directly into the Sucio River and not into the swamp of Zapotitán. This will diminish by one third the volume of water which the entire zone now spills into the swamp. Likewise, stream-control practices will be put into effect on a sector of the Talnique River (on which preliminary work was done in 1956) and on the Colón and Chuchucato Rivers, where sudden and severe winter floods have caused considerable damage and prevented the adjacent land from being cultivated profitably for several months. Stream-control work will also be done to the north of this area, on the Las Cañas River, which empties into the swamp. It was originally thought advisable to create a new channel permitting this river to empty directly into the Sucio River, but it was realized that the high cost did not warrant this operation. It was, therefore, decided to control this stream in the manner now recommended, that is, by regulating drainage, which would avoid inundations and by supplementing this operation with such other preventive measures as heightening the banks.
79. Since the Sucio River is the sole means of draining the water from this area, it is imperative to effect a general improvement by widening certain narrow sections and removing such obstacles as those at the site of the San Andrés Bridge in order to expedite the flow of the river. Its future gradient is planned to be 0.006, permitting a discharge of 40 cubic meters per second.

ii) Drainage

80. The purpose of the drainage projects is to control waterflow so as to allow cultivation of the land during the rainy season and also provide irrigation water for farming during the dry season. This control is to be achieved through the proposed removal of surplus water from rainfall seepage and irrigation leakage; such water will be carried to the nearest rivers by means of a system of large drainage ditches.
81. The drainage projects have been planned in keeping with the topographical and soil conditions, so that the most suitable crops can be grown in the various parts of the valley.
82. The dimensions and spacing of the drainage ditches are planned in accordance with these conditions and with due regard to the amount of water required for the crops recommended.
83. It has been suggested, for example, that the upper basin of the Frío River be developed as a horticultural center, bearing in mind the foregoing conditions and its nearness to the Pan American Highway. To this end, the

drainage ditches would be spaced 100 meters apart, and, as far as possible, would be dug along property boundaries; it would be necessary to erect temporary weirs to maintain the required water level during the dry season.

84. Soil conditions in certain stretches will make it necessary to line the drainage ditches. All these operations are to be carried out in the dry season with the use of manual labor.

iii) Irrigation

85. The purpose of the irrigation canals is to permit adequate and extensive use of surface waters in the area. The canals have been planned with due consideration to the physical and chemical conditions of the soil and to percolation and water consumption recommended for the various crops during the dry season.
86. In drafting the irrigation plans, the normal flow of the different rivers in the area during the dry season was taken into account, and on the basis of the total estimated flow, the maximum area to be put under irrigation was determined. It is hoped to obtain a total waterflow of 1,820 liters per second, which is sufficient for irrigating 2,659 hectares.
87. This area may be gradually extended if, through systematic observation over several dry seasons, it is estimated that the waterflow during these months of the year can be used for irrigating a larger amount of land. It is also likely that the irrigation water can be supplemented by well water in several localities.
88. The main canals have been designed to handle 150% of their normal estimated capacity. Water from these canals would be distributed by means of regulator boxes and weirs to the areas of cultivation, in order to supply the estimated needs of each unit, depending upon its crops. Flowing from the regulator boxes will be the secondary canals and from the latter, as needed, the tertiary canals.

iv) Roads

89. As previously indicated, this region is served by the Pan American Highway and Sonsonate-Santa Tecla highways and by the railroad, all of which border the area. The area itself, however, has only dry-season roads, which are impassable during the rainy season. It is only logical, therefore, that the hydraulic projects indicated above, which will permit year-round use of the land, be planned in conjunction with a series of roads from the highways to the interior of the area.
90. The roads to be built in the area have been divided into two categories: primary access roads to connect the valley with the two highways mentioned above and secondary feeder roads from the primary access roads to the various sections of the valley. The routing of these roads will of necessity be influenced by the location of the flood-control facilities if expensive construction work is to be avoided; since the canals cross the valley in a north-south direction, the roads will have the same alignment and only the main access road, running from east to west between the Pan American Highway and Tres Ceibas, will cross the canals, over three bridges and three large culverts. So far as possible, efforts have been made to have the secondary roads run along property limits.

91. In the frequently mentioned study, it is suggested that both the main access road and the secondary roads be 7.50 meters wide and that a strip 4.50 meters wide on the main road and 3 meters wide on the secondary roads, be paved. Inasmuch as two freight vehicles cannot pass on a strip 4.50 meters wide, it is suggested that the main road, which in practice would form part of an inter-departmental system, be paved for a width of at least 5.50 meters. The right of way, according to the law governing such matters, will be 20 meters wide. Specifications for the construction are those prescribed by the Ministry of Public Works for secondary roads.
92. The bridges and culverts will have a road width of 7.90 meters; the one crossing the Talnique River will have a headroom of 16 meters.

v) Soil Reclamation

93. The soil reclamation program, in the areas adjacent to the swamp, would be carried out only after completion of the flood-control and drainage operations.
94. The swampy area capable of reclamation covers 570 hectares. All the soils of this area have been carefully studied with regard to both their physical and chemical properties and it has been concluded that their reclamation for cultivation is economically feasible.
95. Of the foregoing area, 180 hectares would still be subject to some danger of flooding during the season of heavy rainfall, although greater protection could be provided through certain additional projects to be carried out in subsequent years. Despite this existing danger, the area could immediately be used to advantage for growing rice and certain high-yield forage crops such as elephant, pará and pangola grasses. The land in question may remain sufficiently moist during the dry season to be very well adapted to the production of forage grasses.
96. These grasses may be used for dairy cattle thus taking advantage of the area's proximity to consumption centers. Dairy production may be combined with the rotation of rice, corn and beans crops and, during the dry season, with such vegetables as cabbage and onions.
97. The remaining 370 hectares would be in little danger of flooding. It would be easier to control the water level and dampness of the soil which would be better adapted to a wider variety of more profitable crops. These lands would be especially suitable for the establishment of small truck farms.
98. One crop capable of bringing larger returns would be tomatoes, which it would be desirable to rotate with rice in order to avoid losses resulting from several fungus diseases which are difficult to control.

Implementation of the Project

99. As previously indicated, the Ministry of Agriculture has already received the complete study made by Grontmij Ltd., of De Bilt, The Netherlands. It should be noted that Dutch technicians are extremely well versed in hydraulic operations since large-scale projects of this sort have been carried out in that country. Grontmij therefore has wide experience in planning such a project as this, and it is recommended that this firm be contracted to supervise the implementation of the project.

100. Since the study of the project is completed, the consulting engineers should proceed with the preliminaries for soliciting bids on the special equipment needed for these projects, as well as proposals for other projects to be constructed by contractors. Both the consulting engineers and the Salvadorean authorities are agreed on completing construction, where possible, through a system of direct administration by the Ministry itself. This would permit the greatest possible use of labor and would further the objective of giving employment to large numbers of workers at a time when the country is facing very difficult economic and social conditions.
101. Accordingly, it is suggested that the equipment be purchased by the Ministry since it could serve in the future for other similar programs.
102. The dry season normally begins in the month of November; from now until November, a brief period would be available to complete the submission of bids and the awarding of contracts, acquire the necessary equipment, and begin operations as soon as the rainy season ends.

Costs

103. Budget estimates for the various operations are presented in Tables 2 to 5. Unit costs are based on recent awards in similar projects completed in the Republic of El Salvador.
104. It was possible to verify, for example, that the unit cost for excavation has ranged from 1.70 to 4.10 colones per cubic meter; the consultants assume a cost of 4 colons per cubic meter. In general, except for the item of reinforced concrete, all unit costs are realistic. In the event the cost of reinforced concrete construction should be greater than now estimated, the difference would not be very significant, since only some 6.5% of the budget for the operations is allocated to this item and any gap could be covered by the provision for contingencies.
105. A summary of costs would be as follows:

Studies: fees of consulting engineers	US\$ 67,000.00
Flood-control operations	1,226,400.00
Drainage operations	288,000.00
Irrigation operations	311,200.00
Access roads	<u>682,800.00</u>
Total	US\$ 2,575,400.00

106. Of this amount, the Government would supply US\$900,400 over three years, starting in the fiscal year 1962; and the IDB would lend US\$1,675,000. Approximately US\$1,000,000 of the loan would be used to buy equipment, materials and services requiring payment in foreign currency; the balance, together with the Government's contribution, would be used to pay for local labor and materials.

Justification

107. In a country like El Salvador, where arable land is already scarce in relation to population and where most of the national income comes from agricultural activities, soil reclamation and the application of systems for increasing the yield from the existing area under cultivation, are extremely desirable, of great economic value and particularly conducive to easing of social tensions. If it is also considered that the present project is for an area cultivated chiefly by small-scale growers who work their own land with their family's assistance, it can be appreciated that the project is not only of great economic value but also extremely significant socially.
108. Intensive cultivation in the Zapotitán valley does not entail the use of heavy agricultural machinery, since the farms are small, but rather of light animal-drawn or mechanical implements and of labor systems which make it possible to obtain high yields.
109. The project will make it possible not only to farm a greater area but also to till the soil for more months of the year. Adequate control of the water supply will increase productivity in the area under cultivation and provide more permanent employment for the local population. The final result will be an increase in the number of persons employed, better living conditions for the families in the area and higher national income.
110. Furthermore, through the preference given to human labor, it will alleviate the serious problem of unemployment.

Conclusions and Recommendations

111. 1. At present the Zapotitán valley is cultivated inadequately, in limited sectors and only during the dry season. In the rainy season much of the valley is inaccessible owing to inadequate disposal of surface water and to lack of roads.
112. 2. The topography of the valley is such that, with moderate investments, it would be possible to execute certain rather easy operations which would integrate this region into the national economy.
113. 3. If suitable irrigation is available, soil conditions in this area are such as to permit a diversified production which could be marketed in the nearby cities of San Salvador, Santa Ana and Sonsonate.
114. 4. The study submitted by the Grontmij Company is realistically based and has been prepared in the greatest detail; it is probably one of the most complete studies ever submitted for consideration by the IDB.
115. 5. Through its technical departments, the Ministry of Agriculture is qualified and ready to proceed with these projects; there are no technical reasons why many of the operations should not be done by human labor.
116. 6. Thus, on the basis of the project study, it is recommended that a loan of US\$1,675,000 from the Bank's ordinary resources be granted to the Ministry of Agriculture, through the Banco Central de Reserva, for the projects presented in this document.

ZAPOTITAN PROJECT
TOTAL PROJECT INVESTMENTS

TABLE No. 2

FLOOD CONTROL

ITEM	TITLE	COPAPAYO	COLON CHUCHUCATO	CATCH CANAL	SUCIO	TALNIQUE	QUANTITY	UNIT	UNIT-PRICE	AMOUNT
1	CLEARING, GRUBBING AND SCALPING	20.1	35	16	30	12	113	HA	\$ 1 027	116 150
2	REMOVAL OF EXISTING STRUCTURES	1000	1500	2000	1000	1000	L.S		"	6 500
4	CHANNEL EXCAVATION-EARTH	81000	220000	92000	94100	120000	607100	M ³	1.47	894 425
5	BRIDGE EXCAVATION			3500			3500	M ³	6	21 000
6	MISCELLANEOUS STRUCTURES EXCAVATION	2000	21000	900	400	115	24415	M ³	4	97 660
9	ROCK EXCAVATION-CLASS B	20040	25000	20000	18000	20000	103000	M ³	3	309 000
12	CONCRETE FOR STRUCTURES-CLASS A	4	24	27.5			55.5	M ³	105	5 828
13	CONCRETE FOR STRUCTURES-CLASS B	100	1670	465			2235	M ³	90	201 150
16	REINFORCING STEEL	400	2400	3400			6200	KG	0.90	5 580
21	CULVERT PIPES-REINFORCED CONCRETE INCLUDING "RINGS"	53	14		21	27	115	M	90	10 350
25	STRUCTURAL STEEL: FLAPGATES	5	1		2	2	10	PCE	800	8 000
	SHEETPILES	7000	65000	18500			90500	KG	0.80	72 400
32	STREAM BED PAVING-GROUTED STONE (HARD STONE)	75	1030	250			1355	M ²	12	16 260
	STREAM BED PAVING-GROUTED STONE	795	3940	545	25	340	5645	M ²	10	56 450
37	MORTAR RUBBLE MASONRY	411	4334	1330	47	18	6140	M ³	45	276 300
47	MAINTENANCE AND PROTECTION OF TRAFFIC			5000					"	5 000
48	ROADSIDE CLEANUP	1500	1000	1000	1000	1000	L.S		"	5 500
	PUDDLED CLAY LAYER(IMPERVIOUS BLANKET 0.30 M THICK-DROPSTRUCTURES NO.3)	40					40	M ²	3	120
	FENCES	5500	7000	5800	7500	3740	29540	M	1.30	38 402
							SUB-TOTAL		\$ 2 146 075	
ENGINEERING, ADMINISTRATION AND OVERHEAD							20 %		"	429 215
							SUB-TOTAL (ROUNDED OFF).....		\$ 2 573 250	
PURCHASE OF RIGHTS OF WAY		20	35	16	30	20	111	HA	\$ 1 394	154 750
							TOTAL		\$ 2 728 000	
SUPERVISION & CONTINGENCIES							L.S		"	338 000
										\$ 3 066 000

TABLE No. 3

ZAPOTITAN PROJECT
TOTAL PROJECT INVESTMENTS

DRAINAGE

ITEM	TITLE	D I	D II	D III	D IV	D V	D VI	D VII	D VIII	D IX	D X	D XI	QUAN- TITY	UNIT	UNIT PRICE	AMOUNT
1	CLEARING, GRUBBING AND SCALPING	1.1	1.6	11.4	4.9	6.5	5.4	5.8	7.8	5.9	5.1	4.2	59.7	HA	\$ 500	\$ 29 850
2	REMOVAL OF EXISTING STRUCTURES	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	3	"	3 000
4	CHANNEL EXCAVATION-EARTH	1100	3200	30000	4000	11500	11500	8000	11000	15000	12000	9000	116300	M ³	1.50	174 450
6	MISCELLANEOUS STRUCTURES EXCAVATION	36	12	60	12	24	48	36	36	12			276	M ³	4	1 104
20	CULVERT PIPE-PLAIN CONCRETE ϕ 0.40	24	8	8		8	8	8	8				72	M	20	1 440
	0.50			16									16	M	25	400
	0.60			8				8					16	M	35	560
	0.80			8	8	8			8				32	M	50	1 600
21	CULVERT PIPE-REINFORCED CONCRETE ϕ 1.00						16	8	8				24	M	80	1 920
	ϕ 1.20						8		8	8			24	M ³	120	2 880
37	MORTAR RUBBLE MASONRY	3	1	5	1	2	4	3	1	1			23	M ³	50	1 150
47	MAINTENANCE AND PROTECTION OF TRAFFIC	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	"	1 500
48	ROADSIDE CLEANUP FENCES	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	"	1 500
		550	800	6000	2500	3250	2400	3000	4000	2900	2500	2100	30000	M	1.30	39 000
ENGINEERING, ADMINISTRATION, OVERHEAD																
PURCHASE OF RIGHTS OF WAY																
SUPERVISION & CONTINGENCIES																
SUB TOTAL.....																
20 %																
SUB TOTAL (ROUNDED UP)																
60 HA \$ 500																
L.S.																
TOTAL																
\$ 720 000																

TABLE No. 4

ZAPOTITAN PROJECT
TOTAL PROJECT INVESTMENTS

IRRIGATION

ITEM	TITLE	UNIT NUMBERS								QUAN- TITY	UNIT	UNIT- PRICE		AMOUNT
		I	II	III	IV	V	VI	VII	VIII					
1	CLEARING, GRUBBING AND SCALPING	0.5	2.0	3.5	3.4	1.1	1.8	1.7	4.0	18	HA	¢	300	¢ 5 400
2	REMOVAL OF EXISTING STRUCTURES	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	"	"	"	1 500
4	CHANNEL EXCAVATION-EARTH	1800	3000	5200	4500	1500	3000	2500	5500	27000	M ³	"	1.50	" 40 500
6	MISCELLANEOUS STRUCTURES EXCAVATION	15	45	50	56	130	36	33	235	600	M ³	"	4.00	" 2 400
12	CONCRETE FOR STRUCTURES-CLASS A		7	7	10	2 ⁵	3	8	6 ⁵	44	M ³	"	70	" 3 080
13	CONCRETE FOR STRUCTURES-CLASS B	80	92	92	214	268	254	100	600	1700	M ³	"	110	" 187 000
16	REINFORCING STEEL		630	630	900	90	270	720	360	3600	KG	"	0.60	" 2 160
20	CULVERT PIPE-PLAIN CONCRETE					110			100	210	M ²	"	30	" 6 300
32	STREAM BED-PAVING-GROUTED STONE	320	325	325	325	580	325	325	1075	3600	M ²	"	8	" 28 800
	ID. HARD QUALITY					110			165	275	M ²	"	12	" 3 250
37	MORTAR RUBBLE MASONRY	8	205	31	33	87	20	15	112	511	M ³	"	55	" 28 105
48	ROADSIDE CLEANUP	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	"	"	"	1 000
	FENCES	1250	1250	1250	1250	1250	1250	1250	1250	10000	M	"	1.30	" 13 000
													SUB-TOTAL.....	¢ 322 495
ENGINEERING, ADMINISTRATION, OVERHEAD													"	64 499
													SUB-TOTAL (ROUNDED UP).....	¢ 387 000
PURCHASE OF RIGHTS OF WAY													17 HA ¢ 1500	" 25 500
SUPERVISION & CONTINGENCIES													L.S	" 325 500
													TOTAL	¢ 778 000

TABLE No. 5

ZAPOTITAN PROJECT
TOTAL PROJECT INVESTMENTS

ROADS

ITEM	TITLE	ROAD, NUMBER AND LENGTH											QUAN- TITY	UNIT	PRICE	AMOUNT
		A 10291	B 2525	C 4850	D 6595	E 2125	F 5235	G 3625	H 2165	J 3185	K 2835	M 3287				
1	CLEARING, GRUBBING AND SCALPING	20.6	5.1		7.9	4.3	10.5		0.9	6.4	5.7	6.6	68.0	HA	500	34 000
2	REMOVAL OF EXISTING STRUCTURES	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S			6 000
3	COMMON EXCAVATION-EARTH	25000	2500		10000	3000	4000		500	3000	5000	8000	61000	M ³	135	82 350
4	CHANNEL EXCAVATION-EARTH	13000	3500		10000	3000	8000		250	5000	4000	5000	51750	M ³	4	207 000
5	BRIDGE EXCAVATION	2970			1300								4270	M ³	10	42 700
6	MISCELLANEOUS STRUCTURES EXCAVATION	156	24		60	12	96			60	60	12	480	M ³	6	2 880
12	CONCRETE FOR STRUCTURES-CLASS A	141			43								184	M ³	105	19 320
13	CONCRETE FOR STRUCTURES-CLASS B	232			125								357	M ³	90	32 130
16	REINFORCING STEEL	23850			7000								30850	KG	0.90	27 765
20	CULVERT PIPES-PLAIN CONCRETE Ø 0.60 M	104	16		40	8	64			40	40	8	320	M ²	45	14 400
32	STREAM BED PAVING-GROUTED STONE	1590			260								1850	M ²	10	18 500
37	MORTAR RUBBLE MASONRY	776	4		730	2	16			10	10	2	1550	M ²	45	69 750
40	STONE BASE COURSE	49397	12120	16005	21764	7013	17276	11953	7144	10511	9356	10847	173386	M ²	1.80	312 095
41	PRIME COAT BITUMINOUS MATERIAL	14819	3636	4800	6529	2103	5183	3586	2142	3153	2806	3254	52012	G	0.85	44 210
44	BITMINOUS SURFACE TREATMENT															
	BITUMINOUS MATERIAL	18524	4545	5820	7914	2550	6282	4350	2598	3822	3402	3944	63751	G	0.85	54 188
45	BITUMINOUS AGREGATE	695	170	218	297	96	236	163	97	143	128	148	2391	M ³	20	47 820
47	MAINTENANCE AND PROTECTION OF TRAFFIC	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S			11 000
48	ROADSIDE CLEANUP	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S	L.S			6 000
	FENCES	10291	2525	4850	6595	2125	5235	3625	2165	3185	2835	3287	46718	M	1.30	60 733
ENGINEERING, ADMINISTRATION AND OVERHEAD																
SUB-TOTAL																1 092 841
20 %																218 568
PURCHASE OF RIGHTS OF WAY																
SUB-TOTAL (ROUNDED OFF)																1 311 000
SUPERVISION & CONTINGENCIES																
36.0 HA @ 1 500 "																54 000
L.S "																342 000
TOTAL																1 707 000

D. NATIONAL WATER SUPPLY AND SEWERAGE ADMINISTRATION
(ADMINISTRACION NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS)

The Borrower

117. The Ministry of Public Works, through the General Bureau of Hydraulic Works, has prepared a program to improve sanitation conditions in the country by providing for adequate water supply and sewerage systems. To this end, and with the assistance and advice of various government departments, it has prepared legislation to establish an independent agency to be called the National Water Supply and Sewerage Administration (Administración Nacional de Acueductos y Alcantarillados, or ANDA).
118. This new agency will be responsible for planning, construction, maintenance and operation of water and sewerage systems in all the communities in El Salvador. Accordingly the various municipalities of the Republic would be given a reasonable period of time in which to transfer all their assets and holdings to the new organization.
119. The agency will be administered by a Board of Directors with seven members. In accordance with the practice followed in establishing other independent agencies, four directors will be appointed by the President of the Republic through various Ministries and the other three directors will represent private interests.

Operations

120. According to the proposed legislation, ^{1/} ANDA is to be managed on a self-liquidating basis; while rendering public service of a social nature, it will also collect service charges which should enable it to pay its operating costs in full and allow reasonable margins for future needs. Its rates will be set and modified by the Executive Branch through the Ministry of Economy. In order to facilitate its operations during the first four years, the Government will agree under the terms of the proposed legislation, to provide it with annual subsidies of at least 3,500,000 colons for a four-year period starting in the fiscal year 1962. Estimates are that the Government's investments, since 1950, in the various municipal water and sewerage systems have amounted to approximately 35,000,000 colons (excluding the counterpart investment of municipal funds).
121. The Ministry of Public Works, through the General Bureau of Hydraulic Works, has prepared projects for 80 communities with more than 2,000 inhabitants. During the visit of the IDB Mission to El Salvador, a selection was made of 36 communities having the most urgent sanitation problems and it was decided to establish a two-year work program for those communities. The localities chosen include the five principal cities of the country (the subject of this document) where the work

^{1/} The preliminary draft for this legislation was prepared with Point IV assistance. The final draft will take into consideration the observations of the Legal Division of the IDB, which will be communicated to the Government of El Salvador when a decision is reached on the loan application.

would be financed with the Bank's own funds, and 31 other communities, where resources of the Social Progress Trust Fund would be used.

The Project

122. The project involves expansion of the water supply and sewerage systems in the following cities:

<u>City</u>	<u>No. of inhabitants</u>
San Salvador	221,708
Santa Ana	70,769
San Miguel	33,063
Santa Tecla	24,539
Sonsonate	22,088
Total	372,167

These cities account for 15% of the country's population.

a) San Salvador

123. San Salvador is at present supplied with water from various springs and by water pumped from 10 deep wells. The entire system can supply 97,400 cubic meters per day; however, the present storage capacity allows a daily consumption of only 40,590 cubic meters, or 183 liters per person per day. Despite this comparatively high consumption, there are many sectors of the city where water pressure is inadequate resulting in a water shortage during the hours of peak consumption. The public utilities have not been able to keep pace with the growth of the city.
124. Water is distributed through a 170 kilometer network of castiron pipes ranging in diameter from 2 to 24 inches.
125. There are 20,800 home connections, of which only 14,000 are metered. The proposed operations are as follows:
- i) Construction of new storage tanks and enlargement of the existing tanks;
 - ii) Replacement of certain pumping and chlorinating equipment;
 - iii) Extension of the distribution mains to the new suburbs;
 - iv) Completion of meter installations;
 - v) Installation of hydrants for fire protection and street cleaning; and
 - vi) Extension of the city's sewerage system.

b) Santa Ana

126. The city of Santa Ana, the second largest in the country, is supplied with water from the Río Zarco and water pumped from the El Palmar and El Molino springs. The latter spring alone could supply the city for 50 years. It has three storage tanks of 1,900, 1,900 and 570 cubic meters, respectively. The daily consumption is 180 liters, per capita.
127. Water is distributed through castiron pipes ranging from 2 to 16 inches in diameter.
128. There are 5,600 home connections, of which only 3,000 are metered.
129. The proposed operations are as follows:
- i) Construction of new storage tanks and enlargement of the existing tanks;
 - ii) Replacement of certain pumping and chlorinating equipment;
 - iii) Construction of an electric power substation (for pumping) including transmission lines;
 - iv) Extension of the distribution mains to the new suburbs;
 - v) Completion of meter installation;
 - vi) Installation of hydrants for fire protection and street cleaning; and
 - vii) Extension of the city's sewerage system.

c) San Miguel

130. The city of San Miguel is supplied with water from various springs by both pumping and the force of gravity, with a daily capacity of 17,540 cubic meters. The conduits (5" to 8") are very old and in urgent need of replacement. There are two storage tanks with a combined capacity of 6,000 cubic meters. The daily consumption is 181 liters per capita.^{1/}
131. Water is distributed through a 51 kilometer network of castiron pipes ranging from 2 to 16 inches in diameter. There are 2,300 home connections, but only a very small number are metered.
132. The proposed operations are as follows:
- i) Replacement of approximately 12 kilometers of conduits, from the springs to the storage tanks;
 - ii) Extension of the distribution mains to the new suburbs;

^{1/} The seemingly high per capita consumption in San Salvador, Santa Ana and San Miguel is due to the fact that almost all the country's industries are located in these three cities.

- iii) Completion of meter installation;
- iv) Extension of the city's sewerage system; and
- v) Construction of a sewage-treatment plant.

d) Santa Tecla

133. The water supply of the city of Santa Tecla comes from both watershed and wells, with a total capacity of 6,150 cubic meters per day. Owing to limited pumping and storage facilities, the city's consumption is very low, only 92 liters per capita per day. Because of its nearness to the capital, Santa Tecla is growing so rapidly that it is unable to supply the increased demand. The water is distributed completely untreated.
134. The distribution mains are castiron pipes in appropriate diameters.
135. There are 1,450 home connections only 900 of which are metered.
136. The proposed operations are as follows:
- i) Construction of a treatment plant;
 - ii) Construction of new storage tanks and expansion of the existing tanks;
 - iii) Construction of an electric power substation (for pumping) including transmission lines;
 - iv) Extension of distribution mains to the new suburbs;
 - v) Completion of meter installation;
 - vi) Extension of the city's sewerage system;
 - vii) Construction of a sewage-treatment plant.

e) Sonsonate

137. The city of Sonsonate is supplied with water falling from three springs with a total capacity of 1,185 cubic meters daily, or 53 liters per person per day, an extremely low average, particularly for a city in the torrid zone. There are two storage tanks, each with a capacity of 1,140 cubic meters.
138. The distribution system is new and mains are of suitable diameters, but the water is completely untreated.
139. There are 1,425 service connections, none of which are metered.
140. The proposed operations include:
- i) Construction of a new water-treatment plan;
 - ii) Construction of new storage tanks;

- iii) Extension of the distribution mains to the new suburbs;
- iv) Installation of meters; and
- v) Extension of the city's sewerage system.

Implementation

141. As soon as the Government of El Salvador receives the IDB's comments on the pertinent draft legislation, it will issue the decree establishing ANDA. The Ministry of Public Works and the various communities will then transfer personnel, property, equipment, etc., to the new Administration, which will promptly begin work on the project.
142. The studies on the five cities have been completed by the Bureau of Hydraulic Works. They were reviewed for presentation to the IDB by TAMS of New York.
143. Table 6 shows the investment program for both water supply and sewerage systems, including all such investments made by the government since 1950 (when the Bureau of Hydraulic Works was established), as well as the program for the next two years. Table 7 shows the breakdown of the IDB loan into local and foreign currency.
144. Imported equipment and materials will be procured on the basis of public bidding. Construction contracts will also be awarded on this basis except in the case of comparatively minor jobs that can be handled by ANDA itself.
145. The technical department will supervise fulfillment of the contract. It has been noted that the Inter-American Cooperative Public Health Service will continue to provide technical aid, and if necessary the services of consulting engineers will be contracted.

Financing

146. The costs of the proposed expansion of water and sewerage systems in the five cities listed herein would be defrayed by contributions from the government, the revenues from the collection of water rates, and the IDB loan. The government would contribute C/3,500,000 yearly to execute the program.
147. Income from the services now provided comes from home service taxes and monthly charges, as indicated below:
- | <u>Community</u> | <u>Home service tax</u>
<u>(in colons)</u> | <u>Monthly fee (in</u>
<u>colons per 60 m³)</u> | <u>Surcharge in co-</u>
<u>lons per m³</u> |
|------------------|---|---|--|
| San Salvador | 300.00 | 3.00 | 0.10 |
| Santa Ana | 10.20 | 3.00 | 0.05 |
| San Miguel | 5.15 | 3.00 | 0.05 |
| Santa Tecla | 5.15 | 3.50 | 0.10 |
| Sonsonate | 10.00 | 3.00 | - <u>1/</u> |

1/ This is not collected since meters have not been installed.

148. One of ANDA's first tasks will be to consider the rates to be charged in the future, ^{1/} in this respect, the IDB could provide technical assistance by granting a subsidy to allow ANDA's employers and experts to be sent for observation periods to similar organizations in other American countries. Empresas Públicas de Medellín, for example, would be an ideal site for training of this sort.
149. The Department of Hydraulic Works, in the Ministry of Public Works, estimates that these operations could become self-liquidating within a 25-year term, including a grace period of 3 years; amortization would be made by means of 44 semiannual installments, starting in the fourth year.

Conclusions and Recommendations

150. 1. The problem of supplying water to El Salvador's five principal cities urgently requires solution, if this service is to keep pace with its normal growth, industrial requirements and maintenance of minimum sanitary conditions.
151. 2. In Santa Tecla and Sonsonate the situation is even more serious, owing to the inadequate supply of water for present needs and the lack of treatment of the water supplied.
152. 3. There is a serious public hygiene problem due to the lack of sewerage in large sectors of these communities, with the resultant social implications.
153. 4. In San Miguel and Santa Tecla, which empty their sewage into rivers close to populated areas, there is an urgent need for construction of sewage-treatment plants.
154. 5. Solution of these problems would help to raise the living standards of a large sector of the population in the Republic of El Salvador.
155. 6. The National Water Supply and Sewerage Administration is well qualified in all administrative, financial and technical aspects to execute the proposed projects.
156. 7. Therefore, on the basis of the project study, it is recommended:
- 1) That a loan be granted to the National Water Supply and Sewerage Administration through the Banco Central de Reserva,

^{1/} The present rates are higher than those in other Latin American countries. See the report on the Loan to Empresas Públicas de Cartagena, Doc. No. DED/61/48, June 6, 1961.

equivalent to US\$ 2,100,000 and chargeable to the Bank's ordinary funds, to execute the projects presented in this document; and

- ii) That a subsidy of US\$ 25,000 be granted the Administration for training technical and administrative personnel abroad.

TABLA No. 6

				A G U A P O T A B L E				A L C A N T A R I L L A D O			
				PROYECTO DE INVERSION EN LOS DOS PROXIMOS AÑOS				PROYECTO DE INVERSION EN LOS DOS PROX. AÑOS			
No.	POBLACION	DEPTO.	No.HABIT.	INVERSION HECHA 1950-1960 EN US \$	APORTE NACIONAL EN COLONES EQUIV, EN US \$	PRESTAMO BID EN US \$	TOTAL DE LA INVERS. EN US\$	INVERS.HECHA 1950-1960 EN US\$	APORTE NACIO- NAL EN COLON. EQUIV. EN US\$	PRESTAMO BID EN US \$	TOTAL DE LA INVERSION EN US \$
1	SAN SALVADOR	SAN SAL- VADOR	221.708	1.800.000	576.000	864.000 ^{1/}	3.240.000	1.200.000	384.000	576.000 ^{2/}	2.160.000
2	SANTA ANA	STA. ANA	70.769	480.000	115.200	172.800 ^{1/}	768.000	320.000	76.800	115.200 ^{2/}	512.000
3	SAN MIGUEL	S. MIGUEL	33.063	720.000	33.600	50.400 ^{1/}	804.000	480.000	22.400	33.600 ^{3/}	536.000
4	SANTA TECLA	LA LIBERTAD	24.539	312.000	72.000	108.000 ^{1/}	492.000	208.000	48.000	72.000 ^{4/}	328.000
5	SONSONATE	SONSONATE	22.088	288.000	43.200	64.800 ^{1/}	396.000	192.000	28.800	43.200 ^{2/}	264.000
TOTALES			372.167	3.600.000	840.000	1.260.000	5.700.000	2.400.00	560.000	840.000	3.800.000

NOTAS:

^{1/} - GASTOS EN DIVISAS^{2/} - GASTOS EN MONEDA LOCAL^{3/} - HASTA US \$ 20.000 SE UTILIZARIA EN DIVISAS^{4/} - HASTA US \$ 30.000 SE UTILIZARIA EN DIVISAS

TABLA No. 7

UTILIZACION DEL PRESTAMO

No.	POBLACION	<u>AGUA POTABLE</u>					<u>ALCANTARILLADO</u>	
		TUBERIAS	EQUIPOS VARIOS	LINEA ELECT. SUBESTAC.	CONTADORES	HIDRANTES	TOTAL EN US \$	EN COLONES EN US \$
1	SAN SALVADOR	580.000	131.000	-	105.000	48.000	864.000	1.440.000 -
2	SANTA ANA	90.800	28.000	8.000	30.000	16.000	172.800	288.000 -
3	SAN MIGUEL	23.200	-	-	27.200	-	50.400	34.000 20.000
4	SANTA TECLA	39.600	44.400	16.000	8.000	-	108.000	105.000 30.000
5	SONSONATE	34.000	8.800	-	22.000	-	64.800	108.000 -
T O T A L E S							US\$ 1.260.000	C/. 1.975.000 US\$ 50.000

IV - JUSTIFICATION OF THE LOAN

A. Economic development of the country

157. El Salvador's gross domestic product at 1950 prices increased at the yearly rate of 5.4 per cent from \$338 million in 1950 to \$491 millions in 1959. The percentage gain from year to year was very unequal, however, with a definite slowdown in 1958, a further contraction in 1959, and probably a very slight improvement in 1960.
158. Due to the rapid expansion of the population, per capita product increased at the relatively slow pace of 1.9 a year, rising unevenly from a low of \$170 in 1951 to about \$195 in 1959.
159. Income distribution is very unequal. Recent information in this respect is not available, but in 1950 less than 8 per cent of all families had an annual income of \$2,000 or more although their combined income represented more than 50 per cent of the national income.
160. The proportional contribution of agriculture to GDP declined over the past decade from more than 43 to less than 37 per cent, but farming remains the cornerstone of the economy. Industrial production increased from 11.5 per cent of GDP in 1950 to around 14 per cent in recent years, rising in value from ¢ 97 million in 1950 to ¢ 169 million in 1959. This latter year showed a slight decline as compared to 1957, but available figures on industrial output point to a possible reversal of this decline in 1960.
161. During the period of export expansion, the money supply and credit grew rapidly; bank loans to the private sector rose from ¢ 80 million in 1950 to approximately ¢ 300 million in 1957, but the monetary impact of this expansion was offset by a constant increase in the government's assets held by the banking system. Accordingly, the money supply increased less than credit, rising from ¢ 129 million in 1950 to ¢ 225 million in 1957.
162. This situation changed slightly as a result of the decline in coffee prices, and it was necessary to restrict banking credit in 1958; but in 1959 and 1960 there was a resurgence of credit expansion to the private sector.
163. Fiscal income, which in 1950 totalled ¢ 88.4 million, grew constantly and rapidly until 1957, when it reached the amount of ¢ 189.7 million equivalent to more than a twofold increase; in 1958 and 1959 it declined substantially to ¢ 156.7 million, but again showed a slight improvement in 1960, with a total of ¢ 170.5 million. Public expenditures also grew proportionately, but allowed the accumulation of a surplus up to 1957, which has served to finance subsequent deficits.
164. The tax structure of El Salvador is characterized by an extremely

high ratio of indirect taxes, which account for about 80 per cent of total fiscal revenues, and by a very heavy dependence on taxes on foreign trade, both import duties and the coffee export tax. In contrast to the apparent regressive character of this tax structure, the disbursements of the Government are strongly oriented toward social and economic progress.

165. The lack of diversification in the external sector of El Salvador is one of the main weaknesses of the system. During the 1950-1957 1958 period, coffee accounted for percentages ranging from 72.4% to 91% of the value of total exports. This heavy dependence upon a single commodity has been reduced in recent years, and cotton and shrimp exports, particularly, are of increasing importance to the economy.
166. Due principally to the rise in coffee prices between 1950 and 1955, El Salvador's export earnings rose from ¢ 171 million in 1950 to ¢ 346 million in 1957. The fall of coffee prices caused successive declines in the value of exports, which fell to ¢ 290 million in 1958 and ¢ 283 million in 1959; in 1960 earnings increased to ¢ 291 million, but they declined in the first quarter of 1961, as compared to the corresponding period in 1960, reportedly as a result of the decision to withhold part of the crop because of the low level of world prices.
167. Imports in turn grew rapidly, increasing from ¢ 121 million in 1950 to ¢ 288 million in 1957. In 1958 and 1959, due to the credit restriction imposed in 1957, the value of imports declined to ¢ 270 and ¢ 249 million respectively. In 1960, however, as a result of credit expansion in 1958 and 1959, the value of imports rose to a high of ¢ 308 million.
168. The net international reserves of the country fell from \$46.8 million at the end of 1958 to \$15.1 million at the end of 1960. In the first four months of 1961, instead of increasing in the usual seasonal pattern, they declined further to a 10 year low of \$14.6 million, i.e., less than 30 per cent of their amount at the end of April 1960 (\$50.4). This deterioration of the reserve position was due to three factors: the high level of imports in the third and fourth quarters of 1960, a sizeable flight of capital associated with the political uncertainty of recent times, and a delay in exports of coffee and cotton. To meet the problem El Salvador tightened bank credit and in April adopted exchange control on capital movements. The Central Bank was also nationalized in April and given additional powers of credit control. The exchange reserves are still seriously low, especially in view of large short-term obligations to the IMF and Federal Reserve Bank of New York, but it is expected that deferred coffee and cotton earnings will provide extra exchange during the months of usually low receipts. A reduction of imports also is expected to result from proposed tariff increases on non-essentials now under consideration.

169. The total external public debt of El Salvador on December 31, 1960, was U.S.\$23.6 million, of which U.S.\$6.3 million were repayable in Mexican pesos and Swiss francs, and the remainder in dollars. In addition, U.S.\$9.7 million had not been disbursed, making a total disbursed and undisbursed of U.S.\$33.3 million. Throughout the decade of the fifties the ratio of the total external public debt to the GNP has remained constant between 6.7% and 6.5%. Debt service has also been relatively low, varying from 0.4% of external receipts in 1952 to 2.4% in 1959. In 1960, with U.S.\$3.4 million, debt service amounted to only 2.9% of the value of exports and possibly less than 0.5% of the GNP.
170. As to the future, service on the external debt is expected to remain at a low dollar level and a small percentage of export value; in the 1964-1966 period, service on current debt would amount to approximately U.S.\$4 million, but this sum represents less than 4% of the current value of exports and 0.5% of the value of the GNP.
171. Furthermore, the Government of El Salvador has continued its traditional policy of fulfilling international financial commitments and has paid its debts regularly. For these reasons, El Salvador appears capable of assuming service on additional external indebtedness incurred for productive purposes, although the severe depletion of the country's international reserves remains a cause of serious concern.

B. Relation to the economic development of El Salvador.

172. In 1960, there were signs of recovery from the 1958-59 recession. These were obscured, however, in the latter part of the year, by political disturbances which continued into early 1961, and were accompanied by a degree of social unrest, an undetermined amount of capital flight, depressed business conditions, and a significant decline of investment, both public and private. The Government is currently faced with a difficult fiscal situation, the country's reserve position has weakened considerably, and the volume of credit available within the banking system is severely curtailed.
173. It is fully realized that the loans under consideration can be but a first step toward the alleviation of this situation, but it may prove of material help to the country, at this time of transition, by assisting in priming the economy and in broadening the base for future development. An added consideration is the effect on employment, currently a serious problem in El Salvador; the degree to which implementation of these projects will employ presently unoccupied labor was a basic criteria used in their selection.

1. Credit for industrial and agricultural development.

174.

Food crop production has actually declined in the decade of the fifties, and the low productivity of this sector is in sharp contrast with the high yield per hectare of the main export and industrial crops (see DED/61/58). While this is due in part to structural factors and to the shortage of cultivable land underscored in the accompanying economic study, a program of technical and financial assistance to the small farmer could significantly increase yields per hectare, and contribute to raise standards of living in rural areas, to relieve the pressure of heavy food imports on the balance of payments, and to stimulate the development of food processing industries. This is of particular importance in view of the fast rate of population expansion and current pressures for social reforms.

175.

The promotion of industrial development is of particular significance in El Salvador; the country's ratio of population to agricultural land is currently down to less than a quarter of hectare per inhabitant, and the pressure of the rural population on the limited land resources available is increasing at a disquieting rate. A considerable amount of investment was channeled into infrastructure projects during the period of high export earnings, thus laying the foundation for sound development, and numerous basic industries were established. The fast progress of the manufacturing sector was halted, however, during the recession of 1958-1959. Although industrial production began to pick up again in 1960, continued stimulation is necessary to insure sustained growth. The requested loan would assist in this direction by supplementing the currently limited credit availabilities, particularly in regard to medium and long-term loans.

176.

In addition to increasing the country's productive capacity, raising productivity per worker and relieving current unemployment, accelerated industrial growth is expected to result in significant foreign exchange savings as a result of import substitutions, as shown in a previous section (see infra, p.19-21). Moreover, increased manufacturing will contribute to diversify production and may increase exports, particularly to the neighboring markets; El Salvador's central location, good road and port facilities, adequate power and relatively advanced degree of industrial organization, places the country in a particularly favorable position to benefit from the current movement toward greater economic integration in Central America.

2. Rural Electrification (CEL)

177.

The primary objective of this project is social rather than economic. Implementation is expected to extend to rural communities the benefits attached to the availability of inexpensive power and enjoyed so far, despite the remarkable development of this sector in the past ten years (see Annex 3), only by larger urban centers. This first step toward raising living standards outside of the major cities can be achieved at a modest cost, and is expected to lead to further development based on the experience acquired in the Olocuilta region.

178. The nature of the project, and the lack of detailed statistics, prevent a quantitative appraisal of the economic benefits of implementation. But it appears reasonable to expect that higher living standards will stimulate an increase in production to meet the probable increase in the demand for consumer goods. New employment opportunities are likely to result, both directly from the electrification program itself, and indirectly, through the stimulation of increased economic activity. Moreover, power availability will be an incentive to the development of home industries, thus providing fuller employment of the currently underutilized labor force. Lastly the very method of implementation envisaged (through the use of cooperatives) may constitute a very useful experience in community enterprise that can be extended later to other community services, and other areas.

179. More directly, electrification is expected to further the development of dairying activities in the Olocuilta region, by making possible milk refrigeration and processing. The area is reportedly suitable for dairying, and would have a ready market in San Salvador and San Miguel, two important cities with which road connections are excellent. Again a quantitative evaluation is impossible, but the anticipated development would result in partial substitution of imports, and in increased production.

180. The specific plans that the Government may have to use the availability of power in the area for educational purpose is not known. Implementation of the project, however, would make possible a program of general, and technical (especially in the field of agriculture) education, through the use of radio, and, at a later stage, television. Such programs have been carried out in other under-developed areas with the help of UNESCO, and have reportedly proved useful in raising living standards, particularly through social education, the promotion of better health habits, and the disseminations of information related to farming.

181. It must be emphasized, however, that the economic and social benefits outlined will probably require careful planning in which all the Government agencies concerned should participate along with CEL. The extent to which provisions have been made for this cooperation and coordination is not known.

3. Development of the Zapotitán Valley

182. The project, as described in Section III=C of this report is part of a larger plan for land reclamation, irrigation and drainage. It derives its importance not only from its potential contribution to higher living standards and increased agricultural production, but from its anticipated value as a model for future development.

183. One of the basic problems of El Salvador is the shortage of cultivable land. The ratio of farm population to agricultural land which stood at 0.46 ha. per capita in 1950 and 0.37 ha. in 1960, is

expected to drop to only 0.29 ha. by 1970. The project under study aims not only at increasing the area usable for agriculture by nearly 4,000 hectares, but at improving land utilization and yields per hectare; in addition it is expected to make year-round utilization possible while at present, the land can be exploited only from November to April.

184. The project has been carefully studied by a group of outside consultants. It is understood that provisions have been made for the rational selection of the crops to be grown, crop rotation, and economic exploitation both from the viewpoint of unit size and type of operation. It is furthermore understood that the program will be supplemented by technical and financial assistance to the farmer.
185. While the data available at this writing does not permit an evaluation of the probable effect of the program on farm income in the Zapotitán Valley, it is estimated by the consultants who made a field study of the project that net income per average farm of 5 manzanas will range between 3,500 to 7,000, a sizeable increase, in all probability, over existing levels. The same consultants have also computed the capital output ratio of the project at a minimum of 2.7, which would confirm its economic feasibility.
186. An added favorable feature is the location of the Zapotitán Valley: the area is situated between Sonsonate and the country's two major industrial and commercial centers, San Salvador and Santa Ana. It is served by two main highways and by railroad, and a network of feeder roads to the existing arteries is planned.
187. Assuming therefore that the project will be implemented along the lines outlined, and that it will be supplemented by the sustaining programs mentioned, it may well serve as an initial measure to better social conditions in the interior of El Salvador, and contribute to a much needed improvement in food production.

4. Water Supply and Sewage (ANDA)

188. This project is related to the first stage of a comprehensive program to expand and improve the existing potable water and sewage systems of El Salvador, as described in Section III-D of this report.
189. The five cities covered in the project are not only the most populous in the country, but constitute the principal industrial and commercial centers in El Salvador. In fact, most manufacturing activities are located in San Salvador and Santa Ana. Santa Tecla is situated in the immediate vicinity of the capital city, and tends to become one of its suburbs. Sonsonate is near the fast developing

Acajutla region, and close to the new Pacific Highway; consequently, the city is expected to grow rapidly in the next few years, both in population and in economic importance. San Miguel is the country's third most important center, and the principal city in the eastern region.

190. The combined population of San Salvador, Santa Ana, San Miguel, Santa Tecla and Sonsonate represents about 15 per cent of the country's total population and has grown by nearly one third between 1950 and 1960. It will probably expand at an annual rate of 4 per cent or more in the next few years, particularly if the Government's plans to accelerate the pace of industrialization result in the anticipated development.
191. The actual rate of increase of the potable water supply in the cities named above and the improvements made to their sewage systems in recent years, as compared to the needs of the fast growing population are not known. Present facilities were considered to be far from adequate, however, by the recent IDB mission to El Salvador, and it is doubtful that they can be expanded at the required pace, in the next few years, without external financial assistance. Yet, urgent improvements are needed for both economic and social reasons. Even in the three cities where daily consumption is high compared to other parts of the country, it amounts to approximately 180 liters a day per inhabitant, (as compared with more than 200 in the Arequipa region). Moreover, entire sections of these cities are without water, or enjoy service only during a few hours each day. In Santa Tecla and Sonsonate, the water distributed is untreated and sewage facilities are very poor.
192. Plans for the works now being envisaged should be based, however, on methodical estimates of requirements, now and in the future, and should take into account the need to decentralize industrial activities, by making adequate facilities available in regions other than San Salvador and Santa Ana.

TABLA No. 1
BANCO CENTRAL DE RESERVA DE EL SALVADOR
SAN SALVADOR, EL SALVADOR C.A.
ESTADO COMPARATIVO DE BALANCES

(En Miles de Colones)

Int.

Año que terminó Dic.31,1957 Dic.31,1958 Dic.31,1959 Dic.31,1960 Abril30,1961

A C T I V O

(Oro	78,568	78,467	76,011	74,897	63,957
Caja(Divisas Extranjeras	20,929	15,974	18,294	7,674	2,188
(Moneda Subsidiaria	2,828	2,643	2,597	2,382	2,805
Caja Total	102,325	97,084	96,902	84,953	68,950
Descuentos	452	212	212	262	12
Redescuentos	77,892	64,246	63,079	61,886	67,085
Otros Créditos	23,734	28,219	27,544	49,920	46,680
Total de Préstamos	102,078	92,677	90,835	112,068	113,777
Fondos con Institu- ciones Int.	18,750	20,250	29,625	31,100	31,100
Inversiones	10,157	2,770	9,690	11,900	13,658
Edificios é Inmuebles	3,580	4,375	4,781	4,524	4,521
Otras Cuentas	956	1,187	940	1,172	1,721
Total del Activo	237,846	218,343	232,773	245,717	233,727

P A S I V O

Depósitos: A la Vista:

Del Gobierno	62,734	43,943	16,395	15,387	17,422
De Instituciones					
Oficiales	9,751	9,189	11,188	11,392	12,572
Bancarios	23,146	25,375	26,466	25,522	26,792
Otros	1,446	1,637	2,172	1,461	1,541
Total Depósitos	97,077	80,144	56,221	53,762	58,327
Billetes en Circu- lación	109,296	102,501	105,160	100,333	94,625
Total de Obligaciones a la Vista y otros	206,373	182,645	161,381	154,095	152,952
Fondo Monetario In- ternacional	14,062	14,961	35,738	50,878	50,878
Disponibilidad Fondo					
Reg. Valores	136				
Otras Cuentas	13,550	8,451	12,040	10,367	9,654
Obligaciones en					
Divisas Extr.		8,424	19,670	26,374	16,183
Fondo General de					
Reserva	(1,925	2,062	2,144	2,203	2,260
Capital Pagado	(1,800	1,800	1,800	1,800	1,800
Total de Capital	3,725	3,862	3,944	4,003	4,060
Total del Pasivo	237,846	218,343	232,773	245,717	233,727

Relación Caja Total a De- pósitos Total %	105%	121%	172%	158%	118%
Relación total de Prest. a Dep. Total	1.05:1.00	1.16:1.00	1.62:1.00	2.08:1.00	1.95:1.00
Relación Total de Prest. a Capital Liq.	27.40:1.00	24.00:1.00	23.03:1.00	28.00:1.00	28.00:1.00

TABLA N° 2BANCO CENTRAL DE RESERVA DE EL SALVADORSAN SALVADOR, EL SALVADOR, C. A.ESTADO COMPRATIVO DE PERDIDAS Y GANANCIASEn miles de colones

Año que terminó	<u>Dic. 31,1957</u>	<u>Dic.31,1958</u>	<u>Dic.31,1959</u>	<u>Dic.31,1960</u>
<u>INGRESOS</u>				
Cambios	226	119	117	160
Comisiones	28	30	30	18
Ganancias Varias	17	17	10	20
Intereses	<u>4,445</u>	<u>4,268</u>	<u>3,775</u>	<u>4,382</u>
Total de Ingresos	<u>4,716</u>	<u>4,434</u>	<u>3,932</u>	<u>4,580</u>
<u>GASTOS</u>				
General y de Administración	1,375	1,952	2,358	2,640
Provisiones y Depreciación	<u>1,974</u>	<u>1,663</u>	<u>984</u>	<u>1,370</u>
Total de Gastos	<u>3,349</u>	<u>3,615</u>	<u>3,342</u>	<u>4,010</u>
Utilidad Neta	<u>1,367</u>	<u>819</u>	<u>590</u>	<u>570</u>
Distribución:				
Dividendos (6% del Capital)	108	108	108	108
Reservas y Fondos	<u>1,259</u>	<u>711</u>	<u>482</u>	<u>462</u>
Total	<u>1,367</u>	<u>819</u>	<u>590</u>	<u>570</u>

PRESTAMOS AL BANCO CENTRAL DE RESERVA DE EL SALVADOR

ANTECEDENTES LEGALES Y OTROS REQUISITOS

I

El objeto de este documento consiste en dejar constancia de la personería jurídica y de otros antecedentes legales del Banco Central de Reserva de El Salvador. Asimismo, se mencionan los requisitos básicos de carácter legal que deben ser cumplidos por el solicitante, antes de que el Banco Interamericano de Desarrollo pueda efectuar el primer desembolso al mismo.

La División Legal ha estudiado el siguiente documento:

El Decreto No. 116, de fecha 20 de abril de 1961, dictado por el Directorio Cívico-Militar de El Salvador, que entró en vigencia ocho días después de su publicación en el Diario Oficial, que contiene la Ley de Reorganización de la Banca Central de la Nación.

Esta Ley contiene las siguientes disposiciones básicas:

1. Transfórmase la Sociedad Anónima "Banco Central de Reserva de El Salvador" en una entidad del Estado, de carácter público, de duración indefinida, con personalidad jurídica propia para ejercer derechos y contraer toda clase de obligaciones, que sucederá en todas sus funciones y beneficios a la Sociedad Anónima del mismo nombre a que se refiere el Decreto Legislativo No. 64 del 19 de junio de 1934. Tal entidad se denominará en el texto de esta Ley, simplemente el Banco;

2. Transfiérense al Banco el activo y pasivo de la Sociedad Anónima "Banco Central de Reserva de El Salvador". Para determinar los bienes y obligaciones que se transfieren al Banco, se levantará un inventario de éstos al entrar en vigencia la presente Ley. Dicho inventario será practicado por una Comisión compuesta por tres delegados nombrados así: uno por el Ministerio de Economía, otro por el Ministerio de Hacienda y un tercero por la Corte de Cuentas de la República.

En la fecha de vigencia de esta Ley, el Banco iniciará sus operaciones y adquirirá los bienes y asumirá las obligaciones de la Sociedad Anónima "Banco Central de Reserva de El Salvador", aun cuando no se hubiere levantado el inventario de referencia.

El Banco cumplirá, conforme a las leyes, con todas las obligaciones contraídas por la Sociedad Anónima "Banco Central de Reserva de El Salvador", sean esas obligaciones de carácter monetario o de cualquier otra naturaleza, en favor de nacionales o de extranjeros;

3. El Banco será gobernado por una Junta Directiva, integrada por siete Directores, de la manera siguiente: a) Un Presidente y un Vicepresidente designados por cinco años, por el Presidente de la República; o quien haga sus veces; b) un Director Propietario y su respectivo Suplente, electos por las instituciones bancarias que operan en la República; c) un Director Propietario y su respectivo Suplente, electos por los sectores agrícolas, conjuntamente al sector ganadero; d) un Director Propietario y su respectivo Suplente, electos por las asociaciones industriales salvadoreñas. (Véase, además, párrafos 8 a 13, pág. 13 y siguientes de este documento).

II

Del estudio del documento básico anterior, la División Legal estima que en principio el Directorio del Banco podría autorizar el préstamo cuyos detalles se explican en otra parte de este documento. No obstante, es indispensable que antes de proceder al primer desembolso, el Banco obtenga el documento antes referido, y el solicitante cumpla con los requisitos adicionales siguientes:

1. Copia certificada de la Ley de Reorganización de la Banca Central de la Nación, indicando además que está vigente, y que no ha sido modificada en alguna forma hasta la fecha.
2. Una o más opiniones jurídicas que satisfagan al Banco, de uno o varios abogados de El Salvador sobre los siguientes puntos:

(a) Que el Banco Central de Reserva de El Salvador está debidamente constituido y posee personería jurídica plena, y está facultado para contraer deudas en el exterior; (b) que el Banco referido ha adoptado todas las medidas necesarias de conformidad con las leyes y reglamentaciones de El Salvador con respecto a la autorización, celebración y entrega del Contrato de Préstamo; (c) que el Contrato de Préstamo constituye una obligación legal y exigible del Prestatario, y que deberá observar su cumplimiento de conformidad con las condiciones de los mismos.