



LAC-IEE-04-62

ENVIRONMENTAL THRESHOLD DECISION

Activity Location: El Salvador

Activity Title: SO 2: Economic Growth for the 21st Century (CRECER21)

Activity number: 519-0462

Funding: \$69.5 million

Life of Project: FY 2004-2008

IEE Prepared By: Mark Carrato
Ronald Greenberg, EGE
USAID/El Salvador

Approved By: William Patterson
Mission Environmental Officer

Recommended Threshold Decision: Categorical Exclusion
Positive Determination
Negative Determination with Conditions

Bureau Threshold Decision: Concur with Recommendations, **plus a Deferral** is required until the preparation of the EA is complete.

Comments:

Economic Growth for the 21st Century (CRECER21 in Spanish), will stimulate equitable, sustainable economic growth and expand job creation in order to reduce poverty and improve natural resource management by assisting the GOES and the private sector to utilize the favorable macro-economic policy structure and opportunities presented by the Central American Free Agreement (CAFTA). CRECER 21 is comprised of the four components that mirror the

CAM Strategy Intermediate Results (IRs): (1) Laws, Policies, and Regulations that Promote Trade and Investment; (2) More Competitive, Market-oriented Private Enterprises; (3) Broader Access to Financial Markets and Services; and (4) Improved Management and Conservation of Critical Watersheds. Activities under the first three IRs will be obligated in FY 2004 and the fourth IR will be obligated in FY 2005. The total estimated USAID contribution for this Activity is \$69.5 million over a five-year implementation period (FY 2004-2008). GOES counterpart contribution is estimated at \$5.0 million.

A **Categorical Exclusion** is issued for all of the technical assistance, training, and small equipment activities under CRECER 21 for legal, policy and regulatory reforms, assistance for enterprise development, and increased lending to SMEs per 22 CFR 216.2.c.2.(i) "Education, technical assistance, or training programs..." and in (iii) "Analyses, studies, academic or research workshops." The use of the DCA Loan Guarantee in sub-component 3.1 (*Increased lending to SMEs and improved quality of financial services for SMEs*) qualifies for a **Categorical Exclusion** under 22 CFR 216.2.c.2 (x) because the instrument provides "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution". **A standard list of types of activities which should not be funded will be included in the DCA Loan Guarantee agreement.** If any project involves policy changes that affect the environment or natural resource management, an amendment to this IEE will be submitted.

Technical assistance and training in improving agricultural production including recommendations on fertilizer use and the use of pesticides under Sub-IR 2.1.1 (SPS) and 2.2.1 and 2.2.3 (More competitive market oriented agriculture enterprises operating) requires a **Positive Determination**, and USAID/EI Salvador will assure that an Environmental Assessment is conducted, in order to recommend the use of fertilizers and pesticides. This EA must be completed and approved by the Bureau Environmental Officer prior to providing recommendations to farmers or counterparts.

A **Deferral** is also issued for all activities covered under the EA to be prepared, per 22 CFR 216.3(a)(1)(iii) and 22 CFR 216.3(b)(1)(i). An EA evaluating the economic, social, and environmental risks and benefits of the planned pesticide use (commonly called Pesticide Environmental Report and Safer Use Action Plan or PERSUAP) and the impacts of the proposed use of fertilizer must be approved by the LAC BEO prior to commencing any assistance for the procurement or use of fertilizer or pesticides (22 CFR 216.3(b)(1)(i)). The PERSUAP will respond to each element (a-1) of this part of the regulation. A Scoping Statement for the EA/PERSUAP will be approved by the BEO before beginning the EA. The Deferral is required because, until we do the EA we can not identified all activities which will be required to mitigate any negative impacts. After the EA is done we will have a better idea of the activities related to agricultural production.

The underlined statements will be a condition of any sub-agreements that would implement activities covered under the EA.

Small Infrastructure Activity (SIA) grant program within activity 2.3 will provide co-funding for construction of rural infrastructure such as local roads, bridges, and other small construction. Because of the small scale nature of these projects the impact from these projects on the environment can be readily mitigated, and because the Agency has environmental guidelines in the design of small infrastructure activities, a **Negative Determination with conditions is issued**; the condition is that grantees involved in SIA will continue using guidelines already approved by the Agency, as such may be amended and revised from time to time, and that the Mission will develop an Environmental Management System for SIA. The Mission is currently monitoring the effectiveness of the mitigation measures included in the current guidelines that are being used and will report the results of this monitoring to the BEO, with copy to the REO, by September 30, 2004. Based on this analysis, the Mission will update the SIA environmental guidelines and develop an Environmental Management System.

Furthermore, the Mission will seek approval of the Mission Environmental Officer prior to the design and construction of SIA activities.

CTOs are responsible for making sure environmental requirements are met. It is the responsibility of the SO Team to ensure that any recommendations that result from the EA are reflected in the SOAg and MAARDs as appropriate.

_____ Date _____
George R. Thompson, P.E.
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Clearance: GC: Jeff Lifur: _____ Date _____

Copy to : Tully Cornick, A/Director, USAID/El Salvador
Copy to : William Patterson, MEO, USAID/ El Salvador
Copy to : Ronald Greenberg, USAID/ El Salvador
Copy to : Michael Donald, REA
Copy to : Mark Carrato, LAC/CAM
Copy to : IEE File

Attachment: IEE

**INITIAL ENVIRONMENTAL EXAMINATION [GEORGE: IS IT TOO LATE TO MAKE COMMENTS TO THE IEE?
IF NOT, JUST A COUPLE OF SMALL NITS BELOW FOR YOUR CONSIDERATION]**

Activity Location: El Salvador

Activity Title: SO 2:
Economic Growth for the 21st Century
(CRECER21)

Activity number: 519-0462

Funding: \$69.5 million

Life of Project: FY 2004-2008

IEE Prepared By Mark Carrato
Ronald Greenberg, EGE
USAID/EI Salvador

Approved By William Patterson
Mission Environmental Officer

Recommended Threshold Decision: **Categorical Exclusion** under 22CFR216.2(c)(2)(i)
for all technical assistance and training
Categorical Exclusion under 22CFR216.2(c)(2)(x)
for the DCA Loan Guarantee
Positive Determination for AgriTech regarding
training and recommendations on the use of
pesticides and an Environmental Assessment is
required
Negative Determination with Conditions for the
Small Infrastructure Activities

Mission Threshold Decision: Concur with Recommendations

Date Prepared: August 19, 2004

Tully Cornick
Acting Mission Director

Date

Activity Description

Economic Growth for the 21st Century (CRECER21 in Spanish), will stimulate equitable, sustainable economic growth and expand job creation in order to reduce poverty and improve natural resource management by assisting the GOES and the private sector to utilize the favorable macro-economic policy structure and opportunities presented by the Central American Free Trade Agreement (CAFTA). CRECER 21 is comprised of the four components that mirror the CAM Strategy Intermediate Results (IRs): (1) Laws, Policies, and Regulations that Promote Trade and Investment; (2) More Competitive, Market-oriented Private Enterprises; (3) Broader Access to Financial Markets and Services; and (4) Improved Management and Conservation of Critical Watersheds. Activities under the first three IRs will be obligated in FY 2004 and the fourth IR will be obligated in FY 2005. The total estimated USAID contribution for this Activity is \$69.5 million over a five-year implementation period (FY 2004-2008). GOES counterpart contribution is estimated at \$5.0 million.

Component 1: Laws, Policies, and Regulations that Promote Trade and Investment (IR 2.1)

- Under Sub-IR 2.1.1 (*Implementation of key requirements of CAFTA and other trade agreements*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Support the establishment of a legislative and regulatory framework for the proper implementation of Rules of Origin (ROO), customs valuation, and risk management
 - Strengthen the technical capacity of the Ministry of Finance's (MOF) Customs Service and Trade Administration (CSTA) to comply with CAFTA related obligations to administer ROO and risk management requirements
 - Improve the capacity of MAG to manage and monitor specific Sanitary and Phytosanitary (SPS) standards. The primary focus will be on food safety regulatory enforcement, and modernizing management of the sale, use and distribution of pesticides. For example, training will be provided to GOES officials on the environmental and health risks associated with improper pesticide use and on implementing improved regulations of pesticide use, transport, storage, and disposal.
- Under Sub-IR 2.1.2 (*Removal of key barriers to expanding public and private sector investments and increasing exports*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Identify and eliminate at least 3 key barriers to expanding public and private sector investments and increasing exports identified and eliminated. Illustrative areas include investment promotion weaknesses, bureaucratic procedures that inhibit speed to market and other exports, commercial business bankruptcy laws/regulations, and commercial arbitration.
- Under Sub-IR 2.1.2 (*Promotion of fiscal policy reform leading to increased tax collection*) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - Strengthened fiscal policy reforms, including developing new instruments
 - Review and monitor tax administration effectiveness and recommend corrective practices where appropriate in order to assure sustainability of improvements.

- provide advice and limited IT hardware and software to support the establishment of new offices such as Tax Delinquents at Directorate General for Internal Revenue (DGII), Tax Analysis at the Ministry of Finance level and the Tax Investigations Unit.

Component 2: More Competitive, Market-Oriented Private Enterprises (IR2.2)

- Under *Sub-IRs 2.2.1, 2.2.2, 2.2.3 (Export Promotion and Technology Program)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - strengthen the GOES institutional export promotion capacity by improving access to market information and increasing business contacts; analyzing market and commodity trends and product requirements (HACCP, etc); improving business skills and management practices; improving plant process and production efficiencies; promoting participation in trade fairs to identify opportunities as well as increase sales; increasing linkages with larger companies to be product and service providers, increasing access to technology and innovative business practices through a technology innovation fund.
 - improve access to market information and increase business contacts using part-time, program funded marketing consultants network, which could operate in target cities in the U.S., México, the Caribbean, Europe and Far Eastern Asia.
 - help small and medium-sized enterprises (SMEs) to improve their business skills, management practices and in selected cases English language skills through the cost sharing grants. This can be done through local consultants and training institutions
 - foster private sector creation of design centers for SMEs. These centers will house marketing, design and product development teams to drive strategy and design of individual products; generate local capacity; and develop innovative design solutions stemming from the synergy of housing different design capacities under one roof.
 - assist SMEs to improve their export process and sales management to comply with market requirements
- Under *Sub-IRs 2.1, 2.3 (More competitive market oriented agriculture enterprises operating)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - work with farmers, individual agribusinesses and private sector business associations to strengthen their technical, marketing, production, and processing capacities leading to increased jobs and sales, either for domestic or export markets
 - build the capacity of farmers and agribusinesses to analyze market trends and demand by improving access to domestic market information; help them develop long-term sustainable business relationships, business contacts between producers and buyers /processors /exporters, and increase access to new technologies and production practices.
 - work with processing firms to enhance their knowledge about improved supply of raw materials, post-harvest management, product packing and development, good manufacturing practices, etc. in order to make the firms more competitive
 - help exporting businesses meet US SPS requirements.
 - assist Salvadoran coffee producers to strengthen their capacity to produce and increase their sales of specialty and high quality coffee
- Under *Sub-IR 2.2.2 (Improvement in enterprise processes through cleaner production and energy efficiency)* CRECER 21 will provide technical assistance, training and information technology equipment in order to:

- Draft an incentives program for cleaner production and assist the Ministry of Environment and Natural Resources (MARN) to launch a program of voluntary compliance mechanisms that take advantage of competitive market forces.
 - Strengthen the capacity of the Cleaner Production Center at CAMAGRO and a few companies to be able to provide cleaner production and energy efficiency services on a fee-for-service basis.
 - Work with strategic industrial sectors to demonstrate the use of environment/energy audits to show low cost/no cost investments that plants or businesses can make, and the advantages of a more intensive environmental management system in the industry or business sector
- Under Sub-IR 2.2.2 (*Removal of small-scale infrastructure barriers to facilitate access to trade and markets and lower business transaction costs*) CRECER 21 will:
 - seek to improve rural productivity and/or improve rural access to markets by financing small-scale infrastructure carried out by local communities. USAID plans to co-finance 50 to 60 productive infrastructure projects, with a value of approximately \$40,000 to \$50,000, which have a 25 percent cost share requirement with local communities and donated design and engineering assistance from organizations such as FUSADES/Fortas and Fundamuni. Projects can include rural tertiary farm-to-market roads, small bridge or culvert construction; the repair of public roadways that provide access to commodity markets, community managed farm storage facilities, small-scale irrigation, input supplies for farmers for small water systems. SIA will not fund social investment projects such as schools or clinics.

Component 3: Broader Access to Financial Markets and Services (IR 2.3)

- Under Sub-IR 2.3.1 (Financial Institution Strengthening to Increase SME Lending and Further Develop and Improve Quality of Financial Terms and Services for SMEs) CRECER 21 will provide technical assistance, training and information technology equipment in order to:
 - help the rural micro-enterprise sector to achieve financial sustainability, and expand coverage of rural financial services; and also assist key micro-finance institutions to comply with Superintendent of the Financial System (SFS) requirements for becoming regulated financial institutions;
 - help financial institutions increase the loan volume to SMEs by strengthening their capacity to provide SME services and reduce risk aversion to SME lending. Examples of this type of assistance may entail: (1) technical assistance and training to better understand SME financial statements, analyze and determine SME credit risk, identify and manage problem SME loans, and manage the SME credit process; (2) exposing key financial institution staff to best practice models of successful SME lending programs; (3) expanding marketing and promotional strategies targeting potential SME clientele; and (4) improving SME loan terms
 - help SME and financial institutions take advantage of a DCA Loan Portfolio Guarantee (LPG). Through the extension of a partial guarantee, USAID EI Salvador will try to help local financial institutions overcome the market imperfection that is excluding financially viable sectors.

Application of Procedures

The Environmental Procedures 22 CFR 216.2 provides for the classification and determination of the potential environmental effects of USAID funded activities and in selected cases for the Categorical Exclusion from these requirements. Section 216.2 (c) (2) provides for Categorical Exclusions for:

- (i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.);
- (iii) analyses, studies, academic or research workshops and meetings;
- (x) Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institutions.

Under Section 216.2(d), the Environmental Procedures defines classes of action that normally have a significant effect on the environment and these always require a Positive Determination and the preparation of an Environmental Assessment. Activities such as construction, irrigation, including dams and impoundments, road and bridge construction, all require a Positive Determination. Further, under 216.2(e), it states that Categorical Exclusions do not apply to assistance for the procurement or use of pesticides, which therefore requires a Positive Determination.

Determination

All of the technical assistance, training, and small equipment activities under CRECER 21 for legal, policy and regulatory reforms, assistance for enterprise development, and increased lending to SMEs qualify for a **Categorical Exclusion** under 216.2.c.2.(i) "Education, technical assistance, or training programs..." and in (iii) Analyses, studies, academic or research workshops. The use of the DCA Loan Guarantee in sub-component 3.1 (*Increased lending to SMEs and improved quality of financial services for SMEs*) qualifies for a **Categorical Exclusion** under 216.2.c.2 (x) because the instrument provides "support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution". If any project involves policy changes that affect the environment or natural resource management, an amendment to this IEE will be submitted.

Technical assistance and training in the use of pesticides under Sub-IR 2.1.1 (SPS) and 2.1 and 2.3 (More competitive market oriented agriculture enterprises operating) requires a **Positive Determination**, and USAID/EI Salvador will assure that an Environmental Assessment is conducted, in order to recommend the use of pesticides. This EA must be completed and approved by the Bureau Environmental Officer prior to providing recommendations to farmers or counterparts.

Small Infrastructure Activity (SIA) grant program within activity 2.3 will provide co-funding for construction of rural infrastructure such as local roads, bridges, and other small construction. Because of the small scale nature of these projects and the impact from these projects on the environment can be readily mitigated, and because the Agency has environmental guidelines in the design of small infrastructure activities, we are recommending a **Negative Determination with conditions**; the condition is that grantee community will continue using guidelines already

approved by the Agency and that the Mission will develop an Environmental Management System for SIA. This activity qualifies for a Negative Determination under Section 216.3 (3) (iii), "the Agency has developed design criteria for such an action which, if applied in the design of the action, will avoid a significant effect on the environment." The Mission is currently monitoring the effectiveness of the mitigation measures included in the current guidelines that are being used and will report the results of this monitoring to the BEO, with copy to the REO, by September 30, 2004. Based on this analysis, the Mission will update the SIA environmental guidelines and develop an Environmental Management System. Furthermore, the Mission will seek approval of the Mission Environmental Officer prior to the design and construction of SIA activities.

IEE for activity 519-0462

Clearances:	MEO:WPatterson_____	Date:_____
	SDO:KDahlgren_____	Date:_____
	A/DD:TCornick_____	Date:_____
	REA: MDonald _____	Date:_____