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

EL SALVADOR

PROJECT PAPER

EARTHQUAKE RECONSTRUCTION

AID/LAC/P-404

Project Number: 519-0333

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: EL SALVADOR

3. PROJECT NUMBER: 519-0333

4. BUREAU/OFFICE: LAC/DR 05

5. PROJECT TITLE (maximum 40 characters): EARTHQUAKE RECONSTRUCTION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 90

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4): A. Initial FY 87 B. Quarter 4 C. Final FY 90

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	75,000			75,000		75,000
(Grant)	(75,000)	( )	( )	(75,000)	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country					2,700	2,700
Other Donor(s)					576	576
TOTALS	75,000			75,000	3,352	78,276

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESA	930	940		75,000		75,000		75,000	
(2)									
(3)									
(4)									
TOTALS				75,000		75,000		75,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU						
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To assist the GOES and private sector of El Salvador to reconstruct and rehabilitate housing, vital infrastructure and businesses as well as restore basic services to persons, particularly those of lower income, affected by the October 10 earthquake.

14. SCHEDULED EVALUATIONS: Interim MM YY MM YY — Final MM 09 YY 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☒ 000 ☒ 941 ☐ Local ☐ Other (Specify) CACM

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY — Signature: Henry H. Bassford — Title: Director, USAID/EL SALVADOR — Date Signed: MM 09 DD 21 YY 87

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 10 DD 28 YY 87

AID 1330-4 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY.
SAN SALVADOR, EL SALVADOR, C. A.

PROJECT AUTHORIZATION

Name of Country/Entity:	El Salvador
Name of Project:	Earthquake Reconstruction
Number of Project:	519-0333

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Earthquake Reconstruction Project for El Salvador ("Grantee") involving planned obligations not to exceed Seventy Five Million United States dollars (US$75,000,000) in grant funds ("Grant") over a one year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is three years from the date of initial obligation.

2. The Project consists of activities designed to assist the GOES and private sector of El Salvador to reconstruct and rehabilitate housing, vital infrastructure and business as well as to restore basic services to persons, particularly those of lower income, affected by the October 10, 1986 earthquake.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall generally have their source and origin in countries included in the United States or the Central American Common Market, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall generally have the United States or countries included in the Central American Common Market as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Waivers. Waivers are not requested under the Project. Because the funding authorized for this Project has been appropriated with the authorities applicable to Disaster Assistance funds, the source/origin, procurement, and other normal statutory and regulatory restrictions may be applied in a flexible manner.

Henry Bissford
Director
USAID/El Salvador

8/12/87
Date

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El Salvador Earthquake Reconstruction
519-0333

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LIST OF ACRONYMS

ANDA	National Water and Wastewater Authority.
BANAFI	National Investment Bank.
BCR	Central Reserve Bank.
CC	Corte de Cuentas (Comptroller General Office)
CABEI	Central American Bank for Economic Integration.
CASALCO	Chamber of Construction Enterprises.
CAESS	San Salvador Electric Distribution Company.
CEA	Special Procurement Commission.
CEL	Electric Generating and Transmission Commission.
CEPAL	Economic Commission for Latin America.
COEDA	Entrepreneurial Committee for Relief Assistance.
COMFIEN	Finance Committee for the National Emergency.
CREM	Metropolitan Committee for Reconstruction.
CRESP	Committee for Restoration of Public Services.
CHF	Cooperative Housing Foundation.
DGC	Department of Highways (Part of MOP).
DGR	General Directorate for Reconstruction (part of MIPLAN).
ERD	Earthquake Reconstruction Directorate (Same as DGR).
ERU	Earthquake Reconstruction Unit.
FIGAPE	Small Business Guarantee Fund.
FNV	National Housing Finance Company.
GOES	Government of El Salvador.
HPA	Health and Population Assistance.
HUD	Housing and Urban Development.
IBRD	International Bank for Reconstruction and Development.

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IDB	Interamerican Development Bank.
IRD	Infrastructure and Regional development.
IVU	Urban Housing Institute (Part of VMVDU).
MIPLAN	Ministry of Planning and Economic and Social Coordination.
MOE	Ministry of Education.
MOP	Ministry of Public Works.
MOU	Memorandum of Understanding.
OET	USAID Office of Education and Training.
PRE	USAID Private Enterprise Office.
PRONAVIPO	National Popular Housing Program.
PVO	Private Voluntary Organization (US).
SNAP	National Savings and Loan System.
SSMA	San Salvador Metropolitan Area.
SETEFE	Secretariat of External Financing (Part of MIPLAN).
VMVDU	Vice Ministry of Housing and Urban Development.

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I. PROJECT SUMMARY

The El Salvador Earthquake Reconstruction Project proposed herein is vital to El Salvador's recovery from the effects of the severe October 10, 1986 earthquake. The devastation of the earthquake was far-reaching both in injuries suffered and economic losses. Clearly, most of those persons hurt or left homeless by the damage are the poor and lower income citizens who had already been among the most harmed by the violence and disruption of the civil war, sabotage of public services, unemployment and other economic dislocations of the past seven years. For people who have struggled against such difficult odds to secure their livelihood, now to be faced with a massive rebuilding of the San Salvador metropolitan area and its economic base is a tremendous challenge requiring significant external assistance.

The components proposed for the project are based upon a careful review of numerous damage assessments, consultations with the GOES and other donors, the difficult but valuable experience obtained during the past months in implementing the $50 million Earthquake Recovery Program and an appreciation of the seismic vulnerability of the San Salvador area.

The Project goal is to assist El Salvador to restore the standard of living for individuals affected by the disaster in order to maintain social and economic stability.

The Project purpose is to assist the Government and private sector of El Salvador to reconstruct and rehabilitate housing, vital infrastructure and businesses as well as restore basic services to persons, particularly those of lower income, affected by the October 10 earthquake.

Specifically, the Project aims at the repair or reconstruction of homes, businesses, basic services, and infrastructure in metropolitan zones most seriously affected by the earthquake. The credit component assists families with credit for individual home repairs, and repair and reconstruction of multi-family units. Credit is also provided to help revitalize small and medium enterprises in the commercial sector as well as for repairs to private educational and medical facilities which were seriously damaged by the earthquake. Direct financing is programmed for urgently needed construction of public schools to replace those destroyed, for the repair and improvement of the city's major lifeline -- the San Salvador highway to Comalapa airport -- which received all major emergency flights responding to the earthquake, and for repair/reconstruction of selected health facilities not financed by other donors. In addition, funding is allocated

for repairs to two key municipal markets, and for much needed emergency equipment for the water authority. Also, five resettlement projects for approximately 2,000 families, for whom return to their former locations is impossible, will be completed by provision of infrastructure and minimum housing and/or building materials provided via credit. A final element is financing of project support requirements for one key GOES implementing agency and the Mission to assure adequate capacity to manage this extensive program.

The estimated life of project funding from AID for the Project is $75 million in ESF over a 36 month period. Although GOES counterpart is not specifically required, it is expected to provide in-kind support. Also PVO resources will be applied to the Project.

II. PROJECT BACKGROUND AND PROGRAM FACTORS

A. The Earthquake

On October 10, 1986, at 11:49 a.m. the San Salvador metropolitan area (SSMA) was struck by a major earthquake measuring 5.4 on the Richter scale which caused massive damage and destruction of infrastructure, houses, public services, buildings, and private enterprises. Approximately 1,400 people died, 20,000 were injured, and an estimated 250,000 to 350,000 were left homeless. The unusually high level of damage for the magnitude of the quake was due to the location of the epicenter directly beneath the city, its shallow depth and the high vertical acceleration which ensued.

The total damage has been estimated by the GOES at $1.030 billion, which is equivalent to about one quarter of the 1986 GDP. AID's initial assessment, carried out in November,1986, estimated damages at $821 million, $230 million to the public sector and $591 million to the private sector. Since that time, another and more detailed analysis performed by CEPAL (Economic Commission for Latin America) placed damages at $874 million.

Descriptions of damages and estimated value, by general category, from the CEPAL assessments are summarized in Annex No. 2.

B. Broader Consequences of the Earthquake.

The massive and costly damage of the earthquake further compounded El Salvador's already serious economic problems. Coming after seven years of civil conflict, stalled recovery, high inflation and reduced investment, it places another burden on a country already short of needed resources to care for

normal needs. The condition of El Salvador's economy may be noted in the Mission's 1987 PAAD. While the economy's growth in 1984 and 1985 amounted to 2.3% and 2.0%, respectively, it was slower than expected given U.S. economic assistance and the depths of its 1979-1983 recession which saw GDP decrease by 23%. Many other economic indicators prior to the earthquake, such as inflation, exports, and bank liquidity, signaled clear signs of economic deterioration. In 1986, inflation averaged 32%, with real GDP growth estimated at 1% by the GOES.

The earthquake compounded these problems. Already stretched thin, the country faces a rehabilitation and reconstruction bill approximating $1 billion. Many government agencies lost their buildings, seriously impairing their productivity; the damage to public service infrastructure negatively affected the financial deficits which many entities providing these services were already running; and thousands lost their sources of employment or their homes.

The major damages affected the poorest sections of the city. These areas -- composed of Lourdes, Santa Anita, Concepción, San Jacinto, Mejicanos, San Marcos, Ciudad Delgado, and Cuscatancingo, as well as the city center -- formed the original settlements which have grown into the metropolitan area. A socio-economic survey placed the median income of a family head in the center city at ¢538/month, or $107. Median family size was determined to be 4.55 persons. Shelter payments paid by these families averaged ¢93/month, or $19, with housing in substandard dwelling units. The majority of these families worked as unskilled commercial help, construction laborers, domestics, or in micro/small businesses. They lived in this area because they had been born there, because they worked there, or because they had found basic public services in the neighborhood. Most did not own cars and depended heavily of public transport.

The earthquake profoundly affected their lives. Work was disrupted or lost, housing destroyed, and services -- such as sanitary, medical, and food distribution -- severely diminished. Although by mid-1987 the USAID recovery program had distributed shelter materials to over 30,000 families and housing repair loans to another 6,000, a massive problem remains in restoring normalcy to their lives.

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C. GOES Strategy

1. Immediate, Emergency Action

The GOES's reaction to the earthquake was immediate and positive. Within hours after the disaster, the President formed a Crisis Commission, composed of members of the Cabinet, the Armed Forces and the private sector to coordinate and monitor the emergency relief effort. In an attempt to build linkages that had heretofore not existed, the GOES turned to the private sector to assist in receiving and accounting for all international contributions of material and money. Hence, COEDA, the Entrepreneurial Committee for Relief Assistance was formed. At the same time, by Executive Decree, COMFIEN, the Finance Committee for the National Emergency, made up of two representatives from COEDA and the Minister of Finance, was created. USAID financed the services of Arthur Young and Associates for the COMFIEN, to be in charge of daily accounting and computer recording of relief goods and materials. Working with the Mayor's Office and the GOES, the private sector succeeded in providing emergency supplies collected within the community, conducting a national telethon, and in distributing emergency supplies such as food, medicines and plastic sheets for tents to 216 public and private institutions and communities for further distribution to earthquake victims within 20 days of the disaster.

Between October 11 and December 3, with the majority occuring in the first three weeks of the earthquake's aftermath, 313 flights from the international community brought donations to El Salvador. 144 of the flights were from the US. Fifty-nine overland shipments were received as well. In addition, 13 countries immediately sent professional search and rescue teams to assist in locating survivors or victims in collapsed buildings or hillsides; for example, the Metro-Dade rescue team pulled 33 victims out of the Ruben Dario Building. Health, feeding, and shelter supplies, coupled with equipment and materials of all discriptions, provided concrete testimony of international concern.

2. Short Term Recovery Efforts.

The GOES strategy for the recovery phase was to inject resources into the disaster area. Thus, by early November, the Government turned its attention to short-term recovery efforts, including an attempt to meet some of the more critical needs in housing, restoration of public sector services (electricity, water, health, and education), rubble clean-up, and reactivation of private businesses destroyed by the quake, at least in a provisional manner. To foster a newly created sense

of national unity, a multi-sectoral entity, the Metropolitan Committee for Reconstruction (CREM) was established to coordinate and execute these programs. This Committee consisted of representatives from the San Salvador Mayor's Office, the private sector, the armed forces, labor, and the GOES, as well as technical and administrative support staff. To obtain the funds necessary to meet short-term needs, key ministers and the President actively sought international support. Further, existing projects of other international and bilateral donors were reprogrammed to meet disaster related reconstruction/repair needs.

The US proved to be the major provider of short term recovery assistance. Rapid approval of a $50 million grant for recovery assistance assured the GOES of a way to respond to needs such as rubble clean-up, temporary shelter, and much needed patchwork and repairs for critical service restoration. The USAID program is more fully described in Annex 3. Other assistance, such as the promise of 1000 prefabricated houses from Guatemela, prefabricated structures for schools from Mexico, and various materials donations have proven to be too little-too late, except for such notable examples as CARE and CABEI material donations. Temporary solutions for health facilities through aid from France, Chile, and West Germany assisted in resolving some immediate needs until permanent solutions could be identified and funded.

3. Long Term Strategy

The GOES economic program for 1987 reflects a strategy to build upon the emergency and near-term recovery efforts related to the earthquake to create a basis for job and income growth in San Salvador. As stated in the Plan, it is intended to transform the physical reconstruction of San Salvador into a growth engine for the country. The government proposes to support those sectors related to reconstruction in an effort to provide more jobs and stimulate demand for goods, e.g., production of construction goods and related materials. The GOES also proposes to orient its investment program to projects considered key for metropolitan area reconstruction. In addition to simple construction, the GOES contemplates the related necessities of income generation, land tenancy, land use, community participation, and geographic relocation.

As stated by the GOES, the enormous destruction offers the opportunity to take steps to reduce future risks and speed up regional development. The strategy proposed in this regard is to stimulate new regional development areas by providing infrastructure, productive and social projects, and land to the citizenry. The target areas proposed are those just north of San Salvador, such as Apopa, Nejapa, and Quezaltepeque.

The GOES strategy for the medium to longer term reconstruction period has thus become one of reducing population concentration in the high density areas by increasing accessibility and services in areas north of San Salvador. This strategy is an ougrowth of physical urban planning efforts developed in the 1960's and 1970's, but largely ignored due to lack of resources and civil war unrest. The plan is to provide, over time, a road network around the northern environs of San Salvador which connects with the Pan American highway, both east and north of the city, prior to the highway's intersection with the current urban area. That particular direction is favored for growth as it is viewed by the GOES as being less environmentally sensitive, with soils more suitable for development than other areas. Provision of infrastructure, historically concentrated on the east-west corridor, to the northern sectors of the metropolitan area is believed to allow for gradual development which will alleviate current population pressures.

While the GOES considers the establishment of a northern magnet for population growth as a means of lessening current pressures in the urban hub, it also concedes that the success of this strategy is problematical and mid-range, depending on new job creation and adequate investments in roads and infrastructure. IBRD and Italian assistance is counted on for starting up this effort. In the meantime, public land offerings, siting for donor-provided housing, and publicity campaigns have been initiated to increase awareness of this strategy element.

For more immediate needs, the GOES recognizes on-site reconstruction in the damaged areas as essential for restoration of jobs, commercial activity, and social cohesion. With an eye to minimize future catastrophies, the GOES plans to temper on-site reconstruction with tougher building standards and designs which lower or maintain density in heavily concentrated inner city residential areas. (See Section II D below).

D. Construction Standards and Urban Planning

The historical evidence on urbanization standards, the seismic design standards currently in use, the review procedures to assure compliance, the work underway on seismic risk analysis, the situation as concerns informal construction, and the situation concerning building materials are dealt with in detail in Annex No. 4. The various standards and procedures in place are found to be satisfactory as concerns execution of this Project. However, since the seismic risk analysis work underway by the USGS will take time to compete, it is proposed to include a covenant in the Project Agreement to the effect that the GOES will enforce the Provisional Seismic Design Code,

put into effect in November, 1986, throughout the period necessary to finalize a code based upon the conclusions and recommendations of new seismic studies, and thereafter, put into effect and enforce a new permanent code. A second covenant concerning building materials will also be incorporated into the Project Agreement providing that asbestos containing building materials will be prohibited in any construction financed from this Project.

E. Demolition Situation

Since the AID/Washington guidance cable rejected the proposed demolition program and restricted demolition efforts to only those buildings where project funds would be used for reconstruction, USAID has not required the GOES to develop the same level of statistics on this subject as would be required if demolition financing per se were included as a discrete Project component. However, as an integral part of the overall reconstruction efforts of the GOES, USAID is still aware of the tremendous job still facing the country with regard to clean-up, because of the public safety problem, economic development implications, and the adverse psychological consequences of living in an area depicting so much destruction.

Such information as is readily available on the demolition situation is found in Annex No. 5. This data indicates that there has been considerable progress made by both the public and private sectors in the past six months, and that although work still remains to be done, the authorities seem to have the situation under control.

F. Capacity of the Construction Sector

No formal survey has been commissioned by the Mission to develop a snapshot of the capacity of the construction sector to cope with the demands being made upon it as a consequence of the earthquake. It has also proved impossible to secure quantitative data from the Chamber of Construction Enterprises,(CASALCO), or from other industry sources. Nevertheless, based on interviews with knowledgeable persons, it has been possible to formulate assumptions, albeit somewhat subjective, of the capacity of this sector to deal with reconstruction problems. The results of these interviews are shown in Annex No. 6, where the situation as regards A&E Firms, Construction Firms, Equipment and Spare Parts, and Building Materials is described. While some problems are noted, especially skilled labor and availability of spare parts, the overall conclusion is that the local construction sector will be able to respond to the requirements of this Project.

G. Other Donor Activities and their Relationship to the Project

The immediate, emergency response of the international community to the earthquake has been summarized above in Section IIC1. In connection with the longer term reconstruction requirements, the GOES continues to solicit economic assistance from friendly governments and international institutions with considerable success. It has followed up initial contacts with Missions to Europe, Latin America, the Far East and the UN. The focus of these Missions has been broad, with about the same initial requests being made to all listeners. It has fallen to SETEFE (Secretariat of External Financing) in the Ministry of Planning to coordinate donor responses and program resource allocations. While the magnitude of assistance which countries and donor agencies have expressed interest in providing to El Salvador has considerable potential for economic revitalization, initial reconstruction planning by both the Mission and the GOES has been somewhat complicated by the sheer number and variety of donors, including local, national, and international governmental and private organizations.

As a precondition for IBRD reconstruction assistance, the Planning Ministry (MIPLAN) is in the process of creating a new Directorate General for Earthquake Reconstruction which will be responsible for overall coordination of the reconstruction effort, including external asistance. It is hoped that this new Directorate will provide a forum for donor coordination.

In the interim, and to ensure complementarity of resources, USAID has interacted closely with SETEFE and key Ministries in developing this project. Also, all major players with teams or permanent missions in El Salvador, such as the IDB, the Italian Government and the IBRD, have been continually sounded out during the development of the project. When conflicts or duplication of funding has been noted, such as the reconstruction of the judicial courts, the Mission has considered itself as "the donor of last resort" so as not to prejudice other donors or cause the possible loss of those funds to El Salvador. As a result of this approach, some activities described for possible AID financing in the PID have been eliminated from further consideration, e.g. microbusiness credit, and public building reconstruction. Other activities, e.g. the repair of the San Salvador-Comalapa airport road, have been included. In one instance, condominium solutions for meson users, we will be attempting to achieve parallel financing terms and conditions with the IBRD.

As of July, 1987, the Mission had reached conceptual agreement with the major donors on program content and had provided SETEFE with a specific list of activities which it proposed to be financed under this project. The relationship of this project to the promised assistance from other donors can be seen in the following table.

EL SALVADOR EARTHQUAKE
INTERNATIONAL DONOR RESPONSE
(MILLIONS OF DOLLARS)

	SHELTER	EDUC	HEALTH	UTIL	COMM IND	PUB BLD	OTH	TOTAL
CEPAL DAMAGE EST	234	62	97	107	207	53	114	874
DONORS (JULY,1987)								
IBRD	20	12	-	4	12	14	40	102
FRG	2	-	15	-	1	-	-	18
IDB	5	-	3	19	2	-	-	29
ITALY	22	-	32	20	3	-	23	100
FRANCE	-	-	20	16	-	-	-	36
EEC	-	-	8	-	-	-	-	8
CABEI	8	-	-	-	-	-	-	8
GUATEMALA	2	-	-	-	-	-	-	2
SUBTOTAL	59	12	78	59	18	14	63	303
UNFINANCED DAMAGE	175	50	19	48	189	39	51	571
AID RECOVERY*	28	3	1	2	12	1	2	50
AID RECONSTRUCTION*	35	16	4	2	8	2	8	75
GOES NEEDS	112	31	14	44	169	36	42	446

Summary descriptions of the assistance contemplated by each donor is shown in Annex No. 7.

* Note: Includes credit lines.

H. U.S. Assistance and Relationship to Country Strategy

The U.S. response to the disaster was immediate and U.S. support has been sustained throughout the crisis. A.I.D.'s assistance has been three phased - emergency relief, short-term recovery, and the longer term rehabilitation and reconstruction for which this Project is designed.

1. Emergency Relief

On the day of the earthquake, the U.S. Ambassador formally declared a disaster, triggering emergency operations, including several helicopters carrying medical supplies, more than 60 flights with other relief supplies, equipment, food, a military medical team and search and rescue teams from the Department of Defense and Dade County, Florida. U.S. emergency contributions in the five week period after the earthquake totalled $2.9 million. In addition, spare parts for CEL, ANDA, and CAESS were purchased under the Public Services Restoration Project.

2. Short Term Recovery

Within days of the disaster, the U.S. began planning for the second phase: meeting short-term requirements for restoring basic services and infrastructure to functional status. After intense negotiations with the GOES, the $50 million Earthquake Recovery Project (519-0331) was signed on November 21, 1986. The U.S. ecovery effort, which has had an important impact upon meeting basic human necessities and beginning economic revival in the disaster area, is summarized in Annex 3.

3. Reconstruction Assistance

This project continues the provision of basic assistance for economic and social recovery initiated through the relief and recovery efforts. The proposed project, while limited strictly to dealing with problems caused by and directly related to the earthquake, fits neatly and directly into the Country Strategy of economic stabilization and economic reactivation. By assisting small and medium businesses to restore themselves to their pre-earthquake condition, it will advance those Country Strategy objectives. Similarly, by assisting low income groups to resolve their housing, education, and health care problems, the democratic process of government is strengthened. In general, the Project is designed to provide critical support in those sectors that are key to mitigating the adverse impact of the disaster in terms of achieving economic and social stabilization.

The majority of Salvadorans most directly affected by the earthquake are lower income individuals. They will be the principal beneficiaries of the proposed Project. Under the housing component, home owners will be provided limited credit for repair or rebuilding their houses. Credit will also enable former renters to purchase dwellings, and homeless families will be able to relocate. Credit will also be channeled to small and medium businesses, which traditionally have limited access to financing through the commercial banking system.

Thus, credit assistance will expand the availablity of shelter, provide income, and restore jobs to thousands of lower-income Salvadorans in the SSMA.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The Project goal is to assist El Salvador to restore the standard of living of individuals affected by the disaster in order to maintain economic and social stability.

The Project purpose is to assist the Government and private sector of El Salvador to reconstruct and rehabilitate housing, vital social infrastructure and businesses as well as restore basic services to persons, particularly those of lower income, affected by the October 10 earthquake.

B. Conceptual Framework for Project Paper Development

The project is designed to comply with the following criteria:

1. Any use of project funds must be limited to, and directly related to, restoring services and/or resolving problems created by the October 10 earthquake.

2. Recognizing that the needs generated by the earthquake are well beyond the magnitude of available external resources, to limit project activities to those which both the Mission and the GOES consider to be of high priority in terms of assisting the lower income groups in the SSMA.

3. Given that by the time funds become available for expenditure under this project, over one year will have elapsed since the earthquake, to design the project and its implementation mechanisms to follow as closely as possible normal AID guidelines, rules and regulations rather than emergency procedures. At the same time, the lessons learned under the Recovery Project (519-0331) will be taken into account, and such procurement, contracting, and financial management procedures as were developed in response to the emergency, that are applicable to the components of the project, will be kept in place and funded under the project.

4. To act as the donor of last resort and to avoid joint financing activities.

5. To design the components of the project and the administrative support requirements for execution as one shot operations, i.e. to get in and out as quickly as possible, and to get the physical work completed without any particular consideration of the institutional development potentiality of the activities.

6. To limit any support and/or financing of GOES agencies involved in project execution strictly to what is required to get this particular project accomplished and to ensure that such financing does not distort normal GOES salary scales. To the extent that any institutional development results, it will be coincidental and not deliberately planned.

7. To define the various components in such a way that misconceptions and political pressures for eleventh hour changes are minimized. With this in mind, it is intended to keep the number of discrete components down, and to assist the GOES to prepare as many as possible of the operational documents that will be required to meet C.P.s between now and the ratification of the Project Agreement.

8. Attention will be paid to questions of equity, social situation improvement and similar concerns, but only to the extent that those concerns can be accomodated easily within the overriding objective of getting the reconstruction work done as easily and as quickly as possible.

9. Private sector entities will be used for execution, wherever feasible.

C. Credit Component

1 Overview of Financial Intermediation System

The framework within which the credit component of this Project will operate is described in Annex 8 in terms of the institutions, the general characteristics of the system and the current situation as regards liquidity, interest rates, margins and similar factors.

The treatment of institutions is of a summary nature, except where those which will be involved in Project execution are concerned. Here the data is more detailed and includes the results of recent Price Waterhouse evaluations of the financial administration capacity and/or performance of each financial intermediary which will be involved in the Project. For housing credit, the concerned institutions (FNV and the S&Ls) were all found to have acceptable levels of capacity. For business/social services credit, both governmental financial intermediaries (FIGAPE and BANAFI) were also found to have acceptable levels of capacity. Some problems were detected with the performance of the commercial banks. Remedial measures proposed will be described in the section dealing with this sub-component (Section IIIC4).

2. General Concepts Governing Credit Criteria for this Project

There are several general concepts which have influenced the design of the credit components proposed under this project. The specifics are detailed below in Sections III C 3 and 4 and Annexes 9 and 10 for each of the several lines contemplated and they differ one from the other. However, all were conceived and negotiated with the GOES in the context of an overall set of concepts for the use of Project funds. These are as follows:

a. Only physical or legal persons who suffered damage from the earthquake will be eligible for credit.

b. Only repair and replacement (reconstruction) of buildings damaged and/or destroyed by the earthquake, and to the extent feasible, on the same sites, will be financed. Quality improvement and upgrading will be limited to such improvements as meet simple, common-sense tests of practicality, e.g. in the context of rebuilding apartments, to accept individual rather than communal sanitary installations where financial limits permit this type of improvement; or replacing a structurally unsound ceiling with one better able to resist future seismic disturbances.

c. To limit financing of equipment to replacement needs, but again applying the rule of reason to upgrading, e.g. replacing an outdated piece of laboratory equipment with a more modern version.

d. To attempt to tailor interest rates, grace periods and length of loans to the ability to pay of a given target group, rather than to prevailing market rates and terms, but to approach as close as possible to market rates.

e. To deal with any necessary subsidy aspect of a given line of credit through adjustments in the interest rate and other repayment terms, rather than via an up front percentage of cost subsidy. The latter alternative runs counter to GOES policy, which fears setting precedents in this regard, and thus is not negotiable.

f. Not to seek to introduce maintenance of value conditions on credit provided under the Project. While some form of indexing is probably a necessary reform for El Salvador's credit system, using earthquake recovery needs of the very poor as the entering wedge seems to be poor public policy.

g. To avoid utilizing existing BCR credit lines, even those that deal with the target groups under this project, in order to assure that the use of funds can be accounted for and traced back to earthquake victims.

The terms and conditions established for the credit components resulted from careful analysis and evaluations of the capacity to repay of target groups. Careful negotiations with the Central Reserve Bank, the National Housing Finance Company, the Vice Ministry of Housing and Urban Development, and the Ministry of Planning allowed USAID to arrive at the negotiated terms and conditions presented in the Project Paper. Specific studies performed for the Mission, e.g., T.M. Solo-Meson study; PADCO Report on Meson Reconstruction Standards an Affordability; El Salvador Shelter Sector Assessment; Vice Ministry of Housing's Beneficiary Survey; and surveys and reports on commercial credit prepared under contract to the Mission, provided the guidelines for Mission negotiations of acceptable terms and conditions.

3. Housing Credit Component

Annex No. 9 provides a detailed description of the background, rationale, demand, terms and conditions and other aspects of this component. There will be three sub-components, each of which will have different terms and conditions, as described in Annex No. 9, but will be handled through one consolidated line of credit which will provide that the amounts programmed for each subcomponent will be reserved for application to each target group for a period of 6 months. If at the end of that period, sufficient credit applications to fully utilize programmed funds have not been received for a given subcomponent, the remaining funds will become available for use in either or both of the other subcomponents at the request of the Grantee. These subcomponents are:

(1) Repair/Reconstruction of Housing

This subcomponent will provide mortgage credit to approximately 5,000 individuals or families who are owners or who have lease/purchase agreements for either single family houses or condominium apartments in order that they may repair damages or rebuild their homes on site. Credit to owners of single family rental property is included in this category. $18 million is programmed for this subcomponent.

(2) Reconstruction/Rehabilitation of Mesones for Rental Housing

This subcomponent will provide mortgage credit to meson owners, who may or may not inhabit part of the meson, and who wish to repair or rebuild for rental purposes. $5 million is programmed to benefit approximately 1,300 eligible families.

(3) Construction of New, Low Cost, Condominium Type Apartments to Replace Mesones

This subcomponent will provide construction and mortgage credit to families who were renters or dwellers in mesones prior to the earthquake who will still be able to occupy those or near by properties via purchase arrangements. $7 million is programmed to meet the shelter needs of approximately 1,700 eligible meson families.

Financial Intermediation for Housing Credit

All housing credit funds will flow from MIPLAN through the BCR, acting as a fiscal agent only, to the FNV, which will serve as intermediary monitor for the loans it, in turn, will make to the eight S&Ls for onlending to project beneficiary target groups. The S&Ls will be the owners of the mortgages and will be responsible for repayment to the FNV of the full amount borrowed from it. The repayment will flow back to the BCR Into a special FNV account established under the program. The reflows will be available for other operations in the housing sector as agreed to between the Grantee and A.I.D. The Memoranda of Understanding (MOU) between MIPLAN and the FNV will establish the basis on which funds are to be transferred, and will specify interest rate structure, margins allowed, exemptions from portfolio, mortgage requirements, and other pertinent requirements. The interest rate structure, margins and other aspects of this line of credit are covered in Annex No. 9. However, in spite of the fact that they have been negotiated with the VMVDU and the BCR, they should be regarded as illustrative until they have been approved by the BCR Board.

The FNV will be responsible for establishing overall credit policies/criteria for component lending and specific regulations, systems and procedures for the administration and management of each credit subcomponent by the participating savings and loan associations and for monitoring and evaluating S & L performance during implementation.

The S&Ls will be individually responsible for: administration of subcomponent credit lines approved by FNV; promoting and receiving credit applications; preparing periodic reports on the credit line as requested by FNV; presenting all requests for project financing to the FNV for review and approval; disbursing approved credit in installments based on the value of work completed and materials stored; securing appropriate collateral; and administering the mortgage portfolios.

A Condition Precedent for this component will provide that prior to any disbursement, the letters of agreement between SETEFE/BCR, BCR and FNV, and FNV and each S&L, which will cover the specific terms of the above responsibilities and procedures, including standard contract formats, must be approved by A.I.D. Efforts will be made to have this material prepared and agreed upon by all agencies involved, and ready for formal action immediately after ratification.

The BCR will not charge for its administrative and oversight responsibilities for the housing credit component. The FNV will receive one percentage point for its services. The difference between the interest the borrower pays and the 4 or 5 percentage points allowed to the S&L for its costs and profit will be passed back to the FNV's account in the BCR. In addition, the S&Ls will be allowed to charge or deduct from each loan, a one time closing commission of 3% of the loan for repayment risk. The S&L may also charge a 1% up front commission for inspection, either as a payment or as a deduction from the loan.

Staff Support for VMVDU

Due to the increased work load and responsibilities of the VMVDU stemming from various shelter components of the Earthquake Reconstruction Project, additional management staff will be funded by the Project to assist the Vice Minister in all phases of project management.

Two full time experienced management professionals will be contracted by VMVDW for a three year period. These professionals will report directly to the Vice Minister who will delegate specific management actions to each. The contracted staff will act specifically on earthquake reconstruction matters

involving implementation, procedures, approvals, policy issues and conflicts, and to assure actions are taken on a timely basis.

USAID Monitoring Arrangements and Requirements

The USAID's Office of Housing and Urban Development (HUD) will be responsible for first line monitoring of all aspects of the operation and implementation of the Housing Credit Component. HUD will monitor housing credit activities within the FNV and each Savings and Loan, coordinate housing credit actions with the VMVDU, review all progress reports and take actions required to assure that project funds are used according to the terms of the project agreement.

To carry out these activities a full time housing finance monitor will be contracted with project funds, and will work under the direction of the HUD Office Chief to follow day to day operations of the FNV-S&L operations. Other monitoring requirements will be handled by existing HUD staff.

Cash Disbursement/Utilization Schedule

Disbursements of funds for the housing credit component will be made in advances based on estimates of needs for cash to fund disbursements on approved loans by the S&L system. An initial advance of $3 million (10% of total housing credit line) will be made when all conditions precedent for disbursements have been fulfilled by the GOES. This is estimated to be a reasonable amount to allow sufficient liquity at both the FNV and the S&L system level to cover early loan approvals. Given the experience with the credit line for repair of housing under the Recovery Project, where the entire banking system was involved, and taking into account that the housing credit component will now also include credit for constructing new housing projects that will take longer to prepare for credit approval, disbursements are estimated to average $1 million monthly. All funds would then be advanced in a 28 month period, i.e. a $3 first month advance plus 27 monthly advances of $1 million each. Final liquidations would be presented starting approximately three months after the initial advance and continuing until approximately four months after the final advance.

4. Business/Social Services Credit Component.

A second credit component to be administered through the Central Bank pertains to credit required to regain normalcy in the provision of education, health and business output and services in the private sector. For this credit component, the Central

Bank would discount funds to the nine commercial banks that participated in the Recovery Program credit lines, and to the Banco Hipotecario, FIGAPE and BANAFI, the National Bank for Industrial Development. The Central Bank would supervise the use of these credits, provide audits certified by the Superintendencia of the banking system, and would provide AID with monthly progress reports.

Demand analysis for these three private sector credit users is shown in Annex 10, together with data on eligibility criteria, terms and conditions, margins and commissions and other relevant matters. Flowing from the demand analysis, very conservative amounts of $2 million for private health services, $4 million for private schools, and $8 million for small and medium commercial and service establishments have been programmed.

Overall Management of the Credit Line

The three different types of beneficiaries described above will be handled through one consolidated line of credit which will provide that the amount programmed for each subcomponent will be reserved for application to each target group for a period of 4 months. If at the end of that period, sufficient credit applications to fully utilize programmed funds have not been received for a given subcomponent, the remaining funds will become available for use in either or both of the other subcomponents, at the request of the Grantee.

The consolidated line of credit will be managed by the BCR. Provision will be made in a Memorandum of Understanding (MOU) between MIPLAN and the BCR that AID payments will be automatically transferred to a BCR Special Account used exclusively for the purposes outlined above. This MOU will also specify:

i. That the financial intermediaries with access to the credit line are limited to the 9 commercial banks which participated in the Recovery Program, the Banco Hipotecario, FIGAPE and BANAFI.

ii. That the requirements placed on the commercial banks by the BCR as concerns portfolio composition, will not apply to this line of credit; it will, in effect, be treated by both the BCR and the financial intermediaries as a resource separate from the regular credit system.

iii. That the financial intermediaries are authorized to approve and finalize loans of up to ¢500,000 ($100,000) without prior review or approval by the BCR; and that the amounts paid out by the financial intermediaries under this arrangement will be rediscounted and replenished to them by the BCR within 7 working days, unless the loan is found to not meet established criteria. (The principle has been agreed to by the BCR, but the amount for which approval is delegated has yet to be negotiated).

iv. For loan applications over ¢500,000, prior approval by the BCR will be required. The MOU will fix maximum time periods for same. In this connection, the BCR should commit itself to hiring 3 credit analysts for exclusive dedication to this credit line.

v. The responsibility of the BCR for monitoring, reporting, etc. will also be covered in the MOU, as well as terms and conditions, margins, eligibility criteria, etc. (see Annex No. 10). Here again, while the terms, conditions and margins have been discussed with the BCR, they should be considered as illustrative until they are approved by the BCR Board.

vi. It will be established that responsibility for improper loans, non payment, etc. will rest with the financial intermediary, and that normal BCR regulations concerning the effect of bad loans will apply.

It had been proposed that the present legal requirement that all loans beyond 4 years must have mortgage collateral will be waived for this line of credit. This important requirement has not been accepted by the BCR. They correctly point out that each bank will have to determine what guarantees it will accept.

A Condition Precedent will be established providing that before any disbursement under this component is made, the above MOU and the related regulations to be issued by the BCR to the financial intermediaries will be prepared and approved by the BCR Board and are satisfactory to A.I.D. Every effort will be made to have these documents prepared and agreed upon between now and the ratification of the Project Agreement, so that they

can be formalized quickly after ratification. It should also be noted that while the above topics have been discussed with the BCR, it remains to negotiate them with MIPLAN, which will be a party to the MOU.

It is conceivable that funds may be used for the repair of schools or medical facilities that have religious affiliations. However, this does not result in prohibited assistance in support of religious activities. The funds are being obligated and channeled through the GOES, which is then making the funds available under its own reconstruction program to the end users. Additionally, the Central Bank's own credit policies prohibit loans to religious organizations. Therefore, no funds will be made available directly to a religious organization, even for repair of eligible facilities. Given the above factors, in accordance with past analysis of similar issues by the General Counsel's office, potential financing under this component for the repair of institutions that have religious affiliations does not create a legal problem.

2. GOES Monitoring Arrangements

The BCR has proposed that the "Credit Agent" structure developed for implementation and monitoring of supervised rural credit under Project 519-0307 be utilized or at least used as a model for this line of credit. Under this system, AID pays for several credit technicians located in the Credit Analysis Department of the BCR and for credit promoters located in the commercial banks.

This is not believed to be an appropriate arrangement. Instead, it has been proposed to the BCR that whatever firm the Mission uses for auditing and end use checking be charged with inspecting and evaluating the performance of each intermediary credit institution, initially once a month and at longer intervals later on. The criteria used would be the same or similar to those used by Price Waterhouse and reported upon in Annex No. 8. Based on these evaluations, the contractor would inform the BCR of its findings and; (1) recommend needed remedial action to be enforced by the BCR; and (2) recommend which credit intermediaries should receive the bonus 1% margin described in Annex No. 10.

The BCR has not yet agreed to the above proposal and, while not ruling it out, may counter propose giving this responsibility to one of its existing Departments. This issue is not likely to be resolved until the BCR has had an opportunity to study and react to a complete draft of the MOU with MIPLAN.

Mission Monitoring

The PRE Division of the Mission will be responsible for first line monitoring. It will be necessary to provide this division with an additional local employee for this purpose. This individual should be brought on-board as quickly as possible.

Disbursement/Utilization Schedule

Based on experience with the Recovery Project credit line, and the fact that amounts available have been set conservatively below what the potential demand is expected to be, it is believed that this should be a fast disbursing component of the Project. We propose an initial advance of 10% of the funds for the component, i.e. $1.4 million. We would expect the remaining $ 12.6 million to be disbursed over an 18 to 20 month period after ratification of the Grant Agreement, i.e. by July or September, 1989.

D. Public Sector Services Component

1. Construction/Upgrading of Public Schools

Consultation between the MOE and the Mission has led to the development of the following policy/criteria for the determination of USAID activities under this project component:

i. The design work started under the Recovery Project for the repair and reconstruction of the six large, major institutes should be continued under the Reconstruction Project and consequent construction financed, in order to rapidly put the schools back into service.

ii. Temporary classrooms constructed under the Recovery Project should be converted to permanent structures wherever possible, i.e. if they meet the criteria indicated below.

iii. Priority would be given to basic education school reconstruction needs, i.e. from kindergarten to 9th grade, and one story schools will be built for this age group when the land area permits reconstruction.

iv. Reconstruction will be concentrated in the metropolitan area. However, in recognition of the growth trends of the city, reconstruction in suitable downtown sites will consider the tributary residential areas for a particular school, so that if a portion of a school's

population is a result of lack of facilities elsewhere, the project would permit the funding of "swing" classrooms in the tributary area rather than on the original site if a number of factors allow, such as available land, funds, and total student population limits.

v. Decision on whether or not to upgrade temporary classrooms where they now are or reconstruct destroyed/damaged facilities on the same site will be made after site visits and research has determined that the land is under GOES control, e.g., owned or under long term lease; that the site is not on a major fault line; and that the size and location of the site is suitable for a school.

In addition to the six multi-story institutes mentioned above, this component provides for:

- upgrading from temporary to permanent status, up to 476 classrooms on 64 sites.

- reconstruction of 82 classrooms on 15 new sites.

- rebuilding of 150 classrooms on existing sites.

- Provision of furniture, etc. for all the above 708 classrooms.

Details on the rationale for the above, and on procurement methods, is found in Annex No. 11. Contracting for the 6 major institutes will be done via procedures to be agreed to between the GOES and USAID, which is expected to be the standard CEA procedure described in Annex No. 16. Contracting for primary school construction may use an approved lottery procedure, also described in Annex No. 16. The MOE will be the implementing agency in both instances. The A&E and administrative work for both the primary schools and the institutes will be contracted with one firm if possible.

Conditions Precedent to initial disbursement will be established providing that Action Plans, satisfactory to AID, will be prepared and approved by the pertinent GOES agencies.

First line Mission monitoring responsibility will rest with the Office of Education and Training (OET). OET will receive engineering support from IRD, but will also require additional staff financed from Project funds, i.e., two local professional PSCs and one adminsitrative level secretary.

Cost and Implementation Schedule

The cost of reconstruction of the multi-story institutes is estimated at $740,000. The estimate for primary school work is $9.6 million. When these are added to the $1.1 million A&E and administrative cost, the total comes to $11.1 million. It is estimated that work will be completed by March, 1989 (see Annex No. 11 schedules for details).

2. Municipal Market Repair

This component provides for the repair or reconstruction of the two largest markets serving primarily low income group people: The Central Market and the San Miguelito Market. Demolition work and preliminary design work on one of the markets is being financed under the Recovery Project. The details of the damage, and the approach to repair or reconstruction are provided in Annex No. 12.

Implementing Agencies and Procedures

The Municipality of San Salvador will be the executing agency for this component of the Project and will receive and administer the funds received from SETEFE for this purpose. Language authorizing the Municipality to receive funds from the Extra-ordinary budget, through which SETEFE-controlled funds are managed, will have to be negotiated with the Ministry of Finance. The preparation of scopes of work and specifications, issuance of IFB's and contract negotiations will be carried out in accordance with the procedures described in Annex No. 16 of this document. Design and supervision of construction will be carried out by a local A&E firm(s) and construction will be carried out by a local construction contractor(s). Whether one or more A&E or construction firms will be used will depend upon whether both markets are ready for bidding at the same time, the availability of contractors at time of bid, and whether the GOES wants to diversify the work.

Materials and Equipment.

It is anticipated that all construction materials will be of local source and origin. Only one restriction will be placed upon the design engineer and covered by a Covenant in the Project Agreement: that is, that no asbestos or building materials containing asbestos will be used or funded by the project. It is not envisioned that this will create any problem for these two buildings. A locally produced fiber cement board is available for the low weight roofing material and all filler walls probably will be composed of cement block, a local standard.

Also, approximately 42 municipally owned refrigerated display units need to be replaced and will be provided under AID direct procurement methods.

Cost and Timing.

The total estimated cost of this component is $1.4 million (see Tables 3 and 4 of Annex No. 12). The estimated completion date is November, 1989 (see Tables 1 and 2 of Annex No. 12).

Mission Monitoring.

First line monitoring responsibility will be in the USAID/IRD Office.

Conditions Precedent.

An approved Action Plan, acceptable to AID, will be required prior to initial disbursement for this component.

3. HIGHWAY RECONSTRUCTION

During the immediate aftermath of the earthquake, the major lifeline for relief supplies was the Comalapa airport/San Salvador divided highway (toll road). Although the road was damaged in numerous spots and lanes closed to traffic due to landslides, the openings were sufficient to allow one-way traffic. The approach and abutment of one span of a small bridge collapsed, but the other south-bound lane remained open for traffic. Had the road been completely cut off, the only alternatives for relief supply delivery would have been opening up the military airport for commercial traffic, or the transport of the supplies along a coastal road for 40 kilometers and then up a winding two-lane road to the city.

By mid-1987 the more serious obstructions were repaired on the San Salvador-Comalapa highway, or temporary solutions found. However, the beginning of the rainy season continues to cause numerous landslides requiring daily clearing and the detour of traffic to one lane in either direction. Should another earthquake occur, there is little doubt that in its weakened state the road would be completely closed. The location of the road is shown on the map in Annex No. 13. No other donors have identified this highway in their reconstruction plans.

The work contemplated under this component is of two kinds: (1) repairs to the pavement (deformation), primarily occurring in fill sections due to settlement or major embankment slippage; and (2) design correction in high cut areas to reduce

the chances of road closure during any future emergencies (either because of earthquakes or heavy storms). A fuller description of the work to be done is found in Annex 13, together with a detailed cost estimate, work schedule, and description of the mode of operations. The estimated cost is $2.2 million and completion of work is scheduled for September, 1989.

The implementing agency will be the MOP's Department of Highways (DGC). An approved Action Plan, acceptable to AID, will be required as a Condition Precedent to any disbursement for this component.

First line Mission monitoring responsibilities will be located in the USAID/IRD Office.

4. ANDA (Water Authority) Mobile Repair Team Improvement

The ANDA system suffered major damages from the October 1986 earthquake. The main trunk lines survived in fairly good condition, but the distribution network was racked with line breaks and severe leakage. In addition to the line breakage, it is estimated that almost 20% of the 16,000 valves were broken. The distribution network is composed of 2 inch to 28 inch pipe with a total length of about 490 kilometers installed. It was estimated that over 95 kilometers of pipe were damaged by the earthquake.

During the period of October through December of 1986, 9,712 leaks were reported. To deal with the emergency, ANDA not only had to deal with repairs, but was required to provide 3,280 water truck deliveries to areas totally without water. Since then, ANDA has had to deal with numbers of leaks that fluctuate from day to day, but which add up to a much larger number than the daily workload before the earthquake. Casual visual inspection in the SSMA shows a number of unattended leaks and seepages in all areas of the city. It is likely that pipes and valves weakened by the Earthquake will continue to break at a more than normal rate for some time yet.

The distribution network of San Salvador was the most severely damaged (68%), second was Mejicanos (9%), third was Soyapango (5%) and Cuscatancingo (4.6%).

This component is designed to provide ANDA with the minimum amount and kinds of emergency type equipment and materials required to improve the efficiency of ANDA's earthquake caused repair work. The details and costs are provided in Annex No. 14, together with an implementation schedule, and a description

of ANDA's situation regarding personnel and equipment. The items to be provided were determined after a review of the equipment and material which other donors are providing.

The estimated cost of this component is $1.5 million. Procurement will be handled under direct A.I.D. procurement procedures, if so requested by the Grantee, and should be completed by October, 1988. This method is proposed in order to have the equipment in use at the earliest possible date.

Development of specifications will be jointly done by the Mission's IRD Office and ANDA and MIPLAN, with the procurement actions taken by the Mission's Contracts Office.

5. Shelter Relocation/Resettlement

This component will provide funds to develop relocation sites for families from designated reconstruction zones or municipalities who as a result of the earthquake no longer have access to a permanent home or apartment site, either through reconstruction of their previous site, or at a different site in the center city. This group includes mostly previous renters of mesones or houses who are unable to occupy their former residence, or tugurio dwellers whose home sites were affected by land slides, cave-ins or subsidences, etc. and cannot safely reoccupy these sites. These center city families are generally poor, with incomes below ¢500 per month. Most of them have taken up temporary residence on vacant lots, parks, streets and sports fields. This group has been generally defined by the mayor of San Salvador as the "floating population" and has been estimated from a low of 2500 families to a high of 8000 families. The actual number of these families will depend on the number of reconstructed solutions that are or will be built in the center city that are affordable to this group. Those remaining unattended will then constitute the demand for alternatives such as relocation within the SSMA and/or to the Apopa development area. The proposed activity will provide solutions for approximately 2,000 of these families, on 5 already selected sites (see Annex No. 15 for details).

Land and title will be provided free of cost by the GOES for 4 of the 5 sites. (Users of the 5th site have already entered into lease/purchase arrangements with the owner of the land, the FSV). Infrastructure will be provided at no cost to the beneficiaries from Project funds. On 4 of the sites, core houses will be built and sold to the users on a credit basis (up to 25 years, average interest payment 8%). On the 5th site, where the beneficiaries are committed to pay ¢50 per

month for the land, shelter building materials will be provided on the same terms as core houses and infrastructure begun under the Recovery Program will be completed under this Project.

The implementing agency will be the VMVDU. It will: (1) select beneficiaries, and (2) utilize IVU engineers, who are already at work on design and preparation of IFB's. Prior to any disbursement under this component, the GOES will be required to provide, in form and content satisfactory to AID: (1) a Management Contract between MIPLAN and the VMVDU setting forth responsibilities and procedures; (2) the above designs; and (3) an approved Action Plan.

The cost of the component is estimated at $5.0 million, and the estimated completion date, including titling, is February, 1990. By August, 1989 all construction should be completed and by November, 1989 all beneficiaries should be installed (see Annex No. 15 for details). Contracting will be performed using procedures agreed to between the GOES and USAID, probably the CEA procedure described in Annex No. 16.

First line Mission monitoring responsibilities will rest with USAID/HUD.

6. PVO RESETTLEMENT ACTIVITIES

The Cooperative Housing Foundation (CHF) and World Relief/El Salvador are actively involved in providing assistance to earthquake beneficiaries. They approached the Mission in early 1987 with proposals to continue assistance to those low income families affected by the earthquake who have not been able to marshall the resources necessary to repair or replace their shelter. Official, detailed proposals were received on July 6 and July 13, 1987, respectively. The Mission believes that these initiatives have merit. The details of the proposals are available in the Mission bulk files. In summary, the activities are as follows:

a. World Relief

The purpose of this activity is to provide shelter for 1,000 low income families living in the San Salvador metropolitan area whose homes were totally or partially destroyed by the earthquake. World Relief will implement this activity utilizing a Salvadoran technical staff and voluntary groups. The total project cost is $1,065,000, of which AID will contribute $615,000 and World Relief $450,000. The activity will be split into four phases of 250 units each, each one lasting one month for repairs and reconstruction by the beneficiaries. It is expected to commence in November, 1987, and be concluded by March, 1988.

b. Cooperative Housing Foundation

CHF proposes a multi-faceted assistance effort. The first is to provide 190 loans for repair and reconstruction of homes in the San Marcos area ($200,000), a 60 unit meson pilot project testing a cooperative solution for residents ($250,000), a 200 unit low cost housing program for squatter and tugurio settlements costing $200,000, and outreach to other local PVO groups and the S&Ls to manage meson projects. It is estimated that 2,100 persons will benefit from this activity. AID cost of these activities, including CHF costs, is $885,000, and outside donors will provide $126,107 in additional funds for a total activity cost of $1.0 million. The activity is expected to be completed by early 1989.

c. Implementation Arrangements

These activities will be monitored by the Mission's Office of Housing. Funding will utilize normal PVO funding mechanisms, such as Federal Reserve Letters of Credit.

The Project Agreement will stipulate that these two activities will be managed directly by USAID and that USAID will disburse directly to these PVOs. The Mission will provide SETEFE and the MIPLAN Reconstruction Directorate with periodic reports on the progress of these activities.

7. Public Health Facility Reconstruction

Earthquake damage to public health services is estimated at $100 million. Other donor assistance comes to approximately $61 million. These funds, some of which are not yet definitly committed, will permit restoration of outpatient services in the areas most affected by the earthquake. Also, two major hospitals, the Benjamin Bloom and Rosales will be restored.

Under the $50 million Recovery Project, AID provided $1.4 million for temporary repairs to the pneumology center, the Rosales, Maternity, and Bloom Hospitals, and the central laboratory. Needed major reconstruction or repair for the Maternity Hospital, the pulmonary facility, and the central laboratory is currently unfinanced. Other urgent needs may also develop.

The GOES has not yet provided us with specifics as to their requirements. They do, however, expect US assistance in this sector, in conformity with our role of "donor of last resort". We therefore propose to program $2.4 million for this component to be used in a flexible fashion, as the other donor situation unfolds. It is recognized that this component does not meet normal 611(a) requirements. An exception is made under Section 491 authority.

The implementing agency for this component is the Ministry of Health. Whatever A&E and construction services are financed under this component will be provided pursuant to the procedures set forth in Annex 16. An approved action plan(s), satisfactory to AID in form and substance, will be required prior to any disbursement under this component.

The Mission's IRD Office will have first-line monitoring responsibility for this subcomponent. An engineer will be assigned from the IRD Office as Project Manager to work with the MOHealth and to coordinate as necessary with the Mission's Office of Health and Population Assistance on technical matters such as reasonable needs, equipment, etc.

8. Project Output Summary

The Reconstruction Project offers significant benefits to the GOES and scores of beneficiaries. While some of the outputs are difficult to quantify, the following benefits are expected to result from the project:

Housing. Over 13,000 families are expected to benefit from the housing activities. As the demographic surveys have shown about 4.5 persons per family as a conservative figure, the $36.5 million involved with these activities will reach at least 58,500 Salvadorans.

Public Schools. At least 708 classrooms will be upgraded or reconstructed under the project, and at least 125 new institute classrooms reconstructed. Each classroom will hold between 40 and 60 students. Classes are held in the mornings with a second shift for afternoons and a night shift in many of the schools. Using the nominal figure of 100 students per day, 83,000 students will benefit from this component on a daily basis.

Private Enterprises. It is difficult to attach a quantifiable number of beneficiaries to this component, but it is expected that the private schools can place 200 classrooms in service for 50 students per day, the medical profession can open for complete services in 40 locations, and commercial ventures in some 400 locations can be renewed. At a very minimum, some 10,000 students can attend school and the families of some 400 businesses, plus their employees will be benefitted under the project.

Public Services. Two extremely important markets serving low income families will be reconstructed under the project, plus the major lifeline highway will be better able to withstand future damage. While we are not able to precisely define the outputs in the public health sector, we expect that

they will directly serve the Project's target groups. Additionally, with ANDA better able to respond to emergencies, economic losses will be reduced and the benefit of a better water supply will accrue to the city. These project outputs reflect a concerted effort to restore the quality of life of the earthquake beneficiaries and to allow the smaller businessmen to recover from this unexpected disaster. In addition, preserving and protecting the city through repair of the route most used for emergency supplies will be of considerable value to the economy and for future protection of the citizens.

IV. PROJECT MANAGEMENT AND MONITORING

A. GOES Responsibilities and Functions

1. Experience Under Recovery Project

In an attempt to centrally control expenditure, while sharing responsibility amongst different groups, a multi-sector entity with broad powers and authority was created. This was the CREM. A Price Waterhouse review of its functioning, conducted in late January, 1987 concluded that the CREM did not have the formal organization, administrative controls or proper accounting system to adequately manage several project components.

Consequently, after lengthy negotiations between the GOES and USAID, additional administrative structures were created or activated. The CRESP, the Commission for Restoration of Public Services, was created to work with implementing agencies involved with public services in the identification of projects, preparation of action plans, and monitoring of implementation. The COMFIEN was activated and was given prior approval authority for all Project expenditures. Under the Vice Minister of Housing, the CEA was established to take over procurement and contracting actions, put requests into an acceptable IFB or RFQ format, advertise, review bids or quotations and evaluate and make award recommendations. SETEFE, whose normal function is to serve as the GOES coordination point for foreign donors, and as the control point on disbursements from multilateral and bilateral donors into the country, assumed responsibility for overall Project coordination. It also acted as implementing agency for the credit components of the Project. It was not staffed to handle these resonsibilities and only assumed these functions in order to fill a vacuum.

The CRESP and CEA drew heavily on the resources of an existing institution, CEL, in carrying out their functions. This use of its resources has strained the capacity of CEL to attend to its normal functions. The Vice Minister of Housing and Urban Development utilized the capacity which existed in the PRONAVIPO Office under his control as a general secretariat for CEA. PRONAVIPO staff will now be needed for other work.

The Mission was involved in advising and assisting all of the above agencies (CRESP, COMFIEN, CEA, and SETEFE). To augment the technical capability of CRESP and CEA, the Mission utilized its PSA contract with RONCO to provide engineers. These and other Mission staff reviewed proposed projects and action plans, assisted in the preparation of specifications for IFBs, and participated in bid evaluations and contract negotiations. Financing was provided for CEA clerical personnel. USAID personnel also worked closely with SETEFE, advising and assisting them in executing their responsibilities.

2. The Reconstruction Project

There is general agreement that there is a need for a single monitoring and coordination unit in the GOES for reconstruction activities. The location and nature of this unit has been discussed by the Mission with MIPLAN for some time. The IBRD established, as a precondition for its loan, that MIPLAN create a new Earthquake Reconstruction Directorate (ERD), reporting directly to the Minister. ERD was created in July, 1987. It will be responsible for the overall coordination, management, procurement actions, and monitoring of all earthquake reconstruction activities, however financed. It will also serve as the USAID primary counterpart for its own Earthquake Reconstruction Unit. The Mission finds this to be a satisfactory arrangement. A Director has been appointed and a small number of personnel transferred from other MIPLAN offices to the new Directorate. A further description of the MIPLAN unit is available in Annex No. 16.

The IBRD is programming funds for transport, and perhaps other equipment, for the new Directorate, but requires that staff costs be financed by the GOES from the counterpart to the loan. The Mission has reviewed with MIPLAN its staffing requirements and has agreed to provide $1 million equivalent over the LOP from local currency availabilities to meet the IBRD counterpart requirement.

B. Mission Responsibilities and Functions

The project management and monitoring system proposed to implement the diverse activities being undertaken is based on the Mission's internal organization and on the lessons learned under the Recovery Project. It is in essence a form of matrix management with the Mission's technical offices interacting directly with their counterparts in implementing agencies on activities specific to their expertise, and with the Mission's Earthquake Reconstruction Unit(ERU) dealing with overall Project coordination and monitoring and interfacing with MIPLAN. Controller's functions -- disbursement mechanisms and controls, auditing, end-use checking -- are described in Section IVE below.

The overall responsibility for the Project will rest with ERU, which will be headed by a Special Assistant to the Associate Mission Director. As concerns the GOES, this unit will interface with MIPLAN's SETEFE and ERD entities and advise and assist them in the execution of their functions, as they relate to this Project. It will also, in coordination with the Mission's Technical Offices, assist implementing agencies resolve problems that have not been satisfactorily dealt with at the technical level. As concerns the Mission, ERU will be the focal point for coordination of the work performed by the Mission's Controller and Technical Offices. This will include tracking and reporting (see Annex No. 17 for details), problem solving as needed, reprogramming of funds, and monitoring. ERU will also be responsible for keeping track of, and interacting with, other donor earthquake reconstruction efforts. Finally, ERU will be responsible for organizing monthly Mission review meetings to discuss implementation progress and/or bottlenecks, and where assignments are made for corrective action. Also on a monthly basis, formal Project status reviews will be held with MIPLAN, including GOES implementing agencies when required. Certain of the computer reports will be used to provide an agenda for these meetings (see Annex No. 17).

Seven positions are contemplated for this unit, all to be financed from Project funds: a Director, an Assistant to handle administrative matters, an Information Specialist to keep tracking and monitoring charts up-to-date; a Procurement Specialist with substantial experience in the procurement of A&E services, construction services, and equipment and materials for oversight and direct support of these activities as they pertain to the road, market, resettlement, and ANDA equipment elements of the Project; two engineers with experience in the review of specifications, inspection services, and in normal A&E practices and a Secretary.

The technical offices involved in the Project are the Office of Housing, Office of Education and Training, the Office of Infrastructure and Regional Development, the Office of Health and Population Assistance, and the Office of Private Enterprise. These Offices will provide first line daily backstopping, implementation monitoring and ongoing support to GOES counterparts in their respective program areas. The manner in which these functions will be exercised and their staffing needs are discussed under the project components. Costs are shown in the Financial Plan, Section IVE.

C. Procurement Plan

Procurement under this Project will combine direct USAID procurement of a limited amount of commodities with local (Host Country) procurement for the majority of Project needs. The details of the procurement requirements are shown in Annex No. 18.

Direct commodity procurement needs, which have been identified, are limited to $1.5 million of materials and equipment for ANDA, an estimated $708,000 in primary school furniture and equipment, and an estimated $122,000 of refrigeration equipment for the San Miguelito market. While the highway repairs and relocation/resettlement component may later identify the need for commodity inputs, it is currently planned that the contractors responsible for execution of these components will do their own procurement.

Local procurement for goods and services will likely utilize the procedures established under the Recovery Program for the CEA and, in the case of primary schools, the lottery system developed by the MOE and approved by the "Corte de Cuentas." Some revisions of the Manuals governing both of these procurement systems will be required. The credit lines will be subject to standard IFI limitations as detailed in Annex No. 16.

Funding for the procurement of goods and services under this Project is through a special appropriation of ESF monies to be applied specifically to the October 10, 1986 earthquake for disaster relief. Thus there is a legal basis for using the authority contained in Section 491 of the F.A.A. of 1961 in executing procurement actions. However, the General Foreign Disaster Assistance policy (HB8, CH5) for procurement states that the policies and procedure of Federal Procurement Regulations and AID Procurement Regulations shall be observed, where possible. No exceptions to HB 8 procedures are presently

Relationship with GOES Corte de Cuentas (Controller General)

Normal GOES procurement procedure provides that all contracts be submitted to the Corte de Cuentas (CC) for prior approval and, later, for ex-post-facto audit. In connection with the Recovery Project, the prior approval procedure was bypassed pursuant to an emergency decree law. Questions have now arisen about the legality of the Recovery Project procedure. It has been stated, but not verified, that public sector contracts signed without CC approval are not legally binding should the GOES find it necessary to take court action against a contractor.

If contracting under the Reconstruction Project was subject to normal CC procedures, significant delays could be anticipated. The implementation schedules shown would not be operative.

MIPLAN feels strongly that prior approval by CC must be built into the Reconstruction Project procurement and payment procedures. However, they believe it will be possible to negotiate procedures with the CC.

The terms of reference discussed with the CC and agreed to in principle by its President are:

a. That the pre-audit examination by CC of procurement actions be limited to assuring that the procedures set forth in the CEA Manual and in the MOE Lottery Contracting Manual have been followed. (The CC should participate in the necessary revision of these Manuals, so that they are appropriate for use under the Reconstruction Project).

b. That the CC delegate authority for full and final pre-audit approval for contracts and payments to its delegates in MIPLAN and MOE. If possible, this delegation of authority should apply to all contracts and payments. However, the CC may insist on setting upper limits for use of delegated authority. In this event, ceilings of ¢1 million for contracts and ¢500,000 for individual payments would be acceptable.

It is believed that if the above terms of reference can be agreed and held to, it will be possible for procurement to take place as per the implementation schedules. MIPLAN, in later discussions, did not feel the need to confront the CC on these specific issues. As a result, they have proposed that the CC establish a special unit solely for the review of reconstruction activities.

There will be Conditions Precedent that establish that prior to any disbursement under the Project, procurement procedures be negotiated with the CC by MIPLAN and found satisfactory in form and substance by AID.

D. Summary Cost Estimate and Financial Plan

A summarized cost estimate and financial plan for both the USAID and GOES contributions to the project are presented in tabular form on Tables 1 through 3. Also, detailed data on GOES and Mission TA and staff support is presented in Tables 4 and 5. Total project costs are estimated at $78.3 million with AID's input amounting to $75 million, PVO contributions of $576,000, and the GOES's input of in-kind contributions totalling $2.7 million. Disbursements are programmed over the thirty six months life of project with the majority of project costs being paid in local currency.

USAID Funding

The project proposes financial assistance in four general areas: rediscount credit lines of $44 million for housing reconstruction and business reactivation, non-credit activity of $23.6 million for restoration of public services, technical assistance and support of $2.3 million for USAID staff and to implementing entities, $1.5 million for PVO activities, audit and evaluations of $0.5 million, and $3.1 million for inflation and contingencies.

Host Country Funding

The total Salvadoran contribution to the project is estimated at $2,700,000 of which all is credited as staffing or in-kind contributions. PVOs will contribute funds and staffing to the project.

Disbursement Procedures

As mentioned, the majority of the project disbursements will be made in local currency, i.e., large credit reimbursements. To expedite the transfer of the funds in the shortest period possible, the Mission will utilize the Electronic Funds Transfer (EFT) mechanism in concert with M/FM/PAFD. The USAID will request AID to authorize the US Treasury to deposit a determined amount of approved project costs to the GOES account with the Federal Reserve Bank N.Y. Once a confirmed deposit is made, the Salvadoran Central Bank (BCR) will credit its specific account, depending upon which particular project element is being supplied/reimbursed with the local currency. In certain instances, disbursements will be on an advance basis according to approved cash flow requests for periods of no more than 90 days cash needs.

The exchange rate will be the highest rate not unlawful in El Salvador. Experience has shown the EFT process to take less than one day to complete; hence, should there be any exchange rate fluctuations the probability of losses to the project has been reduced to the minimum. Detailed administrative procedures will be developed and given effect by PILs, MOUs and similar documents with each GOES institution, ie, Ministry of Finance, BCR, SETEFE, as well as the participating S&Ls and commercial banks to assure compliance with exchange rate requirements and efficient financial implementation.

The Mission forsees only a minority of the project's disbursements being AID direct payments. Items falling under this category will be the $1.5 million of commodities for ANDA, $122,000 in refrigeration equipment for a market, $700,000 for primary school furniture and equipment, and technical assistance contracts/institutional support costs. The specific amount of the project funding for the USAID support costs and for direct AID procurement will be described in the Project Agreement, assuring the GOES' agreement on the uses of funds and the USAID's right to unilaterally expend said funds for the purposes addressed.

Financial Monitoring and Accountability

Drawing on the experience of the first earthquake project of $50 million, the Mission proposes to continue using the contractual services of a US CPA affiliate to perform the day-to-day routine verification of procurement practices including receipt, warehousing, and distribution of project provided assets, end-use checks, financial audit and verification of accounting records, oversight on public bidding practices and testing reasonableness of cost, etc. Moreover, the financial management and monitoring capacity of the BCR and MIPLAN's ERD will be strengthened.

While financial capability assessments have been performed on the majority of implementing institutions, not all institutions have been reported to have the same degree of competent management. As mentioned above, detailed procedures will be developed and agreed upon prior to the disbursement of funds to assure that competent financial management is in place before implementation begins.

No less than annually, each participating credit institution will be examined by a local US CPA affiliate auditing each for financial compliance, as defined by the 1981 GAO-published standards, as to the accuracy of implementation in terms of the agreement/sub-agreement. The Mission will coordinate this nonfederal audit activity with the Office of the Regional Inspector General in Tegucigalpa, Honduras.

Audit and accountability of GOES institutions will be coordinated between the Mission's Office of the Controller and the Corte de Cuentas, the GOES equivalent to the GAO. Audit workplans will be mutually agreed upon and executed annually. Subsequent funding will be programmed on the basis of these reports.

TABLE 1
EARTHQUAKE RECONSTRUCTION PROJECT
SUMMARY COST ESTIMATE AND FINANCIAL PLAN (MILLIONS OF US$)

	USAID			HC	TOTAL		
	FX	LC	TL	LC	FX	LC	TOTAL
Credit Activities	-	44.0	44.0	0.7	-	44.7	44.7
Non-credit Activity	3.8	21.3	25.1	1.3 1/	3.8	22.6	26.4
Staff Support	1.2	1.1	2.3	1.3	1.2	2.4	3.6
Audit & Eval.	0.5	-	0.5	-	0.5	-	0.5
Inflation/ Contingency		3.1	3.1	-		3.1	3.1
TOTAL	5.5	69.5	75.0	3.3	5.5	72.8	78.3

1/ Composed of $0.6 from PVOs and $0.7 land value for resettlement.

TABLE 2
PROJECTION OF EXPENDITURES BY FISCAL YEAR
(MILLIONS OF US$)

	1988/89	1989/90	1990/91	TOTAL
AID	25.0	37.3	9.6	71.9
Host Country	1.0	1.0	0.7	2.7
Others	0.6	-	-	0.6
Inflation/Contingency	1.1	1.0	1.0	3.1
TOTAL	27.7	39.3	11.3	78.3

TABLE 3
COSTING OF PROJECT OUTPUTS/INPUTS (MILLIONS US$)

COMPONENT/SUBCOMPONENT			
CREDIT ACTIVITIES			$44.0
Housing Credit		$30.0	
Individual Unit Repair	$18.0		
Rental Mesones	5.0		
Sale Mesones	7.0		
Business Credit		14.0	
Sm/Med Enterprise	8.0		
Private Schools	4.0		
Private Medical	2.0		
NON-CREDIT ACTIVITIES			$23.6
Public School Construction		11.1	
Relocation/Resettlement		5.0	
Markets		1.4	
ANDA Equipment		1.5	
Highway Construction		2.2	
Health Activities		2.4	
PROJECT SUPPORT			3.8
GOES		0.3	
USAID		3.5	
Project Support	2.0		
PVO Activity	1.5		
AUDIT & EVALUATIONS			0.5
INFLATION & CONTINGENCY			3.1 1/
TOTAL PROJECT			$75.0

1/ Contingency calculations relate only to construction activities.

TABLE 4
PROJECT SUPPORT COSTS
(Life of project)

	(DOLLARS EQUIVALENT) (IN THOUSANDS)
A. GOES	
VMVDU	
1. 2 Staff Assistants for Vice Minister plus secretary	240
2. Supplies and Equipment	35
TOTAL	275
B. USAID	
1. ERU	
Director, Asst Director, Information Specialist, 2 Engineers Procurement Specialist, 1 secretary	1,025
2. Technical Offices	
OET (2 PSC, 1 secretary)	200
Housing (I PSC)	100
PRE (I PSC)	50
SUB-TOTAL	350
3. Controllers Office	
NFA Contract, End use audits	500
4. Equipment and Supplies	80
5. Misc, including short term consultants	50
T O T A L	2,005

Methods of Implementing and Financing

The following is the approved payment verification matrix:

Methods of Implementing	Method Of Financing	Approx $MILLIONS
Rediscount Line Grant to BCR	Host Country Reimbursement	44.0
Construction Contracts	Host Country Reimbursement	21.3
PVO Agreements	FRLC	1.5
Equipment AID Procurement 1/	Direct Pay	2.3
Support Costs Host Country Inst.	Host Country Reimbursement	0.3
AID Project Admin.	Direct Pay	2.0
Audit & Eval. Direct AID Contract	Direct Pay	0.5
Contingency & Inflat.		3.1
PROJECT TOTAL		75.0

1/ Cover PSA procurement of $0.7 million school equipment, ANDA and market refrigeration equipment.

During project design, reviews of the BCR's administrative controls and procedures were performed. Mission has on file current management assessments of major sub-implementing institutions, i.e., 8 S&Ls, 9 commercial banks, and 2 specialized GOES credit institutions.

AID/GOES Administrative Arrangements

Local Currency Costs- Project local currency costs will be disbursed via EFT through the BCR. Specific disbursement procedures will be included in PIL 1. Local currency disbursement will also be made on audited statements of expenditure, or in the case of advances on detailed cash flow analyses for periods less than 90 days.

Dollar Costs- All dollar cost procurement will be done by AID direct contract.

Aid Policy Determination No. 71 is not affected by this Grant.

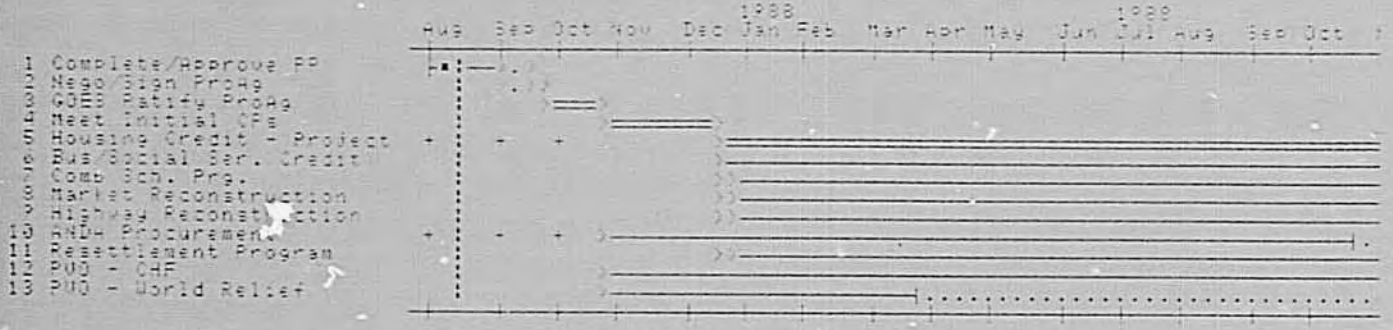
Gray Amendment- It is expected that contracts for technical assistance will include as many minority-owned and other Gray Amendment organizations as possible.

F. Master Implementation Schedule

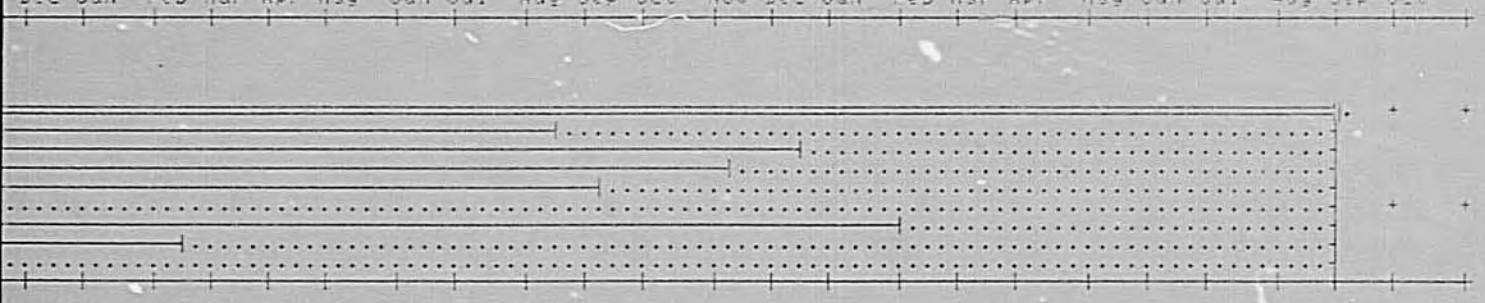
The following chart shows the timetables for completion of each project component. As will be noted, the component which is expected to take longest to accomplish, Housing Credit, is programmed for completion in September, 1990, which corresponds to the PACD.

PROJECT SUMMARY
Earthquake Reconstruction
All Sub-components

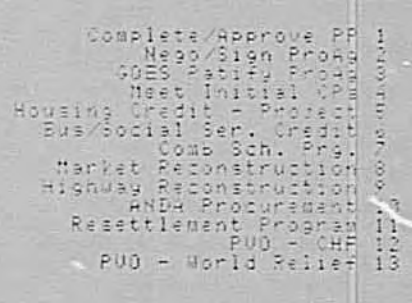
GANTT SCHEDULE (by Months)
Earthquake Reconstruction
ALL SUB-COMPONENTS



GANTT SCHEDULE (by Months)
Earthquake Reconstruction
ALL SUB-COMPONENTS



GANTT SCHEDULE (by Months)
Earthquake Reconstruction
ALL SUB-COMPONENTS



ALL PROJECT COMPONENTS
Earthquake Reconstruction
LIST OF ACTIVITIES

Project: Summary Date: Aug 9, 1987

	1.	Complete/Approve PP Sched Start: Aug 7, 1987	5.0 Weeks Sched Finish: Sep 11, 1987
	2.	Nego/Sign ProAg Sched Start: Oct 1, 1987	1.0 Week Sched Finish: Sep 30, 1987
*	3.	GOES Ratify ProAg Sched Start: Oct 1, 1987	4.0 Weeks Sched Finish: Oct 28, 1987
*	4.	Meet Initial CPs Sched Start: Oct 29, 1987	8.0 Weeks Sched Finish: Dec 23, 1987
*	5.	Housing Credit - Project Sched Start: Dec 28, 1987	32.5 Months Sched Finish: Sept 28, 1990
	6.	Bus/Social Ser. Credit Sched Start: Dec 28, 1987	20.0 Months Sched Finish: Sep 7, 1989
	7.	Six Sch. Repair Sched Start: Jan 4, 1988	23.2 Months Sched Finish: Dec 19, 1989
	8.	Primary School Program Sched Start: Jan 4, 1988	14.5 Months Sched Finish: Mar 24, 1989
	9.	Market Reconstruction Sched Start: Jan 7, 1988	22.0 Months Sched Finish: Nov 15, 1989
	10.	Highway Reconstruction Sched Start: Dec 30, 1987	20.2 Months Sched Finish: Sep 15, 1989
	11.	ANDA Procurement Sched Start: Oct 29, 1987	12.0 Months Sched Finish: Nov 3, 1988
	12.	Resettlement Program Sched Start: Dec 29, 1987	24.8 Months Sched Finish: Feb 8' 1990
	13.	PVO - CHF Sched Start: Oct 29, 1987	16.0 Months Sched Finish: Mar 9, 1989
	14.	PVO - World Relief Sched Start: Oct 29, 1987	5.0 Months Sched Finish: Apr 4, 1988

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G. Evaluation Plan

During the thirty six month life of the project, the Mission does not plan for any formal evaluations. However, there will be continuous monitoring, end use checking, reporting and tracking, and periodic audits. The data generated in this fashion will permit Mission management to conduct informal, in house evaluations on an as needed basis. Also, the data will serve as input to the end of project formal evaluation. It is proposed that this evaluation be contracted to an outside consultant or institution via AID direct procurement. Project dollar funds will be retained by the Mission for this purpose and GOES authorization secured in the Grant Agreement.

1. Scope and Purpose of the Evaluation

This project forms an integral part of AID's response to the October 10, 1986 earthquake. While the main thrust of the evaluation should be on the Reconstruction Project, what was done under the Recovery Project and how the two meshed together cannot be ignored. It is also intended to structure the evaluation so that its findings will allow AID to better respond to similiar disasters worldwide.

The evaluation should examine a series of basic purposes and techniques built into the Project design:

a. The effectiveness with which the Project meshed with the work done on an emergency basis under the Recovery Project.

b. The effectiveness of the project as regards the overall goal of assisting earthquake victims to restore their standard of living and thereby maintain economic and social stability in the SSMA.

c. The effectiveness of the project in reaching its target groups. Did the project consistently reach the lower income earthquake victims or those providing services to the target groups?

d. The effectiveness of the pre-project actions designed to provide for speedy implementation of reconstruction work, and of the one shot, in and out features of project design.

e. The effectiveness of the Mission organization established for the project and the implementation systems established by USAID to work in concert with the GOES administrative structure. Do these systems have broader applicability in future AID earthquake responses? How might the Mission have improved its organization?

f. The effectiveness of the components selected for implementation under the project. Was the strategy of credit and private initiatives for housing solutions appropriate and effective? Was the procurement of equipment one year after the disaster of significance to accomplishing the project goal or purpose, or in creating a better future response capability?

g. The effectiveness of the USAID strategy of acting as "donor of last resort." Did this result in high priority needs remaining unmet in total, or in an undesirably slow fashion? Was the GOES donor coordination mechanism supportive and effective in making the USAID strategy workable?

h. Were the assumptions about the implementing agencies (particularly credit entities) interest in attempting to reach target groups well founded or not?

2. Evaluation Plan

In order to find answers to the above questions concerning Project purposes and techniques, three lines of investigation will be followed:

a. Sampling

Except for the market and road reconstruction and the ANDA equipment drop, all the components of the Project, including credit, lend themselves to an end user sampling technique. Although the physical and social outputs are different for each of these components, and will consequently require different techniques, the sampling of beneficiaries should provide information on:

- Whether the use of the resources met project criteria.
- Whether there was a positive or negative impact on the beneficiaries, in terms of the goals of the Project.
- Whether the beneficiaries met selection criteria.
- Whether the beneficiaries are satisfied with the treatment given them by the respective implementing agency.

b. Evaluation of Written Data

All reports, audits, and other data in the files will be analyzed to determine for each component:

- The relationship between final costs and budget figures and the reasons for any discrepancies.
- The relationships between estimated and actual completion times and reasons for any discrepancies.
- The degree to which implementation problems were identified in a timely fashion and whether or not corrective action was promptly taken.
- Whether the number, type of quality of outputs were consistent with expected outputs and, if not, why not.

c. Site Visits and Interviews

All major construction, and a sampling of minor construction, will be examined to determine if seismic risk was a factor in final design, the quality of the design, construction, and maintenance over the LOP.

Coordinating and implementing agency officials, including PVOs, and such USAID personnel that were involved and are still at post, will be interviewed to determine:

- The efficiency of the flow of work and problem solving.
- Bottlenecks, project modifications, frequency of recycling prior decisions, and other signs of discoordination, and the reasons therefore.
- Political problems or considerations that affected implementation.
- The capability of the PVOs to function in aaccordance with the roles they were expected to play.
- The impact of the project on the implementing agencies, e.g., liquidity of credit institutions, ability to deal with overall workload, institutional improvements, etc.

3. Costs

To accomplish the above evaluation work, it is estimated that 7 person months of professional services of a team composed of an organization/administration specialist, disaster relief specialist, social scientist, engineer/financial specialist, housing specialist and support staff will be required. This team will have to either employ or contract for the services of interviewers to conduct sample surveys. In addition, transportation, other direct costs and danger pay will have to be financed. The total cost is estimated at $200,000.

V. SOCIAL CONSIDERATIONS

A.I.D.'s primary target group for this Project are those families, primarily of low income, that sustained damages as a result of the quake and are not generally served or have limited access to the current financial system. For the purposes of this Project, lower income individuals may be defined as below ₡1,020 ($204) per month. In terms of housing, some 200,000 families live in the San Salvador area in a wide variety of housing types, the majority consisting solely of one room. Generally, tugurio type settlements house about 15% of the population, mesones account for at least 20%, apartments (mostly GOES sponsored IVU shelters) account for about 10%, and both formal and informal single family units house the remaining 53%.

The Project will directly assist low-income individuals whose homes were damaged or destroyed by the disaster, to build, develop, or acquire shelter. Due to rigidities and inefficiencies in existing laws for the regulation of land-use, subdivision and construction, meeting legal requirements for housing construction is costly and is not now affordable for many low-income families. The Project will work with these families to assure that land-use and other permits are given in those cases when A.I.D. credit is financing reconstruction.

The Mission knows of no cultural or social constraints to the type of housing solutions or credit offered by the Project. In fact, it may assist in solving the "meson" problem in the sense that the Project will offer the possibility of ownership to former renters. A recent study of meson owners indicated that 42% would be willing to sell. In addition, new housing solutions such as apartments, condominiums, or cooperative units are expected to be developed to meet the demand of the meson population which currently has no alternative to this type of housing. Resettlement for those homeless families or those in temporary shelters within the SSMA is a desireable social improvement brought about by this Project. Restoration of public services, reinitiation of businesses, and improvement in the provision of private health and education services are further desireable social and economic improvements. The Project is intended to return those individuals to at least their pre-earthquake standards. There are currently no negative social or cultural consequences forseen as a result of the Project.

VI. Economic Considerations

A. Damage Assessment

Following the earthquake, assessments of damage and economic impact were undertaken by the Ministry of Planning, A.I.D. and CEPAL (Economic Commission for Latin America and the Caribbean). They arrived at aggregate damage estimates in the range of $800 million to $1.0 billion. For purposes of illustration, in this commentary the detailed estimates provided in the CEPAL report, summarized in tables 1 and 2 in Annex III, are utilized inasmuch as the CEPAL estimates are the most detailed.

The damage estimates are divided into two categories: the "direct effects" or direct physical damage, represent the estimated cost of repairing, replacing or reconstructing the damage inflicted by the earthquake; the "indirect effects" reflect production or income lost or foregone. The damage assessment provides detailed breakdowns into public and private

sector, repairs, construction, equipment and inventories, for each of 14 economic subsectors. The CEPAL report estimates the total damage at $874 million, of which the "direct" damage,ie. loss of capital stock, accounts for $660 million and the "indirect", or loss in current 1986 output, is estimated at $214 million. The most seriously affected sectors are social infrastructure (mostly private houses, schools, hospitals and health centers), physical infrastructure (water, sewage and telecommunications), and commerce (see table 1). This project focuses mostly on the reconstruction and rehabilitation of the social infrastructure.

B. Impact on GDP

The indirect impact of the earthquake - i.e., its impact on production or income - may be equated to loss in value added or real GDP. Given an estimated real GDP of about $4 billion in 1986 (prior to the earthquake), the estimated "indirect" loss in value added of $214 million would constitute 5.4% of the 1986 GDP.

C. Impact on the Balance of Payments

The estimate of the earthquake's impact on the balance of payments over the next three years is based on the assumption that all or most of the destroyed equipment would have to be imported, while the additional imports associated with repair, reconstruction and inventory replacement would amount to 25% of cost. This 25% ratio is equal to El Salvador's average propensity to import. The resulting estimate for additional imports related to repair, reconstruction, and equipment replacement is as follows:

In Millions of Colones

Equipment(Capital imports)	¢ 375
Construction(Current imports)	¢ 413
Repair(Current imports)	¢ 285
Inventory Replacement(Current imports)	¢ 34
TOTAL	¢ 1107 ($221M)

If we assume that this additional import requirement would be spread over three years, the balance of payments impact would be $74 million a year in additional import requirements and net additions to the balance of payments deficit.

The above calculation assumes that the earthquake had no significant impact on exports.

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D. Substantial Disequilibrium in the Salvadoran Economy

The Salvadoran economy suffered from stagnation and serious disequilibrium even before the earthquake hit. The Mission projected zero growth in real GDP for 1986 before the earthquake. As we have noted, the GOES has proclaimed a 1% growth in real GDP for 1986. Hopefully, some growth can be stimulated in 1987 and 1988 as a result of reconstruction activity, largely financed by foreign loans and donations. The 1987 balance of payments is projected by the Government to show zero deficit, but this optimistic outcome is only the result of some $270 million in official transfers, largely financed by ESF balance of payments assistance and PL 480 donations. Without such assistance, the balance of payments would show a deficit in the $250 to $300 million range. The GOES fiscal account of the consolidated public sector shows an overall deficit of ¢813 million, of which ¢572 million is to be financed from internal sources. To the exten. that this financing must be covered by bank credit, inflationary pressure will be generated. Bank credit for the private sector is proposed to expand by nearly ¢890 million. Bank credit provided to the private sector increased at the rate of 19% in 1985 and 33% in 1986, while the money supply increased by 27% and 37%, respectively, in those two years. Largely as a result of these factors, the general consumer price level has been increasing at an annual rate of about 30% between December 1985 and the first quarter of 1987.

It is not suggested here that the substantial disequilibrium currently present in the Salvadoran economy is the result of the earthquake. The need for a program of stabilizing measures was clearly evident even before the earthquake hit. On the other hand, there can be no doubt that the earthquake has increased El Salvador's already substantial requirement for economic resources, and has further enhanced its dependence on foreign assistance.

VII. RECOMMENDED ENVIRONMENTAL THRESHOLD DECISION

The Initial Enviromnent Examination indicates a negative determination as the recommended threshold decision (See Annex No. 18).

ACTION AID2 INFO AMB DCM ECON

VZCZCSNC492
PP RUEHSN
DE RUEHC #3181/01 1920845
ZNR UUUUU ZZH
P 1108182 JUL 87
FM SECSTATE WASHDC
TO AMEMBASSY SAN SALVADOR PRIORITY 7658
BT
UNCLAS SECTION 01 OF 03 STATE 213181

COMMAND [illegible]OS (C&R)
'87 JUN 13 PM 3 22
USAID/EL SALVADOR

LOC: ----->337 91<
11 JUL 87 1326
CN: 41187
CHRG: AID
DIST: AIDE

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: APPROVAL OF EL SALVADOR EARTHQUAKE PID (519-0333)

1. THE SUBJECT PID, REVIEWED BY THE DAEC ON JUNE 11, 1987, IS APPROVED SUBJECT TO THE FOLLOWING ISSUES AND CLARIFICATIONS WHICH THE MISSION SHOULD ADDRESS DURING PROJECT DEVELOPMENT.

RELATIONSHIP TO GOES STRATEGY: THE DAEC AGREED WITH THE MISSION'S APPROACH OF FOCUSING ON RECONSTRUCTION AND REHABILITATION ACTIVITIES AND CONCURRED THAT IT IS IMPORTANT TO FOCUS ON IMMEDIATE NEEDS CAUSED BY THE EARTHQUAKE. AGREEMENT WAS REACHED THAT THE MISSION SHOULD CONTINUE TO DEAL WITH THE GOES IN A NON-CONFRONTATIONAL MANNER REGARDING THEIR DUAL STRATEGY OF RECONSTRUCTION OF SAN SALVADOR AND DEVELOPMENT OF APOPA. IN LINE WITH THIS APPROACH, THE DAEC DECIDED THAT IT IS PREFERABLE, IN SO FAR AS IT IS FINANCED BY A.I.D., TO RELOCATE FAMILIES WITHIN THE SAN SALVADOR METROPOLITAN AREA (SSMA) WHENEVER POSSIBLE, AND THAT THE PP SHOULD SPECIFY THAT RELOCATION OF FAMILIES OUTSIDE

THE SSMA SHOULD ONLY BE IN EXCEPTIONAL CIRCUMSTANCES.

FUNDING LEVELS: IT IS PLANNED TO FUND THIS PROJECT FROM THE FY87 SUPPLEMENTAL CURRENTLY BEFORE CONGRESS. THE FOREIGN OPERATIONS CONFEREES HAVE AGREED ON DOLS 75 MILLION RATHER THAN THE DOLS 100 MILLION PROPOSED IN THE PID. MISSION REPRESENTATIVES AGREED AT THE DAEC WITH THIS LEVEL. NO ADDITIONAL FUNDS WILL BE SOUGHT FROM THE FY 88 BUDGET AND THE MISSION WILL NEED TO PRIORITIZE THE KEY ACTIVITIES WHICH IT PLANS TO IMPLEMENT UNDER THIS PROJECT. GIVEN THAT THE RESTORATION OF THE SALVADORAN COURT SYSTEM IS A HIGH PRIORITY FOR A.I.D., AND AS ITS RECONSTRUCTION CANNOT BE FUNDED FROM THE JUDICIAL REFORM PROGRAM, THE DAEC DECIDED THAT THIS ACTIVITY WILL BE FINANCED BY A.I.D. FROM THE EARTHQUAKE RECONSTRUCTION PROJECT. IF THE MISSION DECIDES NOT TO INCLUDE THIS ACTIVITY IN THIS PROJECT IT SHALL IDENTIFY OTHER DONOR(S) WHICH WILL PROVIDE ADEQUATE FINANCING TO FULLY IMPLEMENT THIS ACTIVITY AND DISCUSS IN THE PP ITS

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RATIONALE FOR NOT FUNDING THIS ACTIVITY.

DONOR COORDINATION: THE MISSION HAS USED AN INFORMAL MECHANISM TO COORDINATE WITH THE GOES AND OTHER DONORS FOR THE DESIGN OF RECONSTRUCTION EFFORTS. IMPLEMENTATION BY THE GOES OF ITS PROGRAM WITH VARIOUS DONORS WILL PROBABLY REQUIRE GREATER LEVELS OF COORDINATION FOR WHICH AN INFORMAL STRUCTURE MAY NOT BE ADEQUATE. THE PP SHOULD ANALYZE INSTITUTIONAL MECHANISMS FOR FORMALIZING DONOR COORDINATION, AND THE MISSION SHOULD STUDY THE NEED TO INCLUDE THIS AS A COVENANT OR C.P. IN THE AUTHORIZATION AND AGREEMENT.

CREDIT POLICY: THE PID PROPOSES TO CONTINUE TO PROVIDE CREDIT FOR HOUSING RECONSTRUCTION AND PRIVATE SECTOR REHABILITATION AT SUBSIDIZED RATES SIMILAR TO THOSE UTILIZED UNDER THE PRESENT EARTHQUAKE RECOVERY PROJECT. AT THE DAEC, CONCERN WAS EXPRESSED THAT THERE BE CONSISTENCY BETWEEN A.I.D. AND OTHER DONORS ON CREDIT ISSUES. WHILE SUBSIDIZED CREDIT FOR HOUSING SECTOR ACTIVITIES MAY BE A JUSTIFIABLE RESPONSE TO THE EFFECTS OF THE EARTHQUAKE, IT IS EXPECTED THAT THE MISSION WILL ATTEMPT TO INDENTIFY NON-INTEREST RATE MECHANISMS FOR SUBSIDIZING LOW-INCOME HOUSING; AND (2) SECURE GOES AGREEMENT TO CHARGE RATES WITHIN PREVAILING COMMERCIAL RATES FOR A PARTICULAR TYPE OF LOAN FOR ALL NON-HOUSING SECTOR LOANS (INCLUDING RENTAL UNITS) UNDER THE PROJECT. IF IN THE MISSION'S ANALYSIS IT IS IMPOSSIBLE TO ACHIEVE SUCH RATES, THE MISSION SHOULD ADVISE THE

BUREAU BY CABLE OF ITS INTENTIONS SO THAT A.I.D./W CAN PROVIDE SPECIFIC GUIDANCE, IF REQUIRED, ON THE INTEREST RATES TO BE USED. THE PP SHOULD ANALYZE THE EFFECTS OF SIGNIFICANTLY HIGHER INFLATION RATES ON CURRENT INTEREST RATES AND PRESENT A STRATEGY FOR DEALING WITH THE IMPLIED INCREASES IN NEGATIVE REAL INTEREST RATES.

MANAGEMENT OF EQUITY: RELATED TO CREDIT POLICY IS THE EXTENT TO WHICH CREDIT PROVIDED UNDER THE PROJECT WILL REACH THE INTENDED TARGET GROUP. SPECIFICALLY, THE MISSION SHOULD CLOSELY ANALYZE CREDIT MECHANISMS DURING PROJECT DEVELOPMENT TO ASSURE THAT THE TARGET GROUP WILL TRULY BENEFIT FROM CREDIT TO REHABILITATE AND RECONSTRUCT MESONES AND SIMILAR RENTAL UNITS. THE PP AND THE AGREEMENT SHOULD INCLUDE SPECIFIC ELIGIBILITY CRITERIA, AS WELL AS NORMS AND STANDARDS FOR LOANS IN ORDER TO ACHIEVE THIS OBJECTIVE.

SEISMIC RISK: PROGRESS OF THE USGS SEISMIC RISK-SURVEY WAS DISCUSSED AT THE REVIEW. THE PID DESCRIBED HOW DATA FROM THIS SURVEY WILL BE USED TO IMPROVE BUILDING CODES AND REGULATIONS, AND IT WAS DECIDED TO ADVISE THE

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MISSION THAT THE PP SHOULD STIPULATE THAT ALL A.I.D.-FINANCED STRUCTURES WILL BE DESIGNED AND CONSTRUCTED ACCORDING TO THOSE CODES. PROJECT FINANCING SHOULD BE USED TO CONTRACT WITH A & E FIRMS TO ASSURE THAT THIS CONSTRUCTION IS CARRIED OUT CORRECTLY. AT THE REVIEW, MISSION REPRESENTATIVES STATED THAT ENFORCEMENT OF THE CODE IS NOT A PROBLEM FOR FORMAL SECTOR CONSTRUCTION ACTIVITIES, AND THIS WAS ACCEPTED BY THE DAEC. HOWEVER, CONCERN REMAINED ABOUT THE INFORMAL SECTOR, AND THE MISSION WAS REQUESTED TO EXPLORE MEANS FOR FACILITATING THE USE OF SEISMICALLY SAFER CONSTRUCTION TECHNOLOGIES FOR THIS SECTOR.

ASBESTOS: THE PID PROPOSED CONSTRUCTION MATERIALS OF THE SCHOOL BUILDING COMPONENT CONTAINING ASBESTOS. THE LAC CHIEF ENVIRONMENTAL OFFICER APPROVED A NEGATIVE ENVIRONMENTAL DETERMINATION ON JUNE 18, 1987, WITH THE PROVISO THAT THE MISSION INCLUDE LANGUAGE IN APPROPRIATE DOCUMENTS THAT WOULD PROHIBIT THE USE OF ASBESTOS AND ASBESTOS-CONTAINING BUILDING MATERIALS FROM BEING USED OR FUNDED BY THE PROJECT. SHOULD A SITUATION EXIST WHERE THE MISSION BELIEVES THE USE OF ASBESTOS IS WARRANTED IT SHOULD CONSULT WITH THE LAC CHIEF ENVIRONMENTAL OFFICER BEFORE PROCEEDING. AN AMENDED IEE WOULD BE SUBMITTED TO AID/W, AND THE CEO WOULD THEN DETERMINE WHETHER THE PROPOSED USE WOULD BE

ENVIRONMENTALLY SOUND AND SAFE.

DEMOLITION: AT THE REVIEW IT WAS DECIDED THAT DEMOLITION AND ASSOCIATED CLEAN-UP SHOULD CONCENTRATE ON STRUCTURES THAT AFFECT A.I.D.-FINANCED SUB-PROJECTS. A.I.D. FUNDING IS CLEARLY INSUFFICIENT TO DEMOLISH ALL STRUCTURES MADE UNSAFE BY THE EARTHQUAKE. THEREFORE, THE MISSION SHOULD DETERMINE DURING PROJECT DEVELOPMENT A MEANS TO ENCOURAGE THE GOES TO PASS LEGISLATION TO FACILITATE DEMOLITION OF DAMAGED BUILDINGS. IF PERMISSABLE IN EL SALVADOR, THIS COULD BE THROUGH THE USE OF EMINENT DOMAIN IF PERMITTED UNDER LOCAL LAW.

CAPACITY OF THE CONSTRUCTION SECTOR: AT THE REVIEW QUESTIONS WERE RAISED ABOUT THE EFFECT OF THIS AND RELATED EARTHQUAKE PROJECTS ON THE SALVADORAN CONSTRUCTION SECTOR. THE MISSION SHOULD INCLUDE IN THE PP'S INSTITUTIONAL ANALYSIS AN ANALYSIS OF THE CONSTRUCTION SECTOR'S CAPACITY.

AUTHORITY TO APPROVE THE PROJECT PAPER AND AUTHORIZE THE PROJECT: THE SUPPLEMENTAL LEGISLATION PROVIDES DOLS 75.0 MILLION IN ESF GRANT FUNDS FOR EL SALVADOR EARTHQUAKE RECONSTRUCTION AND THAT THESE FUNDS SHOULD BE USED IN ACCORDANCE WITH THE AUTHORITIES CONTAINED IN SECTION 491 OF THE FOREIGN ASSISTANCE ACT OF 1961 - AND SHALL BE ACCOUNTED FOR SEPARATELY. PROCUREMENT CARRIED OUT UNDER THIS PROJECT SHOULD THEN BE DONE SO WITHIN THE MORE FLEXIBLE SECTION 491 AUTHORITIES.

THE BUREAU IS PREPARED TO DELEGATE PROJECT AUTHORIZATION AUTHORITY TO THE MISSION FOLLOWING RECEIPT AND REVIEW OF FOLLOWING SECTIONS OF THE DRAFT PP: (A) A CONDENSED PROJECT DESCRIPTION, INCLUDING PRIORITY ACTIVITIES TO BE CARRIED OUT AT THE DOLS 75 MILLION LEVEL; (B) FULL FINANCIAL PLAN; AND (C) SUMMARY RESPONSES TO THIS GUIDANCE (PARTICULARLY DONOR COORDINATION, INTEREST RATE POLICY AND, ELIGIBILITY CRITERIA TO RESPOND TO EQUITY CONCERNS).

POINTS OF CLARIFICATION:

(A) ECONOMIC ANALYSIS: THE ECONOMIC ANALYSIS IN THE PP SHOULD MAKE A CLEAR DISTINCTION BETWEEN THE LOSS OF CAPITAL STOCK AND LOSS TO CURRENT OUTPUT IN 1986, 1987, AND SUBSEQUENT YEARS IF APPROPRIATE. LOSSES TO CURRENT OUTPUT (GDP) SHOULD BE EXPRESSED IN TERMS OF VALUE ADDED

RATHER THAN VALUE OF PRODUCTION.

THE BALANCE OF PAYMENTS IMPACT SHOULD LIKEWISE DISTINGUISH BETWEEN CURRENT EXPORTS AND IMPORTS, ON THE ONE HAND, AND CAPITAL IMPORT REQUIREMENTS, ON THE OTHER. ESTIMATES OF CAPITAL IMPORT REQUIREMENTS SHOULD BE BASED ON SPECIFIC KNOWLEDGE OF ACTUAL CAPITAL LOSSES RATHER THAN ON THE KIND OF AVERAGE FIGURES USED IN THE PID. (NOTE: THE 25 RATIO REFERRED TO IN PARA. 1 ON PAGE 18 IS THE AVERAGE PROPENSITY TO IMPORT RATHER THAN THE AVERAGE PROPENSITY TO CONSUME.) OPPORTUNITIES FOR PROVIDING PHYSICAL CAPITAL REQUIREMENTS FROM DOMESTIC SOURCES, RATHER THAN IMPORTS, SHOULD BE CAREFULLY EXPLORED.

(B) FINANCIAL PLAN: THE PID PRESENTED ONLY U.S. DOLLAR COSTS FOR THIS PROJECT. THE PP'S FINANCIAL PLAN SHOULD DESCRIBE COSTS IN TERMS OF U.S. DOLLARS AND LOCAL CURRENCY.

(C) PROCUREMENT PLANNING: THE PP SHOULD INCLUDE A

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DETAILED PROCUREMENT PLAN FOR THIS PROJECT.

(D) AUDIT CONCERN: THE PP SHOULD TAKE INTO ACCOUNT THE TYPES OF CONCERNS RAISED BY THE I.G. AUDIT REPORT NO. 1-500-87-30, QUOTE AUDIT OF THE APPROPRIATENESS OF ACTIVITIES FUNDED UNDER DISASTER ASSISTANCE PROJECTS IN ECUADOR AND PERU UNQUOTE, IN WHICH THE I.G. QUESTIONED WHETHER CERTAIN ACTIVITIES WERE RELATED TO DISASTER RELIEF.

(E) ASSISTANCE: MISSION SHOULD CONSULT WITH RLA TO ENSURE THAT ANY ASSISTANCE TO RELIGIOUS SCHOOLS OR HOSPITALS IS SECULAR IN NATURE AND CONSISTENT WITH AID POLICY AND FIRST AMENDMENT ISSUES.

(F) MONITORING SYSTEM: THE MISSION IS COMMENDED ON THE FINANCIAL MONITORING AND TRACKING SYSTEM DEVELOPED UNDER THE EARTHQUAKE RECOVERY PROJECT (519-0331). AS DISCUSSED IN THE PID, THAT SYSTEM SHOULD BE EXTENDED TO COVER THE PROPOSED PROJECT. SHULTZ
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ANNEX NO. 2

Earthquake Damages by Sector

Housing - The areas of San Salvador primarily affected by the quake contained approximately 94,000 housing units, of which an estimated 53,000 to 60,000 dwelling units were affected. Of these, 23,000 housing units were completely destroyed, and at least 30,000 units were severely damaged. Due to the variety and number of slum, meson tenement (rental), and illegal housing units, an accurate value of the damages is difficult to establish. The CEPAL estimate for reconstruction and rehabilitation is $234 million.

Education - The public education system was paralyzed, with 1,371 classrooms sustaining severe damage, and another 2,125 sustaining moderate to minor damage. The school year which was to start in February, 1987, was delayed for weeks and serious overcrowding of existing facilities has occurred as a result of the classroom shortage in many parts of the city. The classrooms which are functioning are used daily for several class sessions. Many classes can only meet 3 days per week. Total estimated cost for repair and replacement is $62 million. Private educational facilities including kindergartens, primary, secondary, trade, vocational, and technical schools were also affected. An A.I.D. financed survey of 207 private schools for low-income students in the City showed that 8.2% were completely demolished, an additional 11.6% uninhabitable, and 13.5% moderately damaged. Repair or reconstruction costs for the private schools surveyed totals $10 million.

Health - This was one of the most seriously affected sectors. Six public and four private hospitals with a capacity of over 2,500 beds were evacuated within hours after the disaster, and much of this capacity was destroyed beyond repair. Four major hospitals (Benjamin Bloom Children's Hospital, the Social Security Hospital, the Policlina Salvadoreña and the Gynecology Center) were irreparably damaged, several more suffered extensive damage, and nine public health centers and health posts were levelled. While calculations of repair/replacement costs are difficult, CEPAL estimates for public sector facilities place the damages at $97.0 million.

In the private sector, many medical offices, dental offices, clinics, specialty hospitals, and laboratories were concentrated along a major fault line and thus also sustained

damage or were destroyed. Although no complete census has yet been done of the costs of replacement or repair of these private facilities, it is estimated that the cost of reconstruction/repair work for the private health sector approximates $10 million.

Public Services - Of the four major electric substations that provide power to San Salvador, two were heavily damaged. The water system experienced innumerable ruptures, and 185 kilometers of water and sewage pipes were damaged. Telephone service was badly disrupted, two central switching stations were knocked out, with switching equipment for 17,000 lines damaged beyond repair. Total estimated damage is 107 million.

Public Buildings - Operations of the Government of El Salvador (GOES) were brought to a standstill and many ministries and agencies were literally thrown into the streets by the quake. About 80% of government offices were left unusable or were severely damaged. Key Government ministry buildings destroyed include the Ministries of Planning, Interior, Justice, Education and Agriculture. The National Assembly, the Central Reserve Bank (BCR) the Supreme Court, and the Judicial Center including the Appeals Courts, Labor Courts, Primary Courts, and many offices of the Justices of the Peace were also destroyed. Estimated damage is $53 million.

Private Sector - All aspects of business, commerce and industry were affected. A survey of the more heavily hit center of the city revealed a loss of buildings, equipment, inventory, and production of $207 million.

ANNEX NO. 3

Status of El Salvador Earthuake Recovery Project (519-0331)

As of June 30, 1987, $ 45.2 million of the $ 50 million obligated had been disbursed: (1) $41,5 in advances to GOES, of which $ 21.6 have been liquidated, with an additional $6.9 million in the process of review and liquidation; (2) $3.7 in the form of direct AID payments to suppliers. $2.2 million of the undisbursed balance is being reprogrammed to housing and small business credit from the employment generation and temporary shelter components.

The status of Project components is summarized below.

(a) Employment Generation/Rubble Removal

This component has terminated. It generated 897,206 person days of work in concentrating rubble for loading and removal. In addition to the labor force, funds were programmed for the cost of heavy equipment to remove rubble from streets and homesites to landfill areas. 115,000 cubic meters of rubble have been removed. The Ministry of Public Works (MOP) has provided the bulk of equipment, operators and supervisors. A final phase began in mid April with MOP cleaning out storm sewers and ensuring that natural waterways, culverts and other drainage structures were unobstructed to the extent possible prior to the start of the rainy season.

(b) Credit for Rehabilitation of Micro and Small Enterprises

Under this subcomponent, $10 million was programmed to assist small and microentrepreneurs reconstruct and repair their businesses, replace damaged or destroyed inventory, and reinitiate operations. The resources are channeled through the MIPLAN to commercial banks and the Fund for Financing and Guarantee for Small Enterprises (FIGAPE). Loans are provided to the borrower at 5% with a 12 year term for reconstruction and repair of buildings, 8 years for replacement of machinery and 3 years for working capital. Of 2450 loan applications received, 2,102 loans have been granted and $8.4 million disbursed at the end of June by financial institutions to borrowers.

(c) Housing - This $28 million component consists of three principal activities designed to assist 30,000 low income families, and provide credit for up to 8,000 home owners.

(i) Temporary Shelter - The original component allocation of $12 million was reduced to $6 million, of which $5.6 million is for the purchase of materials such as wood, nails and galvanized roofing required for the construction of temporary shelter, and $400,000 is for Institute for Urban Housing (IVU) activities to be mutually agreed upon between the USAID and the GOES.

Materials distribution began in mid-March and terminated in June. Twenty-three distribution centers were involved and are now closed. Accrued expenditures totaled $4.3 million at the end of June. The number of shelters improved was 33,400.

(ii) Slum Improvement - After a review of the program in February, $3 million was reprogrammed for the repair or reconstruction of small civil works projects, such as retaining walls, curbings, drainage structures, sidewalks, and other small-scale infrastructure required, and for relocation of families left in the streets by the earthquake. 34 Projects to be carried out in selected slum areas in the municipality of San Salvador have been approved. A.I.D. had advanced $1.8 million to the GOES by the end of April for this component.

(iii) Home Repair and Construction Credit - $19 million was programmed for the use of home owners to finance the repair or initiate the reconstruction of their houses. Principal beneficiaries are employed laborers, wage-earners, or self-employed homeowners that otherwise lack resources to repair their dwellings. The funds are channeled through 17 existing banks and savings and loan association, with maximum loans of ¢20,000 ($4,000). Repayment terms allow up to 20 years repayment and 4 years grace on principal with a 5% interest rate. Of some 9,600 loan applications, totalling ¢153,936,000 ($30,787,200) received, 6,184 were approved as of June 30, 1987. $18.0 million had been disbursed by financial intermediaries to borrowers as of that date.

(d) Public Services - $8.4 million was programmed for immediate repair and restoration purposes, principally for erection of up to 825 temporary classrooms and the repair of 400 damaged classrooms, construction of temporary medical facilities and water and sewerage restoration. Other public works include municipal structures and critically needed government buildings. The construction is largely stop-gap in nature and does not address permanent restoration and reconstruction requirements. Allocations of funds for specific subprojects have been made, reconstruction of 506 classrooms has been completed and 212 additional temporary classrooms were

contracted for by the end of June, 1987. Action plans for all other projects have been approved and are in the contracting phase. Accrued expenditures at the end of June were $2.7 million. More detailed information on the status of the Recovery Project implementation as of June 30, 1987 can be found in San Salvador 09396, dated July 21, 1987.

Cuadro 1

ESTIMACION DE DAÑOS CAUSADOS POR EL TERREMOTO

Factor y subfactor	Millones de colones			Millones de dólares[a/]		
	Total	Directos	Indirectos	Total	Directos	Indirectos
Total	4 372	3 301	1 071	874	660	
Infraestructura social	1 968	1 894	74	393	378	
Vivienda	1 174	1 132	42	234	226	8
Salud	483	456	27	97	91	6
Educación	311	306	5	62	61	1
Infraestructura económica	966	730	236	193	146	47
Agua y alcantarillado	153	100	53	31	20	11
Telecomunicaciones	136	129	7	27	26	1
Electricidad	95	30	65	19	6	13
Transporte y vialidad urbana	152	62	90	30	12	18
Edificios públicos	263	253	10	53	51	2
Banca	142	131	11	28	26	
Otros	25	25		5	5	
Sectores productivos	031	677	354	207	136	
Industria	129	92	37	25	18	
Comercio	902	585	317	181	118	
Emergencia y rehabilitación inmediata	126	-	126	25		
Demolición y remoción de escombros	281	-	281	56		56

Fuente: Estimaciones de la CEPAL.
a/ A razón de 5 colones por dólares de los Estados Unidos.

CUADRO 2

ESTIMACION DE LOS DAÑOS DIRECTOS E INDIRECTOS ATRIBUIBLES A LOS SECTORES PUBLICO Y PRIVADO

(Millones de colones)

	Total			Reparaciones			Construcción			Equipo			Inventarios	Indirectos		
	Total	Público	Privado	Total	Público	Privado	Total	Público	Privado	Total	Público	Privado		Total	Público	Privado
	4 372	1 391	2 927 /	1 138	380	758	1 651	570	1 081	375	144	231	136	1 071	296	720
es sociales	1 968	621	1 347	640	171	469	1 095	399	696	160	25	135	.	74	27	47
enda	1 174	-	1 174	446	-	446	571	-	571	115		115	-	42	-	42
id	483	408	75	96	86	10	360	300	60	-	-	-	-	27	22	5
ación	311	213	98	98	85	13	164	99	65	45	25	20	-	5	5	
structura																
nica	966	615	351	424	209	215	176	171	5	128	119	9	-	236	114	122
e y alcantarillado	153	153	-	42	42	-	54	54	-	4	4	-	-	53	53	
ecomunicaciones	136	136	-	20	20	-	27	27	-	81	81	-	-	7	7	
ctricidad	95	19	76	30	19	11	-	-	-	-	-	-	-	65	-	65
nsporte y																
alidad urbana	152	99	53	62	62	-	-	-	-	-	-	-	-	90	37	53
ficios públicos	263	139	124	172	66	106	59	54	5	21	12	9	-	10	6	4
ca	142	69	73	73	-	73	36	36	-	22	22	-	-	11	11	-
os	25	-	25	25	-	25	-	-	-	-	-	-	-	-	-	
res productivos	1 031	-	1 031	74	-	74	380	-	380	87	-	87	136	354	-	354
ustria	128	-	128	44	-	44	-	-	-	24	-	24	24	37	-	37
ercio	903	-	903	30	-	30	380	-	380	63	-	63	112	317	-	317
encia y reabili-																
ión inmediata	126 a/	51	20	-	-	-	-	-	-	-	-	-	-	126 a/	51	20
ición y remoción																
combros	281	104	177	-	-	-	-	-	-	-	-	-	-	281	104	177

g: Estimaciones de la CEPAL.

l total no coincide con lo atribuido a los sectores público y privado pues incluye 55 millones de ayuda externa.

ANNEX NO. 4

CONSTRUCTION STANDARDS AND URBAN PLANNING

1. Urbanization and Design Standards

a. Background. Historical evidence suggests that urbanization and construction standards will not be an obstacle to the development of options presented under this Reconstruction Project. Urbanization standards have been reduced significantly during the past two years, a favorable trend for the Resettlement component. The resettlement subprojects analyzed show no internal vehicular road networks, but contain wide pedestrian paths with communal parking. In the past, when standards were "officially" high, authorities could be convinced through the presentation of affordability analyses to allow special dispensations for low income housing projects. There is a new un-approved "Reglamento de Urbanizacion" (un-available at this point in time) which will probably be put in force in the near future. Until that time, the Standard Building Code will be followed subject to the above dispensations presented to assure affordability.

b. Seismic Design Standards. Structural building design for new buildings (such as the markets) will follow the newly established Provisional Seismic Design Code (Reglamento de Emergencia de Diseño Sismico de la República de El Salvador) which was legislated into effect November 1986. The Provisional Code is patterned after the California[1] and México City Codes and is considered to be fully adequate to start a restoration and recovery program for SSMA. Structural design of major new buildings and multistory structures will be improved using this Provisional Design Code guided by the Seismic Risk Map and related data to be provided by USGS as discussed below. The USGS draft report is scheduled for delivery in August and a final report by September of this year.

From a practical standpoint, it should be recognized that for buildings being repaired, the repairs will not necessarily

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[1] The California Code may not be total transferable to the San Salvador situation since large offshore earthquakes may shake tall buildings in San Salvador at higher amplitudes than considered in the California Uniform Building Code.

bring the entire structure up to the new Provisional Seismic Design Code standards. The Provisional Code, Chapter 17, specifically addresses the issue of structures damaged in the October 1986 earthquake, where repairs only are contemplated, and requires a study be undertaken. (While the Code does not specifically make a distinction, in practice their requirement is applied only to major repair work for multi-story buildings). The study first must look at the entire structural integrity of the building to determine the extent of structural damage. Depending upon the classification of damage, the Code establishes procedures, in varying levels of detail, to be followed in diagnostic review, repair alternatives, final design and critical technical requirements for construction supervision.

In the cases of A.I.D. financed repairs relating to multi-story buildings, care will be exercised to assure that the Provisional Code Chapter 17 is followed. Where costs are reasonable, some structural upgrading will be undertaken to improve the structural integrity of weaker undamaged sections of the building. Still, while the repaired structure may be of a higher standard than the original design, as a whole, because of prohibitive costs, it may not meet the same standards now required for new construction.

2. Review Procedure to Assure Compliance.

A newly established Joint Design Review Board (JDRB) has indicated a sincere desire to use the promised USGS data in their drafting of Procedures, Development Plans and Building Zoning, and consequently in design reviews. The present procedure of the JDRB is to review preliminary design drawings for conformity to Right-of-Way, development plans and zoning restrictions. Upon submission of construction drawings and an application for a building permit, the JDRB completes a full review for compliance with all regulations. Building plans, for other than single family houses, to receive approval, must be signed by a registered engineer or architect, and submitted with a design memorandum giving soils analysis, design criteria and structural calculations. The JDRB accepts the registered engineer's signature as certifying complete conformity to all codes and regulations. This procedure is similar to U.S. practice and is acceptable for this program. For single family houses, requirements are less precise and stringent.

3. USGS Seismic Risk Analysis.

USAID commissioned a USGS seismic risk analysis in January 1987. Currently underway, the study will provide a probabilistic assessment of ground accelerations and velocities

for the entire country and a detailed micro-zoning map of the SSMA and areas to the north proposed for future development. These data will provide the basis for a new seismic design regulation which in turn, will serve as the legal and procedural framework for the design of engineered buildings. Design professionals would thereby carefully investigate a specific building site and tailor the design to soil conditions, proximity of faults, set back from steep slopes, etc. Buildings inherently vulnerable to earthquake damage such as tall structures or those to be located on sites of known higher risk would receive more exhaustive analysis.

Because the study requires time to undertake, the Project Agreement contains a covenant that the GOES will enforce the Provisional Code put into effect in November 1986, throughout the period necessary to finalize a code based upon the conclusions and recommendations of new seismic studies, and, thereafter put into effect and enforce a new permanent code. In addition, appropriate legal authorities will review building plans prior to issuance of building permits. Inspection of any construction financed with AID funds will be part of the A&E services to assure adherence to design.

What must not be lost sight of, however, is the inescapable historical context in which the reconstruction is to take place. A study by the United States Geological Survey seismologists in late October 1987 confirmed what Salvadorans have known throughout generations, that the country generally and San Salvador and its environs, in particular, are susceptible to serious seismic hazards. Numerous earthquakes have occurred in close association with the oceanic chain which runs the length of El Salvador and continues into Nicaragua and Costa Rica; the major continental plate interface of the Pacific coast has generated high magnitude events, affecting large areas of the land mass.

The seismologists noted that San Salvador and the surrounding area, called "El Valle de las Hamacas" by pre-colombian indians, has seen major earthquakes occur on many different faults, that during the last 225 years these have occurred at an average of every 20 years, and that future earthquakes are likely to be more severe than that of October 10, 1986.

The task facing the GOES, therefore, is difficult but not impossible. Simply put, there is no "risk free" zone. As reconstruction goes forward, close attention must be given to questions of population density and measures to improve resistance to seismic activity. Most of the structures, for example, which were built in accordance with the more strict

building code instituted after the 1966 earthquake were relatively unaffected by the October 1986 earthquake. Further improvements in the code and in enforcement of the building codes in multistory structures must be a priority for the GOES if the effects of future earthquakes are to be managed.

4. Informal Construction.

While in theory the GOES strategy makes sense, the reality is that much of the informal housing for the poor bypasses the permitting process. The real impact of the GOES strategy, at least initially, will be in the review of multi-story buildings, apartment hostels (mesones), and structures requiring use of credit lines. However, small, key groups are being established for specific reconstruction zones to better control adherence to zoning guidelines.

A first step in undertaking this effort has been a district-by-district damage survey conducted by VMVDU with USAID support. This process has yielded a cross-sectoral geographic profile of needs and is also ultimately expected to serve as the basis for the longer term development of the SSMA and surrounding area. All data has been collected and the VMVDU is currently processing, tabulating and interpreting the data.

Because of the importance of maintaining social and economic stability, the need to rapidly restore shelter and services to the urban poor cannot be minimized. For this reason, the AID reconstruction project is designed to provide assistance in the metropolitan districts most affected by the earthquake. The project will, however, be designed and carried out within the framework of the GOES strategy for improved regulation of growth and construction standards.

5. Building Materials.

Materials to be used in the construction of buildings financed by this project will have their source and origin primarily in El Salvador with limited shelf items coming from the United States or the Central American Common Market. Besides reinforced concrete, the primary building materials used in walls and roofs are galvanized sheet metal, asbestos-cement panels, and concrete block. The PID approval was based upon the LAC Chief Environmental Officer's proviso that language be included in appropriate documents that would prohibit the use of asbestos and asbestos-containing building materials in AID funded projects.

A covenant to this effect will be contained in the Project Agreement and similar language will be included in all A&E design contracts. In the place of asbestos-cement panels, designers will be instructed to consider a locally produced fiber-cement panel which provides nearly the same characteristics and currently is priced 10 to 15 percent below the asbestos cement market. The source of the fiber-cement board is from EUREKA (a Salvadoran firm) sold under the trade name of FIBROLIT. In addition, the design engineers will be instructed to investigate other light weight roofing designs and present their findings during preliminary design reviews.

An alternate building material to Fibrolit is galvanized sheet metal, but due to the low insulating value, acoustical problems, and the fact that it is an imported item, the use of sheet metal will be held to the minimum.

ANNEX NO. 5

DEMOLITION SITUATION

1. Background. During development of the project, it had been noted that numerous buildings severely damaged by the earthquake are still standing and pose not only a serious public safety problem but also substantial commercial and economic loss to the affected areas. A survey was made of those structurally unsound buildings needing demolition. Consultation with the Ministry of Public Works, the lead entity for condemnation, and the Municipality of San Salvador led to the determination that a slow process of demolition had begun in the city by private sector entities. This process has been complicated by the underinsurance of structures by the owners, and/or the slow response by insurance companies to settle claims. A further complication is reported to be the reluctance of the Central Bank to provide credit for demolition and reconstruction of commercial structures because of overall credit policy which provides that financing for this type of endeavor must come from the resources of the individual commercial bank and must be placed at high interest rates. On the public sector side, selected efforts are already underway to demolish or repair a portion of the government buildings.

2. Assessment and Status. Attempts were made to obtain statistics from the Ministry of Public Works regarding the extent of damage caused by the earthquake, status of demolition and clean-up since that time, and a list of major structures ordered to be demolished under the legislative authority of Decree No. 496 of October 1986. This Decree No. 496 gave the Ministry of Public Works (MOP) the Authority to order demolition of buildings representing a public safety hazard.

As concerns clean-up, 115,000 cubic meters of primary rubble was removed under Project 519-0331. With a few exceptions the Mayor's office has gained control over waste disposal by private individual and commercial enterprises who are taking short cuts in the removal of this rubble.

The initial assessment of damaged buildings conducted by the MOP and the Engineering Society appears to be quite complete. It is listed in a computerized database containing the name, location, classification of damage and comments on each structure. The number of structures contained in this original damage assessment list is 2188, and includes both public and private structures damaged by the October 1986 earthquake. This list can be found in the bulk files. Maintenance of records regarding actions taken to either repair or demolish the structures, however, has seriously lagged physical progress. It is clear that more of the Ministry efforts have been concentrated on monitoring the situation than in maintaining records.

It is important to recognize that a considerable amount of private sector efforts have taken place to demolish unsafe buildings and the process is still on-going. An ocular inspection made in late July, when compared with a similar inspection made in February, clearly points to the fact that massive efforts are underway by the private sector. As of August 1987, all of the most dangerous structures in the city center have been or are presently being demolished. This is not to say that there are no more buildings to be demolished. However, the bulk of the damaged private sector buildings which posed saftey threats in the downtown area are demolished and work has now shifted outward..

From the original assessment of 2188 buildings mentioned above, the Ministry continues to identify buildings posing public safety hazards and issues orders for demolition by the owners. If the owners fail to take action, the Minister plans to use this Decree No. 496 authority.

The list of condemned buildings, which makes up the structures currently ordered for demolition, is constantly changing. As buildings are demolished, they are removed from the list and as the Ministry staff has time to investigate more fully the condemned buildings on the original list, new orders are issued and these structures added to the "Ordered Demolished" list. As of July 30, the list contained 43 structures -- two from the public sector and the rest from the private sector. Twelve buildings were removed from the list as having been demolished since the previous issuance two weeks ago. The attached table gives a list and location of these 43 structures ordered demolished. USAID visits to the listed sites reveal that many of the buildings have, in fact, been demolished, but not verified by MOP.

MINISTERIO DE OBRAS PUBLICAS
REPUBLICA DE EL SALVADOR

Current List of Demolition Orders

MINISTERIO DE OBRAS PUBLICAS
REPUBLICA DE EL SALVADOR

C O M I T E D E E V A L U A C I O N D E D A Ñ O S

LISTADO DE EDIFICIOS A SER DEMOLIDOS

1 :	MINISTERIO DE PLANIFICACION No.2:	10a.AV.SUR N105
2 :	EDIF.APT.SAN FRANCISCO :	25a.AV.NTE. Y 21 C.PTE.
3 :	EDIF.GRAN HOTEL SAN SALVADOR :	AV.ESPAÑA Y 1 C.OTE
4 (5)	HOSPITAL BENJAMIN BLOOM :	FINAL 25 AV.NTE.
5 :	EDIF.TROPIGAS :	2a.C.OTE. Y 8a.AV.SUR 126
6 :	EDIF.TORRE LOPEZ (CINE IZALCO) :	6a.C.ORIENTE
7 :	EDIF.DUEÑAS :	
8 :	EDIF.PACIFICO :	C.RUBEN DARIO
9 :	EDIF.BANCO CAPITALIZADOR :	1a.C.PTE.N53
10 :	FACULTAD ECONOMIA UES. :	UNIVERSIDAD DE EL SALVADOR
11 :	EDIF.PACASA :	1a.AV.SUR Y 8a.C.PTE. 610
12 :	EDIF.FRENTE ROSTICERIA IDEAL :	25 AV.NTE. 818
13 :	EDIF.CENTRO ESTUDIOS F.A :	
14 :	EDIF.SAN JORGE :	C.ARCE Y 11 AV.SUR
15 :	EDIF.MINISTERIO DE TRABAJO :	ALAMEDA JUAN PABLO II
16 :	EDIF.ROVIRA :	3a.C.PTE. 314
17 :	CONDOMINIO RESIDENCIAL :	2a.AV.NORTE
18 :	LOC.COMERCIALES (HOTEL ASTORIAS):	AV.CUSCATLAN Y 4a.C.PTE.
19 :	ACAVISA (BODEGAS DE ACERO) :	FINAL 25 AV.SUR
20 :	EDIF.DIARIO LATINO :	23 AV.SUR N225
21 :	TEXACO COL.AMERICA :	COL.AMERICA
22 :	COLEG.MADRE MARIE DE PAUL :	7 AV.NTE.C.SAN CARLOS COL.LAYCO
23 :	SHELL DON QUIJOTE (CAFETIN) :	KM.21 C.PANAMERICANA
24 :	EDIF.LICEO CENTROAMERICANO :	6a.C.OTE.N619
25 :	LOCAL COMERCIAL :	9a.AV.SUR 410
26 :	EDIF.CINE CAPITOL :	CALLE LARA SAN JACINTO.
27 :	EDIF.HABITACIONAL :	25a.AV.SUR N424
28 :	EDIF.CARRANZA AMAYA :	10 AV.SUR 17-30 S.JACINTO
29 :	EDIF.LOCALES COMERCIALES :	4a.C.PTE. 309
30 :	EDIF.COMERCIAL :	8a.AV.SUR Y 2a.C.OTE.
31 :	EDIF.365 :	3a.C.PTE. Y 11 AV.NTE.
32 :	EDIF.MONGE :	BLVD.VENEZUELA
33 :	EDIF.SOC.EMPLEADOS PROFESIONALES:	6a.AV.SUR Y 8a.C.OTE.
34 :	EDIF.1 Y 3 :	BLVD.TUTUNICHAPA C.JUDIC.I.M
35 :	EDIF.CHAIN :	C.RUBEN DARIO
36 :	EDIF.COL.HISPANO DE CULTURA :	6a.C.OTE. 430
37 :	EDIF.CIA.GENERAL DE SEGUROS :	4a.C.OTE. Y 2a.AV.NTE.
38 :	EDIF.COMERCIAL LA FORTUNA :	3a.C.OTE.
39 :	EDIF.LACTEOS SONSONATECOS :	CALLE ARCE 520
40 :	EDIF.UNIVERSIDAD PEDAGOGICA :	ALAMEDA JUAN PABLO II
41 :	BANCO CENTRAL DE RESERVA :	1a.C.PTE. Y 7a.AV.SUR
42 :	EDIF.SUR CLINICAS MEDICAS :	25 AV.SUR
43 :	EDIF.COMERCIAL (BAHAREQUE) :	4a.C.OTE.Y 9 AV.SUR

ANNEX NO. 6

Capacity of the Construction Sector

1. Historical Growth Patterns

Construction accounts for only 3% of GDP. Value added grew by 4.4% in 1986, down slightly from 4.6% in 1985. Projections for 1987 are that value added will grow by 16% this year.

2. Architectural and Engineering Firms

There are twenty-five such enterprises affiliated with CASALCO. Most of them have standing arrangements with US A&E firms for proposing on a joint venture basis, or otherwise accessing needed specialized skills. Their level of activity has expanded significantly since the earthquake and there are some indications that the supply of draftsmen and other skilled labor employed by this type of enterprise is reaching its limit. However, to date, the local A&E firms have been able to cope with the demand and it is not anticipated that the requirements of the proposed project will strain their ability to respond efficiently and promptly.

3. Construction Firms

There are 228 such firms affiliated with CASALCO. Approximately 108 engage primarily in heavy construction, e.g. public works and demolition. The other 120 deal primarily with housing construction. Approximately 90% of the 228 enterprises are operational.

The housing construction enterprises are reported as still having excess capacity. Estimates of just how much vary. There are no indications that any construction project has been delayed by lack of capacity here. Also, in the housing repair and and small shelter construction area, much work is performed by the owners contracting directly with a "maestro de obra " and thus bypassing the construction firms.

Even though not operating at capacity, CASALCO reports the building contractors are facing increasingly serious problems which could affect their ability to respond to demand: (1) short supply of skilled labor (masons, bricklayers, carpenters, electricians, etc.). This is probably due to massive and continuing emigration of people with these skills. Plans are well advanced for instituting new training programs to cope with this problem; (2) shortage of building materials. (See discussion below).

The heavy construction firms are reported to be more fully occupied than the housing construction enterprises, but here again there are no reports of inability to respond to demand. Partly this may be due to the fact that the public sector (Ministry of Public Works and other government entities) have in-house capacity to carry out work on force account. The major problems affecting this element of the construction sector to respond to demand are reported as: (1) financial liquidity, caused by serious delays in payment by government, on the one hand, and pressure from the banks to pay on loans which were taken out in order to execute the work contracted for by the government, on the other. This situation reportedly is causing firms to fall behind in their social security payments and similar obligations. Since it is usual practice to require a firm to show evidence that it is up to date in this regard, in order to bid on a public sector project, this financial liquidity problem may be limiting competition on bidding. Also, of course, access to new credit for new projects is affected unfavorably; (2) availability of spare parts (see discussion below). It is reported that a considerable amount of equipment is deadlined due to lack of spare parts. Nevertheless, for this project, it is believed that the local construction firms have the capacity to respond.

4. Equipment and Spare Parts

An examination of certain construction machinery imports (codes 84.22 and 84.23) for the nine months preceeding and the nine months immediately after the earthquake reveal that imports increased by 70% in value terms (from $821,829 to $1.4 million) and that the number of transactions increased by 155% (from 65 to 166). Imports made directly by public sector entities were limited to 5 transactions in each of the two periods, accounting for 6.3% of the total value prior to the earthquake and 19.6% of total value after the earthquake. This does not, of course, mean that the rest of the imports were for private sector use, since government may have imported for its use through local manufacturers' agents. It should also be noted that the two import categories for which data was available do not cover all types of construction equipment. For example, trucks are not included. However, this data, together with reports that the Central Bank has removed prior deposit requirements for construction machinery imports, does suggest that the GOES is complying with the covenant in the Earthquake Recovery Project (519-0331) to facilitate imports of this type of equipment. Also, the government is planning to eliminate customs duties for this type of equipment.

It should also be noted that the data given above on imports, which is taken from executed import licenses, does not include sizable donations to the GOES of Japaneese dump trucks, Italian cranes, and other equipment.

We have not been able to detect any evidence that private sector construction firms are being impeded in importing new equipment. Why there appears to be a problem with spare parts is not clear. It may be due to licensing of foreign exchange, or it may be due to distribution arrangements, i.e. the local dealers preference for use of available credit, and similar factors.

5. Building Materials

There are 50 producers of construction materials affiliated to CASALCO. While time did not permit an in-depth analysis, there are reports that the supply of building materials may become a major bottleneck. Clay bricks are already in short supply, largely a result of the traditional 28 day, wood fired kiln technology employed. Import of a few modern brick making machines, costing only about $70,000 each, could speedily resolve this problem.

There are 3 cement block manufacturers. It is reported that they and the cement producers may be getting close to their production capacity. Fiber cement materials will probably be an important ingredient in construction financed under this project. Only one firm produces this material. However, it has been expanding its capacity and should be able to meet demand.

As concerns imports of building materials, in the 9 month period prior to the earthquake there were 1,338 transactions for a value of $5.4 million. This compares to 4,333 transactions (an increase of 224%) for a value of $21.3 million (an increase of 401%) in the 9 month period after the quake. Since the earthquake, this material has been permitted to come in on a duty free basis.

The composition of the imports can be seen on the following table. It is interesting to note that there were no imports of cement, indicating that local industry has been coping with demand.

ANNEX 6 - 4

Construction Material Imports
January, 1986 - June 30, 1987

	Jan - Oct 10, 1986		Oct. 11 - June 30, 1987		% Increase	
	Transac.	Value (000)	Transac.	Value (000)	Transac.	Value
Lumber, Wood Products	314	1928.8	1054	6655.5	236	245
Plastic Constr. Mater. including tubing	95	481.7	406	4228.2	327	778
Iron & Steel Products	502	1568.8	1692	11,386.4	237	626
Other Materials	427	1,464.7	1,181	5,004.1	177	242
Total	1,338	5,444.0	4,333	27,274.2	224	401

ANNEX NO. 7

Other Donor Activities

IBRD

The IBRD has agreed to provide support for the first phase of the longer term GOES plan to expand growth into the Apopa area north of San Salvador as well as to assist with reconstruction needs in the SSMA. Agreement has been reached with the GOES for a $102.4 million program which includes reconstruction "in situ" of 3,000 shelter units in condominium-type mesones ($18 million), relocation of families to Apopa ($2.2 million), reconstruction/rehabilitation of 400 classrooms in the SSMA and Northern areas ($11.8 million), reconstruction of government buildings in the SSMA ($14 million), road construction, telecommunications link and minor water supply installation from San Salvador to Apopa ($9.7 million), credit for microenterprise in the SSMA and Apopa ($12 million), training for construction industry workers ($3 million), technical studies/technical assistance and project management ($5 million), and contingencies ($[illegible] million). Included in the IBRD package is $13.5 million in grant funds from Japan for management by the Bank. $12 million will be used in the shelter components of the package, and the remaining $1.5 million will support technical assistance efforts.

IDB

At the present time, $18.1 million in loan assistance has been approved by the IDB, signed by the GOES on July 15, and is awaiting Legislative Assembly ratification. The components are: Health $3.1 million (project activities still under discussion); Sanitation, $3.4 million, to provide equipment and materials to enable repairs to pipes in the water and sanitary system; Energy, $4 million, for repair of electrical substations; and Telephone service, $5.6 million, to replace damaged phone exchanges. In addition, a $7.1 million grant for assistance to tugurios is also near approval. The IDB has also indicated a willingness to provide a $160 million loan for construction projects in the health sector and for ANDA and MOP. A prenegotion team is due to meet with the GOES in late summer.

Other Multilateral

Other international organizations which could potentially provide funding include the Central American Bank for Economic Integration (CABEI) through its HG funding which can be used for housing reconstruction. CABEI has offered the GOES $8

million for this purpose. The United Nations Development Program (UNDP) has provided for emergency repairs to Rosales, Bloom and the Social Security hospitals and will give limited assistance for low cost housing.

Bilateral Donors

Venezuela has made available a $9 million credit line through the Central Bank for private enterprises, principally for construction materials. West German grant assistance will provide $22 million for the construction of the new Benjamin Bloom Children's Hospital and technical assistance in planning for the municipality of San Salvador.

The Italian contribution to the reconstruction effort may be substantial, as it is currently programed at $100 million composed of a $60 million grant and a $40 million concessionary loan. This program tentatively includes such components as new sanitary facilities in the areas of the city occupied by tugurios, relocation of homeless families in Apopa, improvements to infrastructure, evaluation of seismic risks, a low-cost housing reconstruction program aimed at turgurios in the SSMA in combination with micro-business assistance and training, clinic rehabilitation, and consideration of solid waste and sewerage collection systems.

Smaller, but still sizeable contributions are expected from other European countries. These include: (1) France, with a $16.5 million loan to assist in the construction of a replacement for Rosales Hospital; (2) Spain, with $700,000 for technical assistance for reconstruction of a health clinic and the Candelaria Church; (3) Belgium, with $250,000 for reconstruction of the Cuscatancingo Health Unit and an Old Peoples Home; (4) the European Economic Community (EEC), with $8 million for a new 100 bed hospital in Zacamil and a possible $14.7 million for industrial/commercial activities; and (5) Holland, with $330,000 for reconstruction of the San Jacinto and San Miguelito Health Units.

Other contributions include: (1) reconstruction, which is already underway, of the Ciudad Delgado and Mejicanos Health Unit by the Government of Chile for a total cost of $500,000; (2) equipment and vehicles for rubble removal from the Government of Japan for $1.8 million, plus the delivery of seven cranes from Italy for demolition work; and (3) equipment for a trauma center in Santa Tecla from the Commonwealth of Puerto Rico with an estimated cost of $250,000.

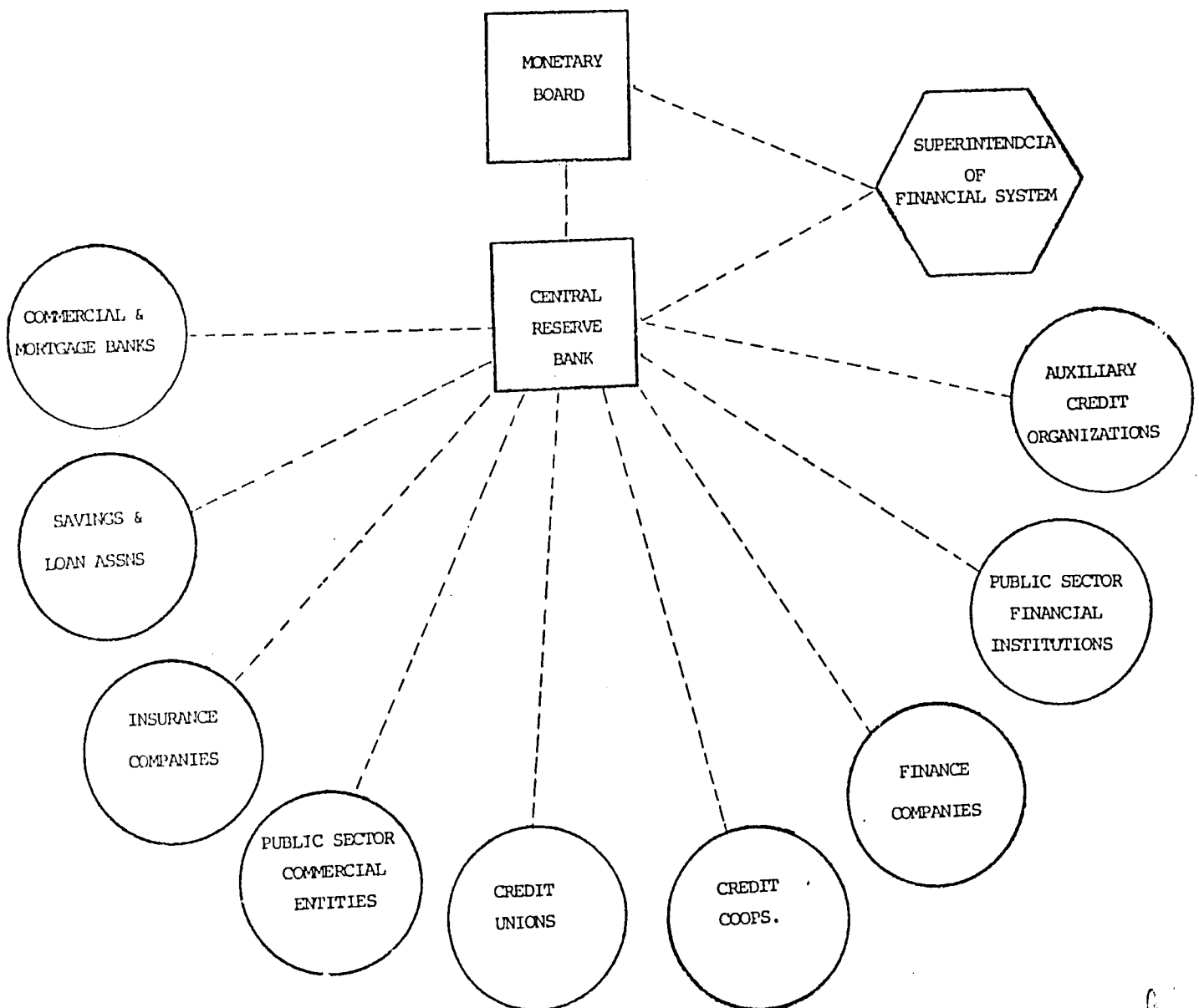
After giving due consideration to these activities, the Mission carefully reviewed the list of needs and damages which were of high priority for redress of the earthquake damages. This review confirmed the need to stress priority concern for housing, especially low-income apartment restoration, and the reconstruction of schools, major markets, and private sector enterprises which provided social services. The city's lifeline road, damaged in 16 separate areas, requires substancial repair, and small/medium businesses were found to lack credit to repair their buildings and replace equipment. Also, it as felt prudent to program a small amount of Project funds for vital public health facilities where other donor financing may not be provided in time, or when the requirement is left uncovered for other reasons.

ANNEX NO. 8

Overview of Financial Intermediation System

1. Institutions

The following sketch presents the different entities that make up the financial intermediation system in El Salvador, which is either nationalized, i.e. state owned in whole or in part, or closely controlled by government.



a. The Junta Monetaria (Monetary Board) is responsible for overall policy (monetary, credit, foreign exchange management, institutional arrangements for financial intermediation). It is composed of 5 Ministers: Planning (who is also President of the Board), Finance, Economy, Foreign Commerce and Agriculture and Livestock. The sixth member is the President of the Central Bank (BCR), who also serves as Secretary to the Board. Support work for the Board is performed by BCR staff. At present, the Board plays more of a review role with regard to policy decisions proposed by the BCR than of a policy initiation role. But it does have the final say on policy matters.

b. The Superintendencia del Sistema Financiero is responsible for controlling and auditing all financial intermediation entities in the system, including the BCR, and ensuring that each is solvent and is complying with relevant the laws, and regulations. The Superintendant is appointed by the President of the Republic. Legally, the Superintendencia is a dependancy of the Monetary Board and reports to and receives instruction from the Board. However, since it is financially dependant on the BCR, it has become as much, or more, a dependancy of the BCR, rather than of the Monetary Board. To some degree, because of the dependancy of the Superintendencia on the BCR, and the latter's ownership interest in the commercial banks and Savings and Loan Associations, the Superintendencia does not fulfill its oversight functions vis a vis either the BCR or the financial intermediaries in satisfactory fashion.

c. The BCR is governed by a 7 member Board composed of 4 members named by, respectively: the Monetary Board, the Commercial Banks, other financial institutions, and the industrial/agricultural associations, plus the President and 2 Vice Presidents of the BCR. The President and 2 Vice Presidents are appointed by the President of the Republic.

Pursuant to the decree law of March, 1980, under which the banking system was nationalized, the BCR became the majority stockholder in all commercial banks and S&Ls. Its staff of 800, of which approximately 40% are professionals, is considered well qualified and relatively efficient. Most of its operational difficulties can be traced to problems of organization and control.

Approximately 16.7% of net credit outstanding for the private sector in 1986, had its origin in lines of credit financed from BCR resources. For 1985 the percentage was 22.4%

Most of the BCR short term credit lines carry the basic 17% interest rate to the final borrower, with a 2 to 4% spread for the financial intermediary, depending mostly upon whether the intermediary is a bank, cooperative, or credit union. There are also some heavily subsidized, special purpose lines, mostly financed from donor resources, and a considerable number of other subsidized lines (2 to 4% below the basic rate) for agriculture, export industries, and bank refinancing operations.

In addition, the BCR operates what is known as the Fondo de Desarrollo Economico (FDE). This Fund finances some 15 different types of investment (agricultural, education, health, agro-industry, marketing, fishing, lumber, mining, stock adquisition, etc). Funds are available to final borrowers through intermediate credit institutions for periods from 2 to 25 years. For the great majority of uses, interest rates to the final borrower range from 7 to 10%.

d. Commercial Banks. There are 11 commercial banks, including 2 foreign owned banks. The nine locally owned banks are all nationalized. Four of them (Banco Agricola, Banco Cuscatlan, Banco de Comercio, and Banco Salvadoreno) handle approximately 80% of the aggregate portfolio of the eleven. They and the Banco Hipotecario, the operations of which are mostly in the agricultural sector and which is governed by the same reserve requirements, discount spreads, savings rates, etc. as the commercial banks, accounted for approximately 62% of net credit outstanding for the entire financial system in 1985 and for 66% in 1986. The Banco Hipotecario is not nationalized, but its President is appointed by the President of the Republic. Approximately 76% of the shares are owned by coffee producers and 21 % by livestock enterprises.

The reserve requirements are high: 20% on all deposits and a seasonal increase of up to 25% in April/September. At the same time capital/lending ratios are kept low (7 to 1) with regard to capital and reserves. Savings account rates are set at 6% annually and the basic time deposit rate allowed is 15% for 180 days.

Loans are grouped into two categories: (1) for everything except commerce and housing or other construction valued at over C60,000, and where the banks must place 85% of their portfolio at interest rates ranging from 13 to 18% (the basic rate is 17%); and (2) Commerce and high value construction, where interest rates range from 19.5 to 21%, and where the 15% of the portfolio reserved for this clientele must be financed from the bank's own resources, i.e. no BCR credit lines are available.

A recent evaluation of the performance of the 9 commercial banks and of the Mortgage Bank's handling the credit lines made available under the Earthquake Recovery Project, was undertaken by Price Waterhouse. The evaluation rated each bank against a total possible score of 100 for 10 functions, including promotion, reception of credit applications, physical inspection, monitoring of use of credit, and collections; with sub values assigned to each function for policies and proceedures, personnel, and information systems. The average score for all banks was 48.1 Of the 4 major banks referred to above, 3 scored well under the average. The scores of the remaining 6 banks ranged from 42.2 to 58.7. Since the commercial banks are intended to handle most of the non-housing credit in the proposed project, the Price Waterhouse findings suggest that some system of prequalifying and/or assisting individual banks may need to be considered.

e. Savings and Loan Associations

These are 8 Savings and Loan Associations (S&Ls),all nationalized in 1980, thus making the BCR the principal shareholder in each. All are under the tutelage of the Financiera Nacional de la Vivienda (FNV) described in Section f. below, which was established in 1963 as the regulatory agency for the Savings and Loan System (SINAP).

The S&Ls operate in the traditional manner of such institutions throughout Latin America. Their depository services include savings and term accounts (not checking). Credit activities are specialized in loans for the construction, acquisition, or improvement of homes. S&Ls may also refinance mortgage credit received from other institutions. All loans must be secured by a first mortgage. These institutions are authorized to finance multi-unit projects of both the single family or attached type.

The associations now borrow from one another as well as from the FNV, and have the authority to assign or transfer their mortgage. Despite the economic difficulties experienced by El Salvador in recent years, the S&Ls have experienced a net inflow of savings since 1980.

In the overall framework of institutions acting in El Salvador's shelter sector, the Savings and Loan System has financed more housing than all the other institutions combined. In the period 1950 through 1983, SINAP financed 73,317 houses produced by the formal construction sector, or 55.6 percent of total output.

From 1980 through 1983 the SINAP financed the construction of 40,624 housing units, with an average unit size of about 40 square meters. The relatively small physical size of these units is indicative of a considerable reorientation of the S&Ls' activities. Whereas, prior to 1980, the majority of S&L-financed units were affordable to middle- and upper-middle income households, production in recent years has been targeted mainly towards lower-middle-income households. However, concentration on this segment of the market, in a period during which these households have been particularly hard hit by high interest rates and El Salvador's severe economic downturn, has contributed to the problem of inmobilized assets.

The S&Ls handled 13% of net credit outstanding in the entire financial system in 1985 and 12% in 1986.

The Price Waterhouse evaluation, described above, also examined the performance of the S&Ls. The average score was 70.3 against a possible 100, as compared to the 48.1 average for the commercial banks. Only two of the eight S&Ls showed any serious weakness and these were felt to be susceptable to speedy remedial action.

f. Public Sector Financial Institutions

There are about 10 such entities; an Agricultural Development Bank, an Industrial Development Bank, (BANAFI), an Investment Corporation, a Credit Union Federation, an Armed Forces Fund and a parallel Public Sector Employees Fund, an obligatory Savings Fund for Housing (FSV), financed by a payroll tax, the FNV referred to above, and a Small Enterprise Guarantee Fund (FIGAPE). All of these entities have access to BCR credit lines, especially those which are heavily subsidized; receive savings in various forms; and make loans. However, only the last three (FNV, FONADE, and FIGAPE) will have a role in implementation of the proposed project.

The FNV is governed by a 6 man board, which is composed of the President of the institution, who is appointed by the President of the Republic, one representative each of the S&Ls, the College of Architects and Engineers, CASALCO, the Ministry of Planning, and the Ministry of Public Works. It has a staff of approximately 110 persons, which is considered to be well trained.

The FNV was established in 1963 as the regulatory agency for the Savings an Loan System. It was initially under the tutelage of the Ministry of Economy and was autonomous. In 1980, it was nationalized and in 1982, placed under the jurisdiction of the Ministry of Public Works. The FNV, with BCR

approval, establishes lending terms and conditions for the eight S&Ls, insures savings and mortgages, and performs audits of these institutions. The FNV reviews all requests for project financing received by the S&Ls and, if approved, monitors the progress of construction to ensure that work keeps pace with loan disbursements. The FNV serves as the intermediary for any foreign loans to the SINAP.

Sources of funds for the Financiera include allocations from the GOES, sales of National Housing Bonds, deposits by the S&Ls and foreign and domestic loans.

The Financiera insures all savings accounts of the SINAP's eight-member institutions up to a limit of ¢12,000 ($4,800) in return for a premium. The FNV provides short-term loans to S&Ls experiencing temporary liquidity shortgages. The Financiera also insures mortgage loans on behalf of the lending S&L in return for a premium. This same service is available to other financial institutions operating under the supervision of the Superintendent of Banks.

The Financiera has the capacity to purchase and resell these insured mortgages as a means of generating additional resources for investment in housing. There has been no direct, open trading of mortgage instruments by the FNV in El Salvador due to the Absence of a resale or secondary market. The FNV has sold National Housing Bonds (Bonos Nacionales de Vivienda), backed by insured mortgages originated in the SINAP, to the Salvadoran Social Security Fund (CSSS). Another domestic source of funds channeled to the S&Ls via the FNV has been the Cenral Reserve Bank (BCR). The BCR has provided funds to the FNV on a short-term basis (up to one year) via a Contingency Line of Credit.

External funding sources for the FNV and SINAP have included the BCIE (Central American Bank for Economic Integration), the FIV (Venezuelan Investment Fund), and AID.

FIGAPE specializes in supervised credit and guarantees for small enterprises, (industrial, comercial and service). It was created in 1973. It is governed by a Board of Directors, whose Director is appointed by the President. Its resources come from government and BCR credit Lines. In 1985 it granted 1,481 loans for a total value of ¢13,5 million and approved 44 guarantee operations for ¢99,500.

At the same time that Price Waterhouse evaluated the mortgage and commercial banks' handling of credit under the Earthquake Recovery Project, (see Section d. above), they also evaluated FIGAPE using the same criteria and scoring system.

They gave FIGAPE a rating of 87.6 out of a possible 100, i.e. about 30 points more than the highest score for any commercial bank.

BANAFI was also evaluated by Price Waterhouse and found to rank high on the criteria used for FIGAPE, commercial bank and other credit entities.

g. Other Financial Intermediaries

As shown on the sketch at the beginning of this chapter, there are several other categories of financial intermediation entities. None of them have relevance as concerns this project. Thus the following descriptions will be brief.

(1) Insurance Companies - There are 12 companies; they make loans for construction and housing at 20 or 21%.

(2) Credit Unions - The 40 credit unions are under the tutelage of a state controlled Federation. Credit from them is limited to members of the particular union.

(3) Savings and Credit Cooperatives - There are 12 entities, which also have established a Federation. They perform the same type of function as the credit unions, e.g. provision of consumer credit, but can receive savings and make loans from and to persons other than their own members.

(4) Finance Companies - There is only one, which was created 3 years ago. On a commission basis (rates fixed by BCR) it provides guarantees for construction bids, bank loans, etc. and also establishes Fidelity Bonds where these are required, e.g. for bank tellers and others who handle money.

(5) Public Sector Commercial Enterprises - Certain of these, inter alia, capture savings and make loans. Four that have been identified are INCAFE, which deals with coffee producers; INASUCAR, which deals with sugar producers; IRA, which is concerned with basic food commodities; and IVU which is concerned with construction and sale of low/medium cost housing.

(6) Auxiliary Credit Organizations - El Salvador's legislation on the financial intermediation system, establishes that entities such as bonded warehouses, the stock market, pawnshops and other entities will be controlled by the policies established by the Monetary Board and will be audited and monitored by the Superintendencia of Banks and thus are considered to be a part of the system.

2. General Characteristics of the System and Current Situation

The basic policies under which the system is currently functioning seem to be: (1) to limit expansion of private sector credit in 1987; (2) to maintain negative real interest rates; (3) to resist any form of indexing; (4) to exercise close control over the uses of credit; (5) to restrict the use of credit for commercial operations and for high value construction.

Credit extended to the private sector by the consolidated banking system increased during 1986 from an outstanding balance as of December 31, 1985, of ₡4,834.2 million to ₡5,764.0 million at the end of December, 1986, or an increase of 19.2 %. This compares with an increase in consolidated banking system credit to the private sector of 25.2% in 1985. The GOES' 1987 economic program limits expansion of private sector credit to ₡905 million, an increase of about 18% over 1986 in current colones. Since inflation is currently around 30%, in real terms there is a decrease planned in credit for the private sector from the 1986 posture.

The distribution of credit between the public and private sectors in 1986 was 67% private, 33% public. This compares to 64% private, 36% public in 1985. For 1987, the GOES economic program projects a distribution of 68% private, 32% public.

The liquidity of the banks and S&Ls decreased significantly in 1986 as compared to 1985, dropping from a gross coeficient of 20.6 in 1985 to 14.2 in 1986.The depository banks of the nationalized banking system had become so illiquid by the end of 1986 that they fell a full 7.8% under the required 20% legal reserve level. There seem to be serious solvency problems in the banking system, with several banks reporting operating losses for 1986, the first time since nationalization in 1980.

As concerns interest rate structure and margins, in 1986 interest rates on time deposits were increased by 2.5 percentage points and lending rates were upped by 3.5 percentage points.Also, the rates charged to financial intermediaries and the final users on BCR lines of credit were increased by 2 percentage points. However, the entire rate structure continued to be increasingly negative in real terms.

ANNEX NO. 9

Detailed Description of Housing Credit Component

1. Background

About half of the estimated 50,000 to 53,000 dwelling units affected by the earthquake consisted of formal single-family units.

For this reason, a total of $19 million of the Recovery Program (519-0331) was programmed for the use of home owners to finance the repair or initiate the reconstruction of their houses. The principal beneficiaries of this credit line are employed laborers, wage-earners, or self-employed homeowners that otherwise lack resources to repair/reconstruct their dwellings. These funds are being channeled through 17 existing banks and savings and loan associations, with maximum loans of ₡20,000 ($4,000). Repayment terms allow up to 20 years repayment and 4 year grace on principal with a 5% interest rate, plus 1% closing fee.

By the end of 1986, some 9,600 loan applications, totalling ₡153,936,000 ($30,787,200) had been received and further promotion of the credit line was curtailed. As of June 30, 1987 a total $17,972,302 had been disbursed by financial intermediaries to 6,184 borrowers, and MIPLAN had solicited the reprogramming of $2,400,000 from other recovery components to cover 1,998 pending credit applications. No credit was provided under the Recovery Project for the low cost, collective ownership and/or rental housing known as mesones.

Estimates of current repair/construction needs for single family dwelling units, owner occupied apartments, and apartments rented on long term leases and/or lease/purchase arrangements in multifamily dwelling units are incomplete. However, the information available indicates that substantial potential demand for repair/reconstruction credit continues to exist.

Preliminary results of VMVDU's March 1987 survey of heavily damaged zones in the center of the city indicates that 2,277 single family and 1790 apartment units were completely destroyed while 1,911 single family and 350 apartments were damaged. IVU's survey of damages to its projects indicate 85 houses and 128 apartments were destroyed while 300 houses and 7,500 apartments were damaged. The FNV estimates that 1,680 apartments financed by the savings and loan system suffered

damages. Also approximately 1,500 applications will remain un-funded from the recovery project. Together, these 15,900 earthquake stricken homes constitute only a part of the demand for credit under subcomponent (c.i.). It should be noted that the above survey data does not include many potential clients located in the Municipalities of Mejicanos, Ciudad Delgado, Cuscatancingo and San Marcos who will also be eligible.

The mesones were the hardest hit of all informal sector of housing damaged in the earthquake. Five thousand mesones containing approximately 54,000 units housing low-income families were estimated to exist before the earthquake. Sample surveys of about 2,000 mesones containing 21,671 units conducted after the disaster indicate that about 37% of the units surveyed (7,964) were completely destroyed while another 32.0% of meson units (7,018) were severely damaged. Total meson damages are much higher than these estimates. However, complete survey of all existing mesones has not been carried out.

A Survey of 238 mesones conducted in March 1987 by the Contracting Corporation of America (CMA) under contract to AID indicated that a little over half of the families who resided in those mesones left the site following the earthquake. The families which have stayed on the property, representing about half of the original tenants, have benefited from the materials distributions programs under the Recovery Project in rebuilding their shelters, or in constructing temporary shelters on the samte sites. Over half of the families which remain in the mesones surveyed are paying either no rent (40%) or less rent than they paid before the earthquake. Another 40% are paying something close to their original rents, while 6% report a rent increase.

The current situation is potentially quite explosive. Many former meson residents have squatted on vacant private lands or have taken up residence in public parks or other open spaces in temporary communities organized formally and informally since the disaster. These families have also built temporary shelters, most frequently using lamina and wood distributed by the Mayor's office under the AID financed materials distribution program. The GOES, conscious of the continuing precarious situation facing these low income households, as well as its potential negative impact on social and political stability, has made t he reconstruction and rehabilitation of mesones one of its highest priorities. AID, under this housing credit component, will provide substantial support to assist the GOES in achieving its objective.

Utilizing study results which identified the capacity to repay of target beneficiary groups, the Mission began negotiations with the GOES in an effort to establish fair and equitable payments for the provision of credit. In the housing area, the GOES began with President Duarte's objective: all low income beneficiaries should not have to pay more than 50 colones ($10) monthly for suitable shelter. An alternate proposal considered by the GOES was to continue with the interest rates established under the $50 million Recovery Program, i.e. 5%, 20,000 colones, up to 20 years to repay.

Another series of considerations revolved around homeowners that had existing mortgages requiring payment and the impact new funding for repairs and reconstruction of damage caused by the earthquake would have on their capacity to repay a second mortgage. Additionally, how could the "mesones" be reconstructed and allow the target group to continue to use this shelter alternative while providing the landlord (ususally a resident) a minimal monthly income after loan costs. Lastly, what impact would the IBRD have on the negotiated USAID terms and conditions.

The result of the extensive sessions on how to keep rates affordable yet recover construction costs led to the rate structures utilized in the Project Paper. The Mission was able to:

(a) place housing credit at rates well in excess of the Social Housing Fund's averge rate of 4-6 percent.
(b) initiate adjustable mortgage rates for the first time.
(c) obtain the commitment of the savings and loan associations to serve new markets-the very poor.
(d) obtain the agreement of the Central Reserve Bank to delegate out to FNV all housing credit funds and not charge administration or intermediary fees.

The IBRD has not yet been able to reach agreement with the GOES on its housing credits. The GOES' position on up-front subsidies has been one of non-acceptance because of its probable impact in setting a precedent for a subsidy on top of low interest rates. The IBRD desire for the very poor to incur monthly payments which would increase with the CPI or minimum wages is also viewed negatively. The GOES may accept the latter position, but may not find it enforable. Viewed in its totality, there is substantial inequity for earthquake victims to be the cutting edge of interest rate reforms.

Even under the best of conditions, the Project's monthly repayment costs for the "mesones" will probably average $30/month, substantially above the pre-earthquate sum of $10-$18/month. If, in the case of reconstructed mesones for sale, the GOES and IBRD reach agreement on a formula for that target group which USAID finds acceptable, the $5 million programmed for that credit subcomponent of the Project will utilize those agreed-upon rates. If we believe these terms and conditions are illogical or unrealistic, that particular $5 million will be reprogrammed among the other housing credit subcomponents.

2. Target Area and Target Group

Assistance provided under this component will be focussed on meeting the reconstruction needs for shelter of low-income groups in the SSMA. The areas targeted under this program include the most severely damaged central city zones and the adjacent municipalities of Mejicanos, Ciudad Delgado, Cuscatancingo, and San Marcos. The majority of those who lost their homes in these areas are poor, with family of less than ¢1,020 ($204) per month, which places them below the 50th percentile for the SSMA. The designated target areas are:

a. Municipality of San Salvador
   Postal zone 1, entire area
   Postal zone 2, area east of 49th. Ave. West.
   Postal zone 3, entire area
   Postal zone 4, entire area
   Postal zone 5, entire area
   Postal zone 6, entire area
   Postal zone 7, entire area
   Postal zone 8, entire area
   Postal zone 9, area North of Quebrada El Chilismuyo

b. Municipality of Ciudad Delgado

c. Municipality of Cuscatancingo

d. Municipality of Mejicanos

e. Municipality of San Marcos

3. Eligibility Criteria for all Subcomponents

a. Credit will be available only for individuals or groups who can demonstrate that they lost or suffered damage to their shelter as a consequence of the earthquake.

b. Credit will be available only for repair or reconstruction in designated center city zones and surrounding municipalities (see Section 2 above) most heavily damaged by the earthquake.

c. All new construction and all structural repairs of multistory buildings will require approval of plans by the Joint Design Review Board in the VMVDU.

4. Repair/Reconstruction of Housing

a. Target Beneficiaries

The target beneficiaries of this credit line for repair/reconstruction of housing are individuals or families who are owners or who have lease purchase agreements for single family housing units or apartments in condominiums.

b. Eligibility Criteria

The eligibility criteria for each major home type is as follows:

i. Single Family Housing

- Maximum Family Income: ¢3,500 per month
- Ownership: Clear Title or Valid Lease/Purchase Agreement

ii. Condominium Apartments

- Maximum Family Income: C3,500 per month
- Ownership: Clear Title or Valid Lease/Purchase Agreement

iii. Commitments: Agreement by condominium associations/groups accepting legal responsibility for loan repayments.

5. Lending Terms and Conditions

Repayment will be for periods up to 15 years, with a six months grace period, for repair work; and up to 20 years, with a 6 months grace period for reconstruction. The maximum amount of any loan will be ¢20,000 for repairs and ¢40,000 for reconstruction or structural repairs to condominium buildings. The first ¢20,000 or any portion thereof will carry an interest rate to the borrower of 10% annually. For the amount over ¢20,000 the interest rate will be 12% annually. 100% of costs will be allowed. Monthly payments will be based on equal level payments of principal and interest (standard mortgage).

6. Rationale

The interest rates and payment terms for this subcomponent are set to reach the home owner target group which is just above the income level of the meson families. This group constitutes a large portion of the affected families, many

of which are already carrying mortgages on their homes which they continue to pay. Taking this into account, the rates are marginally under the lowest rate now charged by the S&Ls for new housing.

a. Reconstruction/Rehabilitation of Mesones for Rental

i. Target Beneficiaries

The target beneficiaries are individuals or other entities that can demonstrate that they operated rental mesones in the designated areas prior to the earthquake.

ii. Eligibility Criteria

Ownership: Clear title to the property.

iii. Conditions

The borrower must agree, and produce approved building plans demonstrating that the maximum construction cost of all the unit intended for rental does not exceed ₡30,000 per unit. He must also covenant in the loan agreement to put the rental units on the market during the first year after construction is terminated at monthly rentals below ₡200. The actual rent levels allowed will be stipulated in the mortgage contract, and will be calculated based on actual debt service costs per square meter of rentable space plus 15% or some similar formula.

iv. Lending Terms

Up to 90% of the total construction cost will be loaned for periods up to 25 years, with a one year grace period. The annual interest rate will be 12%. This is the highest rate established under the housing credit component. Land will not be financed. There will also be an up front 3% closing fee and a 1% up front inspection fee, both of which may be paid by the borrower or deducted from the loan.

v. Rationale

A recent survey in May, 1987 also by the Contracting Corporation of America, of 180 meson owners showed that 75% indicated a preference for rebuilding for rental purposes if credit could be obtained on reasonable terms as opposed to entering into condominium type solutions with their former tenants.

While it is true that some of the owners of land on which mesones were located will be prepared to sell to prior renters if the price is right, many of them will undoubtedly prefer to continue renting, e.g. where the life style and income composition is such that it is attractive to an owner to himself inhabit the meson and to obtain income from the property.

At the same time, in dealing with this target group it was considered important to build into lending conditions some minimum assurances that reconstruction of mesones would not take place in a manner that would place rental levels at a price above the payment capacity of the income group that has traditionally satisfied its shelter requirements in this fashion. After considering many alternatives, especially from the viewpoint of what could be easily administered, it was agreed with the GOES that a combination of setting upper limits on construction costs and a commitment on rental prices during the one year grace period was as far as it was feasible to go in meeting our concern.

The limitation of financing only 90% of the cost (exclusive of the value of the land), was based on the intent that the owners have some equity position other than land in a rental project. This equity position, which is no more than the normal 10% down payment, helps to reduce the long term debt burden of the owners and provides a better basis for justifying profits from rents.

The 12% interest rate proposed is below the lowest rate now available from S&Ls for single family housing. However, it is believed that access to credit rather than a specific interest rate is likely to be the most critical factor for this particular target group. Nevertheless, the rents must be set so as to be able to meet target group incomes.

7. Construction of New, Low Cost, Condominium Type Apartments to replace Mesones

a. Other Donor Considerations

A key component in the IBRD loan now under negotiation, is a $19 million credit to be used exclusively for reconstruction of meson units for sale as condominium type property. The GOES and the IBRD have yet to reach agreement on the financial terms and conditions for lending. At issue are such questions as up-front vs. interest rates subsidies and maintenance of value provisions.

The AID positions has been made clear to both the IBRD and the GOES, as follows: (a) given the priority attached by

the GOES to this type of solution, we are prepared to program funds in a parallel financing fashion to those of the IBRD, as concerns financial lending terms; (b) we do not consider it workable or desirable to have two lines of credit with different financial lending terms competing for attention for the same type of solution for the same target group; (c) if and when the IBRD and the GOES reach agreement (expected not later than the end of August), we will examine the agreed upon formula, and if it is found acceptable by AID criteria, we will make our funds available under parallel financing arrangements; (d) conversly, if the GOES and IBRD decide to delete this component from the IBRD loan, we will be prepared to proceed and incorporate into the Grant Agreement a subcomponent along the lines described below; (e) Finally, if the solution agreed upon by the IBRD and the GOES is unacceptable to AID, we will delete this subcomponent from the Grant Agreement.

b. Target Beneficiaries

The target beneficiaries of this subcomponent are center city families who will arrange to build or to purchase condominium type apartments.

c. Eligibility Criteria
- Maximum Family Income ₡1,200 per month
- Ownership - Clear title to the apartment unit being financed.

d. Lending Terms to Final Borrowers
Repayment will be for terms of up to 25 years. The maximum unit price will not exceed ₡30,000 Interest rates will be:

Unit Prices	Interest Rate
Below ₡15,000	8%
Below ₡20,000	9%
Below ₡25,000	10%
Below ₡30,000	11%

Loans will cover 100% of the value of the apartments, including land costs.

All interest rates indicated for this subcomponent will be the average over the term of the loan. Payments will be graduated so as to achieve this interest rate. A closing fee commision of 3% for repaymemt risk will be charged or deducted from the loan at the time of closing.

e. Lending Terms to Construction Firms

Construction loans will be for up to 2 years and will carry a 1 year grace period. The maximum loan will be for up to 90% of the proposed project cost. The interest rate will be 14% per year on outstanding amounts disbursed. When the building is received from the construction firm, final payment will be made and obligation to pay interest terminated, even though the process of transfering title to the ultimate owners has not been completed.

A 1% commision will be charged by the S&Ls for supervision of the construction loans.

f. Operations

i) Promotion

This subcomponent is designed to respond to anticipated demand for credit to rebuild, as condominium type apartments, much of the land previously occupied by meson housing. This demand is represented by the various family groups who are now temporarily settled on these properties, by several PVO's interested in assisting these people and by several private home builders/contractors who see an opportunity for work within this reconstruction effort. While AID will be concerned with promotion as part of its monitoring activities and responsibilities, we do not plan to take a direct role in assisting in the development of specific projects. Promotion costs incurred by eligible groups can be financed as part of the units price.

The VMVDU will be establishing an outreach working group composed of up to 40 social workers whose task will be to assure that prospective eligible families become beneficiaries. This effort along with efforts and activities already underway by both PVO'a and private builders are judged to be sufficient to assure that this line of credit will be utilized as programmed and will in fact reach the intended target group families.

ii) Design and Construction

Construction arrangements for low-cost apartments will be the responsibility of each individual or group of project developers or sponsors. Private sector construction firms will be the principal project builders. Likewise, project A&E work will be the developers' responsibility along with all actions required to secure approval of plans and financing from the Saving and Loan Associations. They will also make all

arrangements for construction financing as required. No special assistance will be provided by the grant. Project development costs may or may not be included in the final unit cost or sale price depending on the wishes and practices of each individual development group.

iii) Mortgages and Titling

The Savings and Loan Associations will prepare all mortgage documentation as part of their overall lending and administrative duties. As part of the mortgaging, the S&Ls will also be responsible to assure that beneficiaries will have title to the units that they are building or purchasing with this credit component. The individual S&L's will also be responsible for assuring that adequate inspection of construction work is provided and for supervising all disbursement of construction funds.

ANNEX NO. 10

Business/Social Services Credit Component

1. Background and Effective Demand

Surveys undertaken shortly after the earthquake indicated a level of damages for these sectors as follows: $4 million for private health service facilities; $10 million for private schools; and over $200 million of industrial and commercial and service establishments. A considerable portion of the need for financing reconstruction in these sectors has been taken care of since then.

a. Private Health Services - Immediately after the disaster, the Cooperative Association for Savings, Credit and Loans of the College of Physicians (COMEDICA) instituted a line of credit for reconstruction or rehabilitation of houses and clinics of its members. In the 2 month period immediately following the disaster, COMEDICA approved credits to 108 members totalling ₡3.3 million ($558,000) with loans ranging from $440 to $20,000. Loans were for up to 5 years at 18% interest. In March, 1987, the line of credit was closed due to lack of funds. The Economic Development Fund (EDF) of the BCR also made some reconstruction credit available, mainly to private hospitals and clinics, at 8% interest. Only equipment replacement and no construction was financed for clinics. The BCR reports that the assets of the EDF are practically exhausted at this time. No financing has been provided from any source for dentists and dental clinics.

In an attempt to determine the effective demand for credit in this sector at this time, a further analysis was commissioned in July, 1987, which encompassed surveys and data provided by commercial banks and credit technicians at the BCR. This effort indicated that much of the requirements of hospitals and doctors' offices had been taken care of, but that these was an unfinanced demand for reconstruction financing for dental, X-ray, clinical, pathology and other types of laboratories and for dentists offices. Also, some demand in the individual and group diagnostic treatment clinics is still present. The amount of this unsatisfied demand is estimated conservatively to be $2.0 million.

b. Private Schools - Some credit has been made available from the EDF, but only for higher education entities and technological institutes. As concerns kindergardens, primary, secondary, and mid-level vocational training

establishments, except for credit from commercial banks and S&Ls at rates ranging from 18 to 21% for periods up to 5 years, there has been no credit available. However, about 40% of the private schools in these categories have been able to initiate reconstruction efforts with financing from their own resources, insurance payments, donations from abroad, and/or contributions from the families with children enrolled in the school.

Again, in an effort to measure effective demand a survey was undertaken in July, 1987 of 104 damaged schools in the Center City Areas of the SSMA (50% of the universe covered in the first survey immediately after the earthquake). Also, as in the case of the private medical facilities, commercial bank presidents and BCR credit technicians were consulted. The 104 schools surveyed have an enrollment of 57,231. The average fee paid by students in these institutions is ₡40.00 ($8) per month. Of the 104 institutions surveyed, 38 indicated a current need for financing of reconstruction and repairs and 48 a need for financing of equipment and furniture. Translated into money terms, but excluding one large Institute and schools which rented rather than owned their buildings, the financing need came to $3.8 million, as measured by the schools themselves. Assuming that the remaining 50% of the schools not surveyed would show similar needs, the total requirement, as estimated by the schools, would come to $7.6 million. However, it is believed that this figure is inflated, in that it probably includes desires for refinancing, unacceptable upgrading of equipment and desires to expand facilities. Also, the limits set by commercial banks for individual loans, when collateral requirements and ability to pay are taken into account, would also lower the figure in terms of real demand. Taking all these factors into account, it is estimated that $4.0 million made available on suitable terms can be placed easily and that this would take care of the bulk of the effective, eligible demand.

c. Commercial and Service Establishments

In meetings with BCR and other donors it has been ascertained that: (1) the IBRD, Italian and other donors will be making available ample resources to cover the needs of what are known as "micro businesses". i.e. those with a social or individual capital of under $20,000; (2) resources for credit to small and medium industry, i.e. capital of between $20,000 and $100,000, is ample to meet anticipated demand; and (3) the uncovered need relates to small and medium non-industrial enterprises (repair shops, pharmacies, other stores, photography laboratories, beauty shops, tailors, carpenter shops, etc).

Some of these types of enterprise were eligible for the $10 million line of credit made available under Project 519-0331. However, by January 15, 1987 the amount of credit applications received exceeded the $10 million availability. (As of June 30, 1987, AID had disbursed $10 million and the banks in their turn, had disbursed $8.4 million). Available data does not permit discriminating between industrial and non-industrial uses of this line of credit. Aside from the above line of credit, where the interest rate was set at 5% plus a 1%, up front, one time closing fee and the maximum loan was for $15,000 with a maximum repayment term of 12 years, the only other credits available to this economic sector were loans at commercial rates of 21% for periods of up to 5 years.

It is quite difficult to measure effective demand in this area, including the problems of how to ensure that the credit beneficiaries are limited to earthquake victims and that the use of credit is limited to replacement of earthquake damages. The method used in the July, 1987, survey and analysis, was to solicit opinions of bank officials, suppliers of different materials to this sector, and others who had had some experience with the Project 519-0331 line of credit. The conclusion was that credit applications might well exceed $15 million, but that when they were winnowed out in terms of eligibility criteria, guarantee requirements, etc. the sum of $8 million would be sufficient to meet effective, eligible demand.

Negotitations on business credit, similar to the housing credit session, took place repeatedly with the President of the Central Reserve Bank. There was not any opposition against increasing the terms of lending above typical terms offered by the Central Bank through its Economic Development Fund. Nor was there opposition to using interest rates higher than IBRD rates for its Earthquake Assistance Program.

The thrust of the negotiation sessions was to open up credit for earthquake reconstruction activities which, up until this project, did not have access to BCR Credit, mainly commercial and service organizations. The inclusion of clinics, laboratories and private schools also met with favorable reception with the Central Bank.

The interest rates used, and the maximum credit amounts reflect both the recommendations of the Central Bank President and the financial consultant utilized during project design. If commercial credit were available, the normal rate is 21 percent. The Central Bank believed that the 14, 15 and 17 percent rates reflected near-market terms and allowed for a

social discount to the beneficiary target groups. In the light of normal Salvadoran credit conditions, where all interest rates are negative when compared to recent inflation rates, these terms appear adequate and offer the opportunity to allow those put out of business by the disaster to recommence their operations.

2. Eligibility Criteria

a. Only applicants whose business or professional activity was located in the postal zones and other areas specified under the Housing Credit Component (See Annex No. 9) and who certify that the activity to be financed will take place in the same general area will be eligible.

b. Evidence must be presented that the applicant suffered damage from earthquake and that the use of the credit being requested is directly related to that damage.

c. For any reconstruction to be financed, a clear title to the property must be assured and building plans must be approved the the VMVDU.

d. For non-industrial enterprises, as defined above, the asset test for small and medium enterprise will be applied. There will be no asset test for schools and medical facilities.

e. Only non-industrial enterprises will be eligible for working capital or inventory credit.

f. No refinancing of existing credit will be allowed.

g. No land adquisition costs will be financed.

3. Interest Rates and Terms

These will be the same for all 3 target groups as follows:

a. For construction, 14% for up to 15 years, with a grace period of up to 2 years.

b. For equipment and furniture, 15% for up to 6 years, with a grace period of up to 1 year.

c. For working capital and inventory, 17% for up to 18 months,with a grace period of up to 6 months.

This interest rate structure is designed to be marginally under commercial rates, with the lowest rate set at 1 percentage point below the rate paid on 6 month time deposits.

4. Maximum Loan Conditions

Credit will be provided for the full cost of the project. However, the maximum amount of the loan to any one person or institution shall be as follows:

a. For schools, up to ¢800,000 when construction and equipment and furniture are covered; for construction only, up to ¢650,000; and for equipment/furniture only up to ¢400,000.

c. For health facilities, up to ¢800,000 million when construction and equipment are covered; for construction only, up to ¢500,000; and for equipment only, up to ¢400,000.

c. For Non-Industrial Enterprises, up to ¢100,000 overall, provided however that construction financing will not exceed ¢60,000; tools and equipment will not exceed ¢40,000; and working capital will not exceed ¢40,000.

5. Margins and Commissions

a. The BCR will be entitled to 2 percentage points of the interest for its administrative costs.

b. The financial intermediaries will be allowed a 4% basic margin. In addition, they will be eligible for an additional percentage point as a bonus for improving their management of this credit line. Criteria for access to this bonus will have to be established, and incorporated into the MOU. Finally, the financial intermediaries will be allowed to charge a 1% one time, up front fee for inspection costs.

c. The remaining interest payments, after the above margins are deducted from the interest paid by the borrower, will together with amortization of principal payments be deposited by the BCR in the a Special Account and be available for such use as is mutually agreed by MIPLAN and AID.

6. Reporting Requirements

The BCR will report directly to the AID, with copies to MIPLAN, monthly on the use of funds (applications and disbursements), recuperations, supervision, and other matters of interest. The reports will cover these matters for each financial intermediary and also show consolidated figures and balances available in the special account.

ANNEX NO. 11

Construction/Upgrading of Public Schools

The earthquake devastated the metropolitan school system. The damage estimates vary, but the numbers surely underestimate the impact on local citizenry. The CEPAL damage estimate for public schools amounts to over $42 million. 224 schools were damaged, affecting 266 separate structures. In terms of classrooms, 1022 were destroyed and 2125 require repairs. More detailed description may be found in the bulk annexes.

The international response to the problem has been admirable. The IBRD is negotiating a program to demolish 295 classrooms and reconstruct, furnish and equip 340 classrooms in 29 schools in the metropolitan area as well as the construction of 54 new classrooms in two new schools in Apopa. The Swiss government is comitted to the reconstruction of a 64 classroom school in the southern area of the city and other donors, such as Mexico, have also indicated intentions to assist, but the nature of their aid is not yet firm.

1. Activity under the Recovery Project

The AID Recovery Program has provided significant assistance to the MOE. 506 temporary classrooms have been constructed on 47 distinct sites. In August, 1987, another 212 temporary classrooms will be under construction on 44 sites, raising the number of temporary classroom solutions to 718.

Under another component of the Recovery Project, 45 schools and facilities are being repaired. A&E contracts for performing preliminary design work on 6 large institutions are out for bid. 193 classrooms are involved.

2. Major Institution Reconstruction

The Recovery Project, at the request of the MOE, contracted with A&E firms to determine the cost of repairing the 6 institutions identified below, plus preparing the basic design criteria for reconstructing/repairing these structures. The results of this effort are expected in October,1987. The institutes and expected cost of repair, as best as can be determined at this time, are as follows:

INSTITUTE	UNITS(EST)	COST(EST)
Fco. Morazan	12	¢850,000
Fco. Menendez	10	400,000
Fco. Menendez II	34	750,000
H. R. Alverque	24	400,000
Technico Ind.	35	600,000
Casa Nac. Ninos	--	700,000
Total Colones		¢3,700,000
Equivalent Dollars		$740,000

3. Primary School Reconstruction

In late July 1987 the MOE presented the Mission with a list of 82 sites holding 582 temporary classrooms which they proposed converting to permanent classrooms, and an additional 22 sites for the construction of 126 new classrooms in areas tributary to high growth areas in order to maximize the use of existing land in the downtown sections. The Mission reviewed this request utilizing the policies and criteria indicated in the body of the PP. As a result of that review, it was determined that only 64 sites and 476 temporary classrooms of those proposed by the MOE might be candidates for work under this Project. Because of the concerns expressed earlier on land suitability and ownership, the Mission will review each proposed site between now and the signing the Project Agreement, as to the acceptability of the sites for upgrading activity. The results will be reviewed with the GOES and a definitive list of the sites and number of classrooms for upgrading will then be included in the Grant Agreement, or made the subject of a C.P.

As the Mission is concentrating on the primary school system, the primary schools which are not associated with on-site temporary structures, with the repairs underway from the Recovery Project, or with high-density two or three story construction will also be quickly reviewed for reconstruction action.

Based on a preliminary summary of damaged schools, and an identification by the MOE of one-story schools on owned land, a preliminary cost estimate for this subcomponent has been developed and is shown below in Table No. 1.

Table No. 1

Primary School Upgrading and Reconstruction

476 classrooms on 64 sites upgraded at $5500 each, including built-in shelving and chalk board purchases.	$2,618,000
82 classrooms on 15 new sites built at $11,000 each	902,000
150 unsafe classrooms demolished at $1,100 ea	165,000
79 infrastructure upgrades for above and below grade costs at $16,000 ea	1,264,000
75,000 cu. mt. of rubble cleared at $10/cu mt	750,000
150 classrooms rebuilt on existing sites at $11,000 each	1,650,000
1400 sanitary facilities at $850 ea	1,190,000
708 furniture sets-desks, chairs, etc.	708,000
contract and bid costs for lotteries	9,000
A & E services for Institutes and Primary Schools	1,100,000
TOTAL	$10,350,000

The Reconstruction Project will fund the costs of supervisory A&E services, final designs, and construction. It is expected that procurement procedures similar to those used by the CCA will be used to obtain the required services for the institutes, and that there would be the continued operation of a turn key type lottery system for primary school procurements similar to that being successfully used now under AID Project No. 519-0295, Rural School Construction. Preferably one contract for both tasks will be awarded. The manner in which the lottery system will operate is as follows:

a. A & E Contractor - Using as a basis, a standard classroom designed for rural schools and accepted by the Ministry, with over 600 units constructed, under construction, or in the bid process, a suitable design for SSMA schools will be prepared. Each classroom will encompass a standard equipment package which has also been accepted by the Ministry. This package, modified for compliance with the more rigorous seismic standards of the new building code, will be used for this component.

The contractor will investigate each selected site and prepare the drawings required to convert temporary structures into permanent ones, establish adequate infrastructure and services on the sites, and establish the cost for these activities. These costs will be reviewed by the MOE and the Reconstruction Unit engineers at MIPLAN and, possibly by the Corte de Cuentas unit at the MOE. Upon being approved, the contractor will place packages of these projects out to contract using the lottery system.

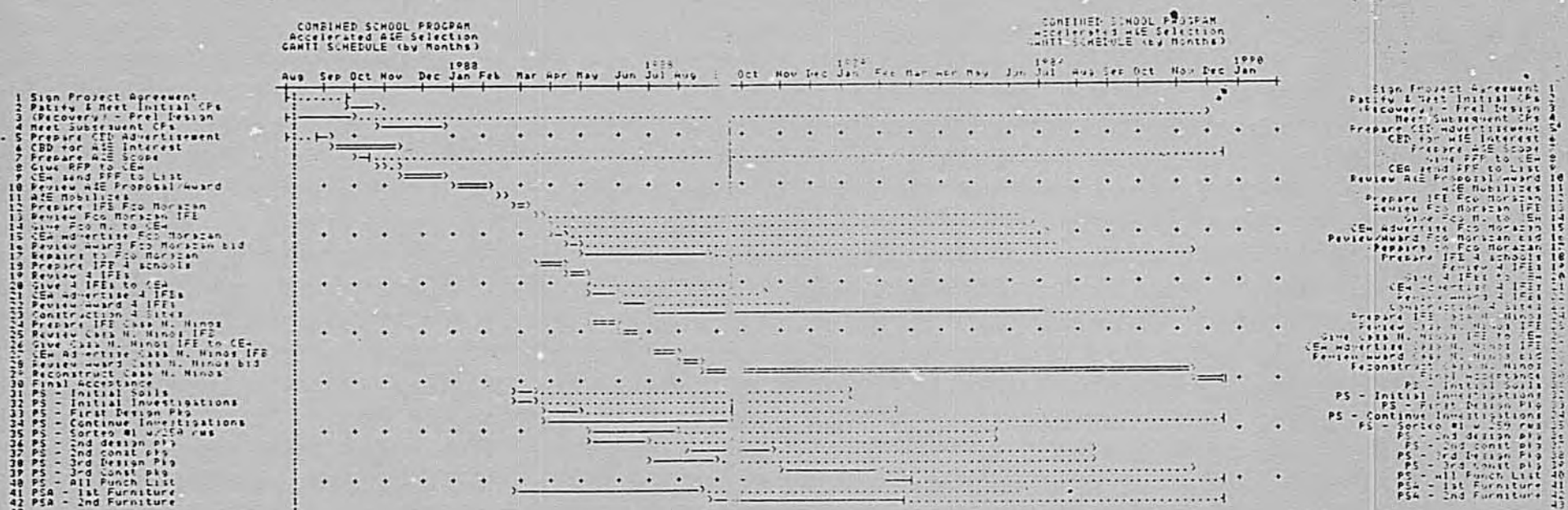
The lottery system has been developed with the MOE and Corte de Cuentas to avoid contracting and implementing delays. A pool of prequalified contractors, grouped by asset size, are invited to review the documents. If they are interested, they are invited to attend the lottery. The contracts are drawn up, approved by the Corte, and the contractors are selected at random in open forum. As these are precosted, all that need be done is insert a contractors name on the contract, and it is signed by the contractor, MOE and Corte representative.

b. Ministry of Education. The Ministry acts as the client and acceptor of turnkey classrooms built by construction firms. The Ministry is the legal entity for the signing of construction contracts put out to bid on its behalf by the contractor. Based upon the certification of acceptability of a finished unit, the Ministry pays the construction contractor.

c. PSA services. The 8a firm of RONCO serves as procurement agent under the 519-0295 project, responsible for securing the desks, blackboards, and other minor equipment utilized in the classrooms. Under this project, an 8a firm will be obtained to provide similar PSA services. The PSA will competitively secure the necessary desks, chairs, blackboards, and other minor equipment necessary to turn over a finished classroom to the Ministry.

d. Prequalified contractors. The Ministry, under the Rural School Project, has prequalified construction contractors by the size of project they have the resources to handle. These firms, already prequalified and familiar with the bidding packages, provide a basis for simple, rapid implementation of the reconstruction Project. The selected contractor signs a standard package for a 90 day construction period, with penalties for late delivery and incentives for early completion. The selected contractor's package is then added to its total workload for recognition against the monitary ceiling set according to the size of the firm.

e. MIPLAN Reconstruction Unit. ERD will be assisting in the development of specifications and in the operation of the lottery system, as well as in providing oversight to this project component through the technical staff at its office. A MIPLAN representative would attend all bid sessions and the lotteries. Under the proposed project, MIPLAN/SETEFE would avance funds to the Ministry of Education in accordance with its planned program and anticipated disbursement schedule. The advances will be liquidated and replenished upon receipt of documentation and certification by the Ministry that the work has been completed. If required, the Corte de Cuentas will review and audit the expenditures approved by the Ministry. Because these procedures are already in place under the Rural School Project, an efficient, agile response to this need is anticipated.



ANNEX NO. 12

MUNICIPAL MARKET REPAIR

1. Background: One of the results of the earthquake was the destruction of many of the municipal markets which served as the shopping areas of the very poor for their foodstuffs and supplies. In addition, the markets served as artisan sales points, offering straw goods and other items.

Under the recovery program, USAID assisted in the early, temporary restoration of several markets in SSMA and in the outlying municipalities to alleviate the hardships being experienced by the public in distribution of food stuff. The recovery efforts were excecuted under two separate modes of operation. In the outlying areas, where the technical resources were absent, the GOES used CEL as the agent for the respective municipality in carrying out the initial phase of repairs. Under this arrangement, USAID assisted with temporary repairs to Mercado Ayutuxtepeque and Mercado Municipal San Marcos, providing ¢100,000 and 150,000, respectively ($20,000 and $30,000).

The restoration of public services in the SSMA presented a greater problem due to the more severe damage sustained in the city center. Also, the program was implemented by the Alcaldia through CRFM, CRESP, and, finally, CEA procedures. On April 24, 1967, MIPLAN submitted an Action Plan to USAID for "Provisional Works and Repairs of the San Salvador Markets." This Plan recognized that the markets at San Miguelito, Tinetti and No. 5 were all declared uninhabitable while the markets at Modelo, San Jacinto and Tiendona Mayorista were damaged but considered usable while being repaired. The Central Market was not included in the Action Plan. The Action Plan further distinguished between temporary and permanent repairs and budgeted $940,000 (¢4.7 million) for these works. As of the June 30, 1987, $577,922 of contract work was ready for bidding; $362,078 of the Action Plan total was still to be committed, and will likely be reprogrammed for other uses.

By the end of July, contracts for demolition, design and reconstruction were approved by CEA for all of the six markets and work started with the latest completion date being October 20, 1987, the terminal date the USAID has set to receive payment documents under the Recovery Program.

For San Miguelito, bids for demolition were received by CEA in mid-July. CEL is expected to sign a contract for this work and it is anticipated that the bulk of the San Miguelito

demolition will be completed by the start-up of this Reconstruction project. As further assistance, the GOES plans to award a design contract for San Miguelito in August. While about two months of time can be saved with early design work being accomplished under the Recovery Program, there is some concern that the plans and construction bidding documents may not fully meet the source, origin and completeness conditions that will be required under the new funding. Also, the design engineer will be needed to supervise the work. Therefore, a contract modification or new contract will be required to continue the A&E support. No pre Reconstruction Project activities are planned for the Central Market area.

In addition, the Government of Italy will consider the reconstruction of one of the SSMA markets, San Jacinto, under its program and the Municipality is attempting to secure funds for the reconstruction and upgrading of several other damaged markets located throughout the city.

The GOES top priority, following the recovery phase, is the total reconstruction of the San Miguelito and the Central market structures which not only are the largest of the markets, but the most busy as well. Review of these two markets by USAID concludes that full-scale demolition and reconstruction is not required, but the continued abandonment of the structures poses severe danger to the vendors gathered around the structures and the sale of meats and other perishable foodstuffs is being carried out under intolerable conditions. This project contemplates the major repair of the damages to these structures and the replacement of the damaged cold storage facilities at San Miguelito. The recommended reconstruction solutions are based upon first-hand reconnaissance by USAID staff and a consultant working with the Mayor's Office and VMVDU.

2. Justification: The Mercado Central and Mercado San Miguelito are main market places serving primarily low income group people. The Central Market is made up of an eight building complex, all of which are being used for commerce except for the Administrative Building (Building 8.). In addition, the area surrounding the formal market supports many unauthorized stalls occupying the sidewalks and pedestrian areas. In the case of San Miguelito, all sellers are using make-shift temporary stalls in the street outside of the condemned building. It is self evident that these two markets play an extremely crucial role in the food distribution to the mass of Salvadorans in the city center.

The replacement or reconstruction of these two market complexes can be justified two-fold. First, they form an

integral part of the GOES's ability to provide for basic human needs. Second, the condemned structures present an unusually high safety hazard. Thousands of people are milling around the area and it is virtually impossible for the authorities to contain the people outside of the damaged area.

3. Description of Damage and Proposed Repairs

a. Mercado Central. The Central Market consists of eight (8) separate structures. Building 8 (Administration Offices, child care center and sanitary facilities) is in the center of the complex and was the only structure totally destroyed. Building 8 was a two floor structure, constructed of reinforced concrete floor and roof slabs supported on concrete columns. The heavy weight of the floor and roof, coupled with the vertical accelerations during the earthquake, caused a total compressive crushing of most of the columns. At the present time, Building 8 is closed off but still presents a serious safety hazard to the public. This is the only building requiring demolition and total reconstruction.

The non-structural filler walls in Buildings 3 and 4, which help form perimeter stalls, suffered minor damage from horizontal movement of the adjacent Building 8 and need to be repaired. Buildings 1 through 7 are all large open steel framed structures supporting light weight truss roofs. Generally speaking, the only damage to these buildings is breaks in welded joints and cracked roof panels, except for the wall damage in Buildings 3 and 4 mentioned above. All of these buildings should be inspected by the A&E firm doing the Building 8 design, and where justified, it should design and supervise repairs. These repairs are anticipated to be: rewelding of the damaged members, the use of gusset plates at joints and replacement of some roofing panels.

b. Mercado San Miquelito. This market sustained extensive roof damage and is totally closed to the public. It is of a totally different design than the Central Market.

The following damage description is derived from a visual technical inspection of the structural situation. Most of the damage occurred in the roof structure of the main building which is composed of 38 inverted 50 feet square thin shell pyramid (parabolic) units, particularly in the construction joint with each column. All of the thirty-eight units covering the main stall area and the six covering other parts of the complex must be demolished. The columns can probably be salvaged since no damage can be visually detected, and could serve as support for a new light weight roofing structure. Each roof unit is about 50 feet square and 3 or 4

inches thick except at the rib areas. Only one of these roof units toppled over during the earthquake; however, every column was badly crushed at the joint with the roof unit.

At this time it is anticipated that the San Miguelito roof demolition will be financed under the Recovery Program. However, the following walls, not covered by this contract, will also need to be demolished:

i. The sections west and south of the wall which separates the nursery and the dish washing areas of the kitchens, located in front of the inside garden of the nursery.

ii. Damaged lateral walls of the cold storage units.

iii. The walls of the freezer room located in the washing and utility area.

iv. A portion of the northern perimeter wall.

v. Several other minor damaged areas may require some demolition prior to start of repairs.

Reconstruction will take the form of roof demolition, repair of the upper column section, installation of base plates on the top of each column and installation of a light weight steel truss and a fiber-cement (fibreolite) panel roof system.

Great care will have to be exercised in the demolition phase, whether it is part of the Recovery Program, or carried out under this Project, to safeguard the columns from any further damage. The form of demolition will be the responsibility of the contractor, but one method would be to support each roof unit with an 80 to 100 ton crane while it is being severed from the column, then lifted to street level where it can be broken into transportable size pieces. More probable, considering the fact that most Salvadoran contractors lack adequate demolition equipment, is that intensive labor methods will be used by supporting the units on scaffolding and breaking the units by hand. Care must be observed to keep the roof unit in balance during demolition. As mentioned, it is hoped that demolition will be accomplished before the start of this Project, but is noted here because it is an integral part of the Subproject and will have to be picked up if not done.

In addition to the roof reconstruction, some of the market floor sections are in poor condition and will need to be replaced. Also, all of the small walk-in cold storage units, forming part of the individual sellers stalls, need to have the

doors and frames worked on, as well as some mechanical repairs, such as motor or compressor replacements. Further, all 42 of the municipal owned refrigerated display units need to be replaced and will be provided under AID direct procurement methods.

Adjacent to the main sellers area are the sanitary facilities and the children's day care center. Minor repairs are needed in the sanitary facilities and the day care center floor and roof needs total replacement.

A visual inspection of the utilities (water, electricity and sewer system) indicate that they are in acceptable condition and will only require isolated repairs, except for some of the electrical wiring in the outside exposed overhead areas.

4. Strategy and Technical Considerations

A review of the following alternatives for reconstruction was considered:

i) Design/Build
ii) Fast Track
iii) Conventional design then build

While time is of the essence in a disaster recovery program, the real emergency phase is past, allowing the establishment of a more normal implementation program for the reconstruction period which will maximize the effectiveness of all resources. The design/build approach is the fastest method of initiating construction. This approach utilizes one construction contractor who is assigned the responsibility of both design and construction. The lengthy A&E procurement process and subsequent negotiating phase is eliminated. The contractor uses either an in-house design staff or procurement of an A&E as a subcontractor. Construction under this approach could save as much as six months over the traditional approach. There are some risks associated with the design/build mode. The first line of control is the specification and contract package. Only construction packages that can be clearly defined would be included. However, it is the intent to utilize as much of the old structure of these two markets as possible and only rebuild major parts of the complexes; therefore, until the first phase of design (assessment) is completed it is difficult to identify the full construction needs and, consequently this particular situation does not lend itself well to a Design/Build procedure.

Fast tracking on the other hand is used exclusively in order to save time and normally is most appropriate in large projects with long design and construction phases or where economic and social pressure demand the development of a site as rapidly as possible. Basically, the approach is to initiate the construction process while the design process in continuing. Strong project management capabilities must exist for successful use of this approach. Given that fast tracking is somewhat risky regarding management and total costs, the present situation does not warrant use of a Fast Track approach.

The third, and recommended, approach is the traditional design and then build procedures, the AID standard approach. An A&E firm is contracted to conduct all assessments and design work, prepare construction bid documents, and supervise construction. The procurement of a local A&E firm under USAID/ES host country procedures can be accomplished in three months, in considerably less time than normal AID direct procurement. Traditional design is the recommended procedure to be used for these two markets and the schedule to carry out the complete works is given in Tables 5 and below.

5. Mode of Operations: To implement the projects, USAID and the ERD will assist in the preparation of a scope of work for A&E services to the Municipality (there is a possibility that the scope can be prepared prior to the start of this Project, thereby shortening total subproject time). The scope will then be transmitted to MIPLAN where the Purchasing Contracting Division of ERD will issue a Request for Proposals, review same and make recommendations to its decision making body (the equivalent of the CEA). Upon acceptance, the ERD Division will prepare the necessary service contract. The A&E will then prepare the plans and specifications for the necessary work to be performed by a construction firm. These plans and specifications will be reviewed by USAID, and the Alcaldia and put out for bid by ERD. The contractor selected will carry out the demolition or reconstruction under the supervision of the A&E. Progress payments will be authorized by the A&E and certified by the Municipality. Both USAID's Technical Office and ERU, together with the Technical Department of MIPLAN's new ERD, will monitor and spot-check progress. When the works are completed and final acceptance certified by the Municipality the finished product will be turned for to the Municipality for operation and maintenance.

The scopes of work for the A&E Contract(s) shall cover the following:

a. If not accomplished under the recovery phase, the development of a demolition plan for each market place and the preparation of bid documents to carry out the demolition. Demolition should be bid on a fixed price basis to eliminate the need for quantity measurements.

b. For the Central Market:

i. Design of a new structure to replace Building 8 following the "Reglamento de Emergencia de Diseño Sismico de la Republica de el Salvador." Preparetion of bid documents for construction. Assist in obatining building permits as required.

ii. Construction supervision of Building 8.

iii. Inspection of all columns and beams in Buildings 1 - 7, as well as their connections and roof panels, and preparation of a plan and bid document for repair.

iv. Assistance in obtaining demolition or building permits as required.

v. Supervising repair of building 1-7.

c. For the San Miguelito Market:

i. If not accomplished under the Recovery Program, design a new roof system for the San Miguelito market, including isolated repairs to the floor, and replacement of any utilities which were damaged.

ii. Development of plans for the repair of all walk-in refrigerated units.

iii. Preparation of plans for the renovation of the Children's day care center floor and any damaged non-structural filler wall sections.

iv. Preparation of plans for the repairs to the sanitary facilities.

v. Preparation of bid documents for reconstruction of the San Miguelito market including a painting schedule.

vi. Supervision of reconstruction of the San Miguelito market.

6. Cost Estimates and Schedules. The cost estimates and schedules are given below in Tables 1 through 4. In summary, they indicate that 16 months from the signing of the Grant Agreement will be required to finish the work, assuming that the Scope of Work for the A & E work can be developed and approved during the one month period allowed for ratification of the Agreement, compliance with C.P.s, etc. Otherwise, an additional month should be added. The total estimated cost is $1.4 million. If the San Miguelito demolition is financed under the Recovery Project, the overall cost will drop to $1.3 million.

TABLE No. 1

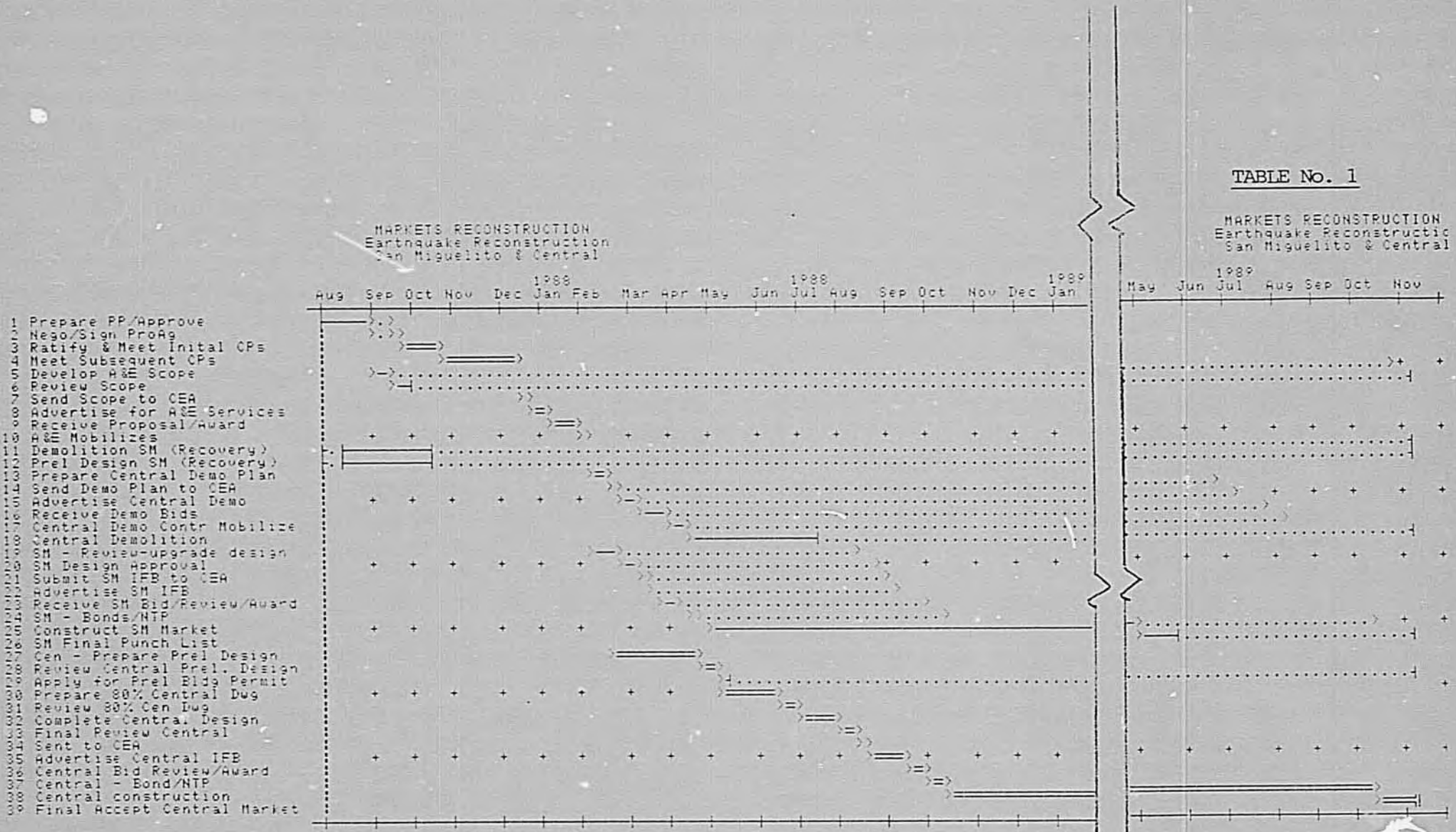

MARKETS RECONSTRUCTION
Earthquake Reconstruction
San Miguelito & Central
1988
1989
Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
May Jun Jul Aug Sep Oct Nov
1 Prepare PP/Approve
2 Nego/Sign ProAg
3 Ratify & Meet Inital CPs
4 Meet Subsequent CPs
5 Develop A&E Scope
6 Review Scope
7 Send Scope to CEA
8 Advertise for A&E Services
9 Receive Proposal/Award
10 A&E Mobilizes
11 Demolition SM (Recovery)
12 Prel Design SM (Recovery)
13 Prepare Central Demo Plan
14 Send Demo Plan to CEA
15 Advertise Central Demo
16 Receive Demo Bids
17 Central Demo Contr Mobilize
18 Central Demolition
19 SM - Review-upgrade design
20 SM Design Approval
21 Submit SM IFB to CEA
22 Advertise SM IFB
23 Receive SM Bid/Review/Award
24 SM - Bonds/NTP
25 Construct SM Market
26 SM Final Punch List
27 Cen - Prepare Prel Design
28 Review Central Prel. Design
29 Apply for Prel Bldg Permit
30 Prepare 80% Central Dwg
31 Review 80% Cen Dwg
32 Complete Centra. Design
33 Final Review Central
34 Sent to CEA
35 Advertise Central IFB
36 Central Bid Review/Award
37 Central - Bond/NTP
38 Central construction
39 Final Accept Central Market

TABLE No. 2

MARKETS RECONSTRUCTION
San Miguelito & Central
LIST OF ACTIVITIES

Project: MARK Date: Aug 9, 1987

	1 Prepare PP/Approve Sched Start: Aug 7, 1987	5.0 Weeks Sched Finish: Sep 10, 1987
	2 Nego/Sign ProAg Sched Start: Sep 22, 1987	1.0 Week Sched Finish: Sep 28, 1987
*	3 Ratify & Meet Inital CPs Sched Start: Sep 29, 1987	4.0 Weeks Sched Finish: Oct 26, 1987
*	4 Meet Subsequent CPs Sched Start: Oct 27, 1987	8.0 Weeks Sched Finish: Dec 21, 1987
	5 Develop A&E Scope Sched Start: Sep 11, 1987	2.0 Weeks Sched Finish: Sep 24, 1987
	6 Review Scope Sched Start: Sep 25, 1987	2.0 Weeks Sched Finish: Oct 8, 1987
*	7 Send Scope to CEA Sched Start: Dec 22, 1987	3.0 Days Sched Finish: Dec 28, 1987
*	8 Advertise for A&E Services Sched Start: Dec 29, 1987	2.0 Weeks Sched Finish: Jan 13, 1988
*	9 Receive Proposal/Award Sched Start: Jan 14, 1988	3.0 Weeks Sched Finish: Feb 3, 1988
*	10 A&E Mobilizes Sched Start: Feb 4, 1988	1.0 Week Sched Finish: Feb 10, 1988
	11 Demolition SM (Recovery) Sched Start: Aug 20, 1987	2.0 Months Sched Finish: Oct 20, 1987
	12 Prel Design SM (Recovery) Sched Start: Aug 20, 1987	2.0 Months Sched Finish: Oct 20, 1987
*	13 Prepare Central Demo Plan Sched Start: Feb 11, 1988	2.0 Weeks Sched Finish: Feb 24, 1988
	14 Send Demo Plan to CEA Sched Start: Feb 25, 1988	3.0 Days Sched Finish: Feb 29, 1988

Project: MARK Date: Aug 9, 1987

15	Advertise Central Demo Sched Start: Mar 1, 1988	2.0 Weeks Sched Finish: Mar 14, 1988
16	Receive Demo Bids Sched Start: Mar 15, 1988	3.0 Weeks Sched Finish: Apr 4, 1988
17	Central Demo Contr Mobilize Sched Start: Apr 5, 1988	2.0 Weeks Sched Finish: Apr 18, 1988
18	Central Demolition Sched Start: Apr 19, 1988	3.0 Months Sched Finish: Jul 20, 1988
19	SM - Review-upgrade design Sched Start: Feb 11, 1988	3.0 Weeks Sched Finish: Mar 2, 1988
20	SM Design Approval Sched Start: Mar 3, 1988	2.0 Weeks Sched Finish: Mar 16, 1988
21	Submit SM IFB to CEA Sched Start: Mar 17, 1988	3.0 Days Sched Finish: Mar 21, 1988
22	Advertise SM IFB Sched Start: Mar 22, 1988	4.0 Days Sched Finish: Mar 25, 1988
23	Receive SM Bid/Review/Award Sched Start: Mar 28, 1988	3.0 Weeks Sched Finish: Apr 15, 1988
24	SM - Bonds/NTP Sched Start: Apr 18, 1988	2.0 Weeks Sched Finish: Apr 29, 1988
25	Construct SM Market Sched Start: May 2, 1988	12.0 Months Sched Finish: May 2, 1989
26	SM Final Punch List Sched Start: May 3, 1989	1.0 Month Sched Finish: Jun 1, 1989
* 27	Cen - Prepare Prel Design Sched Start: Feb 25, 1988	2.0 Months Sched Finish: Apr 26, 1988
* 28	Review Central Prel. Design Sched Start: Apr 26, 1988	2.0 Weeks Sched Finish: May 10, 1988
29	Apply for Prel Bldg Permit Sched Start: May 10, 1988	1.0 Week Sched Finish: May 17, 1988
* 30	Prepare 80% Central Dwg Sched Start: May 10, 1988	6.0 Weeks Sched Finish: Jun 21, 1988

Project: MARK Date: Aug 9, 1987

* 31	Review 80% Cen Dwg Sched Start: Jun 21, 1988	2.0 Weeks Sched Finish: Jul 7, 1988
* 32	Complete Central Design Sched Start: Jul 7, 1988	4.0 Weeks Sched Finish: Aug 4, 1988
* 33	Final Review Central Sched Start: Aug 4, 1988	2.0 Weeks Sched Finish: Aug 18, 1988
* 34	Sent to CEA Sched Start: Aug 18, 1988	3.0 Days Sched Finish: Aug 23, 1988
* 35	Advertise Central IFB Sched Start: Aug 23, 1988	4.0 Weeks Sched Finish: Sep 20, 1988
* 36	Central Bid Review/Award Sched Start: Sep 20, 1988	2.0 Weeks Sched Finish: Oct 4, 1988
* 37	Central - Bond/NTP Sched Start: Oct 4, 1988	2.0 Weeks Sched Finish: Oct 18, 1988
* 38	Central construction Sched Start: Oct 18, 1988	12.0 Months Sched Finish: Oct 17, 1989
* 39	Final Accept Central Market Sched Start: Oct 17, 1989	1.0 Month Sched Finish: Nov 15, 1989

TABLE No. 3

MARKET RECONSTRUCTION PROGRAM
CENTRAL MARKET RECONSTRUCTION COST ESTIMATE

ITEMS	COST IN COLONES	FX COST $	TOTAL COST $ EQUIV
Reconstruction Bldg 8 -			
Top floor (22 x 50)=1100 sm @ 600	660,000		$132,000
6d floor 1100 sm @ 650	715,000		$143,000
Repairs to Filler Walls Bldgs 3 & 4	50,000		$10,000
Repairs to Steel structure - Bldgs 1 thru 7	75,000		$15,000
Subtotal Construction	1,500,000		$300,000
Demolition Bldg 8	500,000		$100,000
A&E Design & Supervision (15%)	300,000		$60,000
total	2,300,000		$460,000

TABLE No. 4

MARKET RECONSTRUCTION PROGRAM
SAN MIGUELITO MARKET RECONSTRUCTION COST ESTIMATE

ITEMS	COST IN COLONES	FX COST $	TOTAL COST $ EQUIV
Roofing - 12,800 s.s. @ 170 c/sq	2,176,000		$473,600
Walls Repair - 500 sq @ 100c	50,000		$10,000
Floor Repairs - lump sum	50,000		$10,000
Electrical system - general repair	75,000		$15,000
Freezing room repairs - 12 @ 15000	180,000		$36,000
Child care center - floor and walls	100,000		$20,000
New Refrigerators 42 @ $3,000/ea		122,000	122,000
General repairs and painting	100,000		$20,000
Subtotal	2,731,000	122,000	706,600
Demolition Cost	465,000		93,000
A/E Cost (15%)	492,150		$98,430
Total	4,065,465	122,000	$898,030

ANNEX NO. 13

HIGHWAY RECONSTRUCTION

This component involves extensive repairs to this four lane divided toll road having a total length of 38.6 kilometers (about 24 miles). The average daily traffic (ADT) is 3080 vehicles of which 17% are heavy trucks, 10% public transportation, 29% light trucks and 44% passenger cars. The elements of the component can be broken down into two major categories of work: (1) Repairs to the pavement (deformation), primarily occurring in fill sections due to settlement or major embankment slippage; (2) Design correction in high cut areas to reduce the chances of road closure during any future emergencies (either because of earthquakes or heavy storms). A field review of the road and its damages was made by the USAID engineer assisted by an outside consulting engineer. In addition, the Ministry of Public Works (MOP) has conducted their own review and commissioned a local firm to prepare an inventory of damages. The proposed repair activities are based upon these studies. The cost estimate (See Table 1 attached) is based upon figures provided by the Highway Department and verified with a number of separate sources in the private and public sector; however, it is essential that a more detailed cost estimate be prepared in the early phase of design. The first tasks of the selected A&E will be to prepare an updated work plan including a new cost estimate.

1. Pavement Repairs. Most of the pavement damage occurred between kilometer 5 (near the city exit) and kilometer 20 about half way to the airport. Severe settlements and longitudinal cracking are visible in about a dozen locations through this reach of highway. The predominant cause of failure appears to be total fill slippage in the zones where the embankments were constructed with a very steep angle of repose to make a catch point with the steep natural hillside they are resting upon. There also appear to be some failures resulting from inadequate compaction of the fill or inadequate sub-base construction. In any event, these isolated areas must be excavated and a new sub-base constructed of selected fill material.

2. Cut sections. Slides in cut sections form the other major problem to overcome. The most serious problems occur between the exit from San Salvador up to the toll station about 4 kilometers away. Cut sections in this reach were made on a near vertical slope and are 40 to 60 feet in height. The

situation is acerbated by the fact that squatter buildings occupy the rim of the cuts. Several alternatives have been discussed and reviewed to remedy this situation, such as flattening the slopes or benching, tie backs, surface treatments, and better drainage. Before a final decision is made on type of redesign, an internationally qualified soils and highway specialist must study the situation and provide guidance to the design firm.

Initial investigations suggest that maximum benefits will be gained through improved drainage design, more than through major excavation. Alternative solutions, such as flattening the slopes could cause social disruptions, require condemnation of extended right-of-way and result in large increases in construction costs. It is hoped that much of the problem can be solved by redirecting surface run off and irrigation waste before arriving at the cut sections. Eliminating the surface drainage and, consequentially reducing the subsurface drainage, should result in more stable cut sections and reduce the need for cut backs.

Some areas may require additional revetment works and drainage at the toe of the cut sections and a minimal amount of benching.

3. Mode of Operations. An A&E firm will be contracted using normal procurement procedures as discussed in Annex No. 19 of this document. The scope of work for the A&E firm will be developed by the USAID/IRD office in cooperation with the Department of Highways (DGC) and the ERD Engineer in MIPLAN. The DGC will be the Implementing Agency for this component. If a local A&E qualifies, it will be required to have the ability to associate with a U.S. firm capable of assisting with soils analysis and other special highway design or supervision requirements. The designs and specifications for the highway reconstruction works will be reviewed by the USAID and MIPLAN prior to the contracting of a qualified construction firm(s) to carry out the works. Inspections of the works will be made by the A&E and monitored by USAID and MIPLAN in order to certify payments.

ANNEX 13 - 3

Table (Map) 1

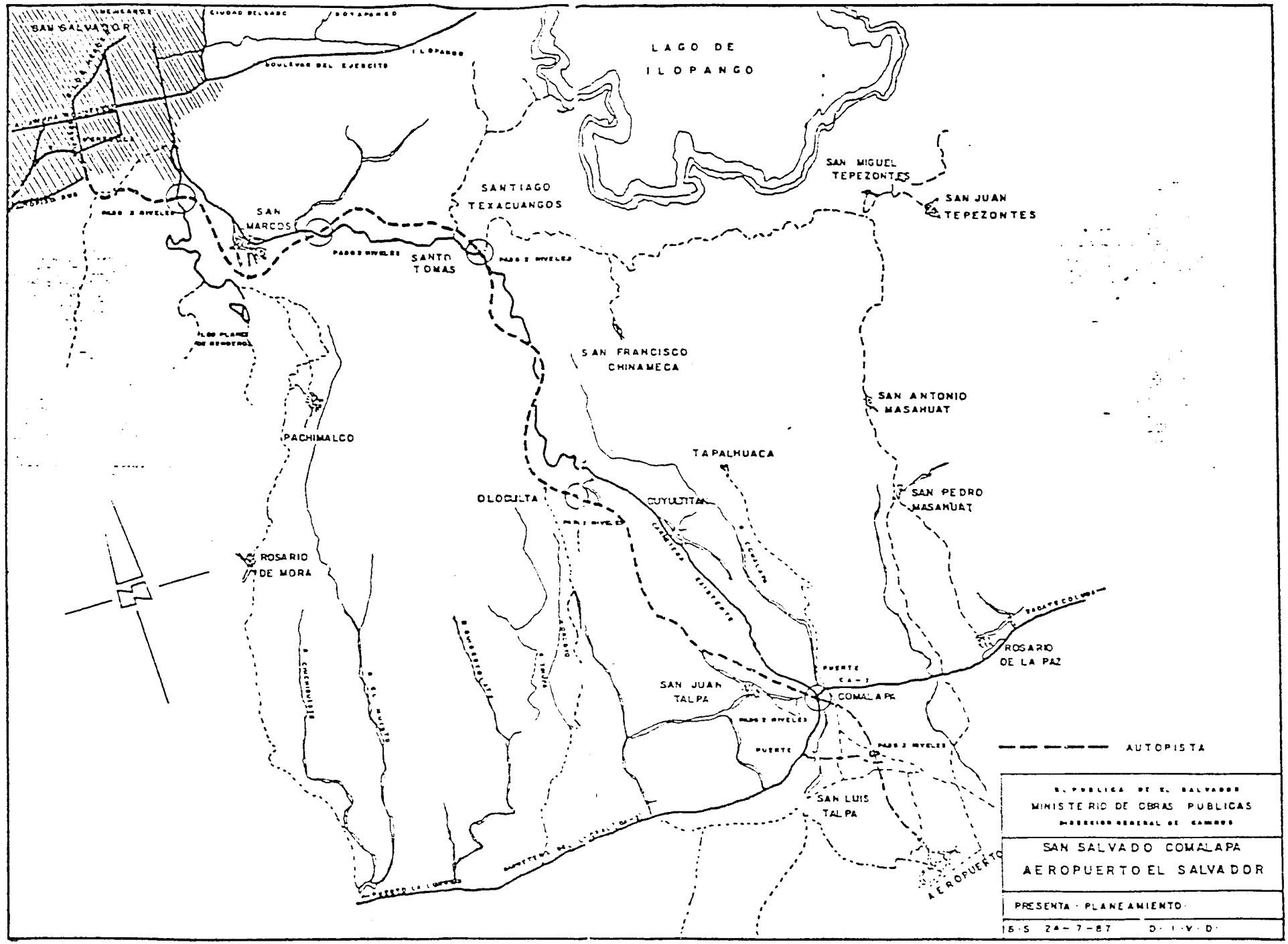
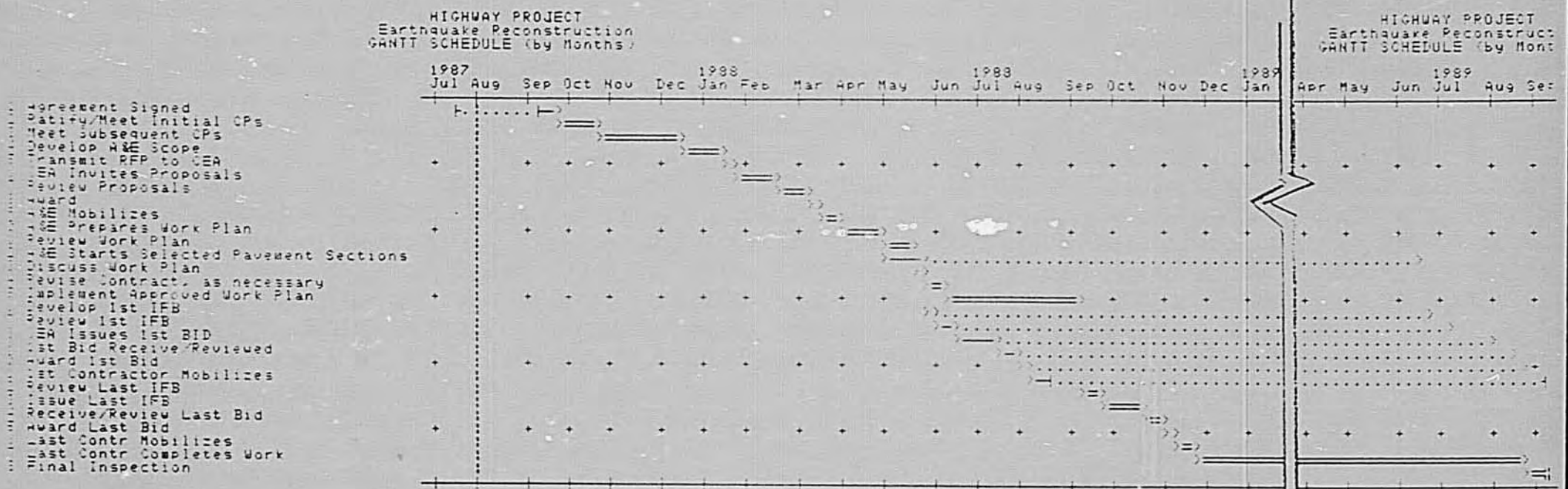


TABLE No. 2



HIGHWAY PROJECT
Earthquake Reconstruct
GANTT SCHEDULE (by Mont
1989
Apr May Jun Jul Aug Se

ANNEX 13 - 4

TABLE No. 3

HIGHWAY SUBPROJECT
Earthquake Reconstruction
List of Activities

Project: HWY_SCH Date: Aug 9, 1987

	1	Agreement Signed Sched Start: Sep 15, 1987	12.0 Days Sched Finish: Sep 30, 1987
*	2	Ratify/Meet Initial CPs Sched Start: Oct 1, 1987	1.0 Month Sched Finish: Oct 30, 1987
*	3	Meet Subsequent CPs Sched Start: Oct 30, 1987	8.0 Weeks Sched Finish: Dec 25, 1987
*	4	Develop A&E Scope Sched Start: Dec 25, 1987	4.0 Weeks Sched Finish: Jan 22, 1988
*	5	Transmit RFP to CEA Sched Start: Jan 22, 1988	1.0 Week Sched Finish: Jan 29, 1988
*	6	CEA Invites Proposals Sched Start: Jan 29, 1988	4.0 Weeks Sched Finish: Feb 26, 1988
*	7	Review Proposals Sched Start: Feb 26, 1988	3.0 Weeks Sched Finish: Mar 18, 1988
*	8	Award Sched Start: Mar 18, 1988	1.0 Week Sched Finish: Mar 25, 1988
*	9	A&E Mobilizes Sched Start: Mar 25, 1988	2.0 Weeks Sched Finish: Apr 8, 1988
*	10	A&E Prepares Work Plan Sched Start: Apr 8, 1988	4.0 Weeks Sched Finish: May 6, 1988
*	11	Review Work Plan Sched Start: May 6, 1988	3.0 Weeks Sched Finish: May 27, 1988
	12	A&E Starts Selected Pavement Sections Sched Start: May 6, 1988	4.0 Weeks Sched Finish: Jun 3, 1988
*	13	Discuss Work Plan Sched Start: May 27, 1988	1.0 Week Sched Finish: Jun 3, 1988
*	14	Revise Contract, as necessary Sched Start: Jun 3, 1988	2.0 Weeks Sched Finish: Jun 17, 1988

Project: HWY_SCH Date: Aug 9, 1987

*	15 Implement Approved Work Plan Sched Start: Jun 17, 1988	3.0 Months Sched Finish: Sep 16, 1988
	16 Develop 1st IFB Sched Start: Jun 3, 1988	1.0 Week Sched Finish: Jun 10, 1988
	17 Review 1st IFB Sched Start: Jun 10, 1988	2.0 Weeks Sched Finish: Jun 24, 1988
	18 CEA Issues 1st BID Sched Start: Jun 24, 1988	4.0 Weeks Sched Finish: Jul 22, 1988
	19 1st Bid Receive/Reviewed Sched Start: Jul 22, 1988	2.0 Weeks Sched Finish: Aug 5, 1988
	20 Award 1st Bid Sched Start: Aug 5, 1988	1.0 Week Sched Finish: Aug 12, 1988
	21 1st Contractor Mobilizes Sched Start: Aug 12, 1988	2.0 Weeks Sched Finish: Aug 26, 1988
*	22 Review Last IFB Sched Start: Sep 16, 1988	2.0 Weeks Sched Finish: Sep 30, 1988
*	23 Issue Last IFB Sched Start: Sep 30, 1988	4.0 Weeks Sched Finish: Oct 28, 1988
*	24 Receive/Review Last Bid Sched Start: Oct 28, 1988	2.0 Weeks Sched Finish: Nov 11, 1988
*	25 Award Last Bid Sched Start: Nov 11, 1988	1.0 Week Sched Finish: Nov 18, 1988
*	26 Last Contr Mobilizes Sched Start: Nov 18, 1988	2.0 Weeks Sched Finish: Dec 2, 1988
*	27 Last Contr Completes Work Sched Start: Dec 2, 1988	9.0 Months Sched Finish: Sep 1, 1989
*	28 Final Inspection Sched Start: Sep 1, 1989	2.0 Weeks Sched Finish: Sep 15, 1989

Table

Highway Reconstruction Cost Estimate
San Salvador - Comalapa (Airport) highway
(in Colones)

DESCRIPTION	UNIT	QUANTITY	UNIT COST	TOTAL COST
Clearing/rubble removal	lump sum			200,000
Unclassified excavation	m3	263,000	9	2,367,000
Borrow material	m3	75,000	16	1,200,000
Compacted fill	m3	185,000	10	1,850,000
Crushed Aggregate Stone	m3	1,100	190	209,000
Berm work	m	2,500	15	37,500
Slope finishing	m2	25,000	10	250,000
Cleaning shoulders	m3	30,000	30	900,000
Asphalt penetration	gal	150,000	8	1,200,000
Bit Pavement	ton	500	210	105,000
Sand for seal	m2	7,000	35	245,000
RC250 & MC-0 Liq.	gal	4,000	10	40,000
Masonry Rock Walls	m3	1,500	260	390,000
30" Culvert Pipe	m	100	280	28,000
Erosion control	lump sum			400,000
Structural Concrete	m3	300	380	114,000
Cleanup and Misc.	lump sum			100,000
Subtotal				9,635,500
A&E for Design & Supervision (14%)				1,348,970
Grand Total				10,984,470
Dollar Equivalent				$2,200,000

OTHER COSTS - GOES RESPONSIBILITY

Land Acquisition (Right of Way)	1,500,000

Note: These figures are very rough estimates and must be verified by the A&E prior to the start of any design work. The first order of work by the A&E will be the development of a work plan, giving design criteria to be used, descriptions of all subprojects, and an updated cost estimate and construction schedule.

ANNEX NO. 14

ANDA MOBILE REPAIR TEAM IMPROVEMENT

Most of the water supply for San Salvador comes from deep wells. In this respect, the system supply was affected by the lack of electricity to operate the pumps. In the 84 water plants in San Salvador, there are 177 pumping units installed. The system produces about 200,000 cubic meters of water per day (cm/d). In addition to this main system, "Zona Norte" has 11 pumping units, producing another 120,000 cm/d. The Zona Norte system was able to continue operations providing water to the tanks of San Ramon and El Carmen and from there by gravity to the tanks of Dolores, Miralvalle and the network of Mejicanos, Ayatuxtepeque and Miralvalle. These storage tanks provide about 40% of the daily demand when full and service can be provided for 9 hours. As it was, the tanks were only half full when the earthquake hit at 11:50 in the morning. Service from the tanks only lasted for four hours.

1. Emergency Assistance Received. Immediately following the October 1986 earthquake, ANDA received 11.8 million colones (equiv. $2.36 million) from the GOES and another 6.0 million colones (equiv. $1.2 million) from the AID recovery program for pipe, water connections, and pumping station repair. In addition, ANDA recently signed another loan with the IDB for $3.4 million of new equipment, materials and reimbursement for expenditures from their own stock.

2. Present Situation Regarding Equipment and Personnel. As of 31 December 1986, the status of equipment was as reflected in Table 1. Essentially, the vehicle fleet at the beginning of the year was estimated at 315 units with only 20% considered in good condition. Another 30% was considered usable, 45% under repair and the balance salvage. While ANDA has a bare minimum of work vehicles, they lack the type of light equipment and tools which helps accelerate emergency repairs. It was the lack of emergency repair facilities that delayed much of the repair work immediately after the earthquake. ANDA did an admirable job with the tools and supplies they possessed, but the lack of equipment such as sump pumps, tool carriers, backhoes, etc. restricted ANDA's ability to respond to the emergency. These deficiencies still affect the efficiency of repair work for the still greater than normal work load. This Project proposes the funding of emergency type equipment to improve this situation.

ANDA appears to have sufficient personnel, both at the semi/skilled as well as the skilled and supervisory level, to properly utilize additional equipment and tools. At present, Table 2 details their Production Division structure, which in times of emergency make up the repair crews. At present ANDA operates with 13 crews make up of 500 persons, 18 supervisors and 9 engineers. In addition to the regular staff, 40 to 60 persons are hired on a temporary basis depending upon the need.

Proposed Assistance. In developing this proposal for emergency type equipment and materials (See Table 3 attached), the Mission took into account other financing sources and reviewed the lists of material being financed by other donors to assure that there was not an overlap. The criteria used in determing what supplies and equipment should be provided under this Project were: (1) the material must be a direct replacement of materials used since October 1986, or be designated emergency repair equipment, i.e. equipment needed by mobile teams to respond efficiently to earthquake related damage and (2) equipment must not be a replacement for any of ANDA's normal equipment pool.

TABLE No. 1

ANDA
Status of Equipment

Class of Equipment	STATUS		Percent	TOTAL
	Good	Out-of-Service	Out-of-Service	
Motorcycles	19	17	47.22	36
Sedans	25	7	21.88	32
Small 4 WD Pickups	25	8	24.24	33
Flatbed Trucks	1	3	75.00	4
Microbus	6	0	0.00	6
Bus	2	0	0.00	2
Panel Truck	1	1	50.00	2
Jeep 4 WD	31	10	24.39	41
Pickup Truck	49	8	14.04	57
Pickup Truck - 4 WD	68	15	18.07	83
Truck - 3 Ton	23	13	36.11	36
Truck - 8 Ton	23	13	36.11	36
Truck w/Generator	6	1	14.29	7
Truck - Water Tank	15	8	34.78	23
Tractor Unit	2	1	33.33	3
Scarifier	4	1	20.00	5
Crane	3	1	25.00	4
Fork Lift	2	0	0.00	2
Compactors	3	0	0.00	3
Excavators	1	0	0.00	1
Excavator - Cargador	3	0	0.00	3
Drilling Rig	7	1	12.50	8
Backhoe	0	1	100.00	1
Other Equipment	0	37	100.00	37
TOTAL	319	146		465

TABLE No. 2

ANDA Workforce & Repair Crews

DEPARTAMENTO	N°CUADRI.	N° PERS.	SUPERV.	ING.	TOTAL
a) Electricidad	5	40	5	1	51
b) Bombeo	4	21	4	3	32
c) Obras Civiles	4	40	4	1	49
d) Técnico	-	2	-	1	3
e) Administrativo	-	383	4	1	388
f) Control Remoto	-	11	1	1	13
g) Ing. de Diseño	-	3	-	1	4
TOTAL	13	500	18	9	540

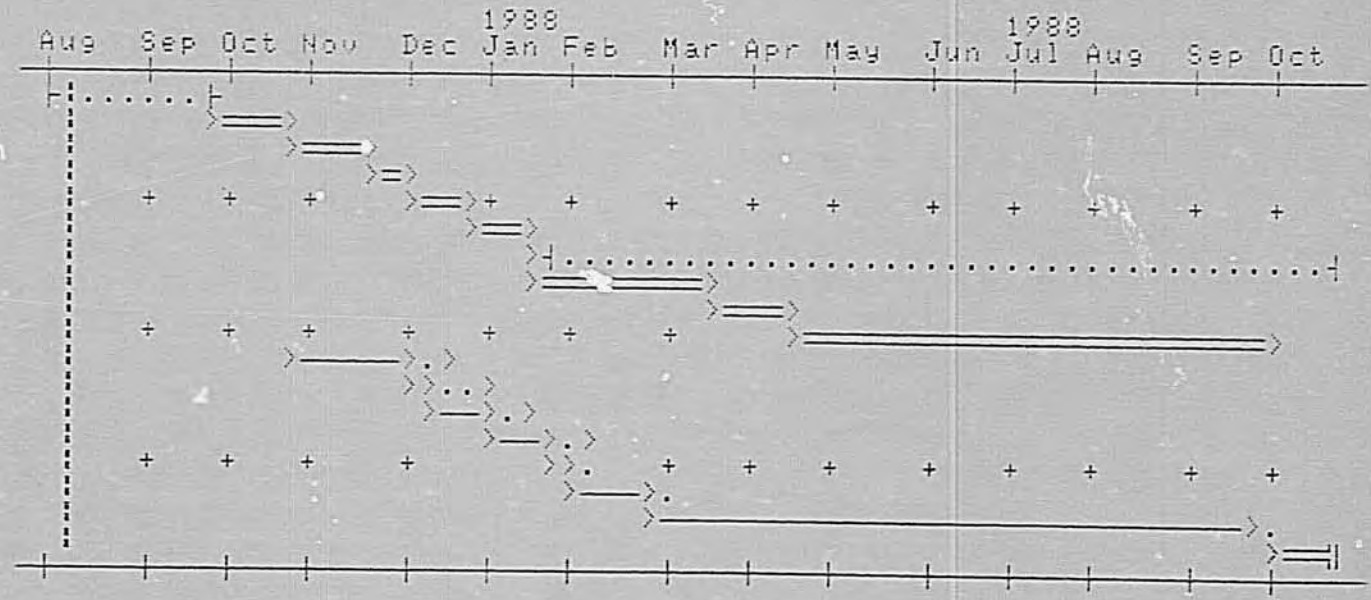
TABLE No. 3

ANDA (Water Authority) Materials & Equipment
USAID Proposed Package

Item	Units	Quantity	Unit Price	Total Cost
Materials				
CI Pipe - 4"	meter	1500	$75	$112,500
- 6"	meter	1000	$100	$100,000
- 8"	meter	500	$150	$75,000
Pump spares	lump sum			$100,000
Water Hydrants	each	100	$1,000	$100,000
Accessories for quick repair	lump sum			$400,000
Hand Tools	lump sum			$50,000
Equipment				
Integrated tool carrier similar to CAT-IT18	each	2	$100,000	$200,000
Backhoe loaders similar to CAT-225	each	2	$100,000	$200,000
Generator/welder with access.	each	5	$1,500	$7,500
Compressor with paving breaker and pneumatic compactor tools	each	5	$15,000	$75,000
Portable plate compactor	each	15	$5,000	$75,000
Sump pumps	each	15	$1,500	$22,500
Portable self-powered disc saws	each	15	$1,000	$15,000
Grand Total				$1,532,500
Say				$1,500,000

TABLE No. 4

ANDA
Earthquake Reconstruction
Equipment and Materials



ANNEX 14 - 5

TABLE No. 5

ANDA
Earthquake Reconstruction
List of Activities

Project: ANDA Date: Aug 12, 1987

	1	Sign Project Agreement Sched Start: Sep 30, 1987	1.0 Day Sched Finish: Sep 30, 1987
*	2	Ratify & Meet Initial CPs Sched Start: Oct 1, 1987	1.0 Month Sched Finish: Oct 30, 1987
*	3	Prepare Equipment IFB(s) Sched Start: Oct 30, 1987	4.0 Weeks Sched Finish: Nov 27, 1987
*	4	Prepare PIO/C Sched Start: Nov 27, 1987	2.0 Weeks Sched Finish: Dec 11, 1987
*	5	Obtain GOES clearances Sched Start: Dec 11, 1987	2.0 Weeks Sched Finish: Dec 29, 1987
*	6	Process CBD Notice Equip Sched Start: Dec 29, 1987	3.0 Weeks Sched Finish: Jan 21, 1988
	7	Prepare IFB(s) Equip Sched Start: Jan 21, 1988	3.0 Days Sched Finish: Jan 26, 1988
*	8	Issue Equip IFB Sched Start: Jan 21, 1988	45.0 Days Sched Finish: Mar 24, 1988
*	9	Receive Equip Bid/Award Sched Start: Mar 24, 1988	4.0 Weeks Sched Finish: Apr 21, 1988
*	10	Take Equipment Delivery Sched Start: Apr 21, 1988	120.0 Days Sched Finish: Oct 6, 1988
	11	Prepare Materials Specs Sched Start: Oct 30, 1987	6.0 Weeks Sched Finish: Dec 11, 1987
	12	Prepare PIO/C Materials Sched Start: Dec 11, 1987	1.0 Week Sched Finish: Dec 18, 1987
	13	Obtain COES clearance Mater Sched Start: Dec 18, 1987	2.0 Weeks Sched Finish: Jan 7, 1988
	14	Process CDB Notice Material Sched Start: Jan 7, 1988	3.0 Weeks Sched Finish: Jan 28, 1988

Project: ANDA Date: Aug 12, 1987

15	Prepare RFQ Materials Sched Start: Jan 28, 1988	3.0 Days Sched Finish: Feb 2, 1988
16	Review Material Quotes/Award Sched Start: Feb 2, 1988	4.0 Weeks Sched Finish: Mar 1, 1988
17	Delivery Materials Sched Start: Mar 1, 1988	150.0 Days Sched Finish: Sep 27, 1988
* 18	Final Acceptance & Evaluation Sched Start: Oct 6, 1988	3.0 Weeks Sched Finish: Oct 27, 1988

ANNEX NO. 15

Shelter Relocation/Resettlement

1. Other Donor Shelter Relocation Efforts

The Mission has coordinated its planning with other external donor and the GOES in an effort to assure that AID financed activities will not duplicate those of other donors. The other donors now planning assistance for relocation/ resettlement type projects include the World Bank, and the governments of Italy and Guatemala. These projects will be located in Apopa, the GOES development area 20 miles north of San Salvador. Together they will provide approximately 3500 lots/shelters in an initial phase, for families to be relocated from the SSMA. The Italian assistance includes preparing plans for a substantial number of additional solutions in Apopa at a later date. AID's Reconstruction Project funds will not be invested in this area.

2. AID Recovery Project Activity

The Earthquake Recovery Project (519-0331) funded temporary relocation works and shelter on four sites within the SSMA For about 1200 families. 965 of these families will be located on the "10 de Octubre" site which is also included under this project for upgrading to a permanent resettlement site. Steps to provide these families with title are already underway. The other three sites were also considered for upgrading under the Reconstruction Project but did not fulfill the requirements for transferring title or were not appropriate for further up grading. Families now temporarily located on these sites will be elegible as beneficiaries for resettlement to permanent sites developed under this project.

3. Scope of the Reconstruction Project Activity

Five sites (including the one mentioned above) within the San Salvador metropolitan area have been identified, studied for feasability and selected for this subcomponent, in agreement with VMVDU (see Table 1 attached). Current estimates indicate that 2030 new lots of approximately 60 square meters each can be developed on these five sites. Final project designs may result in a slight increase or decrease from this preliminary estimate but will not appreciably effect total subcomponent costs.

Total component costs are estimated at $5.0 million of which approximately one-half will be for infrastructure works and half for shelter (see Table 2 attached). Land will be provided free of cost to the activity by the GOES for all sites except the "10 de Octubre" location. Maximum unit cost will be under $3000 (₡15,000), with an estimated over all average of $2500 (₡12,500). Land and infrastructure will be granted by the GOES to the beneficiaries. All shelter construction or provision of shelter building materials will be provided on a credit basis at terms of up to 25 years, at an average of 8% interest. Payments will be graduated to achieve this rate over the life of the loan. The credit terms and grant levels have been established to allow affordability to the target group while also being as nearly compatible as possible with the other established credit lines.

4. Design Criteria and Related Costs

The design criteria used in arriving at the unit costs shown on Table 2 are as follows:

i) 70% of proposed housing will not exceed 20 m2 of construction area;
ii) 30% of proposed housing will not exceed a 30 m2 core housing solution;
iii) Provision of water outlets to each lot
iv) Storm and sewerage systems
v) Provision of electricity to all sites
vi) Vehicular streets with paving.

Infrastructure: cost estimates for infrastructure work were based on actual average construction costs for similar type projects, applied to a 60 m2 lot, on sites with slopes not to exceed 5% and others sites having irregular topography. The cost for urbanizing on a typical flat or 5% maximum slope site is estimated at ₡80/m2, or ₡4,800 for the average 60 m2 lot; for irregular topography lots, cost were estimated at ₡90/m2 or ₡5,400 per 60 m2 lot.

Housing: construction costs for a 20 m2 core house were estimated at ₡360/m2 or ₡7,000 per unit; a 30 m2 core house was estimated at ₡10,800. This will be the solution applied to 4 of the 5 sites. For the "10 de Octubre" site, where families are already committed to paying ₡50 per month for the land, a cheaper solution will be applied, i.e. a materials package, costing about ₡2,000, will be sold on credit.

5. Implementation Arrangements

The implementing agency that will receive funds from SETEFE and account for same, is the Vice-Ministry of Housing and Urban Development (VMVDU). It's responsabilities will be set forth in a "Contrato de Administración" with MIPLAN. Advances will be made to the VMVDU by SETEFE pursuant to the terms of this contract.

The VMVDU will implement through PRONAVIPO, established by Decree 43 and 411, which acts as the coordinating office of El Salvador's National Program of Popular Housing. Its principal objective is to serve as promotor and administrator of low cost housing projects. Its functions include evaluation and approval of projects, establishing financial arrangements, supervision of implementation. As such, PRONAVIPO is the most appropriate institution to handle the shelter relocation/resettlement activities proposed. The administration of the credit aspects of this component will be contracted by PRONAVIPO to commercial banks and/or S & L Associations, or possibly to the FSV. All net reflows, including interest payments, will be passed back to the BCR for programming acceptable to USAID.

The design, and preparation of IFBs for infrastructure and core housing construction work will be performed by IVU engineers, who have been made available to PRONAVIPO for this purpose, pursuant to instructions from the VMVDU, within whose jurisdiction both entities fall. The work has already been started. There is understood to be unused technical/engineering capacity at present in IVU. These services will be provided free of charges to PRONAVIPO. The contracting itself will be undertaken pursuant to the procedures described in Annex No. 18, "Procurement Plan". Supervison of construction work will be contracted with a local A & E firm, using the same procurement procedures. The selection of beneficiaries will be the responsibility of VMVDU. Action to this end will start now, without waiting for the Project Agreement to come into effect, and should be completed by February 1, 1988.

6. Reporting and Monitoring

The VMVDU as official implementing agency, will be required to submitt to AID quarterly progress reports, including a report on status and progress of construction of program funded projects and a report on financial activities. Credit intermediaries used by PRONAVIPO will be required to submit to AID a quarterly report on component loan portfolio activities. USAID/HUD will monitor these projects with its present staff.

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Table 1
Sites for Resettlement Projects
PROJECT SITES

No..	Name	Location	Present Owner	Area m2	Estimated Lots (60m2 each)
1.	San Marcos 10 de Oct.	Sur Ote. San Marcos, Km. 7 de la Autopista al Aeropuerto Internacional	FSV	237.398	965
2.	11 de Octubre	Sur calle El Volcán/Centro Urbano José Simeón Cañas	IVU	41.444	414
3.	San Bartolo V Etapa	Entre las diagonales de Arenal y El Sauselito, Municipio de Ilopango	IVU	13.218	132
4.	San Bartolo VI Etapa	Intersección de la Diagonal El Arenal y C. El Saouce, municipio de Ilopango	IVU	21.115	211
5.	Bosques de San Marcos	Cantón Giltepec Ote., Municipio de San Marcos entre carretera a Sto. Tomas y Autopista Aeropuerto Internacional	IVU	30.669	308
	Total			343,844	2,030

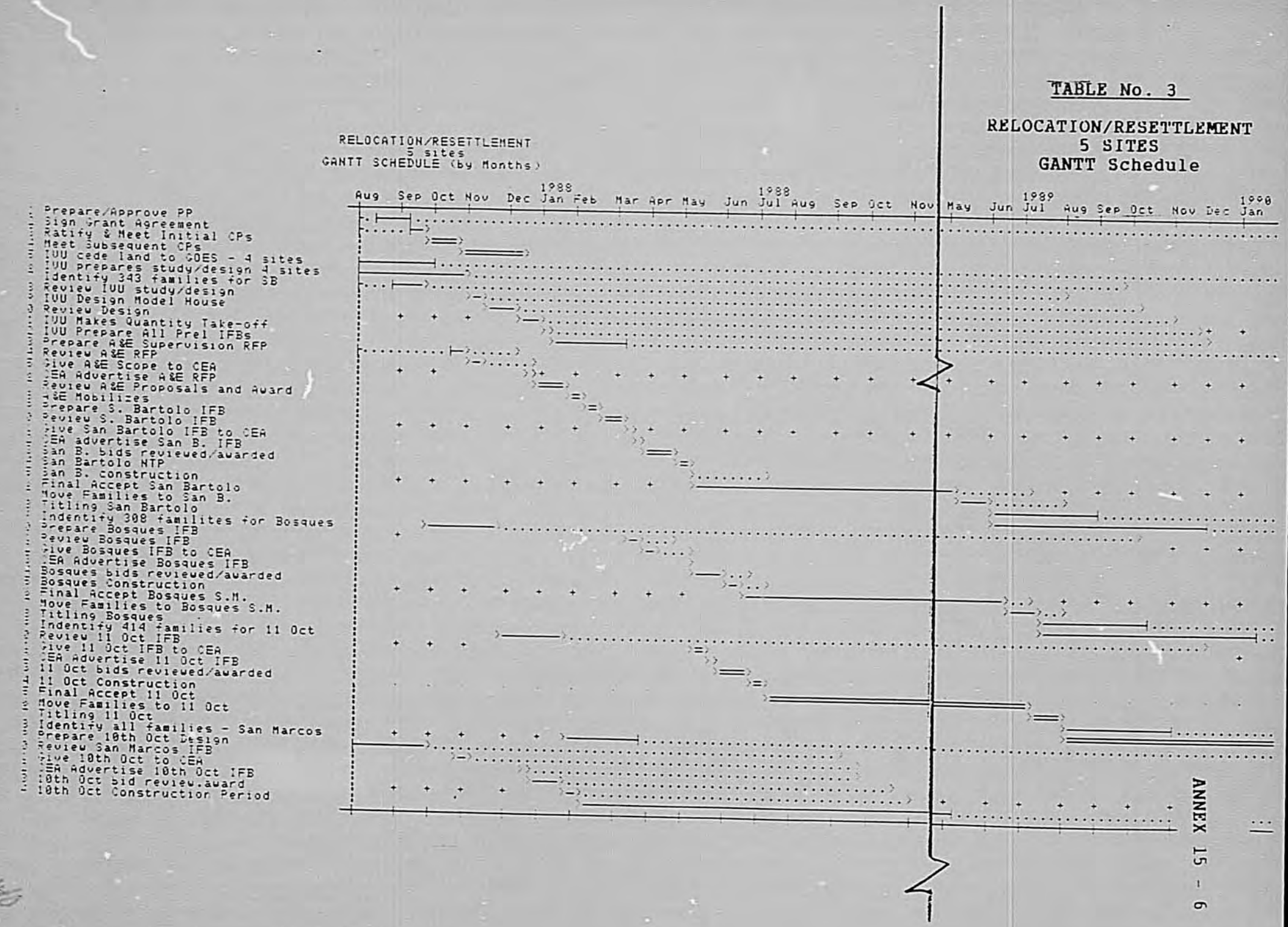
Table 2

ESTIMATED COSTS: RELOCATION/RESETTLEMENT HOUSING SUBCOMPONENT

Program	No. Solutions	C O S T S Urbanization Ave/unit	Urbanization Total	Housing Ave/Unit	Housing Total	TOTALS
San Marcos 10 de Oct.	965	1,080	1,044,000	400	386,000	1,430,000
11 Oct.	414	1,080	$447,000	1,857	$769,000	$1,216,000
San Bartolo V etapa	132	1,080	127,000	1,857	245,000	372,000
San Bartolo VI etapa	211	960	203,000	1,857	392,000	595,000
Bosques San Marcos	308	1,080	331,000	1,857	568,000	899,000
Supervision and T.A.	--	--	348,000	--	140,000	488,000
Totals	2,030	--	$2,500,000	--	$2,500,000	$5,000,000

TABLE No. 3

RELOCATION/RESETTLEMENT
5 SITES
GANTT Schedule



ANNEX 15 - 6

TABLE No. 4

RELOCATION/RESETTLEMENT
5 Sites
List of Activities

Project: RESETTLE — Date: Aug 9, 1987

*	1 Prepare/Approve PP Sched Start: Aug 18, 1987	4.0 Weeks Sched Finish: Sep 14, 1987
	2 Sign Grant Agreement Sched Start: Sep 15, 1987	12.0 Days Sched Finish: Sep 30, 1987
*	3 Ratify & Meet Initial CPs Sched Start: Oct 1, 1987	1.0 Month Sched Finish: Oct 30, 1987
*	4 Meet Subsequent CPs Sched Start: Oct 30, 1987	8.0 Weeks Sched Finish: Dec 25, 1987
*	5 IVU cede land to GOES - 4 sites Sched Start: Aug 4, 1987	2.0 Months Sched Finish: Oct 6, 1987
*	6 IVU prepares study/design 4 sites Sched Start: Aug 4, 1987	3.0 Months Sched Finish: Nov 4, 1987
	7 Identify 343 families for SB Sched Start: Sep 1, 1987	1.0 Month Sched Finish: Sep 30, 1987
*	8 Review IVU study/design Sched Start: Nov 5, 1987	2.0 Weeks Sched Finish: Nov 18, 1987
*	9 IVU Design Model House Sched Start: Nov 19, 1987	1.0 Month Sched Finish: Dec 18, 1987
*	10 Review Design Sched Start: Dec 18, 1987	3.0 Weeks Sched Finish: Jan 8, 1988
*	11 IVU Makes Quantity Take-off Sched Start: Jan 8, 1988	1.0 Week Sched Finish: Jan 15, 1988
*	12 IVU Prepare All Prel IFBs Sched Start: Jan 15, 1988	2.0 Months Sched Finish: Mar 16, 1988
	13 Prepare A&E Supervision RFP Sched Start: Oct 20, 1987	2.0 Weeks Sched Finish: Nov 2, 1987
*	14 Review A&E RFP Sched Start: Nov 3, 1987	2.0 Weeks Sched Finish: Nov 16, 198

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Project: RESETTLE Date: Aug 9, 1987

* 15	Give A&E Scope to CEA Sched Start: Dec 25, 1987	3.0 Days Sched Finish: Dec 30, 1987
* 16	CEA Advertise A&E RFP Sched Start: Dec 30, 1987	4.0 Weeks Sched Finish: Jan 27, 1988
* 17	Review A&E Proposals and Award Sched Start: Jan 27, 1988	2.0 Weeks Sched Finish: Feb 10, 1988
* 18	A&E Mobilizes Sched Start: Feb 10, 1988	2.0 Weeks Sched Finish: Feb 24, 1988
* 19	Prepare S. Bartolo IFB Sched Start: Feb 24, 1988	3.0 Weeks Sched Finish: Mar 16, 1988
* 20	Review S. Bartolo IFB Sched Start: Mar 16, 1988	1.0 Week Sched Finish: Mar 23, 1988
* 21	Give San Bartolo IFB to CEA Sched Start: Mar 23, 1988	3.0 Days Sched Finish: Mar 28, 1988
* 22	CEA advertise San B. IFB Sched Start: Mar 28, 1988	4.0 Weeks Sched Finish: Apr 25, 1988
* 23	San B. bids reviewed/awarded Sched Start: Apr 25, 1988	2.0 Weeks Sched Finish: May 9, 1988
* 24	San Bartolo NTP Sched Start: May 9, 1988	1.0 Day Sched Finish: May 10, 1988
* 25	San B. construction Sched Start: May 10, 1988	12.0 Months Sched Finish: May 9, 1989
* 26	Final Accept San Bartolo Sched Start: May 9, 1989	1.0 Month Sched Finish: Jun 8, 1989
* 27	Move Families to San B. Sched Start: Jun 8, 1989	3.0 Months Sched Finish: Sep 7, 1989
* 28	Titling San Bartolo Sched Start: Jun 8, 1989	6.0 Months Sched Finish: Dec 7, 1989
* 29	Indentify 308 familites for Bosques Sched Start: Sep 30, 1987	2.0 Months Sched Finish: Nov 30, 1987
* 30	Prepare Bosques IFB Sched Start: Mar 16, 1988	2.0 Weeks Sched Finish: Mar 30, 1988

Project: RESETTLE Date: Aug 9, 1987

31	Review Bosques IFB Sched Start: Mar 30, 1988	2.0 Weeks Sched Finish: Apr 13, 1988
* 32	Give Bosques IFB to CEA Sched Start: May 9, 1988	3.0 Days Sched Finish: May 12, 1988
* 33	CEA Advertise Bosques IFB Sched Start: May 12, 1988	4.0 Weeks Sched Finish: Jun 9, 1988
* 34	Bosques bids reviewed/awarded Sched Start: Jun 9, 1988	2.0 Weeks Sched Finish: Jun 23, 1988
* 35	Bosques Construction Sched Start: Jun 23, 1988	12.0 Months Sched Finish: Jun 22, 1989
* 36	Final Accept Bosques S.M. Sched Start: Jun 22, 1989	4.0 Weeks Sched Finish: Jul 20, 1989
* 37	Move Families to Bosques S.M. Sched Start: Jul 20, 1989	3.0 Months Sched Finish: Oct 19, 1989
* 38	Titling Bosques Sched Start: Jul 20, 1989	6.0 Months Sched Finish: Jan 18, 1990
* 39	Indentify 414 families for 11 Oct Sched Start: Dec 1, 1987	2.0 Months Sched Finish: Jan 29, 1988
* 40	Review 11 Oct IFB Sched Start: May 12, 1988	2.0 Weeks Sched Finish: May 26, 1988
* 41	Give 11 Oct IFB to CEA Sched Start: May 26, 1988	3.0 Days Sched Finish: May 31, 1988
* 42	CEA Advertise 11 Oct IFB Sched Start: May 31, 1988	4.0 Weeks Sched Finish: Jun 28, 1988
* 43	11 Oct bids reviewed/awarded Sched Start: Jun 28, 1988	2.0 Weeks Sched Finish: Jul 12, 1988
* 44	11 Oct Construction Sched Start: Jul 12, 1988	12.0 Months Sched Finish: Jul 11, 1989
* 45	Final Accept 11 Oct Sched Start: Jul 11, 1989	1.0 Month Sched Finish: Aug 10, 1989
* 46	Move Families to 11 Oct Sched Start: Aug 10, 1989	3.0 Months Sched Finish: Nov 9, 1989

Project: RESETTLE Date: Aug 9, 1987

* 47	Titling 11 Oct Sched Start: Aug 10, 1989	6.0 Months Sched Finish: Feb 8, 1990
48	Identify all families - San Marcos Sched Start: Jan 29, 1988	2.0 Months Sched Finish: Mar 30, 1988
49	Prepare 10th Oct Design Sched Start: Aug 4, 1987	2.0 Months Sched Finish: Oct 6, 1987
50	Review San Marcos IFB Sched Start: Oct 30, 1987	2.0 Weeks Sched Finish: Nov 13, 1987
51	Give 10th Oct to CEA Sched Start: Dec 25, 1987	3.0 Days Sched Finish: Dec 30, 1987
52	CEA Advertise 10th Oct IFB Sched Start: Dec 30, 1987	4.0 Weeks Sched Finish: Jan 27, 1988
53	10th Oct bid review.award Sched Start: Jan 27, 1988	2.0 Weeks Sched Finish: Feb 10, 1988
54	10th Oct Construction Period Sched Start: Feb 10, 1988	15.0 Months Sched Finish: May 10, 1989

ANNEX No. 16

SUMMARY DESCRIPTION OF GOES EARTHQUAKE

RECONSTRUCTION DIRECTORATE

In order to concentrate on damages and problems created by October 10, 1986, earthquake, the Ministry of Planning and Economic and Social Cooperation (MIPLAN) created an Earthquake Reconstruction Directorate (Dirección General de Reconstrucción) to coordinate and supervise all diverse reconstruction tasks. This Summary provides synopses of key elements of this Unit.

A. Charter

The ERD Unit is charged with the responsibility of supervising and coordinating reconstruction activites for the GOES. Broadly defined, it includes foreign donor coordination (although SETEFE will continue that role), as well as implementing agency coordination. The general strategy expressed by the GOES for management of reconstruction activities includes:

(1) Providing a central coordination point.

(2) Decentralizing implementation to those agencies or others (private sector) most capable of carring out the works.

(3)Assuring that reconstruction activities can be rapidly implemented with as much uniformity in criteria and procedures as is practical.

To carry out this strategy, the ERD Unit was created in MIPLAN on July 5, 1987 as an ad-hoc coordinating unit reporting directly to the Minister's Office. It is currently charged with the following tasks:

(1) Manage all reconstruction activities for MIPLAN.

(2) Prepare progress reports for the Minister.

(3) Direct the planning and programming of reconstruction activities.

(4) Present technical and financial reports to the donors, as well as reimbursement requests.

(5) Supervise the bidding, contracting and procurement processes.

(6) Coordinate activities between the donors and implementing agencies.

B. Organization

To carry out its reponsibilities, the ERD Unit is organizing into three departments plus technical support assistance - either in house or contracted. Its proposed organization is depicted on chart 1. The organizational functions proposed by the Unit are detailed below.

(1) Technical Department

The Technical Department is the backbone of the Unit, as presently established. The technical department head will act as ERD head when necessary, and will be supported by staff, the majority of whom will have technical backgrounds. The Department's responsibilities include:

a. Leading the planning and programming for reconstruction activities.

b. Responsibility for the technical coordination of the reconstruction activities.

c. Directing and leading all coordination staff in the areas of:

(1) Institutional coordination.

(2) Physical progress of the works and transmittal of financial requirements.

(3) Preparation of physical requirements.

(4) Selection and contracting of consultants and contractors.

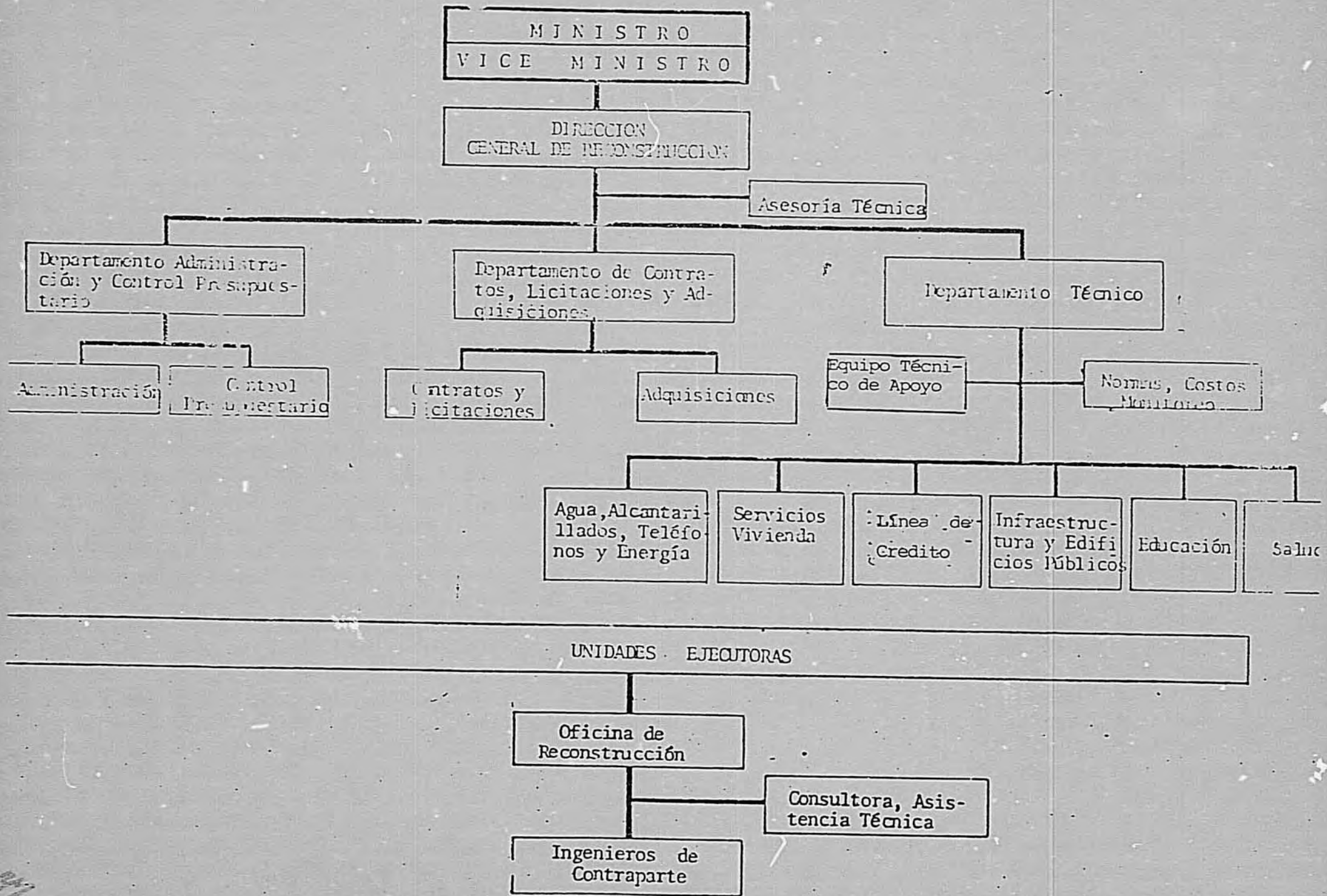
(5) Orienting those responsible for monitoring of project costs.

(6) Acting as counterparts to donor's technical units.

(7) Reviewing and approving implementing agency's Action Plans.

(8) Regularly informing management of the progress of each activity.

d. Sectoral Coordinators. These coordinators, working under the Technical Department will:



ORGANIGRAMA DIRECCION GENERAL DE RECONSTRUCCION

(1) Coordinate on a technical level all the reconstruction activities of each particular sector to avoid duplicative activities and work delays.

(2) Serve as technical counterparts for the implementing units and as counterparts to international mission's personnel.

(3) Supervise the physical and financial progress of the projects in their sector.

(4) Participate, in conjunction with implementing agency personnel, Corte de Cuentas, and the Contracting and Bidding Department, in the selection and contracting of consultants and contractors.

(5) Jointly supervise and approve designs with the implementing agencies.

(6) Evaluate project progress with the implementing agency.

(7) Review the action plans of the implementing agency.

(8) Periodically report on project progress.

e. Technical Support

The ERD Unit anticipates the need of architectural and engineering assistance for specific problem responses as these might arise. By either contracting out for this type of A & E assistance, or by including these experts on their staff, they hope to resolve these types of technical problems.

f. Procedures, Costs and Monitoring Unit

This Unit, working under the Technical Department, will:

(1) Prepare implementation guidelines and procedures for each reconstruction activity and recompile technical and cost information for different types of work in order to utilize them as guidelines when preparing bid documents and judging reasonableness of cost.

(2) Prepare progress reports for monitoring of the different reconstruction activities.

(3) Prepare graphs, control schedules, and adjust planned implementation documents according to actual progress.

(2) Contracting, Bidding, and Purchasing Department

The Management of this Department, in coordination with the legal units of the implementing agencies and with contractors, will prepare the necessary documents for contracting of people, services, and materials and equipment. It will collaborate with the Technical Department personnel. The Department is planned to function in the following manner.

a. The manager will participate in the planning and programming of the construction works, as well as participate in final contract negotiations, and supervise bidding and procurement actions.

b. Bid Solicitation Unit

This Unit will:

(1) Prepare and apply procedures, consistent with donor requirements, for procurement of materials and equipment.

(2) Review and approve the implementing agency procurement requirements, as well as specifications, and procede with acquisitions to satisfy these requirements.

(3) Plan and control the procurement of materials and equipment and other items for each respective institutions and assure adherence to quantity, quality and specifications.

(3) Administrative and Budget Control Department

The Manager of this Department will supervise the programming and financial controls of the funds available for use in reconstruction activities. This Department will:

a. Supervise personnel, salaries and wages, and purchases associated with the Earthquake Reconstruction Directorate.

b. Budget requirements for external funding and local counterpart funding.

c. Participate in the planning and programming activities for the reconstruction program.

C. Personnel and Staffing

The Earthquake Reconstruction Directorate is initially proposing a staff of 21, including 3 possible consultants for technical support, at an initial cost of ₡79,000/monthly, or $189,600 annualy. Currently, the ERD has personnel seconded to it from other MIPLAN offices. The proposed staffing pattern is contained in the Bulk Annexes.

D. Status

In actual fact, the ERD Unit is operating on a very reduced scale. It has approximately three full-time personnel, and is trying to select other personnel to perform the activities described above. MIPLAN is requesting USAID concurrance for local currency funding for the Unit, and it is expected that funds will be available in September, 1987. At that time, it will have recruit staff and orient itself to the tasks it envisions. How strong or how weak the Unit will be is not yet known.

The operationality of the Unit is not expected to hinder the implementation of the Earthquake Reconstruction Project. If the Technical Department is weak, the USAID will work closely with the implementing agencies and their private sector contractors and provide technical guidance to the ERD. In terms of procurement activities, the CEA will continue to function until reestablished in MIPLAN. As USAID guided the original CEA, it is anticipated that the new CEA (the ERD procurement Unit) will receive guidance by USAID for procurement actions affecting the USAID projects. The accountability of funds and budgetary controls will be handled by SETEFE staff until the ERD has personnel familiar with MIPLAN's existing systems. We believe there are sufficient safeguards built into the process to procede with the USAID activities given either a strong or a weak MIPLAN unit.

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ANNEX No. 17

REPORTING AND TRACKING SYSTEM

1. Tracking: Each USAID technical office will track their respective subprojects on a continuous basis. They will be assisted by the staff of the ERU as necessary. A key factor in tracking is knowing what were the original plans. Tracking, to have any meaning, must compare forecasted (planned) schedules against actual schedules once the project gets underway. Tentative planned schedules for most of the subprojects are given in the Project Paper. The software programs (files) for each of these forecasted schedules are found in ERU. However, before each subproject commences, a final readjusted schedule will be developed to form the basis for analysis of the subproject status. These will be adjusted throughout the life of the project, to allow updating and reoptimizing whenever a component is off track. To assist with tracking and analysis of each component, the computer program Microsoft Project will be used. Reports will be generated on a monthly basis for the USAID Technical Office Directors and the ERU's staff to be used for micro management of the Project. It is intended that these monthly status reports will be shared with the GOES counterpart agencies to refine and improve project implementation.

These same reports will be prepared in detail once a quarter as official Quarterly Reports for submission to AID/Washington, MIPLAN and all GOES implementing agencies.

The use of Microsoft Project will provide the implementing and monitoring teams with a fast graphic display of the schedule in GANTT and PERT chart forms. The schedule, sometimes called a GANTT chart, shows not only when each activity begins and ends, and slack times, but also which activities (those on a critical path -- no slack time) need the most attention to make sure the project gets done on time. On the other hand, the PERT chart is a type of flow chart focusing on the order of the activities and the way they interrelate rather than on the start date and finish date for each activity. Using both of these forms of information will allow the project team to update and optimize the order of events to minimize delays and reduce costs. The inputs will be handled on a continuing basis.

2. Reports

a. Quarterly Reports: A Quarterly Report will be

prepared in detail for submission to AID/Washington, MIPLAN and all Implementing Agencies. This report will contain, as a minimum:

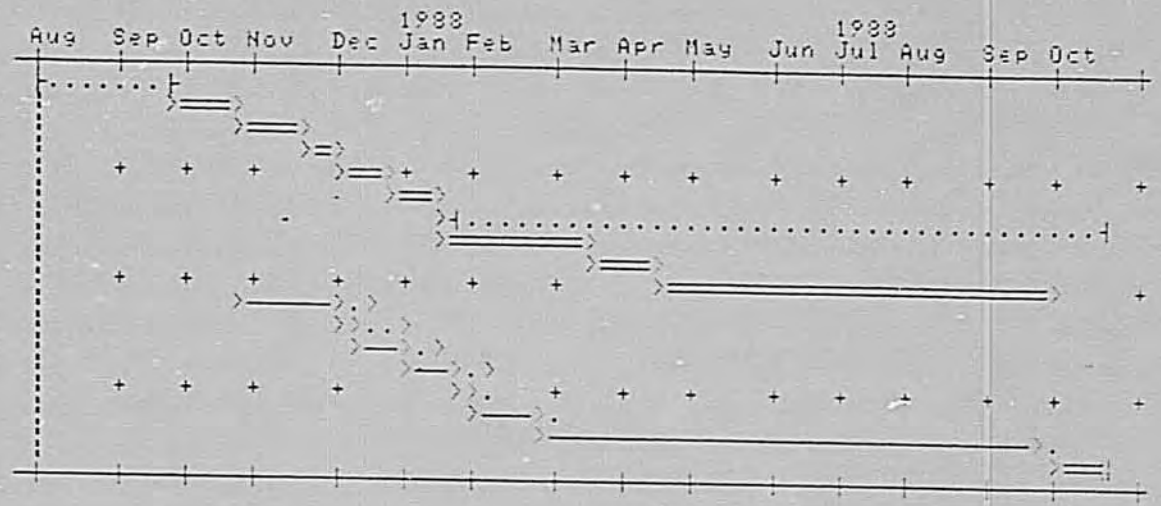
i. Narrative discussion of significant events and any anticipated program delays,
ii. Summary Financial Status,
iii. Financial Details by Subproject,
iv. Subproject tracking reports similar to those used in the Recovery Program,
v. Summary GANTT chart for entire Program showing Actual vs Planned,
vi. Life-of-Project GANTT charts, PERT charts, and/or Table Listing of Activities showing Actual Progress vs Planned,
vii. GANTT charts showing the previous and the next quarter activities in detail with a detailed table listing of activity relationships for the upcoming quarter.

b. Monthly Reports: Monthly reports will be prepared for the use of the ERU's staff, Office Directors and their GOES counterparts for micro management of the overall program. These monthly reports will be the primary document used in the Mission monthly program status meeting. Basically this monthly report will include items iii), iv), vi) and vii) above and any other pertinent documents regarding financial or physical tracking of the project. The GANTT charts are of most importance at this stage. A typical GANTT chart (hypothetical example) showing a project's Actual progress compared with its Forecast is shown on Table 1. PERT charts will only be prepared when a GANTT chart indicates that a previously marked non-critical activity has shifted to the critical path.

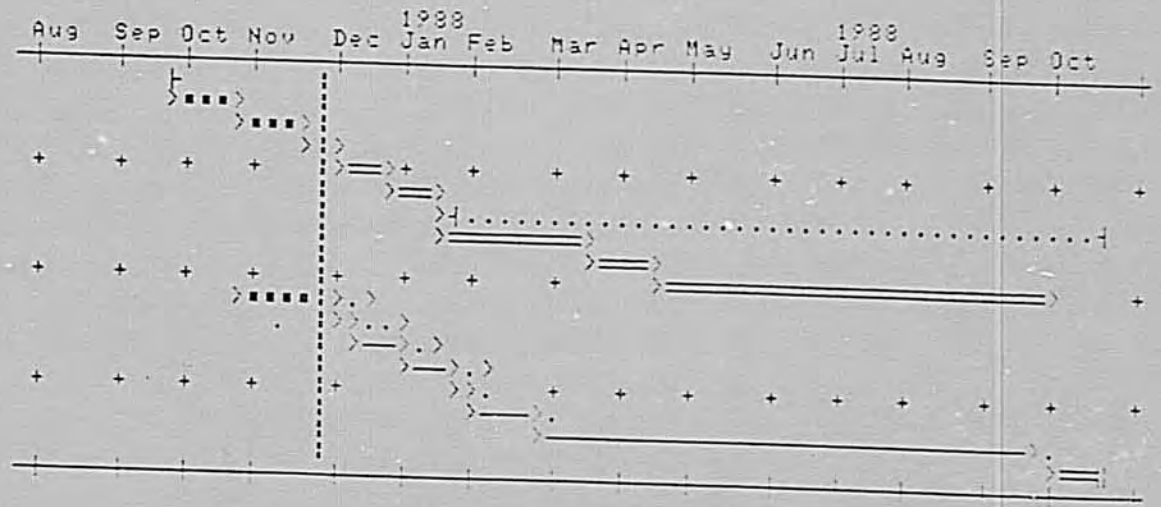
At that point a new network profile should be prepared to determine whether the activity relationships have changed to such a significant extent that the planned overall project completion date would be seriously delayed, possibly beyond the PACD.

HYPOTHETICAL EXAMPLE
Actual vs Forecast

ANDA -- FORECAST
Earthquake Reconstruction
Equipment and Materials



ANDA -- ACTUAL (Example Only)
as of End November



ANNEX NO. 18

PROCUREMENT PLAN

1. The Elements of the Project that include Procurement Requirements are:

a. Reconstruction/Restoration of Public Schools

i) A&E
ii) Construction
iii) Materials (desks, chalk-boards, etc.)

b. Equipment and Materials for ANDA

c. Repair/reconstruction of Markets and Airport Road

i. Local A&E to work with the Alcaldia to develop scopes of work/specifications and supervise implementation of market construction.
ii. Local construction contract(s) for demolition work and for the construction of markets.
iii. Refrigeration equipment for procured from the U.S. for one market.
iv. A&E to work with the Highway Department of the Ministry of Public Works to develop scopes of work/specifications for, and the supervision of construction for the airport road.
v. Construction contract(s) for the reconstruction of the airport road.

d. Relocation/Resettlement

i. Design for land preparation, leveling, sewers, drainage, etc. for the resettlement sites, and any core housing units to be built will be handled by IVU, so no contracting for the A&E services is contemplated.
ii. Local A&E for construction supervision.
iii. Local contracting for land leveling and infrastructure.
iv. Local construction of core housing units.

v. Local procurement of materials for distribution to resettled earthquake victims on credit terms.

e. Public Health Facilities

i. A and E Contracts
ii. Construction Contracts

f. Staff for USAID Earthquake Reconstruction Office

i. Contract Amendment for the Assistant to the Office Director
ii. Contracting of a Procurement Specialist
iii. Contracting of two Engineers
iv. Contracting of an Information Specialist
v. Contracting of a Secretary

g. Staff for USAID Technical Offices and the Controllers Office

i. Contracting for Housing Specialist.
ii. Contracting for Credit Specialist.
iii. Contracting for OET Engineer
iv. Contracting for OET Administrator
v. Contracting for OET Secretary
vi. Institutional contract for Controller's Office
vii. Contracting for RIG and end-use audits.
viii. Contracting for Evaluation.

Implementation of the Procurements will Utilize the following various Procedures:

a. AID Direct Contracts

i. Procurement services for primary schools equipment
ii. Equipment and materials for ANDA
iii. Staff for USAID Earthquake Reconstruction Unit
iv. Staff for USAID Technical Offices and Controllers Office.
v. Refrigeration equipment for the San Miguelito market.

b. Host Country Contracts through the CEA element of MIPLAN's ERD and Implementing agencies

i. Local A&E for market construction (S.S. Municipality)
ii. Local construction contract(s) for markets (S.S. Municipality)

iii. A&E for roads. (Highway Dept./MOP)
iv. Construction contract for road.
v. Local contracts for land leveling and infrastructure (PRONAVIPO).
vi. Local construction for core housing units (PRONAVIPO).
vii. Local contracts for building materials.
viii. A&E contract for design and construction supervision of major MOE Institutes and for operation of primary school fast track lottery system.
ix. Contracts for major MOE Institute reconstruction.
x. Primary school lottery contracts.
xi. Health facility to A & E contracts (MOH).
xii. Health facility construction contracts (MOH).

d) Other: Contracting and/or direct hire by VMVDU.

e) Intermediate Credit Institution Guidelines for Credit Recipients

i. All credit subcomponents

3. Description of Implementation Procedures by Project Component

a. Reconstruction/Restoration of Primary Level Public Schools

The procedures for contracting for construction services and materials will be identical to those used in the Education System Revitalization Project (No. 519-0295). An A & E firm will provide consulting services in the form of designing and estimating costs of the schools to be constructed. The preparation of construction documents and supervising/certifying construction requirements is made on the basis of a lottery. A name is randomly chosen from those prequalified construction firms that have expressed interest in the specific work to be accomplished. The prequalification process, approval of construction packages and contract documents, and oversight of the lottery procedure is the responsibility of a "Comisión de Sorteo" made up of representatives of USAID, the ERD, the Ministry of Education, and the Consulting Contractor. The procedure, which is described in detail in bulk files, has been approved by the Regional Legal Advisor in 87 SAN JOSE 2884 (copy attached to the detailed procedure).

The procurement of school furnishings will be contracted with an 8(a) PSA to cover the material requirements under this component of this project. The PSA used will make procurements in accordance with the provisions of Chapter 3 of A.I.D. Handbook 11. Host country contracts under this component will include the appropriate AID mandatory clauses listed in Handbook 11. USAID approval in the form of a Project Implementation Letter will be required for all host country contracts under this component with a value of the equivalent of $100,000 or more. The contract for the procurement services (the PSA) will be executed and administered by the USAID Contracting Officer in accordance with the provisions of A.I.D. Handbook 14.

b. Equipment and Materials for ANDA

ANDA will develop specifications for their requirements and forward them to IRD. IRD will then process a PIO/C that will include the specifications, desired delivery terms, desired document distribution, instructions for distribution of shipping document, and the signature of an authorized ANDA official. It is the intent that Code 000 source origin for the equipment and materials will be used; however, a situation may arise where the Project can be better served procuring materials from other than Code 000. If that is the case, procurement of those specially identified materials will be held to CACM and Host Country source origin. It is anticipated that all shipments from the U.S. will be made on Code 000 vessels. The PIO/C will designate USAID/El Salvador as the authorized agent. Upon receipt of the PIO/C, the USAID Contracting Office will arrange for publication of notice of tender, prepare an IFB or RFQ and contract for the delivery of the requirement in accordance with the provisions of AID Handbook 14. (If for any reason difficulties are encountered in the direct contracting of this equipment/materials, on a case by case basis, host country contracting pursuant to appropriate AID procedures may be used.)

c. Repair/Reconstruction of Markets, Airport Road, Resettlement, Public Health Facilities, and MOE Major Institutes.

The Municipality of San Salvador (for the markets), the Ministry of Public Works (MOP) (for the highway), PRONAVIPO (for resettlement

sites), the Ministry of Health (MOH), and the Ministry of Education (MOE), will work with USAID's Earthquake Reconstruction Unit, USAID Technical Offices, and the Technical Division of ERD in the development of scopes of work for A&E contracts for each activity and the specifications for the materials for the resettlement component. The completed scopes of work/ specifications will be provided to the Comision Especial para Adquisiciones (CEA) and to USAID for review and approval. CEA will review the scopes of work/specifications, arrange for publication of notice of tender, receive and evaluate proposals, propose award for signature by the executing agency, all in concert with coordination provided by USAID's Earthquake Reconstruction Unit in accordance with the procedures in the CEA procurement manual, which can be referred to in the bulk files.

Once contracted for, the A&E firms will be required to develop the technical bidding documents for the individual requirements. When completed, the technical scopes will be provided to CEA and the review/bidding procedure described above will be followed.

All construction contracting will be in accordance with the provisions of Chapter 2 of AID Handbook 11, and equipment/materials contracts in accordance with Chapter 3 of AID Handbook 11. The draft contracts will be reviewed and approved by CEA, which includes a non-voting representative of USAID. In addition USAID approval in the form of a Project Implementation Letter will be required for all contracts under this component with a value of the equivalent of $100,000 or more.

A requirement to import approximately 42 refrigeration units for one market will be handled using direct AID procurement procedures. (GOES authority for USAID to issue the PIO/C without the need for counter-signatures will be covered in the Grant Agreement.)

d. Staff for Earthquake Reconstruction Unit

The Earthquake Reconstruction Unit will prepare scopes of work for the staff positions, prepare/process PIO/T's (GOES authority for USAID to issue the PIO/TA without the need for counter-signatures will be covered in the Grant Agreement). Each scope of work should include the names, addresses and phone numbers of potential candidates, if known. The completed PIO's will be forwarded to the USAID Contracting Office. Upon receipt, the Contracting Office will solicit expressions of interest, and make the necessary arrangements to finalize contracts.

e. Staff for USAID Technical Offices and Controller

Each USAID Office will prepare scopes of work and PIO/Ts for the positions to be funded under the Project (GOES authority for USAID to issue the PIO/C without the need for counter-signatures will be covered in the Grant Agreement). For the Controllers Office, a continuation of the existing contract with Price Waterhouse is contemplated. All PIO/Ts will be reviewed and cleared by the Earthquake Reconstruction Office, in addition to the normal clearance process, before being forwarded to the Contracts Officer for action.

f. Credit Components

In addition to other instructions, the banks and other providers of credit will be required to provide each subborrower the following instructions on the limitations of use of the sub-loans:

"For procurements directly by the subborrower paid in foreign exchange:

1. Goods must be manufactured, produced or grown in and shipped from the countries included in AID Geographic Code 000 , or the CACM. Any ocean or air transportation must be on a U.S.-flag vessel or aircraft unless waived by AID.

2. Suppliers of goods and services must be citizens or permanent residents of, or firms organized or incorporated in, the countries included in AID Geographic Code 000 or the CACM.

3. All goods imported and purchased directly by the subborrowers with these loan funds and their shipping containers must be marked with an appropriate red, white, and blue AID hand-clasp emblem.

For all procurements, paid for with either foreign exchange or Colones:

1. The borrower shall follow good comercial practices and accept the most advantageous competitive offer, price and other pertinent factors considered.

2. Only items will be purchased that will make a positive contribution to development and that do not contravene U.S. statute. Accordingly, the following items will not be purchased without prior approval from USAID/El Salvador:

a. Motor vehicles
b. pharmaceuticals
c. pesticides
d. rubber compounding chemicals and plasticizers
e. toxic chemicals
f. used equipment
g. military equipment
h. surveillance equipment
i. commodities and services in support of police activities
j. abortion equipment and services
k. luxury goods and gambling equipment
l. weather modification equipment
m. asbestos or asbestos containing building materials
n. items manufactured, produced or grown in or shipped from any communist-bloc country."

Annex 19 - D

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

LAC/DR-IEE-87-21

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	El Salvador
Project Title and Number	:	Earthquake Reconstruction 519-0333
Funding	:	$100,000,000 (G)
Life of Project	:	Three years
IEE Prepared by	:	C. Roberto Gavidia USAID/San Salvador
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Concurrence subject to incorporation of IEE recommendations into PP and language being included in appropriate documents that would prohibit the use of asbestos and asbestos containing building materials from being used or funded by the project.
Copy to	:	Robin Gomez, Director USAID/San Salvador
Copy to	:	C. Roberto Gavidia, MEO USAID/San Salvador
Copy to	:	Frank Zadroga, REMS ROCAP/San Jose
Copy to	:	Lars Klassen, LAC/DR/CEN
Copy to	:	IEE File

James S. Hester Date JUN 18 1987

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

ANNEX IV

INITIAL ENVIRONMENTAL EXAMINATION

I: BASIC PROJECT DATA

PROJECT LOCATION	: San Salvador Metropolitan Area
PROJECT TITLE	: Earthquake Reconstruction Project
PROJECT NUMBER	: 519-0333
FUNDING	: $100,000,000
LIFE OF PROJECT	: 3 years
IEE PREPARED BY	: C. Roberto Gavidia, PRJ Environmental Officer USAID/El Salvador
DATE PREPARED	: May 29, 1987

RECOMMENDATION FOR THRESHOLD DECISION

USAID/El Salvador finds that activities contiemplated under the proposed project will not have a significant negative effect on the human environment but rather a positive one, inasmuch as most activity will involve reconstruction/repair "in-situ", much of it to improved construction standards. With respect to the physical environment, USAID will work closely with the GOES and will assist with the review and evaluation of the environmental and seismic implications of the sub-projects under this program as they are submitted for approval and financing. To accomplish this, all sub-project documentation to be prepared for review and approval will include an examination and evaluation of its environmental and seismic considerations and implications. Also, as part of the overall project management provisions, on-site inspections will take place, and project engineering consultants will be instructed to ensure that construction work is performed and completed with a minimum of environmental disturbance. Guidelines will be prepared to permit project management to evaluate each of the sub-projects. For this reason, it is recommended that an Environmental Impact Statement or Environmental Assessment not be required.

It should be noted that this Project will be implemented in a context of a broader GOES effort to reduce population concentration in high density areas by increasing accessibility and services in areas North of San Salvador while at the same time attending to the immediate reconstruction requirements in the metropolitan area. Other donors may well finance activities such as road and highway construction, relocation of office buildings, land clearing, etc., which may have negative environmental implications. During the course of project development and implementation USAID will closely monitor and coordinate with other donors to minimize environmental disturbances.

Robin L. Gomez
Director
USAID/El Salvador

5/29/87
Date

0628b

ANNEX No. 19

4. IMPACT IDENTIFICATION AND EVALUATION

Impact Areas and Sub-Areas	Impact Identification and Evaluation 1/
A. Land Use	
1. Changing the character of the land through:	
a. Increasing the population	2/
b. Extracting natural resources	N
c. Land cleaning	N
d. Changing soil character	N
2. Altering natural defenses	N
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors	N
B. WATER QUALITY	
1. Physical state of water	L+
2. Chemical and biological states	N
3. Ecological balance	N
4. Other factors	N
C. ATMOSPHERIC	
1. Air additives	N
2. Air pollution	N
3. Noise pollution	N
4. Other factors	N
D. NATURAL RESOURCES	
1. Diversion, altered use of water	M +
2. Irreversible, inefficient commitments	N
3. Other factors	N
E. CULTURAL	
1. Altering physical symbols	N
2. Dilution of cultural traditions	N
3. Other factors	N

1/ The following symbols have been used:

N	No environmental impact	U	Unknown environmental impact
L	Little environmental impact	+	Beneficial impact
M	Moderate environmental impact	-	Negative impact
H	High environmental impact		

2/ The Project will actually decrease population density in some areas.

F. SOCIOECONOMIC

1.	Changes in economic/employment patterns	H +
2.	Changes in population	N
3.	Changes in cultural patterns	N
4.	Other factors	N

G. HEALTH

1.	Changing a natural environment	N
2.	Eliminating an ecosystem element	N
3.	Other factors	N

H. GENERAL

1.	International impacts	N
2.	Controversial impacts	N
3.	Larger program impacts	N
4.	Other factors	N

I. OTHER POSSIBLE IMPACTS

1.	Urban services	H +
2.	Health services	H +

J. SUMMARY OF BENEFITS AND CONCERNS

1. Benefits

In general the project beneficiaries should receive a higher quality of life. Specific measurements of such improvements are as follows:

a) New shelter solutions for people that prior to the earthquake were living in unfit shelters. These solutions will include the basic amenities, potable water and private sanitary facilities.

b) Improved health and safety environment by means of introduction of water, sewerage and storms drainage.

c) The improved shelters will provide concrete floors, durable roofs, house connection to basic services and perhaps shelter expansion.

2. Concerns

The improved construction, reconstruction or rehabilitation needs in housing, public and municipal infrastructure, and business and industry, as well as restoring basic services such as education, and health to low-income residents of the affected areas, are all activities which will in themselves not cause adverse effects upon the environment. However, these activities require a deliberate and continuing evaluation of possible environmental effects.

3. Discussion of Key Environmental Issues

There are numerous environmental factors involved in the proposed project. In general the main objective is to carry out the reconstruction and rehabilitation using designs which will take in consideration the new construction-codes to be designed by a consultant specialist in disaster-prone areas.

Another design criteria to be used is that the basic necessities include appropriate site selection and development criteria, and sound environmental engineering construction/maintenance procedures.

During the PP stage, there must be a final resolution of the land use/planning issues in order to assure that these will have no negative effects.

4. Beneficial Environmental Impacts

a. The following positive impacts are produced:

1) Connection to water mains
2) Connection to sewer mains
3) Well laid out urban areas which will provide improved access, reduction of population densities such as those existing in illegal subdivisions and squatter settlements.
4) Better health conditions which will improve environmental conditions to the people.

b. The following criteria will be applied in measuring the environmental impacts:

1) Site free from natural hazards in that it will not be located near rivers and or streams that are subject to flooding.

2) Sites are not subject to landslides nor are such that vegetation and top soil get washed away by surface water run-off.

3) Sites are not chosen on steep slopes where construction would require earth moving.

c. Conclusion

In carrying out the above described project the upgrading of all the earthquake devastated infrastructure, housing, private health care clinics, and private hospitals, schools, private business, public schools, and public services in general will introduce more favorable environmental impacts than adverse ones for the beneficiaries.

ANNEX No. 20

LOGICAL FRAMEWORK
El Salvador Earthquake Reconstruction Project
519-0333

LOP 4 years
FY 87-90
Total AID funding $75 million

Narrative Summary	Objectively Verifiable indicators	Means of Verification	Important Assumptions
Project Goal: To assist the GOES to restore the standard of living for individuals affected by the disaster in order to maintain economic and social stability.	Standard statistical measures demostrate positive growths	1) GOES/Central Bank Reports	Goes Policies will be favorable and encourage economic recovery
Project Purpose: To cope with the effects of the October 10 earthquake. In particular to assist the Goverment and private sector of El Salvador to reconstruct and rehabilitate housing, vital infrastructure and businesses as well as restore basic services to persons, particularly thos of lower income, affected by the disaster.	1) Project beneficiaries will have shelter, access to schools, and health care services at a level at least equal to that prior to the earthquake. 2) Businesses assisted by the Project will be producing at a equal to that prior to the earthquake.	MIPLAN periodic reports	that economic conditions do not worsen or that the war or other external factors will not prevent intended activities.
Outputs:			
1) Housing Credit			
- establishment of credit line for repair/reconstruction of individually owned homes	- 5,000 loans made to homeowners	BCR/FNV/Financial Institution records	The FNV and savings loan institutions will facilitate movement of the credit-lines through appropriate staffing and and procedures
- establishment of credit line for rebuilding/rehabilitation of rental apartments (mesones).	- up to 8,000 loans made to meson dwelers, former or new owners	BCR/FNV financial institution records; VMVDU reports	The FNV and savings loan institutions will facilitate movement of the credit lines through appropriate staffing and procedures

II. Private Services/Businesses Credit			
establishment of credit line for repair/reconstruction of private health care services (clinics, labs)	- 30 loans made to health care entities	BCR/Bank records	Participating financial institutions actively promote lines; interest rates provide sufficient incentive
- establishment of credit line for reconstruction/rehabilitation of private schools	- 40 loans made to private institutions	BCR/Bank records	"
- establishment of credit line for reconstruction of small and medium-size commercial business	- 400 loans made to individual businesses	BCR/Bank records	"
III. Public Sector Services			
- Construct/upgrade classrooms provided under recovery project, repairs and new construction of others	- 708 upgradings, 150 repairs and 150 New Units	Mined, UNM and, MIPLAN periodic reports, site visits	The GOES can achieve effective coordination between MOE and Corte de Cuentas on school construction activities to avoid delays.
- Program created to relocate families who whose homes are uninhabitable	- 2,000 families relocated	VMDU records, PERNAVIPO reports	The VMVDU will assign sufficient priority to the program, given its many other commitments
- Reconstruction of 2 markets	two markets reconstructed	Site visits	Structures are seismically severe
- Repairs to airport road	repairs made	Site visits	MOP/DGS obtain outside assistance
Procure ANDA equipment	-$1,500,000 in equipment procured	contracts, purchase orders, vouchers	Equipment is earthquake related
- PVO program for 1800 families	New homes or repaired homes	Site visits, Reports	PVO have sufficient capacity to handle

IV.Assistance for Project Monitoring management, implementation	MIPLAN Executive Unit established, staffed and functioning	MIPLAN reports	GOES will clearly define and give support to role of the Unit
	A&E services provided as necessary for all project construction activity to implementing agencies	Contractor reports and implementing agency reports	Implementing entities support projects
	Urban planning design expertise provided to VMVDU	VMVDU staffing	
	Audit services provided on a continuing basis for all project components	AID contracts or purchase orders with audit firm	

Inputs

	A.I.D
Credit financing for housing, private shcools, clinics and businesses	44.0
Construction materials	23.1
Equipment	1.6
Project Support	2.5
Audit/Evaluation	0.5
Contingencies/inflation	3.3
	75.0

0886B mee

ANNEX No. 21

Summary of Bulk File Material

A. General

1. Earthquake Damage Assessment

The USAID Earthquake Damage Assessment, prepared in the spring of 1987, traces the events that took place immediately after the October 10 earthquake up through the AID $50 million Recovery Program. Included in the assessment are the tallies of other public and private assistance and the roles and reactions of GOES institutions, a summary of injuries, and the impact of emergency relief efforts. This material was used in the Project Background.

2. DEICO Institutional Analysis

The DEICO Institutional analysis, prepared by Lic. Maldonado between July 9 - August 10, 1987, summarizes the institutional roles and capabilities of MIPLAN/SETEFE; performs a preliminary analysis of the MIPLAN Earthquake Reconstruction Unit, the CEA roles at VMVDU/Pronavipo, and the Municipal capabilities to execute a project (this to be delivered the week of August 10). The reports allowed for an outside opinion on capabilities from a Salvadoran perspective to be digested by the design team. Mr. Maldonado's thoughts are incorporated in the Project design GOES Implementation section.

3. VMVDV Beneficiary Survey

In Spring, 1987 the Mission funded a Survey by the VMUDU of the socioeconomic status and characterisrics of families in selected earthquake-affected areas. The use of the survey was to derive income and occupation characteristics, rental and housing data. Sections of the survey then allowed the PADCO consultant (Linares) to report on affordability limits and, thus, credit line recommendations. It was also used in the social analysis summary.

4. CEA Manual

The bulk files contain a copy of the CEA procurement manual, delivered to USAID/PRJ on July 14. Also included are initial comments by the Regional Commodity Procurement Officer on the content of the manual. The manual describes the CEA and its components. It also contains (1) model instructions to bidders; (2) general conditions; (3) special conditions; (4) a guide to procurement using USAID funds; and (5) annexes which describe the CEA procurement steps, which present a draft contract and a model bid analysis form. As a result, the Project design recommends continued use of the CEA system.

B. Credit and Financial Intermediaries

1. Price Waterhouse evaluations of the commercial banks, S&Ls, FNV,

FNV, BANAFI and Pronavipo

The CPA firm of Price Waterhouse, using its local affiliate, prepared a series of brief reports which were utilized in the project design. The first of these reports "Segunda Evaluacion de la Administracion de las Lineas de Credito por las Instituciones Financieras", summarizes the performance of the commercial banks, FIGAPE, and the Savings and Loan associations under the Recovery Project, specifically, the performance of these institutions in administrating the housing and small business credit components of this project. The methodology was the assignment of weights to specific funtions, eg. handling of applications, inspections, contract documentation, disbursement controls, collection, etc. The results were quantified for each institution and presented with general comments on the institutions. The results of these evaluations showed FIGAPE to have perfomed in an outstanding manner, the S&Ls to have performed well in handling housing credit, and the commercial banks to have shown the capability to handle a well-supervised commercial credit line. As a result, the project paper design places housing credit only under the S&L system and the business (commercial) credits under FIGAPE and the Commercial banks.

Because the BCR indicated that it wished BANAFI included in the business credit administration, PW prepared a small evaluation of BANAFI's capability to administer USAID funds. (30 July). The conclusion was that BANAFI had procedures in place to handle USAID funds in a highly satisfactory manner.

A similar evaluation on FNV was requested from PW, as FNV would have the responsibility of supervising the housing credit in the contemplated design. The conclusions of the brief analysis were that FNV had the capability to perform the functions described above. PW recommended that USAID prepare for FNV the descriptive elements of the procedures and criteria which should be used in disbursing housing credits according to the definitions in the program.

The final report prepared by PW was a synopsis of PROMAVIPO and its capabilities.

2. Credit Component and Demand

Two reports were prepared by Jose Antonio Basagoitia, financial consultant, for the project. The first of these was an analysis of the demand for private school, medical facility and housing (meson) credit and delivery, submitted on July 30. The second was a synopsis of recommended terms and conditions for the small business credit component, including the estimated demand for this credit line, received on August 3.

The project design incorporated Lic. Basagoitia's recommendations for the commercial credit, while relying on the terms and conditions agreed to between the VMUDU, BCR and HUD for the housing credit. It should be noted that the demand indentified for the small-medium commercial credit was in excess of the amount programmed under the project.

C. Other Donor Material

1. IBRD Project Loan Agreement

On July 11, the design team obtained a copy of the proposed IBRD Loan Agreement for Earthquake Reconstruction assistance to the GOES, and the team also attended a negotiation session with the IBRD, VMUDU, MIPLAN, and BCR. The Loan agreement contains the proposed terms and conditions of the IBRD Loan and it defines the conditions precedent for disbursement under each proposed activity.

In addition to reviewing data contained in the document, the design team discussed the housing, school and business credit components with the GOES. From these discussions, it was determined that only $7 million of the AID housing credits would initially be programed for meson sales, and that the AID funds for that component would be lent at rates identical to IBRD/GOES approved rates to the target groups, if acceptable to USAID, and if not, the funds in this component of the AID subject would be reprogrammed. Based on the micro-business funding identified under the IBR project, the Mission determined that no micro-business funding should be entertained under the AID project (see Ibalian Project Plans, below). Also, the IBRD loan allowed the Mission to better focus on unsatisfied needs in the education sector.

2. IDB Project Plans

The design team met at various times with IDB representatives to assure no duplication of funding took place. Because the IDB on June 9, had approved a $7.1 million grant for slum upgrading, the Mission dropped this component from the project (see Italian Project Plans, below). Also, the Mission noted that the IDB had soft loan assistance planned for the health ($3.1M), CEL ($3.9M), roads ($2.1M) telephone ($5.6M) and ANDA ($3.4M) which was signed by the GOES on July 17. The ANDA purchase list was shared with the IDB to assume no duplication of effort. It was also determined that the IDB, original financer of the San Miguelito market, concurred with the need for reconstruction of this market under the AID project.

3. Italian Project Plans

The design team met with the Italian technical delegation on three separate occasions in July. The purpose of these sessions was to coordinate activities. It was determined that the Italian assistance allocated $11M to tugurio upgrading and, in combination with the IDB, there was no need for the Mission to consider this area in project paper design. The Italians also planned to disburse at least $3M for micro-business activity. Again, when combined with the IBRD and existing BCR credit lines, this negated the need to allocate AID funds in that area. The Mission also discussed with the Italian delegation other health and sanitation projects.

4. MIPLAN Donor Summary

In the course of various meetings with MIPLAN/SETEFE and MIPLAN/ERD, the SETEFE groups made available their latest summaries of other donor assistance. These summaries were used, with other reports, to ascertain where other donors were placing their funds. This information helped the Mission to maintain itself up-to-date on these proposed activities and to check possible AID project programming against those other donor interests. In cases where gaps were seen to exist, and where those were compatable with the project purpose, they became the basis for consideration as project subcomponents.

D. Housing

1. El Salvador Shelter Sector Assessment

The 1985 PADCO Shelter Sector assessment made for the Mission was used as a general overview for the characteristics of housing in the metropolitan area. Some of the material in the assessment was used by the Mission's Housing and Urban

Development Office as conceptual background. In general, the assessment points out the status of shelter solutions in the metropolitan area, prior to the earthquake, and the ability of families to afford different solutions.

2. MIPLAN Housing Survey

Immediately after the earthquake, MIPLAN surveyed selected city areas and extrapolated total damages based on this survey. This data has served as background for the IBRD, IDB, and AID projects, as they developed; also, much of the efforts of all international donors have had, as their basis, the MIPLAN survey.

3. T.M. Solo Meson Study

Between July 15 - July 31, the USAID HUD office contracted Tona Maria Solo to analyze the most effective means of credit delivery to meson dwellers. The report's conclusion were that individual initiative, coupled with low-density development (as opposed to VMVDU density concepts) will be the most cost effective and socially acceptable meson solution. The Solo report was used by USAID/HUDO in the determination of the meson component, the funding split between rental/sale units, and the schedule of disbursements for this type of credit. It is expected that the results of this report will be utilized by the VMVDU in their employment of social workers for meson communities.

4. PADCO (C.Linares) Report on Meson Reconstruction Standards and Affordability.

Between July 15 July 31, PADCO's Carlos Linares analyzed options for meson units - one story, two story, etc. - in order to determine what type and size of meson could be affordable by the target groups. The results also favored one story units (Solo Report, above). However, the analysis, using cost sensitivities gives both USAID/HUDO and the VMVDU the tools with which to judge proposed projects and their chances of hitting the target groups. This information was used in setting loan limits and criteria in the housing credit component.

E. Schools

1. Public School Damage Analysis

Immediately after the earthquake, and on November 19th, the University of New Mexico and the Ministry of Education surveyed and inspected the GOES public school system to estimate

total damages. These surveys resulted in a damage summary for reconstruction (red and orange codes) and repairs (yellow and green codes), by school. These surveys were provided to MIPLAN and other donors by the MOE. This damage analysis, originated by the emergency need, was the basis for the temporary classroom program under project 519-0331. Under the program, 718 temporary classrooms were constructed.

The damage estimate formed the basis of determining how many primary schools (1 story) required reconstruction, and the total number of classrooms associated with a reconstruction effort. Combined with the MOE July 25 request to make temporary classrooms permanent, it formed the statistical basis of what USAID should try to accomplish under the program subcomponent.

2. Private School Damage Analysis

The University of New Mexico performed an analysis, similar to the public school analysis, of damages to private sector schools, which totalled ¢10 million. The financial contractor used this analysis to interview 50% of the schools to determine current needs. These results formed the basis of the credit allocation for this project subcomponent.

3. MOE Documents

On July 25, the MOE, at USAID request, presented a list of classrooms they wished upgraded from temporary to permanent and a list of new classrooms they wished to be reconstructed. OET and the project design team used this list as the initial cut for the magnitude of this subcomponent a project committee meeting on July 29 utilized this list to define criteria and priorities for the public sector school component.

4. UNM Documents and Lottery Bidding Manual

The University of New Mexico is performing A&E services for the MOE and the Mission under Project 519-0295 Education System Revitalization. After numerous delays, etc, this project began to move using a modified FAR system to the private sector. This system, known as the lottery system, is described in the manual but essentially lets prequalified contractors participate in fixed price reconstruction of schools. This procedure has MOE and Corte de Cuentas support, is on-going, and was the basis for the design alternative in the project paper.

In addition, UNM estimated the costs associated with upgrading and building new one-story temporary classrooms. These background documents were used in the costing of this project subcomponent.

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F. Health

1. IPM Health Service Report

The HPA office commissioned the consulting firm of IPM analyze the status of private sector medical care facilities. The conclusion drawn limited potential funding under the project $2 million. The financial contractor reviewed the demand estimates and concluded that the IPM analysis was reasonable, in that demand was between $2 - $4 million.

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY,
SAN SALVADOR, EL SALVADOR, C. A.

ANNEX NO. 22

CERTIFICATION PURSUANT TO SECTION 611(e) of FAA 1961 as AMENDED

Background

On October 10, 1986 El Salvador was struck by a major earthquake which caused massive damage and destruction of infrastructure, houses, public services, and private enterprises. The devastation of the earthquake was far-reaching both in terms of the injuries suffered and the economic losses which occurred. The El Salvador Earthquake Reconstruction Project, 519-0333 is authorized for $75 million in AID financing.

Major components of the project include Housing Credit, Business/Social Services Credit and Public Sector Services component for construction/upgrading of public schools, repair municipal markets, highway reconstruction, procurement of equipment and materials for ANDA (Water Authority), shelter relocation/resettlement and two PVO resettlement activities.

Certification

I, Henry Bassford, Principal Officer of the Agency for International Development in El Salvador, having taken into account, among other things, the maintenance and utilization of projects in El Salvador previously financed or assisted by the United States, do hereby certify pursuant to Section 611(e) of the Foreign Assistance Act of 1961, as amended, that in my judgement El Salvador has both the financial capability and the human resources capability to effectively implement, utilize and maintain the El Salvador Earthquake Reconstruction Project, 519-0333.

This judgement is based upon the Project analysis as detailed in El Salvador Reconstruction Project Paper and is subject to the conditions imposed therein.

_____
Henry Bassford
Director
USAID/El Salvador

_____
Date

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CLASS: UNCLASSIFIED
CHRGE: AID 07/02/87
APPRV: A/DIR:BBSCHOUTEN
DRFTD: PRJ:DHAGEN:MMZ
CLEAR: 1. PRJ: DBOYD; 2. P:RVEITH; 3. A/DDI RWITHERELL
DISTR: AID3 AMB DCM

E.O.12356: N/A
SUBJECT: CONGRESSIONAL NOTIFICATION FOR EL SALVADOR EARTHQUAKE RECONSTRUCTION PROJECT NO. 519-0333

1. THE FOLLOWING MAY BE USED TO INFORM CONGRESS ABOUT THE USES OF EARTHQUAKE RECONSTRUCTION FUNDS PROVIDED THROUGH FY 1987 ESF SUPPLEMENTAL APPROPRIATION. THESE USES HAVE BEEN PRELIMINARILY DISCUSSED WITH GOES OFFICIALS BUT HAVE NOT YET BEEN FINALIZED. THE FOLLOWING PARAGRAPHS CONTAIN THE PROPOSED CN TEXT:

COUNTRY:	EL SALVADOR
PROJECT TITLE:	EARTHQUAKE RECONSTRUCTION
PROJECT NUMBER:	519-0333
FY 1987 CP REFERENCE:	(LAC/CEN PLS INSERT)
APPROPRIATION CATEGORY: -	ECONOMIC SUPPORT FUNDS (ESF)
LIFE-OF-PROJECT FUNDING:	DOLS 75,000,000 (GRANT)
INTENDED FY 1987 OBLIGATION:	DOLS 75,000,000 (GRANT)
ESTIMATED PACD:	FY 1990

THIS IS TO ADVISE THAT A.I.D. INTENDS TO OBLIGATE DOLS 75 MILLION IN FY 1987 FOR THE EARTHQUAKE RECONSTRUCTION PROJECT IN EL SALVADOR. THE PURPOSE OF THE PROJECT IS TO ASSIST EL SALVADOR TO RECONSTRUCT AND REHABILITATE HOUSING, VITAL INFRASTRUCTURE AND BUSINESSES AS WELL AS RESTORE BASIC SERVICES TO PERSONS, PARTICULARLY THOSE OF LOWER INCOME, AFFECTED BY THE 10 OCTOBER 1986 EARTHQUAKE. THE PROJECT REPRESENTS THE THIRD PILLAR OF USG EARTHQUAKE ASSISTANCE COMPOSED OF DOLS 2.9 MILLION IN EMERGENCY CONTRIBUTION, DOLS 50 MILLION OF SHORT-TERM RECOVERY ASSISTANCE, AND THIS DOLS 75 MILLION FOR RECONSTRUCTION EFFORTS.

2. THE ACTIVITY DATA SHEET IS AS FOLLOWS:

TITLE:	EARTHQUAKE RECONSTRUCTION
FUNDING:	ECONOMIC SUPPORT FUNDS (ESF)
PROPOSED OBLIGATION (DOLS 000):	FY 87 75,000 (G)
-	LOP 75,000 (G)
INITIAL OBLIGATION:	FY 1987
ESTIMATED FINAL OBLIGATION:	FY 1987
ESTIMATED PACD:	FY 1990

PURPOSE: TO ASSIST THE GOVERNMENT AND PRIVATE SECTOR OF

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EL SALVADOR TO RECONSTRUCT AND REHABILITATE HOUSING, VITAL INFRASTRUCTURE AND BUSINESSES AS WELL AS RESTORE BASIC SERVICES TO PERSONS, PARTICULARLY THOSE OF LOWER INCOME, AFFECTED BY THE 10 OCTOBER 1986 EARTHQUAKE.

BACKGROUND: ON 10 OCTOBER, 1986, THE SAN SALVADOR METROPOLITAN AREA WAS STRUCK BY A MAJOR EARTHQUAKE MEASURING 5.4 ON THE RICHTER SCALE. TOTAL DAMAGE HAS BEEN ESTIMATED BY THE GOES AT DOLS 1.03 BILLION, OR ABOUT ONE-FOURTH OF 1986 GDP. APPROXIMATELY 1,400 PEOPLE DIED, 20,000 WERE INJURED AND AN ESTIMATED 250,000 - 350,000 WERE LEFT HOMELESS. MASSIVE DAMAGE AND DESTRUCTION TO HOUSES, PUBLIC SERVICES, BUILDINGS, INFRASTRUCTURE, AND PRIVATE ENTERPRISES ENSUED. THE MASSIVE AND COSTLY DAMAGE FURTHER COMPOUNDS EL SALVADOR'S ALREADY SERIOUS ECONOMIC PROBLEMS. COMING AFTER SEVEN YEARS OF CIVIL CONFLICT, STALLED RECOVERY, HIGH INFLATION AND REDUCED INVESTMENT, THE COUNTRY MUST MARSHALL ITS INTERNAL RESOURCES CAREFULLY AND MAKE JUDICIOUS USE OF THE EXTERNAL ASSISTANCE IT RECEIVES.

- THE GOES REACTION TO THE EARTHQUAKE HAS BEEN IMMEDIATE AND POSITIVE. WITHIN HOURS AFTER THE DISASTER A CRISIS COMMISSION COMPOSED OF THE GOVERNMENT, PRIVATE SECTOR, AND ARMED FORCES WAS FORMED BY THE PRESIDENT TO COORDINATE EMERGENCY RELIEF NEEDS. BY EARLY NOVEMBER, THE GOES TURNED ITS ATTENTION TO SHORT-TERM RECOVERY EFFORTS, ESPECIALLY INITIAL HOUSING AND SERVICE NEEDS, RUBBLE CLEAN-UP AND REACTIVATION OF SMALL BUSINESS. THIS WAS ASSISTED BY THE GRANT OF DOLS 50 MILLION FROM THE U.S. FOR THE RECOVERY. THE GOES NOW FACES THE TASK OF FINDING PERMANENT RECONSTRUCTION SOLUTIONS.

- PROJECT DESCRIPTION: THE PROJECT PROVIDES FINANCING FOR: (1) SHELTER RECONSTRUCTION OR RELOCATION NEEDS OF LOW-INCOME GROUPS IN SAN SALVADOR'S METROPOLITAN AREA; (2) RECONSTRUCTION/REHABILITATION OF PRIVATE SECTOR BUSINESSES AND SERVICES; (3) REPAIRING AND REPLACING KEY PUBLIC SECTOR SERVICES; AND (4) TECHNICAL AND ADMINISTRATIVE ASSISTANCE. SPECIFIC ACTIVITIES INCLUDE CREDIT FOR REPAIR AND RECONSTRUCTION OF 6,000 LOW INCOME HOUSING UNITS, 3,000 TENEMENT DWELLERS AND 1,000 FAMILIES REQUIRING RELOCATION. PRIVATE SECTOR SUPPORT INCLUDES CREDIT FOR

1,200 LOANS FOR THE REHABILITATION AND REPAIR OF HEALTH CARE FACILITIES, SCHOOLS, AND BUSINESSES AFFECTED BY THE EARTHQUAKE. THE PROPOSED PROJECT WILL ALSO FINANCE THE DEMOLITION AND REMOVAL OF HAZARDOUS STRUCTURES; THE CONSTRUCTION, REPAIR, OR UPGRADING OF CLASSROOMS; AND TECHNICAL ASSISTANCE FOR SUBPROJECT DEVELOPMENT, OVERSIGHT, PROCUREMENT, AND FINANCIAL CONTROL.

- RELATIONSHIP OF PROJECT TO A.I.D. COUNTRY STRATEGY: THE PROJECT IS DESIGNED TO PROVIDE CRITICAL SUPPORT IN THOSE SECTORS THAT ARE KEY TO MITIGATING THE ADVERSE SOCIAL AND ECONOMIC IMPACT OF THE DISASTER, AND THEREBY ALLOW FOR A MORE RAPID ACHIEVEMENT OF ECONOMIC STABILITY AND GROWTH.

- IT WILL ALSO FORTIFY DEVELOPMENT AND USAGE OF MORE STRINGENT BUILDING CODES AND SEISMIC INFORMATION WHICH WILL SERVE TO MITIGATE FUTURE NEGATIVE ECONOMIC IMPACTS RELATED TO EARTHQUAKE DAMAGES.

- BENEFICIARIES: THE PRINCIPAL BENEFICIARIES ARE LOWER INCOME INDIVIDUALS. UNDER THE HOUSING COMPONENT, HOME OWNERS WILL BE PROVIDED MECHANISMS TO REPAIR OR REBUILD THEIR HOUSES. CREDIT WILL ENABLE FORMER RENTERS TO PURCHASE OR REBUILD DWELLINGS, AND HOMELESS FAMILIES WILL BE ABLE TO RELOCATE. CREDIT WILL BE CHANNELLED TO BUSINESSES WHICH HAVE HAD ONLY LIMITED ACCESS TO CREDIT. THUS, THE PROJECT WILL EXPAND THE AVAILABILITY OF SHELTER, PROVIDE INCOME, AND RESTORE BASIC PUBLIC SERCICES TO THOUSANDS OF LOWER-INCOME SALVADORANS IN THE SSMA.

- HOST COUNTRY AND OTHER DONORS: USAID HAS CONSULTED WITH THE MAJOR INTERNATIONAL FINANCIAL INSTITUTIONS, SUCH AS THE IBRD AND INTERAMERICAN DEVELOPMENT BANK (IDB), WHICH ARE COMMITTED TO RECONSTRUCTION ASSISTANCE. TENTATIVE AGREEMENT HAS BEEN REACHED BY THE GOES WITH THE IBRD FOR A DOLS 102.4 MILLION PROGRAM INVOLVING PROGRAMS AIMED AT SIMILAR TARGET GROUPS. THE IDB HAS PROPOSED A DOLS 18.1 MILLION LOAN FOR INFRASTRUCTURAL REPAIRS AND A DOLS 7.1 MILLION GRANT FOR THE SHELTER SECTOR. MAJOR BILATERIAL ASSISTANCE IS PROPOSED BY THE ITALIAN GOVERNMENT (DOLS 100 MILLION) AND WEST GERMAN AND FRENCH ASSISTANCE MAY REACH DOLS 35 MILLION. THE MISSION IS MAINTAINING A COORDINATION ROLE WITH THE MAJOR DONORS TO MINIMIZE DUPLICATION OF WORK EFFORTS.

- MAJOR OUTPUTS:
- CREDIT LINE FOR REPAIR/RECONSTRUCTION OF OWNER OCCUPIED
- UNITS (6,000 LOANS).
- CREDIT FOR REPAIR/RECONSTRUCTION OF LOW-INCOME RENTAL
- UNITS (3,000 LOANS).
- RELOCATION EFFORTS (1,000 FAMILIES BENEFIT).
- PRIVATE HEALTH FACILITY CREDIT (300 LOANS).
- PRIVATE EDUCATIONAL FACILITIES (100 LOANS).
- MICRO/SMALL/MEDIUM BUSINESS CREDIT (800 LOANS).
- CLASSROOM REPAIR, UPGRADE, CONSTRUCTION (825 UPGRADES,
- 600 REPAIRS).
- DEMOLITION OF HAZARDOUS STRUCTURES.
- TECHNICAL ASSISTANCE ESTABLISHING MIPLAN COORDINATING.

- UNIT, A/E SERVICES, URBAN DESIGN ASSISTANCE TO HOUSIN
- AUTHORITIES, AND AUDIT SERVICES.
- A.I.D. FINANCED INPUTS:

HOUSING CREDIT:	DOLS	34.0 MILLION
HEALTH CREDIT:	DOLS	5.0 MILLION
EDUCATION CREDIT:	DOLS	5.0 MILLION
BUSINESS CREDIT:	DOLS	4.0 MILLION
SCHOOL IMPROVEMENTS:	DOLS	8.0 MILLION
PUBLIC SERVICES:	DOLS	7.0 MILLION
DEMOLITION:	DOLS	3.0 MILLION
TA, EVALUATION:	DOLS	9.0 MILLION
- TOTAL		75.0 MILLION

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Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A.

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project. — CN (SS 8805)

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimte of the cost to the U.S. of — Yes / Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? — Grants require Assembly's simple majority ratification, usually accomplished in 30 days

4.	FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	YES
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7.	FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	N/A

8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	A&E construction services will be solicited
9.	FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	N/A
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	N/A
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N/A

13.	FAA 118(c) and (d). Does the project comply with the environomental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?	Yes N/A
14.	FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate sysem for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N/A
15.	FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No
16.	ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Procurement actions will use minority firms

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

Project will benefit poor urban population by extending credit and promoting construction

N/A

b.	FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?	Yes
c.	FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	N/A
d.	FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to whch the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?	N/A
e.	FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes

f.	FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	N/A
g.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	Project is a response to earthquake damage

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

3. Economic Support Fund Project Criteria

Yes

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified No

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

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

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? — Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N/A

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N/A

5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?	No Yes
6.	FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No
7.	FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	N/A

8.	International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	N/A
9.	FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes

B. Construction

1.	FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?	Open competition
2.	FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Yes
3.	FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?	N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo — N/A

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? N/A

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? N/A

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? N/A

e. FAA Sec. 662. For CIA activities? N/A

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? N/A

g. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? N/A

h. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? N/A

i. FY 1985 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? N/A

j. FY 1985 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? N/A

k. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? N/A

l. FY 1985 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? N/A