

## Data Sheet

<b>USAID Mission:</b>	El Salvador
<b>Program Title:</b>	Economic Freedom
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	519-022
<b>Proposed FY 2004 Obligation:</b>	\$13,333,000 DA
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$14,500,000 DA
<b>Year of Initial Obligation:</b>	FY 2004
<b>Year of Final Obligation:</b>	FY 2008

**Summary:** USAID is promoting trade, investment and economic diversification initiatives that will contribute to a more open, diversified and expanding economy. USAID will support trade promotion and job creation through policy and legal reforms, more efficient functioning of markets and increased access to external markets for micro, small and medium enterprises (MSMEs). Expected results will be increased trade, enhanced development of value-added products--leading to increased and more equitably distributed incomes--and improved management of critical watersheds and natural resources.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Policy reform, investment, and trade capacity (\$3,000,000 DA): USAID will place greater emphasis on policy and regulatory reform to enhance the competitiveness of El Salvador's private sector to take advantage of free trade agreements. USAID will assist the Government of El Salvador to reduce trade barriers, address issues related to the commercial code, strengthen environmental enforcement, and consolidate regulatory reforms in the fiscal, financial and energy sectors. USAID will explore formation of strategic alliances with the private sector and International Financial Institutions to leverage financing and complement USAID technical assistance and training. Implementers to be determined through a competitive process.

More competitive, market-oriented private enterprises, agriculture, economic diversification, and rural enterprise expansion (\$7,833,000 DA): Assistance and training will be provided to 1,100 small and medium-sized enterprises (SMEs), agribusinesses, and agriculture enterprises. USAID will: a) help private enterprises diversify products, generate approximately 2,000 jobs and better compete in local, regional and world markets; b) expand current efforts to assist SMEs and farmers to operate under demand-based market linkages; c) link over 1,500 producers to agribusiness, traders, buyers and international investors; d) address international export requirements which may include sanitary and phytosanitary (SPS) practices, pesticide residues, and U.S. bio-terrorism regulations; e) increase access to modern technologies; and address obstacles to increased trade and economic activity by promoting small-scale infrastructure projects. Implementers to be determined through a competitive process.

Broader access to financial markets and services (\$2,500,000 DA): USAID will work with finance institutions to promote increased lending to MSMEs. USAID will a) assist 4-6 local microfinance institutions (MFIs) to become regulated, nonbank financial institutions that capture savings, attract private capital, and expand their lending programs; and b) work with the regulator to ensure that policies and systems are in place to promote investment in these areas. USAID's focus on policy reforms would lead to increased lending to MSMEs, assist in the diversification of financial instruments, and modernize collateral requirements. The primary counterparts may be modernizing banks and MFIs that can expand into small and medium enterprise lending. To facilitate lending to SMEs, USAID will explore the use of the Development Credit Authority (DCA) to leverage resources and may look for ways to link remittances to this entire effort. Implementers to be determined through a competitive process.

**FY 2005 Program:**

In the economic growth program, USAID plans to expand FY 2004 efforts on trade and job creation, working with MSMEs and farmers in both domestic and export operations; and to start up a watershed management program. Implementers to be determined through a competitive process.

Policy reform, investment and trade capacity (\$1,600,000 DA): USAID will continue technical assistance to the Salvadoran government on legal, policy and regulatory reforms to improve market access and expand trade with U.S. and other trading partners. Depending on progress in FY 2004, USAID intends to complete several reforms responsive to a new Central America Free Trade Agreement (CAFTA) environment and to initiate work on some of the more complex and challenging ones, for example: changes to the commercial code, strengthening commercial contract enforcement, promoting enterprise development, and strengthening the fiscal, financial and energy regulatory systems. Implementers to be determined through a competitive process.

More competitive, market-oriented private enterprises, agriculture, economic diversification, and rural enterprise expansion (\$6,800,000 DA). USAID will continue assisting and training SMEs, agribusinesses, and agriculture enterprises to: a) diversify products and reduce production and transaction costs to better compete in local, regional and world markets; b) expand current efforts to establish demand-based market linkages; c) link producers to agribusinesses, traders, buyers and international investors; d) address international import requirements, including SPS restrictions, pesticide residues, and new U.S. bio-terrorism regulations; e) increase access to modern technologies; and f) address local obstacles to increased economic activity by promoting small-scale infrastructure activities. Implementers to be determined through a competitive process.

Broader access to financial markets and services (\$2,500,000 DA): USAID plans to continue progress in expanding bank and regulated, nonbank financial institution reforms with the intent of increasing lending to micro, small and medium-sized companies. USAID will consider establishing DCA guarantees with selected local banks and other financial institutions to leverage lending in priority sectors. Implementers to be determined through a competitive process.

Promotion of watershed management (\$3,600,000): This activity, designed to improve clean water availability in rural areas, will promote alliances with both public and private sectors to leverage financing for capital improvements such as potable and surface water systems. This approach would allow USAID's limited financial resources to be focused on developing local rural water sector technical and management capacity. Fee-for-service technical support mechanisms developed under USAID's existing water program will be assessed for adoption by enterprises engaged in sustainable economic activities that conserve or maintain the natural resource base. User groups such as watershed organizations and potable-water system associations will be strengthened to assume responsibility for managing sustainable clean water access. Incentives may be developed to promote sustainable management and use of natural resources within a given watershed. Implementers to be determined through a competitive process.

**Performance and Results:** This new strategic objective is scheduled to begin in late FY 2004; therefore, the Mission has no results to report.

With successful completion of this strategic objective, USAID will: introduce further trade capacity development reforms that will lead to increased private trade, investment, and job creation; expand SME access to private financing; and increase sustainable management and use of watershed natural resources in support of sound growth. USAID expects to graduate several MFIs by the time FY 2005 funding is fully expended.

## US Financing in Thousands of Dollars

El Salvador

519-022 Economic Freedom	DA
<b>Through September 30, 2002</b>	
Obligations	0
Expenditures	0
Unliquidated	0
<b>Fiscal Year 2003</b>	
Obligations	0
Expenditures	0
<b>Through September 30, 2003</b>	
Obligations	0
Expenditures	0
Unliquidated	0
<b>Prior Year Unobligated Funds</b>	
Obligations	0
<b>Planned Fiscal Year 2004 NOA</b>	
Obligations	13,013
<b>Total Planned Fiscal Year 2004</b>	
Obligations	13,013
<b>Proposed Fiscal Year 2005 NOA</b>	
Obligations	11,316
Future Obligations	43,667
Est. Total Cost	67,996