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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF EL SALVADOR

FOR THE PERIOD FY2016-FY2019

May 26, 2015

Central America Country Management Unit
Latin America and the Caribbean Region
International Finance Corporation
Multilateral Investment Guarantee Agency

The date of the last Progress Report on the Country Partnership Strategy FY2010-2012 was August 3, 2011 (Report Number 61113-SV)

CURRENCY EQUIVALENTS

The U.S. Dollar is the current currency in El Salvador

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CABEI	Central American Bank for Economic Integration
CAT-DDO	Catastrophic Deferred Drawdown Option
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CPS	Country Partnership Strategy
EHPM	Encuesta de Hogares de Propósitos Múltiples
FCPF	Forest Carbon Partnership Facility
FLACSO	Facultad Latinoamericana de Ciencias Sociales
GTZ	German Agency for Technical Cooperation
IBRD	International Bank for
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
JICA	Japan International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LAIF	Latin America Investment Facility
LAPOP	Latin America Public Opinion Poll
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee
PLR	Progress and Learning Review
REDD	Reduce Emissions from Deforestation and Degradation
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprise
TFP	Total Factor Productivity
TIMSS	Trends in International
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNODC	United Nations Office of Drug and Crime
USAID	United States Agency for International Development

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TABLE OF CONTENTS

Figures

Boxes

Tables

Annexes

El Salvador: Country Partnership Framework (CPF)

I. INTRODUCTION

1. **El Salvador is the smallest country in Central America, and one of the most densely populated in the world.** With a per capita gross domestic product (GDP) of US$7,760 (in purchasing power parity terms) in 2013, and a population of 6.3 million, the country is largely urban (about 66 percent) and ranks in the 83rd percentile worldwide for population density.[1]

2. **Since the end of the Salvadoran Civil War in 1992, the country has advanced on both the social and political fronts.** In health, El Salvador has already achieved the Millennium Development Goal (MDG) for reducing child mortality. In addition, the poorest segments of the population have been increasingly making use of healthcare facilities. This has been aided in part by a policy of free primary care services, which has significantly reduced out-of-pocket expenditures on health care. Immunization rates have also increased from 86 percent in the 1990s to 91 percent in recent years (2010-13). Similarly, the share of the population with access to improved water sources increased from 79 percent to 90 percent, and the share with access to improved sanitation expanded from only 56 percent to over 70 percent during this same time period. In education, both access to education, particularly at the primary level, and literacy rates have increased, with the most significant advances in urban areas. Finally, El Salvador has also forged ahead in consolidating democracy since the end of the Civil War, with five consecutive democratically-elected governments and peaceful transitions of power.

3. **Despite this progress and the recent reductions in income inequality, poverty remains high.** El Salvador's Gini coefficient declined by 5 points, from 0.47 in the early 2000s to 0.42 in 2012, reflecting an improvement in the distribution of income and comparing favorably to Latin America and the Caribbean (LAC) average of a 4 point decline from 0.56 to 0.52 during the same period. Moreover, this suggests that current levels of inequality are significantly below the LAC average, with only Uruguay reporting a lower Gini coefficient. At the same time, poverty remains high. Using international poverty and extreme poverty lines of US$4 per day and US$2.5 per day respectively, 35 percent of the Salvadoran population is considered poor (compared to 25 percent in LAC), and 15 percent extremely poor (compared to 12 percent in LAC).[2]

4. **Anemic growth is the main reason for the relative stagnation in poverty reduction.** After an initial "recovery bounce" from the end of the Civil War in the early 1990s, El Salvador has suffered from low levels of growth for more than two decades. With an average growth rate of real GDP per capita of less than one percent from 1996 to 2001, and an average 1.5 percent after 2001, El Salvador stands out as one of the slowest growing economies in LAC and among structurally-comparable peer countries.[3]

[1] World Bank World Development Indicators using Find-My-Friends Tool.
[2] Poverty and extreme poverty according to national poverty lines are 41 and 11 percent respectively. Poverty according to the US$1.25 poverty line is estimated at 2.5 percent.
[3] Structural peers are countries anywhere in the world that meet three criteria that also define El Salvador: population between 3 and 12 million; GDP per capita between $2,500 and $6,000; and a positive net outmigration and remittance inflows at least 3 percent of GDP. Using these criteria, the structural peers for El Salvador are: Armenia, Bosnia and Herzegovina, Dominican Republic, Georgia, Serbia, and Tunisia.

5. **There are a number of salient factors that need to be taken into account when considering El Salvador's development path.** These elements tend to have mutually-reinforcing interactions, and include: (i) elevated levels of crime and violence; (ii) high rates of migration and remittances; and (iii) low savings and investment.

6. **Crime and violence plague El Salvador, which ranks in the top five countries worldwide for homicide rates.**[4] The economic costs of violence are estimated at around 11 percent of GDP, including public and private security costs, material losses, and health costs. In 2010, crime overtook economic issues as the number one problem in the country according to perception surveys. El Salvador's violence is rooted in, among other things, the history of Civil War, the rise of gangs (*maras*, which were originally formed among migrants in the U.S. who were then deported back to El Salvador), and an increase in drug trafficking through Central America.

7. **High rates of migration, and the resulting significance of remittances, are key features of the Salvadoran economy.** Around one in three of the 6.3 million Salvadorans lives abroad, namely in the U.S., which has become a "society of reference" for many.[5] Of the 2 million self-declared Salvadorans in the U.S., 1.2 million were born in El Salvador and migrated to the U.S.; the other 0.8 million are descendants of Salvadoran migrants, but were born in the U.S. Another 23 percent of the population (1.5 million) indicate that they intend to migrate in the next few years.[6] The most significant factor correlated with the intention to migrate is age, with those aged 16-29 being more likely to want to migrate.[7] Receipt of remittances is also correlated with the intention to migrate, likely representing the "pull" of network effects associated with connections to relatives who have already migrated. Victimization of both crime and corruption also influences migration intentions, as does gender, with males more likely to migrate. Migration has generated significant remittances, which currently exceed 16 percent of GDP and constitute an important source of income for many Salvadoran families. Around 13 percent of households in the poorest 40 percent of the population receive remittances, while the corresponding figure for the three richest quintiles is 18 percent.

8. **Low savings and investment dramatically affect the economy.** Gross national savings stood at an average of 11 percent of GDP for the period of 2000-2013, lower than savings rates in structurally-comparable peer countries (13 percent), LAC (16 percent), lower-middle income countries (20 percent), and the world average (21 percent). In parallel, investment rates are quite low, at just 14 percent of GDP, placing El Salvador in the bottom 7th percentile worldwide. Low savings and investment are also linked to low access to finance. Only 14 percent of the Salvadoran population has access to an account in a formal financial institution, well below the LAC average of 39 percent.

9. **El Salvador has been stymied by perpetuating "vicious circles" of low growth.** Many studies have analyzed the development challenges of El Salvador, identifying numerous areas that require attention in order to help the country rebound from persistently low growth. However, the

[4] UNODC (2013). *Global Study on Homicide 2013.* United Nations Office of Drug and Crime. Since 2000 the number of homicides has always been above 30 per 100,000, five times the world average. It peaked at over 60 homicides per 100,000 before a truce declared between *maras* (gangs) in March 2012. The truce has since unraveled, and homicides escalated again in 2014.
[5] UNDP (2013), *Informe sobre Desarrollo Humano El Salvador 2013. Imaginar un nuevo país. Hacerlo posible.*
[6] Data from the Latin America Public Opinion Poll (LAPOP) 2012
[7] Multi-variate analysis by Hiskey, Jonathan et. al. (2014). "Violence and Migration in Central America." AmericasBarometer. *Insights*. Based on data from LAPOP.

recent Systematic Country Diagnostic (SCD)[8] argues that progress can be more difficult than previously thought because the barriers to growth are reinforced by the low growth rates themselves. This implies that a number of vicious circles could hamper growth and shared prosperity. First is the vicious circle between low growth and violence. Crime and violence negatively affects the business climate, investment, and overall economic growth. Lower economic growth, in turn, results in lower economic opportunities for the population, creating incentives for at-risk groups to join gangs and other crime groups, therefore contributing to higher crime rates and hence closing the vicious circle between high crime and low growth. A second vicious circle is created by the combination of low growth and high migration and remittances flows. Limited opportunities, combined with high rates of crime and violence, push people to migrate. In the context of El Salvador (and other LAC countries), remittances associated with these migration flows have been found to negatively affect labor force participation rates by increasing reservation wages (defined as the lowest wage rates at which a worker would be willing to accept a particular type of job). These factors, plus an appreciation of the real exchange rate associated with higher capital flows from remittances, all combine to undermine the country's competitiveness and, ultimately, growth. A third vicious circle is created by the link between low growth, savings, and investment. The empirical evidence for El Salvador indicates that the savings rate associated with remittance flows is lower than that for non-remittances income. Thus, the low growth-migration-remittances link results in a lower aggregate savings rate. In turn, this will constrain investment, and contribute to lower growth, thereby closing a third vicious circle.

10. **Low growth also affects public debt and the fiscal deficit, raising concerns of fiscal sustainability.** As a dollarized economy, macroeconomic stability in El Salvador requires a high degree of fiscal prudence. Although debt levels are still manageable, projected moderate growth in the absence of fiscal consolidation would result in an increase in the debt-to-GDP ratio up to 70 percent in 2019. This implies that, in order to stabilize the debt levels, the country will require a fiscal adjustment of between 1.5 percent and 3.5 percent of GDP, depending on the target level for the public debt. Among the most significant fiscal issues that need to be addressed are the needs both to manage the pension deficit and also to improve the targeting of subsidies in electricity, gas, water and transport.

11. **Frequent disasters add to sustainability challenges.** El Salvador is among the countries most affected by weather-related events and other hazards, incurring annual losses of around 2.5 percent of GDP. Worldwide, it ranks second highest for risk exposure to two or more hazards, and highest for the total population at a relatively high risk of mortality.[9] Furthermore, climate change is expected to increase the frequency and severity of weather-related events.

12. **The new Administration is committed to making El Salvador more "productive, educated, and safe" by promoting inclusive growth and resilience.** Specifically, the Government's Five Year Plan[10] supports three priority pillars: (a) stimulating productive employment through sustained economic growth; (b) bolstering education with inclusion and social equity; and (c) strengthening citizen security, through an ambitious program of objectives and actions.

[8] "El Salvador: Building on Strengths for a New Generation." WBG SCD. (March 10, 2015).
[9] Between 1982 and 2005, nearly 6,500 people died as a consequence of various natural disasters.
[10] Secretaría Técnica y de Planificación; Gobierno de El Salvador (January 2015). "El Salvador Productivo, Educado y Seguro." Plan Quinquenal de desarrollo (2014-19).

13. **The World Bank Group's (WBG) proposed new CPF intends to promote inclusive growth and to foster resilience, with a focus on policy levers that could contribute to break the vicious circles in a sustainable manner.** The proposed CPF is aligned with the Government's priorities and informed by the WBG's recent SCD. To strengthen the mutually-reinforcing foundations of inclusive growth, the proposed WBG engagement would support objectives which seek to: (i) build capacity to create safer communities for economic development; (ii) improve secondary-school attainment; (iii) enhance youth employability and skills; and (iv) increase access to finance. To foster sustainability and resilience, the proposed CPF seeks to: (v) promote the efficiency of public spending; and (vi) build capacity to manage disasters and environmental challenges. Taking into account the challenges faced by El Salvador, the WBG wishes to provide a modest but catalytic role through the implementation of these six objectives.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

II.1 Poverty and Shared Prosperity

14. **Poverty has been persistently high since the early 2000s, when it stood at 45 percent, based on the national poverty line (Figure 1).** At the same time, El Salvador suffered from a lower rate of poverty reduction than the rest of LAC (Figure 2). The global crisis reversed some earlier gains in poverty reduction and El Salvador continues to suffer from stubbornly high overall poverty, with around 41 percent of the population in poverty based on the national definition. Extreme poverty has fallen faster, dropping from 19 percent in 2000 to 11 percent by 2012, largely due to gains in rural areas where the effects of the global crisis were not felt as strongly. Comparatively, according to the international poverty line of US$4 per day, the total poverty rates in El Salvador feel by less than 13 percent (about five percentage points) from 2003 to 2012, as compared to the 38 percent decrease (15 percentage points) in LAC as a whole. This implies that poverty in LAC declined three times faster than in El Salvador.

Figure 1: Sluggish Poverty Reduction
El Salvador's poverty rate
using national poverty lines, percent

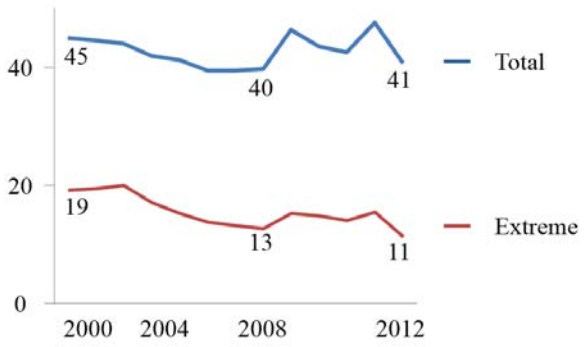
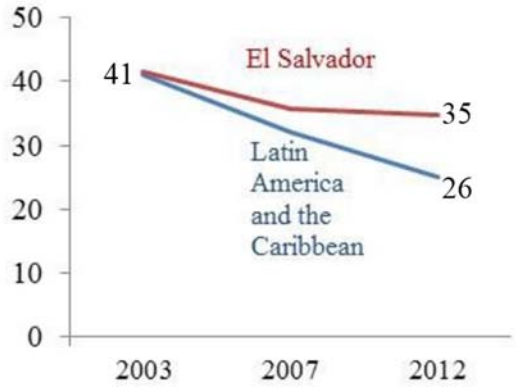


Figure 2: Lower poverty reduction than in other countries, especially since 2008
Poverty rate using international poverty line of US$4/day, percent

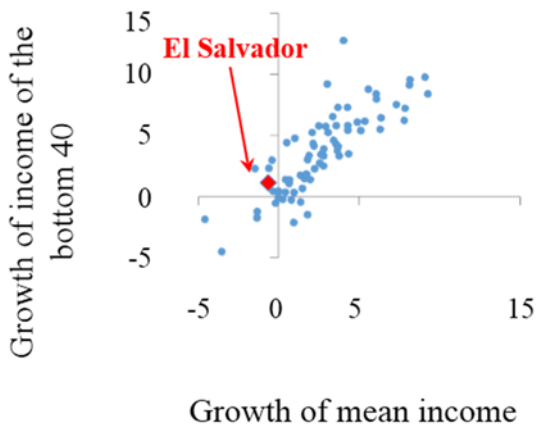


Source: World Bank staff based on the Multi-Purpose Household Survey.

15. **The poor differ from the non-poor in household characteristics, human capital, employment status, and geographic concentration.** Household composition is noticeably different, with a much higher share of children under 12 years old living in poor households (representing over 27 percent of household members vs 15 percent in non-poor households). In terms of human capital, on average, a person living in poverty has three years less schooling than a non-poor person. The poor are ten percentage points more likely to be self-employed, and twice as likely to be unpaid family workers as the non-poor. Women living in poverty are less likely to be economically active than their non-poor counterparts. While the poor are highly concentrated in urban areas, geographic disparities in poverty rates remain large. In fact, poverty rates in some departments are almost 30 percentage points higher than in the Department of San Salvador.

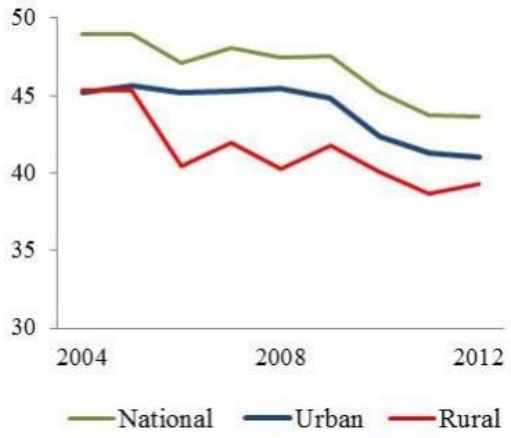
16. **El Salvador is one of the few countries in the world experiencing negative growth of mean income juxtaposed with some positive growth in the incomes of the bottom 40 percent of the population.** In terms of shared prosperity, the real per capita income of the poorest 40 percent of the population grew by 1.1 percent a year from 2006 to 2011, while the average per capita income fell by 0.6 percent per year during the same period (Figure 3). The SCD suggests that income growth of the bottom 40 percent was seven times higher than predicted, given low mean income growth. This notwithstanding, the income growth of the bottom 40 percent has been low compared to other countries. Out of 72 countries for which roughly comparable data is available, there were 54 countries that had higher income growth than El Salvador; only 5 had a lower mean growth (Figure 3). In addition, El Salvador is one of the few countries in LAC in which the size of the middle class has not increased, as in much of the rest of LAC.

Figure 3: Lagging on shared prosperity
Growth across 72 countries of mean income and income of the bottom 40 percent, circa 2006-2011



Based on real mean per capita consumption or income measured at 2005 Purchasing Power Parity.
Source: WBG SCD (March 2015)

Figure 4: Falling Inequality
Gini coefficients among urban, rural and national households



Source: WBG SCD (March 2015)

17. **The small gains in poverty reduction and shared prosperity were driven both by a fall in inequality and by growth, albeit meager.** The Gini coefficient for income inequality fell from 0.49 in 2004 to 0.44 in 2012 (Figure 4). Despite this decline, inequality remains higher than the average for lower-middle income countries and other structurally-comparable peers. Pre-crisis

growth did contribute to some poverty reduction (Figure 2 above), and a Datt-Ravallion decomposition reveals that growth accounted for about 72 percent of poverty reduction and inequality for about 28 percent during that period. El Salvador benefitted from a high growth-poverty elasticity in the pre-crisis years – likely boosted by the fall in inequality and improvements in the distribution of income towards the bottom 40 percent. Specifically, it is estimated that, during this time, a one percent change in GDP was associated with a 2.2 percent change in extreme poverty.[11] During the crisis and post-crisis period from 2007 and 2012, changes in poverty were too small to perform this decomposition, likely due to El Salvador's meager growth rates.

18. **Outcomes for females raise further concerns about shared prosperity across genders, which has been mixed (Box 1).** Although El Salvador has adopted domestic legislation to implement international commitments on gender, it lags behind the LAC average in female labor force participation, pregnant women receiving prenatal care, and teenage pregnancy rates. For many indicators, improvements have been mostly driven by urban, more educated, and wealthier women. Some factors seem to be mutually-reinforcing. The high share of women between the ages of 15 and 24 who neither study nor work (the so-called "*ninis*"[12]) stands out. The link between higher remittances and lower female labor force participation is also notable, as is the large number of children being raised with absent parents – particularly fathers – who have migrated to the U.S.

Box 1: Uneven Progress on Gender – with Self-Reinforcing Dynamics

El Salvador has made important efforts to recognize and advance the rights of women by signing and ratifying major international treaties and passing several important pieces of domestic legislation. However improvements in the legal framework have not fully translated into comparable progress in gender equality of endowments, such as health, education, economic opportunities, family dynamics, voice and agency. Many of these factors entail mutually-reinforcing dynamics, for example, with interactions between school dropout, teen pregnancy, female labor force participation, economic dependence on remittances from absent male partners and fathers who have migrated, and differentiated impacts of crime and violence.

- **Reproductive health and teen pregnancy:** El Salvador has made progress on all of the reproductive health indicators over the last decade. Maternal mortality has decreased, the share of women receiving prenatal care has increased, and the prevalence of contraceptive use has risen. These improvements, however, have not been equally enjoyed throughout the country, as socioeconomic characteristics, including poverty, education, and location, greatly impact health indicators. Abortion is illegal under any circumstances, which has prompted the UN's Committee on the Elimination of Discrimination Against Women to call for a national dialogue on the consequences of that restrictive legal framework in 2008. Adolescent fertility, an important proxy indicator for women's agency, has decreased from 100 births per 1,000 women aged 15-19 in 2000 to 76 in 2012. However, it remains high among rural and less educated teens.[13] UNFPA reports that 32 percent of prenatal visits in El Salvador in 2013 were for women under the age of 19, of which two percent of those were for very young girls, ages 10-14.
- **Education – and the *ninis***: Secondary school dropout rates are high overall for El Salvador, as just 40 percent of Salvadorans ages 25 to 29 have completed high school. Gender differences for school completion are small overall, but dropout rates are higher for girls in upper secondary school. The self-described reasons for dropping out are different, with girls more likely to declare "lack of

[11] Cadena, Kiyomi E et. al., (2013). *Central America in the New Millenium: Six Different Stories of Poverty and Inequality.* The World Bank.
[12] Short for '*ni trabajan, ni estudian*.'
[13] See also - World Bank, Teenage Pregnancy and Opportunities in Latin America and the Caribbean, 2012.

interest" or "personal reason" for not being in school (possibly related to household duties), whereas boys are more likely to leave school for "economic reasons." Moreover, what teen boys and girls do after leaving school differs significantly. Gender norms that affect young men and women's roles within the family and society are likely to impact individual decisions to continue or to leave school. Among the youth aged 15 to 24, women are more likely than men to be neither studying nor working: 35 percent of women vs. 10 percent of men in that age group are so-called *ninis*, short for '*ni trabajan, ni estudian*.' Female *ninis* often mention the need to do household work as a predominant reason to drop out of school and 45 percent of them are either married or living with a partner, compared to 10 percent of male *ninis*.

- **Labor force participation and economic opportunity:** Female labor force participation lags behind regional averages and the contributing factors to this low participation constitute a knowledge gap. However, the female unemployment rate is lower than the regional average and the male unemployment rate. Women in El Salvador are also less likely than men to have an informal job. In addition, the gender wage gap is among the lowest in the region: in 2010 women received, on average, 87 percent of men's remuneration. The combination of low participation rates and relatively good indicators of the quality of labor force participation suggests the existence of some barriers to entering labor force, which discourage the less qualified. Gender norms may constitute one such barrier. However, this hypothesis needs further investigation.
- **Migration, dependency, parental absence, and family dynamics:** Males are significantly more likely to migrate than females, and females in households that receive remittances have lower labor force participation rates than those who do not. Micro-econometric evidence shows that remittances reduce labor force participation for women at all ages, with a higher negative impact at younger ages, presumably allowing maternity options or home-based activities (Acosta 2006). However, this can put young women in a situation of being dependent on income support from remittances of male partners living abroad. It also raises the issue of parental absence – particularly for fathers. About one third (35 percent) of all minor children in El Salvador are being raised in households with a single parent (or none). A quarter (24 percent) of children are being raised by a single mother. Fathers account for 93 percent of "absent parents" (and this figure has remained stable over the years from 2010-13).
- **Crime and violence:** Young men are much more likely to be victims of homicide, while women are much more likely to suffer violence in private and at the hands of those they know. Household survey data suggests that women are more likely to report physical or sexual partner violence in El Salvador than elsewhere in LAC; 36 percent of women ever married or in union (age 15-49) sought institutional help, and 65.5 percent told family and friends.
- **Political participation, voice and agency:** In national-level politics, female participation grew significantly after a national political party reform establishing a 30 percent quota of women on electoral ballots. In 2013, with 26 percent female representation in parliament, El Salvador exceeds the LAC average. Gains in municipal-level representation remain small, with women making up only ten percent of Salvadoran mayors.

Source: "El Salvador: Building on Strengths for a New Generation." WBG SCD (March 2015).

II.2 Growth, Inclusion, and Sustainability

19. **Patterns of poverty and shared prosperity in El Salvador tell a story of missed growth opportunities, relative lack of inclusion, and unsustainable use of economic and environmental resources.**

Growth

20. **El Salvador is seemingly trapped in a low growth equilibrium.** Per capita growth averaged less than one percent per year from 1996 to 2001, and 1.5 percent since 2001 (Figure 6). This performance is well below the growth rates observed in LAC, other lower middle income countries, or in a set of peer countries that share similar structural characteristics as El Salvador (Figure 6). Out of 72 countries for which (roughly) comparable data on household income is available, only five countries had average income growth lower than El Salvador since 2000: Guatemala, Madagascar, Mali, Serbia, and Albania.

Figure 5: El Salvador's growth has been low for an extended period
GDP growth, percent

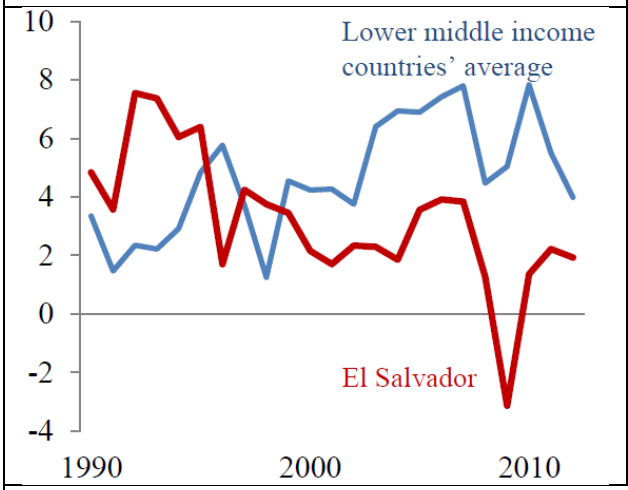
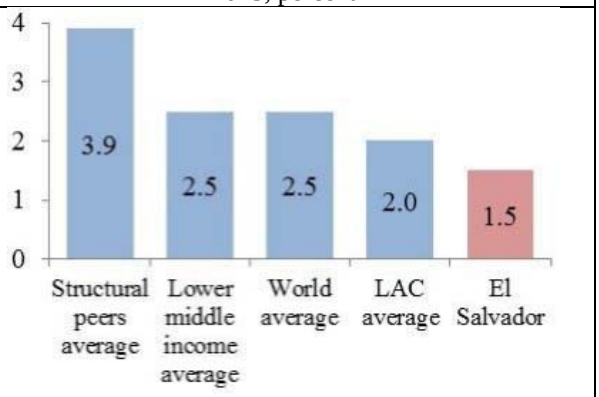


Figure 6: Per capita GDP growth has been higher in comparator countries
Average annual real per capita GDP growth 2000-2013, percent



Source: WBG SCD (March 2015)

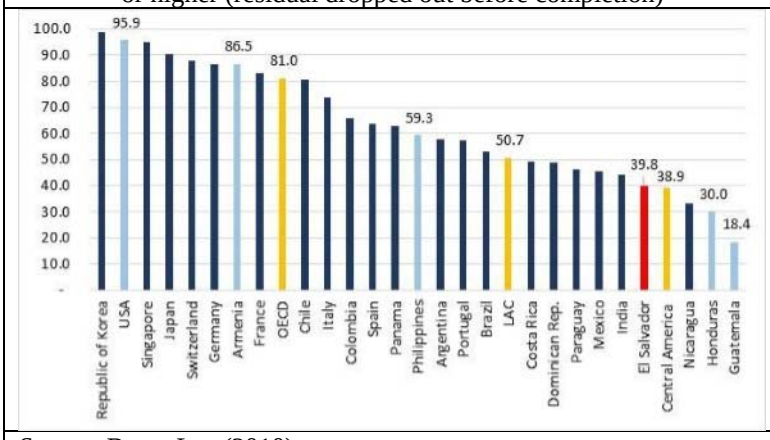
21. **The country stands out for having very low rates of investment.** Gross capital formation has averaged about 15 percent of GDP since 1990, putting El Salvador in the bottom decile of countries worldwide. Both public and private investment is low, as is foreign direct investment, which has fallen from an average of 2.7 percent of GDP in the pre-crisis period (2000-07) to 1.3 percent post-crisis (from 2010-13).[14] Total factor productivity growth over the past twenty years has remained below 0.2 percent per year, and the contribution of labor has not been enough to offset low capital formation.

22. **Productivity is also constrained by a low-skilled workforce.** Only 31 percent of the population aged 25-55, which could reasonably be viewed as the primary workforce, has completed secondary school (or higher). Even more worrisome is that the education system continues to produce unskilled workers. Only 40 percent of young adults aged 25-29 have completed high school, as compared with over 50 percent in LAC, 81 percent in the OECD and 96 percent in the U.S. High school completion is much higher in other countries that have high rates of international migration, such as Armenia and the Philippines (Figure 7). Moreover, the quality of education in El Salvador is low, leading to learning outcomes far below those achieved

[14] World Bank World Development Indicators using the Find-My-Friends Tool.

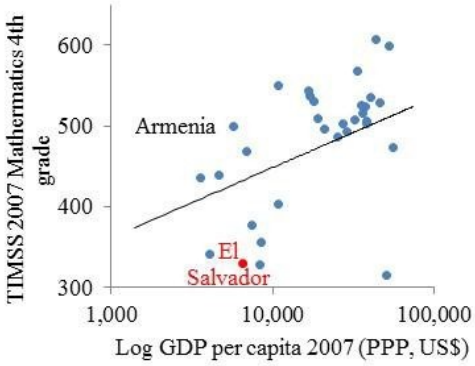
in most other countries (Figure 8). These gaps in educational attainment are concerning, given that businesses ranked the "inadequately educated workforce" among the top five obstacles in the business environment in El Salvador, and higher than other hindrances (such as customs and trade regulations, corruption, licensing and permits, tax rates, and electricity costs).[15] Nearly two-thirds of firms report that adequate technical skills are the most difficult to find when hiring workers, including science and technology, English-language ability, problem-solving skills and analytical thinking. Consequently, productivity growth is constrained by the low skill-content of most jobs and less knowledge-intensive services. Compared to other countries such as the U.S. or Costa Rica, El Salvador's labor force performs tasks with a larger content of manual physical skills.[16] As such, El Salvador faces the conundrum that its skills cannot compete in higher value-added sectors, and its competitiveness is compromised in the low-value added sectors due to high reservation wages, which are propped up by migration and remittances, as discussed below.

Figure 7: Low levels of schooling among young adults
Share of population aged 25-29 that has completed secondary school or higher (residual dropped out before completion)



Source: Barro-Lee (2010)

Figure 8: Low learning outcomes
Student scores in math (vertical) and GDP per capita (horizontal) across countries



Source: TIMSS and World Bank

23. **Firms also face high costs of production in energy, transport and logistics.** Electricity prices are high, especially for industrial users, due in part to the high dependence on oil (which accounts for 36 percent of electricity generation). Electricity costs in El Salvador are the highest in the LAC region, at US$0.27 per kilowatt hour, as compared to US$0.19 in LAC and US$0.08 in the U.S. Although the energy sector was privatized in the 1990s, the small size of the domestic market and the regulatory framework have been factors limiting new investments that could have diversified energy sources and reduced costs. For example, third-party access conditions to the electricity transmission grid are subject to negotiation, rather than regulated, which can limit the entry of new market investors in electricity generation. The costs of transport and logistics are also high, and the UN Liner Shipping Connectivity Index ranks El Salvador 92nd out of 155 countries. Available data suggest that it costs more to ship a container between San Salvador and the East Coast of the U.S., than between the U.S. and many ports in Asia. In trucking, border frictions, wait times, traffic congestion, high empty backhaul, informal payments and insecurity all contribute to raising the costs of road freight substantially.

[15] World Bank – IFC Enterprise Surveys: El Salvador Country Profile 2010.
[16] Aedo, Cristian and Ian Walker (2012). *Skills for the 21st Century in Latin America and the Caribbean.* World Bank.

24. **Crime and violence further add to the costs of production and commercialization, thereby reducing competitiveness.** Enterprises, particularly micro, small, and medium enterprises (MSMEs), as well as households are heavily affected by extortion and high levels of violence in their business activities. In addition to paying for private security costs, which are among the highest in the world, there is increasing evidence that fear of crime (extortion in particular), prompts some businesses to exit the market altogether.

25. **Low access to finance, particularly for MSMEs, appears to be a binding constraint to growth.** Despite recent efforts through the small public banking system, the gaps in access to finance are not being filled and El Salvador's financial system has been growing more slowly than the regional average. At 44 percent of GDP in 2013, private sector credit is below its expected value, based on predictions given its level of development. Similar to gaps in access, private sector credit also lags behind regional averages for Central America and LAC.

26. **Growth has been sluggish across all economic sectors.** No sector has grown more than three percent per year over the period from 2010 to 2013, with the exception of mining, which accounts for less than one percent of GDP. The better performing sectors are construction, which grew at 2.3 percent per year, and government services, which grew at 2.8 percent. Among the largest sectors of the economy, manufacturing grew at 1.5 percent, and retail and hospitality grew at 1.8 percent. However, competition from other countries (many with lower wages) has started to erode the competitiveness of Salvadoran maquila exports, typically textiles assembled for export to the U.S.

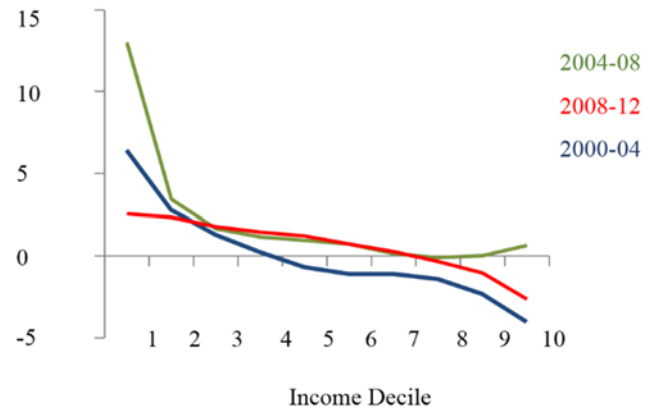
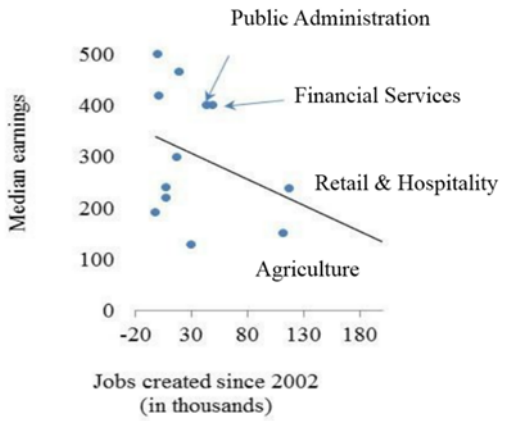
27. **High consumption drives growth and fuels import growth.** Consumption reached 106 percent of GDP in 2013, putting El Salvador in the 94th percentile in the world for consumption as a share of GDP.[17] Imports continue to outpace exports (representing 61 and 41 percent of GDP, respectively), and the gap between the two is widening. From 2010 to 2013, imports grew at 2.5 percent annually, while exports grew by only 1.5 percent per year. The heavy reliance on remittances coupled with the high share of consumption in GDP have led some analysts to label the Salvadoran model of economic development as one of "promoting the import of consumer goods and the export of labor."[18]

Inclusion

28. **Inequality has fallen somewhat, largely driven by gains in incomes on the lower end of the distribution** (Figure 9). Labor income accounts for 72 percent of the decline in inequality since 2000, while remittances explain seven percent and government transfers explain only three percent.

29. **The relative improvement in the labor incomes of the poorest were driven by gains in employment.** Employment expanded in sectors such as agriculture, retail, and hospitality, which tend to employ relatively higher numbers of the poor.[19] However, these sectors also tend to have relatively low wages (Figure 10) and, as a result, are often unable to lift workers out of poverty.

[17] World Bank World Development Indicators using the Find-My-Friends Tool.
[18] UNDP (2013). *Informe sobre Desarrollo Humano El Salvador 2013. Imaginar un nuevo país. Hacerlo posible.*
[19] WBG SCD (March 2015).

Figure 9: Incomes of the poorest have grown faster than the rest Growth incidence curves (annualized growth of income by decile, percent)	**Figure 10: Most jobs have been created in low wage sectors** Median earnings and employment change by sector
	
Source: Calculations based on *EHPM*.	*Sources*: World Bank Social Sector Expenditure Review (forthcoming) and Central Bank of El Salvador

30. **As a result, upward mobility has been limited, while even small negative income shocks can push people deeper into poverty.** Substantial income growth was required for households to move out of poverty — from 28 to 45 percent, depending on location. In contrast, a much smaller decline in income, around 10 percent, was enough to push households into poverty. Overall, the level of income growth was not enough to lift significant numbers of people out of poverty. Those whose income gains were large enough to escape poverty were in almost all cases from the second quintile, indicating that poverty depth among those in the lowest quintile is a particular challenge. More broadly, the asymmetry of mobility and income growth also highlights the importance of the challenge of vulnerability.

31. **With limited upward mobility, the size of the middle class has not increased.** El Salvador has not experienced the middle-class boom that has characterized much of LAC in the last decade. Consultations for the SCD revealed a broad consensus that a stagnant middle class was a critical issue, as it limits opportunities for social advancement and perpetuates the view that opportunities are to be sought by migrating.

32. **Uneven access to education, basic services, and finance pose additional barriers to inclusion.** Inequities in access to education start early in life, with only 38 percent of children in the bottom quintile attending pre-school. Only 55 percent of seven-year-old children in the bottom 40 percent are able to read, as compared with 73 percent in the top three quintiles of the population. Such inequities increase with age, such that by age 15, the gap in attendance between the lowest and highest quintiles is 20 percentage points. Inequities in access to health care also persist, and 42 percent of people in the poorest two quintiles do not seek health care when ill, despite the recent policy introducing free primary health care services. Moreover, access to improved sanitation facilities is still limited, particularly in rural areas where only 53 percent of the population has such access. Financial inclusion of the bottom 40 is also a challenge, as vast majority of the population

reports that they do not have an account at a formal financial institution: just six percent of those in the bottom 40 report having such an account. There are also differences in gender and geographic area, with 10 and 18 percent for females and males reporting having a formal financial account, and 11 and 18 percent for rural and urban, respectively.

Sustainability

33. **Sustainability is hampered by inadequate state capacity and fiscal imbalances.** Low confidence in public institutions is in part a reflection of state inefficiency.[20] Capacity is limited by low public revenues and also manifests itself in the difficulty of raising revenues, especially from direct taxes.[21] Tax revenues averaged 10 percent of GDP throughout the 1990s, only reaching 12 percent of GDP in 2005. Since then, the Government has managed to increase tax revenues to around 15 percent of GDP in 2014 (Table 1).[22] Notwithstanding these tax efforts, the fiscal deficit has increased, averaging 4 percent of GDP over the past three years. Pensions benefit only a small minority of the population, but generate imbalances that account for two percentage points of GDP, or half of the fiscal deficit.

34. **While debt levels are still manageable, the increase in public debt since the global crisis needs to be contained.** A debt sustainability analysis suggests that if current spending and growth trends continue, public debt would increase to around 70 percent of GDP by 2019.[23] Estimates suggest that fiscal adjustments of between 1.5 and 3.5 percentage points of GDP would be needed, depending on whether debt stabilizes at slightly higher levels than now or is reduced to around 50 percent of GDP.[24] Without strong economic growth and fiscal discipline both on the revenue and the expenditures side, the fiscal situation could deteriorate substantially and endanger the Government's development plan.

35. **Exposure to frequent disasters also poses a challenge to El Salvador's sustainability.** The impact of natural disasters results in average annual losses of around 2.5 percent of GDP. These losses add to fiscal pressures and constrain wealth accumulation, lowering potential growth in the medium-to-long-run. A study on the effects from 6,700 cyclones on long-run economic growth found that income levels remain permanently lower than the pre-disaster trend line.[25]

36. **High urbanization puts increasing pressure on natural resources, particularly water, and weak territorial planning intensifies the risk of natural disasters.** With a population density of 304 people per square kilometer (ten times the LAC average), El Salvador is one of the most densely populated countries in the world, and over 50 percent of its geography is

[20] While state capacity is notoriously difficult to benchmark across countries, an indicator such as the institutions pillar of the Global Competitiveness Report shows El Salvador lagging behind the averages for the region, lower middle income countries, the world, and the set of structural peers.

[21] From 1992, when the value-added tax was introduced, to 2005 indirect taxes accounted for 70 percent of all tax revenues. Despite efforts to increase income tax collections that ratio is still around 63 percent as of 2013

[22] During this period, the country passed 13 tax reforms, including the creation of new taxes on specific goods and increasing rates (corporate and personal income tax, and selective taxes on consumption).

[23] The key assumptions in this baseline scenario for the debt sustainability analysis were as follows: (a) GDP is growth was expected to average 1.9 percent over 2014 to 2019, which is equal to the historical average from 2003 to 2013; and (b) Primary expenditure was projected to remain higher than revenue leading to an average primary deficit of 1.6 percent of GDP.

[24] IMF (2015), *2014 Article IV Consultation – Staff report, press release, and statement by the authorities of El Salvador*. IMF Country Report No. 15/13.

[25] Hsiang, Solomon and Amir Jina (2014). "The Causal Effects of Environmental Catastrophe on Long-Run Economic Growth: Evidence from 6,700 Cyclones." National Bureau of Economic Research. Working Paper Series, Working Paper No. 20352.

mountainous. This contributes to a number of acute environmental challenges. Deforestation in the upper reaches of river basins and inadequate land-use management in both rural and urban areas have led to over a quarter of the land in El Salvador being affected by degradation and erosion. Investments in urban water and sanitation have been insufficient to offset urban population growth. The lack of investment is especially significant in urban sanitation, where the MDG targets will not be met and the coverage levels may continue decreasing. Furthermore, the current tariff schemes do not cover operation costs, resulting in low quality services and representing a barrier to service expansion. In addition, herbicide use is inadequately managed and significantly higher than in other countries, solid waste management is still limited, and air pollution, including indoor air pollution (due to the use of solid fuels), have important environmental and health impacts, especially on the bottom 40 percent of the population.

II.3 Recent Economic Developments and Prospects

37. **El Salvador's economy continues to be characterized by low growth.** The global crisis hit the country hard, given its heavy dependence on the U.S. for remittances and exports. Recovery has been slow. Specifically, between 2011 and 2013, the economy grew at 1.9 percent annually, well below the LAC average (3.7 percent).

38. **Looking ahead, the medium-term macroeconomic framework does not project any major increase in economic growth (Table 1).** Real economic growth in 2014 is estimated at 2.0 percent and is projected to reach 2.3 percent during the period from 2016–19 (Table 1). This outlook depends on developments in the U.S. economy, the evolution of the terms of trade, and the country's ability to mobilize resources to finance public investment through Public-Private Partnerships (PPPs) and other mechanisms. Under this scenario, dollarization would anchor inflation at two percent over the projection period. The current account deficit, after a decline in 2014-2015, is projected to continue increasing and reach 6.2 percent of GDP by 2019 (Table 1). Public debt is expected to be driven by high fiscal deficits and rise to over 70 percent of GDP by 2019. The country has been able to mobilize financing, and international reserves have remained relatively stable, at about US$3 billion. However, the rising debt levels increase the country's vulnerability. Key macroeconomic variables that drive growth, such as savings and investment, are projected to remain stable at low levels.

Table 1: Selected Economic Indicators & Forecasts, 2008-2019												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Production and prices												
Nominal GDP (US$ billion)	21.4	20.7	21.4	23.1	23.8	24.3	25	26.2	27.3	28.6	29.7	30.9
Real GDP growth (%)	1.3	-3.1	1.4	2.2	1.9	1.7	2	2.2	2.4	2.6	2.3	2
Inflation rate (CPI)	5.5	0.1	2.1	5.1	0.8	0.8	2	2	2	2	2	2
Gross domestic investment (% of GDP)	15	13	13	14	14	15	15	15	15	16	15	15
Public sector	2	2	2	2	3	3	2	3	3	3	3	3
Private sector	13	11	11	12	12	13	12	12	13	13	12	12
Gross national savings (% of GDP)	8	12	11	9	9	9	9	10	10	9	9	8
Public sector	0	-3	-2	-2	-1	-1	-1	-1	-2	-2	-2	-3
Private sector	8	15	13	11	10	10	11	11	11	11	11	11
External sector												
Current account (% of GDP)	-7.1	-1.5	-2.5	-4.8	-5.4	-6.5	-5.5	-4.9	-5.6	-6.5	-6.3	-6.2
Merchandise trade balance	-22	-15	-17	-18	-19	-20	-19	-19	-19	-20	-20	-20
Services	-1	-0.4	-0.4	-0.3	0.2	0.3	0.8	0.8	0.8	0.8	0.8	0.8
Primary income	-1.8	-2.7	-2.5	-2.8	-3.7	-4	-4.4	-4.4	-4.4	-4.5	-4.5	-4.7
Remittances	17.5	16.7	16.8	16.6	16.9	16.9	17.5	17.5	17.4	17.3	17.3	17.2
Terms of trade (% change)	-9.5	12.6	-5.6	-2.5	0.5	-1.6	2.1	1.9	0.2	0.1	0	0.5
FDI (Net) (% of GDP)	4.2	1.8	-1.1	0.9	2	0.6	0.5	1.7	1.8	2.1	1.9	1.9
Public Sector												
Revenues and grants (% of GDP)	17.4	16.4	17.8	18.2	18.9	19.3	19	19	19.4	19.5	19.5	19.4
Current revenues, o/w:	17.2	15.9	17	17.3	18.2	19	18.8	18.8	19	19.1	19.2	19.2
Tax revenues	13.5	12.6	13.5	13.8	14.4	15.4	15.2	15.2	15.4	15.6	15.6	15.6
Non tax revenues	2.9	2.8	3	2.8	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Others	0.8	0.5	0.5	0.7	0.7	0.5	0.5	0.5	0.5	0.4	0.5	0.5
Spending and net lending (% of GDP)	20.6	22.1	22	22.2	22.8	23.4	23	23.4	24	24.3	24.6	24.9
Current spending, o/w	17.5	19	18.9	19.3	19.4	20.2	20	20.2	20.8	20.9	21.2	21.7
Wages and salaries	7.1	8	8	8.3	8.4	8.7	8.9	9.1	9.1	9.1	9.1	9.1
Goods and services	3.8	4.2	4.4	4	3.9	4.4	4.2	4.1	4.1	4.1	4.1	4.1
Interests	2.4	2.6	2.4	2.2	2.3	2.4	2.5	2.7	3	3.2	3.5	3.9
Current transfers	4.1	4.2	4.1	4.7	4.7	4.6	4.4	4.3	4.3	3.4	4.5	4.6
Capital spending	3.1	3.1	3.2	2.9	3.4	3.2	3	3.2	3.4	3.4	3.4	3.2
Primary balance (% of GDP)	-0.8	-3.1	-1.9	-1.7	-1.6	-1.6	-1.5	-1.7	-1.6	-1.6	-1.6	-1.6
Overall fiscal balance (incl. pensions, % of GDP)	-3.2	-5.7	-4.3	-3.9	-3.9	-4.1	-4	-4.4	-4.6	-4.8	-5.1	-5.5
Total public debt (% of GDP)	45.4	51	52.2	52.2	57.3	57.8	60	61.9	63.9	65.9	68.5	71.4
Sources: World Bank estimates for 2014; forecasts for 2015-19. Historical data from the Central Bank of El Salvador												

39. **The fiscal situation is progressively deteriorating.** The overall fiscal deficit in 2014 closed at four percent of GDP and the public sector debt reached 60 percent, up from 45 percent in 2008 (Table 1). The size and pace of fiscal adjustment will be challenging, given the need to balance fiscal discipline and the potentially contractionary effects on (already low) growth and employment. The authorities are emphasizing measures to reduce leakages in tax collection, control expenditures, and address the imbalances in the pension system, which account for about half of the fiscal deficit. A draft Fiscal Responsibility Law, now under discussion in the Legislative Assembly, could serve to anchor a solid fiscal policy. Likewise there is ample space for improving budgetary procedures and transparency to avoid arrears through improved commitment control, moving to a more comprehensive budget that considers and includes quasi-fiscal expenditures and contingent liabilities.

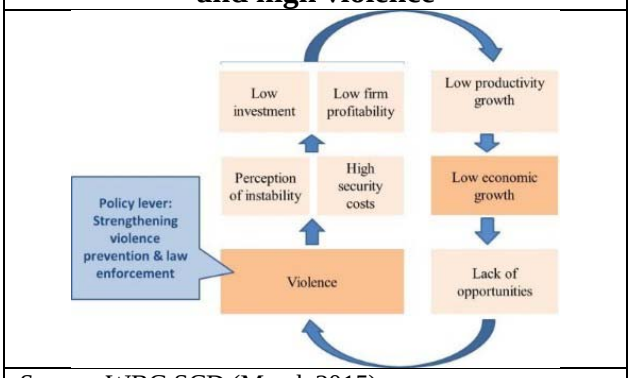
II.4 Key Development Challenges: Breaking the Vicious Circles of the Low-Growth Equilibrium

40. **El Salvador faces numerous challenges, calling for action on many fronts.** One key challenge is to overcome low investment and low productivity growth. High rates of crime and violence are likely to be among the factors deterring investment, given high costs and risks of insecurity. Low returns to productive investment and low profitability are also likely factors, reflecting high wages given the level of skills, the high costs of services such as electricity and transport, and insufficient learning from better technologies and business practices. Political polarization is another factor, both as a bottleneck to structural change and to the administration's efforts to tackle emerging challenges.

41. **The SCD argues that the challenge in El Salvador is not to identify the proximate constraints to growth, but how those constraints are inter-connected and what entry points may help break what can be characterized as "vicious circles."** The SCD identifies three inter-connected vicious circles that hamper growth and shared prosperity: (1) the cycle of low growth and violence; (2) the cycle of low growth and migration; and (3) the cycle of low growth, savings and investment. Moreover, it also notes action on the identified entry points will require a "big push" (rather than marginal interventions) that help break the existing development dynamics.

42. **First is the vicious circle between low economic growth and violence (Figure 11).** Low growth creates a lack of opportunities, which in turn is among the factors that spawn crime and violence. Violence then fosters perceptions of instability and results in high security costs to institutions, firms and households. In turn, the risks and costs of insecurity deter investment and reduce firm productivity, resulting in lower productivity growth – which in turn hampers overall economic growth in a perpetual cycle.

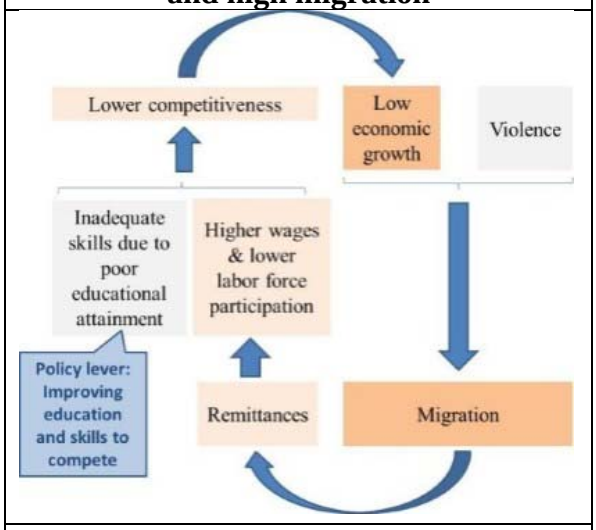
Figure 11: Vicious circle of low growth and high violence



Source: WBG SCD (March 2015)

43. **The second is the vicious circle between low growth and high remittances (Figure 12).** The interaction of low growth and violence pushes many Salvadorans to migrate in search of better opportunities, often following relatives who previously migrated for similar reasons.[26] A large real wage gap keeps attracting migrants to the U.S., with Salvadoran migrant families in the U.S. averaging about five times more in per capita income than their counterparts back home. Violence is another "push" factor for migration, with a strong correlation between victimization and intentions to migrate. Increases in capital inflows associated with migrant remittances lead to an increase in consumer demand. In turn, as households see their incomes rise, reservation wages increase and labor supply falls. In the most direct way, out- migration implies the removal of a labor force that otherwise would be available in country, representing a "brain drain," given that Salvadoran-born migrants have higher educational attainment than those who remain in the country. Indirectly, migration has also contributed to the reduction in the workforce, as females in households that receive remittances have lower labor force participation rates in El Salvador. Higher wages and lower skills and labor force participation, plus real exchange rate appreciation associated with higher capital inflows from remittances, combine to reduce El Salvador's competitiveness – and ultimately, growth.

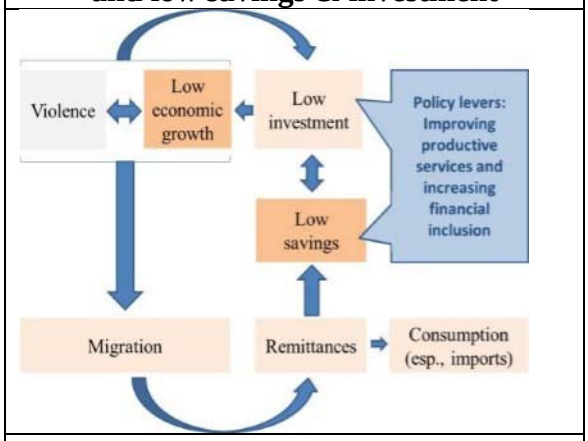
Figure 12: Vicious circle of low growth and high migration



Source: WBG SCD (March 2015)

44. **A third vicious circle involves the cycle of low growth, savings and investment (Figure 13).** As discussed in the SCD, migrant remittances also appear to lower the savings rate, as evidence indicates that the propensity to save out of remittance income is lower than the corresponding savings rate from non-remittance income. This reduces savings in a country that already stands out as having a particularly low savings ratio (11 percent of GDP). The issue is further aggravated by the country's limited financial inclusion. Although service providers are widely used to channel remittances, regular use of accounts in financial institutions by households and MSMEs is much more limited. Lack of financial access limits the capacity of the financial sector to intermediate between savers and investors. Low savings contribute to low aggregate investment, which is also constrained by high energy and logistics costs. In turn, low investment hampers economic growth.

Figure 13: Vicious circle of low growth and low savings & investment



Source: WBG SCD (March 2015)

[26] Niimi, Yoko and Calgar Ozden (2008:52), "Migration and Remittances in Latin America: Patterns and Development." Chapter 3 in Pablo Fajnzylber and J. Humberto Lopez (eds). *Remittances and Development, Lessons from Latin America,* World Bank Latin American Development Forum Series

45. **The SCD also identifies some strengths that El Salvador could build on to propel growth.** Areas of opportunity include migration with the positive impact of diaspora on development, geographic and cultural proximity to large export markets, particularly the U.S., and an industrial base that can support an expansion of the tradable sector. At 20 percent of GDP the manufacturing sector is large by LAC and by middle-income country standards.

III. World Bank Group Country Partnership Framework

III.1 Lessons Learned from the Current Country Partnership Strategy (CPS) (2009 – 2015)

46. **Targeted consensus-building at project preparation and continued dialogue were necessary to mitigate El Salvador's high levels of political polarization and ensure timely preparation and implementation of projects during the recent CPS period.** As had already been noted in previous Country Assistance Strategies, political polarization in the country has led to prolonged project approval processes in the Legislative Assembly. The flexible approach of the recent CPS ensured that the WBG was able to respond to Government needs as they arose in a changing economic context, proposing eight operations for approval, all of which were closely aligned with the National Development Plan. Important consensus-building efforts were carried out throughout the CPS period using the WBG's convening power to reach out to the different political parties to better explain the nature of our operations and facilitate parliamentary discussion. Continued dialogue around the implementation of widely accepted development objectives will be key in the design of the upcoming CPF program.

47. **Another lesson from the recent CPS is that lack of government inter- and intra-institutional collaboration requires better planning for achieving results.** Collaboration among and within implementing agencies has proved challenging particularly among fiduciary and technical teams, often causing delays in the implementation of the WBG program. This situation is further aggravated by weak leadership and generally weak implementation capacity. Adequate ownership of the program by high-level officials would facilitate inter- and intra-agency coordination and speed up decision-making and implementation.

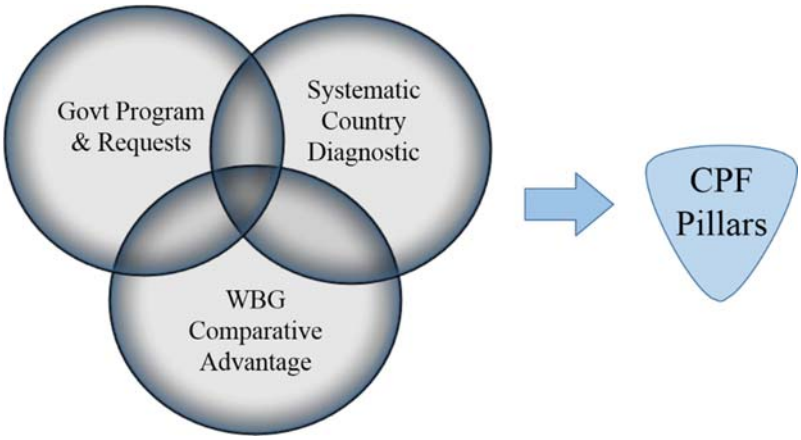
48. **Moreover, leveraging the complementarity of IBRD, IFC and MIGA can promote synergies and ensure greater impact on the ground.** Under the last CPS, the collaboration between IBRD, IFC and MIGA was mostly ad-hoc, without sufficient strategic alignment and efforts to jointly explore and identify opportunities for development and greater impact. Going forward, the WBG engagement should seek to package a comprehensive set of development solutions leveraging the strengths of the three institutions to address the country's challenges.

49. **Finally, the current CPS demonstrates the importance of a well-designed Results Framework for evaluating the achievement of objectives.** The Results Framework of the recent CPS fell short mostly on quality and design of indicators. For example, in some instances baselines and targets were disjointed and/or required different evaluation criteria, and some indicators lacked target values. In addition, the CPS Progress Report failed to refine and meaningfully improve the Results Framework, including to reflect IFC and MIGA activities, thus constraining the evaluation of the CPS outcomes and objectives.

III.2 Selectivity Filters

50. **The new CPF builds on three selectivity filters:** (a) alignment with the Government's own program and requests for WBG support to date; (b) focus on priority areas identified by the SCD; and (c) context-specific WBG comparative advantage, including track record in El Salvador, implementation lessons learned, global experience, as well as the role of other development partners (Figure 14).

Figure 14: Developing the CPF – Filtering Process to Define Objectives



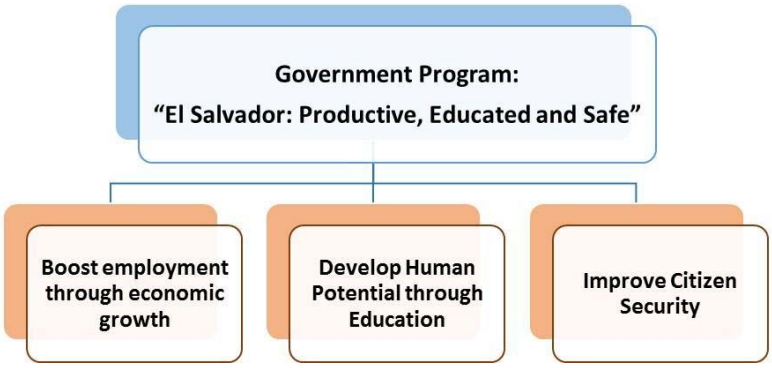
Selectivity Filter 1: Alignment with Government Program

51. **The Government's Five-Year Development Plan (2014-19) focuses on three main pillars to make El Salvador more "productive, educated and safe."**[27] Specifically, the Government Program seeks to: (a) stimulate productive employment through sustained economic growth; (b) bolster education with inclusion and social equity; and (c) strengthen citizen security (Figure 15).

52. **These three pillars would be supported through a number of objectives,** including: (a) revitalizing the economy for employment and inclusive growth; (b) developing human capital; (c) improving citizen security; (d) expanding universal coverage of quality health care; (e) promoting inclusion, equity and social protection; (f) improving housing access and basic services; (g) improving sustainability and resilience; (h) promoting culture as a factor of cohesion and identity; (i) strengthening the diaspora and their integration in country development; (j) promoting regional and global integration; and (k) strengthening the transparency, effectiveness, and results-focus of the state. In addition, the themes of Youth and Gender cut across the Government's Five-Year Plan, and were consistently emphasized in dialogue with the WBG. The Government has also prioritized other specific population groups for improving Equity and Social Inclusion (Box 2).

[27] Secretaría Técnica y de Planificación; Gobierno de El Salvador (January 2015). "El Salvador Productivo, Educado y Seguro." Plan Quinquenal de desarrollo (2014-19).

Figure 15: Government's Five-Year Development Plan (2014-2019)



53. **Within that framework, the Government has requested consideration for WBG engagement in several areas**, including: employability and skills; violence prevention; energy (which represents a key priority under pillar one – Economic Growth and that could include possible IFC engagement); education and ICT; disaster risk management; environment and the "brown agenda," including water and sanitation; credit to MSMEs with a focus on gender (possible engagement for IFC); and local territorial and institutional development.

Box 2: Promoting Inclusion and Anti-Discrimination in the Government's Program

The Government's Five Year Plan (2014-19) emphasizes a strategic approach for the Quality of Life ("Buen Vivir") of all Salvadorans to ensure universal rights for a dignified, full, and happy life free of discrimination. This strategic approach encompasses a human rights approach, a gender approach, and a life-cycle approach to inclusion and equity. Under this framework, the Government's program identifies several priority population groups who tend to be excluded from development and the exercising of their universal rights, including:

- Young adults, according to the General Law on Youth;
- Children and teens, as per the Law for the Integrated Protection of Children and Adolescents;
- Women, in accordance with the requirements of the Law for Equality, Equity, and Eradication of Discrimination against Women (and the accompanying policy regulations); the Special Integrated Law for Life Free of Violence for Women (and the accompanying policy regulations); and the National Plan for Equality and Equity for Salvadoran Women;
- The elderly, in accordance with the Law for Integrated Attention for the Elderly
- Indigenous Groups (Pueblos Indígenas), recognizing the constitutionality of their rights;
- Disabled people, as accordance with the Law on the Equalization of Opportunities for Disabled Persons and the Convention on Rights for Persons with Disabilities;
- Veterans and victims of human rights abuses from the armed conflict;
- LGBT people with diverse sexual orientation or gender identification: Lesbians, Gays, Bisexuals, and Transgender to protect their rights

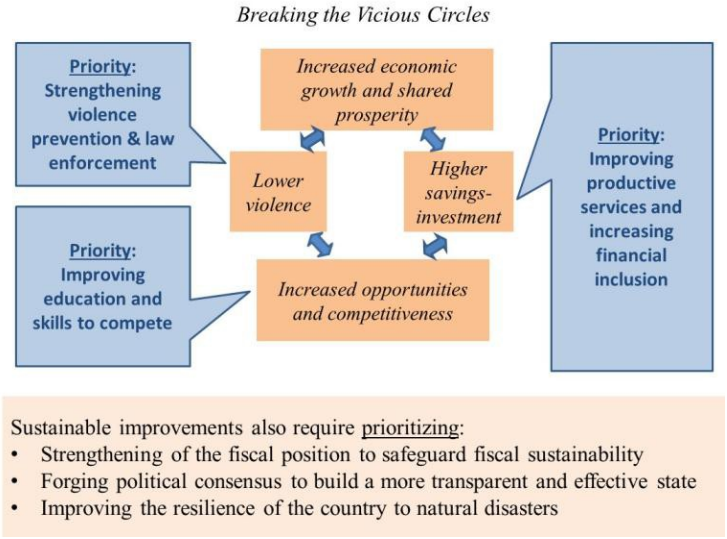
Despite such legislative accomplishments, enforcement remains an issue mainly due to limited financial resources and weak implementation capacity.

Selectivity Filter 2: Priority Levers in the SCD

54. **The SCD identifies several mutually-reinforcing entry points that could help break the perverse circles of low growth and lagging shared prosperity** (Figure 16 below). These key entry points include the levers of: (a) strengthening violence prevention and law enforcement to help break the vicious cycle of low growth and violence (Figure 11 above); (b) improving

education and skills to boost competitiveness, expand opportunities, and help break the vicious cycle of low growth and migration (Figure 12 above); and (c) improving productive services and financial inclusion to promote higher savings and investment for stronger growth (Figure 13 above).

Figure 16: Priority levers in the SCD framework for breaking vicious circles to promote growth, inclusion and sustainability



55. **Breaking the vicious cycles will require ambitious and concerted efforts, strong commitment, and institutional capacity.** Within this framework, four points are worth emphasizing. First, these entry points require a "big push" of ambitious reforms and investments not marginal changes. Otherwise the self-reinforcing nature of these dynamics may prevent progress. Second, this "big push" of ambitious reforms needs to be carried out in a concerted manner in each of these areas, to stave off the offsetting forces of the other factors. Third, the ambitious reforms needed in each of these areas will require strong institutional capacity, government commitment, political consensus, and effective donor coordination. Fourth, the WBG is only one piece of this complex equation. The areas selected under the proposed CPF are consistent with efforts to generate the "big push" needed to break these vicious circles. It is key to highlight, however, that this endeavor will require continuous government commitment, country consensus, and donor coordination.

56. **Sustained improvements also require prioritizing three main pre-requisites: (a) improve the fiscal situation; (b) forge political consensus; and (c) manage disasters.** The SCD emphasizes the importance of sustainability (Figure 16 above). Strengthening the fiscal position is identified as a prerequisite for sustained progress – and one of the key first signals of building an effective state. Efforts to forge a stronger political consensus around the development agenda would also help provide the basis for a transparent and effective state. Finally, improving resilience to disasters and environmental vulnerabilities is identified as a crucial element of sustainability.

Selectivity Filter 3: WBG Comparative Advantage

57. **Experience shows that the WBG can bring value added with integrated solutions that combine local experience, global knowledge, technical assistance, policy dialogue, and financing.** This filter seeks to identify the context-specific WBG comparative advantage of specific areas, building on knowledge and experience in El Salvador, in the broader LAC region, and globally.

58. **Comparative advantage needs to be considered in relation to context, both in time and of the country.** Lessons derived from the previous CPS strongly point to the importance of capacity constraints and feasibility of implementation in El Salvador. High levels of political polarization require strong consensus at project preparation. As such, even if there is commitment and ownership by the Government, projects need to obtain the approval of the Legislative Assembly, which can be hampered by political polarization. Further, even if a project becomes effective, a host of other factors will influence the feasibility of implementation, such as ensuring leadership and ownership by high- and mid-level officials, having coordinating mechanisms in place, and making sure that the necessary resources are allocated to carry out the tasks foreseen in the project. The areas of engagement and specific activities that would be supported by the proposed CPF will rely heavily on this filter to take into account the likelihood and feasibility of implementation as key aspects of the WBG comparative advantage.

59. **In addition, the WBG can leverage global knowledge on a variety of issues that can be tailored to the specifics of El Salvador.** For example, global and local experience in reforming education systems, regional experience in LAC on crime and violence, and an impressive record of engaging in disaster risk management locally, regionally and globally, as well as in the gender equality agenda. IFC/MIGA also bring global and regional experience in areas such as financial sector, MSMEs, PPPs, energy and infrastructure.

60. **This filter also takes into account the areas of engagement of other development partners, with a view to creating synergies and avoiding duplications.** For example, many partners are involved with crime and violence prevention, including the IDB, the CABEI, KfW, and Italy with financing, as well as the EU, USAID, GIZ, JICA, Spain, UNDP with other types of cooperation. Similarly for Energy, the IDB, CABEI and KfW are providing financing and the EU, GIZ, and JICA are providing other forms of cooperation. Various development partners are also providing financing in environment and disaster risk management (JICA and GIZ), access to finance (IDB and KfW), health (IDB), local development (CABEI), and education (Millennium Challenge Corporation, UNICEF, USAID). In addition to the WBG's support for improving the employability of poor and vulnerable groups, the EU has engagements in youth and social inclusion, while the MCC and USAID focus on competitiveness and skills. Finally, the filter will also take account of international initiatives, such as the Northern Triangle, led by the U.S. and IDB, and the Fomilenio II, led by the MCC (see Annex 6).

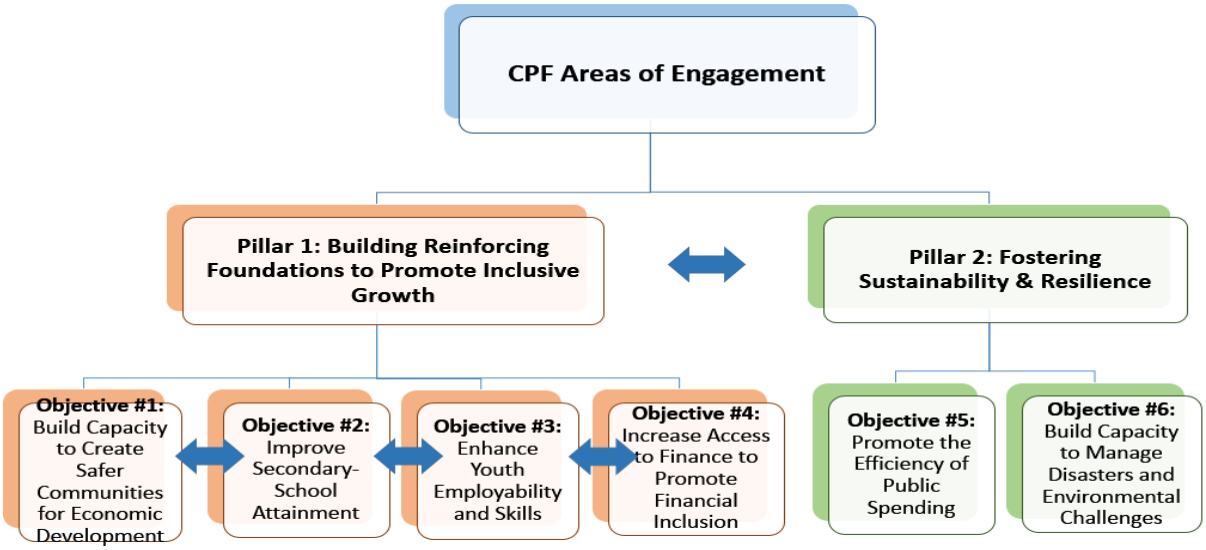
III.3 Proposed WBG CPF (FY2016-19)

61. **The WBG's proposed CPF is organized around two strategic pillars: building the reinforcing foundations of inclusive growth, and fostering sustainability and resilience.** The CPF features a selective program with six complementary objectives that are aligned with the Government's priorities and informed by the SCD (Figure 17 below). Pillar 1 would support building foundations for promoting inclusive growth in four mutually-reinforcing objective areas which seek to: (a) build capacity to create safer communities for economic development; (b) improve secondary-school attainment; (c) enhance youth employability and skills; and (d) increase access to finance to promote financial inclusion. To foster sustainability and resilience under Pillar 2, the CPF would support two objective areas that seek to: (a) promote the efficiency of public spending; and (b) build capacity to manage disasters and environmental challenges. The proposed CPF also takes stock of the progress in the previous CPS, including the on-going program (Box 3). Finally, the proposed CPF will be implemented during a four-year period (FY2016-2019) to better align WBG support to the Salvadoran political cycle.

62. **The CPF supports the Twin Goals of poverty reduction and shared prosperity by beginning to address the reinforcing vicious circles that constrain inclusive growth, as well as sustainability and resilience.** These vicious circles hamper poverty reduction and shared prosperity: the poor and the bottom 40 percent are the most affected by crime and violence, have the lowest education levels, the highest unemployment and informality, and are the least likely to have bank accounts or access to finance. Moreover, weak targeting – on subsidies, pensions and other social services and benefits -- limits the extent to which the poor can benefit from public spending with high leakages to the non-poor. Finally, building capacity to manage disasters and environmental challenges has important implications for the poor, given that a large share of the poor reside in hazard-prone areas, with high population density, precarious housing, and inadequate basic services.

63. **In developing the proposed CPF, the WBG has taken into account the dialogue with the Salvadoran authorities, on-going citizen engagement (Box 4), and a series of stakeholder consultations.** In addition to the dialogue with the Salvadoran authorities, a number of joint consultations with different stakeholders were held to discuss the country's development priorities and opportunities for WBG future engagement. During round-table sessions, the Government, donor community, private sector, academia, think thanks, civil society and non-governmental organizations validated the two pillars and the six objectives of the CPF. In particular, there was strong agreement on (a) the alignment of the CPF with the country's development priorities; (b) the results and pertinence of the SCD in identifying vicious cycles and constraints to the country's development; (c) the need to work on violence prevention, education and employability as a comprehensive approach to promote inclusive growth; (d) the alignment of the areas of engagement among the donor community and, therefore, the need to effectively coordinate to avoid duplications; (e) the importance of strengthening Government's institutional capacities to ensure the achievement of the CPF objectives; and (f) the high risk that political polarization in the country poses to the CPF's success.

Figure 17: WBG CPF Proposed Areas of Engagement



Box 3: WBG On-going Portfolio, Analytical Activities, and Technical Assistance

IBRD's lending portfolio in El Salvador includes five investment projects in the areas of social protection, education, health, public sector management and local development totaling US$290 million. Almost US$200 million is allocated to Social Protection, Education and Health. As of March 2015, US$141.8 million (49 percent) was disbursed. The lending portfolio was complemented with demand-driven analytical and advisory activities. More specifically, IBRD delivered five studies and provided significant technical assistance, with a focus on shared prosperity, social protection, education, land tenure, justice and security, public sector reform, and financial sector. Additionally, the WBG financed US$10 million in recipient-executed grants, with a focus on nutrition, environmental sustainability, youth violence prevention, and quality of education. The portfolio is affected by weak institutional capacity, slow disbursement, fragile inter-institutional coordination, lack of adequate project ownership by medium and high-level officials and changes in project structures following elections. The remaining 51% of El Salvador's portfolio was undisbursed, more than US$148 million. The government, at its highest level, is aware of the situation and is holding bimonthly meetings with the line ministers and the Country Manager to identify implementation bottlenecks. The effort is showing important results such as the award of a $14 million bidding process in the Strengthening Public Health Care Systems project (P117157). Further success in achieving results with the new CPF, however, will be driven by the government's ability to have projects approved in the Legislative Assembly and overcome current implementation capacity constraints.

IFC. Responding to the challenge of access to finance for underserved populations, the IFC increased its portfolio in the financial sector to 7 projects for US$142 million in June 2014 (from 4 projects for US$51.7 million in June 2010). Trade finance guarantees contributed to the new portfolio in the amount of US$36 million, while the remainder, consisting of long-term loans to the banking system, focused on the improvement of SMEs' financial inclusion. In addition, IFC Advisory Services (currently Trade & Competitiveness Global Practice) supported projects to increase competitiveness through regional trade, tax and incentive reforms. In 2014, it also completed a US$2.2 million public-private partnership (PPP) project to improve infrastructure in the port sector. Regional advisory projects have directly impacted El Salvador in areas related to regional trade, the investment climate, and improved risk management in the financial sector.

MIGA has recently approved a guarantee in the amount of US$92.3 million. The operation provides coverage for an existing investment by Administradora de Fondos de Pensiones y Cesantías Protección SA of Colombia in the Salvadoran Fund Crecer. The investment was made as part of the acquisition of the Fund Crecer which was completed in November 2011. MIGA provided the investor with a guarantee coverage against the risks of transfer restriction, expropriation, war and civil disturbance for a period of up to ten years.

Box 4: "El Salvador Necesita"

The proposed CPF program also takes into account citizen feedback. In February 2015, the WBG launched an outreach campaign "El Salvador Needs" (*El Salvador Necesita*) to gather the views and thoughts of Salvadoran citizens on the development priorities for the country. This initiative, widespread all over El Salvador through different media channels, was part of the CPF consultation process to identify the main areas of WBG future engagement. The campaign was aimed at adults and children who participated by sending quotes and images with signs completing the phrase: "El Salvador needs." The replies are consistent with the objective areas of the CPF:

- **Building Safer Communities:** *El Salvador needs* "less violence and more harmony;" "to get rid of gangs;" "harsher laws to combat crime;" "to eradicate delinquency;" "to recover the control of the territory taken by the gangs."
- **Improving Secondary School Attainment:** *El Salvador needs* "education for all, especially for the new generations;" "high quality education;" "to invest more in education;" "better quality of teachers;" "to improve the education system from early childhood to secondary school."
- **Enhancing Youth Employability and Skills:** *El Salvador needs* "to give its people skills to get jobs;" "more jobs;" "equal job opportunities for all;" "jobs for young people with no work experience."
- **Increasing Financial Access:** *El Salvador needs* "to support entrepreneurs;" "to reduce obstacles to investment."
- **Promoting Efficiency of Public Spending:** *El Salvador needs* "transparency in the public administration;" "to focalize subsidies;" "more efficient management of public spending."
- **Promoting Environmental Sustainability:** *El Salvador needs* "to reduce levels of contamination;" "more access to public water;" "to have clean beaches and reduce deforestation."

The World Bank's Country Office also asked fifth-grade students across El Salvador to picture how they would like their country to be in the future. Hundreds of drawings were collected, and one of the most common themes was the wish for a future without violence. Some of the drawings are displayed below.

64. **Applying the selectivity filters means that some priority areas will not be considered at this time.** These fall into the following categories:

- *Areas that are identified as priorities in the Government Program and the SCD, but for which WBG comparative advantage and implementation capacity are not sufficiently strong at present.* An example of this is the support to the judiciary, which was identified as a concern in the SCD, as the share of total public security and justice spending has been falling systematically. In this case, a previous engagement did not yield significant results, mainly due to a deep institutional weakness and difficulties operating with a branch of Government that is independent of the executive. Another example involves disaster risk management which is one of the prioritized areas in the Government's Program, the SCD, and Pillar 2 of the CPF, but where proposing a new Catastrophic Deferred Drawdown Option (CAT-DDO) would require improvements to the macro policy framework.
- *Areas that are identified as priorities in the SCD, but were not requested by the Government.* An example of this is logistics, which was identified as a focus area for growth in the SCD, but was not requested by the Government for WBG engagement. Limited engagement in logistics will be covered by other objective areas.

65. **The proposed CPF will be selective even within the prioritized areas.** El Salvador needs concerted and ambitious reforms in each of the mutually-reinforcing areas in order to break the vicious circles. However, the WBG is only one piece of this complex equation, and it is beyond the scope of the CPF to cover all aspects of that "big push," even within the prioritized areas. Reducing crime and violence is one such example. The WBG's engagement will focus on the preventive side by building safer communities, while recognizing that many other elements are needed to improve security, including on the enforcement side. These will be taken over by the government, with contributions of other donors. Selectivity will also be applied to "prevention", as it is beyond the scope of the WBG to engage in all actions needed for the "big push" in that dimension.

66. **Nonetheless, the proposed program will maintain some degree of flexibility over the four-year period covered by the CPF - within the framework of the selectivity filters.** If conditions change – such as those affecting implementation feasibility, evolution of government requests, or enhanced knowledge – the WBG could adjust the proposed program accordingly. Such adjustments would be made in line with the overall framework of the selectivity filters and prioritization under the SCD and Government Program. The Progress and Learning Review would provide opportunities to review such conditions and make adaptations, but such "selective flexibility" can also be considered on an on-going basis as needed.

67. **The selectivity of the CPF is also reflected in a realistic results framework.** In addition to relying on the selectivity filters to pragmatically focus on key development areas in the WBG program, the CPF tries to maximize its development impact by exploiting the synergies of the different instruments in the WBG's menu: lending, economic and sector work, technical assistance, and dialogue. For example, to help build capacity to create safer municipalities, the WBG is relying on existing analytical work (e.g., Public Expenditure and Investment Review on Security and the Justice System), relevant projects being implemented in the region (e.g., the Safer Municipalities Project in Honduras), and complementary projects underway in El Salvador (e.g., the Income

Support and Employability Project). Furthermore, the expected results of the proposed WBG program are commensurate with the scope of supported interventions relative to the government's overall program and the country development challenges described in the SCD.

Pillar I: Building Reinforcing Foundations to Promote Inclusive Growth

68. **Based on these selectivity filters, the CPF proposes to support building foundations for promoting inclusive growth by focusing on four mutually-reinforcing objective areas,** which seek to (a) build capacity to create safer communities for economic development; (b) improve secondary- school attainment; (c) enhance youth employability and skills; and (d) increase access to finance to promote financial inclusion.

Objective #1: Build Capacity to Create Safer Communities for Economic Development

69. **Crime and violence plague El Salvador,** which ranks in the top five countries worldwide for homicide rates.[28] The rate of homicide was 69.2 per 100,000 in 2012,[29] of which 77 percent were linked to firearms.[30] This compares with an average global homicide rate of 6.2 per 100,000 and regional rate of 28.5 per 100,000 on average for the American continent. Security is identified by 65 percent of Salvadorans as the most important problem facing the country, and the economic costs of violence in El Salvador are estimated to be around 11 percent of GDP, including material losses, public and private security, and health costs.[31]

70. **Young males are most likely to be involved in violence – both as victims and perpetrators – but women and children also suffer.** The rates of homicide among young males are substantially higher than those for the entire population, which are already at endemic levels. However, El Salvador also ranked first in the world for femicide rates in 2012, and a large share of female homicides were attributed to gangs and criminal networks. El Salvador has approximately 22,000 young gang members, which is likely a conservative estimate. To put this in perspective, this approximates the total number of eleventh graders in general education high schools in the country.[32] Another ever-present concern is rape, with 636 rapes and sexual offenses reported in 2013, two thirds of which were committed against children under the age of 18. Domestic violence complaints reached 2,873 in 2014, with 86 percent reported by women. These figures are likely under- representing the problem, since authorities estimate that fewer than 20 percent of the cases related to rape and domestic violence are actually reported.

71. **In addition to immense social costs, insecurity affects El Salvador's competitiveness, increasing the cost of doing business.** Firms pay an average of 3.4 percent of sales for security, which is more than double the LAC average (1.5 percent), and the average in lower middle-income

[28] UNODC (2013). *Global Study on Homicide 2013.* United Nations Office of Drug and Crime. Since 2000 the number of homicides has always been above 30 per 100,000, five times the world average. It peaked at over 60 homicides per 100,000 before a truce declared between *maras* (gangs) in March 2012. The truce has since unraveled, and homicides escalated again in 2014.

[29] Homicide data in El Salvador are reliable and reported officially with inputs from the justice and health sectors, as well as the Institute for the Advancement of Women (ISDEMU), National Civil Police, Institute of Legal Medicine, the Attorney General's Office, and the National Public Security Council.

[30] World Health Organization, 2014.

[31] World Bank (2011). *Crime and Violence in Central America. A Development Challenge;* and Acevedo, Carlos (2008). "*Los Costos Economicos de la Violencia en El Salvador*." *America Latina Hoy* 50.

[32] The average number of 11th graders from 2008-13 was 26,433. National School Census.

countries (1.9 percent). Private security personnel outnumber the police force. The collection of extortion payments operates with relative impunity, and affects many sectors of the economy. In a survey of 425 relatively large firms in 2013, some 37 percent of respondents reported being the victims of extortion.[33] Smaller businesses located in more marginal areas are particularly affected by this problem and suffer extortion rates that can be up to 50 percent of their revenue. Among businesses surveyed, 25 percent reported having cut investment plans. In addition to increasing operating costs, survey data suggest that fear of crime, and in particular extortions, prompts some firms to exit from the market altogether. Moreover, security is a concern not only for firms, but also for workers and consumers. Over 40 percent of the population reports having changed their shopping and recreation habits in fear of crime.

72. **Those in the bottom 40 percent of the population are particularly vulnerable to crime and violence.** The poor already live in a state of vulnerability whereby even small shocks can set them back, let alone catastrophic shocks associated with insecurity. Many of the poor live in precarious urban slums that have higher rates of violence. There are around 2,500 slums in the country, housing almost half a million households, and crime and violence is concentrated in around 50 out of the 262 municipalities in the country.[34] The costs of crime and violence disproportionately affect subgroups in the population, and reflect or exacerbate socio-economic disparities. Places where inequalities are greatest are associated with higher levels of occurrence of violence.[35]

73. **Strategies for addressing crime and violence are hampered by severe institutional constraints and low capacity.** The sheer volume of events greatly taxes the capacity of the judicial system to respond. Impunity is high, with a criminal conviction rate of less than five percent. This contributes to a lack of confidence in public institutions, which combined with fear of reprisals, reduces the likelihood of reporting by the population.

74. **The Government's strategy for "A Safer El Salvador" combines both prevention and enforcement, but efforts are needed to strengthen capacity to implement an effective multi-sectoral approach.** Preventive efforts are coordinated by the Social Cabinet, where inputs from health, education, social protection, and labor are key. Enforcement activities fall under the jurisdiction of the Security cabinet, led by the Ministry of Justice. Preventive efforts focus on primary prevention of violence to change the social and physical environment, but these activities need to be supported by secondary prevention, which involves immediate responses to trauma and violence, and tertiary prevention, which is focused on rehabilitation at the individual, family, and community levels. This multi-dimensional approach involving complementary strategies and different sectors is essential for properly responding to crime and violence.

75. **The proposed WBG engagement seeks to build capacity to create safer communities by focusing on enhancing secondary and tertiary prevention strategies, while also supporting primary prevention.**[36] A Safer Communities Project, currently under discussion, could enhance

[33] *Encuesta de Competitividad Empresarial (2013).*
[34] FLACSO, MINEC, and PNUD (2010). *Mapa de pobreza urbana y exclusion social. Volumen I.* El Salvador.
[35] Kawachi, I., B. P. Kennedy, et al. (1999). "Crime: social disorganization and relative deprivation." Soc Sci Med 48(6): 719-731; and Muller, E. N. (1985). "Income Inequality, Regime Repressiveness, and Political Violence." American Sociological Review 50(1): 47-61.
[36] The Public Expenditure and Institutional Review carried out a systematic analysis of the security and justice sector in El Salvador, with an

and expand on-going initiatives operating in violence-prone areas. The proposed program would focus on implementing primary, secondary and tertiary prevention activities in municipalities with high incidence of crime and violence. Interventions would be directed towards youth, women, and children. By linking activities of the Social Cabinet, the program would focus on interventions that improve psycho-social responses to violence among high-risk populations by providing services that are currently scarce or non-existent, and on recovery of urban spaces in communities and neighborhoods with at-risk populations. Additional activities would support improved local- level coordination, capacity to respond to and monitor events, and increased capacity to design policies based on collected crime and violence information.

76. **Interventions in other areas supported by the proposed CPF would complement the proposed Safer Communities Project.** As the complexity of this objective requires a multi-sectoral approach, the proposed CPF adopts a prevention lens, supporting interventions in complementary objective areas, such as the on-going projects in education and in employability and social protection that are also targeted to municipalities with high rates of crime and violence, as discussed for Objectives 2 and 3 below. The on-going Local Development Strengthening project also provides financing to 262 Salvadoran municipalities for small infrastructure (street lighting, community centers, paved roads) to improve the quality of life in the community. Successful results in a program or area, therefore, might well spill over into other areas and strengthen the overall impact of the CPF.

77. **The WBG's approach will build on previous local and regional experiences, as well as complementarities among the donor community.** The recent Public Expenditure and Investment Review on Security and the Justice System in El Salvador, as well as regional and global expertise, provide the knowledge underpinnings for engagement in this area. The proposed approach also takes into account the lessons learned from a previous engagement in judicial reform, which faced important barriers to reach meaningful results. Building on existing evidence-based practices supported by the World Bank (e.g., Safer Municipalities Project in Honduras), and on coordinated efforts on safety and security with key regional partners (such as the IDB, KfW, Italy, EU, USAID, GIZ, JICA, Spain, and UNDP), provides opportunities for collaboration on prevention (e.g., State and Peace Building Fund grants with UNDP) and division of labor (prison construction by CABEI, inmate bracelets and rehabilitation farms by the IDB, and police training or the creation of outreach centers supported by the U.S. government).

Objective #2: Improve Secondary-School Attainment

78. **El Salvador's education system produces poor outcomes, adding to the stock of unskilled workers, with important implications for growth and inclusion.** Although public spending on education has been growing steadily, it remains relatively low, at 3.5 percent of GDP (as compared with the LAC average of 4.9 and the OECD average of 5.6). Education quality and attainment are weak, playing into the vicious circle of low growth, low skills, low opportunities, high migration, high remittances, high wages, and lower competitiveness.

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analytical framework that linked institutions to crime prevention, vigilance and police patrolling, crime investigation and formal indictment, trial and judicial resolution, and sentence execution, imprisonment, and rehabilitation. The report analyzed the allocation of resources (public spending and human resources), and assessed on how institutional shortcomings impact the system's effectiveness and how they may lead to impunity, lack of due process, and erosion of trust.

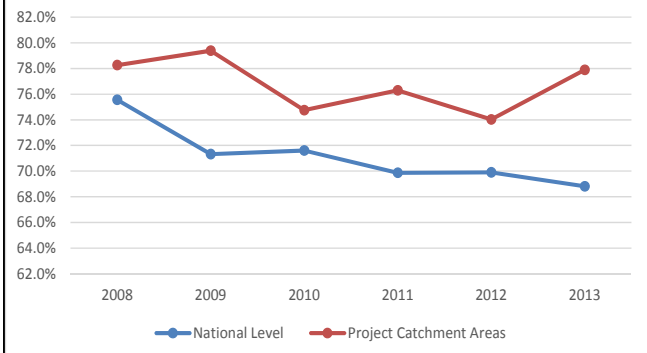
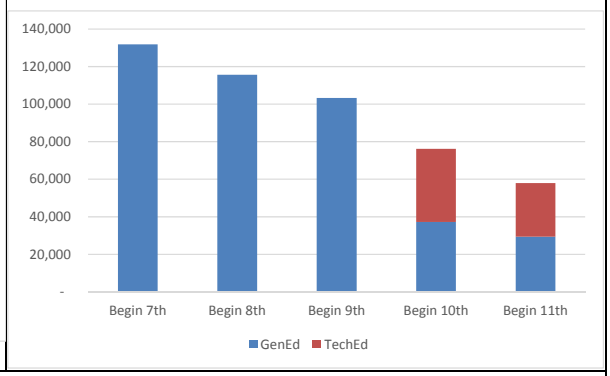
79. **The quality of education is poor, and learning outcomes are deficient.** Salvadoran students score far below pupils in most countries on standardized tests (Figure 8 above). Moreover, inequities in learning outcomes prevail, beginning early in life and increasing thereafter. A large share of poor children do not attend pre-school and many enter first grade late. Only 55 percent of seven-year-olds from the poorest 40 percent can read, while 73 percent of those in the top three quintiles can.

80. **High rates of attrition are also of concern, particularly in the transition between lower- and upper-secondary.** While most Salvadoran children make the transition from primary to lower-secondary school, there is a significant drop in enrollment between the lower-secondary and upper-secondary cycles. Nationally, only 68 percent of ninth graders make the transition to tenth grade, and this rate has fallen slightly in recent years (Figure 18). Of those who remain in school, about half shift from general to technical education. Furthermore, the cumulative "survival rate" of students remaining in school from the start of lower secondary (seventh grade) to the last year of upper secondary (eleventh grade) is only 44 percent, as shown in Figure 19 for the cohort that began seventh grade in 2010).

81. **Low educational attainment reflects many factors.**[37] Learning deficits cumulate from early childhood through the primary and secondary cycles, frustrating the efforts of youths struggling to stay in school. Although gender differences for school exit are small overall, girls are more likely to drop out of upper secondary school – primarily for self-claimed "personal reasons" or "lack of interest" – whereas the "economic reasons" provide the main motivation for boys to exit school. Evidence also suggests that poverty status, unemployment of household head, and single-parenting are all associated with higher dropout. Data from the National School Census do suggest that "supply-side factors" still matter in El Salvador, with a negative marginal effect on retention of almost 14 percent from having fewer schools per school-age individuals. Finally, macro factors, such as declining economic conditions, increased crime and violence, and two natural disasters (in 2009 and 2011) have likely had a deleterious impact on secondary-school dropout.

82. **Given these challenges, the Government places education among the top three priorities for its Five-Year Plan.** The plan supports improvements in the education system by: improving quality, strengthening teacher training, modernizing infrastructure and equipment in schools, increasing education access for the poor and vulnerable, and ensuring safety in schools.

[37] Adelman, Melissa and Miguel Szekely (forthcoming 2015). "School Dropout: Unresolved Issues and New Challenges for Education Progress in Central America." Draft Paper. The World Bank.

Figure 18: Fewer Students Make it to Upper-Secondary School Transition Rates Between School Cycles (National & Project-Level Data)	**Figure 19: Less than half of Students that Started Seventh Grade in 2010 Made it to Eleventh Grade** Initial Enrollment by Grade Level
	

Source: World Bank calculations using National School Census Data, based on UNESCO definitions. ***Effective Transition Rates:*** The effective transition rate is the number of students enrolled in 10th grade (regardless of age) in a given year that remain in school during academic year "T" as a proportion of the total number of students eligible to be enrolled in 10th grade (those who passed 9th grade, 10th grade repeaters, and dropouts, all from the previous academic year "T-1").
Cohort Survival: Number of cohort of students that began seventh grade in 2010 and continued to enroll in school in subsequent grades.

83. **The proposed CPF seeks to help improve educational attainment at the secondary level.** The bulk of the initial support will continue to be provided through the on-going Education Quality Improvement Project, which is focused on improving secondary school access, retention, and graduation rates, by strengthening the training of teachers, supporting the improvement of learning facilities and acquisition of educational materials, and extending the school day with accompanying investments in curricula and facilities to enhance the learning experience of the students in participating schools. Additional resources could allow for an expansion of the Integrated Full Time School Model to cover additional municipalities. Recognizing that improving education is a long-term prospect, the WBG program could also consider extending support for earlier stages of human capital development, with possible investments in quality across levels, including in early childhood education. On-going analytical work complements this support with deeper analysis of the causes and consequences of early school exit.[38] Technical support on teacher quality, early childhood education, ICT, skills, and/or school management could be considered to further supplement these efforts.

84. **Improving the duration and quality of schooling can also contribute to the prevention of crime and violence.** Focusing WBG support to education in municipalities with high rates of crime and violence helps bolster these potential impacts. Internationally[39] policies that discourage dropouts in upper-secondary school generate the most sizeable and persistent reductions in both violent and property crime, with positive impacts lasting for several years, even decades, after school completion. Extending the school day can also help: additional time in school can

[38] Central America School Dropout: Causes & Consequences (P153075-ESW), FY15-16.
[39] All of the evidence cited in this section draws on: Chioda, Laura (2015, forthcoming). *Crime Prevention in LAC: Never Too Early, Never Too Late, Never Too Comprehensive*. World Bank Latin America and the Caribbean Regional Study.

significantly reduce serious juvenile property crime, confirming that when adolescents are provided with a structured and/or supervised environment they are less likely to engage in anti-social behavior. Improving access to high quality schools is also important, with evidence emerging that attending a "first-choice" (higher-quality) school reduces crime.

85. **In addition, a number of development partners are involved in programs aiming at strengthening education.** In particular, the MCC is currently expanding the integrated full-time school model to 80 additional schools in the eastern region of the country, complementing the World Bank's on-going project. USAID is implementing a program for youth who are neither in school or working, *ninis*. UNICEF's new country strategy (2016-2020) prioritizes early childhood education as a key pillar. Other donors are financing projects related to technology for, and quality of, education.

Objective #3: Enhance Youth Employability and Skills

86. **While reforming the education system is a high priority, efforts are also needed to enhance the employability of the current workforce, including youths who are already out of the school system.** As discussed above, firms report inadequate skills as an important obstacle in the business environment. Indeed, over 60 percent of young adults ages 25-29 have not completed secondary education (Figure 7) – adding to the already large stock of low skilled workers (nearly three quarters of all adults over age 25 have less than a complete secondary education). While improving the education system is a top priority for the Government, it is also a long-term process that is unlikely to enhance the employability and skills of the existing workforce.

87. **Youths in particular face limited employment opportunities, particularly for those with less education.** While overall unemployment is relatively low (at 5.9 percent), unemployment for youths ages 18 to 24 is fairly high (9.1 percent), and even higher for the poor (at about 12 percent for the extreme poor). For those who do find jobs, they are largely in the informal sector, with low remuneration and productivity. In contrast with the trend of declining informality observed elsewhere in LAC, informality in El Salvador is on the rise. Formal employment for those under 25 years old is 13 percent (compared to 25 percent for those aged 25-49 years old). Particularly worrisome is the relatively large number of youth that neither studies nor works, *ninis*. The share of 15-18 year olds that are neither working nor in school is 16 percent. A large share of these *ninis* are adolescent girls, who are three times more likely than adolescent boys to neither study nor work. *Ninis* are disproportionately found amongst the bottom 40 percent of the population.

88. **The Government's Five-Year Plan prioritizes employment and employability among its top three priorities, with a focus on youth and women.** The Government program seeks to boost employability and skills by: designing and implementing a national technical and vocational training system, developing a national system for skills accreditation, strengthening labor reinsertion, second-chance and continuing education for those outside the system through flexible modalities and literacy, and strengthening labor-force intermediation efforts.

89. **The proposed CPF seeks to help the Government build capacity to enhance employability and skills, particularly through interventions targeting at-risk youth.** The WBG would support the Government to develop a National Employability Strategy and to strengthen training and labor-intermediation systems, with a focus on at-risk youth. At a broader level, the proposed engagement would help develop active and effective training networks that assist in delivering the essential skills needed by the labor market, including possible opportunities for effective development of ICT and sectorial skills. It would also include attention to the existing training and labor intermediation system to identify gaps and develop alternatives for institutional strengthening and effectiveness. At a more targeted level, the proposed engagement would support interventions to increase productive opportunities for poor at-risk youth and women, through quality training and intermediation mechanisms that facilitate insertion into the labor market and/or for entrepreneurial opportunities. An "employability and skills" program would build on the successful experience implementing the on-going Income Support and Employability Project (PATI), which focused on providing at-risk youth and vulnerable groups with training, job readiness, work experience and social assistance to build their skills and assist their efforts to join the labor market (Box 5).

Box 5: WBG Support to the Temporary Income Support Program (PATI)

The global crisis had significant impact on El Salvador's socio-economic fabric. As a response, in 2009, the Government unveiled, among other measures, a conditional cash transfer (CCT) program called "*Comunidades Solidarias.*" The program had two main pillars, one that consolidated pre-reform programs in rural areas, and a new pillar tailored to the poor in urban areas. In this context, the Temporary Income Support Program (*Programa de Protección Temporal al Ingreso*, PATI) was conceived and introduced with WBG support as a flagship program. PATI pursued two core objectives, namely (a) providing short-term income support to the poor and vulnerable individuals, and (b) increasing beneficiaries' employability through training and work experience. PATI was targeted to 25 municipalities with high incidence of poverty and marginalized or 'precarious' urban settlements.

By December 2014, some 40,000 people from the target areas had benefited from the PATI program, receiving cash transfers and participating in community works, occupational training, and labor market orientation courses. The program has attracted a large percentage of women (72% of participants), low skilled population (84% of participants have not completed basic education), and youth (36% of participants are 16-24 years old). Subsequently, in 2015, the program was expanded to eight additional municipalities with high crime rates, which will benefit an additional 4,000 people.

A rigorous evaluation has shown that the PATI program has positive impacts in reducing extreme poverty among beneficiaries, increasing labor force participation (especially among women), boosting labor income (in particular among the youth), and improving readiness to start a new job. It has also increased participation at community organizations, a measure of social capital. The program design has proven to be an innovative example of a successful Social Protection and Labor intervention, attracting the attention of other countries in the LAC region (e.g., Guatemala, Peru), as well as in Asia (e.g. Indonesia, Bangladesh) and Africa (e.g. Ethiopia, Liberia).

90. **Improving the employability of at-risk youth by building their human capital and skills can also contribute to the prevention of crime and violence.** The new "employability and skills" program would focus on at-risk youth, targeting those coming from municipalities with high incidence of violence. A recent World Bank Regional Study finds that youth unemployment is correlated with crime and violence.[40] Moreover, adolescents who drop out of school early, start

[40] Chioda, Laura (2015 forthcoming). *Crime Prevention in LAC: Never Too Early, Never Too Late, Never Too Comprehensive*. World Bank Latin

their working lives young, and work long hours at low-skill, low-paying informal jobs are particularly at risk of engaging in crime. Building human capital and skills can help break the vicious circle of criminality associated with low-skills and limited employment prospects for youth. Intensive skill-training programs directed at high-risk youth have proven to be effective in some countries, particularly if the investment in participants' human capital is substantial. These programs, which typically last 6-8 months, include an array of components: technical and life skills, behavioral training, academic skills, and placement assistance.[41] The proposed new "employability and skills" program would build on international experience with these types of intensive training programs for at-risk youth, as well as the experience of the on-going PATI program under the on-going Income Support and Employability Project.

91. **WBG engagement will complement efforts of other development partners in the area of youth employability and skills.** In the Country Strategy 2014-2020[42], the EU focuses on "Youth and Social Inclusion" as one priority area of engagement, with particular emphasis to the creation of employment for young people through improved skills within the green agenda. Additionally, the MCC will support youth through the development of skills aligned with the demands of the labor markets. From a more territorial perspective, USAID is implementing a Project for Municipal Competitiveness, which includes the delivery of training and technical assistance to develop entrepreneurial and labor force capabilities in 50 municipalities.

Objective #4: Increase Access to Finance to Promote Financial Inclusion

92. **Despite a sound financial sector, financial inclusion is low.** The banking system is privately owned and highly liquid, partially due to the regulatory requirements of the Central Bank to maintain a high level of reserves in a dollarized economy. Despite this, financial inclusion is very low, especially amongst the poorest 40 percent. Only 14 percent of the Salvadoran population has an account at a formal financial institution, well below the LAC average of 39 percent, and just six percent of those in the bottom 40 of the population had such an account.

93. **Limited use of financial services is also seen in the transfer of remittances, potentially contributing to low savings rates.** Although different types of service providers are used to transfer remittances to beneficiaries in El Salvador, the bulk of remittances are transferred outside the banking sector. Evidence suggests that savings rates on remittance income is lower than those on other sources of income. Thus, operating outside the banking sector may in fact be nudging households to maintain high consumption and contribute to low savings rates.

94. **While access to finance does not appear to be a constraint for larger firms, bank finance for small and medium enterprises (SMEs) is limited.** According to the 2010 Enterprise Survey, most formal firms in urban areas have a deposit account, and nearly half of surveyed firms have a line of credit. However, just 21 percent of SMEs had investments financed by a bank, and only 19 percent through supplier credit. SMEs were 1.5 times as likely as large firms to identify access to finance as a key constraint for their business operations. Complicated application processes and collateral requirements limit access to credit for many firms, particularly smaller

America and the Caribbean Regional Study.

[41] Ibid.

[42] A new cooperation programme with El Salvador for 2014-2020 was approved in August 2014 (http://eeas.europa.eu/)

firms, and constrain the expansion of employment intensive sectors. As a result, microenterprises and SMEs tend to use consumer credit to fund their businesses, despite higher interest rates. As in other countries in Central America, credit to SMEs as a share of the banking sector's total portfolio has declined, while consumer credit has increased. Indeed**,** at 44 percent in 2013, private sector credit to GDP is below its expected value, based on predictions given its income and indicators of its level of development. It also lags relative to regional averages for Central America and LAC.

95. **The Government has requested WBG support to increase access to finance, and in the long term, financial inclusion.** Building on the current portfolio, IFC seeks to facilitate access to credit and improve availability of finance through IFC credit lines tailored to small entrepreneurs and households. IFC investment of US$129 million is currently supporting financial sector clients with over 206,036 MSMEs loans outstanding of US$1,177 million, in addition to more than 11,500 individuals reached with mortgage loans totaling close to US$340 million. A loan volume of close to US$1 billion is currently supporting inclusion, and over half a billion is supporting SMEs and employment generation. During the CPF period, IFC will seek to expand financial services further with an increase in lending to microenterprises and housing up to US$1,150 million and to SMEs up to US$850 million. Such amounts are expected to benefit more than 380,000 microenterprises and almost 26,000 SMEs. IFC is also fostering a dialogue with private service providers about introducing mobile banking.

96. **The WBG will also provide support for policies and institutional arrangements that facilitate access to finance.** The Programmatic Approach for the Development of Sound and Inclusive Financial Systems in Central America has El Salvador as a focus country. Under this Programmatic Approach, the WBG is currently providing support to recent requests from the Government to strengthen financial inclusion by supporting more efficient and inclusive payments (including remittances) and credit transactions. It is also strengthening bond market development to improve access to finance for firms and to support infrastructure, and will support the implementation of El Salvador's proposed national financial inclusion strategy.

97. **There are five development partners supporting financial inclusion for micro and SMEs in El Salvador.** The IDB is providing technical assistance to increase financial access to SMEs, with particular emphasis on women. It will also support the Bank of Central America (BAC) with a US$20 million loan to expand finance for SMEs in El Salvador, and envisages a US$100 million operation to increase BANDESAL's capacity to provide credit. KFW is supporting SMEs through special credit lines for renewable energy while the European Union, which has Private Sector Development as a priority area of engagement, will also continue supporting SMEs' and cooperatives' exports in 2015-2020. USAID, the Office of the U.S. Treasury and the Luxembourg aid agency are also developing a series of activities to promote micro and SMEs financial inclusion.

Pillar II: Fostering Sustainability and Resilience

98. **Sustainability is prioritized in the Government Program and the SCD.** This pillar brings together two objectives related to fostering sustainability and resilience. The first priority aims to promote the efficiency of public spending. The second priority seeks to build capacity for

managing disasters and environmental challenges.

Objective #5: Promote the Efficiency of Public Spending

99. **Fiscal deficits and low economic growth have increased public debt.** Although efforts at mobilizing additional resources have succeeded in raising tax revenues, from 13.8 in 2003 to 15.2 percent of GDP in 2014, the fiscal deficit remains high, hovering around 4 percent of GDP over the past three years. Overall expenditures increased as authorities anchored the countercyclical policy on across-the-board wage increases in the public sector. Social spending also increased, from 10.4 percent of GDP in 2007 to 12.4 percent by 2012, though with fiscal constraints it remains low relative to other countries. Public debt increased from 40 percent of GDP in 2008 to 60 percent in 2014. Although there are no immediate concerns about debt sustainability, a continuation of recent trends in growth and fiscal imbalances would increase the debt-to-GDP ratio to 70 percent in 2019. As such, stabilizing debt levels would require fiscal adjustment between 1.5 percent and 3.5 percent of GDP depending on the target level for public debt.

100. **In this context, the Government has announced a number of priorities which include improving:**

- ***The efficiency of public financial management at the national and local level.*** The limited capacity of the state stands as a major constraint to growth, employment and poverty reduction. Inadequate institutional designs favor opaque practices that mask objectives, designs and outcomes. The lack of transparency at both national and local level limits efficiency and hinders dialogue and analysis to improve them. Greater transparency of the public sector, including budgetary management practices and modernization of financial management tools (program budgeting, adequate records, accounting and payment systems, etc.), can help build the credibility of the state and enhance the sustainability of basic institutions in the country.
- ***The coordination and targeting of social interventions.*** Improving the targeting of subsidies in electricity, gas, water and transport should also be high on the fiscal agenda. The bulk of such spending is on gas and electricity subsidies, which have less of a pro-poor focus as they benefit most quintiles equally. The government operates other better targeted social assistance programs, such as a conditional cash transfer program, but resources allocated to those programs are relatively small. One important instrument for improving targeting and coordination of these benefits is through the effective use of social registries. The Government has been building a social registry, the Unique Registry of Participants (*Registro Unico de Participantes*, RUP), of the poor and beneficiaries of social programs that could help to avoid duplication and improve the targeting of social interventions.
- ***The efficiency of school systems.*** As discussed above, many factors contribute to poor educational outcomes in secondary education in El Salvador. Fragmentation and inefficiencies in the organization and delivery of education are among these factors. Over the past two decades, coverage was expanded through the creation of many small schools, many of which are under-resourced. With half-day schooling, teachers often work in different schools to get full-time remuneration, and many teach subjects for which they have no specialized training. With the support of various donors, including the WBG and MCC, the Government is working to improve efficiency and reduce such fragmentation by

consolidating Integrated Systems with clusters of schools. Students at lower and upper secondary levels gain access to the schools in the clusters, and the Integrated Systems facilitate optimization and sharing of resources across schools, such as sharing of specialized resources such as laboratories and subject-specific teaching staff.

- ***The efficiency of health services.*** Despite making progress on extending coverage and improving some health outcomes, El Salvador's health sector is fragmented into parallel and vertical sub-systems that serve separate and specific target populations, contributing to inefficiencies, coverage gaps, and inequalities in services provision. The Government seeks to reduce fragmentation in the sector and ensure universal coverage within an integral and integrated Public Health Care Service Network, covering four levels of health care (primary care at the canton and municipal level, secondary care in basic and general hospitals at the departmental level and in some municipalities, specialized tertiary-level hospitals at the regional level, and a fourth level of highly-specialized hospitals at the national level). Efforts are underway to optimize these health care networks, and to strengthen essential functions through targeted investments in health information systems, pharmaceuticals management, health promotion and prevention interventions, and management of medical emergencies.
- ***The management of pensions.*** Pensions have been emerging as a concern, as they incur a deficit on the fiscal accounts of close to two percent of GDP (half of the total deficit), while covering only ten percent of the population. Pension debt, which emerged as the country transitioned from a defined-benefit system to a contribution-based scheme, is being rolled over, but the adjustment is not yet complete.
- ***The fiscal framework.*** The Government has also prepared a draft Fiscal Responsibility Law – currently under discussion in the Legislative Assembly – to redress considerable gaps in the present fiscal framework, including incomplete budget coverage, highly rigid spending (80 percent is deemed mandatory), lack of medium-term orientation, and reliance on optimistic projections of revenues. The draft law proposes improvements in fiscal transparency, cash management, medium-term orientation and budget processes.

101. **The proposed CPF seeks to support the Government's efforts to improve the efficiency of public spending.** WBG engagement will include advisory services, technical assistance, analytical work as well as support via on-going operations. On the *knowledge agenda*, the on-going Central America Social Sector Expenditure and Institutional Review has proven pivotal in the WBG's engagement with the new government, in the specific social sectors, and on the SCD. It would also be updated for El Salvador in FY16-17. In addition, technical assistance would likely include (a) advice on the design of pension reforms to reduce the pressure of pension debt on public finances; and (b) technical support to improve delivery and targeting of utility subsidy benefits. The Government has also requested support for the implementation of subsidy reforms to better manage the sensitive political process through an effective communication strategy. Additional on-going technical assistance is focused on the strengthening of current regulation and (a) streamline and automate procedures of sanitary registration for processed food and beverages in Central America, in order to reduce costs and time; (b) improve alignment of the trade laws, regulations and systems of Central American countries with the World Trade Organization - Trade Facilitation Agreement. In terms of *financial engagement*, WBG support would focus on efforts to improve the efficiency of public spending in areas in which we have on-going projects, including (a) the Fiscal Management and Public Sector Performance Project; (b) the Local Government Strengthening Project; (c) the on-going Income Support and Employability

Project and a possible new lending operation on Employability and Social Protection; (d) the Education Quality Improvement Project and possible further engagement; and (e) the Strengthening Public Health Care System Project.

102. **The WBG is also ready to support Government's efforts on the revenue mobilization front if demand for assistance emerges.** As discussed previously, the evolution of public debt levels calls for fiscal consolidation efforts. The Government strategy so far is emphasizing the need to improve the efficiency and quality of public spending to find the fiscal savings to reduce the deficit. Yet, depending on the outcome of these interventions, the planned measures may need to be complemented by revenue measures. In such a case, the WBG would be ready to engage with the Government broadening the scope of our planned interventions.

Objective #6: Build Capacity to Manage Disasters and Environmental Challenges

103. **El Salvador is exposed to a variety of hazards, which generate annual losses of around 2.5 percent of GDP and pose a threat to the sustainability of development gains.** The most common disasters originate from volcano eruptions, earthquakes, tropical cyclones, excessive rainfall, and droughts. The country shows important progress in disaster risk management, moving from a reactive approach to a comprehensive framework which is based on (a) the strengthening of the National Civil Protection System; (b) a technologically-advanced and faster response system; (c) the most advanced monitoring network on the Central America sub-region; and (d) incorporating technical information on natural hazards to program and reduce vulnerability in sectors like education, health and public works among others. Despite these advancements, climate change is expected to increase the frequency and severity of weather-related events. Combined with poorly-planned urbanization processes and high population density, this is expected to exacerbate environmental challenges and the impacts of disasters. Losses from disasters add to fiscal pressures and constrain wealth accumulation, lowering potential growth in the medium- to long-run. In particular, the adverse impacts of disasters disproportionately affect the poor and most vulnerable segments of the population because they often reside in hazard-prone areas and have low capacity to recover from the impact of extreme events.

104. **Rapid urbanization and a rapidly-growing slum population are intensifying environmental concerns.** Urban population grows at 1.4 percent annually while the rural population is declining at an annual rate of -0.7 percent. Limited urban planning and the high prevalence of poverty in urban areas has led to around 30 percent of urban dwellers living in slums with limited public services and exposed to hazards like landslides and floods. Settlements in peri-urban areas are also more likely to be affected by criminal activity. Some 41 percent of households experience some deficit in their housing in access to services (electricity, water, and sanitation), quality of materials, overcrowding, or lack secure tenure.

105. **Since the end of the Civil War, the Government has stepped up its efforts to increase the access to drinking water and improve its quality.** There has been progress in expanding access to water and sanitation, although coverage is still not universal. While El Salvador is on track to reach the MDG's water and sanitation targets, sustaining the achieved results is compromised by rapid urban population growth and an insufficient investment in the sector. The

population without access to improved drinking water services decreased from 26 percent in 1990 to 12 percent in 2010, and the population without access to improved sanitation services decreased from 25 percent in 1990 to 13 percent in 2010. However, there are significant differences between rural and urban areas and throughout the country. Despite such improvements, investments in urban water and sanitation have been insufficient to offset urban population growth. The lack of investment is especially critical in urban sanitation, where the MDG targets will not be met and the coverage levels may continue decreasing. Furthermore, the current tariff schemes do not cover operation costs, result in low quality services, and represent a barrier to service expansion. The efficiency of the sector is low as over 40 percent of the water is not billed as a result of high losses stemming from old infrastructure, theft, or high consumption from users to which a flat rate is billed.

106. **The WBG will support the resilience agenda in a selective manner, focusing on carbon emissions and financial protection against disasters.** Within the framework of the Forest Carbon Partnership Facility (FCPF) grant, the WBG will be supporting El Salvador in assessing the causes of deforestation and forest degradation and developing a national strategy and implementation framework to reduce carbon emissions from Deforestation and Forest Degradation (REDD+). Under this framework, El Salvador will have the opportunity to access significant resources form carbon finance entities, such as the Carbon Fund Window of the FCPF. A financial protection strategy can help shield the government from the economic burden of disasters. The WBG will seek to further enhance the availability of financial resources to respond to natural disasters, by supporting the expressed intention of the Government to join the Caribbean Catastrophic Insurance Facility and enhance its capacity to safeguard fiscal accounts and balances against natural catastrophes. Pending improvements in the macroeconomic and fiscal situation, the WBG could support a new CAT-DDO to provide contingent financing to respond to disasters upon precisely defined parameters. Technical assistance would also be provided to develop disaster risk profiles, support the Government to take the necessary policy and administrative measures to improve planning and zoning, and introduce risk and climate resilience criteria to protect critical infrastructure. The readiness for such a follow up operation will be considered during the CPF period. The same applies to a potential engagement in water and sanitation, an area that the Government has called on the WBG for support and that will require necessary recommendations from a Country Environmental Review. In the meantime, the ongoing sub-regional water knowledge activities, framed under a Programmatic Approach - Strengthening Water Service Delivery for All in Central America, are building capacity to manage environmental challenges.

107. **As in the past, the resilience agenda will be addressed in close coordination with other partners.** For example JICA, a key partner in the area of disaster management, is in the process of negotiating a US$50 million contingency loan similar to the WBG CAT-DDO. Other development partners, such as GIZ and IDB, are implementing regional projects related to disaster risk management, as well as providing technical assistance to support the implementation of the National Climate Change Strategy and to increase climate resilience in public works.

III.4 Implementing the proposed CPF

108. **The implementation period for the proposed CPF would be four years (2016-2019).** This time period takes into account the political cycle and the need to engage with new

administrations after elections. However, given that the objectives address long-term challenges, and given the time it takes to prepare and approve projects in El Salvador, attainable results during this time period would have to be modest, building on on-going engagements at least for the first two years. In some of the critical areas of the program, such as the prevention of crime and violence, the WBG experience in El Salvador has been limited to analytical activities, albeit with operational experience in neighboring countries. Knowledge is also limited in the energy sector in El Salvador, where the WBG has not engaged in over 15 years. The CPF Progress and Learning Review will monitor pro-actively implementation and adjust the results agenda in light of the progress towards results and the unfolding agenda. It will also incorporate progress in IFC and MIGA engagements.

109. **During the initial phase of the CPF, the WBG proposes to deliver projects identified with the Government as highest priority.** During the first year, the proposed program would include: (a) continuing implementation of on-going projects in education, health, social protection, local government, and public management; (b) a scaling up and strengthening of engagement in interventions to enhance Youth Employability and Skills (proposed at US$130 million), building on the lessons-learned from the on-going Income Support and Employability Project; and (c) a proposed operation to assist the Government with its agenda on crime and violence, with a focus on violence prevention and psycho-social intervention (proposed at US$110 million). Depending on progress in implementing the on-going Secondary Education project, the WBG could consider additional resources to expand the scope of engagement in the education sector, and upon closing of the current Local Government Strengthening project, a repeater operation or additional financing could be considered. The IFC anticipates potential support for financial inclusion via the banking system to finance MSMEs. MIGA will maintain its current engagements in manufacturing, and the financial sector, including the guarantee for a pension fund. The WBG will also seek to mobilize complementary support from trust funds and other sources to provide technical assistance to ensure program implementation and delivery of results.

110. **The knowledge agenda is central to the proposed CPF, and primarily targets the knowledge gaps identified in the SCD.** In particular, the SCD focuses on knowledge gaps in which new information could help inform specific actions in the priority areas. The SCD identified a number of concrete knowledge gaps: (a) What is the impact of frequent natural disasters on the more vulnerable?; (b) How do we explain the paradox of a widespread perception of corruption with low bribe payments?; (c) To what extent is high crime the result of limited opportunities and how does it affect shared prosperity?; (d) How does limited domestic competition affect shared prosperity?; (e) Why is the rate of female labor force participation low?; and (f) Why do so many students drop out of school? Building on these gaps identified by the SCD, the following knowledge areas are of particular relevance for the CPF pillars and objective areas: (a) delving deeper on the interactions between crime and violence, business opportunities, and shared prosperity; (b) analyzing the determinants of the high level of secondary school dropout; (c) assessing employability and skills, including the drivers of low female labor force participation, and interactions with migration, remittances and family dynamics; (d) engaging in technical and analytic activities related to the efficiency of public spending, including: (i) updating and deepening the analysis of social spending for El Salvador in the Central America Social Sector Expenditure and Institutional Review; and (ii) extending technical assistance in the targeting and delivery of utility subsidies; (e) analyzing the impact of limited competition in the domestic market

on technical change, productivity, demand for skills and shared prosperity; and (f) analyzing the incidence of natural disasters on the most vulnerable. As with operations, these priorities can be flexible over the course of the proposed CPF.

111. **In addition, the impacts of activities supported by projects in the proposed CPF will be evaluated in many objective areas.** For example, the on-going Income and Employability Support Project and the Education Quality Improvement Project both support on-going impact evaluations. These evaluations include indicators that go beyond "direct effects" (e.g., on employability, job readiness, incomes for the former; and on quality of education, participation in additional learning activities for the latter) to also collect data on variables such as perceptions of insecurity in the community, victimization of crime, and so forth. These impact evaluations are on-going and any new engagements in these areas would likely continue to promote the use of impact evaluations as core tools for measuring performance. Proposed engagements in crime and violence, and financial access, could also consider incorporating impact evaluations and other evaluative tools.

112. **Enhancing synergies across the various objectives and areas of engagement is fundamental to accomplishing impacts.** The objectives under the proposed CPF are tightly complementary. For instance, the effectiveness in creating safe and prosperous communities with higher levels of investment and employment could be magnified by complementary programs that facilitate access to finance, deliver skills, ease logistics etc. To enhance such synergies, the proposed CPF approach is to work efficiently with the different government agencies and the relevant development partners. Attention will be paid to project and program design, timing of the interventions, joint reviews and potentially joint technical assistance and joint operations.

113. **The WBG will consider the Government requests for a considerable scale-up in its cooperation, both with regards to the mobilization of resources and to the areas of engagement.** As discussed above, the proposed program can be flexible over the four-year period covered by the CPF, within the framework of the selectivity filters. If conditions change, such as those affecting implementation feasibility, evolution of government requests, or enhanced knowledge via the analytic and advisory program and on-going dialogue, the WBG could adjust the proposed program accordingly. Such adjustments would be made in line with the overall framework of the selectivity filters and prioritization under the SCD and Government Program. The CPF Progress and Learning Review would provide opportunities to review such conditions and make adaptations, but such "selective flexibility" can also be considered on an on-going basis.

114. **For example, the Government has requested consideration of possible WBG engagement in energy, with the objective of diversifying the energy matrix, which would be consistent with the priority of improving productive services in the SCD**. Currently, there is an on-going dialogue between the IFC, the authorities, and private investors on potential support for the generation of electricity through a possible public-private partnerships. IBRD could eventually become engaged in geothermal and transmission, building on its experience in Central America and elsewhere. In addition, the WBG could strengthen the knowledge base through a review of the energy regulatory system in El Salvador and its institutional architecture. Although the proposed CPF does not include a concrete stand-alone objective on energy *per se* at this moment, the Progress and Learning Review will revisit progress and introduce a corresponding

objective if a concrete program has materialized by then. Similarly, the current dialogue on infrastructure and municipal development might likewise prepare the ground for additional engagement in the following years of the CPF.

115. **Under the proposed CPF, the WBG seeks to accelerate project implementation, building on experiences from the previous CPS.** The strategy to improve the pace of project implementation focuses on the most critical steps of the approval and implementation cycle, drawing from the lessons learned summarized in the CPS Completion Report. *First*, given that World Bank projects require the approval of the Legislative Assembly for effectiveness, the WBG will maintain open dialogue with Parliamentary officials across the political spectrum to better explain the nature of our operations and facilitate Parliamentary discussion. The target is to reduce the time required for project effectiveness (after Board approval) down from approximately 12 months on average to no more than five months. *Second*, the WBG will closely monitor project design to align it with the implementation capacity and avoid unnecessary institutional complexities across government agencies during implementation. *Third*, the WBG will take a proactive stance on implementation to ensure that emerging complications are addressed on a timely manner. *Fourth*, the teams will undertake a thorough assessment of Project Implementation Units during project preparation, including a clear communication of workloads to higher officials, capacity assessment, and identification of mitigating measures to address knowledge gaps. Within the new WBG Procurement Framework, expected to emphasize on-site capacity building and focus more on systematically strengthening country systems, the new program will mainstream actions to address these challenges.

116. **The Government leads donor coordination in the country, identifying the areas and instruments it proposes to work with each partner.** Stronger government leadership is needed, however, in order to prioritize, align, and maximize the development community's efforts. The challenge for the Government is to avoid isolated and disjointed efforts. The WBG seeks to play a constructive role in each of the relevant engagement areas. For instance, on crime and violence, the WBG will focus engagement in *prevention*, whereas others development partners are focusing on enforcement and/or rehabilitation.

IV. MANAGING RISKS TO THE CPF PROGRAM

117. **Risk in El Salvador is assessed as substantial, with four key potential risks that may impact the achievement of CPF results** (Table 2). These risks include a fragmented political environment, uncertain macroeconomic stability, weak institutional and implementation capacities, and fragile fiduciary context.

Table 2: Risks to the CPF Objectives in El Salvador	
Risk Categories	Rating (H, S, M, L)
1. Political and governance	S
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	H
6. Fiduciary	S
7. Environment and social	M
8. Stakeholders	L
9. Other – Citizen Security	M
Overall	S

118. **Political and governance risk: high political polarization and lack of majority in the Legislative Assembly.** Given that the ruling party does not hold enough seats in the Legislative Assembly to reach neither simple nor qualified majority, it is dependent on alliances with the opposition parties to advance its proposed reform agenda. Moreover, the Government is attempting to tackle some sensitive and difficult issues related to fiscal reforms and expansion of social programs that would need broad support. Given the need for having qualified majority in the Legislative Assembly to approve WBG investment loans (e.g., at least two-thirds of the entire membership of the Legislative Assembly vote in favor), there is a substantial risk that WBG operations have considerable delays or even that WBG loans are not approved at all. To mitigate these risks, the Government has had extensive consultations with the civil society to build a broad support for its National Development Plan, which is very aligned with the CPF. Nevertheless, this risk remains substantial.

119. **Macroeconomic risk: vulnerability to external shocks and fragile situation of public finances.** Promoting inclusive growth as well as fostering sustainability and resilience, as the CPF seeks, becomes a harder task in the Salvadoran context, where the economy is vulnerable to external shocks and the public finances are weak. A progressive worsening of the macroeconomic environment could threaten the successful attainment of a number of CPF development objectives if the deterioration was to result in significantly lower fiscal space than envisaged under the baseline. In order to build safer communities, for example, critical public investment is needed at the community level to promote violence prevention programs, to enforce the law and strengthen the justice system, and to promote prisoners' rehabilitation. Similarly, improved secondary school attainment will be possible only with a substantial, and more efficient, public investment in education, particularly in the teachers' quality and in the overall school infrastructure. These two examples simply illustrate the possible consequences of inadequate macro and fiscal policies and how the macroeconomic risk directly affects the CPF program. The WBG will continue to monitor the evolution of the macroeconomic framework and advise the Government on necessary measures to respond to vulnerabilities. As such, this risk is rated substantial.

120. **Institutional capacity risk: low institutional capacity and weak coordination among (and within) public institutions.** Low institutional capacities and public sector inefficiencies have proven to be crucial factors that have negatively impacted the achievement of CPF results in the past. The weak capacity of public institutions, paired with the ministries' limited resources to hire more qualified staff, could perpetuate slow implementation and delays of projects. This risk is magnified in operations that include different levels of government and activities at locations that are spread over the country, such as the Local Government Strengthening Project, which is operating in 262 municipalities. Furthermore, a weak internal empowerment by implementing agencies and a fragile inter-institutional coordination could worsen this situation and impact the achievement of CPF results. For multi-donor project implementation, the lack of government's leadership to take the lead to coordinate donors could generate delays, overlappings, and duplication issues. To mitigate these risks, the WBG will continue working closely with implementing institutions and provide early and regular capacity building, particularly on procurement procedures, safeguards, financial management, and other technical-operational matters. In spite of these mitigation measures, this risk is rated high.

121. **Fiduciary risk: inefficient budget management and fiduciary challenges.** This relates mainly to the risks of (a) substantial delays to incorporate project funds into implementing agencies' budgets; (b) delays in project implementation due to lack of knowledge on WBG regulations by Project Implementation Units and the National Court of Auditors; and (c) weak institutional capacity on fiduciary aspects in all ministries that affects WBG operations. To mitigate these risks, the WBG will continue strengthening the fiduciary teams involved in WBG projects through workshops and training aimed at increasing capacity building. Notwithstanding these mitigation measures, this risk is rated substantial.

Annex 1: CPF Results Framework

Pillar 1: Building Reinforcing Foundations to Promote Inclusive Growth
El Salvador has been stymied by perpetuating cycles of low growth – and consequently a stagnation in poverty reduction. First is the vicious circle between low growth and violence. Low opportunities spawn crime and violence, and high risks and costs of insecurity then deter investment, resulting in lower productivity growth – which in turn hampers overall economic growth in a perpetual cycle. A second vicious circle is the cycle of low-growth and high migration, whereby limited opportunities, combined with high rates of crime and violence, push people to migrate. Migration then spurs a high rate of dependency on remittances, lower labor force participation, higher reservation wages, a brain drain and potential disincentives to invest in education, low skills, less competitiveness -- then low growth again. A third vicious circle is the link between low growth, savings and investment – which again are affected by El Salvador's high rates of violence and migration. With El Salvador's low-growth equilibrium, these vicious circles translate into a stagnation in poverty reduction. The SCD identifies several levers to break these vicious circles, including: (a) strengthening violence prevention and law enforcement; (b) improving education and skills; and (c) improving productive services and promoting financial inclusion. The CPF proposes to focus on these reinforcing levers to promote inclusive growth with four objective areas that seek to: (a) build capacity to create safer communities for economic development; (b) improve secondary-school attainment; (c) enhance youth employability and skills; and (d) increase financial access to promote financial inclusion. The first three objectives rank in the Government's top three priorities for promoting inclusive growth: "El Salvador Productive, Educated and Secure." The fourth objective (inclusive finance) supports the Government's priority of productivity, and is part of the Government's specific request for WBG engagement.
Objective 1: Build Capacity to Create Safer Communities for Economic Development
Intervention Logic: Crime and violence plague El Salvador, which ranks in the top five countries world-wide for homicide rates. Security is identified by 65 percent of Salvadorans as the most important problem facing the country. The costs of violence are estimated to be around 11 percent of GDP, including material losses, public and private security, and health costs. In addition to immense social costs, insecurity affects El Salvador's competiveness. Firms pay an average of 3.4 percent of sales for security, which is more than double the LAC average. They also report being the victims of extortion, causing them to cut investment plans or even exit the market altogether. Security is also a concern for workers and consumers: over 40 percent of the population reports having changed their shopping and recreation habits in fear of crime. Over five percent changed jobs due to fears of crime. The poor and those in the bottom 40 percent of the population are particularly vulnerable to crime and violence. Young males are most likely to be involved in crime and violence – both as victims and as perpetrators – but women and children are also often victims. Strategies for addressing crime and violence are hampered by severe institutional constraints and low capacity. The Government's strategy for "A Safer El Salvador" combines both preventive and enforcement, but efforts are needed to strengthen capacity to implement a multi- sectoral approach. The proposed WBG engagement seeks to build capacity to create safer communities by focusing on secondary and tertiary prevention strategies, while also supporting primary prevention. By linking activities of the Social Cabinet, the program would focus on interventions that improve psycho- social responses to violence among high-risk populations by providing services that are currently scarce or non-existent, and on recovery of urban spaces in communities and neighborhoods with at-risk populations. Additional activities would support improved local-level coordination, capacity to respond to and monitor events, and increased capacity to design policies based on collected crime and violence information. As the complexity of this objective requires inter-

linkages across levers and a multi-sectoral approach, the proposed CPF adopts a "crime and violence prevention lens," supporting interventions in complementary objective areas, such as education (Objective Area 2) and employability and skills (Objective Area 3) that can also have positive impacts for preventing or reducing crime and violence. Baselines and targets will be decided at project preparation and included in the Progress and Learning Review.		
CPF Indicators	**Supplementary Progress Indicators / Milestones**	**WBG Program**
1.1. Reduced average perception of insecurity in the municipalities where the "Safer Communities" Project is implemented	Improved policy environment for implementation of an integrated national citizen security strategy. *Baseline:* None; *Target:* Strategy by 2017. Semi-annual independent sample surveys track public opinion changes in selected target communities. *Baseline:* None; *Target:* Yes, semi-annually by 2017. Number of people receiving psycho-social, GBV and survival assistance or support immediately after the victimization event. Number of community public spaces rehabilitated and/or constructed in targeted communities. Primary school curricula incorporate violence prevention themes following recognized best practices and evidence-based approaches.	*On-going* •Education Quality Improvement Project (P126364) •Local Development Strengthening Project (P118026) *Potential/Planned New* •Employability and Social Protection Project (2016) •Safer Communities Project (2016)
1.2 Enhanced and increased access to secondary prevention services for special target groups		
1.3 Improved community cohesion though employability and community infrastructure		
1.4 Reduced capture/recruitment of vulnerable youth by gang structures		
Objective 2: Improve Secondary-school attainment		
Intervention Logic: The Government has placed education among the top three priorities for its Five-Year Plan. This high priority reflects the importance role that education can play in the vicious circles as a binding constraint to growth and inclusion. The quality of education is poor, learning outcomes are deficient, and educational attainment is low. The Government's Five-Year plan prioritizes improvements in the education system by: improving quality, strengthening teacher training, modernizing infrastructure and equipment in schools, increasing education access for the poor and vulnerable, and ensuring safety in schools. In support of these efforts, the proposed CPF seeks to help improve educational attainment at the secondary level by strengthening the training of teachers, supporting the improvement of learning facilities and acquisition of educational materials, and extending the school day with accompanying investments in curricula and facilities to enhance the learning experience of the students in participating schools. Recognizing that improving education is a long-term prospect, the program could include support for earlier stages of human capital development, as well as further investments in school quality, and an extension of the Integrated Full Time School Model to cover additional municipalities.		
CPF Indicators	**Supplementary Progress Indicators**	**WBG Program**
2.1 Improvement in the effective transition rate between lower and upper secondary (from 9th to 10th grade).	Number of students in schools adopting the Integrated Full-Time School Model (number), of which female (percent) *Baseline:* 0 [2013]	*On-going* •Education Quality Improvement Project (P#126364)

Baseline: 73% [2013] *Target:* at least 73% [2019] (The trends show falling transition rates in recent years, both in project catchment areas and nationally, so the target is to at least maintain the baseline, which would be an improvement over expected outcomes)	*Target:* 75,189; 49% [2017] Number of additional qualified secondary school teachers and directors resulting from Project Intervention *Baseline:* 0 [2014] *Targets:* 1,333 teachers certified and 412 directors certified [2017] Number of students in grades 7 to 9 that have more than 25 weekly hours of pedagogical activities coordinated by the school. *Baseline:* 0 [2014] *Target:* At least 12,696 students [2017]	•Central America School Dropout: Causes & Consequences (P153075-ESW) *Potential/Planned New* •Possible new lending (or additional financing) to support education quality and attainment Possible additional NLTA on teacher quality, ECD, ICT, skills, and school management
2.2 Number of Integrated School Systems that fully adopt the full-time school model *Baseline:* 0 [2014] *Target:* 40 [2017]		

Objective 3: Enhance Youth Employability and Skills

Intervention Logic: While reforming the education system is a high priority, efforts are also needed to enhance the employability of the current workforce, including youths and young adults who are already out of the school system. Firms report inadequate skills in the workforce as an important obstacle in the business environment. Over 60 percent of young adults ages 25-29 dropped out of school before completing secondary education – adding to the already large stock of low skilled workers (nearly three quarters of all adults over age 25 do not have a completed secondary education). While improving the education system is a top priority for the Government, it is also a long-term process that is unlikely to enhance the employability and skills of the existing workforce. Youths in particular face limited employment opportunities, particularly those with less education. The Government's Five-Year Plan prioritizes employment and employability among its top three priorities, with a focus on youth and women. The Government program seeks to boost employability and skills by: designing and implementing a national technical and vocational training system, developing a national system for skills accreditation, strengthening labor reinsertion, second-chance and continuing education for those outside the system through flexible modalities and literacy, and strengthening labor-force intermediation efforts. The proposed CPF seeks to help the Government build capacity to enhance employability and skills, particularly through interventions targeting at-risk youth. The WBG would support the Government to develop a National Employability Strategy and to strengthen training and labor-intermediation systems, with a focus on at-risk youth. At a broader level, the proposed engagement would help develop active and effective training networks that assist in delivering the essential skills needed by the labor market, including possible opportunities for effective development of ICT skills and other sectorial skills. It would also include attention to the existing training and labor intermediation system to identify gaps and develop alternatives for institutional strengthening and effectiveness. At a more targeted level, the proposed engagement would support interventions to increase productive opportunities for poor at-risk youth and women, through quality training and intermediation mechanisms that facilitate insertion into the labor market and/or for entrepreneurial opportunities.

CPF Indicators	Supplementary Progress Indicators	WBG Program
3.1 Number of youth that receive training under new "employability and skills" program (% female) *Baseline:* 0 [2015] *Target:* 40,000 (50%) [2019]	National Employability Strategy designed and approved by Social Cabinet *Baseline:* None [2015] *Target:* Survey completed and approved [2017] Curriculum developed for training programs, to include demand-driven technical training, job readiness, life skills based on assessment of labor market needs *Baseline:* Curriculum INSAFORP for regular youth training [2015] *Target:* Revised curriculum developed [2017] Selection criteria for eligibility of new Employability and Skills Program designed and approved, taking into account profiling of target youth population and geographic indicators of the incidence of violence	*On-going* •Income Support and Employability Project (PATI, P117440) *Potential/Planned New* •Possible new lending on Employability and Social Protection •Planned new AAA on Central America: Employability and Skills (FY17-18)
3.2 Percent of youth that receive training under new "employability and skills" program who come from municipalities with high incidence of violence *Baseline:* 0 [2015] *Target:* 50% [2019]		
3.3 Number of employment offices that are upgraded to become one-stop-shops for labor intermediation, career counseling, referrals to social programs, and training *Baseline:* 0 of 40 existing employment offices [2015] *Target:* At least 10 employment offices with the full range of services [2019]	Design of expanded range of services prepared and piloted *Baseline:* None [2015] *Target:* Design and pilot complete [2017]	

Objective 4: Increase Access to Finance to Promote Financial Inclusion

Intervention Logic: Despite a sound financial sector, financial inclusion is low, especially amongst the poorest 40 percent: only 14 percent of the Salvadoran population has an account at a formal financial institution, and just 6 percent of the bottom 40 had such an account. Limited use of financial services is also seen in the transfer of remittances, with the bulk being transferred outside the banking sector. Given that evidence shows that savings rates on remittance income tend to be lower than on other sources of income, operating outside the banking sector may in fact be nudging households to maintain high consumption and contribute to low savings rates. While access to finance does not appear to be a constraint for larger firms, bank finance for SMEs is limited. According to the 2010 Enterprise Survey, SMEs were 1.5 times as likely as large firms to identify access to finance as a key constraint for their business operations. Consumer credit, which can have simpler documentation requirements, is often used by micro- and SMEs to fund their business, but at higher interest rates. As in other countries in Central America, the banking sector's share of credit to SMEs has declined, while consumer credit has increased. At an average of 166 percent the value of the loan, collateral requirements limit access to credit for many firms, particularly smaller firms, and constrain the expansion of employment intensive sectors. WBG engagement will facilitate access to credit and improve availability of finance through IFC credit lines tailored to microenterprises and SMEs. The expected

outcome of this objective is that access to finance for firms and households would be increased so as to promote financial inclusion in the long run.		
CPF Indicators	**Supplementary Progress Indicators**	**WBG Program**
4.1 Increased people, microenterprises and SMEs reached with financial services *Baseline*: 198,274 (people & micro) + 19,360 (SME) (2013) *Target:* 386,501 (people & micro) + 25,625 (SME) (2019)	Volume of micro & housing and SME loans outstanding *Baseline*: US$900 million (micro & housing) + US$617 million (SME) (2013) *Target:* US$1,149 million (micro & housing) + US$808 million (SME) (2019)	*On-going IFC* • *PC El Salvador* • *Banco Agricola* • *Apoyo Integral* • *Fedecredito* • *Davivienda* *Potential New* • Possible IFC Investments in SMEs and microenterprises
Pillar 2: Fostering Sustainability and Resilience		
Sustainability and resilience in El Salvador are multidimensional. Fiscal sustainability is hampered by the lack of state capacity. The lack of confidence in public institutions is in part a reflection of a relatively ineffective state. State capacity is limited by low public revenues, and also manifests itself in the difficulty of raising revenue, especially from direct taxes. Pensions, which benefit only a small minority of the population, contribute to two percent of the GDP (half of the fiscal deficit). While debt levels are still manageable, the increase in public debt since the global economic crisis needs to be contained. Exposure to frequent disasters also poses a challenge to El Salvador's sustainability and calls for an improved resilience. The impact of natural disasters results in average annual losses of around 2.5 percent of GDP. These losses add to fiscal pressures and constrain wealth accumulation, lowering potential growth in the medium- to long-run. This pillar brings together two objectives relating to fostering sustainability and resilience. The first objective aims to promote the efficiency of public spending, the second seeks to build capacity for managing disasters and environmental challenges.		
Objective 5: Promote the Efficiency of Public Spending		
Intervention Logic: Fiscal deficits and low economic growth have increased public debt. The fiscal deficit hovers around 4 percent of GDP, and debt-to-GDP ratio has increased to 60 percent. The Government needs to improve the efficiency of public spending to make better use of constrained resources. Priority areas for the Government include improving: (a) the efficiency of public financial management at the national and local level; (b) the coordination and targeting of social interventions; (c) the efficiency of the school system; (d) the efficiency of the health services; (e) the management of the pension deficit, which represents half of the overall deficit, as well as the targeting of utility subsidies; and (f) the fiscal framework, through the adoption of the draft Fiscal Responsibility Law. The proposed CPF seeks to support the Government's efforts to improve the efficiency of public spending, while maintaining dialogue and engagement on overall fiscal issues.		

CPF Indicators	Supplementary Progress Indicators	WBG Program
5.1 Improve public financial systems of selected local governments by implementing consolidation plans and applying MoF directives (SAFIM). *Baseline:* 0 [2015] *Target:* plans and systems implemented in all selected municipalities [2019]	Number of local government that have implemented and are using the official public financial management system (SAFIM) developed by the Ministry of finance *Baseline:* 0 [2015] *Target:* 47 [2018] Number of local governments that have completed and implemented a public finances consolidation plan *Baseline:* 0 [2015] *Target:* 100 [2018]	*On-going* • Local Government Strengthening Project (P118026)
5.2 Improving the coordination and targeting of social interventions by (a) completing the social registry (*Registro Unico de Participantes*, RUP); (b) establishing linkages between the RUP and other registry databases, such as the registry for energy subsidies; and (c) once complete, establishing the use of the RUP as the primary platform for targeting social programs. *Baseline:* 71 municipalities covered by the RUP [2015] *Target:* RUP extended to cover all 262 municipalities, and linked to and cross-checked with the registry for energy subsidies (gas and electricity), and officially established as the platform for targeting social programs. [2019]	Expand coverage of the social registry (RUP) *Baseline:* 71 municipalities [2015] *Target:* 131 municipalities by time of Progress and Learning Review [2017] Carry out regular cross-checks between the RUP and the registry for energy subsidies *Baseline:* Initial cross-checks being carried out [2015] *Target:* At least two further cross-checks carried out as RUP expanded [2017 and 2019]	*On-going* •Income Support and Employability Project (PATI, P117440) •Central America Social Sector Expenditure and Institutional Review (P146907) *Potential/Planned New* Possible new lending on Employability and Social Protection

5.3 Improve efficiency and reduce fragmentation in the organization of schools by effectively implementing school clusters through Integrated Systems. *Baseline:* 0 Integrated Systems [2015] *Target:* 40 Integrated Systems effectively implemented by completing at least 4 of 6 factors. [2019]	Number of Integrated Systems completing at least 4 of 6 factors (see Annex 2). *Baseline:* 0 Integrated Systems [2014] *Target:* 15 Integrated Systems [2015] *Target:* 30 Integrated Systems [2016] *Target:* 40 Integrated Systems [2017] Number of municipalities that have undertaken a process evaluation (qualitative assessment) of the governance system as feedback loop for the effective implementation of Integrated System of school clusters. *Baseline:* 0 municipalities [2014] *Target:* 2 municipalities [2015] *Target:* 7 municipalities [2017]	*On-going*
5.4 Increasing preventive care as measured by preventive medical consultations as percentage of total consultations in 92 select municipalities *Baseline:* 15.6% [2014] *Target:* 16% [2017]	Health Facilities equipped according to norms established by MINSAL (Number of Family Community Health teams/ECOS and Number of Hospitals) *Baseline:* 100 ECOS; 12 Hospitals [2015] *Target:* 708 ECOS; 30 Hospitals [2017] Health Personnel receiving training in priority programs *Baseline:* 700 personnel [2015] *Target:* 1200 personnel [2017]	*On-going* •Strengthening Public Health Care System Project (P117157) •Central America Social Sector Expenditure and Institutional Review (P146907)

Objective 6: Build Capacity to Manage Disasters and Environmental Challenges

Intervention Logic: El Salvador is exposed to a variety of natural hazards, which generate annual losses of around 2.5 percent of GDP and pose a threat to the sustainability of development gains. The most common disasters originate from volcano eruptions, earthquakes, tropical cyclones, excessive rainfall, and droughts. The country shows important progress in disaster risk management, moving from a reactive approach to a comprehensive framework which is based on (a) the strengthening of the National Civil Protection System; (b) a technologically-advanced and faster response system; (c) the most advanced monitoring network on the Central America sub-region and (d) the incorporation of technical information on natural hazards to programs, in order to reduce vulnerability in sector like education, health and public works, among others. The poor suffer the most because they often reside in places in hazard prone areas and have low capacity to recover from the impact of extreme events. The WBG will support the resilience agenda in a selective manner, focusing on carbon emissions and on financial protection against disasters. Within the framework of the Forest Carbon Partnership Facility (FCPF) grant, the WBG will be supporting El Salvador in assessing the causes of deforestation and forest degradation and developing a national strategy and implementation framework to reduce carbon emissions from Deforestation and Forest Degradation (REDD+). Under this framework, El Salvador will have the opportunity to access significant resources form carbon finance entities, such as the Carbon Fund Window of the FCPF. A financial protection strategy can help shield the Government from the economic burden of disasters. The WBG will seek to further enhance the availability of financial resources to respond to disasters, by supporting the expressed intention of the

Government to join the Caribbean Catastrophic Insurance Facility and enhance the capacity to safeguard fiscal accounts and balances against natural catastrophes. Improving affordability of sovereign catastrophe risk transfer options will provide Ministries of Finance with an option for better fiscal management of these shocks and will help mitigate macro-economic and budget impacts that otherwise lead to reduced access to, and quality of, public services as well as higher debt levels that are transferred onto future generations. Typically, macro-economic shocks and budget volatility disproportionately affect the poorest as they are most dependent on social and public service delivery.		
CPF Indicators	**Supplementary Progress Indicators**	**WBG Program**
6.1 A financial protection strategy to respond quickly and sufficiently to disasters is put in place *Baseline:* No risk financing instruments in place to manage disaster impacts [2015] *Target:* Development of a tailor-made sovereign disaster risk financing strategy [2019]	Increased capacity of the government and private sector to understand financial exposure and to adopt disaster risk financing instruments *Baseline:* 0 [2015] *Target:* Analytical work and feasibility studies for the introduction of disaster risk financing instruments [2017]	*On-going* •Central America Disaster Risk Financing Engagement Project (TA-P148729-TAS-TF016321 *Potential/Planned* •Central America & Caribbean Catastrophe Risk Insurance Project (P 149670)
6.2 El Salvador Government provides additional contingent funding or at least one risk transfer instrument. *Baseline:* The only contingency fund is FOPROMID (with a $4 million risk retention capacity) [2015] *Target:* Risk retention capacity has been increased or at least one additional contingent funding instrument is in place [2019]	Number of local governments that have completed and implemented a disaster risk management plan *Baseline:* 144 municipalities have completed their plans [2015] *Target:* 262 municipalities have completed their disaster risk management plans [2016]	*On-going* •Local Government Strengthening Project (P118026)
6.3 A national strategy to reduce emissions from deforestation and forest degradation provides the country access to funds from carbon finance initiatives. *Baseline*: none (2015) *Target*: country gets access to carbon finance initiatives (2018)	El Salvador develops the institutional arrangements, policy instruments and monitoring/evaluation systems that will provide the foundation for the country's participation in any future REDD+ mechanism under the UN Framework Convention on Climate Change. [2016]	*On-going* •El Salvador Readiness Preparation Proposal - Formulation Grant (2014)

Annex 2: Monitoring and Evaluation of the CPF Results Framework

INDICATORS	OPERATIONAL DEFINITIONS AND SOURCES OF DATA
1.1 Reduced average perception of insecurity in the municipalities where the Safer Communities Project is implemented	Indicators to be defined in project preparation. *Source:* perception surveys.
1.2 Enhanced and increased access to secondary prevention services for special target groups	Indicators to be defined in project preparation. *Source:* Project data.
1.3 Improved community cohesion though employability and community infrastructure	Indicators to be defined in project preparation. *Source:* perception surveys.
1.4 Reduced capture/recruitment of vulnerable youth by gang structures	Indicators to be defined in project preparation. *Source:* Administrative data.
2.1 Improvement in the effective transition rate between lower and upper secondary (from 9th to 10th grade)	The effective transition rate is the number of students enrolled in 10th grade (regardless of age) in a given year that remain in school during academic year "T" as a proportion of the total number of students eligible to be enrolled in 10th grade (those who passed 9th grade, 10th grade repeaters, and dropouts, all from previous academic year "T-1"). These effective transition rates (UNESCO definition) are also called "access" rates in the on-going Education Quality Improvement Project (P126364). These indicators cover the transition of students from 9th to 10th grade regardless of whether they remain in general education schools or move to technical education schools (both included). The target will measure transition rates in the upper secondary schools in the 40 Integrated Systems covered by the on-going project. *Baseline:* 73% [2013] *Target:* at least 73% [2019] The trends show falling transition rates in recent years, both in project catchment areas (indicator) and nationally, so the target is to at least maintain the baseline, which would be an improvement over expected outcomes. *Source of data:* National School Census; Directorate of Planning, Ministry of Education

2.2 Number of Integrated School Systems that fully adopt the full-time school model *Baseline:* 0 [2014] *Target:* 40 [2017]	Number of Integrated School Systems that fully adopt the full-time school model by completing at least four of six factors for becoming an Integrated School, which include: (a) Pedagogical Plan completed; (b) longer school day implemented with more than 25 hours of class time offered; (c) school directors, and lower- and upper-secondary teachers in the Integrated Schools trained in the features of the new model through introductory training, with participation of at least 50% in three of the five modules offered; (d) schools in the Integrated Systems earmarked for civil works fully completed, including furniture; (e) educational equipment and material delivered to schools earmarked for this in the Integrated Systems; and (f) territorial reorganization of Integrated Systems complete, as evidence by: (i) at least one teacher mobilized to meet the demand at another school within his or her Integrated System (teacher redistribution); (ii) at least one classroom meeting Integrated System demands by consolidating students from two or more schools within the Integrated System (shared enrollment); and (iii) transfers provided for transport, where security allows. *Baseline:* 0 [2014] *Target:* 40 [2017] *Source of Data:* Directorate of Planning, Ministry of Education
3.1 Number of youth that receive training under new "employability and skills" program (% female)	Number of Youth trained in demand-driven technical occupations, job readiness, and life skills as part of the new employability and skills program (% female) *Baseline:* 0 [2015] *Target:* 40,000 (50%) [2019] *Source of data:* Program administrative data; INSAFORP
3.2 Percent of youth that receive training under new "employability and skills" program who come from municipalities with high incidence of violence	Percent of Youth trained in demand-driven technical occupations, job readiness, and life skills as part of new employability and skills program who are coming from municipalities with high violence incidence as a share of all program participants *Baseline:* 0 [2015] *Target:* 50% [2019] *Source of data:* Program administrative data; INSAFORP
3.3 Number of employment offices that are upgraded to become one-stop-shops for labor intermediation, career counseling, referrals to social programs, and training	Number employment offices that are upgraded to become one-stop-shops for labor intermediation, career counseling, referrals to social programs, and training. As of 2015 there are 40 employment offices but services at these offices are limited. The plan is to upgrade a subset of them to include the full range of services. *Baseline:* 0 of 40 existing employment offices [2015] *Target:* At least 10 employment offices with the full range of services [2019] *Source of data:* Ministry of Labor

4.1 Increased number of microenterprises, mortgage clients and SMEs reached with financial services	Number of microenterprises, mortgage clients, and SMEs reached with financial services supported by WBG-financed operations. IFC counts a broad range of financial services with data disaggregated between MSMEs, including: • *Individuals/Micro Finance:* This category includes deposit accounts, the number of outstanding micro, housing, and retail loans, as well as clients reached with insurance and pensions. IFC counts the year-end number of outstanding loans, clients insured, and deposit accounts. Microfinance loan is defined as a commercial loan with amount at origination up to US$10,000. Retail loans include consumer credit cards, store cards, motor (auto) finance, personal loans (installment loans), consumer lines of credit, retail loans (retail installment loans). • *SME Finance*: SME finance includes SME loans, leasing, as well as enterprise insurance. An SME loan is defined as a commercial loan with amount at origination between US$10,000 to US$1,000,000 (or to US$2,000,000 in more advanced economies). Enterprise insurance includes the number of non-life commercial lines and agribusiness. *Baseline*: 198,274 (micro & mortgage clients) + 9,360 (SME) (2013)*Target:* 386,501 (micro & mortgage clients) + 25,625 (SME) (2019) *Source of data:* IFC Development Outcome Tracking System
5.1 Improving public financial systems of selected local governments by implementing consolidation plans and applying MoF directives (SAFIM).	Improving public financial systems of selected local governments by implementing consolidation plans and applying MoF directives (SAFIM). *Baseline:* 0 [2015] *Target:* plans and systems implemented in all selected municipalities [2019] *Source of Data:* municipalities
5.2 Improving the coordination and targeting of social interventions by (a) completing the social registry (*Registro Unico de Participantes*, RUP); (b) establishing linkages between the RUP and other registry databases, such as the registry for energy subsidies; and (c) once complete, establishing the use of the RUP as the primary platform for targeting social programs.	The Government, led by the Technical Secretariat of the Presidency and in coordination with DIGESTYC, has been building a social registry, the "*Registro Unico de Participantes*" (RUP), of the poor and beneficiaries of social programs that will help to avoid duplication and improve the targeting of social interventions. The RUP database already contains socio-economic information in 71 municipalities (56 rural, 15 urban) out of 262 total municipalities in the country. It has been rolled out starting with the poorest municipalities, as identified by the latest poverty maps. The RUP also contains all beneficiary information from most social programs implemented by a wide range of institutions with competency in the sectors. In parallel, the Ministry of Economy also maintains a registry of beneficiaries of energy subsidies (gas and electricity). *Baseline:* 71 municipalities covered by the RUP [2015] *Target:* RUP extended to cover all 262 municipalities, and linked to and cross-checked with the registry for energy subsidies (gas and electricity), and officially established as the platform for targeting social programs. [2019] *Source:* Administrative data and reporting by the Technical Secretariat of the Presidency

5.3 Improve efficiency and reduce fragmentation in the organization of schools by effectively implementing school clusters through Integrated Systems.	Number of Integrated School Systems effectively implemented by completing at least 4 of 6 criteria. The criteria include: (a) Pedagogical Plan completed; (b) Longer school day implemented with more than 25 hours of class time offered; (c) School directors and lower and upper secondary teachers trained in the features of the new Integrated Systems model through introductory training with at least 50% in three of five models offered; (d) Civil works earmarked for schools in the Integrated Systems model fully completed, including provision of furniture; (e) Educational equipment and material delivered to schools earmarked for this in the Integrated System; and (f) Territorial reorganization of the Integrated System is complete, as evidenced by at least one teacher training in more than one school in the Integrated System; at least one shared space used by more than one school; and students receiving a transport stipend. *Baseline:* 0 Integrated Systems [2015] *Target:* 40 Integrated Systems effectively implemented by completing at least 4 of 6 factors. [2019] *Source of Data:* Directorate of Planning, Ministry of Education.
5.4 Increasing preventive care as measured by preventive medical consultations as percentage of total consultations in 92 select municipalities	Number of preventive consultations in 92 selected municipalities / total number of consultations in the 92 selected municipalities. *Baseline:* 15.6% [2014] *Target:* 16% [2017] *Source of Data:* MINSAL Information System, covering the 92 municipalities.
6.1 A financial protection strategy to respond quickly and sufficiently to disasters is put in place	The strategy would be based on the careful assessment of risk profile of the country and would seek to provide adequate coverage to multiple eventualities. It would include the creation of budget funds, contingent financing and insurance. It would be completed by a build-up of the institutional capacity to respond. *Baseline:* No risk financing instruments in place to manage disaster impacts [2015] *Target:* Development of a tailor-made sovereign disaster risk financing strategy [2019] *Source of Data:* Strategy Document Published—publicly available.
6.2 El Salvador Government provides additional contingent funding or at least one risk transfer instrument.	There are a variety contingent funds available to the country. In this case, we will focus on: (a) CAT-DDO; (b) Reallocation of budget funds; (c) Insurance mechanisms. The adoption of one additional contingent Funds is part of the implementation of the strategy defined in 6.1 *Baseline:* The only contingency fund is FOPROMID (with a $4 million risk retention capacity) [2015] *Target:* Risk retention capacity has been increased or at least one additional contingent funding instrument is in place [2019] *Source:* Contracts establishing the contingent financing.
6.3 A national strategy to reduce emissions from deforestation and forest degradation provides the country access to funds from carbon finance initiatives.	The national strategy is a document which includes the following axes of action: expand agroforestry and promote resilient to climate change; conservation of forest ecosystems and protected areas; restoration of gallery forests; promotion of green infrastructure for retention, collection and water management; applied research, training, and education; institutional strengthening. *Baseline:* none [2015] *Target:* country gets access to carbon finance initiatives [2018]

Annex 3. Selected Indicators* of Bank Portfolio and Management

As Of Date
4/16/2015

Indicator	2012	2013	2014	2015
Portfolio Assessment				
Number of Projects Under Implementation [a]	5	5	6	5
Average Implementation Period (years) [b]	1.8	2.8	3.7	4.5
Percent of Problem Projects by Number [a, c]	20.0	0.0	0.0	40.0
Percent of Problem Projects by Amount [a, c]	6.9	0.0	0.0	27.6
Percent of Projects at Risk by Number [a, d]	20.0	0.0	0.0	40.0
Percent of Projects at Risk by Amount [a, d]	6.9	0.0	0.0	27.6
Disbursement Ratio (%) [e]	18.3	9.7	14.2	15.8
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	32	6
Proj Eval by OED by Amt (US$ millions)	1,602.7	809.0
% of OED Projects Rated U or HU by Number	14.3	33.3
% of OED Projects Rated U or HU by Amt	10.6	17.6

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and /or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4: Operations Portfolio (IBRD and Grants)

As Of Date 4/16/2015

Closed Projects	**47**
IBRD/IDA *	
Total Disbursed (Active)	141.92
of which has been repaid	1.02
Total Disbursed (Closed)	1,074.45
of which has been repaid	643.03
Total Disbursed (Active + Closed)	1,216.36
of which has been repaid	644.05
Total Undisbursed (Active)	147.42
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	147.42

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Difference Between Expected and Actual Disbursements [a/]: Undisb.	Orig.	Frm Rev'd
P126364	SV Education Quality Improvement	MU	MU	2012	60				47.25549	20.85549	19.19716
P095314	SV Fiscal Mgmt and Public Sector Perf TA	MU	MU	2010	20				12.89682	12.89682	6.563487
P117440	SV Income Support and Employability	MS	S	2010	50				3.91213	3.91213	3.91213
P118026	SV Local Government Strengthening	MS	MS	2010	80				8.443911	8.345578	6.510578
P117157	SV Strengthening Public Health Care Syst	MS	MS	2012	80				74.91608	74.08274	68.24941
Overall Result					290				147.4244	120.0928	104.4328

Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio

As of 3/31/2015
(In US$ millions)

		Committed					Disbursed Outstanding				
FY Approval	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**
2001	Caess/eeo	0	0	0	0	0	0	0	0	0	0
2014	Davivienda es	50	0	0	0	0	50	0	0	0	0
2010/14	Fedecredito	36.5	0	0	0	0	36.5	0	0	0	0
2012	La hipotecaria	10	0	0	0	0	10	0	0	0	0
2009	Pc el salvador	0	0	5	0	0	0	0	5	0	0
Total Portfolio:		**96.5**	**0**	**5**	**0**	**0**	**96.5**	**0**	**5**	**0**	**0**

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

Annex 6: Development Partners' Engagement in CPF Focus Areas

Partner	Pillar 1: Building reinforcing foundations of inclusive growth				Pillar II: Fostering Sustainability & Resilience	
	Build Capacity to Create Safer Communities	Improve Secondary-School Attainment	Enhance Youth Employability and Skills	Increase Access to Finance to Promote Financial Inclusion	Improve the Efficiency of Public Spending	Build Capacity to Manage Disasters and Environmental Challenges
Main multilateral and bilateral partners						
IDB	x	x	x	x	x x	x
CABEI				x		
KFW	x		x	x		X*
EU	x	x	x	x x	x	
USAID	x	x		x	x	
GIZ	X*	x			x	X*
JICA	x	X*				x
Spain (AECI)	x	x			x	x
UNDP	x		x			x
MCC		x	x			
UNICEF	x	x			x	x
Other partners						
Venezuela ALBA		x				
Italy	x	x				
OIT					x	

*Regional projects, including El Salvador

Loans

Other cooperation

Future cooperation (2015-2019)

Annex 7: El Salvador - Completion and Learning Report (CLR) FY10-14

Date of CPS: October 29, 2009 (Report No. 50642-SV)

Date of CPS Progress Report: June 24, 2011 (Report No. 61113-SV)

Completion and Learning Report prepared by: Jania Ibarra, Nayda Ivette Avalos (LCCSV) and Maria del Camino Hurtado (LCC2C) with inputs from Frank Sader (IFC), Eduardo Cuevas (IFC), Alex Cantor (IFC), Gianfilippo Carboni (MIGA) and the El Salvador Country Team.

TABLE OF CONTENTS

ACRONYMS FOR THE CPS COMPLETION REPORT

CAT-DDO	Catastrophe Deferred Draw-Down Option
CLR	Completion and Learning Review
COMPRASAL	Government e-procurement System
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
DPL	Development Policy Loan
DRM	Disaster Risk Management
ECOS	Family Health Community Teams (*Equipos Comunitarios de Salud Familiar)*
FMLN	*Frente Farabundo Martí para la Liberación Nacional*
FY	Fiscal Year
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
MTPS	Ministry of Labor
MSME	Micro, Small and Medium Enterprises
NDP	National Development Plan (*Plan Quinquenal de Desarrollo 2010-2014*)
PATI	Temporary Income Support Program
PEFA	Public Expenditure and Financial Accountability
PEIR	Public Expenditure and Institutional Review
RUP	Unique Registry of Participants (*Registro Único de Participantes*)
SAFI	*Sistema de Administración Financiera Integrado (Integrated Financial Management System)*
STP	Technical Secretariat of the Presidency
TA	Technical Assistance
TAL	Technical Assistance Loan
US	United States
VAT	Value Added Tax
WBG	World Bank Group

I. Introduction

1. **The Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the joint IBRD-IFC El Salvador Country Partnership Strategy (CPS) for FY10-14**. The CLR: (a) evaluates the CPS program performance in achieving WBG expected outcomes; (b) assesses WBG performance in the design and implementation of the program and discusses its alignment with the WBG's twin goals of eradicating extreme poverty and increasing shared prosperity; and (c) draws lessons for the new Country Partnership Framework (CPF). The CLR uses the updated CPS Progress Report (CPSPR) Results Framework to assess the CPS program as well as other inputs where the Results Framework did not fully reflect the contributions of the WBG program, in particular IFC and MIGA activities.

2. **Overall progress toward achieving CPS outcomes was Moderately Satisfactory**. The CPS was envisioned to help the incoming Government mitigate the effects of the 2008 global economic crisis while addressing longer-term development challenges. The CPS was closely aligned with the Government's objectives and provided support under three pillars: (a) strengthen fundamentals for economic recovery by addressing macroeconomic and institutional vulnerabilities; (b) strengthen delivery of social services; and (c) increase economic opportunities for the poor. Out of 24 outcomes, 15 were achieved, two were mostly achieved, three were partially achieved and four were not achieved. All three pillars are rated Moderately Satisfactory.

3. **WBG performance in designing and implementing the strategy was Good**. With a flexible design and built on a broad consultative process, the CPS revived the WBG's engagement with the country after a period of limited activity following the cancelation of several IBRD operations. [43] The design of the CPS was adequate, timely and relevant for addressing the challenges facing the country at the time of the CPS preparation. The WBG delivered a solid package of services that included US$540 million in IBRD lending, US$117.2 million in IFC financing and a MIGA guarantee in the amount of US$92.3 million. Also, the WBG helped the country achieve some important results during this CPS period despite the challenging implementation environment. However, the results framework proved inadequate for effective monitoring of results and at the time of the CPSPR was not sufficiently modified. In addition, neither IFC nor MIGA activities were included in the Results Framework.

II. Progress Towards Country Development Outcomes

4. **The CPS period was marked by low growth and a slow recovery from the 2008 global crisis.** Economic growth in El Salvador has been consistently low since 2000, and continued to average 1.95 percent annually in the period 2010-2014, well below Latin America and the Caribbean (LAC) average (3.7 percent).[44] While growth was already relatively low before 2008, growth performance worsened after the global economic crisis with real GDP contracting by 3.5 percent in 2009, the year in which Tropical Storm Ida[45] hit the country causing economic losses of US$315 million (1.4 percent of GDP) and affecting more than three million people.

[43] The CPS FY05-09 envisaged a program of seven operations of which five were cancelled due to lack of Congressional approval.
[44] The source for the data in this section is the El Salvador Systematic Country Diagnostic (P150275).
[45] The country was also hit by the Tropical Depression 12E in 2011.

5. **The incoming Government took office in 2009 with an explicit focus on expanding social programs and promoting inclusive economic growth.** The new administration led by Mauricio Funes – the first ever FMLN[46] government– took a pro-poor stance and arrived with a clear agenda to broaden basic health and education services, reduce the high levels of violence, and promote inclusive economic growth, focusing on job creation. Faced with the effects of the global crisis, the new Government sought to address short-term needs through its 2009-2011 Anti-Crisis Plan, while laying the foundations for its National Development Plan (NDP) for 2010-2014. The most relevant reforms implemented during the CPS period include approval of the Social Protection and Development Law, which lays the foundation for the development of a Universal Social Protection System, the introduction of an integrated health approach, and adoption of tax reforms to increase revenues.

6. **Nevertheless, country advances in poverty reduction and shared prosperity have been modest**. Poverty declined slowly from 45 percent to 41 percent between 2000 and 2012 while extreme poverty saw a greater decline in relative terms (from 19 percent to 11 percent). While modest compared to other middle-income countries, the income of the lower 40 percent of the population has increased at a faster rate than the income of the overall population: between 2004 and 2012, it was 3 percent, compared to 0.2 percent for the population as a whole. This has lowered inequality, as the Gini fell sharply (from 0.53 to 0.44) and the poverty gap declined. Still, one third of the population is considered chronically poor (mostly concentrated in urban areas) - in poverty as of 2004 and remaining in poverty in 2007 and 2012.[47]

7. **Despite Government efforts, access to basic services continues to be limited and crime and violence levels have increased.** El Salvador has achieved the Millennium Development Goals of universal primary education and reduction of under-five mortality. Nonetheless, enrollment rates at other levels of education, in particular secondary education, are still low: the gross enrollment rate in upper secondary education in 2011 was only 46 percent. These gaps are further compounded by quality issues. The country has made substantial progress in health, and access has increased for the poor, although significant inequities remain in the system. El Salvador ranks among the countries with the lowest Human Development Index in the LAC region (115th out of 187 countries).[48] Crime and violence has increased and further contributed to hindering growth and increasing inequities. In 2012, the number of homicides peaked at over 60 homicides per 100,000 people shortly before a truce was declared between the two main gangs in March of that year. The truce has since unraveled and homicides went up again in 2014, increasing by 56 percent compared to 2013.

III. Program Performance

Pillar 1 – Strengthen fundamentals for economic recovery by addressing macro and institutional vulnerabilities

8. **To strengthen fundamentals for economic recovery by addressing macro and institutional vulnerabilities**, **the WBG supported Government objectives to**: (a) broaden the

[46] *Frente Farabundo Martí para la Liberación Nacional*

[47] WB staff calculations using SEDLAC data (CEDLAS and the World Bank).

[48] See: http://hdr.undp.org/en/content/human-development-index-hdi

tax base; (b) improve targeting of subsidies; (c) implement results-based budgeting; (d) enhance quality of judicial services; (e) enhance access to information; (f) improve fiscal transparency; and strengthen disaster management. Of the eleven outcomes, eight were achieved and three were not achieved. Overall, the pillar is rated Moderately Satisfactory.

(i) Broaden the tax base

9. **El Salvador improved efficiency in tax collection and expanded the tax base.** Tax revenues in El Salvador were among the lowest in LAC and insufficient to finance much needed social spending. The global crisis and the slowdown in economic activity further aggravated the situation. In its effort to increase revenue collection, the Government introduced tax reforms to: (a) create new taxes on specific goods; (b) increase income tax rates; (c) expand the tax base (by eliminating some value added tax (VAT) and personal income tax exemptions); and (d) strengthen tax and customs administration. As a result, tax collection increased by almost 2.5 percentage points of GDP, reaching 15.8 percent of GDP in 2014. These reforms not only helped increase revenue, but also improved the equity of the tax system in general.[49] The WBG supported the Government through the Public Finance and Social Progress Development Policy Lending (DPL; P122699) focused, among other, on: (a) improving efficiency in tax collection by expanding the electronic payment platform; (b) strengthening capacity to fight tax evasion and improve tax recovery by implementing modern systems[50] for selection of tax auditing cases in the Customs and Tax Administration Office and extending the period for processing administrative claims for late tax payments.[51] The IFC provided advisory services under the Tax and Incentive Reform project (ID 599795), which helped identify policy reform priorities and create a reform action plan designed to improve the country's ability to attract, retain and maximize the benefits of domestic and foreign investments.

(ii) Improve targeting of subsidies

11. **The Government introduced measures to improve targeting of subsidies, albeit with limited results.** To reduce the cost of untargeted subsidies and generate fiscal space for social spending, the WBG supported the Government to reduce the electricity and transport subsidy through the Sustaining Social Gains for Economic Recovery DPL (P118036), the Public Finance and Social Progress DPL, and the Public Expenditure Review (P110204). The Government eliminated the generalized component of the electricity subsidy in 2009, and after temporarily reinstating it due to an increase in international oil prices, the subsidy was targeted to the poorest households in 2010. Despite these efforts, the electricity subsidy was only slightly reduced from a 2008 level of US$210.9 million to US$200.6 million in 2012. This result was primarily due to an increase in the cost of electricity in 2012 associated with a change in the methodology used to calculate the tariff schedule. The transport subsidy was reduced by 35 percent, from US$84 million in 2008 to US$42 million in 2014 for public transportation buses, although this result may be

[49] Such as the increase in the personal income tax rate for the highest earners to 30 percent.

[50] The modernized systems employ algorithms to validate the information declared by the taxpayer by cross checking it with additional endogenous and exogenous sources of information.

[51] Legislative Decree No.233 dated December 16, 2009.

partially attributed to the fall in oil prices.

(iii) Implement results-based budgeting

12. **Delays in the development of an updated integrated financial system (SAFI II) deferred the introduction of results-based budgeting.** The WBG, through the Fiscal Management and Public Sector Performance Technical Assistance Loan (TAL; P095314), has been helping the Ministry of Finance to review and modernize existing budget and financial management systems, mainly through the procurement of software and equipment to update SAFI I, which would allow the Government to formulate, execute, monitor, and evaluate the national budget with a multi-annual and performance-based management approach. To date, however, limited progress has been made in developing SAFI II in part due to the slow start of the project caused by an 18-month delay in congressional approval of the loan to fund the project. Further, the scope and complexity of reforms necessary to implement results-based budgeting were underestimated, as well as lack of donor and inter-institutional coordination within the Government. In the short term, the Government has focused on the implementation of intermediate measures that will act as building blocks for results-based budgeting, such as the preparation of a conceptual framework for program-based budgeting, training of Ministry employees, and the redefinition of internal processes to comply with modern fiscal practices. The Government remains committed to implementing the results-based budgeting methodology in all ministries in the future. These efforts were further supported by the Strengthening Fiscal Management and Public Sector Transparency Institutional Development Fund Grant (P109677) which included activities to help prepare Government for multi-annual results-based budgeting by providing TA, training and workshops to build capacity, and engage relevant Government entities in the process. As a result, the Government defined a medium-term budget framework used for the development of the 2011 budget, and a results-based budgeting methodology piloted in the 2011 budget of the Ministry of Agriculture and the Ministry of Health. Given the limited progress in implementing results-based budgeting, the Public Expenditure and Financial Accountability (PEFA) indicators related to "Multi-year perspective in fiscal planning, expenditure policy and budgeting" (PEFA indicator #12) and "Classification of the budget" (PEFA indicator #5) did not improve.

(iv) Enhance quality of judicial services

13. **To address the rising insecurity and need for enhanced rule of law, the country made important advances in improving its judicial services.** Through the Judicial Modernization Project (P064919), which closed in FY10, and the Public Expenditure and Institutional Review of the Security and Justice Sector (PEIR, P127661), the WBG supported the Government to enhance the effectiveness, accessibility and credibility of the judicial branch. The WBG helped create an Integrated Judicial Center (one-stop judicial outlet) in Soyapango.[52] As a result, average processing time when compared to other centers improved and the case backlog was reduced from 5,478 active processes in 2007 to 3,431 in 2010. This model was extended to two more locations in San Salvador. Additionally, a judicial map to improve efficiency of resource allocation was prepared; over 32,000 people benefitted from a Legal Education campaign in Soyapango; and 90 percent of staff in the judicial branch received training to improve quality and competence.

[52] Soyapango, a municipality in San Salvador, is the third most populated area in the country, with 290,412 inhabitants.

According to the Impact Evaluation Survey of the Soyapango Judicial Center, 85 percent of users were satisfied with the services provided, and almost 50 percent of users said that the Center was "very efficient." The PEIR successfully produced a report detailing the main challenges in the allocation and use of resources in security and justice institutions, and served as the basis of a productive relationship with the Ministry of Justice and Security that had two follow-up activities: (a) a multi-stakeholder workshop and event to disseminate the final PEIR to explore entry points for reform; and (b) the Technical Assistance (TA) Action Learning Approach: Towards a Better Allocation of Resources in the Security and Justice Sector (P147274), a participatory learning approach that integrated analytical and empirical rigor with multi-stakeholder engagement to build consensus towards the identified reforms.

(v) Enhance access to information

14. **A legal framework to guarantee access to public information was put in place and public procurement was further strengthened.** In El Salvador, there was no regulation governing access to public – including fiscal – information. In mid-2010, the Ministry of Finance launched the Fiscal Transparency Portal[53], which provides easy access to an array of fiscal data, based on international best practices. In 2013, the Access to Public Information Law came into force. The WBG supported these initiatives through the Public Finance and Social Progress DPL, the Fiscal Management and Public Sector Performance TAL and the Strengthening Fiscal Management and Public Sector Transparency Grant by providing TA for the design and development of the Portal's website, organizing training and workshops for system operators, and supporting the Sub-Secretariat of Transparency and Anti-Corruption in the implementation of the Access to Public Information Law. To strengthen public procurement, the Government conditioned payments on the publication of procurement opportunities, by putting in place a mechanism that ensures that no contract can be paid unless the results of the process are published in the portal. As a result, 92 percent of transactions are now recorded and published in e-procurement system (COMPRASAL).

(vi) Improved fiscal transparency

15. **Full compliance of Government financial statements with International Public Sector Accounting Standards (IPSAS) and Government Financial Statistics is delayed.** Compliance with international standards is one of the strategic goals of the Ministry of Finance, for which it has received support from different donors, including the United States Agency for International Development, the German Development Bank and the WBG. A number of intermediate products have been put in place, such as the conceptual framework for the production of public sector financial information, the model accounting plan in line with IPSAS, and the implementation of the new accounting plan under SAFI II. However, full compliance with IPSAS will require a re-design of most internal processes, for which the launch of SAFI II is a pre-requisite. The WGB has been supporting these efforts through the Fiscal Management and Public Sector Performance TAL and the Strengthening Fiscal Management and Public Sector Transparency Grant.

(vii) Disaster risk management

[53] Visit: http://www.transparenciafiscal.gob.sv/ptf/es/.

16. **El Salvador improved its legal and institutional framework to further mainstream Disaster Risk Management (DRM).** Integrating a DRM component for the first time in the 2010-2014 NDP was instrumental for the mainstreaming of DRM in the country's overall development agenda. In an effort to strengthen the capacity to cope with disasters through its National System of Civil Protection, Disaster Prevention and Mitigation, the Government is implementing a comprehensive approach guided by the Civil Protection and Disaster Prevention and Mitigation National Plan (the National Plan). The National Plan was updated in 2012 and further strengthened in 2013 by incorporating guidelines for rehabilitation and reconstruction.[54] To complement the National Plan, seven Sectoral Emergency Plans were approved for Emergency Services, Infrastructure and Basic Services, Health, Logistics, Security, Shelters, and Techno-Scientific. Furthermore, key ministries have included risk analysis initiatives in their development plans, leading to a better use of technical information on disasters to refine and guide investment programs to reduce vulnerability. Finally, local capacity to carry out risk analysis was also strengthened. Civil Protection Commissions have been created at the departmental (14), municipal (259 out of 262 municipalities), and community levels (2,405). These Commissions are trained by specialized staff from the Secretariat of Vulnerability. The WBG supported these efforts through the Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) (P122640), the Central America Disaster Risk Reduction and Climate Change Adaptation Initiative Project (P125899), and the Probabilistic Risk Assessment to Improve Resilience to Natural Hazards in Central America (P144982).

17. **The Government was better prepared to manage the fiscal impact of disasters.** El Salvador secured a contingent line of credit through the CAT-DDO and created a Disaster Prevention and Mitigation Fund to ensure funding for emergency management and post-disaster recovery purposes. On October 14, 2011, the country was hit by Tropical Depression 12E, considered the most severe weather event recorded in the country.[55] In response to the impact caused by this event, the Government withdrew the entire amount of the CAT-DDO in October 2011. The total population affected by the event was estimated at 1.4 million people (55 percent of the country's population).

Pillar 2 – Strengthen delivery of social services

18. **To address inequalities and strengthen the delivery of social services, the WBG supported the Government objectives to**: (a) improve access to basic health services; and (b) improve coverage and quality of secondary education. Emphasis was placed on protecting the most vulnerable populations, particularly women, and expanding access and quality of basic services, including prevention and promotion of health care services, including prenatal services, and introducing science and technology in secondary education. Of the six outcomes, two were achieved, two were mostly achieved and two were partially achieved. Overall, the pillar is rated Moderately Satisfactory. Additional MIGA support to the pillar, not captured by the results framework, is discussed below.

[54] As of March 2015, the National Plan is under review by the National Commission

[55] ECLAC, IDB, United Nations, World Bank (2011). "*Resumen regional del impacto de la Depresión Tropical 12E en Centroamérica. Cuantificación de daños y pérdidas sufridos por los países de la región en el mes de octubre de 2011*".

19. **MIGA supported the pension sector in El Salvador by providing a US$92.3 million guarantee.** The guarantee was issued to cover the acquisition of *AFP Crecer S.A.* in El Salvador,one of the two pension fund managers in the country, by *Administradora de Fondos de Pensiones y Cesantias Protección S.A.* of Colombia. MIGA's coverage is for a period of up to ten years and contributes to establishing a well-managed and funded pension fund that can play a major role in securing the quality of life of aging populations. The pension fund is also expected to play a positive role in enhancing the development of national capital markets, including increasing the availability of long-term funds and reducing the cost of capital and encouraging product and financial market innovation.

(i) Improve access to basic health services

20. **The Government has made important steps in expanding health care services in the poorest municipalities.** The WBG supported the Government's efforts to expand health care services to the poor through the Earthquake Emergency Reconstruction and Health Services Extension project (P067986) that closed in November 2011 and the Strengthening Public Health Care System project (P117157). In 2010, the Government eliminated co-payments for services provided by public health facilities and increased the nominal amount for non-personnel recurrent expenditure in health in the 2010-2014 Budget to US$331 million, surpassing the pre-crisis level in 2008. Further, by 2014, 520 family health community teams (ECOS) were equipped and functioning in the poorest 164 municipalities of the country, including 36 ECOS with specialized physicians and the number of hospital discharges increased by 40,000. To date, 83 percent of pregnant women received at least four prenatal check-ups and 61.3 percent of the poor received health care services in the 90 poorest municipalities. The WBG also supported increasing institutional capacity and strengthening system performance, including better management and planning in the supply of medicines. All national public hospitals now use the health National Supply System as a management and planning tool to better supply medicines to the population.

(ii) Improve coverage and quality of secondary education

21. **Secondary education enrollment increased as a result of targeted programs.** The WBG supported Government efforts through the Sustaining Social Gains DPL (P118036), the Public Finance and Social Sector DPL (114910) and the Science, Technology and Innovation System Capacity Support Non-Lending TA (P129496). The Public Finance and Social Sector DPL helped expand access to secondary education through the implementation of the education program, EDUCAME (Educación Media para Todos), which offers flexible modalities for completing the secondary curriculum, including distance learning, accelerated secondary programs and "flex-time" courses. Total enrollment in secondary education increased by more than 38,000 students in the period from 2008 to 2010, reaching a total of 633,369 students.56 This enrollment increase came after the elimination of tuition and graduation fees in secondary education, the expansion in the number of classrooms, and the increase in the nominal amount for non-personnel recurrent expenditures in the education budget. Further, the WBG supported the Science and Technology Vice-Ministry's initiatives to improve the quality of science teaching in schools, including the preparation of new materials for teachers and students. The "Hacia la Cima" program provided

[56] As of 2012 (latest data available), total enrollment in secondary education was 611,000 (SEDLAC).

1,440 teachers with educational materials for curriculum enrichment in natural and mathematical sciences, including 29 self-training books on teaching innovation with focus on information technology, two Laboratory Practice manuals, and 21 educational videos for teaching natural sciences and mathematics. Additionally, in 2010, the Ministry of Education developed a science and technology curriculum for upper secondary technical education in agriculture and electrical engineering, which was implemented in 2011. However, despite these efforts, a new curriculum of science and technology has not yet been implemented for all secondary education.

Pillar 3 – Increase economic opportunities particularly for the poor

22. **To promote economic opportunities for the poor, the WBG supported the Government objectives to**: (a) protect the income of the urban poor through the implementation of targeted programs; (b) support the design of components of a Universal Social Protection System; (c) extend the coverage of training programs; and (d) increase investment and employment in rural areas. Emphasis was placed on targeting social protection programs and developing an integrated social protection system to help the poor mitigate the impact of the global economic crisis and create economic opportunities. Of the seven outcomes, five were achieved, one was partially achieved and one was not achieved. This pillar was rated Moderately Satisfactory. Additional IFC support, not captured in the results framework, is discussed below.

23. **IFC promoted financial inclusion, particularly for Micro, Small and Medium Enterprises (MSME).** In 2013, IFC's financial sector clients had over 206,036 MSME loans outstanding (for US$1,177 million), in addition to more than 11,500 individuals reached with mortgage loans totaling close to US$340 million.. Furthermore, IFC supported El Salvador's network of savings and loan cooperatives (US$50 million to Fedecrédito and US$50 million to Davivienda), through an innovative structure that securitizes remittances. This financing will allow Fedecredito and Davivienda to expand its lending by about 25 percent, serving predominantly the rural poor in El Salvador.

(i) Protect the income of the urban poor through the implementation of targeted programs

24. **The Temporary Income Support Program (PATI) helped protect the income of the urban poor.** The WBG contributed to the Government's efforts to protect the income of the vulnerable urban poor through a US$40 million investment in the PATI Program, the main component of the Income Support and Employability Project (P117440). As a result, 40,000 people from extreme poor and poor urban settlements benefited from a cash transfer conditional on participating in community work, occupational training, and labor market orientation courses. The Program attracted a large percentage of women (72 percent of participants), low skilled population (84 percent of participants have not completed basic education), and youth (36 percent of participants are 16-24 years old). Per a rigorous evaluation, the PATI Program has already demonstrated impact, including: reducing extreme poverty among beneficiaries, increasing labor force participation and labor incomes (particularly among the youth), and improving readiness to start a new job. Featured at many international conferences, the Program's design has proven to be an innovative example of a successful Social Protection and Labor intervention, with potential to be replicated in other Latin American, Asian, and African countries.

(ii) Support the design of components of a Universal Social Protection System

(b) **A unified registration system for social protection programs is being developed as part of a future Universal Social Protection System.** The WBG has helped advance with the design and development of the Universal Social Protection System through the Income Support and Employability Project (P117440), particularly with regard to the institutional strengthening of the Technical Secretariat of the Presidency (STP), the development of a Universal Social Protection System strategy, and the development of the Unique Registry of Participants (RUP) in social programs. The STP has completed the definition of the RUP proxy-means test and thresholds that will allow a more efficient targeting of beneficiaries of different social programs. The STP has also: (a) carried out a socioeconomic survey, with data collected in 76 municipalities; developed the Social Information System to monitor program indicators; and (c) finalized an inventory of social programs. Although the RUP is only partially standardized, it is already being used by *Comunidades Solidarias'* programs[57] to target beneficiaries in 15 urban municipalities and 56 rural municipalities. The RUP coverage is being expanded to include: (a) data collected by the Ministry of Health in 164 municipalities implementing the family health community model; and (b) information collected by the Ministry of Economy on the beneficiaries of the gas subsidy. Complementing PATI, the WBG has further contributed to income protection of vulnerable populations through the Sustaining Social Gains DPL (P118036), with the establishment of the conditional cash-transfer program, *Comunidades Solidarias*, which has been expanded to the poorest 125 municipalities of the country. Further, a Social Protection and Development Law, passed in March 2014, helped establish the strategic framework and guidelines that will inform social protection programs in the future.

(iii) Coverage of training programs extended

25. **To further provide opportunities for vulnerable populations, El Salvador promoted labor intermediation, and created occupational training systems for the urban poor.** The WBG, through the PATI, supported the Government to improve the coverage of labor intermediation and training services for the vulnerable urban poor, facilitating skills training in the poorest 25 municipalities. The Salvadoran Institute for Occupational Training, responsible for providing the courses, complemented technical training with a job-seeking module in coordination with the Ministry of Labor (MTPS). Additionally, important advances have been made in the labor intermediation and information systems, namely: (a) 58 local employment offices (*Bolsas de Empleo*) are currently operational; (b) staffing and training of personnel are underway, as well as upgrading technology, and developing instruments to improve monitoring of local labor demand opportunities; (c) consultants have been hired to help design and implement job counseling programs for less skilled job seekers; (d) MTPS established and staffed the Labor Market Observatory under the Direction of Social Provision, and upgrading of technology is underway; and (e) MTPS provided labor market orientation and has continued registering participants in its information technology platform for labor intermediation. PATI's impact evaluation follow-up survey indicates that the Program is positively affecting job readiness, with greater impact among youngsters and women.

[57] A conditional cash-transfer program covering 125 municipalities in the country.

(iv) Increase investment and employment in rural areas[53]

26. **El Salvador implemented municipal plans specifically oriented to increase investments and employment in rural areas.** To address the insufficient municipal funding from the existing System of Fiscal Transfers to Municipalities (FODES)[58] budget, in particular in the period after the crisis, the Government requested WBG support through the Local Government Strengthening Project (P118026). The WBG helped promote and finance investments in key basic service areas identified and prioritized by the communities through municipal participatory planning processes for local development. As of December 2014, 374 subprojects have been completed for a total of US$30.1 million, benefiting more than 1.1 million people and generating around 9,810 temporary jobs. Participatory planning schemes supported by the WBG have contributed to empowering communities and civil society actors to engage more actively in the development of their municipalities. As of December 2014, 135 municipalities (54 percent of total municipalities in the country) had produced their five-year Municipal Development Plans.[59] To help those municipalities whose financial situation is most critical, the WBG provided additional funding for 160 municipalities to prepare and implement special financial support plans to strengthen municipal finances. As of December 2014, 72 municipalities had completed their plans and 47 were actively implementing them. The WBG also supported the design of a decentralization policy to strengthen the inter-governmental administrative and fiscal system.

IV. World Bank Group Performance

27. **Overall, the WBG Performance during the FY10-FY14 CPS is rated as Good**. With a flexible design and built on a broad consultative process, the CPS revived the WBG's engagement with the country after a long period of limited activity due to the cancelation of several operations under the previous CPS. The FY10-FY14 CPS design was relevant and responded to the Government's pro-poor agenda established at the beginning of the FMLN's mandate in 2009, which envisaged promoting social development and inclusion. The WBG performance is evaluated along two key dimensions: (a) design and relevance; and (b) implementation of the CPS program.

Design and Relevance

28. **The design of the CPS was adequate, timely and relevant for addressing the challenges facing the country at the time of preparation.** [60]The CPS was fully aligned with the country's development goals and delivered a program focused on mitigating the short-term impact of the global economic crisis, in particular on the most vulnerable population, and preparing the conditions for a broad-based recovery in the medium term. Given the risks posed by the crisis, inauguration of a new administration, and lack of a completed government strategy at the time of CPS preparation, the CPS was initially designed to cover a shortened three-year period FY10-12

[58] The measurement of this objective is not clearly explained since the indicator chosen was never supported by WBG activities. The CLR describes how the WBG helped increase investment and employment in rural areas.

[59] FODES is a mechanism through which 8 percent of the Government's budgeted current revenues are transferred to the 262 municipalities in the country.

[60] With the financial support of the Spanish Agency for Development Cooperation, six more municipalities have produced Municipal Development Plans.

with defined lending operations only for the first year of the CPS. The flexibility and selectivity of the design allowed the WBG to respond and adjust to evolving Government priorities. During the CPSPR, the WBG reaffirmed the relevance of the CPS and extended the CPS for two years to cover the full mandate of the administration (2009-2014).

29. **Although the design of the strategy was well articulated, the Results Framework was poorly designed and overly ambitious.** While the strategy included IFC's planned areas of engagement, the Results Framework failed to integrate and account for IFC's activities. The Results Framework was overly ambitious in that it overestimated the time it would take to achieve a number of planned outcomes under all three pillars. Furthermore, a number of outcomes in the revised CPSPR Results Framework lacked clear indicators and targets, and, in some instances, it was difficult to establish a results chain that clearly linked objectives with measurable, attributable outcomes and relevant activities. While the CPSPR further aligned the WBG program by dropping and revising a number of outcomes, it missed the opportunity to meaningfully improve the Results Framework.

Program Implementation

32. **During this CPS period, the WBG delivered a solid package of support to El Salvador.** The CPS envisaged commitments of approximately US$650 million, of which US$540 million were delivered. During the first year of the CPS period, the WGB approved four operations for a total of US$250 million, as follows: (a) Income Support and Employability Project (P117440, US$50 million); (b) Local Government Strengthening Project (P118026; US$80 million); (c) the Fiscal Management and Public Sector Development TAL (P095314, US$20 million); and (d) Sustaining Social Gains DPL (P118036, US$100 million). In FY11, the WBG approved the CAT-DDO (P122640, US$50 million) and the Public Finance and Social Program DPL (P122699, US$100 million) to support fiscal policies for needed social spending and protect the most vulnerable segments of the population. In FY12, to support the country's education and health reforms, the WBG approved the Education Quality Project (P126364, US$60 million) and the Strengthening Public Health Care System Project (P117157, US$80 million), respectively. The CPS also foresaw the delivery of a second DPL as part of the Public Finance and Social Program series, whose preparation was dropped due to the suspension of the IMF Stand-By Agreement. To increase access to finance for underserved populations, IFC increased its portfolio in the financial sector from four projects in June 2010 (totaling US$51.7 million) to seven in March 2015 (totaling US$142 million). Of this amount, US$36 million is in the form of trade finance guarantees and the remainder consists of long-term loans. In June 2014, MIGA provided a guarantee in the amount of US$92.3 million to support pension fund management. As of March 2015, MIGA had US$136 million in gross exposure in three projects.

33. **Portfolio implementation was slower than expected.** As of December 2014, the WBG lending portfolio in El Salvador comprised five active projects totaling US$290 million, of which US$151.60 million had been disbursed. During the CPS period, the disbursement ratio deteriorated as older projects existed the portfolio and in the last three fiscal years, FY12-14, it was below Central America and LAC averages.[61] There are two problem projects: the Education Quality

[61] FY10 and FY11 disbursement ratio was at 40 and 36 percent, respectively, above Central America averages (17 and 20 percent) and in line with LAC averages (39 and 30 percent). FY12-14 disbursement ratio was 18, 9.7 and 14.2 percent, respectively, well below Central America (26, 25 and 22 percent)

Improvement Project and the Fiscal Management and Public Sector Performance Project. The Education Project is being restructured in an effort to improve implementation and address bottlenecks related to the execution of the inclusive full time school model. The Fiscal Management Project experienced significant delays in implementation due to its complex nature and low capacity and commitment of different agencies involved in the implementation. In general, the portfolio has faced challenges related to weak institutional capacity, fragile inter-institutional coordination, and lack of adequate project ownership by medium and high-level officials. Delays in Congress approval also continue to be a significant factor hindering timely project implementation.[62] Nevertheless, the WBG has been working closely with the authorities to resolve these bottlenecks and build implementation capacity. The WBG held regular Country Portfolio Performance Reviews to identify specific issues related to project execution, in particular related to fragile inter-institutional coordination. These mitigation measures helped implement the WBG program and achieve results as discussed in the program performance section.

34. **Relevant advisory services and analytics pieces are central to the WBG's engagement in the country, informing the design of the WBG's operations.** During the CPS period, the WBG delivered three core diagnostic studies: the Public Expenditure Review, the Financial Sector Assessment Program, and the Corporate Governance Country Assessment. Other major work was focused on just-in time and demand-driven activities, particularly to support policy dialogue and consensus building. This included (a) the Land Sector Assessment, which analyzed and provided recommendations for the reactivation of the rural sector; (b) the PEIR for the Justice and Security sector, that provided key recommendations to improve the efficiency of public resources allocation; and (c) a series of studies to support the Financial and Insurance sector. With a view to contributing to improving competitiveness, IFC also provided advisory services related to regional trade, tax and incentive reforms, the investment climate, and improved risk management in the financial sector. The IFC is also providing support to the Salvadorian Executive Commission for Ports to structure and implement a public private participation scheme for the ports of *Acajutla* (country's main port) and *La Union* (greenfield port). Although some of the IBRD's and IFC's products opened door for further engagement, others lacked Government ownership and the appropriate follow-up to be impactful.

Alignment with WBG Corporate Goals

35. **The WBG program was aligned with the Corporate Goals of eradicating extreme poverty and increasing shared prosperity.** The CPS program was focused on protecting and ensuring the social inclusion of vulnerable segments of the population through both DPLs and investment lending, of which about 70 percent was allocated to social protection, education and health.

36. **In particular, the WBG program supported the Government's efforts to protect vulnerable households and expand effective and well-targeted safety net programs.** The *Comunidades Solidarias* program, developed in partnership with the WBG, is the country's main tool for implementing social protection interventions including increasing access to basic health,

and LAC averages (21, 23 and 18 percent).

[62] On average, the time required for project effectiveness (after Board approval) was on average 12 months, and in some instances, 18 months.

nutrition and education services. With WBG support, the program reached full coverage of the 100 poorest rural municipalities and established a new program of monetary transfers to poor elderly individuals with no additional source of income. In addition, the WBG supported, in collaboration with the Inter-American Development Bank, the preparation of the operational framework for implementing the urban version of the program, *Comunidades Solidarias Urbanas*, which incorporated features of the original program and included actions to address challenges specific to urban communities, such as crime and violence. For example, the *Comunidades Solidarias Urbanas* provides training and temporary income for young individuals at risk and in an effort to protect the children and youth in communities at risk, the program extended the school day and introduced cultural activities in the after school program. These targeted efforts are expected to contribute to reducing poverty and increasing shared prosperity in the medium and long term.

V. Key Lessons from the CPS FY10-14 and Recommendations for the New CPF

37. **For timely implementation of the CPS program, targeted consensus-building at project preparation and continued dialogue with stakeholders is necessary to mitigate El Salvador's high levels of political polarization.** Already noted in the FY05-09 Country Assistance Strategy, political polarization in the country have led to prolonged approval processes in the National Assembly. The flexible approach of the CPS ensured that the WBG was able to respond to Government needs as they arose in a changing economic context, and led to the approval of eight loans closely aligned with the NDP. Important consensus-building efforts were carried out throughout the period using the WBG's convening power to reach out to the different political parties to better explain the nature of our operations and facilitate parliamentary discussion. Continued dialogue around the implementation of widely accepted development objectives will be key in the design of the upcoming program.

38. **Lack of inter- and intra-institutional collaboration requires better planning for achieving results.** Collaboration among and within implementing agencies has proved challenging particularly among fiduciary and technical units, often causing delays in the implementation of the WBG program. This situation is further aggravated by weak leadership and generally weak implementation capacity. Adequate ownership of the program by high-level officials would facilitate inter- and intra- agency coordination and speed up decision-making and implementation.

39. **Leveraging the complementarity of IBRD, IFC and MIGA can promote synergies and ensure greater impact on the ground.** Under this CPS, the collaboration between IBRD, IFC and MIGA was mostly ad-hoc, without strategic alignment and efforts to jointly explore and identify opportunities for development and greater impact. Going forward, the WBG engagement should seek to package a comprehensive set of development solutions leveraging the strengths of the three institutions to address the country's challenges.

40. **A well-designed Results Framework is critical for evaluating the achievement of CPF objectives.** The Results Framework fell short mostly on quality and design. For example, in some instances baselines and targets were disjointed and/or required different evaluation criteria, and some lacked target values. In addition, the CPSPR failed to refine and meaningfully improve the Results Framework, including to reflect IFC and MIGA activities, thus constraining the evaluation of the CPS outcomes and objectives.

CPSCLR Annex 1 – El Salvador CPSCLR Results Framework

Government Objectives FY10-FY14	CPS Outcome Indicators (baselines and targets)	Status and Evaluation Summary (as of December 2014)	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the New CPF
CPS Pillar 1: Strengthen fundamentals for economic recovery by addressing macro and institutional vulnerabilities				
Rating: Moderately Satisfactory				
A. Broaden the tax base	Outcome 1. Tax reform legislation aimed at increasing tax revenues and closing tax loopholes is approved, and tax administration systems strengthened. Baseline (2009): Tax collection was 12.4 percent of GDP Target (2014): Tax collection is 15.8 percent of GDP	Achieved Tax reform legislation aimed at increasing revenues and closing tax loopholes was passed between 2009 and 2014. Actual: Tax collection projection for December 2014 is 15.9 percent	Financial Services: • Public Finance and Social Progress DPL (P122699, closed FY13) • Fiscal Mgmt. and Public Sector Performance TAL (P095314, approved FY10) Knowledge services: • Custom Assessment Toolkit for Trade IFC Commitments: • El Salvador Tax and Incentive Reform (ID599795, approved FY14)	*El Salvador has adopted 13 tax reforms since 2011. However, despite the progress made in the CPS period, El Salvador's tax revenues are still among the lowest in the region. Fewer, strategic reforms with higher impact on fiscal gains could potentially yield better results.*
B. Improve targeting of subsidies	Outcome 2. Electricity subsidy for large firms eliminated and overall costs substantially reduced. Baseline (2008): Electricity subsidy is US$210.9 M Target (2012): Projected spending on the electricity subsidy in the 2012 budget is less than US$100 M (0.35 percent of the GDP) and only for targeted poor households	Not achieved Actual: Although efforts were made to improve targeting, the electricity subsidy in 2012 was US$200.6 M and its distribution mechanisms remain inefficient	Financial Services: • Public Finance and Social Progress DPL series (P122699, closed FY13) • Sustaining Social Gains for Economic Recovery DPL (P118036, closed FY11) Knowledge services: • Public Expenditure Review (P110204, delivered FY11)	*Of all subsidies in the country, the gas subsidy has been the most successful in terms of targeting reforms. Electricity subsidy reforms, therefore, could build on the experience of the gas subsidy rationalization to improve targeting.*

	Outcome 3. Transport subsidy is reduced by over 50 percent. Baseline (2008): Public Transport subsidy: US$84 M Target (2014): Projected spending on the transport subsidy is less than US$42 M (0.16 percent of the GDP).	Achieved Actual: The transport subsidy estimated for 2014 is US$35.8 M.		
C. Implement results-based budgeting	Outcome 4. Improvements in the ratings in PEFA indicator #12: "Multi-year perspective in fiscal planning, expenditure policy and budgeting" and PEFA indicator #5: "Classification of the budget" Baseline (2009): PEFA#12 C+; PEFA#5 C Target (2014): PEFA #12 B, PEFA #5 B	Not achieved The Government has defined a medium-term budget framework (that was incorporated in the 2011 budget), and a result-based budgeting methodology that was piloted in the 2011 budgets of the Ministry of Agriculture and the Ministry of Health. The government expects to implement a result-based budgeting methodology in all ministries in the coming years. Actual: PEFA indicators remain the same as the baseline.	Financial Services: • Fiscal Mgmt. and Public Sector Performance TAL (P095314, approved FY10) Knowledge services: • Strengthening Fiscal Management and public Sector Transparency Grant (P109677, closed FY13)	*Stronger ownership by and leadership from the Ministry of Finance is necessary to ensure more effective donor coordination and better results on the ground.*
D. Enhance quality of judicial services	Outcome 5.[63] User satisfaction and quality of judicial services is improved with the introduction of the Integrated Judicial Services Centers. Baseline (2008): A new Integrated Judicial Services Center was designed for the Soyapango district. Target (2010): Satisfaction of users of the new Judicial Services Center has increased by 50 percent and the	Achieved Actual: According to the Impact Evaluation of the Soyapango Center, 85 percent of users are satisfied with its service provision. Almost 50	Financial Services: • Judicial Modernization Project (P064919, closed FY10) Knowledge services: • Public Expenditure and Institutional Review of the Security and Justice Sector (PEIR, P127661, FY12)	

[63] The CLR notes that the baseline and target for Outcome 5 are in disconnect. The CLR used the achievement of the target as the basis for evaluation.

	Government has extended the model to other two judicial centers.	percent of users, and 27.6 percent, said that the Center is very efficient, or moderately efficient, respectively. Furthermore, the model was extended to two other locations in San Salvador.		
E. Enhance access to information	Outcome 6. Legal and regulatory framework in place to enhance public access to fiscal information Baseline (2009): No regulations exist on enhanced public access to fiscal information. Targets (2014): 1. Legal and regulatory framework in place to enhance public access to fiscal information 2. The Fiscal Transparency Portal has been re-designed and launched Outcome 7. Number of public sector procurement transactions recorded in COMPRASAL has been increased to 80 percent. Baseline (2009): 44 percent of public procurement transactions recorded in COMPRASAL Target (2014): 80 percent of public sector procurement	Achieved *Target one: Achieved* Actual: An Access to Information Law came into force in 2013. *Target two: Achieved* Actual: In mid-2010, the Ministry of Finance launched the Fiscal Transparency Portal that provides easy access to an array of fiscal data, based on international best practices. Achieved Actual: 92 percent of public sector procurement is recorded in COMPRASAL	Financial Services: • Public Finance and Social Progress DPL (P122699, closed FY13) • Fiscal Mgmt. and Public Sector Performance TAL (P095314, approved FY10) Knowledge services: Strengthening Fiscal Management and public Sector Transparency Grant (P109677, closed FY12)	
	transactions recorded in COMPRASAL			

F. Improved fiscal transparency	Outcome 8. Government financial statements show tangible progress towards being consistent with IPSAS and Government Financial Statistics standards. Baseline (2009): Government financial statements are not consistent with IPSAS and Government Financial Statistics standards Target (2014): Government Financial Statements are consistent with IPSAS and Government Financial Statistics Standards and are automatically produced by an upgraded SAFI	Not achieved Actual: The new SAFI is still under development and is expected to be up and running for budget 2017. Steps have been taken to harmonize accounting reports with legal standards. There is a proposal for a National Accounting Plan under the new SAFI II that takes into account IPSAS standards.	Financial Services: • Fiscal Mgmt. and Public Sector Performance TAL (P095314, approved FY10) Knowledge services: • Strengthening Fiscal Management and public Sector Transparency Grant (P109677, closed FY12)	*Weak inter-institutional coordination strains implementation and delays results. Going forward, the WBG should realistically assess the time needed to complete activities in light of challenging inter-institutional coordination and establish appropriate mitigation measures. .*
G. Disaster management	Outcome 9. Review, finalize and implement emergency plans for the most vulnerable populations and local jurisdictions Baseline (2009): The Civil Protection and Disaster Prevention and Mitigation National Plan was updated in July 2009. Target: The Civil Protection and Disaster Prevention and Mitigation National Plan is under revision as prescribed by law.	Achieved Actual: All sections of the Civil Protection and Disaster Prevention and Mitigation National Plan were updated in 2012. In 2013, it was further strengthened by integrating guidelines for rehabilitation and reconstruction and	Financial Services: • Disaster Risk Management DPL with a CAT-DDO (P122640, approved and delivered FY11, closed FY14) • Central America Disaster Risk Reduction and Climate Change Adaptation Initiative Project Ongoing (TF011092/P125899) Knowledge Services: • Probabilistic Risk Assessment to Improve Resilience to Natural Hazards in Central America, Ongoing (TF014499/P144982)	*The DPL with CAT-DDO proved to be a very efficient instrument for a country like El Salvador where no contingent funds were available. It was used to strengthen the country's DRM framework and provided quick access to liquidity in the event of a disaster, thereby contributing to a faster emergency response and avoiding disruption in service delivery, in particular to the poor.*

	Baseline (2010): The sectoral emergency plans are presented to Civil Protection National Commission. Target (2014): Sectoral Emergency Response Plans and other Plans are implemented in relevant situations	including additional risks to ensure a comprehensive vision of disaster risk management. The revised Plan is currently under consultation. Actual: The sectoral emergency response plans were presented to the Commission in 2010. Since then, the 7 Sectoral Emergency Response Commissions have been meeting regularly and the plans are systematically implemented during relevant emergencies and are monitored for continuous improvement. In 2014, contingency plans for floods, seismic activity and epidemics (dengue) were activated. In addition, the National Seismic Contingency Plan for earthquakes and tsunamis was tested through simulations in June 2013 and in May 2014 with the support of the Humanitarian Allied Forces and the participation of the Sectoral Emergency Response Commissions.		
	Outcome 10. Establish a contingent line of credit as part of the country's disaster risk strategy. No baseline identified. Target (2014): The Government has established contingency mechanisms and developed institutional capacities to respond in case of disaster events.	Achieved Actual: A DPL with a CAT-DDO in the amount of US$50 million was approved on February 1, 2011, made effective on May 24, 2011, and closed on August 31, 2014. It was fully disbursed through two requests on October 17 and 27, 2011, to provide resources to respond to the impact of the tropical depression 12E.		

	Outcome 11. Improve local capacities to assess risk. Baseline (2011): Central America Probabilistic Risk Assessment preparatory workshops took place to strengthen local capacity to carry out risk analysis to disasters. Target (2014): Strengthened local capacity to carry out risk analysis supports Government's policy decision to reduce risk to disasters.	Achieved Actual: A Central America Probabilistic Risk Assessment is underway in partnership with the IDB. In January 2011, the Vulnerability Affairs Secretariat was created under the Presidency of the Republic and has been further strengthened. Civil Protection Commissions at the departmental (14), municipal (259) and community (2405) levels have been created and trained and two major shelters were built, which will also be used as Civil Protection training facilities. Ministry of Environment and Natural Resources MARN created an Emergency Operations Center and carried out a series of trainings for civil servants at the municipal, regional and national level to promote risk monitoring and adequate use of early warning systems. Several agencies (e.g. Ministry of Health, STP) carried out trainings for damage and loss assessment. Furthermore, through the Local Government Strengthening Project, local DRM plans have been formulated. At the moment, 46 local governments are preparing their plans.		

CPS Pillar 2: Strengthen delivery of social services				
Rating: Moderately Satisfactory				
A. Improve access to basic health services	Outcome 12[64]. Prevention and promotion of health care services through the Integrated Health Care Services model is expanded in the 82 poorest municipalities. Baseline (2008): 70 percent of the individuals of the 82 poorest municipalities are receiving health care services Target (2014): 85 percent of the individuals of the 92 eligible municipalities are receiving health care services. Target (2014):[65] Nominal amount for non-personnel recurrent expenditures in health in the proposed 2010-2014 Budgets are on average at least the same level as in 2008. Outcome 13. The number of hospital discharges in public sector has increased by 10 percent over 2009.	Partially achieved Originally designed to reach 92 municipalities, the Strengthening Public Health Care System Project was restructured and reduced the number of eligible municipalities from 92 to 90. *Target one: Not achieved* Actual: 61.3 percent of individuals of the eligible municipalities received health care services in 90 municipalities, at least once in 2014 (Source: Ministry of Health). *Target two: Achieved* Actual: Nominal amount for non-personnel recurrent expenditures in health in the 2010-2014 Budgets were on average US$331.1 million, surpassing the levels of 2008. Mostly achieved	Financial Service • Strengthening Public Health Care System Project (P117157; approved in FY12) • Earthquake Emergency Reconstruction and Health Services Extension (P067986, closed FY12)	.

[64] The indicator for outcome 12 is based on the indicator of the Project (Strengthening Public Health Care System Project). The related Project indicator was modified to reduce the number of municipalities from 92 to 90. The CLR can only report on the 90 municipalities. In addition, the CLR could not establish why the baseline was set according to 82 municipalities instead of 92 as originally planned under the WB Project. Nevertheless, it is evident that this target was not achieved.

[65] No explicit baseline was provided for this target.

	Baseline (2009): 364,915 hospital discharges from MOH Hospitals according to *Boleting Integrado de Indicadores en Salud* Targets (2014): 1. Hospital discharges from MOH hospitals is over 480,000 2. Family community teams (ECOS) equipped and functioning according to norms established by MOH: 500	*Target one: Mostly achieved* Actual: Hospital discharges in 2014: 394,766; 2013: 403,181 (Source: Ministry of Health). *Target two: Achieved* Actual: 520 ECOS working in 164 municipalities. From this total, 482 are family ECOS and 36 specialized ECOS (Source: Memoria de Labores Ministry of Health 2013-2014) Mostly Achieved		
	Outcome 14. Coverage, equity and quality of priority health services has been expanded for targeted population. Baseline (2011): Percentage of pregnant women receiving at least four pre-natal check-ups in selected 82 municipalities. Target (2014): 85 percent of pregnant women receiving at least four pre-natal check-ups Baseline (2011): 50 percent of poor people with access to public health services in eligible municipalities	*Target one: Achieved* Actual: 83 percent of pregnant women registered in the public health system of the 90 eligible municipalities received at least four pre-natal check-ups in 2014. (Source: Ministry of Health). *Target two: Mostly achieved* Actual: Co-payments were eliminated in the public health system, which removed barriers to		

	Target (2014): 65 percent of poor population with access to health services in eligible municipalities Outcome 15. Eligible Public hospitals have implemented a drug supply management system. Baseline (2011): Drug supply management systems are nonexistent in public hospitals. Target (2014): 20 public hospitals have implemented a drug supply management system	health care access (especially for poor population). In 2014, 61.3 percent of individuals of the 90 eligible municipalities received health care services, at least once in 2014. Additionally, out of the 90 eligible municipalities, 32 have total or partial health coverage by ECOS. (Source: Ministry of Health). Achieved Actual: All hospitals are using the National Supply System as a drug supply management and planning system		
B. Improve coverage and quality of secondary education	Outcome 16. New curriculum for teaching of science and technology in upper secondary elaborated, taking into account labor market needs for skills. Baseline (2009): Outdated curriculum for science and technology related subjects. Target (2014): New curriculum of science and technology has been implemented for secondary education	Partially achieved Actual: In 2010, Ministry of Education developed a science and technology curriculum for upper secondary technical education in agriculture and electrical engineering. The new curriculum was implemented in 2011 with the participation of the productive sector (Source: ICR 2011 Sustainable Social Gains for Economic Recovery).	Financial Services: • Sustaining Social Gains for Economic Recovery DPL (P118036, closed FY11) Knowledge services: • Science, Technology and Innovation System Capacity Support NLTA (P129496, closed FY13)	

	Outcome 17. Increase of secondary education enrollment Baseline (2008): 55,000 students Targets (2014): 1. Secondary education enrollment increased by about 38,000 students 2. Number of operating classrooms in secondary education in public schools increased by 200. 3. Nominal amount for non-personnel recurrent expenditures in education and health in the proposed 2010 Budget are at least the same level as in 2008	Achieved *Target one: Achieved* Actual: Total enrollment in secondary education increased more than 38,000 students (633,369 students in total by 2010). *Target two: Achieved* Actual: The number of operating classrooms in secondary education increased more than 200 *Target three: Achieved* Actual: In 2010, non-personnel recurrent expenditures in education (US$ 184,100,000) and in health (US$265,200,000) were higher than the levels as in 2008 (US$141,740,000 and US$ 220,500,000 respectively). Source: ICR 2011 Sustainable Social Gains for Economic Recovery		
CPS Pillar 3: Increase economic opportunities for the poor				
Rating: Moderately Satisfactory				
A. Protect the income of the urban poor, through the implementation	Outcome 18. 40,000 families in targeted urban settlements receive income support Baseline (2009): No individuals receiving income	Achieved	Financial Services: • Sustaining Social Gains for Economic Recovery DPL (P118036, closed FY11) • Income Support and Employability Project (P117440, approved FY10)	*PATI has proven to be an effective mechanism for temporary protection of the income of the poor and vulnerable upon shocks, in the*

of targeted programs	support conditional on participating in community work Target (2014): 40,000 individuals in targeted urban settlements receive income support conditional on participating in community work	Actual: 40,000 individuals from extreme poor and poor urban settlements in 25 municipalities have benefited from the Temporary Income Support Program (PATI). The 7th round of PATI will be implemented, reaching an additional 4,000 individuals by the end of 2015.		*absence of any other safety net in urban areas.*
B. Support design of components of a universal social protection system	Outcome 19. A Unified Registration system of participants is designed and standardized Baseline (2011): No unified registration system. Target: A Unified Registration System of participants is designed and standardized. Outcome 20. *Comunidades Solidarias* expanded to cover 125 poorest municipalities. Baseline (2008): 77 municipalities in *Comunidades Solidarias*	Partially achieved Actual: With regards to the development of RUP, STP has completed, and the Inter-Sectoral Social Committee has approved, the definition of the proxy-means test and thresholds to enable beneficiaries of different social programs to be targeted. The RUP is already being used by *Comunidades Solidarias* programs to target beneficiaries in Urban Precarious Settlements in 71 municipalities; and it has made progress to incorporate other social programs (ECOS) and subsidies beneficiaries (Source: ISR PATI, October 2014) Achieved	Financial Services: • Sustaining Social Gains for Economic Recovery DPL (P118036, closed FY11) • Income Support and Employability Project (P117440, approved FY10)	*The RUP has constituted an important instrument for social protection management and planning. By linking socio-economic characteristics to program registries, targeting of other interventions (e.g., subsidies) can be improved.* *While Comunidades Solidarias has been able to expand to additional municipalities, half of the municipalities are still not covered. The design of the transfer program: (a) should be focused on secondary education, where dropout rates are higher; and (b) requires a revision of benefits, which are too low per international standards.*

	Target (2014): *Comunidades Solidarias* expanded to cover 125 poorest municipalities.	Actual: The *Comunidades Solidarias* program is working in the 125 poorest municipalities of the country. (Source: FISDL).		
C. Coverage of training programs extended	Outcome 21. Participants in Temporary Income Support Program (PATI) in 11 municipalities receive job skill training Baseline (2011): 0 municipalities implementing PATI Target (2014): Participants in PATI in 25 municipalities receive job skill training Outcome 22. 46 *Bolsas de Empleo* are operational and connected to the National Employment Network Baseline (2009): 28 *Bolsas de Empleo* are operational and connected to the National Employment Network Target (2014: 46 Bolsas *de Empleo* are operational and connected to the National Employment Network	Achieved Actual: PATI, which includes job skill training for its beneficiaries, has been expanded to the 25 poorest municipalities, responding to the revised urban poverty map. Achieved Actual: 58 *Bolsas de Empleo* were operating by October 2014.	Financial Services: • Sustaining Social Gains for Economic Recovery DPL (P118036, closed FY11) • Income Support and Employability Project (P117440, approved FY10)	*PATI is the first step towards improving employability prospects of this population. More sustained changes would require linkages to expanded training opportunities and self-employment support.* *The Ministry of Labor has been improving the coverage and content of services to better serve the poor and vulnerable population. It has done so by training its staff, expanding linkages to key Government programs (e,g. PATI, Ciudad Mujer) and institutions. These efforts need to be sustained and integrated into the broad Government's new strategy on employment.*
D. Increase investment and employment in rural areas	Outcome 23. The Government has established a system to finance municipal projects and has increased transfers to municipalities by 2 percent during the crisis period.	Not achieved	Financial Services: • Local Government Strengthening Project (P118026, approved FY10)	*Given that several national level institutions are involved in the implementation of the Local Government Strengthening Project, the inter-institutional coordination*

	Baseline (2011): No additions to regular Government transfers via FODES (Municipal Economic and Social Development Fund) Target (2014): There is a program in place and the government has transferred $x[66] to the municipalities (additional to FODES) Outcome 24. Municipal Governments have produced their five-year Municipal Development Plan with ample civil society engagement. Baseline (2011): 25 percent of the Municipalities have produced plans Target (2014): 45 percent of the Municipalities have produced their five-year Municipal Development Plans with ample civil society engagement	Actual: The Government transferred extra money to the municipalities through the WBG project, but no program was put in place to transfer additional funds to FODES. Achieved Actual: As of 2014, 135 municipalities had completed their five-Year Development Plans (52 percent of the total municipalities).		*has been challenging, along with the need to work with all 262 municipalities. Therefore, it is important to continue strengthening inter-institutional coordination at the national and especially the local level.* *It is also important to strengthen Social Investment Fund for Local Development capacity to implement environmental safeguards.*

[66] Target not established at CPSPR when the outcome was added. Further, the target is unclear whether the WBG program was supposed to help the authorities create a new program in addition to FODES that would fund municipalities or the intention was that the through WBG program, the authorities will make available additional funding to the municipalities. The CLR verified that the WBG never supported the creation of an additional program for municipal funding. Given the lack of clarity the CLR rates this outcome not achieved. The discussion on WBG support to municipal funding can be found in the section on program performance.

CPSCLR Annex 2: – Planned Lending Program and Actual Deliveries (IBRD)

CPS Lending Program (IBRD in US$ million)		Status at CPSCLR
FY10 Plan		**FY10 Actual**
Sustaining Social Gains for Econ. Recovery DPL (P118036)	US$100	Delivered
Fiscal Mgmt. & Public Sector Development (P095314)	US$20	Delivered
Income Support & Employability (P117440)	US$50	Delivered
Local Government Strengthening Project (P118026)	US$80	Delivered
Total Planned FY10	**US$250**	**US$250 delivered**
FY11 Plan		**FY11 Actual**
Public Finance and Social Progress DPL I (P122699)	US$100	Delivered
Catastrophic Risk Deferred Draw-Down Option Operation (CAT-DDO) (P122738)	US$50	Delivered
Total Planned FY11	**US$150**	**US$150 delivered**
FY12 Plan		**FY12 Actual**
Strengthening Public Health Care System project (P117157)	US$80	Delivered
Education Quality Improvement Project (P126364)	US$50	Delivered (US$60)
Innovation, Science and Technology Project	US$20	Dropped
Total Planned FY12	**US$150**	**US$140 delivered**
FY13 – FY14 Plan		**FY13-FY14 Actual**
Public Finance and Social Progress DPL II	**US$100**	**Dropped**
Total Planned FY13 – FY14	**US$100**	**US$0 delivered**
Total Planned FY10-FY14	**US$650**	**Total Delivered = US$540**

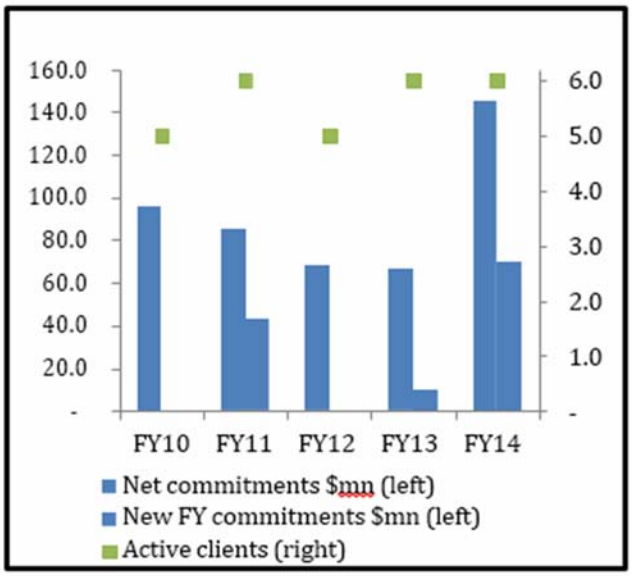
CPSCLR Annex 3: – Planned Non-Lending Activities and Actual Delivery

CPS Program	Status
FY10-Q2 Plan	**Status at the CPSCLR**
Financial Sector *Transition Support*	**FSAP Update El Salvador** (P120936) Delivered FY11 **SV Policy Dialogue & Consensus Building** (P115121) Delivered FY10
FY11 Plan	**Status at CPSCLR**
DRM *Public Expenditure* *Corporate Governance* *Human Development*	**Probabilistic Risk Assessment to Improve Resilience to Natural Hazards in Central America** (P144982/TF014499) **Public Expenditure Review** (P110204) Delivered FY11 **El Salvador Corporate Governance ROSC Assessment** (P124032) Delivered FY11 **Human Development for Poverty Reduction** (P110432) Delivered FY11
FY12 Plan	**Status at CPSCLR**
Public Sector Expenditure and Institutional Review *Innovation, Science and Technology* *Education* *Governance, Accountability and Transparency* *Other*	**Public Expenditure and Institutional Review of the Security and Justice Sector** (PEIR, P127661) Delivered FY12 **El Salvador Innovation, Science and Technology** (P126860) Dropped **El Salvador Education NLTA** (P121532) Delivered FY12 **Improving Governance, Accountability and Transparency in El Salvador (TA)** (P121763) Delivered FY12 **El Salvador: Assessment of Land Tenure Issues** (P123313) Delivered FY13
FY13 Plan	**Status at CPSCLR**
Innovation, Science and Technology	**NLTA Science, Technology and Innovation System Capacity Support** (P129496) Delivered FY13
FY14 Plan	**Status at CPSCLR**

Action Learning Approach for Citizen Security *Financial Services* *Others:*	***SV Action Learning Approach: Towards a Strategy for Citizen*** (P132366) Delivered FY14 ***TA Developing the Legal and Regulatory Framework for the Provision of Financial Services through New Technological Channels* (P P133465) Delivered FY14** **RAAP for Municipality of El Salvador** (P144426) Delivered FY14 **El Salvador PF Sector/Project Briefs** (P150278) Delivered FY14 **SV Systematic Country Diagnostic** (P150275) Delivered FY15 **Fiscal Challenges Policy Note** (P149249) Delivered FY15 **Sustainability of Social Reforms Policy Note** (P149250) Delivered FY15 **El Salvador Economic Growth Policy Note** (P149251) Delivered FY15 **El Salvador HD Sector/Project Transition Briefs** (P149254) Delivered FY15 **SV SD Sector/Project Briefs** (P149255) Delivered FY15 **El Salvador PREM Sector/Project Briefs** (P149256) Delivered FY15 **SV Portfolio Implementation Support Plan** (P149257) Delivered FY15 ***TA Doing Business in Central America and the Dominican Republic (P147229) Ongoing Subnational.*** Report delivered FY15 **RAS Institutional Strengthening for the Municipality of San Salvador** (P147126) Dropped **El Salvador #10310 Insurance Sector Reform** (P144530) To be delivered FY15 **Action Learning Approach: Towards a Better Allocation of Resources in the Security and Justice Sector** (P147274) To be delivered FY15

I. IFC Recent Investments and Results

As of June 2014, IFC had six active clients in El Salvador and an outstanding balance of US$145 million. Almost one hundred percent of IFC's investment operations are concentrated in the Financial and Insurance sector. The investment trend between FY 2010-2014 is shown in the following graph:



Finance and Insurance

Responding to the challenge of access to finance for underserved populations, in June 2014 IFC had increased its portfolio in the financial sector to 7 projects for US$142 million (from originally 4 projects for US$51.7 million in June 2010). Of this amount, US$36 million is in the form of trade finance guarantees and the remainder consists of long-term loans.

IFC's financial sector clients (Apoyo Integral, Davivienda, and Fedecredito, La Hipotecaria, PC El Salvador) are delivering results. In 2013, they had about 206,036 MSME loans outstanding valued at US$1,177 million, of which more than 200,000 loans for over half a billion were for microenterprises. In addition, more than 11,500 individuals benefitted from mortgage loan totaling US$340 million. IFC supports i) El Salvador's network of savings and loan cooperatives (Fedecredito) through an innovative structure that securitizes remittances; ii) a microfinance institution with a loan that can be partially converted into shares; iii) a housing finance institution with term financing to expand the availability of mortgages; and iv) two of the largest commercial banks in the country through its Global Trade Finance Program and one SME credit line.

IFC's two remittance-securitization investments in Fedecredito (US$50 million committed over the CPS period) and US$50 million investment in Davivienda are providing long-term finance to increase the microfinance and SME portfolios in the country.

Advisory Services

IFC is supporting advisory projects that contribute to increase competitiveness through regional trade, and tax and incentive reforms. Additionally, in 2014, implemented a US$2.2 million PPP project that would improve infrastructure in the port sector. Furthermore,

regional advisory projects directly impact El Salvador in areas related to regional trade, the investment climate, and improved risk management in the financial sector.

IFC Advisory was also involved in an energy efficiency project for DEL Sur S.A. de C.V., which helped reduced technical losses of the power distribution company. In addition, IFC Advisory PPP is involved in the concession of the port of La Union, a container terminal that should improve the logistics solutions for Salvadoran importers and exporters. Bidding processes for energy projects were held in 2013 and 2015, and power projects are expected in the 2015-2020 period.

MIS

International Finance Corporation

Report Run Date: 03/16/2015

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Date as of : 12/31/2014

Page 1

Region(s):Latin America and the Caribbean

Country(s) : El Salvador

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2014/ 2015	Davivienda ES	50.00	0	0	0	29.18	0	79.18	0	50.00	0	0	29.18	0	79.18	0.00
2011/ 2014	Fedecredito	38.00	12.00	0	0	0	0	38.00	0	38.00	0	0	0	0	38.00	0.00
2004/ 2005/ 2010/ 2013	La Hipotecaria	10.00	20.00	0	0	0	0	10.00	0	10.00	0	0	0	0	10.00	0.00
2004	Metrocentro	1.56	23.44	0	0	0	0	1.56	0	1.56	0	0	0	0	1.56	0.00
2003/ 2004/ 2009/ 2011	PC El Salvador	0	5.00	0	5.00	0	0	5.00	0	0	0	5.00	0	0	5.00	0.00
Total Portfolio		**99.56**	**60.44**	**0**	**5.00**	**29.18**	**0**	**133.74**	**0**	**99.56**	**0**	**5.00**	**29.18**	**0**	**133.74**	**0.00**


EL SALVADOR
GUATEMALA
HONDURAS
PACIFIC OCEAN
Golfo de Fonseca
SANTA ANA
CHALATENANGO
AHUACHAPÁN
SONSONATE
LA LIBERTAD
SAN SALVADOR
CUSCATLÁN
CABAÑAS
LA PAZ
SAN VICENTE
USULUTÁN
SAN MIGUEL
MORAZÁN
LA UNIÓN
Metapán
La Palma
Cerro El Pital (2,730 m)
Lago de Güija
Candelaria de la Frontera
Nueva Concepción
Tejutla
Santa Ana
Chalchuapa
Ahuachapán
La Hachadura
Volcán de Santa Ana (2,365 m)
Lago de Coatepeque
Izalco
Armenia
Sonsonate
Acajutla
Aguilares
Suchitoto
Embalse Cerrón Grande
Chalatenango
Ilobasco
Sensuntepeque
Jocoaitique
Osicala
Ciudad Barrios
San Francisco (Gotera)
Nueva Esparta
Santa Rosa de Lima
SAN SALVADOR
Nueva San Salvador
Lago de Ilopango
Cojutepeque
San Vicente
Volcán de San Vicente (2,182 m)
Tecoluca
Zacatecoluca
Olocuilta
San Luis
La Libertad
La Herradura
Santiago de María
Volcán de San Miguel (2,130 m)
San Miguel
Jiquilisco
Usulután
Bahía de Jiquilisco
Laguna de Olomega
La Unión
Bahía de La Unión
Intipuca
To Quezaltepeque
To Nueva Ocotepeque
To Ipala
To Jutiapa
To Jalpatagua
To Tacisco
To Metapán
To Nacaome
Lempa
Paz
Jiboa
Grande de San Miguel
Goascorán
90°W
89°W
88°W
14°N
13°N
0 10 20 30 40 Kilometers
0 10 20 30 Miles
EL SALVADOR
SELECTED CITIES AND TOWNS
DEPARTMENT CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
PAN AMERICAN HIGHWAY
RAILROADS
DEPARTMENT BOUNDARIES
INTERNATIONAL BOUNDARIES
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