MEMORANDUM

September 1, 1989

TO: William C. Doherty Jr.
FROM: Richard L. Hough
SUBJECT: A Popular Sector Equivalent to FUSADES

The recent Christian Science Monitor article on FUSADES brings to mind your "forty million dollar project proposal" in El Salvador.

I had problems with your original "tripartite" organization model, e.g. difficult politics on the Salvadoran side, and resistance by AID. However, the basic point or idea underlying the proposal is sound -- timely and attractive. The fact is U.S. foreign policy badly needs to get more resources directly to End-Users, without the intermediary (and bureaucratically inept and likely corrupting) role of the Salvadoran government, and as a supplement to government-to-government programs of budget support. This is surely the policy rationale for FUSADES in the private business sector which the USAID has so lavishly financed. The deep economic and social deterioration in El Salvador and its political consequences beg some bypassing of the Salvadoran Government in the resource transfer process, that is, if U.S. economic assistance is to attack even marginally this deterioration.

Why not a popular sector equivalent to FUSADES? Broadly conceived, what we would be proposing is an Institute or Foundation, subsidized by U.S. foreign aid counterpart generations, which would service the needs of the lower and middle class (or what is left of it). Popular sector organizations such as trade unions, urban and rural cooperatives, small business associations, community development groups, etc., would have direct access to loan and grant funds for a wide array of social and economic development activities, e.g., urban housing, the development of ESOP enterprises and small scale capital formation rural development projects, to mention a few. The Foundation could also provide consultant services for the technical assistance, engineering surveys, and various other support requirements that would go with an endeavor of this kind.
The policy animus behind a proposal of the kind would be the same as for FUSADES. The USAID would find it difficult to resist the logic and equity of the arguments in favor of the proposal, particularly given the extravagant volume of funding it has been providing for a similar type organization servicing only the private business sector. At the least, we could force an opening-up of FUSADES so that our people, and other popular sector organizations, would also have access to its humongous resources and services.

The management and support base of the Foundation should be considerably broader, on both the foreign and Salvadoran sides, than just AIFLD and the democratic labor movement, for example, on the Board of Directors. AIFLD's role should likely be reasonably low profile, though an AIFLD presence at the management level of the Foundation would seem prudent.

I would add that I would not push this proposal until after we have a new approved Cooperative Agreement, hopefully the last quarter of this year. (The development and negotiation of a CA this time around with the USAID likely will be a "bear" under any circumstance.) We can also lay the ground work for the Foundation in the text of the CA and perhaps also in the Cody evaluation — a gambit calculated to make it awkward for the USAID to say no once they agree to the language of the new Cooperative Agreement.

cc: Campos
    Friedman
    Estrada
    Holway
    Donovan
    Heberle
    Jessup

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