RE-307

Country Program Evaluation El Salvador: 1992-2004

Office of Evaluation and Oversight (OVE)

Inter-American Development Bank
Washington, D.C.
May 2005

CONTENTS

ANNEXES

ABBREVIATIONS

AFPs	Administradora de Fondos de Pensiones [pension fund managers]
AFS	Audited financial statement
BCR	Banco Central de Reserva de El Salvador [Central Reserve Bank of El Salvador]
BEP	Borrower ex post evaluations
BFA	Banco de Fomento Agropecuario [Agricultural Development Bank]
BMI	Banco Multisectorial de Inversiones [Multisector Investment Bank]
CABEI	Central American Bank for Economic Integration
CMI	Completeness monitoring index
CP	Country paper
CPE	Country program evaluation
CPR	Country portfolio review
DoA	Date of approval
EAP	Economically active population
FISDL	Social Investment Fund for Local Development
FIV	Fondo de Inspección y Vigilancia [Inspection and Surveillance Fund]
FODES	Economic and Social Development Fund
FOVIAL	Fondo Salvadoreño de Mantenimiento Vial [Salvadoran Road Maintenance Fund]
FSV	Fondo Social para la Vivienda [Social Fund for Housing]
FTA	Free trade agreement
GDP	Gross domestic product
GOES	Government of El Salvador
IFIs	Intermediary financial institutions
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
IPES	Report on Economic and Social Progress in Latin America
LMS	Loan Management System
MIF	Multilateral Investment Fund
NFPS	Nonfinancial public sector
NGO	Nongovernmental organization
OAA	Originally approved amount
OCMI	Overall completeness monitoring index
OVE	Office of Evaluation and Oversight
PAIS	Project Alert Identification System
PBL	Policy-based loans
PCR	Project Completion Report
PPF	Project Preparation Facility
PPMR	Project Performance Monitoring Report
PRN	Programa de Reconstrucción Nacional [National Reconstruction Program]
PROPEF	Project Preparation and Execution Facility
RTCPs	Reimbursable technical cooperation projects
SIF	Social Investment Fund
TC	Technical cooperation
TFP	Total factor productivity
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

Context and challenges

This evaluation of the Bank's country program in El Salvador covers the period from 1992 to 2004. The review period thus begins with the conclusion of the Peace Accords and the end of 12 years of armed conflict that led to a serious deterioration in the population's living conditions. Since then, the country has been making evident progress in economic, social, and political/institutional spheres. The Bank has played an important and positive role in this process, although almost no loan operations have been fulfilled since 2002.

The administration that took office in 1989 adopted a long-term vision that was maintained throughout the entire period.[1] This vision favored macroeconomic stability, market-based reforms, liberalization, and increased private sector participation in the economy as guiding principles for increasing wealth and helping the country make a place for itself in the world. Particularly, this vision established a more normative, regulatory role for the State by reducing the number of services it provided directly when they could be delivered more effectively by the private sector.

These State reform actions, coupled with the commitment to maintaining stability, which has been one of the country's core objectives, helped to eliminate volatility from the macroeconomic context, despite weak growth since 1996, due to the adverse impact of unexpected exogenous events that curtailed the reforms' contribution to growth.[2] The reform efforts were complemented by dollarization in 2001 that, although it did create new challenges and risks for the future, did help keep inflation under control and lower interest rates.

This strategic approach was crucial for making progress on poverty and maintaining per capita income. Economic growth, coupled with increased social spending and in part remittances, have provided the population with broader access to basic services and have reduced poverty levels. Social expenditures rose from 5.3% of GDP in 1994 to 8% in 2002, while the percentage of the population whose income falls below the poverty line fell from 64.4% in 1991 to 37.2% in 2003 (over 40%). These noteworthy inroads still fall short of what is needed, since significant social gaps and inequalities persist. The economic slowdown and lack of investment opportunities in the country has affected poverty

1 This was facilitated by the fact that the successive administrations since 1989 were from the same political party.

2 The slow growth is associated with a series of factors. Investments have not been very dynamic (except during the privatizations of 1998-1999) and exports did grow, but not enough to offset increased imports, which are strongly influenced by higher remittances, which surpassed 14% of GDP in 2004. The economic structure that emerged from the transformations has not adapted sufficiently to external markets, and factor productivity has not shown significant gains in a climate of low innovation, while production is still not sufficiently diversified. Growth in urban formal employment exceeded GDP growth, while there are still relatively high levels of jobs in the informal sector and of urban underemployment, neither of which are showing signs of decreasing.

mitigation since 2000, even though social spending and, to a lesser extent, remittances have helped to ease the situation.

The consolidation of democracy was a swift and solid process, but the country must continue to build a national consensus concerning State policy, including its effective administration, and good governance, especially in relation to social issues. There has been progress in law and order, but further improvements are still needed in this area. In particular, the effectiveness of institutional structures must continue to improve in order to create a more conducive business environment so that it can capitalize upon the economy's stability and the broad-ranging reforms that have been implemented.

Conclusions and lessons learned

A. Related to the country's performance

1. Given the country's exposure to exogenous shocks (including natural disasters, terms of trade, and vulnerability to competition), it needs to project and continuously update data on its obligations and on contingent liabilities that may have a fiscal impact, by devising alternative scenarios that will enable it to anticipate risks and react quickly to reduce the impact of adverse contingencies. This would strengthen medium- and long-term decision making, and facilitate the setting of precise development targets.

2. The Peace Accords, followed by prudent macroeconomic policy and broad-ranging structural economic, social, political, and institutional reforms, have been crucial factors in: (i) reducing macroeconomic volatility; (ii) reducing poverty and raising the population's living standards; (iii) increasing social expenditure, maintaining the level of public investment, and sustaining the reform program's momentum, all of which are items that are usually sacrificed when a country finds itself faced with fiscal constraints; and (iv) maintaining a prudent borrowing policy despite the severity of external shocks. This has earned the country an investment-grade rating for its global government securities and more moderate requirements in terms of its primary surplus. However, economic growth that produces higher tax revenues will be required for sustainable expansion of social expenditures.[3]

3. The reforms have been major but are not sufficient.[4] In several instances they have overcome the original problems that prompted them, but the rate of investment remains low, there are still problems in some markets that hurt business competitiveness, and

[3] In this regard, it should be noted that the current administration is undertaking tax reform, the first stage of which was approved by the Legislative Assembly in October 2004. That reform would raise tax burden (tax collections/GDP) from 12% to 15% in 2009.

[4] The lack of market reforms had been regarded as the main obstacle to sustained growth. These reforms addressed three initial types of problems: high costs that the public sector could not afford to meet (fiscal problems in financing institutionally validated burgeoning demand); the poor quality of services (a lack of efficiency and institutional capacity); and the exclusion of target groups, such as poor segments of the population (a lack of equity).

support is needed to boost productivity, offset the weaknesses in the competitive environment, and enhance the quality of jobs.[5]

4. The country's inroads have been coupled with institutional advances. El Salvador's institutions are still in the process of consolidation, however, and this makes them vulnerable to different interest groups. Institution-strengthening is thus an essential backdrop for development goals based on a strong political consensus. A more efficient government institutional structure, particularly for fiscal matters, is crucial for a dollarized economy suffering from significant social gaps.

5. The financial system is now one of the most modern areas of the economy thanks to the structural reforms that have been unfolding since the start of the decade and the strengthening of bank supervision and regulation. Because of the low demand for financial resources, there is the potential for accumulation of capital that is not used nationally.[6] The public financial sector still has contingent liabilities that are being addressed.

6. The political decentralization process has followed a course of its own that did not produce a consolidated legal framework. Its initial results have been positive, and this improvised institutional structure has proven to be fairly effective. However, the absence of a common normative framework for transferring competencies and duties and the corresponding resource allocations, together with the lack of municipal accountability, could threaten the ability to more effectively address strategic demands.

7. The growing demand for flexible liquid resources to close the fiscal gap since 2000;[7] the self-imposed goal of maintaining the ratio of NFPS debt to GDP; heightened institutional complexity for approving borrowings; and the different characteristics in terms of the cost, timeliness, and advisability of the available sources of financing cut into the room for agreeing on loans with the Bank.[8] Failure to approve resources weakens the perception of the strategic contribution of the financier that does not adapt to the country's development expenditure requirements, and complicates future net flows of resources.[9] This could excessively reduce its importance as a source of funding for strategic priorities.

8. The country has been according the Bank the role of lender for development-oriented investment projects by placing such operations in a separate category from short-term

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[5] These imperfections usually stem from external actions (e.g., other countries' trade policies) or domestic rigidities (e.g., the labor market).

[6] A relatively high percentage of local deposits are used in transactions abroad. Therefore, regulation must be stepped up (particularly banking supervision of regional financial conglomerates, see IMF, 2003). Modernization of the system has increased competition from foreign banks, which lend directly to large companies; this, together with liberalization and dollarization, cut the spreads and hence the return of Salvadoran banks.

[7] Stemming primarily from the earthquakes, pension reform, and rising rigid expenses.

[8] This was due to causes the Bank could not prevent, but also to problems with the content of the operations or their effectiveness in resolving the problems they were tackling.

[9] This is heightened by the fact that the Bank is the main multilateral external creditor.

financing and the funding of current expenditures, which are subject to different requirements. This reflects the national statute that stipulates "that resources from government debt be used solely to finance investments, for contingencies, or national needs and can, by agreement, be used to finance public-sector liabilities, including the respective interest payments."[10, 11]

B. Related to the findings of the evaluation of the Bank's country program

(a) Regarding programming:

1. It was difficult to evaluate the aims of programming efforts since there is not an adequate results framework to measure how much they have contributed to the achievement of the program's strategic objectives.[12] This has made it difficult to draw lessons from the program's implementation.
2. The programming successfully identified development objectives (i.e. it was pertinent). Nonetheless, the same cannot be said for achievement and measurement of program efficiency and effectiveness chiefly for the following reasons:
   - An explanation is not developed of how the program's purposes and objectives (outcomes) related to the contribution to be made by each of the proposed activities. The impression was that it was known what had to be done, but not how to do it or how much could be done with the resources being leveraged.
   - Failure to make the most of alternative strategies based on different risk scenarios. The absence of this element undermined the program's quality and governance and reduced its capacity to mitigate its exposure to exogenous events beyond the Bank's control.
   - It did not rely on a projected multiyear budget covering at least one political cycle.[13] The program did not have the benefit of an analysis of the expected impact of entitlements and contingent liabilities, and hence did not know the relative priority of development issues and did not have a useful tool for monitoring or making adjustments to the program.

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[10] This is another issue to bear in mind, to the extent that since 2000 the country strategy contrasts with what the Bank has been promoting in its programming: increased levels of credit, a greater proportion of policy-based loans (PBLs) and investment loans increasingly associated with current expenditures (which is expressly prohibited by the Financial Management Act), primarily to expand the coverage and equity of social policies.

[11] See Article 82 of the Financial Management Act.

[12] The information on outcomes given in the programming papers does not provide for any verifiable measurements that would indicate whether or not the program has achieved what it set out to do. There are no precise baselines that could be used to evaluate the outcomes. It is therefore hard to determine whether the current situation is better than it was at the outset; nor is it possible to determine whether or not the causes of the problems have been remedied. These difficulties led to the use of a methodology in order to assess programming outcomes; a matrix was constructed to measure the program's impact in terms of the objectives sought by the instruments used in the Bank's interventions in order to validate the conclusions presented in this report.

[13] The program rationale was not based on projected trends in fiscal capacity that explicitly took into account revenues-based growth scenarios or on estimates of the fiscal resources needed to cover high-priority public expenditures within the limited degrees of freedom associated with the large proportion of expenditure rigidities and entitlements in the budget and with the self-imposed goal of a debt-to-GDP ratio of 40%.

3. The country differs from the rest of the region in ways that call for less rigid procedures more suited to the borrower's risks that would make it possible to improve the timeliness and impact of the instruments being used.[14, 15] In addition, intervention models or topics were promoted that, although proven useful in other contexts, were not in line with the situation in this country.[16] Failure to concentrate on its individual characteristics could reduce the level of priority the country accords to the program, which is one of the main challenges for the Bank's volume of business with the GOES in expanding its involvement in that country's long-term development agenda.
4. The future course of the portfolio will be determined by the role given to the Bank, compliance with the ceiling on the NFPS debt/GDP ratio (40%), and gains in the Bank's relative advantages compared to other sources of financing.[17]
5. The programming did not identify all the strategic issues in the country's area of interest that the Bank could address. Moreover, some of the ones that were identified as future challenges did not translate into operations or, when they did, the results were not highly successful. There was little contribution to the discovery and emergence of new sources of growth, the reduction of external vulnerability, and the quality of institutional capacities.
6. The absence of operations with the private sector was a reflection of operational problems and problems with the adaptation of these facilities and is interpreted as a negative "demonstration effect".[18] This is in contrast with a country that has striven to consolidate macroeconomic stability, improve its business climate, maintain its investment-grade rating, and increase opportunities for local investors (individuals and institutional investors, such as pension funds) to channel long-term resources.[19]

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14 Some of its differentiating characteristics are: (i) its commitment to maintain stability and undertake reforms without excessive recourse to PBLs; (ii) diversification of external borrowing opportunities on competitive terms with those offered by the Bank, especially since 1997, when the country was assigned an investment-grade rating; (iii) a susceptibility to periodic natural disasters that interfere with capital formation; (iv) the scale of emigration and the remittances it generates; (v) prudent borrowing levels and the relatively small size of the country's public sector; and (vi) the policy and legal provisions governing the approval of external borrowing operations. These characteristics must be internalized in order to make the Bank's response more efficient.

15 The New Lending Framework recently approved by the Bank may help to improve how these problems are addressed.

16 This lesson applies to the great majority of the Bank's member countries and raises the possibility of streamlining working methodologies and procedures, making them more flexible, and using them in accordance with the risks to be dealt with in each case.

17 Since 2000 the financing opportunities that opened up were essential for current and special expenditures. The maintenance of macro stability and the drop in international interest rates also made it more advisable to issue debt in the capital markets, instead of taking on debt with the Bank, which was viewed as having higher transaction costs. The current interest rates the country is able to get in the capital markets, however, favor it working with the Bank.

18 The Bank's intervention in such ventures (apart from the size of its stake) is a factor that lends credibility to the ground rules, the existence of investment opportunities, and the institutional framework, to attract other financing and investors.

19 This situation is also reflected in the weak private investment observed in recent years, as a driver of economic growth.

(b) Regarding program execution:

1. Program execution was held back by extraordinary delays during the initial stages, before the operations became eligible for disbursement, chiefly in the design stage, the ratification of approved operations, compliance with conditions precedent to disbursement, the budgetary treatment of the operation, and adaptation to the country's policy on borrowing.[20]
2. This entailed significant transaction costs. The transaction costs generated by the country can be minimized if political consensus is strengthened on the medium-term borrowing policy for financing development in the budget. The transaction costs originating with the Bank can be reduced if execution procedures are streamlined and the project cycle is adapted to the institutional features of the country.[21]
3. The Bank's Country Office in El Salvador has taken steps to make program execution more efficient by streamlining and computerizing operations at the micro level, improving the evaluability of designs, and creating reliable, transparent information systems. These advances represent lessons for use in other countries as well.[22] This operational contribution, however, does not deal with the dimension of the problems, which require a substantive, institutional response.
4. The problems with the supervision of execution are not related to formal fulfillment of the supervision activities set forth in Bank regulations, but rather with the evaluation of project outcomes by Management. These self-assessment issues stem primarily from the low level of evaluability of project designs.
5. The effectiveness rating of operations in the self-assessment was not consistent with the evaluation's findings. The statements made therein to the effect that all the operations achieved their development objectives (or are likely to do so) could not be confirmed; and in several operations that achieved their development objectives, it could not be established that those gains would be sustainable; in several cases the rating given in the self-assessment was not founded on information in the corresponding reports (PPMR and PCR).[23] Because of this, the GOES has been according greater importance to stepping up its involvement in those reports.

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[20] The average time it took a loan operation in El Salvador to reach maturity in the period 1991-2004 was 39 months—19 for project preparation through approval, and 20 from approval to the first disbursement. In addition, actual execution lasted 74 months (investment loans), which is approximately one year longer than the Bank average.

[21] This underscores the importance of taking steps to streamline and reengineer procedures and information systems, as well as of undertaking joint activities aimed at identifying redundancies, simplifying terms and conditions for execution, reviewing the usefulness of progress and supervisory reports, arranging for fuller participation by project designers and beneficiaries in program implementation and in the evaluation of the projects, forward planning to deal with problems associated with the turnover of Bank and executing agency staff, and preparation of a strategy for transferring responsibility for executing selected activities to local institutions. The applicability of this lesson is not confined to the case of El Salvador.

[22] The application in recent years of the project management support system has reduced operational and fiduciary risks, rectified the former lack of integration among supervisory instruments, achieved greater alignment with national legislation, made it possible to take swifter action to mitigate unforeseen risks, and permitted the development of joint plans of action for dealing with design flaws, standardizing progress reports, and taking steps to contend with the excessively routine nature of self-evaluations.

[23] The fact that an overly optimistic view of performance is taken in assessments conducted using self-evaluation instruments is a lesson that has surfaced repeatedly in various country program evaluations.

Recommendations

In 2005-2009 the Bank should renew its strategic role by: (i) focusing its support on growth and social progress, given the country's commitment to fiscal discipline and maintaining a long-term vision consistent with its development problems, in particular expanding access to basic services; (ii) seeking to have the use of program resources be based on specific strategic targets associated with the government's spending priorities and medium- and long-term direct and contingent budget needs that must be addressed, while maintaining fiscal solvency during the period; (iii) using national capacity and local administrative systems more in project design and execution; (iv) improving the cost-benefit analysis of projects and of programming; (v) working out measures that reduce transaction costs, bearing in mind institutional constraints; (vi) using concessional resources to finance specific public-management reform initiatives targeted according to their contribution to development effectiveness; and (vii) improving coordination of activities with the private sector and streamlining work procedures, to produce a "demonstration effect". Further details on these recommendations is provided below.

1. Programming should use the lessons learned and the government's priorities as eligibility criteria for justifying objectives and the instruments and initiatives for them. The core objective in 2005-2009 should be to complement the government's efforts to make progress in terms of growth, productivity, and employment, which are essential challenges in continuing to reduce poverty and close the gap in the delivery of social services. The cost-benefit analysis of projects and of the program should focus on verifying the impact on:
    - The quality and governance of public expenditure;[24]
    - Enhancing productivity, export performance, and private investment;[25] and
    - Achieving institutional and budgetary sustainability for social spending.

The program should help strengthen the municipal institutions, which would make it possible to formalize a decentralization plan that takes into account the country's heterogeneity and decreased dependence on central government revenues.

2. With regard to the programming exercise:[26]

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[24] Primarily making civil service more efficient, introducing performance-based public management, establishing a normative framework for decentralization, improving the regulatory framework for competition for private-sector delivery of goods and services, providing law and order, incorporating financial programming into budget planning, and strengthening external control of expenditures and of public management.

[25] Primarily raising factor productivity through scientific and technological upgrades; professional training; formal education; encouraging micro- and small producers to join the formal economy; promoting access to negotiated foreign markets; new institutional framework for export services, reducing imperfections in regulatory frameworks and infrastructure cost overruns; and promoting private investment and strengthening the Bank's participation therein.

[26] Based on the evaluation's findings, which indicate that more needs to be done than simply to prepare a list of development objectives, of benchmarks identified on the basis of the diagnostic assessment, and of project initiatives within each subject area.

- An effort should be made to define the scope of the expected contribution to resolving the development issues addressed by the program (i.e., attribution).
- The Bank's strategic programming should be placed in the context of the government's fiscal planning (income, expenditures, and financing) as set out in a projected multiyear budget.[27] This should be done at a minimum for the period spanning the program, making annual adjustments (see Annex II).
- Intervention alternatives should be designed based on risk scenarios that cover the public sector's direct obligations, forward planning of contingent liabilities,[28] and volatility in the macroeconomic environment.[29] These scenarios should be consistent with the projected budget equilibrium during the period covered by the program.[30]
- The program's results framework should contain indicators agreed on with the country to verify evidence of its progress during execution in terms of the impact targets that were accorded priority. In particular, a baseline must be established for those indicators that can be used to measure progress.

3. In keeping with the foregoing, disbursements for execution of projects should be based on indicators of compliance with the planned activities in order to achieve the development objectives.[31] Those indicators must reflect the progress being made in the process, not simply the end points, and must be tailored to the budget expenditure financing needs associated with the implementation of projects.[32]
4. The net future benefits of interventions and of the program should be estimated and should not be less than the costs of borrowing from the Bank.
5. With regard to the Bank's interventions:
    - Approval of operations by the Bank's Board of Executive Directors should be processed only when the executive branch indicates that the time is right for presenting them for ratification and authorization of their signature by the Legislative Assembly and that the effective period of the project is consistent with that ratification.

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[27] This will make it possible to relate the program to spending trends over time, which will help the Bank's strategy to establish its attribution in a concrete manner (in targets, amount, and timeliness of its disbursements) since it would bring together the country's priorities, macro constraints, the reform program, and the participation of other sources of financing.

[28] Defined as government obligations generated by the occurrence of an uncertain event that was not anticipated sufficiently through policy measures that could narrow and reduce the risk (in the case of El Salvador, the costs of earthquakes, borrowing by the municipal public sector, and losses by public financial institutions are all worthy of note).

[29] This refers to projecting fiscal scenarios that involve raising awareness of macro variables, including economic growth, inflation, the real exchange rate, interest rates, and terms of trade.

[30] Program execution should also bear in mind that projected disbursements are made in such a way as to alleviate the country's negative net annual flow with the Bank.

[31] The New Lending Framework approved at the Bank's 2005 annual meeting will be helpful for this.

[32] Investment loan disbursements could be tied to the requirements of expenditures financing the actions set forth in the country's programming and projected budget execution. This would require greater flexibility for improving the timeliness of disbursements; to that end, the streamlining and rolling back of restrictions on the use of resources are key, as is relying more on national systems for supervision and control of Bank-financed expenditures. For sector loans, the disbursements should be tied to fulfillment of policy actions for which the country has ownership, rather than on conditionalities requiring implementation of specific policies.

- The design of Bank operations should seek to simplify contractual conditions and reporting requirements, rely more on government-designed initiatives and government monitoring systems, improve the adaptability of logical frameworks to the country's conditions and risk levels, delegate supervision functions, preverify that institutional capacity is adequate, and seek to ensure that the persons who help to formulate the program are involved in its execution in order to maintain their ownership.
- Any contract amendments introduced once the operation has begun should be based on evidence that the proffered changes are more efficient in terms of achieving objectives, by reducing the program's exposure to disturbances generated by exogenous risks. Foreseeable special cases should be addressed with specific instruments geared to the problem being faced,[33] bearing in mind the pertinent lessons learned.

6. With regard to self-assessments of project outcomes:
    - Program designs should be made more evaluable in terms of their development effectiveness, chiefly by establishing verifiable targets on the efficiency of the government measure being supported and the efficiency of the instruments being used.
    - The country's involvement and consensus should be improved in the project cycle and in the reports generated in each stage thereof, so as to strengthen results-based public management. To that end, the collection of relevant data should be organized, in order to monitor and evaluate impact from the outset of execution.[34]
    - For the purposes of efficiency, once again, in project design, activities (resources) should be organized in processes that support the outputs (means), themselves organized based on the mid-term and final purposes (goals) being supported, so that the budget resources are tied to the activities to obtain outputs in the necessary time frame.[35]
    - Assessment of the contribution toward the development objectives should be based on, at a minimum, verification of: (i) whether the objectives achieved were those attributed to the operation; (ii) the change produced compared to

[33] For example, investment loans not subject to policy-related terms and conditions; operations mounted in response to exogenous emergencies that do not affect ongoing operations; nonfinancial products associated with support for research into relevant issues or problems with implementation, etc.

[34] In its analysis of compliance with the Bank's ex post evaluation policy, OVE found that the key to improving the Bank's understanding of the lessons emanating from its operations was the evaluative quality of project designs, the compilation of the information needed for the evaluation from the start of the project and throughout implementation, as well as development by borrowers of their own managing-for-results systems. This system of "shared responsibility" is not part of project design (evaluability of programs and projects) or project execution, which means evaluations are skewed towards reporting on fulfillment of outputs and issuing opinions on development outcomes that are not based on verifiable facts and do not address the views of the country (see draft of the "Ex post Project Evaluations Annual Report", OVE, April 2005).

[35] This would make it possible to: (i) evaluate fulfillment of the outputs associated with the development objectives being supported; and (ii) evaluate the efficiency of operations, as well as support planning and control the use of the funds.

the starting point; and (iii) whether the project's contribution can be sustained by the country both institutionally and budgetarily.

- Risk analysis should be improved, in order to increase predictability and improve mitigation when the risks materialize in project outcomes.
- The country's diagnostic assessment efforts should be supported to build knowledge based on the lessons learned from the ex post impact evaluation of operations.

7. Based on the weaknesses observed in actions with the private sector:
   - The strategic efforts of the Bank's various private sector-related facilities should be incorporated into a shared approach for the country;
   - Modes of participation related to streamlining and standardizing procedures, as well as reducing the transaction costs for the instruments used, should be developed; and
   - Risk management should be bolstered, in order to build confidence and attract new players to the capital market.

I. BACKGROUND AND DEVELOPMENT CHALLENGES

A. Background

1.1 Twelve years ago El Salvador found itself faced with the enormous challenge of overcoming the effects of the civil war that had beleaguered the country from 1981 until 1992. The 1992 Peace Accords were a landmark development in the move toward peace, democracy, and integration. The conflict had devastated the country's economic base and driven up poverty and emigration levels. In its aftermath, the country was also confronted with the need to establish democratic institutions in a society that had fallen victim to violence and discord. The country mounted a swift and effective response, tackling three different yet interrelated fronts—the economic, social, and political spheres—simultaneously.

1.2 The **economic agenda** introduced by the administration that took office in 1989 has maintained a long-term perspective built on macroeconomic stability ever since.[1] Priority was placed on the market's operation and on greater private-sector involvement in the economy as the overarching principles of a strategic approach for increasing wealth on a competitive basis and facilitating the country's incorporation into the globalization process. In 1995, this process began to gain momentum thanks to the reform of the State and the definition of its new role as a rule-maker and regulator for the market, rather than as a producer of services. In 2001, in order to consolidate the stability of the macro equilibrium, the government reinforced monetary stability by dollarizing the economy. The country's **social agenda**, buttressed by the Peace Accords and by reconstruction in war zones and in the most bypassed areas, served as a basis for the mobilization of short-term instruments for dealing with the most serious effects of the conflict. At the same time, medium-term initiatives (State policies) were taken under its national reconstruction and sector reform program. These initiatives were aimed at reducing poverty and at improving income distribution and service delivery at the national and local levels. To this end, emphasis was placed on institution-strengthening, on upgrading public goods and broadening their coverage, and on citizen participation in the decentralization process. The country's **political and institutional agenda**, meanwhile, involved Salvadorans in democratic processes while seeking to bolster their institutions' credibility. These efforts all focused on channeling the confrontations of the past into political participation by all sectors, and work was begun on rebuilding the nation, striking a balance among the various branches of government, and establishing rules and policies as a foundation for harmonious coexistence within a democratic framework.[2]

1.3 The country's effort to implement these agendas was affected by a number of major exogenous shocks, however. Natural disasters, which have unfortunately followed one another in succession, have been one of the significant sources of such shocks and have cut into the country's stock of capital assets. Hurricane Mitch (1998) and the earthquakes that hit the country in 2001 entailed costs equivalent to 3.6% and 11.6% of GDP, respectively. In addition, the deterioration of the terms of trade in the second half of the 1990s hurt traditional exports and coincided with an increase in external interest rates. This situation was compounded by the crisis that began to overtake emerging markets in 1997, the coffee crisis of 2000, the recession in the United States in 2001-2002, and a more recent decline in the terms of trade, made worse by factors such as the oil shock.

B. Outcomes

1.4 The contrast between the situation at the end of the period under review and its starting point is striking, especially in view of the amount of time between one and the other. This society has made a successful transition to peacetime and has gained considerable ground in terms of stability, economic modernization, and poverty reduction. It would be hard to find another country that provides such an outstanding example of speedy action and success in addressing a very difficult and complex initial situation.

1.5 **Economic performance**: The economy's performance, as measured against the baseline, has been positive. Per capita GDP climbed by 26% between 1991 and 2003 (see Annex I, Figure AI.1); inflation has stood at international levels for the last five years; and fiscal equilibrium has been an ongoing objective, with debt-to-GDP ratios being held to prudent levels. All of this has contributed to the fact that, since 1997, the country has earned an investment-grade rating from at least one international rating agency.[3] The broad range of reforms and prudent macroeconomic policy management have succeeded in maintaining economic stability and averting the volatility seen in other countries of the region despite the exogenous shocks that have buffeted the country. The country's economic structure has been transformed by its increasing diversification as the services and maquila sectors expand[4] and traditional agricultural sectors shrink, even though the increase in employment has outstripped GDP growth and job quality remains low.[5] The public sector (which is small in terms of the region's standards) has not changed in terms of its relative size, but public expenditure has been reoriented toward public goods. Meanwhile, the financial sector has become the most modern segment of the economy.

1.6 **Social performance**: Economic growth and the reforms undertaken in some sectors, together with increased social spending (which rose from 5.3% of GDP in 1994 to 8% in 2002), have helped to reduce the percentage of the population whose income falls below the poverty line by over 40% (falling from 64.4% in 1991 to 37.2% in 2003, see World Bank, 2005) and to improve a number of social indicators. Poverty is primarily a rural phenomenon (the poverty rate is nearly twice as high in rural areas as it is in urban zones). Since the mid-1990s, average per capita income growth has slowed while, since 2000, the decline in poverty has been sluggish. In addition, income distribution has become somewhat more unequal since the mid-1990s. Major advances have been registered, however, in nationwide coverage of basic education, and improvements have been seen in life expectancy and in infant mortality and nutrition indicators. Broader access to basic services, especially in rural areas, has narrowed the gap between the poor and nonpoor sectors of the population.[6] The progress made in these areas is reflected in the country's improved human development indices for the review period. To illustrate this point, in terms of the Millennium Development Goals for 2015 (see World

Bank, 2005), El Salvador has already met the goal of reducing extreme poverty by half and increasing to ratio of girls to boys in basic and middle school to 100%. The country is also on the road to achieving universal basic education, meeting the goals of reducing infant mortality and the incidence of tuberculosis; and cutting by half the percentage of persons who do not have access to drinking water. However, unless actions are taken, El Salvador is unlikely to meet the goal of reducing malnutrition by half, lowering the rates of maternal mortality during childbirth; reducing the incidence of HIV/AIDS; and stopping forest degradation. The government is according priority to actions aimed at meeting all of these goals (e.g., the Solidarity Network Program).

1.7 **Institutional performance**: The country has marked up over 20 years of institutional continuity. This period spans four changes of administration and the integration of former combatants (the FMLN) as a political party within the country's democratic structure. Since 2000, the FMLN has been the largest minority party in the Legislative Assembly, and its support is therefore needed to arrive at any legislative decisions requiring a qualified majority. This stability in democratic processes is unparalleled in the country's history and gives legitimacy and greater scope to the reforms that have been implemented. Perceptions of the situation with regard to public safety, especially in urban areas, have improved, and this is also the case with the institutional profile of the civil police force, which is now held in high regard after having come through a difficult transition following the conclusion of the Peace Accords. More recently, headway has been made in combating organized crime, and legal certainty has risen from its previously low levels. In business affairs, arbitrage is functioning fairly well, and the registration of property deeds and individual titles of ownership has been modernized. The judicial system's five institutions (Supreme Court, National Judiciary Council, Office of the Attorney-General, General Office of the Prosecutor, and the National Civil Police Force) have been given functional and political autonomy, technical assistance, and earmarked funding. Significant progress has also been made in civil affairs. The government has modernized its management processes and its fiscal and financial procedures and has eliminated serious bottlenecks in its provision of support for business development.

1.8 Despite all of these inroads, however, major challenges remain to be met in terms of the country's strategic vision, and El Salvador will therefore have to continue to move forward and to pursue efforts whose scope exceeds the span of any one Administration. The Bank has partnered with the country in these efforts and has, in fact, become its main multilateral lender.

C. Development challenges

1.9 **Economic issues**: Growth has not been strong enough to resolve the country's structural problems. El Salvador still needs to "discover" sources of growth, narrow its existing social gaps further, and consolidate its institutions. Since 1996, growth has decelerated, and the country has been unable to find any driving force capable of boosting growth to its former levels; average per capita GDP growth amounted to just 0.6% per year up to 2003, and total factor productivity (TFP) has slipped. The country has not yet identified any export sector capable of positioning itself successfully in world markets. Most of the increase in exports has been in the maquila sector, which has challenges in its future, and export growth has been coupled with sizeable increases in imports. The country's fixed exchange-rate system enabled it to control inflation. The exchange-rate lag that occurred primarily because of inflation brought forward in the 1990s was not fully offset by productivity gains.[7] Since the economy's dollarization in 2001, fiscal policy has been the country's only macroeconomic policy tool. Coffee lost its importance as a key export; nontraditional export levels have risen but are still low; and remittances are the main source of external income, which exert constant upward pressure on the real exchange rate. This pattern represents a challenge for the production sector of a country that finds itself in a globalized environment and on the brink of entering into a free trade agreement with the United States.

1.10 In the real sector of the economy, issues remain to be resolved in the areas of investment, wealth creation, and employment in the modern sector. The private sector's increasing involvement in the economy has not occurred in a balanced fashion, nor has it led to a higher level of systemic competitiveness. This points to the existence of unfinished or pending reforms. Various indicators attest to the economy's low level of competitiveness, including estimates of TFP (which was virtually constant in 1992-2003) and the rankings assigned by the World Bank (*Doing Business*) and the World Economic Forum (*Global Competitiveness*) which generally placed it mid-range for the world.[8] Factors accounting for this situation include: (i) the rudimentary level of regional infrastructure (e.g., ports), which makes it difficult to reduce logistical costs; (ii) the very low level of investment in science and technology, which amounts to a scant 0.01% of GDP; (iii) problems with respect to a lack of legal certainty and public safety, which constrain productive investment; and (iv) emigration, since often the persons who emigrate are the most productive members of their households. Microenterprises and small businesses (99% of the country's businesses in 2002 according to the United Nations, 2003b), and particularly those operating at subsistence levels (91.3% of all microenterprises; United Nations 2003b also mentions that 57.9% of microenterprises are for self-employment), generate the resources needed for immediate consumption (generally below the poverty line) and provide low-quality jobs that depress competitiveness levels (limited training and innovation, low assimilation of technology, etc.). The current administration considers these to be priority areas.

1.11 The slowdown signaled by the steep drop in real fixed investment since 1996 (12.8% in that year) dragged private investment down along with it and, with the exception of investments associated with the privatization of public utilities in the late 1990s, this investment component has not picked up since. Average labor productivity has declined by a cumulative rate of 3.2% between 1992 and 2002, despite the growth observed in 1990-1995.[9] Throughout this period, the increase in value added (33.9%) was below employment growth (38.3%), with gains in tradables being outstripped by the losses in nontradable sectors, which were absorbing a larger portion of the workforce. The highest-productivity sectors have not been the largest employers. This situation points to weaknesses in achieving sustainable growth in terms of creating jobs while simultaneously competing successfully in globalized markets. In addition, the comparative advantages of joining the labor force in the United States promotes migration. Absorption of this migration is rising and, the flow of emigrants includes the most dynamic segments of the population.

1.12 In the macroeconomic sphere, causes of concern include the reduction of the fiscal deficit, in order to make public accounts more sustainable, and the remaining vulnerabilities in the public financial sector. Since 2001, achieving fiscal balance is all the more important because of the economy's dollarization and the future obligations associated with: (i) increased revenue-sharing with the country's municipalities (7% of current revenues since 2004), which is neither necessarily tied to the transfer of responsibilities nor subject to systematic monitoring of municipal oversight of expenditures; (ii) emerging costs from pension reform that will have to be carried over the next 65 years and will reach 2.2% of GDP in 2007-2008, falling slowly thereafter; (iii) the obligations involved in increasing the coverage of social services;[10] and (iv) contingent liabilities deriving, for the most part, from the absence of rules regulating the modes of financing used by municipalities, the occurrence of natural disasters, and the public financial sector (see Annex II for an analysis of El Salvador's fiscal risks). Regarding the fiscal challenge, although fiscal management is not compromised in the short term, the objective of maintaining stability and stepping up poverty reduction and narrowing the gap in access to social services, at some point could affect the debt target.[11] One simple exercise shows that in order to maintain a debt-to-GDP ratio of 40% in the nonfinancial public sector (NFPS), assuming a real interest rate of 5% and growth of 3%, a primary fiscal surplus of 0.8% of GDP would be needed—which exceeds the 2004 level (the primary deficit was 0.3% of GDP[12]). That is to say, an adjustment of just over 1% of GDP would be needed (a comparison with previous years shows that there was a significant adjustment in 2004). To achieve long-term fiscal solvency, public spending must be streamlined, and the measures recently deployed to increase the tax burden (tax collections/GDP) must be implemented, together with those to reduce tax evasion, to surmount the current level of 12%.

1.13 The financial sector is the most modern area of the economy but nonetheless faces relevant challenges, which the current authorities are addressing. With the opening and dollarization of the economy, financial institutions saw their spreads narrow as interest rates declined (in line with international events and the economy's dollarization) and as foreign banks began to offer services directly to large enterprises, thereby competing directly with local institutions.[13] Although they are far from representing a systemic risk, some public financial institutions[14] may generate a fiscal cost for the State and need to be placed on a sound financial footing. As one example, the Fondo Social para la Vivienda (FSV) [the Social Housing Fund], which provides long-term mortgages for low-income home buyers, has US$842 million in assets, but one fourth of its portfolio is distressed and is not sufficiently provisioned, even though it is part of an institutional reform program.[15] As a whole, the implicitly or explicitly government-guaranteed debt of public-sector financial institutions amounted to US$745.8 million in 2003, or nearly 19% more than in 1999.

1.14 Remittances, which are a hallmark of the Salvadoran economy (and amounted to between 10% and 14% of GDP between 1992 and 2003) have both advantages and disadvantages. On the one hand, they raise income and consumption levels and consequently help to mitigate poverty and improve living standards by providing greater access to education, health services, housing, durable goods, etc. In addition the Social Investment Fund for Local Development attracts remittances to communities for works. Remittances also help to balance the country's external accounts and offer a stable flow of foreign exchange that maintains the level of private absorption. On the other hand, they can also be a source of economic and social instability. Remittances are contributing factors to a real appreciation of the currency because of the impact on nontradable goods; since the bulk of remittances are channeled into consumption (an estimated 90%, although 20% may be used for acquiring consumer durables) they stimulate national savings and investment to a lesser extent. They are also a disincentive for job-seekers, lead to an increase in reservation wage levels, and may be used for illegal activities (crime). They are also a motivation for the departure of productive workers, who think they will have better opportunities to help their families if they go abroad. The Salvadoran economy is better off with remittances than without them, but they unquestionably reflect a structural problem, as well as an opportunity to channel them into investment-related uses.

1.15 **Social issues**: Despite the headway that has been made, the pace of progress has slackened since 2000, in step with the slowdown of the economy[16] and a high level of inequality,[17] which stunts the socially beneficial effects of economic growth.[18] Emigration triggered by the war is estimated to have amounted to 25% of the population. As noted earlier, this has contributed to the flow of remittances used to cover the previously unmet basic needs of many households; remittances are, in fact, estimated to have helped to lift between 3% and 6% of the country's households out of poverty. Major swings in income, especially in rural areas, and uncertainty regarding job opportunities reinforce the household strategy of sending members abroad so that they can send back money, since the demand for them is high.[19]

1.16 The targeting of social expenditure has been impaired by the fact that the most recent census was taken in 1992 and that information is therefore lacking on major migratory shifts that have occurred since then.[20] This has led to a scattered assemblage of programs which has reduced the effectiveness of social expenditure's integrated impact. Poverty mapping has only recently been instituted as a systematic, comprehensive means of targeting services for high-priority groups, whose location had not previously been determined with any accuracy. Social investment programs supported by the Social Investment Fund (SIF) and, since 1998, by the Social Investment Fund for Local Development (FISDL), which have pioneered this type of initiative in the region, have proved to be key tools for the implementation of a successful country-specific decentralization process.[21] The funding needed to meet local infrastructure requirements, however, has primarily been covered with external resources. This funding pattern will be difficult to maintain at a sufficient level to support current expenditure levels and finance further basic investments (estimated at US$300 million for the next three years). In addition, even though considerable progress has been made in expanding the basic education system's nationwide coverage, it is still limited in the case of the third cycle (middle school) and is very limited in terms of secondary education and in rural areas.[22] Significant progress has been made in health care, but more still needs to be done; the strategic vision must be consolidated in an articulated health-care model; a large portion of the population lacks access to health-care services, and the fiscal constraints in this sphere are formidable, despite the efforts made to set and consolidate a sector strategy based on health promotion and disease prevention, with priority given to primary care. As part of this effort, human resources have been trained to support health promotion policies; institutions have been strengthened through programs and projects aimed at increasing epidemiological control and management of disease; coordination has improved for supporting outreach strategies using educational messages about prevention; and progress was made on establishing a basic package of services to extend coverage. The country also continues to register a significant level of malnutrition (19.6% for children under 5, see World Bank, 2005) and a considerable deficit in terms of safe drinking water, especially in rural areas (33% of the population does not have access to treated water, World Bank, 2005).

1.17 The review of social-service management performance has not been used to advantage to improve its effectiveness (e.g., the quality of education deriving from the new basic education model and local development in terms of its budgetary and nonbudgetary financing). On the other hand, too much attention has been devoted to less essential sector-based legal reforms which have sparked controversies that have, in turn, delayed investments. The introduction of the model for converting State monopolies in services sectors (water, ports, airports, electric power) has made different inroads. In the water sector, full separation of policy-making, regulatory, and executive functions in the delivery of public utilities has not been accomplished. In the ports sector, the Port Maritime Authority was established to regulate private operators that are responsible for port services and management,[23] delineating the competencies of the transportation sector's steering body;[24] Management of the Nuevo Puerto de la Unión [New Port of the Union] will be concessioned from the very start of its operations.[25] Regarding airports, the Civil Aviation Authority was established to regulate operations in and use of the air space as regards the delivery and development of air transport services by private parties, as well as construction, reconditioning, operation, and maintenance of civil heliports and aerodromes, while airport management is still in public hands.[26] In the electric power sector, the three functions have been separated (policy-making, regulatory, and executive) and services have been demonopolized although not completely. Meanwhile, however, decentralized implementation at the local government level has continued to combine direct project management with increased user and consumer participation.

1.18 **Political and institutional issues**: The country faces challenges on a number of different fronts. Although perceptions of the situation with respect to public safety have improved, juvenile delinquency continues to be a cause of concern. This sort of delinquency is related to gang activity, drugs, overcrowding, judicial impunity, a lack of opportunities, dislocation, a lack of family involvement,[27] and a lack of access to basic services. Legal certainty has improved, but progress is still slow; the structural reorganization of the judicial system is not yet complete, and on-site supervision of the administration of justice is insufficient. Major inroads have been made in the area of civil law, but the same cannot be said of criminal law. The political culture is still polarized (in contrast to the more moderate views prevailing in the society as a whole), which reduces the chances of arriving at agreed solutions for State problems. This also limits the scope for consensus and creates uncertainty for national and foreign stakeholders, all of which holds back development. The opposition's blocking ability has had an impact, particularly since 2000,[28] when it formed a qualified minority for the ratification of the signature of international loans and the passage of the corresponding annual budgets. The complexity of the system of political representation and the narrow periods of administration without elections make it difficult to carry forward a long-term agenda that transcends political changes.

1.19 The need for further administrative and civil-service reforms poses another type of institutional challenge. The central government has modernized its administrative processes but is not making systematic investments in its civil servants, whose contracts are not commensurate with a civil service career path or a merit- or results-based system. There is no budget execution system for marshalling resources based on outputs (in order to measure their production and cost efficiency) or strategic priorities. What is more, the Corte de Cuentas [Court of Accounts] has a wide range of duties that begin and end with that institution: it audits the funds of government agencies, determines civil-service administrative and financial responsibilities, and performs related jurisdictional functions. The fact that its members are politically appointed and that information about its work plans, reports, and findings is not widely publicized has hurt its public image and has resulted in a failure to disseminate information about the causes of problems affecting it. Yet another issue has to do with the fact that the decentralization process lacks a complete, formal legal framework. At the municipal level, the adoption of national administrative and governance systems is voluntary. The country's municipios have not been integrated into the national fiscal structure, and the Court of Accounts usually confines itself to auditing their financial management performance rather than issuing findings. The administrative weaknesses of the country's many small municipios makes it all the more difficult to bring them into its complex, interconnected regional network.

1.20 An overview of the main achievements and challenges, which are expressed, by development area, as strengths and risks may be found in Annex I (see Table AI-5: El Salvador: Matrix of Strengths and Risks).

II. THE BANK'S PROGRAMMING

2.1 This chapter will evaluate two aspects of the Bank's programming: its relevance and the effectiveness of the portfolio's implementation. Chapter IV complements this one with an evaluation of the outcomes of interventions in the development areas that programming sought to address. In seeking to assess programming relevance, an effort is made to determine whether programming has been aligned with the country's characteristics, needs, and priorities and with the strategies of other multilateral agencies. The consistency of the instruments used by the Bank for these purposes is also analyzed. Lastly, in order to evaluate programming effectiveness, an attempt is made to measure how it translated into operations and to what extent it has contributed to the achievement of development objectives. The program executed between 1992 and 2003 spanned three different administrations.

A. Relevance of programming

1. Response to challenges

2.2 *Peace Accords, National Reconstruction, and Structural Reforms (1992-1994).* The Cristiani Administration (1989-1994) concentrated on putting an end to the armed conflict and implementing structural reforms. In 1991 an emergency programming document (CP-224) was approved. In 1993, after the Peace Accords had been signed, another document (CP-429) was approved. This document delineated a strategy for: (i) rebuilding and refurbishing social and economic infrastructure and promoting economy recovery in the short term; (ii) strengthening the market economy, financial reform, and the promotion of an active role for the private sector in order to bolster the economic adjustment program; and (iii) serving social sectors and modernizing the public sector over the medium term. In the wake of the armed conflict, it was difficult to set up an articulated long-term development model given the urgent need to help the nation get back on its feet. Within this context, the evaluation has taken into account not only priority areas but also the short-term versus long-term approach.

2.3 *Structural reform and social development in a context of economic slowdown (1995-1999).* The Calderón administration (1994-1999) approached long-term reforms against a backdrop of slower economic growth and rising demand for job creation, as well as the need to reduce inequalities in income distribution and in access to basic services.[29] The programming strategy[30] supported four major areas: (i) the modernization of the State with a view to giving the public sector a new and different role and carrying forward sector reforms aimed at promoting private financing for infrastructure works; (ii) social reforms and local development initiatives designed to promote the delivery of basic services to the most vulnerable groups in society, with emphasis on basic education, health, and the FISDL; (iii) support for the private sector, with emphasis on microenterprises and small businesses, agricultural productivity, competitiveness, initiatives for bringing the workforce into the mainstream economy, and the modernization of the financial sector; and (iv) environmental protection and sustainable development.

2.4 Although the programming's relevance has been clearly established, its design was based on the belief that economic liberalization and reforms would in themselves lead to equitable development and competitive markets which would, in the long run, lead to sustained growth, poverty reduction, and job creation; this, in turn, was expected to help curb migration. Insufficient consideration was given to the significance of the structural obstacles inherent in an export-based and private-investment-based growth model in terms of its ability to underpin macroeconomic equilibrium and the economic/social structure created by the reforms. The lack of a targeted programming strategy for dealing with these obstacles, in conjunction with a failure to recognize the full implications of ineffective governance, are the main shortcomings to be noted during this cycle.

2.5 *Stability and administrative and fiscal reforms against a backdrop of strong exogenous shocks and low growth*[31] *(2000-2004)*. The situation in 2000 attested to the stagnation of per capita GDP and private investment's failure to respond to the economic policy and reforms that had been put in place. The relevant country paper (CP-1181-6) takes note of the lags existing in this respect as well as the lack of balance and coordination among the country's economic, political, and social agendas. Three spheres of action were defined in this connection: (i) economic reactivation and competitiveness; (ii) poverty and the development of human capital; and (iii) State modernization and governance.[32]

2.6 This strategy was relevant to the above situation and aligned with it. However, a failure to anticipate the risks associated with exogenous shocks and the rigidity associated with a number of institutionally unviable initiatives ultimately distorted the program's intent. Many strategic objectives were postponed. Ironically, however, the reconstruction work done in the aftermath of the 2001 earthquakes made it possible to reformulate several elements and actuate portions of the portfolio that had not been authorized or ratified. In effect, there was political willingness to use borrowings to finance increased public spending stemming from reconstruction and pension reform, without impacting the long-term vision of macro stability. Bank programming exhibited an endemic failure to move initiatives through the pipeline as a consequence of institutional constraints to authorizing its projects and the country's opportunity for more flexible borrowing. In addition, other international organizations (e.g., the Central American Bank for Economic Integration) were beginning to expand their activities at the same time that the country's greater access to global capital markets offered lower transaction costs and more flexible borrowing opportunities.[33] This reduced its need for Bank resources, although this situation did not alter the importance of the Bank's role in financing the country's development.

2. Country ownership and commitment

2.7 The country's determination to pursue its long-term strategy gave the program stability and put it on a solid footing. For much of the review period, this facilitated the task of defining and reaching agreement on development priorities ascribed to the Bank. Until 1999-2000, a strong sense of ownership was to be observed, thanks to the existence of a consensus-based plan focusing on structural reforms and the consolidation of the country's stability. This was, in addition, shared with the other multilateral agencies, thus paving the way for numerous joint programs and enhancing the outcomes of the Bank's programming.

2.8 The country's commitment has waned because of exogenous factors, but also because of the lack of institutional agreements for some loan operations (see Chapter III, Section 2) and of the transaction costs involved in working with the Bank (see Chapter III, Section 5). Two other factors were also at work during this period, however, which the Bank often encounters in its work with member countries. First, the fact that programming is linked to governments and their policy priorities leaves few degrees of freedom for its implementation in cases where those priorities conflict with the strategic approach for some program initiatives.[34] Second, the Bank's relationship with relevant societal stakeholders is directly correlated to their relationship with the government. Both of these factors made themselves felt during the review period.

3. Links with international financial agencies

2.9 Multilateral lenders worked in coordination with one another to help rebuild the country in the wake of the armed conflict, largely under the leadership of the International Monetary Fund (IMF) and the World Bank. Later on, they partnered with the country in its reform efforts, even though at that point it had little need of policy-based loans for its ongoing autonomous reform drive. The Bank was consistently in a visible position and was appreciated for its role in financing investment for development; its lending activities were shifted away from the country's short-term macroeconomic requirements, which were generally covered by funds obtained from international capital markets.

2.10 The IMF has attested to the viability of the country's macroeconomic framework and its consistency with the policies in place and has, accordingly, signed five stand-by arrangements between 1989 and 1997. Once the economy was turning in a solid performance and the country had earned an investment-grade rating, financial agencies' risk ratings tended to take the place of IMF certification, but the Fund continued with its regular monitoring activities (Art. IV). Other studies also corroborated the country's solvency. Nonetheless, even though the Bank has worked in coordination with other agencies and institutions, it feels it is important to conduct independent economic studies, and these analyses have been regarded as being good and useful for the country.

4. Consistency and integration among the various Bank products

2.11 Indicators providing information on the consistency of the use made of various Bank instruments were used to evaluate the consistency of the Bank's programming instruments. To this end, an effort was made to determine: (i) whether the technical cooperation (TC) operations approved during this period were related to the approved loans that were actually fulfilled; and (ii) whether there were clusters that boosted efficiency by integrating loans with instruments used by other Bank facilities (TC, PPF/PROPEF, MIF).[35] The results, based on the first criterion, indicate that 53 (62%) of the 85 Bank-funded TCs during the period were associated with one or another of the 40 loans, and 42 of the 53 were financed with funds earmarked for C and D countries, which the Bank allocates at its discretion. These funds were used primarily to backstop execution (one of the approved uses of those funds).[36] There were 13 TCs associated with two operations that experienced considerable difficulties.[37] As for the existence of clusters of Bank instruments, it was found that 8 of the 35 MIF projects are loan-based operations and that most of them were designed to backstop regulatory agencies and promote private-sector participation in public service delivery.

2.12 It was also found that the PPFs were used only in the first programming cycle and that nearly 50% of all the loan-based TCs implemented in the entire review period were approved during the third programming cycle (2000-2003) and were chiefly aimed at supporting project execution[38]. These figures provide an idea of the role played by TCs during the period in which program fulfillment was faltering and obstacles to the portfolio's execution were being encountered. Thus, in the early 1990s, the consistency of Bank action was associated with loan preparations, whereas more recently it has been aimed at enhancing execution; in both cases, therefore, the steps that have been taken have tallied with the priorities identified by the Bank in response to these weaknesses in the program cycle.

Table 2.1
Consistency of Bank instruments

Type of instrument	IDB TC > US$100,000		IDB TC C&D > US$100,000		MIF TC > US$100,000	
	No. of projects	Original amount (Millions of US$)	No. of projects	Original amount (Millions of US$)	No. of projects	Original amount (Millions of US$)
Total technical cooperation (TC) operations	84	27.4	56	16.5	35	32.1
Loan-linked TCs	58	19.9	41	13.2	8	10.5
Preparation stage	22	5.1	17	4.7		
Execution stage	30	14.5	24	8.5		
Project Preparation Facility (PPF) [1]	6	0.3				
Non-loan-linked TCs	26	7.5	15	3.4	27	21.6

[1] Includes all PPFs, which were used only during the first programming period (1991-1995).

B. Fulfillment of the Bank's program

2.13 The programming exercise, which is designed to facilitate the achievement of stated objectives (i.e., effectiveness), is analyzed in this section from two different vantage points: the efficiency and the fulfillment of operations dealing with strategic program issues. This is complemented by the consistency found in the fieldwork stemming from the views of stakeholders relevant to the Bank's work, which adds qualitative indicators that help provide context for the programming vision in the period under review.

Table 2.2

EL SALVADOR: LOAN PROGRAMMING EFFICIENCY INDICATORS

Type	CP-224/CP-429		CP-1181		CP-1186-6		Total	
	Mill. US$	N° Proj.	Mill. US$	N° Proj.	Mill. US$	N° Proj.	Mill. US$	N° Proj.
1 Total programmed (2+3)	1,537.0	25	388.9	14	745.0	20	2,670.9	59
2 Total programmed - approved projects	1,002.0	13	368.9	10	255.0	7	1,625.9	30
3 Total programmed - projects not approved	535.0	12	20.0	4	490.0	13	1,045.0	29
4 Total programmed - approved projects in same programming exercise	617.0	9	218.9	8	255.0	7	1,090.9	24
5 Total approved projects	1,146.2	14	396.8	12	483.1	12	2,026.1	38
6 Total unprogrammed approved projects (adjusted for conflicts and disasters)	322.3	3	152.9	4	100.0	1	575.2	8
7 Total approved and ratified projects (8+9)	1,146.2	14	391.7	11	293.0	7	1,830.9	32
8 Approved and ratified programmed projects	601.0	9	243.8	8	223.0	4	1,067.8	21
9 Approved and ratified programmed projects (adjusted for conflicts and disasters)	823.9	11	243.8	8	263.0	6	1,330.7	25
10 Approved and ratified unprogrammed projects (adjusted for conflicts and disasters)	322.3	3	147.9	3	30.0	1	500.2	7
11 **Anticipation rate (% 2/1)**	65.2	52.0	94.9	71.4	34.2	35.0	60.9	50.8
12 **Adjusted anticipation rate (% 4/1)**	40.1	36.0	56.3	57.1	34.2	35.0	40.8	40.7
13 **Improvisation rate (% 6/5)**	28.1	21.4	38.5	33.3	20.7	8.3	28.4	21.1
14 Exogenous impact on operation approvals	234.9	3	5.0	1	285.6	9	525.5	13
Conflict	234.9	3					234.9	3
Natural disasters					95.5	4	95.5	4
Political/institutional factors			5.0	1	190.1	5	195.1	6
15 Exogenous impact on execution	197.0	2	40.6	7	150.2	10	387.8	17
Conflict	197.0	2					197.0	2
Natural disasters			40.6	7	150.2	10	190.8	15
Political/institutional factors							0	0
16 Total exogenous impact	431.9	5	45.6	8	435.8	19	913.3	30
17 **Total exogenous impact rate (% 16/5)**	37.7		11.5		90.2		45.1	78.9
18 **Total exogenous impact rate for approvals (% 14/5)**	20.5		1.3		59.1		25.9	34.2
19 **Total exogenous impact rate for project execution (% 15/5)**	17.2		10.2		31.1		19.1	44.7
20 **Impact rate for armed conflict (% of total approvals)**	37.7		0.0		0.0		21.3	13.2
21 **Impact rate for natural disasters (% of total approvals)**	0.0		10.2		50.9		14.1	50.0
22 **Impact rate for political/institutional factors (% of total approvals)**	0.0		1.3		39.4		9.6	15.8

1. Efficiency of programming

2.14 Efficiency is gauged by determining whether interventions correspond to the actions set out in the programming scheme. Two types of indicators are usually employed in this sort of evaluation: *the rate of anticipation* or, in other words, the percentage of total projects in the pipeline that win approval; and *the rate of improvisation*, which is defined as the proportion of approved operations that were not in the pipeline (other than those that were approved on an emergency basis for war-related reasons or in response to natural disasters), divided by the total approved and ratified portfolio. Two supplementary indicators are *the adjusted anticipation rate*, which is the percentage of anticipated projects that won approval during the same review period, divided by the total projects planned, and *the rate of exogenous impacts on the total portfolio*, which measures the monetary influence of exogenous factors on the total portfolio of projects that had been approved and ratified by the Legislative Assembly; this indicator draws a distinction between factors that influenced project approval and those that affected project execution, as well as among the various exogenous factors involved.

2.15 ***The rate of anticipation in Bank programming has declined considerably since 2000.*** In 1992-2003, the anticipation rate was 51% in terms of the number of projects and 61% in terms of allocations. In other words, 29 out of the 59 projected that had been programmed, for a total of US$1,045 billion, were not approved. The rates corresponding to the programming during the first administration were 52% (projects) and 65% (funding). During the second administration, the anticipation rate climbed to 71% (projects) and 95% (funding); this signals an effective form of programming and the influence exerted by the fact that there were fewer programmed projects. The fulfillment rate dropped during the most recent review period (35% for projects and 34% in terms of funding), mainly owing to the impact of the natural disasters that overwhelmed the country in 2001[39] and the institutional problems discussed above.[40] During this portion of the review period, the programming scheme was not fulfilled and many of the projects that won approval were ultimately not authorized.

2.16 ***Only 41% of the projects in the pipeline were approved during this programming cycle.*** The adjusted anticipated project approval rate (41%) is lower than the average unadjusted rate, since 24 of the 59 projects that were programmed did not actually receive approval during the programming cycle. If one also considers the time it took to obtain approval and ratification, much of the portfolio was executed during an administration other than the one that agreed to the projects initially.[41]

2.17 ***The average improvisation rate, corrected for the influence of exogenous factors, was negligible.*** The improvisation rate for the entire review period amounts to 22% in terms of the number of projects and 27% in terms of amounts; these averages are influenced by the first two programming cycles.

2.18 ***Developments related to the armed conflict, natural disasters, and political and institutional problems influenced programming during the period (see Table 2.2, items 14 to 22).*** During the period, 45% of the funding and 79% of the approved projects were influenced by these factors; 21% and 13% of this impact on project approval and execution is accounted for, respectively, by the national reconstruction effort and by the Peace Accords. Both of these elements were taken into consideration during programming, but the rest of the impact was associated with unforeseen events: (i) natural disasters (Hurricane Mitch and earthquakes), which absorbed 14% of the portfolio resources and involved all or part of 15 projects; and (ii) institutional problems related to the lack of priority assigned to approved projects impacted 10% of the portfolio in terms of resources and 16% of the number of projects.

2. Fulfillment of the program in strategic areas

2.19 Programmed activities were not fully fulfilled in all of the strategic areas where they had been planned. Shortfalls in this respect were found, in particular, in the areas of governance (evaluation and management of public expenditure, framework for decentralization), institutional reforms (water utility regulation, private-sector participation in transport, decentralization in the transport sector), competitiveness (rural energy, agricultural development, post-privatization investment), factor productivity (education, training, innovation), and disaster prevention). The percentage of resources allocated for social programs was aligned with the objectives of the Eighth Replenishment. When the review period is broken down into smaller increments, it becomes clear that it was during the most recent subperiod (2000-2004) that fulfillment was very low in all strategic areas; in point of fact, no new operation has been launched since 2002, and most of the operations awaiting ratification in or around 2000 were processed only because of the earthquakes that hit the country in 2001. The country addressed some of these areas with funds from other sources.

2.20 In *1992-1994*, the Bank made a strategically important contribution to the rehabilitation and reconstruction of the country's physical and social infrastructure in former battle zones and areas related to the fulfillment of the Peace Accords. Its role in this connection supported a laudable process of social and political change. The Bank also bolstered the financial system's recovery and its capitalization, in addition to the physical refurbishment of infrastructure. On the other hand, it failed to address a number of high-priority program topics (vocational training; agricultural development; and housing; highways; a coastal development environmental program; and export promotion). In *1995-1999*, part of the decline in programmed and fulfilled projects was attributable to the fact that there was less of a need for reconstruction works. There were projects that had been programmed but were not approved in the area of support for the production sector and job creation, but programmed operations were carried out in the other three areas that had been identified: public-sector reform, social sectors, and the environment. Another influential factor during this period was the delay in the ratification and fulfillment of operations caused by problems in execution and the difficult political/institutional environment that took shape after the make-up of the Legislative Assembly changed. By the year 2000, a significant package of Bank operations (nearly 65% of the resources approved for that time period) were awaiting ratification by a two-thirds majority (41%) or approval of counterpart funding (24%). In *2000-2004*, only seven of the 20 projects that had been programmed for that period were approved, along with five that had not been programmed. In addition, 5 of the 12 approved projects were not executed; this situation reflects the continued impact of existing levels of institutional risk, which has affected the program's three high-priority strategic issues equally. Ironically, the 2001 earthquakes opened the way for the ratification of many of the resource allocations that had been stalled in the Legislative Assembly. In a number of cases, however, this has resulted in the suppression of the operations' reform components in favor of a singular focus on relevant investment projects.

2.21 It should be noted that, despite the fiscal impact of natural disasters and the increased public spending associated with pension reform measures, the Bank's image as a development lender has not changed. This is clearly one positive outcome of this exercise.

3. Perceptions of program beneficiaries and stakeholders

2.22 The work done on the ground provided an opportunity to hear the various stakeholders' views about the Bank's strategic role in El Salvador. These viewpoints reflect the opinions of persons or organizations relevant to the Bank's work. One of the points that was emphasized the most by **government stakeholders** had to do with the Bank's response to the challenge of reconstruction and to the natural disasters that occurred during the review period. They recognize that, when these events occurred, the Bank immediately chose to be part of the solution by approving a new portfolio and adopting a flexible stance regarding the uses to be made of its operations while, at the same time, seeking to keep the focus on its development objectives. The Bank enjoys a positive image, and its knowledge of the country is respected. Its technical assistance and studies are also appreciated. The IDB is recognized as being the main source of multilateral financial support and differentiated itself clearly from the World Bank, which has not been seen as having been a major presence until recently.

2.23 There is still an image, however, of red tape and of the existence of issues that have not yet been addressed by its interventions. Some of the negative perceptions are: (i) differences in the handling of procedures and contractual clauses during execution; (ii) weaknesses in terms of the approach taken to institutional problems in the design of programs and projects; (iii) excessive pressure being brought to bear by the Bank to move ahead with operations or components in which the government is not interested; (iv) an extremely critical view of the performance of the private-sector window of the Bank and the Inter-American Investment Corporation, although recognizing the work of the MIF, all the while aware of the weakness of private investment in El Salvador; and (v) stated willingness, albeit with little follow through, to move into the promotion of venture capital and nontraditional forms of project finance despite the existence of an open, competitive financial market.

2.24 In particular, the existence of approved projects that have not been authorized by the country during the latest review period and the limited degree of execution of a number of approved operations have been interpreted by the authorities as a failure to assign priority to national activities and as the Bank's insistence on pursuing an agenda for which there is no consensus. These messages should prompt the Bank to ask itself whether the debt incurred and the related transaction costs associated with the application of standardized procedures to all the countries are ends in and of themselves which are unrelated to the development outcomes being sought.

2.25 Some relevant **nongovernmental stakeholders** in Bank programming see it as being too closely tied to its member governments and feel that the governments are the ones that initiate the Bank's contacts with other stakeholders. These social and political actors usually know very little about how multilateral institutions operate. They acknowledge that an effort has been made to hear their views, but they are not fully aware of how their contribution can be useful. There is some sense that it was easy to place resources in El Salvador because the government's objectives were in line with multilateral strategies, but that this has partially eclipsed the development perspective and has interfered with signals of market imperfections. These stakeholders want to see a Bank that is more inclined to help the country prioritize its needs and to demand results. They also are looking for more concrete messages from the Bank's admittedly valuable studies and want them to be more specifically targeted at final beneficiaries. These stakeholders are hoping that the Bank will take into account an institutional structure that incorporates different viewpoints and is more in step with the challenges of globalization.

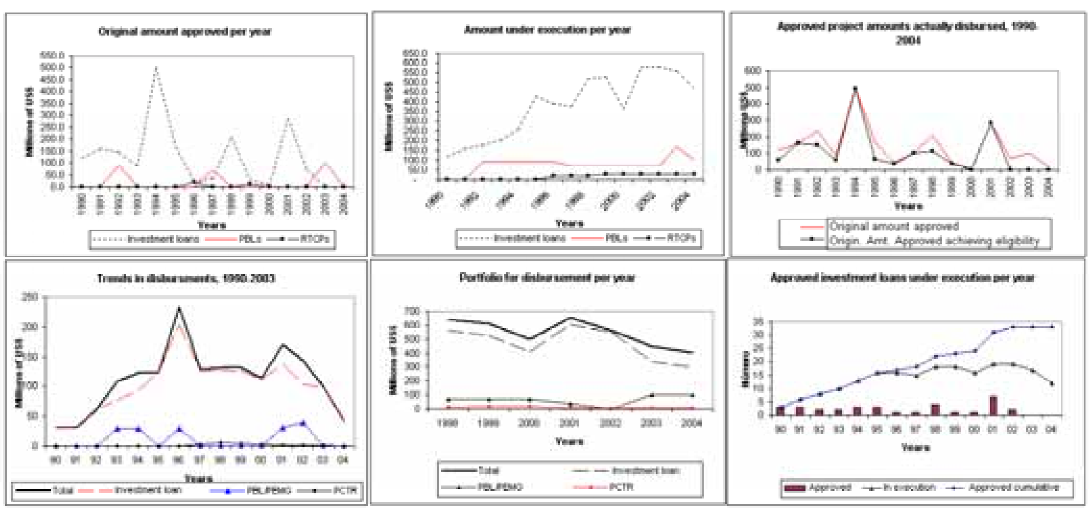
III. THE BANK'S PROGRAM IN EXECUTION

A. Portfolio characteristics

3.1 The approved portfolio for 1990-2003 amounted to US$2,212 billion, with 96% of this sum coming from ordinary capital and special funds; the corresponding breakdown of the 40 loans that accounted for US$2,122 billion of that sum is as follows: 86% in investment loans, 12% in technical cooperation sector loans, and 2% in reimbursable TCs. In addition, there were 157 TCs amounting to US$29 million. The MIF portfolio included 42 approved operations for the review period (including 9 loans), all of which have performed satisfactorily.

3.2 Between the time the Peace Accords were signed and 1999, an average of three loans per year were approved and an average of 22 operations were executed without serious difficulties. Since 1999 15 operations have been approved (for US$503 million): for seven of those, obstructions to authorization of ratification were cleared in 2001 as a result of the natural disasters that occurred that year, and were approved with reformulations; four others were cancelled prior to ratification (for US$81.1 million); two have yet to be ratified (for US$114 million); five have low execution (for US$132.1 million); and only four—mainly related to reconstruction—have had a satisfactory pace of disbursement. In December 2004, the first project under the private-sector window was approved. The foregoing constitutes a considerable drop in the volume of business being done in the country.

Figure 3.1



B. Issues of the portfolio and its execution

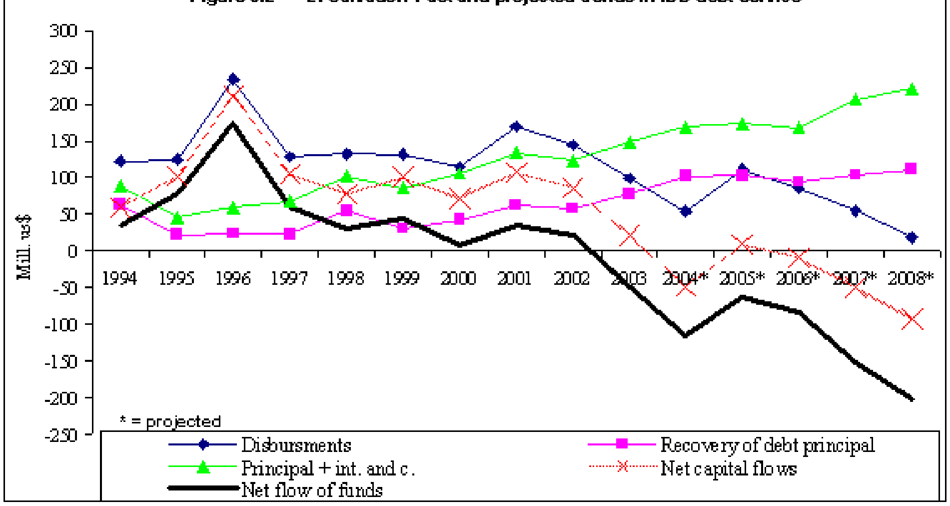
1. Fund flows

3.3 In 1994-2003, the country had a net cash inflow of US$ 437 million; the cash flow has been negative since 2003. This cash flow translated into a net contribution to the annual savings rate equivalent to 0.4% of GDP, even though average annual debt servicing totaled 0.9% of GDP. Average annual disbursements were equivalent to 7% of public-sector expenditure (1.3% of GDP).

3.4 The country's debt with the Bank, measured as a percentage of its total public debt, peaked at nearly 31% in 1999 and thereafter began to shrink, falling to 21% by 2004. This decline reflects debt cancellations and the scant interest shown in authorizing the submittal of loan operations for congressional ratification. Meanwhile, borrowing capacity has been expanding, and the slack has been taken up by capital markets, which have provided financing for pension reforms and for part of what was needed to deal with natural disasters. Since 2002, the relative share represented by Bank disbursements and financing costs has diminished.

3.5 Under the projections for 2004-2008, and assuming that no new operations are approved, the Bank will be a factor of net dissavings on the order of 0.6% of GDP, on average, per year, while the debt service would climb to 1% of GDP. Disbursements for operations already approved will account for only 1.9% of public expenditure (0.4% of GDP). If prevailing financing conditions remain unchanged, over the next five years there will be a negative net cash flow of US$ 545 million (US$ 190 million in net capital flows). Events during the latest programming cycle underscore the importance of ensuring that the new program's goals are in keeping with the government's projected borrowing capacity, which is subject to a self-imposed limit on total NFPS debt of no more than 40% of GDP. Efficiency gains in terms of shorter timeframes for project design, ratification, and execution will be a key element in reducing inconsistencies in Bank-related cash flows.

Figure 3.2 - El Salvador: Past and projected trends in IDB debt service



2. Political/institutional issues

3.6 Under the current system, external credit operations require a two-thirds majority of votes in the Legislative Assembly to ratify authorization of their signature; this has budgetary implications, although the budget itself does not require a special majority for passage.[42] Since 2000, when the main opposition force took more than one third of the seats in the Legislative Assembly, there has been difficulty arriving at swift agreements, political maneuvering to win ratification of Bank operation has increased, and the interest of the executive branch in presenting projects to the Legislative Assembly that it thought might have ratification problems has slackened. The main concern of the opposition parties is the possibility that borrowings might be used to fund current expenditure, which the Financial Management Act expressly prohibits. In terms of achieving congressional ratification, the option of obtaining financing on the bond market was a more efficient route to take;[43] it also eased pressures and provided a way of sidestepping certain issues that have been carried forward by the Bank but that have not been priorities for the government.

3. Natural disasters

3.7 Investment in reconstruction and rehabilitation in the aftermath of the armed conflict and natural disasters has accounted for over one third of the funds that have been approved and executed (35%). Natural disasters prompted approvals of resources and reallocations equivalent to 12% of the portfolio that had originally been approved for other uses. Reallocations (9%) were mostly in social components. By late 2004, however, 34% of the total amount of funds approved for disaster relief had not yet been disbursed; these allocations may now be used for their original or other purposes.[44, 45]

4. Fulfillment of originally approved contracts

3.8 Half of the original contracts for approved loan operations (20) were modified in some way in 1990-2003. The evaluation shows, however, that only 10 of those operations were altered in ways that interfered with the achievement of their original purposes and objectives.[46] In the remaining cases, the changes involved redirecting funds to respond to earthquake damage in ways that did not substantially interfere with the projects' original objectives.[47]

3.9 These modifications have tended to increase in number as time goes by and primarily reflect a lack of institutional viability and the failure to anticipate certain factors in the original designs.[48] This is not interpreted as meaning that interventions in these areas were not relevant, but rather as indicating that the project designs did not properly anticipate institutional problems and that the assumptions were not suitable to the existing circumstances.[49]

Table 3.1
El Salvador: Execution of approved development loans (in millions of US$, 1990-2004)

	A	B	C	D	E	F	G	H	I	J	K	L
Strategic areas	**Number of loans**	**Originally approved amount**	**Original disaster component**	**Reassignment of projects under way**	**Original approval after natural disaster**	**Cancella-tions**	**Original amount, after deducting reallocations and cancella-tions**	**Executed**	**To be disbursed**	**E/B (%)**	**G/B (%)**	**H/G (%)**
Natural disasters and reconstruction	**12**	**508.9**	**74.2**	**157.7**	**740.8**	**89.9**	**650.9**	**551.7**	**99.2**	**145.6**	**127.9**	**84.8**
Post-conflict rehabilitation	5	322.9		-23.1	299.8	88.0	211.7	211.8	0.0	92.8	65.6	100.0
National reconstruction	5	146.0		-2.9	143.1	0.0	143.1	143.1	0.0	98.0	98.0	100.0
Natural disasters	2	40.0	74.2	183.8	297.9	1.9	296.0	196.9	99.2	744.8	740.1	66.5
Market economy and State reform	**8**	**310.5**	**0.0**	**-3.3**	**307.2**	**6.1**	**301.1**	**197.1**	**103.9**	**98.9**	**97.0**	**65.5**
Economic reforms	3	260.0		0.0	260.0	0.0	260.0	160.0	100.0	100.0	100.0	61.5
Administrative reforms	5	50.5		-3.3	47.2	6.1	41.1	37.1	3.9	93.5	81.3	90.4
Social sectors, local development, and environment	**14**	**527.9**	**-53.8**	**-119.0**	**355.0**	**37.1**	**317.9**	**192.5**	**125.4**	**67.3**	**60.2**	**60.5**
Education	5	195.8		-63.7	132.1	1.4	130.7	113.4	17.3	67.5	66.7	86.7
Health	2	26.6		-5.7	20.8	5.9	14.9	6.1	8.8	78.5	56.2	41.0
Water and sanitation	1	43.7		-32.4	11.3	0.4	10.9	0.8	10.1	25.9	24.9	7.7
Housing	1	70.0	-20.0	0.0	50.0	0.7	49.3	1.4	47.9	71.4	70.4	2.7
Local development *	2	104.1	-33.8	-8.4	61.8	0.5	61.3	42.0	19.3	59.4	58.9	68.5
Environment	2	59.8		-8.8	51.0	0.3	50.7	28.8	21.9	85.3	84.8	56.8
Public safety	1	27.9		0.0	27.9	27.9	0.0	0.0	0.0	100.0	0.0	0.0
Economic reactivation, competitiveness, and private-sector development	**13**	**753.2**	**-20.3**	**-35.4**	**697.5**	**51.7**	**645.7**	**606.6**	**39.1**	**92.6**	**85.7**	**93.9**
Financial system, micofinance, and finance for small and medium-sized enterprises	6	226.4		0.0	226.4	42.5	183.9	183.9	0.0	100.0	81.2	100.0
Sector reforms and competitiveness	5	443.8		-35.4	408.4	8.7	399.7	399.7	0.1	92.0	90.1	100.0
Agricultural development	2	83.0	-20.3	0.0	62.7	0.5	62.1	23.1	39.0	75.5	74.9	37.2
Total	**47**	**2100.5**	**0.0**	**0.0**	**2100.5**	**184.9**	**1915.6**	**1548.0**	**367.6**	**100.0**	**91.2**	**80.8**

Source: LMS and loan documents.

Table 3.2
El Salvador: Performance of originally approved project contracts

Project	1990-2003 No. of projects (1)	1990-2003 Amount affected [millions of US$] (2)	1990-2003 Amount originally approved (millions of US$) (3)	1990-2003 Amount affected per project [millions of US$] (2/1)	1990-2003 Alteration rate for original approvals (2/3)	1990-1995 No. of projects	1990-1995 Amount affected [millions of US$]	1990-1995 Amount originally approved (millions of US$) (3)	1996-1999 No. of projects	1996-1999 Amount affected [millions of US$]	1996-1999 Amount originally approved (millions of US$) (3)	2000-2003 No. of projects	2000-2003 Amount affected [millions of US$]	2000-2003 Amount originally approved (millions of US$) (3)
Reformulated 1/	2	138.8	340.9	69.4	41%	2	138.8	340.9						
Restructured 2/	10	99.0	615.7	9.9	16%	6	32.8	415.3	4	66.1	200.4			
Reoriented 3/	3	44.1	94.2	14.7	47%				3	44.1	94.2			
Approved but not ratified 4/	5	181.1	181.1	36.2	100%				1	5.0	5.0	4	176.1	176.1
Total loans altered	20	462.9	1232.0	23.1	38%	8	171.6	756.2	8	115.3	299.7	4	176.1	176.1
Total loans	39	464.2	2100.5	11.9	22%	17	172.2	1264.6	12	115.7	396.8	10	176.3	439.1
Modification rate 5/	26%	17%	29%											

1/ Authorization of Board of Executive Directors: Change required in original strategic objectives (ES-0060, ES-0081)
2/ Management authorization: Projects in which the reorientation of resources did not substantially alter the established development objectives (ES-0019, ES-0020, ES-0024, ES-0081, ES-0083, ES-0084, ES-0090, ES-0100, ES-0109, ES-0110)
3/ Restructured projects whose funds were reoriented and whose objectives had to be adjusted (reformulated) (ES-0053, ES-0068, ES-0074)
4/ Includes Sector Program for Competitiveness Reforms (ES-0151), which has not yet been cancelled and is being reformulated for submission to the Legislative Assembly. The rest have been cancelled (ES-0113, ES-0116, ES-0130, ES-0134, ES-0151)
5/ Project contracts approved by the Bank that were modified during execution in ways that affected the fulfillment of their aims and objectives

5. Transaction costs

3.10 Because they have an impact on the net benefits of operations and on financial movements, questions relating to the possible obsolescence of designs, delays in winning congressional ratification, the length of time required for execution, difficulties in securing approval of local counterpart budgetary allocations, conditions precedent to project disbursements, and associated expenses are all transaction costs that have a direct impact on the flows of funds projected by the country and the Bank. The reduction of risks associated with the delays they cause would translate into an increase in the present value of expected project benefits and improved financial performance. Some indicators of how these factors have evolved in El Salvador are presented below.

3.11 *Delays in project approval*. The average amount of time that elapses between the design and approval of loan operations is substantial (19 months from Profile I to approval) and is similar to the high Bank average for this indicator.[50] A factor that sets El Salvador apart, however, is the greater dispersion in this indicator (typically, a 17-month deviation). It takes another 20 months from approval to the date of the first disbursement, which is significantly above the Bank average (14 months). The 14-month delay between project approval and congressional ratification[51] has been the chief risk factor for Bank business and has led to the establishment of a deadline for congressional authorization of the signature and ratification of loan operations.

3.12 *Execution period*. The average amount of time required for project execution between the dates of the first and last disbursement is 74 months, which is considerably higher than the Bank's average (68 months). What is more, the execution period has been 65% longer than the original timetable, which further reduces the present value of the expected benefits. Since 2003, payments on the loan principal commence upon the expiration of the original grace period, not upon the end of execution, thereby diminishing future financial flows even before project benefits materialize.

3.13 The fact that this project cycle exceeds the Bank's average also has to do with two other sets of circumstances: (i) difficulties in complying with the contractual requirements of some operations, especially those approved in 1996-1999 (difficulties associated with unsuitable designs and beneficiaries having a very limited execution capacity, both of which represent risks that were not fully taken into account in the original designs);[52] and (ii) the low level of project execution registered in 2000-2003 (largely with respect to operations approved in 1996-1999), which was compounded by delays in local counterpart execution.[53, 54, 55]

3.14 *Design and oversight costs for approved loans*. The average direct cost for the design and oversight of each project is calculated by the Bank and covers the payroll, consultant fees, and travel expenses for each stage.[56] Based on the sample group of projects examined for this purpose, the Bank pays an average of US$359,042 to prepare and execute a project (Operational Cost Data System, April 2005), which is 10% more than the average for Group D countries and is similar to the Bank average. In other words, this is equivalent to saying that in El Salvador the direct costs total 1% of the originally approved amount (OAA), which is higher than the 0.7% for Group D countries and is up sharply from the Bank average of 0.3%.

3.15 If operations that were approved by the Board of Executive Directors but subsequently not ratified by the country are computed as sunk costs, then the average direct cost per project executed is US$408,087. This raises the direct per-project cost of the average OAA to 1.1%.[57, 58]

C. Execution Oversight

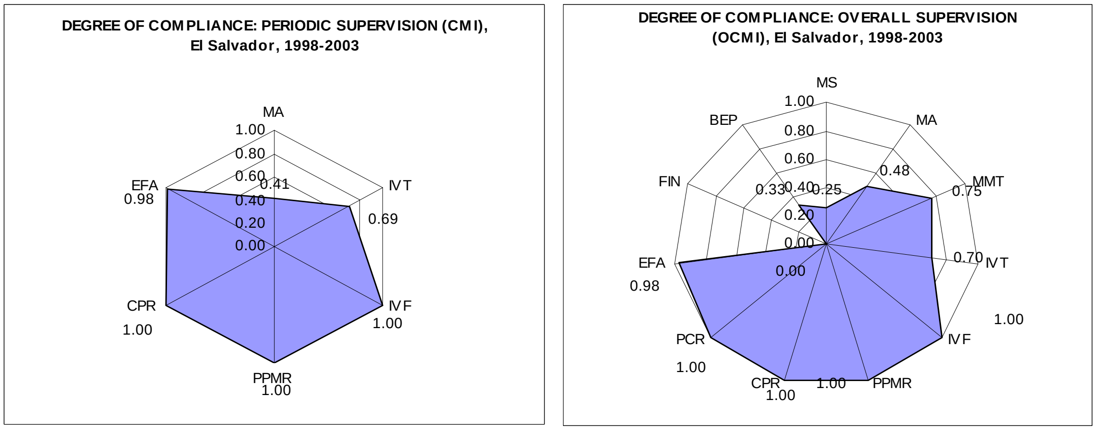
3.16 Oversight has been evaluated in two stages: first, the degree of fulfillment in the use of the supervisory instruments identified in Bank policies and regulations is analyzed; and, second, oversight functions are evaluated to see to what extent development, operational, and fiduciary risks have been anticipated and effectively addressed.[59]

1. Fulfillment of oversight functions

3.17 In 1998-2003 the fulfillment of mandatory oversight functions was slightly below the optimum level (0.91 of the completeness monitoring index (CMI)), with the maximum being (1), but it was still considerably above the Bank average (0.77 in 1998-2002, the most recent period for which aggregate information is available).[60,61] Compliance levels for the various instruments were good, with the exception of administration missions and startup missions, and the lower-than-expected performance levels for technical inspection visits. When unplanned missions are added, the coverage rate was only 25% of operations.

3.18 Headquarters-based supervisory activities focused on country portfolio reviews (CPRs) as a means of maintaining an institutional dialogue with the country during execution. These reviews were conducted by making use of the various project self-evaluation instruments available. The lack of sufficient lead time in programming administration and startup missions was, however, pointed out in the last CPR as a lesson learned, recognizing the need for having project teams become more involved in execution.[62, 63] Performance levels have been quite positive for the planning of midterm review missions (75% of the loan operations), but actual compliance has been very low (15%), which reduces the impact of this instrument as a means of complementing self-evaluations.

Figure 3.3



3.19 Outcomes are evaluated primarily by means of self-evaluation instruments (PPMRs, PCRs), while very little use has been made of ex post independent evaluations to augment the lessons learned and the implementation know-how from such projects. On the other hand, many of the officials of executing agencies and beneficiaries who were interviewed said that they played no significant part in self-evaluation exercises; PCRs are simply given to them, but they have not felt that they are a part of this exercise and do not know if their views were taken into consideration. Assessments of project advances and risks are seen as being too subjective because the criteria that are routinely used have not been adapted to fit conditions in the country. Another concern refers to the negative effect that the rotation of Bank personnel has had on program continuity and the possibility that, as a result, the lessons learned during execution may be lost.[64]

3.20 Projects are not supervised closely enough (either on an ex ante basis or during implementation) in terms of their results or their future sustainability, despite the Country Office's efforts to retrofit some of the projects under execution in order to make up for the lack of indicators, baselines, benchmarks, and final objectives.

3.21 Oversight functions exhibit a culture of time-consuming micro-analysis and problem mitigation that appears to place priority on such matters as problems in the pipeline, the recruitment of a consultant, the preparation of a progress report, or the application of procurement or disbursement procedures. Although the efforts being made by the Bank through the Country Office are recognized, the perception is that the portfolio problems need substantive responses, rather than operational ones. This misconception diminishes the Bank's ability to anticipate and respond to necessary changes because it is focusing on mitigating problems after the fact.

2. Oversight of execution-related risks

a. Risk-based portfolio performance evaluation

3.22 The risk that projects may fall short of their development objectives[65] has consistently been below the Bank's average risk levels. A moderate increase in the number of projects at risk, as measured by their PPMRs, has been seen since 2001, and this trend becomes stronger if projects that are classified as normal but as being at risk according to the Project Alert Identification System (PAIS) are included. When measured in dollar amounts, the increase is smaller. The PAIS rating is invariably affected by the risk weighting associated with delays in contract ratification.[66, 67] This situation should be viewed with some reservation by the Bank, however, and its importance should be carefully weighed, for three reasons: first, because this is a decision to be taken by the Bank, which is fully aware of these risks beforehand; second, no project that has been submitted to the Legislative Assembly for ratification has, despite the above-mentioned delays, been rejected (i.e., this risk has never actually materialized although it exists ex ante); and, third, the PAIS at-risk rating is costing the country more in terms of commitment fees and less access to soft funds.[68]

3.23 Fiduciary risks are measured as the total amount of loan funds for which the corresponding audited financial statements (AFS) are free of observations, divided by the total sum of loan funds for which an AFS is required. This indicator was 95% in 1998-2003, well above the Bank average of 64%. The difference with financial specialists' AFS ratings is noteworthy, compared to the rest of the Bank, since these findings (adjusted to reflect the views of the Country Office) substantially lower the number of AFSs that receive a clean bill of health from the auditors (dropping to 65% on average). This signals a relevant outcome of controlling the risk entailed by the level of confidence in appropriate resource use.[69]

3.24 No records on financial inspection visits (FIVs) in the first three years of the review period are available. Between 2001 and 2003, FIV coverage rose from 79% of projects in execution to 100%, which is far above the Bank average (54% in 2001).

b. Effectiveness of Bank supervision

3.25 Bank oversight has succeeded in reducing operational risks during execution. Noteworthy progress has been made in: (i) compliance with the required supervisory activities; (ii) documentation and computerization of oversight processes and familiarity with such procedures;[70] (iii) development and standardization of crucial Bank execution procedures, especially in the last program cycle; (iv) a reduction in discrepancies between Bank oversight and executing agency management procedures. This was achieved by means of a structured, participatory dialogue and the use of innovative, exemplary disbursement systems that should serve as lessons for the Bank.

3.26 The oversight system's lack of integration was largely overcome with the help of an *ad-hoc* mechanism and a great deal of dialogue. Major strides forward were made in the area of procurement by streamlining procedures, standardizing them (e.g., developing standardized forms in conjunction with the World Bank), ensuring transparency (full access for users), and achieving greater alignment with national legislation. This is an example of the program's contribution to the mitigation of unforeseen risks.

3.27 A pilot plan of action has been launched in a number of operations with a view to dealing with design flaws and upgrading, augmenting, and standardizing progress reports and the way in which they are tied in with PPMRs and PCRs. The files did not provide a history of the operation and had not been reviewed by all the relevant specialists. A standard format was designed, and the PPMR has been oriented toward integrating the inputs of executing agencies and sector specialists. An annual report on inspection visits (a minimum of two per year) has been added to the self-evaluation system, and its integration with the PPMRs and PCRs has been verified.

3.28 Work done on the ground has shown up redundancies and weak points, however. Some of the main such problems are the following: (i) the system of contractual clauses is not user-friendly and is redundant and poorly structured; (ii) conditions precedent to disbursement are sometimes defined without aligning them with sector policy or with existing laws and regulations; (iii) the PCR system is not user-friendly and is unwieldy and redundant; (iv) project designs, particularly in the case of TC operations, require too many reports and contractual clauses, many of which are predicated on progress reports and therefore duplicate the oversight functions of the Country Office; (v) TC forms and annexes should be simplified and adapted to project needs; (vi) the Country Office participates very little in the design of operations, and team leaders are usually unfamiliar with execution issues (e.g., procurement) or see them as unimportant;[71] (vii) the logical frameworks are often unsuitable and need to be modified along the way; (viii) in some cases, institutional analysis is weak and overly optimistic in evaluating institutional capacities; (ix) operations fail to incorporate an analysis of budgetary sustainability and, in some cases, do not figure among the government's budgetary priorities, especially when there is a change of administration; and (x) project designs are discussed with senior sector policymakers, but the country's technical team usually does not take part in these discussions. This interferes with project ownership by the executing agencies; making it necessary to again reiterate what the operation is intended to accomplish, the nature of conditions precedent to disbursement, etc.

IV. RESULTS ACHIEVED

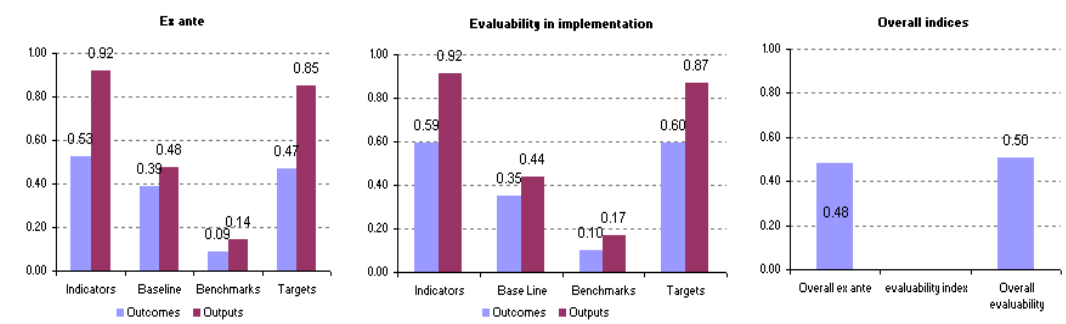
4.1 This chapter analyzes the results achieved in areas where the Bank has sought to make a contribution to the country. The effectiveness of individual interventions and of the program as a whole is evaluated.[72] The work done on the ground has focused on comparing the initial situation without the project to the final situation in the areas ascribed to the Bank, determining whether or not development objectives have been achieved and, if so, whether they are sustainable and have contributed to the country's institutional development.[73]

A. Project outputs and outcomes

1. Project Evaluability

4.2 The analysis of project evaluability looks at the results frameworks and progress reports and seeks to determine whether or not they provide sufficient information for an evaluation of the outputs and outcomes of Bank interventions.[74] This analysis is undertaken at two different points in time: (i) an ex ante evaluability analysis is conducted to see whether the original project designs have provided a results framework that will permit an appraisal and quantification of the extent to which they have fulfilled their purposes; and (ii) an ex post evaluability analysis is conducted in order to determine whether or not the changes made during implementation resulted in no change, an improvement, or a deterioration in the original results framework.[75]

Figure 4.1
Evaluability Indices[1/]

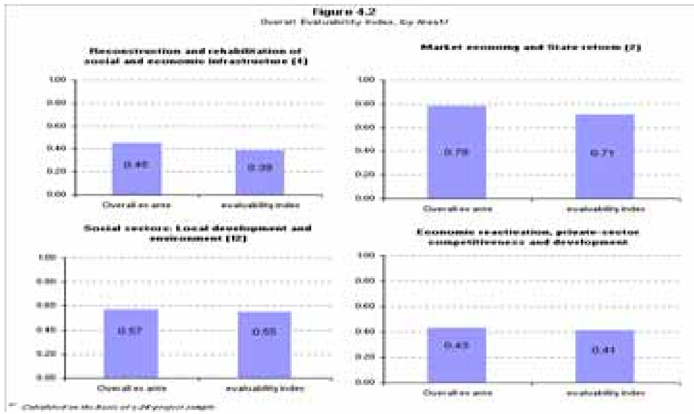


1/ *Calculated on the basis of a 24-project sample*

4.3 Generally speaking, the examination of the sample group of 24 projects used for this analysis indicated that their designs were oriented more toward the verification of outputs than of outcomes. More importance was placed on defining indicators for outputs and outcomes than on establishing the corresponding baselines. On average, projects included only 50% of the elements called for in their results frameworks that are used to assess the value added by Bank interventions as measured against the baseline situation (see the global indices in Figure 4.1). The near total absence of benchmarks (intermediate targets) in project blueprints unrealistically assumes that the completion of project outputs and the achievement of objectives all occur simultaneously when execution is finished. This is accompanied by the absence of deadlines for project outputs and objectives and their organization into processes.

4.4 As a corollary to this, there is no tie-in between the activities designed to produce given outputs and project budget allocations. This makes it difficult to evaluate the level of efficiency and undermines resource management and control.

4.5 A slight improvement was observed in the results frameworks of the original designs, thanks to the effort made to refine the definition of project indicators and outcome targets, although no matching improvement was made in the corresponding baselines.



4.6 Design flaws relating to the anticipation of verifiable results have prevented the Bank from basing its monitoring activities and findings on quantitatively verifiable results. As will be discussed below, this situation has not been improved by the use of self-evaluation instruments (the PPMR and PCR), thus undermining the credibility of Bank assessments of the progress made in execution and of project objectives. This, in turn, diminished their usefulness as a basis for decision-making or as a source of measures for mitigating problems encountered in the country's plans of action. The CPRs done in recent years have pointed to this weakness as a lesson to be learned and have proposed measures for improving the results frameworks in project designs and of involving national executing agencies more fully in their definition.

4.7 If, rather than looking at all the projects as a group, the analysis focuses on the evaluability of projects broken down by subject area, the findings are somewhat different. The results for market reforms and State reform are fairly good and are clearly above the overall average (2 projects). In social issues, local development, and the environment (12 projects), the figures are somewhat higher than the low overall average. Projects relating to the reconstruction and refurbishment of economic and social infrastructure (4 projects) and to competitiveness and private-sector development (6 projects) exhibit a low degree of evaluability in terms of project design and an even lower one for implementation.

2. Outcomes

4.8 Outcomes **at the project level** have been evaluated on the basis of 28 loans in the Bank's portfolio for the review period; these operations represent somewhat less than 80% of total Bank-approved resources. The approach called for a determination, for each project, of how much the situation had changed relative to the baseline. The analysis seeks to determine whether or not the stated project objectives were achieved and whether or not the outcomes and the institutional contribution made to the country are sustainable.[76, 77]

4.9 The disaggregated results and the evaluation criteria used for gauging project effectiveness are shown in Annex III. This evaluation systematizes the findings of the work done on the ground using a series of indicators and, on that basis, arrives at the conclusions presented in this section.[78] In order to simplify the presentation of these conclusions, the results for the specific and aggregate indicators have been quantified using a three-tier ranking system.[79] These results are shown in relation to the results of the Bank's self-evaluation system (PPMRs and PCRs).

4.10 The evaluation's findings do not entirely corroborate the self-evaluations' conclusions. The self-evaluations indicate that all the projects have achieved their development objectives and that operations still under way are highly likely to do so as well. The evaluation, on the other hand, did not find sufficient evidence in those reports or in the relevant fieldwork to justify the conclusion that three of the projects would meet their development objectives[80] or that the outcomes of another two FISDL operations, if achieved, would be financially sustainable, despite the significant headway made in relation to the institutional structure and the scale of activity achieved by these projects.[81, 82] In the case of another four projects currently under execution, the evaluation indicates that it is too early to determine whether or not they are going to achieve their development objectives.[83] Lastly, when the evaluation agrees with the rating in the self-assessment, in several projects that rating was not founded on the evidence contained in the PPMRs and PCRs, but rather on that garnered on the ground in the country (e.g. ES-0036, ES-0083, ES-0088, ES-0105, ES-0109).

4.11 The objective of the project designed to support the electric power sector, which was one of the operations rated as unsatisfactory in this evaluation, was *to set up an institutional, legal, and regulatory framework to ensure competition and transparency among private-sector stakeholders*. The 1996 Electricity Act was a major stride forward and opened up the sector to private investment. It has proved difficult, however, to develop a competitive, transparent market, and the risk remains that participants in both the generation and the distribution segments may succeed in wielding market power. The market remains highly concentrated, with some private stakeholders maintaining large market shares, owing, in part, to the adoption of a model involving the use of special rates in this small and recently regulated market. Incentives for fresh investments in the generation segment are lacking because rates do not provide for the recovery of investment costs, and there is thus no return on reserve capacity. Hydroelectricity generation has been kept in the hands of the State (CEL) in order to avoid creating a private monopoly that might generate additional market failures, but it is nonetheless subject to the practices of one dominant firm. The situation calls for more State regulation and for steps to strengthen the regulatory functions of the Superintendencia General de Electricidad y Telecomunicaciones [General Superintendency for Electrical Power and Telecommunications] (SIGET); this agency introduced further reforms in 2003 whose long-term impact cannot yet be assessed. Interconnection with Central America, which is slated for completion in 2007, will open the doors to more competition.

Table 4.1
EL SALVADOR: LOAN EVALUATION RESULTS, 1992-2003

PROJECT NUMBER	DATE OF APPROVAL	PROJECT NAME	EVALUABILITY	RESULTS: SELF EVALUATION 1/	RESULTS: OVE EVALUATION		IMPACT OF RISKS: SELF EVALUATION 1/		IMPACT OF RISKS: OVE EVALUATION		PROJECTS AT RISK (COUNTRY)
				ACHIEVEMENT OF DEVELOPMENT OBJECTIVES	PERFORMANCE	SUSTAINABILITY	ASSUMPTIONS	IMPLEMENTATION	ASSUMPTIONS	CHANGES IN EXECUTION	
ES0006	11/21/1990	Global Multisector Credit Program I	0	...	1	1	...	...	0	0.5	...
ES0023	07/24/1991	**Social Investment Fund I**	0.5	...	1	1	...	...	0	1	...
ES0016	11/25/1992	Sector Investment Program	1	...	1	1	...	...	1	1	...
ES0062	08/11/1993	Social Investment Fund II	0	...	1	1	...	...	0	1	...
ES0037	11/10/1993	Global Credit Program for Microenterprises	0	1	0.5	0.5	1	1	1	0.5	...
ES0084	11/16/1994	Social Investment Fund III	0	1	1	1	1	1	0	1	...
ES0081	11/30/1994	Road Management Program II	0.5	1	0.5	0.5	1	1	0	0.5	...
ES0088	11/30/1994	Energy Sector Expansion Program	0.5	1	0	0.5	1	1	1	0	...
ES0083	09/13/1995	Education Sector Modernization Program	0	1	1	1	1	1	0	1	...
ES0024	09/27/1995	National Environmental Program	0	1	1	1	1	1	0	0.5	1
ES0057	09/27/1995	Global Multisector Credit Program II	0	1	1	0.5	1	1	1	1	...
ES0090	03/13/1996	Judicial Reform Program	0.5	1	0	0	1	1	0	0.5	...
ES0105	07/24/1996	Fiscal Modernization TC Loan	0	1	1	1	1	1	0	1	...
ES0036	09/24/1997	Public Sector Modernization Program	1	1	1	1	1	1	1	1	...
ES0109	12/03/1997	Local Development Program	0	1	1	0	1	1	0	1	....
ES0108	02/18/1998	Support Program for Education Technologies	0	1	1	0.5	1	1	0	1	0
ES0053	03/04/1998	Health Sector Modernization Program	0.5	1	0	0	1	1	0	0	0
ES0110	03/25/1998	Educational Infrastructure Program	0	1	1	1	1	1	1	1	0
ES0068	05/27/1998	Potable Water and Sanitation Program	0.5	1	NC	NA	1	1	0	0	1
ES0115	03/03/1999	Institutional Strengthening of Regulatory Agenci	0	1	0.5	1	1	1	0	0.5	1
ES0093	09/22/1999	Modernization of the Legislative Assembly	0.5	1	0.5	NA	1	0	1	0.5	1
ES0074	10/13/1999	Environmental Pollution Control in Critical Areas	0	1	NC	NA	1	0	0	0	1
ES0148	02/09/2001	Emergency Project – El Salvador	0.5	1	1	1	1	1	0	1	...
ES0129	04/11/2001	Sustainable Roads in Rural Areas	0.5	1	0.5	NA	1	1	0	1	0
ES0150	04/16/2001	Emergency Project – El Salvador II	0	1	1	0.5	1	1	0	1	...
ES0119	06/27/2001	Agribusiness Reengineering	0	1	NC	NA	1	1	1	0.5	0
ES0120	09/26/2001	Local Development Program II	0	1	1	0	1	1	0	1	0
ES0087	12/12/2001	Housing Program	0.5	1	NC	NA	1	0	1	0.5	1

Note: 1 = satisfactory; 0.5 = fairly satisfactory; 0 = unsatisfactor
1/ Based on the rating given in the last PPMR and PCR

4.12 The project focusing on the justice sector was aimed at *modernizing and strengthening the justice system in order to build the public's confidence in the system*. The project design was based on a relationship of causality among instruments (outputs) selected by the program to accomplish a number of very broad and complex purposes. The relationship between these objectives and program instruments turned out to be very indirect, and their contribution to the aims was therefore neither clear-cut nor demonstrable. Factors such as the prevention of violence or the separation of judges' duties from administrative tasks were not taken into consideration. This situation has been compounded by a lack of indicators and benchmarks for measuring the value added by the project and by the highly complex nature of the operation (which involved six different executing agencies). This state of affairs gave rise to frequent changes in project outputs and components and to problems with execution.

4.13 The health-sector project was aimed at improving health conditions among low-income groups by *supporting strategic changes designed to boost the efficiency, equity, and quality of the health services* provided by the Ministry of Public Health and Social Assistance in areas where the MSPAS did not have a presence by hiring NGOs. The problems existing in the health sector, which have to do with a lack of access to public health services and the poor quality of those services, have been studied and discussed on an ongoing basis without reaching any foundational consensus regarding the development of a new model for health-care delivery and management. The project identified this development issue and sought to formulate a program that would address it in unserved areas, so as to avoid duplications. However, although the health-care outcomes of project activities may be acceptable, the project is unlikely to produce nationally replicable results and has little chance of serving as a platform for the sector's structural overhaul unless basic policy issues are resolved beforehand.

4.14 The four operations that have not been rated (ES-0068, ES-0074, ES-0119, ES-0087) have been executed to a very limited degree and have experienced important delays. These projects are all aimed at boosting investment in reconstruction and the initiation of public works in each sector, associated with institutional reform at the sector's apex organizations, for example, the establishment of new regulatory frameworks that separate water regulation from normative components, and the promotion of decentralized mechanisms for management of services engaged from private suppliers (drinking water, sanitation, environmental services, agribusiness and housing, and possibly health care and local development as well). This design format led to internal debate among the numerous stakeholders involved, who it is very difficult to get to agree (e.g., the municipios). This became one of the main reasons for the delays. In resolving the dispute, the country's vision prevailed—it felt that project design relied excessively on the approval of sector reform as a condition precedent for mobilizing investment resources, instead of concomittantly stepping up the emergence of private operators to do this. As a result, activities ended up focusing on supporting decentralized management to make private operators and local governments emerge swiftly, delaying sector reforms. This does not require as many institutional changes, and the investment is accessed more quickly.

4.15 Although it is still too early to evaluate the expected outcomes of these operations, most of which have been reformulated, two points should be made here. First of all, when management is decentralized at the municipal level, the highly unequal positions of different local governments should be borne in mind, since they have such widely varying characteristics in terms of capacities, resources, target population groups, and political representation.[84] If these aspects are not taken into account, management may become fragmented and strategic tasks may become impossible to perform under a unified system.

4.16 Secondly, the lack of a formal, recognized system for regulating political decentralization duties and responsibilities may not be conducive to the long-term sustainability of Bank operations. The absence of a legal framework for the decentralization process was helpful in the beginning because it provided flexibility, permitted the incorporation of lessons learned, and made it possible to adjust the strategic model to the local environment. In the long run, however, the lack of a common procedural framework for the transfer of responsibilities, duties, and the corresponding resources—together with the failure to employ financial control and administrative instruments linked to national governance structures and the absence of local tax instruments for generating own resources—could undermine the operations' ability to meet strategic demands and, hence, to achieve the projects' development objectives.

4.17 The lack of convergence in project ratings is also a factor in the **recognition of the materialization of risks** relating the Bank portfolio's development objectives. The Bank's self-evaluation does not acknowledge the existence of external shocks that may have undermined some of its assumptions. The available information points up two important facts: first, instances in which project assumptions have not been borne out have been significantly underestimated (the evaluation found that risks ultimately did emerge in 19 of the 28 projects). This failure to recognize risks has not, however, resulted in a failure to attain development objectives in the great majority of the projects (which attests to the quality of mitigation efforts). In those projects that did not perform satisfactorily, institutional and political factors played a decisive role. The reallocation of large amounts of project funds to the rehabilitation of infrastructure in the wake of natural disasters does not appear to have been an exogenous contributing factor in the poor ratings received by some projects.[85]

4.18 **Changes made during execution,** in line with the self-evaluation findings, have influenced some projects as a result of the reallocation of funds for other purposes or outputs or of their cancellation. For the most part, however, project instruments have been aligned with the achievement of the identified development objectives.

4.19 On the other hand, it has been seen that the **instruments used to achieve objectives** (project components) have, in most cases, been neither excessive nor insufficient for their stated purposes. On average, somewhat more than one instrument was used per strategic objective, and two objectives were addressed per project. The inefficiency observed in relation to the Bank's portfolio was the general absence of targets; this was interpreted to mean that there would always be an outcome or result, without regard to coherence between the number of instruments and the objectives.

4.20 In the projects that were found to be performing poorly, however a lack of correspondence between the instruments being used and the stated objectives was one of the main reasons for the resulting shortcomings. In the electric power sector, investment loans were used to underpin the passage and implementation of sector policies, and oversight measures were therefore lacking when the expected results failed to materialize. The judicial reform effort, on the other hand, is an example of an operation in which wide-ranging objectives exceeded the scope of the instruments that were brought into play and in which too many executing agencies were involved that, moreover, had no incentive to cooperate with one another. Meanwhile, in the health sector, which is where a strategic change was sought, a multiplicity of inconsistent instruments were used to implement largely unreplicable pilot projects.

4.21 Project instruments (components) are what absorb project resources and what reflect the relevant costs. Attainment of development objectives on an unsustainable basis leads to a reduction in social welfare and a loss of the resources invested in those instruments. It is therefore being assumed that the funds invested that were successful in achieving their objectives serve as an **indicator of projects that had a positive impact**. In El Salvador, unmet objectives amount to only 3% of the portfolio's value (6% if unsustainable outcomes are also taken into account), whereas those for which the results were satisfactory (70%) and fairly satisfactory (17%) amounted to 87% of the total approved amount.[86]

4.22 The large proportion of the portfolio approved by the Board of Executive Directors since 2002 that has not been submitted to the legislature for ratification or that has been cancelled following ratification (US$190 million, in total) can also be viewed as an opportunity cost, given the net benefits that could have been obtained from other uses[87] (see the overview of programming impacts in Figures A3.1 and A3.2, Annex III).

Table 4.2

EL SALVADOR: FINANCIAL IMPACT OF PROJECT RATINGS, BY STRATEGIC AREA AND SUB AREA, 1992-2003
(Millions of US$; ratings according to originally approved amounts, current amounts, and disbursed amounts in a 28-loan sample)

PROGRAM AREAS AND SUB-AREAS	Originally approved amounts						Current amount						Disbursed amount						Difference	
	$O [1]	$O [0.5]	$O [0]	$O [ADM]	$O [NA]	Total $O	$C [1]	$C [0.5]	$C [0]	$C [ADM]	$C [NA]	Total $C	$D [1]	$D [0.5]	$D [0]	$D [ADM]	$D [NA]	Total $D	$C - $O	$E - $A
A. Reconstruction and rehabilitation of social and economic infrastructure	**218**	**10**	**30**	**0**	**0**	**258**	**300**	**6**	**78**	**0**	**0**	**384**	**297**	**6**	**3**	**0**	**0**	**306**	**126**	**-78**
(a) Post-conflict rehabilitation and national reconstruction	134	0	0	0	0	134	138	0	0	0	0	138	138	0	0	0	0	138	4	0
(b) Natural disasters	83	10	30	0	0	123	162	6	78	0	0	246	159	6	3	0	0	168	122	-78
B. Market economy and State reform	**14**	**164**	**14**	**0**	**0**	**193**	**13**	**165**	**17**	**0**	**0**	**195**	**13**	**163**	**13**	**0**	**0**	**189**	**3**	**-6**
(a) Economic reforms	0	89	0	0	0	89	0	90	0	0	0	90	0	90	0	0	0	90	0	0
(b) Administrative reforms	14	73	0	0	0	87	13	73	0	0	0	87	13	73	0	0	0	87	0	0
(c) Public safety and judicial reform	0	0	14	0	0	14	0	0	17	0	0	17	0	0	13	0	0	13	2	-4
(d) Legislative Assembly	0	2	0	0	0	2	0	2	0	0	0	2	0	0	0	0	0	0	0	-2
C. Social sectors, local development and the environment	**154**	**39**	**21**	**0**	**94**	**308**	**120**	**34**	**13**	**0**	**57**	**224**	**84**	**26**	**4**	**0**	**0**	**115**	**-84**	**-109**
(a) Education	115	31	4	0	0	150	83	18	0	0	0	101	56	25	0	0	0	81	-49	-19
(b) Health	0	0	15	0	0	15	0	0	11	0	0	11	0	0	2	0	0	2	-4	-8
(c) Water and sanitation	0	0	0	0	36	36	0	0	0	0	5	5	0	0	0	0	0	0	-32	-4
(d) Housing	3	0	0	0	36	39	3	0	0	0	36	39	0	0	0	0	0	0	0	-39
(e) Local development	35	8	0	0	0	43	33	16	0	0	0	49	26	1	0	0	0	28	6	-21
(f) Environment	2	0	2	0	22	26	1	0	2	0	16	20	1	0	2	0	0	4	-6	-16
D. Economic reactivation, private sector competitiveness and development	**544**	**26**	**8**	**0**	**48**	**627**	**526**	**26**	**5**	**0**	**53**	**611**	**519**	**24**	**2**	**0**	**23**	**567**	**-16**	**-44**
(a) Financial system, microfinance, and credit for small and medium-sized enterprises	158	26	0	0	0	185	159	26	0	0	0	186	159	24	0	0	0	183	1	-3
(b) Sector reforms: Transport	204	0	4	0	0	208	194	0	4	0	0	198	190	0	0	0	0	190	-10	-8
(c) Sector reforms: Energy	159	0	5	0	0	164	150	0	2	0	0	152	150	0	2	0	0	152	-12	0
(d) Agricultural development	23	0	0	0	48	70	23	0	0	0	53	76	20	0	0	0	23	43	6	-33
(e) Competitiveness	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating expenses	**0**	**0**	**0**	**208**	**0**	**208**	**0**	**0**	**0**	**163**	**0**	**163**	**0**	**0**	**0**	**133**	**0**	**133**	**-45**	**-30**
TOTAL	**930**	**240**	**74**	**208**	**142**	**1.593**	**960**	**232**	**113**	**163**	**110**	**1.577**	**913**	**219**	**22**	**133**	**23**	**1.311**	**-16**	**-267**

Note: 1 = satisfactory; 0.5 = fairly satisfactory; 0 = unsatisfactory; NA = not applicable.
$O = originally approved amount; $C = current amount; $D = disbursed amount; NA = not applicable; ADM = administrative and financial expenses (prorated)

Source: Project documents and Loan Management System

B. Programming results

4.23 This section will present the conclusions reached regarding the Bank's interventions in relation to the medium- and long-term development issues addressed by the program. These conclusions should be seen as a vehicle for drawing lessons from prior programming cycles that can be used to improve the Bank's strategic program with El Salvador in the future.

4.24 The analysis focuses on the program's effectiveness and complements the information given in Chapter II of this document. As noted in that chapter, although there are some strategic areas that the Bank has not yet addressed, the relevance of Bank programming in terms of the country's characteristics and needs and of the country strategy (with some reservations in recent years) and other international agencies has been consistent.

4.25 The programming papers (country papers) provided suitable diagnostic analyses and highlighted most of the relevant areas of development. However, saying that the Bank and the country's objectives, as expressed in the program, were consistent is not enough to prove that programming was effective. Three weaknesses were identified that reduced the **logical consistency of the programming** and also hampered its evaluation. First, there was no clear determination of how the interventions might help to achieve the stated objectives; nor were they defined based on optimization of alternatives that took into account the risks. On the contrary, the risks were not well anticipated and were thus less useful as a basis for planning corrective strategies or mitigation measures.

4.26 Second, none of the country papers included a clearly delineated yardstick that could have been used to provide, on a systematic basis, evidence of what progress had been made or where the program was headed, as a way of helping to monitor the Bank's strategy for dealing with diversions and measure its contribution in strategic subject areas.[88] It was thus difficult to gauge the progress being made based on information and indicators derived from the preceding strategy or to arrive at a reliable baseline so that medium- and long-term impacts could be assessed.

4.27 Third, while the Bank's programming did take into account the country's medium-term fiscal programming, it was not tied in with the multiyear budget for that programming; in other words, the fiscal resources were not anticipated, taking into account the projected financial constraints, the strategic priorities, the reform costs in government spending, and the roles of all sources of financing of this multiyear spending. It only took into account the projected direct obligations, not contingent liabilities, hence the programming did not anticipate them.[89] This reduced the alignment between the program and the approved annual budget and the possibility of measuring potential jumps in spending in each period, consistent with the budget resources that became available. This lack of alignment also deprived the Bank of the use of an essential instrument of program governance that would have contributed to the viability of its timely fulfillment in terms of amounts and periods. Programming scenarios were defined and modified on the basis of the country's borrowing requirements and borrowing constraints, rather than by reference to performance targets for development objectives established as part of a multiyear effort to which the Bank was contributing.[90]

4.28 These three drawbacks made it more difficult to determine the nature of **the results achieved in terms of the program's strategic objectives**. In order to deal with this situation, the evaluation used a methodology that related the substantive components of interventions to the development issues defined in the program. This made it possible to ascertain the positive or negative influence of the instruments mobilized in addressing those issues.[91]

4.29 A total of 62 specific strategic objectives were identified in the program's various areas and sub-areas in 1992-2003. The analysis was based on the 28 loan operations implemented during that period, which employed a total of 88 instruments (components) to attain those objectives. On average, there were two objectives and fewer than three instruments per project. Apart from the project components involving the rehabilitation and reconstruction of physical and social infrastructure destroyed or damaged by natural disasters, an average of one instrument per objective was used.

4.30 The analysis made it possible to determine what programming objectives were achieved satisfactorily (14 targets, or 22.5%) and fairly satisfactorily (11 targets, or 18%); what objectives were not attained (10 objectives, or 16%) or were attained but incompletely or unsatisfactorily (13 objectives, or 21%); and what objectives are being pursued but have not yet reached a stage where their results can be evaluated (14 objectives, or 22.5%). The analysis also permitted the identification of key issues that the Bank has not addressed as strategic program objectives (see Figures A3.1 and A3.2 in Annex III).

4.31 With regard to the objectives which were **achieved satisfactorily**, it was found that the Bank played an important role in rebuilding and refurbishing social, physical, and electric power infrastructure as part of the national reconstruction plan implemented after the war, with priority being placed on the poorest groups in the population. The support provided through the Social Investment Fund was extremely important in dealing with the impacts of initial adjustments after the Peace Accords were signed. In the second half of the decade, this mechanism evolved into a local development agency providing independent support for public works and recruitment through institutional capacity-building at that level.

4.32 In respect to both the national reconstruction and rehabilitation portfolio and reconstruction works in the aftermath of natural disasters, the bulk of Bank interventions were to recover the net current investment destroyed by those external events.

4.33 The Bank has provided support for the structural reorganization and reinforcement of public works and for the successful introduction of sustainable road maintenance financing mechanisms for routes under private concession throughout the country, together with a retraining effort that has benefited a large number of former civil servants and active forces.

4.34 Another group of objectives for which the results have been quite successful refer to the reform of the public sector's economic role. Activities in this connection have focused on increased participation by local governments and the private sector in the delivery of basic public services and in market regulation as changes in State functions and spheres of activity have provided greater scope for such involvement. In particular, support has been provided for the "macro" restructuring of government services, fiscal reforms, and financial and tax reforms at the central government level, although they were not linked with reform of public expenditure management.

4.35 These actions in the area of State reform and the effort to maintain stability, which has been an objective of pivotal importance to the country, have helped to remove volatility from the macroeconomic context, despite weak growth since 1996 when the adverse impact of unexpected exogenous events was felt that undermined the contribution reform could make to growth. Reform efforts were augmented by the dollarization of the economy in 2001, which, although it does pose new challenges and risks for the future, has helped to keep inflation in hand and to lower interest rates. This strategic line of action has been a crucial factor in helping to reduce poverty and maintain per capita income levels.

4.36 The Bank also contributed to the reform of the financial system carried out in the early 1990s by backing up efforts to reprivatize the commercial banking sector. In addition, it provided support for the drive to expand microenterprises' access to the formal credit market, as well as for the institutional strengthening of the Banco Multisectorial de Inversiones [Multisector Investment Bank] (BMI) and of the regulatory systems for the financial market and the Financial Sector

Superintendency; further refinements are, however, called for in various areas, notably the oversight of the financial practices of institutions located outside the country. Programs in which the Bank has been involved have been directed toward making the financial system less vulnerable, but challenges remain in terms of the role for the system as a source of financing for the growth and development of the capital market and completing the job of putting public-sector financial institutions on a more solid footing.

Table 4.3

Evaluation of achievement of IDB program objectives, 1992-2003

Rating	Objectives
Program objectives met satisfactorily or fairly satisfactorily	- Post-conflict rehabilitation of social and economic infrastructure via a SIF to deal with the impacts of the adjustment and the conflict, with emphasis on the poorest sectors of the population. - Institutional decentralization, focusing on investment planning in social sectors under a microregion system. - Rehabilitation of social and economic infrastructure in the wake of natural disasters. - Privatization and broadening private-sector participation in public utilities under the supervision of regulatory agencies. - Support for the definition of the public sector's and major public agencies' (the macrostructure's) new role and of new functions (distinction between public and private sectors). - Restructuring and downsizing the civil service; streamlining and elimination of bureaucratic procedures (affecting the private sector). - Fiscal reform: Tax policy (subsidies and tax exemptions; increasing the tax burden). - Financial and tax reform (administrative efficiency in tax collection and expenditure). - Increasing the efficiency of the Legislative Assembly. - Increasing the coverage and equity of education. - Provision of technical assistance in reducing the delays and costs involved in obtaining construction permits, urban land-use permits, and infrastructure planning. - Reorganization of the SIF and its conversion into a local development agency. - Building institutional capacities at the local level with a view to decentralization. - Institutional reform of the environmental sector. - Support for financial reforms in order to backstop the commercial banking system's reprivatization efforts. - Support for access to credit for microenterprises and for small and medium-sized enterprises via revamped IFIs. - Institutional strengthening of the Financial Sector Superintendency and the BMI to supplement resources generated by pension reform. - Consolidation of the regulatory frameworks of the financial-sector, pension-system and securities superintendencies with the legal framework of the BCR. - Rehabilitation and maintenance of highways and feeder roads (export corridors and market access routes). - Financing mechanisms for sustainable road maintenance and efficient administration (FOVIAL). - Restructuring and reinforcement of the Ministry of Public Works (Public Works Subs., only) - Post-conflict rehabilitation and expansion of electric power infrastructure (generation, transmission, and distribution) to meet unsatisfied demand and cover the increase in economic activity. - Promotion of regional electricity interconnection. - Reduction in the degradation of renewable resources (especially water). -
Program objectives not met (*) or met unsatisfactorily	
Prevention of foreseeable exogenous events	- Mechanisms for reducing volatility related to natural disasters and their impact on growth and fiscal accounts. (*)
Governance (Institutional effectiveness)	- Public expenditure evaluation and control systems (accountability). (*) - Public utility management (administrative efficiency). (*) - Creation of a legal and regulatory framework for decentralization. (*) - Local government administrative, financial, and own-resource management systems - Reform and modernization of public-sector human resources system

Rating	Objectives
Institutional reforms to promote sustained growth (Regulatory quality, lack of regulation or deregulation, administrative shortcomings)	- Regulation of water use and of the water and sanitation subsector. (*) - Private-sector involvement in financing transport infrastructure (highways, ports, airports, railways)(*) - Decentralization of transport management at the municipal level. (*) - Establishment of regulatory and legal incentives for private participation in the transport sector (public concessions law). - Establishment of a legal framework, regulatory agencies, and institutional arrangements in the energy sector to ensure transparency and competition among private agents. - Strengthening of credibility in relation to the efficient (autonomous) operation of the judicial system, property rights, and the rule of law (trust in institutions). - Confidence on the part of private actors in improvements in public safety (crime rate). - Quality of reformed educational systems. - Strategic changes in the health sector (both individual and collective) and in its sustainability. - Financial reorganization and reform of public-sector financial institutions (financial services and their regulation).
Productivity and competitiveness	- Coverage of energy supply in support of rural development. (*) - Post-privatization investment programs. (*) - Rural development through market development. (*) - Factor productivity (education, training, technology, innovation) and market access for business firms (pro-business). (*) - Diversification and development of new energy sources and energy conservation. - Improvement of financing and credit access for agricultural producers.
Areas covered by the program but in which it is too early to evaluate results	- Housing. - Rural roads. - Restructuring of water and sanitation subsector to put an end to the service monopoly, decentralize or de-concentrate water and sanitation systems, and lay the foundations for privatization. - Environmental pollution control in critical areas. - Building environmental management capacity at the local level. - Expansion of the capital market and competition. - Strengthening agricultural support services in order to boost the productivity of the sector and its human resources. - Support for the definition of national environmental policies, and enforcement of environmental laws and regulations. - Government procurement and recruitment.
Key areas not addressed by the program	- Labor reforms: High cost of hiring and firing; low degree of labor and shift (overtime) flexibility; low level of training. - Electoral and political reforms. - Multiyear budget programming that takes fiscal risks and contingent liabilities into account. - Integrated social safety nets that safeguard advances in social expenditure and focus on sustainable poverty reduction targets based on genuine budgetary resources.

4.37 With respect to **stated program objectives that were not pursued** by the Bank's programming, it should be noted that, although there were indeed projects and recommendations concerned with these objectives, no comprehensive risk management proposals were developed to forestall and/or reduce the foreseeable costs associated with natural disasters, which add volatility in terms of growth and fiscal performance.[92] In addition, concrete measures were not taken to increase the institutional effectiveness of public expenditure evaluation and control functions, improve oversight of local government expenditures, or enhance the administrative efficiency of public agencies responsible for the management of public goods and services. Decentralization was one of the program's main objectives and was a factor in the reallocation of resources and responsibilities, but it was not institutionalized into a formal system. There is thus no way to ensure that duties will actually be transferred, that resources will be used for their assigned purposes, or that local governments' different institutional capacities and positions will not create imbalances in terms of the impacts being sought by the program.

4.38 Institutional reforms moved forward in a number of social sectors. The investment program backing up those reforms experienced various problems and delays, however. These difficulties stemmed from the regulation of the corresponding operational models, aspects of which were seen, in a number of cases, as inflexible preconditions that were not endorsed by all the parties concerned and that were ultimately deferred.

4.39 Many of the objectives having to do with ways of rectifying and ameliorating market failures have not been achieved. These market failures continue to undercut factor productivity and businesses' competitiveness and performance in the marketplace, especially in the rural sector. Some programming initiatives never crystallized, and insufficient attention was devoted to the impact of market failures related to international trade and private monopolies.

4.40 The program did not focus on the importance of the relatively low percentage of exports in GDP and the scant diversification of those products. These are crucial issues in achieving sustainable growth and reducing the country's external vulnerability. Emphasis was not placed on the need to provide enhanced incentives for private investment while working to overcome the market failures, or on technological innovation and the lack of business capacity.[93] This weak macroeconomic approach was accompanied by low fiscal financing capacity and the low level of priority accorded to these issues in the allocation of government resources. An expansion of exports by the integrated maquila sector and of nontraditional, non-maquila products is important for averting destabilizing fiscal pressures and for sustainable growth; this would provide more headroom in managing the level and mix of government debt as a percentage of GDP (which has reached the ceiling established by the country).

4.41 The recent ratification of the Central American Free Trade Agreement and of competition and consumer protection laws brings a significant improvement in the program's strategic context. This is clearly the path to take, but it also poses a challenge. Globalization entails not only market negotiations but also the adaptation of national trade activities, which further underscores the importance of having competitive markets and promoting innovation in order to create this new wealth.

4.42 One shortcoming in the program in this latter connection is the absence of labor market reforms. Reforms are needed to maintain competitive labor costs in order to combat high unemployment and reduce the likelihood that workers will choose emigration as the only way of dealing with unstable household income levels and informal forms of employment.[94] The nation's production sector is now faced with this dilemma and with the immediate issue of learning how to restructure its maquila industries to shift into higher value-added modes of production that are more closely aligned with labor costs.[95]

4.43 With regard to the strategic objectives not yet discussed that were attained in some sense but whose **achievement was incomplete or unsatisfactory**, it should be noted that the program has made great strides in improving social prospects in the country. Examples of areas in which such progress has been made include the coverage of basic education, the system for transferring FISDL resources, and rural electrification. Major shortfalls continue to exist, however, in terms of drinking water and the coverage of the educational system in the third cycle (where it is low) and at the secondary level and in rural areas (where it is very low). The quality of education in the reformed system has not yet been assessed, and educational technologies have yet to be fully incorporated. The health sector still lacks a strategic vision for coordinated health care, and many people do not have access to health services. Despite significant fiscal constraints, priority has been given to expanding access to health care for the population that is currently unserved (e.g., through the Solidarity Fund for Health (FOSALUD)). A Health Commission was also created that is working to set a coordinated long-term vision for the sector.

4.44 Support has not been forthcoming for the construction of integrated social safety nets that will safeguard the advances made in public social expenditure in the face of fiscal constraints. Headway could be made in this respect by creating greater maneuvering room through the use of caps on total spending and the expansion of real resources.[96] The tax reform under way and the current administration's multilateral financing have accorded priority to building these networks (e.g., the Solidarity Network Program).

4.45 Regarding the quality of certain institutional capacities for law and order and justice in the public sector, the programming covered only some elements, but did not achieve full, satisfactory results. Multilateral agencies and major studies regard institutional flaws as one of the reasons for the structural weaknesses of El Salvador's development performance. In the area of public safety, the Bank did not fulfill social violence-prevention initiatives in the last programming cycle, although criminality indicators did improve. Own resources and grants were used to support efforts and programs with this aim. There has been progress with regard to judicial issues unrelated to Bank operations, but the judicial system's quite limited autonomy and inefficiency remain a cause of concern. There are also signs that the general public has little confidence in the justice system and the rule of law, which impedes the creation of an enabling environment for the development of private investment; this, in turn, prevents the country from taking full advantage of the investment-grade rating it has earned by virtue of its consistent macroeconomic policies and reforms.

4.46 Although Bank programming has recognized the special veto of ratification of borrowing as an institutional risk that hinders efforts to arrive at political solutions and to broaden the scope for consensus-building around State policies, the Bank has not looked at how electoral reform or the operation of the political system have influenced its strategic operations. The only initiative in this connection has been one project designed to help increase the efficiency of the Legislative Assembly, which, after some initial delays, is now moving forward.

4.47 The effort of economic reforms to increase the participation of El Salvador's private sector in the economy was not met with a similar response from private investment, which reflects the pending challenges that exist over and above the creation of a competitive business climate (see Chapter I). There were virtually no direct Bank operations with private producers of goods and services (IIC and PRI primarily), which did not help to promote a positive demonstration effect for El Salvador. The Bank's role in supporting the private sector was more closely tied to strengthening credit and capitalizing the financial system than to developing business with the private sector. MIF operations, however, successfully strengthened the business climate, modernization of regulatory systems, and incentives for new economic and financial activities using seed capital (e.g., Financiera Calpiá).

4.48 While there was a growing number of activities to promote and identify projects for the IDB group in the private sector, they were not able to promote modes of financing suited to the features of a country like El Salvador, nor were they proactive in developing small and medium-sized ventures in response to the fact that large companies were receiving competitive financing. Problems were found with how the instruments from these Bank facilities operated,[97] particularly the excessive number of steps required, the lack of standardized procedures, and high transaction costs, which are additional competitive disadvantages. Lastly, there was little strategic coordination in the Bank's programming; although this has been improving recently, the country viewed this as the Bank having different visions of its role.

4.49 In **conclusion**, the program sought to encompass more objectives than it was able to handle. A number of initiatives could not be fulfilled, even though, in a number of cases, they had been approved by the Bank's Board of Executive Directors. Those portions of the program that did move forward produced valuable benefits for the country, however. The program was also successful in maintaining the Bank's comparative advantages as an investment and development agency. The country did not turn to the Bank as a lender of last resort or as a source of financing for current expenditure. Political and institutional problems have worsened notably since 2000, when part of the opposition put together a qualified minority to win approval for further borrowing and, by extension, for the budgets it would finance. The usual difficulties involved in winning passage of policy legislation in the Legislative Assembly can be assumed to escalate if unencumbered resources are available when negotiations are underway. As a consequence of this situation, in a number of cases policy reforms were tacked on to investment loan approvals, thus asking more of this instrument than it is designed to do.

4.50 In any event, since the portfolio has primarily been composed of investment loans, the transaction costs involved in working with the Bank have been more notable than they would have been if the portfolio had contained a larger percentage of sector loans. This raises a question as to what the most suitable instruments are and what steps should be taken to make working with the Bank a more competitive enterprise.

4.51 Although the Bank's program has made significant inroads, two major challenges remain to be confronted: first, steps need to be taken to strengthen underlying institutional structures in order to increase the effectiveness of social expenditure and facilitate the passage of reforms (governance); second, support needs to be provided for improvements in export and production performance and in private investment, which have not fully responded to the country's favorable macroeconomic environment and broad-ranging reform process. This is an important factor not only in accomplishing the task of expanding the country's markets, but also in bolstering the long-term growth that must underpin stability, poverty reduction, and improvements in social indicators and per capita income.

ANNEX I – TABLES AND FIGURES FROM CHAPTER I

Selected tables and figures from *Contexto* y *Resultados alcanzados (Background and outcomes)*

Table AI-1. THE CRISTIANI ADMINISTRATION: STABILIZATION AND A MARKET ECONOMY

The Cristiani administration embarked on structural reforms in El Salvador even before the Peace Accords were signed. In 1990, the Bank and Savings & Loan Privatization Act was passed, thereby paving the way for the privatization of financial institutions belonging to the State and to the Central Bank. In December 1990, the Financial System Superintendency Organizational Act was passed in order to strengthen supervision and regulation of financial institutions. Then, in May 1991, the newly approved Central Reserve Bank Organizational Act turned the Central Bank into an autonomous institution, prohibited it from providing finance to the State either directly or indirectly, and rescinded its authority to set the exchange rate or interest rates, which henceforth would be determined by market forces. That same month, the Banking and Financial Institutions Act was passed. Fiscal reform measures have included the replacement of the sales tax with a value added tax (VAT) in 1992 and the simplification of the income tax system. In the area of external trade, tariff dispersion was reduced and tariff rates were lowered, most nontariff barriers were removed, and a single, consolidated exchange rate was introduced and placed under a controlled float. The country also renegotiated US$136 million of its external debt with the Paris Club, and in 1992 the United States cancelled 75% of its concessional debt (US$436 million).

Table AI-2. THE PEACE ACCORDS

When the Peace Accords were signed in January 1992, the signatories made a number of compromises, some of which are summarized below. Generally speaking, the FMLN gave ground in economic terms while the government made concessions in connection with political and security issues.

- *Demilitarization*: The armed forces ceased to be a "supra-institution" and their role shifted toward defending the country's sovereignty and territorial integrity.

- *Economic and social issues*: No substantive change in the economic/social structure was made. Constitutional reforms were introduced to permit the election of Supreme Court Justices (by a two-thirds majority in the Legislative Assembly); 6% of current State revenues was earmarked for the judiciary; the Procuraduría Nacional para la Defensa de los Derechos Humanos [National Counsel for the Defense of Human Rights], to be elected (like the Fiscalía General [Office of the Attorney-General]) by a two-thirds majority in the Legislative Assembly, was created; and the Consejo Nacional de la Judicatura [National Judiciary Council] was transformed into an autonomous body.

- *Reintegration of former combatants*: Under the Plan de Reconstrucción Nacional [National Reconstruction Plan] (PRN), in a total of 115 municipios that had been adversely affected by the conflict, 23,000 former combatants received training, 78,000 hectares of land were distributed, and credit was made available. Disabled former combatants receive pensions.

- *Land transfers*: Nearly 35,000 deeds were issued under the land transfer program

Table AI-3. LANDMARK ECONOMIC REFORMS: 1992-2004

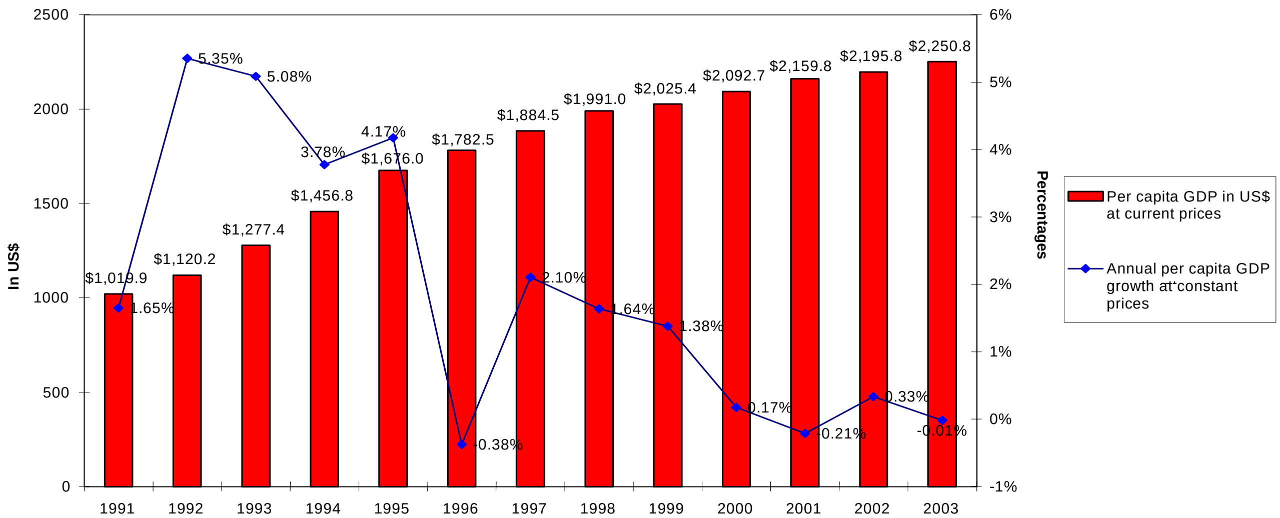
The country's successive administrations have focused on maintaining monetary and fiscal equilibria, carrying forward its trade and financial liberalization programs, and introducing an ongoing privatization program. Some of the legislative milestones other than those mentioned in Table AI-1 include: the Securities Exchange Act (1994), the founding of the Banco Multisectorial de Inversiones [Multisector Investment Bank] (BMI), a public institution that channels private-sector loans through the financial system (1994), complementing the bank privatization process (1991); the Economic Compensation Act, aimed at rationalizing the public sector (1995); the Comprehensive State Financial Management Act (1995); the establishment of the Office of the General Superintendent for Electricity and Telecommunications (SIGET), and the passage of the Electricity Act of that same year (1995); the law privatizing the telecommunications company (ANTEL), now called Compañía de Comunicaciones de El Salvador, which was sold in June 1998; the law privatizing electric power distribution and auctioning of four distributors in January 1998. In 1996, the new Pension Act was adopted, and in 1997 the Office of the Superintendent for Pensions was created, which in 1998 began reforming social security, by creating the private pension administration based on individually funded accounts (authorizing five pension fund managers initially), and which operates alongside the public system. In 1998, the Social Investment Fund was transformed into the Social Investment Fund for Local Development (FISDL), and the Economic and Social Development Fund (FODES) was established for municipalities, with 6% of net current revenue of the central government (rising to 7% in 2005). Since 1998, the country has signed free trade treaties with the Dominican Republic, Chile, Panama, and Mexico. In 1999, the Banking Act was enhanced to fine-tune supervision and facilitate the operation of foreign banks in El Salvador. The exchange rate had been fixed since 1993, and in 2001 the economy was dollarized (Economic Integration Act). In 2001, the new regulatory framework for civil aviation was approved, followed by the one for the maritime and port sectors in 2002. During that administration, the new Tax Code and Customs Act were adopted. The current administration (2004) has approved the U.S-Central America Free Trade Agreement (which is awaiting ratification by the U.S.) and the first stage of the tax reform bill (October 2004) that, once completed, would raise tax revenues by three percentage points to 15% of GDP.

Table AI-4. PERCENTAGE OF HOUSEHOLDS RECEIVING BASIC SERVICES, 1993-2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Growth 1/
Piped water	55	58	59	62	66	66	66	73	76	76	21
Fixed-line telephone in the home	12	15	18	20	21	22	27	33	37	38	26
Electricity in the home	72	75	77	78	80	82	79	80	82	82	10
Residential garbage collection	n.a.	n.a.	n.a.	n.a.	n.a.	49	48	49	52	53	4
Municipios with paved access	n.a.	n.a.	n.a.	44	48	52	57	62	68	74	31
Gross enrollment rate – basic ed.	86	86	89	95	98	96	97	97	98	100	13
Gross enrollment rate – secondary ed.	30	31	34	34	37	35	35	38	38	40	11
Health: full immunization < 5 years	75	76	77	77	78	79	79	80	81	81	6
Acceptable housing	43	48	49	52	55	57	59	63	65	67	23
EAP with social security coverage	32	34	32	31	33	36	41	39	38	39	6
Service access (simple average)	51	53	54	55	57	57	59	61	64	66	15

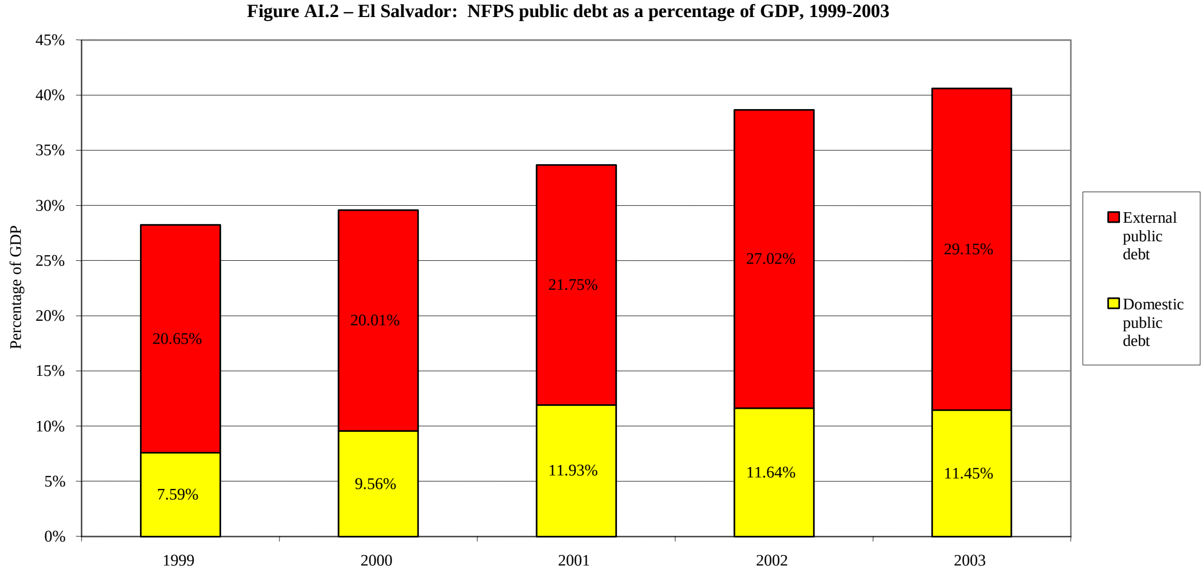
1/ The rate of change refers only to the period between the first and last years for which the information is given.
Source: United Nations (2003).

Figure AI.1. Per capita GDP, 1991-2003, at current prices (in US$, left axis) and constant prices (in percentages, right axis)



Source: Salvadoran Central Reserve Bank

Figure AI.2 – El Salvador: NFPS public debt as a percentage of GDP, 1999-2003



Source: Ministry of Finance - GOES

Table AI-5. El Salvador: Matrix of strengths and risks

FAVORABLE FACTORS (STRENGTHS)	RISKS OR VULNERABILITIES (weaknesses)
BALANCED GROWTH, PRODUCTIVITY, AND COMPETITIVENESS	
Open economy in the process of diversification Efficient telecommunications A sustainable mechanism for financing road maintenance exists.	Low domestic investment rate Heavy reliance on remittances Need to boost factor productivity in order to consolidate diversification of the export sector Need to continue to enhance the competitiveness and business climate (lack of legal certainty, public safety issues, incomplete public-sector reforms, technology and innovation)
FISCAL SECTOR	
Level of public debt is still reasonable Political decision to maintain fiscal equilibria Recent tax reform	Large fiscal deficit due to pension expenditures; low tax burden. Risk of unsustainability owing to insufficient growth outlook and direct and contingent liabilities Direct liabilities: interest, pension obligations, and social needs Contingent liabilities: deposit insurance in the process of being capitalized, public financial sector, municipal debt, natural disasters
EXTERNAL SECTOR	
Major build-up of reserves FTA with United States and other countries (Mexico, Chile, Panama, and the Dominican Republic) creates the challenge of diversifying the export base	Reliance on remittances in order to balance current account Little response from national investors, and foreign investment remains insufficient Poor outlook for the traditional maquila sector, and very limited volume of other nontraditional exports
FINANCIAL SECTOR, MONETARY VARIABLES, AND PRICES	

Dollarization puts an end to foreign-exchange risk Interest rates moving down to international levels Improvements in financial regulation and supervision Stable, predictable inflation rates	System's risks related to its credit exposure to the coffee industry, which is on the decline; lack of supervision of operations outside the country and of portfolio managers; and decreased value of bank guarantees Securities exchange needs to be modernized and to include securitization and the regulation of investment funds (managers of existing portfolios). There are proposed laws for both of these.
SOCIAL SECTORS, POVERTY AND THE ENVIRONMENT	
Reduction in poverty, particularly extreme poverty Consolidated and effective Social Investment Fund Progress in expanding the coverage of basic education Improvement in social indicators	Slowing of poverty reduction since 2000 Inequality in income distribution similar to the average for Latin America Difficulties in targeting social expenditure; outdated census Poor-quality employment and insufficient access to social security coverage
	Poor-quality and insufficient coverage of education (especially secondary school), health care, and drinking water and sanitation services Inadequate water management harms the environment Insufficient progress in making the management of public utilities more effective

FAVORABLE FACTORS (strengths)	RISKS OR VULNERABILITIES (weaknesses)
POLITICAL CONTEXT AND INSTITUTIONS	
Democratic stability; absence of political violence Improved National Civil Police Force enjoys higher stature Advances in the area of civil justice	Elections every two or three years politicize the discussions Weaknesses in terms of public safety; direct and indirect costs of violence are estimated at 13% of GDP (see IDB, 2000), and personal victim-crime and homicide rates are high, although declining thanks to recent government programs Little progress has been made in the area of criminal justice; Office of the Attorney-General is weak Problems stemming from the failure to create a sufficiently formal structure for the decentralization process and from asymmetries at the local government level, as well as total lack of accountability in the FODES funds Weak public governance and oversight systems; budgetary process in need of consolidation; need to reform the Corte de Cuentas (Court of Accounts).

ANNEX II –IMPORTANCE OF ANALYSIS OF FISCAL RISK AND CONTINGENT LIABILITIES IN PROGRAMMING

***Summary*. The exercise in this annex helps to underscore the importance of placing the Bank's strategic programming within the context of the country's fiscal planning, as set out in its projected budget. It also emphasizes the importance of methodologically incorporating the fulfillment of the medium- and long-term strategic vision into both fiscal and budget instruments and into the Bank's strategic programming. The time frame covered by the exercise should include at least the period of the strategic programming (one administration). A longer period has been used here when available information so permitted. This resulted in a more comprehensive picture of long-term developments in the topics being examined.**

Fiscal planning projects over multiple years the availability of fiscal resources. The budget, in turn, establishes how fiscal resources are used, in accordance with projected financial constraints, the government's development priorities for public spending, and the involvement of all the sources of financing for such spending. This analysis of fiscal risks and contingent liabilities makes it possible to include in fiscal planning scenarios both the fiscal performance stemming from developments over time in the State's direct obligations, and the impact on fiscal performance of the government's priorities and the country's contingent risk context.

Without an exercise of this nature, it is difficult to incorporate verifiable targets into the Bank's programming that would facilitate the monitoring and reformulation of the program in a timely fashion. This bolsters the rationale behind the increasing use of generational and performance-based budgets in countries' decision-making processes.

El Salvador's long-term fiscal issues will be examined here within the framework of the development challenges outlined in the evaluation, with special attention being devoted to their importance in relation to Bank programming. The purpose of this is to: (i) provide an example of how fiscal planning can be integrated into the Bank's strategic programming and the budgetary process; and (ii) develop projections regarding the fiscal resources that could be drawn upon in order to carry forward reforms and improve the quality of public expenditure that the Bank could support.

One of the evaluation's findings was that, despite the progress made in the programming exercises, further inroads had to be made in incorporating medium-term fiscal planning into that exercise, which can help the Bank place its strategy within the context of alternative scenarios for decision-making by the country in this area.

Notwithstanding the work currently being done by international institutions and by the government itself, no complete and/or explicit analysis of the fiscal risks affecting the performance of public accounts for the period covered by the strategic programming was found that included: (i) a projection of macroeconomic variables' impact on fiscal accounts; (ii) projections of direct obligations and contingent liabilities; (iii) a breakdown of projected budget expenses; and (iv) the fiscal resources needed for new public spending initiatives and for making them more efficient and improving their quality.

The aim of this exercise is to help foster a deeper understanding of long-term issues relating to the Bank's and the country's programming efforts and is based on the belief that obtaining a better grasp of these issues and improved measurement and anticipation of fiscal risk can help lead to improved resource allocation, a recognition of institutional weaknesses in the budgetary process, and the accurate identification of development targets that can be used to measure program performance.

The analysis is divided into three sections. **Section one** covers fiscal performance in the period being analyzed in the evaluation (1990-2003), identifying the factors that have contributed to the recent deterioration in the public accounts. **Section two** uses the analysis of fiscal risk and contingent liabilities to measure the evolution scenarios in fiscal space that provide the context for the programming exercises; this section is organized as follows: (i) projections of the *macroeconomic context*, which has to do with changes in economic variables and how they interact in terms of the country's fiscal performance without policy measures and spending priorities; (ii) the *"base" fiscal projection,* which incorporates the government's estimates, policy measures, and spending priorities at the time this evaluation was conducted and is used as a benchmark for exercises to analyze the sensitivity of the base scenario; (iii) *sensitivity analyses*, which evaluate how the base scenario reacts to different variations from the original parameters or changes in spending associated with explicit direct obligations that are provided for by law, determining new fiscal resources; and (iv) the conditions that emerge from *contingent liabilities*, which are those obligations that depend on the occurrence of an uncertain event. **Section three** on the *institutional framework* identifies risks stemming from institutions and budget rules and procedures with respect to fiscal solvency and the quality of resource allocation for expenditures.[98]

Fiscal performance 1990-2003

The analysis of fiscal performance in the period 1990-2003 found that, after having shown extraordinary performance up to 1995, the country witnessed a sharp deterioration in its public accounts owing to the slowdown in its economy, the expenditures associated with its pension reform program, and the earthquakes that struck El Salvador in 2001. As a result, the nonfinancial public sector's (NFPS) level of indebtedness had reached 40.6% of GDP by the close of 2003; while the debt of the State as a whole (including the central bank and the financial public sector, in addition to the NFPS) had climbed to 47.3% of GDP. Those figures edged slightly higher in 2004. It is against this backdrop that the first stage of the tax reform bill was approved in October 2004, which would raise tax revenues by three percentage points of GDP to 15.2% in 2009.

Macroeconomic context

The underlying fiscal issue for El Salvador is its economy's slack growth rate. The search for ways to remedy this situation is at the top of the agenda for the country and for the Bank's program. Growth has an impact on many different aspects of fiscal performance. First of all, the economy's sluggish growth reduces the amount of available resources while heightening social needs and expenditure requirements. In addition, the differential impact on the various sectors of society exerts specific types of pressure on the Treasury. With respect to the macroeconomic context, a number of fiscally-relevant issues have been analyzed in various studies. Although they have not been covered in depth in the report, the fiscal impact of these issues should be taken into consideration in budget planning processes. These issues include most notably the challenge of the economy's dollarization and how it will influence growth; the sustainability of remittances; obstacles to external competitiveness, the fiscal implications of free trade agreements, the influence of the volatility in the terms of trade, and changes in external financial conditions. The work to be done in these fields consists of sketching out realistic scenarios that take the volatility of economic variables into account and integrating them into the budget planning process so that fiscal performance can be anticipated and addressed, so it does not hold back economic growth.

The government's base fiscal scenario

Regarding the fiscal and financial projections of the scenario without policy measures, the country's revenue and expenditure trends are such that in a few years' time it will need higher levels of debt. This is the underlying factor in the government's tax reform initiative, the first stage of which was passed by the Legislative Assembly in October 2004. Successful, full implementation of that reform, coupled with the increased spending in the 2005 budget, reveals that in or around 2009 the ratio of NFPS debt-to-GDP could drop to 39.4%, which is the scenario emanating from the **government's base projection**. That projection assumes that the tax burden (taxes to GDP) will rise, reaching 15.2% in 2009 (three percentage points higher than in 2004; see Ministry of Finance, 2004).[99] This increase would restrain borrowing, growth of which slowed markedly in 2003 (NFPS debt/GDP of 40.6%) compared to 2001-2002 (38.7% in 2002, up from 29.2% in 2000) and stabilized in 2004 (40.8%). The first stage of the tax reform involves half of the stated total amount. The base projection assumes real GDP growth of 3%, inflation of 2.5%, and a real interest rate of 5%. Like in the other projections, it is assumed that borrowing evolves in accordance with budget performance; the assumption, then, is that maturities of the principal of debt are covered with new debt and that the interest rate remains constant.

Explicit direct obligations, which the State has little ability to change, in the case of El Salvador include projected expenses from pension reform, the service on the public debt, and earmarked expenditures (municipios and the judiciary).[100] Only explicit direct obligations are part of the base projection.[101]

Sensitivity analysis of the base scenario

An initial sensitivity analysis of the base scenario looks at what the impact of a lower level of tax revenue than anticipated would be. The "*moderate adjustment*" scenario differs from the base projection in that it assumes that the tax burden will follow the pattern anticipated by the Ministry of Finance (2004) through 2007, reaching 14.1% of GDP (up from the current level of 12.2%), then stabilizing; it also assumes that expenditures that remained constant in nominal terms in the base projection would instead remain constant in real terms (rising with inflation). Under this scenario, the debt of the NFPS would peak as a percentage of GDP in 2009 (43.9%), falling to 41.4% in 2013.

A second sensitivity analysis looks at the fiscal resources available for handling implicit direct obligations of the State. When these obligations are included in the base projection, the target ratio of NFPS debt-to-GDP has to be over 40% or this spending would have to be financed through tax hikes, other income, and/or by cutting other expenses. The inclusion of contingent liabilities in the base scenario (which are outlined below) leads to similar conclusions. Estimates indicate that if the level of borrowing to GDP is incorporated into the base scenario, taking into account natural disasters, fiscal resources would become available to increase other social spending in 2011 (annual average of 2.7% of GDP through 2013). Not counting contingent liabilities, that would happen earlier, in 2009 (this estimate includes the projected increase in 2005).

The impact of contingent liabilities

Contingent liabilities (i.e., public-sector obligations due to the occurrence of an uncertain event) are divided into explicit (legally acknowledged) obligations and implicit commitments (those for which the public sector is expected to have made provisions). The random nature of these types of liabilities tends to interfere with their analysis, as does the fact that, in some cases, the dissemination of information about this type of risk may influence stakeholder behavior in such a way as to become a self-fulfilling prophecy. These types of factors have had a decisive influence on El Salvador's public accounts in recent years and therefore warrant attention.

Some of the country's contingent liabilities are related to the macroeconomic issues discussed earlier. Three issues were singled out in this report because of their impact on the region and their projected costs: natural disasters (chiefly earthquakes); risks from financial institutions; and the public sector's fiscal position at the municipal level. Addressing these questions involves going beyond the bounds of a traditional financial programming analysis, which usually focuses on short- and medium-term, noncontingent obligations. This sets the stage for a more comprehensive identification of the development challenges facing the country. These issues should be taken into account within the context of the Bank's programming exercises, and the country should take them into account in its projected financial programming.

With respect to natural disasters, El Salvador's entire territory is at risk or at very high risk of seismic events. The projected annual cost of earthquakes amounts to US$150 million (1% of GDP), with the State generally absorbing about half of that amount. Earthquakes such as those that struck the country in 2001 (which occur, on average, once every 15 or 20 years) generated US$1.6 billion in costs and entailed additional public expenditures of at least US$700 million. These data indicate that there are still steps that can be taken to prevent and mitigate the effects of natural disasters, which are a regularly occurring phenomenon in El Salvador. The present approach focuses more on mitigating the effects of a disaster once it has occurred, rather than on comprehensive planning and anticipation of risks. Although lessons have been drawn from previous experiences, the purchase of insurance policies has not been well coordinated, and the State's role in the country's reconstruction has not been clearly defined, which could drive up fiscal costs. At the present time, an IDB grant has made it possible to launch a disaster prevention program that is expected to help improve comprehensive disaster planning procedures. The fiscal costs associated with tragedies of this sort underscore the need for greater prudence in public-sector borrowing in order to generate fiscal resources to finance them, without affecting growth.

Financial crises have given rise to significant increases in many countries' public debts. Despite the considerable progress made by El Salvador during this period, a number of risks of this type have been identified that could have an impact on the Treasury. From a systemic standpoint, reserve requirements are prudent, bearing in mind the runs on deposits in the past. Nonetheless, the Deposit Guarantee Institute had only US$61.5 million as of 31 December 2004, far below the US$2,142.5 million in deposits guaranteed as of that date (see www.igd.gob.sv). At a more disaggregated level, it can be seen that some fairly high-risk sectors, such as housing, construction, and consumer loans, are coming to account for a larger share of bank portfolios. There are also a number of areas of the public financial sector that stand in need of improvement (e.g., streamlining and reorganizing the central bank's financial statements; the loan portfolios of the Banco de Fomento Agropecuario, the Banco Hipotecario, the Fideicomiso Ambiental para la Conservación del Bosque Cafetalero [Environmental Trust Fund for the Conservation of the Coffee Forest] (FICAFÉ), and the Fondo Social para la Vivienda [the Social Fund for Housing] (FSV)) (although the FSV has mortgage guarantees, the goods received as payment entail maintenance costs and are costly to liquidate). In addition, public-sector instruments represent the vast majority of the investment options available to pension fund managers (AFPs). According to the IMF (2003), the projected cost at that time of the financial system's contingent liabilities under all headings (excluding systemic risks) is estimated at around 5% of GDP.

Subnational governments also generate contingent liabilities when they seek financial assistance from the central government. Countries with a federal system, such as Argentina and Brazil, have incurred these kinds of costs. El Salvador is a small country and does not have a federal system, but its municipios do have a great deal of autonomy. Since 1998, central government transfer payments have been on the rise, and although the purpose of these transfers is to contribute to local development, the way the system functions generates rigidities. In the first place, very little fiscal data are available, and it is therefore difficult to gauge the scale of the fiscal issues that arise or to monitor or control expenditure. Furthermore, the revenues collected by the country's municipios represent only a small fraction of what they spend, and central-government transfers are on the rise, which promotes spending and broadens the mismatch between revenues and expenditures. The distribution of resources among the municipios fuels excessive political subdivisions and does not necessarily promote equity. In addition, the implicit central-government guarantee for municipal debt is underpinning a growing stock of contingent liabilities that, according to data from the Instituto Salvadoreño para el Desarrollo Municipal [Salvadoran Institute for Municipal Development] (ISDEM), totals US$70 million, of which the government's debt with explicit guarantees is US$7 million (US$3.8 million of this has already been disbursed).[102]

Institutional framework for fiscal performance

In addition to backstopping Bank programming and fiscal planning, the analysis of fiscal risk and contingent liabilities used in this annex is crucially important decision-making input. In this regard, the study incorporates a number of institutional diagnostic analyses that can contribute to the operation of budgetary processes and its contribution to fiscal prudence and improved resource allocation. The advances brought about by the 1995 Financial Management Act notwithstanding, other improvements remain to be made throughout the budget cycle. In short, it was found that: (i) medium- and long-term budgeting could be improved through the incorporation of alternative fiscal-risk scenarios; (ii) fiscal results are not reported on a standardized basis, since the various databases employ differing budget universes; in particular the database from the Dirección General de Presupuesto [Budget Directorate] does not report on the same institutions as that of the Ministry of Finance's Economic and Fiscal Policy Office; and financial administrative systems are not applied throughout the public sector (municipalities, for example, are not included); (iii) a certain level of risk is associated with the common expenditures owing to the existence of a large percentage of entitlements and earmarked expenditures; (iv) the fiscal implications of incomplete regulatory systems need to be addressed; (iv) the expenditure implications of democratic procedures and of the processes involved in achieving the required two-thirds majorities in the Legislative Assembly; (v) the technical expertise acquired by the Legislative Assembly needs to be institutionalized; (vi) the lack of a results-based budget makes it difficult to monitor the efficiency and quality of expenditure; and (vii) design and operation problems stem from institutional weaknesses in the Constitutionally-designated auditing authority, the Corte de Cuentas (Court of Accounts).

ANNEX III – PROGRAMMING OBJECTIVES, OUTCOMES, AND IMPACTS

1. EL SALVADOR: PROGRAMMING OBJECTIVES AND BANK-APPROVED LOANS FOR THEIR ACHIEVEMENT[103]

A. Reconstruction and rehabilitation of social and economic infrastructure

Post-conflict rehabilitation and national reconstruction (CP-224, 1991; CP-429, 1993)

– (1) Post-conflict rehabilitation of social and economic infrastructure via an SIF designed to deal with the impacts of the adjustment and conflict, with emphasis on the poorest sectors of the population; (2) Institutional decentralization, focusing on planning investments in social sectors under a microregion-based system.

Social Investment Fund (861/SF-ES, ES-0023)
Social Investment Fund - Stage II (905/SF-ES and 765/OC-ES, ES-0062)
Social Investment Fund - Stage III (829/OC-ES, ES-0084)
Electric Power Sector Program - Stage I (731/OC-ES, ES-0060)
Transport Sector Investment Program - Trunk Highway Program (870/SF-ES, 653/OC-ES, ES-0064)
Global Preinvestment Program – Stage III (860/SF-ES, ES-0100)

Natural disasters (CP-1186-6, 2000)

– (3) Disaster prevention: foreseeable and unforeseeable volatility;
– (4) Rehabilitation of social and economic infrastructure.

Emergency Reconstruction Support Program Following the Earthquake of 13 January 2001 (1310/OC-ES, ES-0148)
Emergency Reconstruction Support Program Following the Earthquake of 13 February 2001 (1315/OC-ES, ES-0150)

B. Market economy and public administration reform (CP-1181,1995)

Economic reforms

– (5) Privatization and broadening of private-sector participation in public utilities under the supervision of regulatory agencies: privatization of agribusinesses, reprivatization of commercial banking institutions; privatization of electrical power utilities; and transport service concessions.

Investment Sector Reform Program (714/OC-ES, ES-0016)

Administrative reform

- (6) Supporting the definition of the public sector's and major public agencies' (the macrostructure's) new role and new functions (which activities are to be performed by the public sector and which by the private sector);
- (7) Restructuring and downsizing the civil service; streamlining and eliminating bureaucratic procedures (especially those affecting the private sector);
- (8) Reforming and modernizing the human resources system;
- (9) Fiscal reform (tax policy: subsidies and tax exemptions; increasing the tax burden);
- (10) Financial and tax reform (administrative efficiency in tax collection and expenditure);
- (11) Reform of the government procurement and recruitment system;
- (12) Public-sector management and expenditure evaluation and monitoring systems (importance of earmarked funds and autonomous resources; importance of nonbudgetary institutions; budgetary evaluation on the basis of strategic outputs and objectives; independent oversight of public-sector management and expenditures);
- (13) Cost-based determination of public-sector prices.

Public-Sector Modernization Program (1041/OC-ES, ES-0036)
Fiscal Modernization TC Loan (941/OC-ES, ES-0105)

Judicial reform and public safety

- (14) Strengthening credibility and building confidence in effective and equitable law enforcement (legal certainty) as prerequisites for increased saving, investment, and innovation;
- (15) Building confidence on the part of private actors through improvements in public safety.

Program to Support the Reform of the Justice System
(919/OC-ES and 920/OC-ES, ES-0090)

Modernization of the Legislative Assembly

- (16) Increasing the operational efficiency of the Legislature by:
    - Strengthening its administrative structure;
    - Setting up a modern information system;
    - Creating a system for providing advisory services and technical support for the work of the Legislature;
    - Strengthening channels for communication with the community (public disclosure); introduction of a reporting and evaluation system for public programs;
    - Supporting the fulfillment of infrastructure requirements to facilitate operations.

TC Loan for the Modernization and Strengthening of the Legislative Assembly (1203/OC-ES, ES-0093)

C. Social sectors, local development and the environment

Education

- (17) Increasing basic education's quality and its internal and external efficiency;
- (18) Increasing the coverage and equity of education;
Equity in education, to be achieved by:
    - Updating programs that place priority on teacher training;
    - Modernizing equipment and materials;
    - Building administrative and technical capacities at the central level and strengthening administrative, financial, and implementation-based decentralization programs;
    - Devising innovative means of expanding coverage, including specific targets for girls and nonformal education mechanisms for women, adults, and marginalized adolescents;
    - Promoting community and parent participation, together with measures for strengthening community education associations; and
    - Refurbishing and expanding basic infrastructure, particularly in rural areas.

Basic Education Modernization Program - 1996 (879/OC-ES, ES-0083)
Educational Infrastructure Loan Program (1100/OC-ES y 1004/SF-ES, ES-0110)
Support Program for Education Technologies (1084/OC-ES, ES-0108)

Health

- (19) Strategic change at the central level (rather than organizational reengineering) in order to overcome the structural obstacles troubling the sector (lack of equity, efficiency, and financial solvency). Progress can be made in solving these problems by taking a more sector-based approach that engages the main stakeholders in the health sector;
- (20) Long-term sustainability of strategic change. The chief concern in this respect is the sector's long-term viability, which is best served by avoiding any tendency to concentrate on special-purpose institutional interventions whose benefits are confined to short-term results.

Modernization of the Health Sector (1092/OC-ES, ES0053)

Water and sanitation

- (21) Restructuring the sector in order to put an end to the service monopoly, decentralizing or de-concentrating water and sanitation systems and laying the foundations for privatization by:
    - Financing investments in the rehabilitation of self-sustaining operating and maintenance systems and in systems created as a result of the system's structural reorganization; and
    - Conducting studies on water supply sources to determine their qualitative and quantitative properties.
- (22) Monitoring water demand at the national level in order to rationalize the use of water sources and detect signs of overuse.

Water Sector and Potable Water and Sanitation Subsector Reform Program (1102/OC-ES, ES-0068)

Housing

- (23) Developing mechanisms and standards so that private mortgage lenders can expand the coverage of their lending activities;
- (24)Providing public-sector mortgage financing in order to ensure FSV-eligible households' access to mortgages, thereby increasing the number of households able to benefit from these arrangements;
- (25) Setting up a low-cost housing program through the Fondo Nacional de Vivienda Popular (FONAVIP) [National Low-Cost Housing Fund] (which was founded by NGOs) and neighborhood improvement programs to assist low-income households;
- (26) Promoting access to small home-improvement loans offered by the extended network of nonbank financial institutions serving low-income households (microlenders, savings and loan institutions, cooperatives, and others); and
- (27) Providing technical assistance regarding ways of reducing the delays and costs involved in obtaining construction permits, urban land-use permits, and infrastructure plans.

Housing Program (multi-phase) (1379/OC-ES, ES-0087)

Local development

- (28) Creating a suitable legal and regulatory framework for decentralization;
- (29) Reorganizing the SIF and converting it into a local development agency by:
  - Carrying out structural reforms to promote equity and efficiency in the channeling of public-sector resources into social investments at the local level;
  - Institutional strengthening of local governments to build up their local revenue-collection capacity and their local decision-making capacity for the determination of local needs;
  - Using private-sector mechanisms to carry out economic and social development actions;
  - Delivering public services, with emphasis on regions outside San Salvador and the most vulnerable segments of the population;
  - Introducing new project selection mechanisms.
- (30) Designing and implementing more permanent revenue collection systems for local governments, including the establishment of a land tax;
- (31) Building local institutional capacity for decentralization.

Local Development Program (1067/OC-ES, ES-0109)
Local Development Program - Stage II (1352/OC-ES, ES-0120)

Environment

- (32) Institutional reform of the sector, to include:
  - A sustainable development strategy for all economic activities;

    - Definition of an institutional framework within the State;
    - A more efficient environmental structure for privatization processes.
- (33) Supporting national policy-making and the implementation of laws and regulatory systems;
- (34) Environmental cleanup and pollution control in the water sector;
- (35) Environmental management capacity at the local level.

Environmental Pollution Control in Critical Areas (1209/OC-ES, ES-0074)
National Environmental Management Program (886/OC-ES, ES-0024)

D. Economic reactivation, competitiveness, and private-sector development

Financial system, microfinance, and credit for small and medium-sized enterprises

- (36) Supporting financial system reforms in order to backstop the commercial banking system's reprivatization efforts;
- (37) Revamping and reforming public credit institutions;
- (38) Providing credit support for microenterprises and for small and medium-sized enterprises via revamped IFIs;
- (39) Institutional strengthening of the Financial Sector Superintendency and the BMI to supplement their local funds with resources generated by pension reform;
- (40) Expanding the capital market by:
    - Promoting the development of new financial products;
    - Encouraging bank and nonbank intermediaries to participate in the market;
    - Restructuring the mortgage lending system; and
    - Promoting investment funds;
- (41) Consolidating the regulatory frameworks of the financial-sector, pension-system and securities superintendencies and promoting the consolidation of the BCR's legal framework.

Production-sector financing. Multisector Credit Program
(612/OC-ES and 850/SF-ES, ES-0086)
Global Credit Program for Microenterprises
(780/OC-ES and 915/SF-ES, ES-0037)
Multisector Credit Program – Stage II (885/OC-ES, ES-0057)
Strengthening of the Financial Sector Superintendency
(ATN/MT-4471-ES)
Support and Institutional Strengthening of Financial-System Regulatory Agencies
(1173/OC-ES, ES-0115)

Sector reforms

Transport

- (42) Rehabilitating and maintaining highways and feeder roads (export corridors and market access routes);
- (43) Participating in and supporting private-sector involvement in managing and financing of transport infrastructure (highways, ports, airports, railways);

- (44) Decentralizing transport management to the municipal level;
- (45) Establishing legal and regulatory frameworks that provide incentives for private participation (reform of the public concessions and contracting law);
- (46) Financing sustainable mechanisms for road maintenance and efficient administration; and
- (47) Restructuring and strengthening the Ministry of Public Works.

Road Rehabilitation and Improvement Program – Stage II
(839/OC-ES y 840/OC-ES, ES-0081)

Energy

- (48) Rehabilitating electric power infrastructure (generation, transmission, and distribution) affected by the conflict and expanding it to meet unsatisfied demand and cover the increase in economic activity;
- (49) Establishing a legal framework, regulatory agencies, and institutional arrangements to ensure competition and transparency on the part of private agents in the generation and cogeneration segments and reprivatizing electric power distribution;
- (50) Broadening coverage of electric power service in support of rural development;
- (51) Diversifying and developing new energy sources or geothermal and hydroelectric sources requiring long lead times for research, studies, and exploration;
- (52) Promoting regional electricity interconnection;
- (53) Developing energy conservation programs;
- (54) Supporting post-privatization investment programs.

Electric Power Development Program – Stage II(838/OC-ES, ES-0088)

Agricultural development

- (55) Reducing the degradation of renewable resources (especially water);
- (56) Expanding social infrastructure in rural areas and rebuilding physical infrastructure in the agricultural sector;
- (57) Backstopping the modernization of public-sector agricultural support services in order to enhance human resources training and boost sector productivity;
- (58) Using market mechanisms to compensate for the lack of a rural development policy;
- (59) Improving credit systems and access for producers;
- (60) Introducing agricultural technologies and crop diversification;
- (61) Promoting producer associations.

Agribusiness Reengineering Project (1327/OC-ES, ES-0119)
Multiphase Program for Sustainable Roads in Rural Areas (1314/OC-ES, ES-0129)

Competitiveness

- (62) Facilitating business competitiveness through increased factor productivity and external market access by:
    - Promoting strategic alliances and supporting market liberalization and market positioning;
    - Facilitating access to credit;

- Financing a comprehensive program to boost quality and productivity in order to ensure market positioning and staying power.

Sector Reform Program to Boost Competitiveness (1492/OC-ES, ES-0151)

1. OUTPUTS AND OUTCOMES

The following program evaluation table provides an overview of the loan projects included in the Bank's portfolio with El Salvador in 1992-2003. At the project level, the evaluation systematizes a series of 15 criteria; the conclusions drawn on that basis are then grouped into five categories dealing with the following aspects: the project's alignment with the overall program; approval efficiency, design quality in terms of evaluability, execution efficiency, and effectiveness of the outcomes achieved. Two other criteria were added to the above: appraisal of the materialization of exogenous risks (fulfillment of project assumptions) and how they influenced outcomes; and a determination of whether or not enough time has passed to assess project effectiveness and the sustainability of project outcomes. Projects are assigned a rating of 1 when their outcome is found to be satisfactory, 0.5 (fairly satisfactory) if their substantive progress has been partial but sufficient to bring about an improvement in the development issues addressed by the operation, and 0 if specific criteria or the overall project are found to be unsatisfactory.

EL SALVADOR: RESULTADOS DE LA EVALUACIÓN DE LOS PROYECTOS DE PRESTAMO. Periodo 1992-2003

# PROY.	NOMBRE DEL PROYECTO	1. Efectividad de la Programación	a. Relevancia ¿ Responde el programa a un problema de desarrollo pertinente?	b. Ownership/Stakeholders ¿Contaba el programa con el apoyo/coordinación de los stakeholders?	c. Anticipación ¿Se anticipó el programa en el CP?	2. Eficiencia de la aprobación	a. Tiempo de preparación ¿Fue adecuada la duración de la preparación de las operaciones?	b. Tiempo de ratificación ¿Fue adecuada la duración de la preparación de las operac	c. Adecuación al ciclo económico ¿Fue implementado el programa en un momento económico oportuno?	d. Adecuación al ciclo político ¿ Fue aprobado el programa en un momento político oportuno?	3. Calidad del diseño	a. Pertinencia del modelo ¿Fue pertinente o se justificaba de alguna forma el diseño d proyecto?	b. Evaluabilidad ¿Era el proyecto evaluable ex ante?	c. Modalidad de presupuestación ¿Fue preparado el proyecto por actividades dentro d productos?	4. Eficiencia de la ejecución	a. Duración ¿Se ejecutó la operación en el tiempo previsto?	b. Cambios en la ejecución ¿Se desembolsaron los recursos previstos a los product previstos?	c. Ownership ¿Se involucró a la administración pública nacional en la ejecución?	5. Efectividad de los resultados	a. Contribución del proyecto ¿Se alcanzó el propósito del proyecto?	b. Sostenibilidad/Replicabilidad ¿Existen recursos y compromiso del gobierno en continuar el proyecto?	RATING DE L´EVALUADOR	¿Se protegieron los riesgos o supuestos identificados en el proyecto? (SI/NO)	¿Ha transcurrido el tiempo adecuado para juzgar la efectividad del proyecto (SI/NO)?	RATING PROMEDIO DE LA EVALUACION
ES0006	Crédito Global Multisectorial I	1.0	1	1	1	0.8	1	1	0	1	0.3	0.5	0	0.5	0.8	1	0.5	1	1.0	1	1	1	SI	SI	0.79
ES0023	Fondo de Inversión Social I	1.0	1	1	1	0.8	1	0	1	1	0.8	1	0.5	1	0.7	0.5	1	0.5	1.0	1	1	1	SI	SI	0.85
ES0016	Programa Sectorial de Inversiones	0.7	1	1	0	1.0	1	1	1	1	1.0	1	1	1	0.8	0.5	1	1	1.0	1	1	1	NO	SI	0.90
ES0062	Fondo de Inversión Social II	1.0	1	1	1	1.0	1	1	1	1	0.7	1	0	1	0.7	0.5	1	0.5	1.0	1	1	1	SI	SI	0.87
ES0037	Global Crédito para Microempresas	0.8	1	0.5	1	0.8	0	1	1	1	0.3	1	0	0	0.8	1	0.5	1	0.5	0.5	0.5	0.5	NO	SI	0.65
ES0064	Fondo Inversión Social El Salvador II E	1.0	1	1	1	0.9	1	0.5	1	1	0.5	0.5	0	1	0.7	0.5	1	0.5	0.8	0.5	1	0.5	SI	SI	0.76
ES0081	Programa de Administración Vial II	0.3	1	0	0	0.4	0.5	0	1	0	0.5	1	0.5	0	0.7	0.5	0.5	1	0.8	1	0.5	1	SI	SI	0.53
ES0086	Prog. Expansión Sector Energía	0.7	1	0	1	0.3	0	0	1	0	0.3	0	0.5	0.5	0.2	0.5	0	0	0.5	0.5	0.5	0.5	NO	SI	0.38
ES0003	Prog. Modernizac. Sector Educación	1.0	1	1	1	0.9	1	0.5	1	1	0.7	1	0	1	0.7	0	1	1	0.8	0.5	1	1	SI	SI	0.79
ES0024	Prog. Nacional de Medio Ambiente	1.0	1	1	1	0.4	0	0	1	0.5	0.5	1	0	0.5	0.5	0	0.5	1	1.0	1	1	1	SI	SI	0.68
ES0057	Crédito Global Multisectorial II	1.0	1	1	1	0.8	0	1	1	1	0.7	1	0	1	1.0	1	1	1	0.8	1	0.5	1	NO	SI	0.83
ES0090	Programa de Reforma Judicial	0.7	1	0.5	0.5	0.6	0.5	0.5	1	0.5	0.2	0	0.5	0	0.3	0	0.5	0.5	0.0	0	0	0	SI	SI	0.36
ES0105	Préstamo CT Modernización Fiscal U.T.C.	0.8	1	1	0.5	0.9	1	0.5	1	1	0.7	1	0	1	0.7	0	1	1	1.0	1	1	1	SI	SI	0.81
ES0036	Prog. Modernización Sector Público	1.0	1	1	1	0.5	0	0	1	1	1.0	1	1	1	1.0	1	1	1	1.0	1	1	1	NO	SI	0.90
ES0109	Programa Desarrollo Local	1.0	1	1	1	0.9	1	0.5	1	1	0.7	1	0	1	0.8	0.5	1	1	0.5	1	0	1	SI	SI	0.78
ES0100	Prog. Apoyo Tecnologías Educativas	1.0	1	1	1	0.9	1	1	1	0.5	0.7	1	0	1	0.7	0	1	1	0.5	0.5	0.5	0.5	SI	SI	0.71
ES0053	Prog. Modernización Sector Salud	0.7	1	0	1	0.5	0	1	1	0	0.5	0	0.5	1	0.0	0	0	0	0.0	0	0	0	SI	SI	0.33
ES0110	Infraestructura Educativa	1.0	1	1	1	0.8	1	0.5	1	0.5	0.7	1	0	1	0.7	0	1	1	0.8	0.5	1	1	NO	SI	0.77
ES0080	Prog. Agua Potable y Alcantarillado	0.7	1	a	1	0.8	a	a	-	-	0.5	a	a	1	0.8	a	0	0	NC	NC	NA	NC	SI	NO	NC
ES0115	Fortalecim. Institucc. Entes Regulat.	0.7	1	0.5	0.5	0.5	1	0	1	0	0.5	0.5	0	1	0.3	0	0.5	0.5	0.8	0.5	1	0.5	SI	SI	0.55
ES0093	Modernización Poder Legislativo	0.8	1	0.5	1	0.0	0	0	0	0	0.8	1	0.5	1	0.5	0	0.5	1	0.5	0.5	NA	1	NO	SI	0.53
ES0074	Descontaminación de Áreas Críticas	1.0	1	1	1	0.8	a	a	-	a	0.2	0.5	a	a	0.0	a	0	0	NC	NA	NA	NC	SI	NO	NC
ES0140	Proyecto Emergencia El Salvador	0.8	1	1	0.5	0.8	1	1	0	1	0.7	1	0.5	0.5	1.0	1	1	1	1.0	1	1	1	SI	SI	0.85
ES0129	Programa Caminos Rurales Sostenible	0.7	1	a	1	0.6	1	0.5	-	1	0.5	1	1	a	1.0	1	1	1	0.5	0.5	NA	1	SI	SI	0.66
ES0150	Proyecto de Emergencia El Salvador II	0.8	1	1	0.5	0.6	1	0.5	0	1	0.5	1	0	0.5	1.0	1	1	1	0.8	1	0.5	0.5	SI	SI	0.74
ES0119	Reconversión Agro-Empresarial	0.7	1	a	1	0.5	0.5	0.5	-	1	0.2	1	a	a	0.5	a	0.5	1	NC	NA	NA	NC	NO	NO	NC
ES0120	Programa de Desarrollo Local II	1.0	1	1	1	0.8	1	1	0	1	0.7	1	0	1	0.8	0.5	1	1	0.3	0.5	0	0.5	SI	SI	0.70
ES0087	Programa de Vivienda	0.7	1	a	1	0.8	a	a	-		0.3	1	1	a	a	a	0.5	0	NC	NA	NA	NC	NO	NO	NC
		0.9	1.0	0.7	0.8	0.6	0.6	0.5	0.6	0.6	0.6	0.8	0.3	0.7	0.6	0.4	0.7	0.7	0.7	0.7	0.7	0.8		Media	0.70
																								Desv. Tip	0.17

Nota: Se asignó el valor 1 cuando el resultado fue satisfactorio, 0.5 cuando se alcanzó en forma medianamente satisfactoria el criterio evaluado y 0 cuando el resultado fue insatisfactorio.

Criterios de calificación específicos

	Valor	Notas
Preparación	<13 meses	1
	>12 & < 18	0.5
	> 17	0
Ratificación	<4 meses	1
	>3 & < 13	0.5
	> 12	0
Ciclo económico	1990-1992	0
	1993-2000	1
	>2000	0
Ciclo político	1990-1999	1
	> 1999	0
Evaluabilidad	> 0.75	1
	> 0.626 & < 0.75	0.5
	< 0.626 (Media + 1/2 D. Tip. de la Normal)	0
Rating Promedio	>= 0.70	Satisf.
	>= 0.53 & < 0.70	Med.satisf.
	< 0.53 (Media menos una Desv. Típica)	Insatisf.

2. Summary of Programming Impacts

This section summarizes the evaluation's findings in terms of the programming's achievement of the 62 objectives listed in the first section of this annex. Achievement of these objectives is classified as satisfactory (a score of 1); fairly satisfactory (a score of 0.5), or unsatisfactory (a score of 0); the other categories included in the classification cover projects focusing on reconstruction following natural disasters; objectives not addressed; and unclassified objectives (for further information on this classification, see Chapter IV: Results Achieved). The results are shown as a percentage of total objectives (Figure AIII.1) and by originally and currently approved amounts (Figure AIII.2).

Figure AIII.1 – Summary of program impacts (%) – Total No. of ojectives: 62

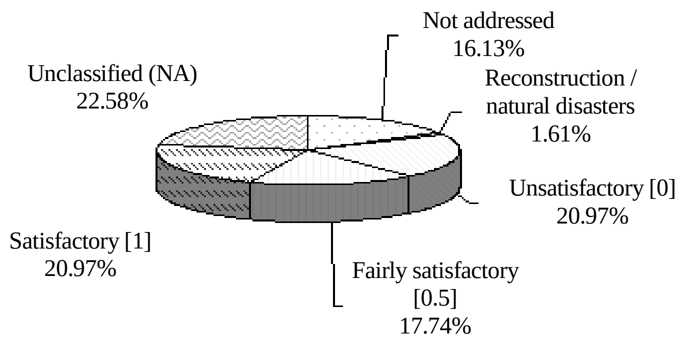
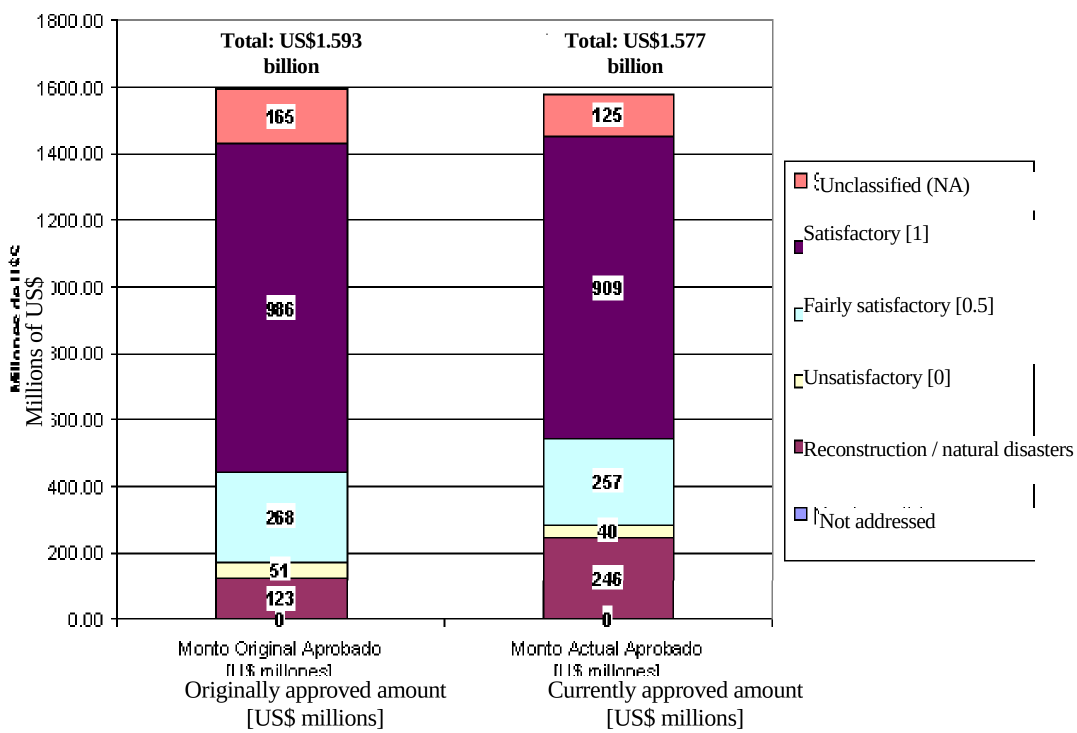


Figure AIII.2 – Summary of program impacts (original amount and currently approved amount, in millions of US$)



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- de Gavidia, Yolanda Mayora, Minister of Economic Affairs
- de Liévano, Zonia; Manager, Fondo Salvadoreño para Estudios de Preinversión [Salvadoran Fund for Preinvestment Studies]
- de Lovo, Evelyn Jacir, Comisión Presidencial para la Coordinación del Área Social [Presidential Commission for Social Coordination]
- de Mendoza, Lisette Kury, President, Consejo Nacional Judicatura [National Judiciary Council]
- de Morales, Claudia Dubón, Manager, Financial Intermediation, BMI

- de Palomo, Anabella Lardé, Under-Secretary for Technical Affairs, Office of the President of the Republic
- de Portillo, Luz Maria, President, Banco Central de Reserva [Central Reserve Bank]
- de Rivera, Marta Evelyn A., Manager for International Affairs, Banco Central de Reserva (BCR) [Central Reserve Bank]
- de Rosa, Claudio, Executive Director, Asociación Bancaria Salvadoreña (ABANSA) [Salvadoran Banking Association]
- de Salazar, Maritzenia, Educational Infrastructure
- de Sola, Francisco, Entrepreneur
- de Trigueros, Haydeé, Executive Director, Comisión Nacional para la Micro y Pequeña Empresa (CONAMYPE) [National Microenterprise and Small Business Commission]
- Denton, Carlos Dr., CID Gallup
- Díaz, Eliseo, Health Program Executing Unit
- Díaz, Oscar; Unidad de Planificación Vial [Roadway Planning Unit], Ministry of Public Works
- Domínguez, Miguel; Chief, Loan Administration Unit, Comisión Ejecutiva del Río Lempa [Río Lempa Executive Committee]
- Duque, Carlos Mauricio, former deputy Minister for Public Works, CESSA cement
- Escrich, Ana Hazel, Coordinator, Social Area, Technical Secretariat of the Office of the President
- Estrada, Guillermo, Integrated Financial Administration System
- Flores, Reynaldo, Executive Director, UCP-MSPAS
- Fortín, Patricia, Fondo de Inversión Social para el Desarrollo Local (FISDL) [Social Investment Fund for Local Development]
- Gamero Quintanilla, Julio Antonio, Secretary, Finance and Special Budget Committee, Legislative Assembly, and Congressman, ARENA.
- García, Fermín, Assistant to the Macroeconomic Analysis Unit, Finance Ministry
- Gómez Fuentes, Sonia, Financial Systems Manager, BCR
- Gutiérrez, David, Minister of Public Works
- Haug, Luis Roberto, CID Latinoamérica
- Hawk, Tom, former Manager, FIS
- Henríquez, Raúl, General Coordinator, PAES
- Hernández, Giovanni, Manager, Electricity Area (SIGET)
- Hernández, Ricardo, Finance Manager, BMI
- Hernández, Rigoberto, Coordinator for the Environmental Pollution Control in Critical Areas Project, Ministry for the Environment and Natural Resources
- Hernández, Rolando, Technical Cooperation, Ministry of Public Health and Social Welfare
- Hinds, Manuel Enrique, Consultant to the former Minister of Finance
- Huezo Vilchez, Mario, Public Budget Manager
- Jiménez, Waldo, Technical Manager, Asociación Nacional de la Empresa Privada [National Private Enterprise Association]
- Lacayo-Anderson, Nelly, Senior Counselor, Office of the Executive Director, IDB
- Lemus, Rafael Antonio, Coordinator, Social Area, Technical Secretariat of the Office of the President
- López Suárez, Guillermo, Minister of Finance
- López,Mario, CID, Gallup

- Magaña, José Mario, Director of Economic and Trade Affairs for the Chamber of Commerce and Industry of El Salvador
- Mancilla, Francisco Antonio, FUSAI
- Martínez, Gerson, Chair of the Treasury and Special Budget Committee, Legislative Assembly, and FMLN Congressman
- Martínez, Gilda Lorena, Technical Cooperation, Ministry of Public Health and Social Welfare (MSPAS)
- Mena Lagos, Alfredo, Entrepreneur; former Director for Privatizations
- Milán, Elmen Antonio, Technical Coordinator for the Agribusiness Reengineering Program, Ministry of Agriculture (MAG)
- Montenegro, Luis Armando, Superintendent, Financial System Superintendency
- Mufelman, Silke María, General Manager, Banco Procredit (formerly Financiera Calpia)
- Murillo, Juan, Director-General of the Government Accounting Office
- Navarro, José Roberto, President, Banco Hipotecario
- Nosthas, Ernesto, Manager for R&D, FISDL
- Orellana Merlos, Carlos, Manager, International Economics Section, Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES) [Salvadoran Foundation for Economic and Social Development]
- Orellana, J. Roberto, Executive Director, Banco Agrícola, and former Chairman of the BCR (1989-1998)
- Orellana, Noel, Advisor to the Budget Committee, Legislative Assembly
- Parodi, Oscar, Health Program Executing Unit
- Platero, Dr., Health Program Executing Unit
- Pleitez Chavez, Rafael Antonio, Manager, Social Section, FUSADES
- Pleitez, William, General Coordinator, Human Development Report, UNDP
- Ponce Arriaza, Saul Esau, Coordinator of the Special Budget Unit, Legislative Assembly
- Ramírez, Carolina, National Education Director
- Ramírez, Victor Antonio, Intendent of the Public Pension System, Superintendency of Pensions
- Recinos, Eduardo, Director of Fitch Centroamérica, S.A.
- Reyes, Carlos, Manager of Housing, Ministry of Public Works (MOP)
- Rivera Campos, Guillermo, Director, FUSADES
- Rivera Chevez, José Leonidas, General Manager, Instituto Salvadoreño de Desarrollo Municipal (ISDEM) [Salvadoran Municipal Development Institute]
- Rodríguez Alemán, Omar Ernesto, Superintendent of Securities
- Rodríguez, Ismael, Executive Director, Instituto Salvadoreño para el Desarrollo de la Niñez y la Adolescencia (ISNA) [Salvadoran Institute for Child and Adolescent Development]
- Rodríguez, Luis Mario, Executive Director, Asociación Nacional de la Empresa Privada (ANEP) [National Private Enterprise Association]
- Rodríguez, Ronny, IDB Project Consultant, Legislative Assembly
- Rosales, Manuel, Director, Macroeconomic Analysis Unit, Ministry of Finance
- Rubio Fabián, Roberto, Executive Director, Fundación Nacional para El Desarrollo (FUNDE) [National Development Foundation]
- Rubio, Gloria, National Accounts, Health Sector

- Ruiz Suárez, Rafael, Executive Director, National Competitiveness Program, Ministry of Economic Affairs
- Salaverría, Mario, Deputy Minister for Agriculture
- Salume, Nicolás, Chair, Río Lempa Executive Committee
- Samayoa, Salvador, Chair, Consejo Nacional de Seguridad Pública (CNSP) [National Public Safety Council]
- Santarelli, Franklin, Senior Analyst, Fitch Ratings
- Serrano, José Genaro, Intendent of Securities, Superintendency of Securities
- Silva, Héctor, Head of the Centro Democrático Unido (CDU) [United Democratic Center] caucus in the Legislative Assembly; former Mayor of San Salvador
- Siman, Miguel, Entrepreneur, former Director of FISDL
- Simán Roberto, Advisor, Technical Secretariat of the Office of the President
- Solórzano, Roberto, General Manager, Banco de Fomento Agropecuario
- Sorto Rivas, Francisco, Intendent, Pension Savings System, Superintendency of Pensions
- Sosa, Mauricio, Coordinator, Macroeconomic and Fiscal Advisory Unit, Ministry of Finance
- Torres, Eduardo, Media
- Trigueros Arguello, Álvaro, Manager, Macroeconomics Section, FUSADES
- Urias, Carlos Francisco, Coordinator, Institutional Technology Support, MINED
- Vilar, Argelio, Health Program Executing Unit
- Villacorta, Jorge, Congressman, Legislative Assembly
- Villalobos, Mario, MINED
- Zablah Touché, Eduardo, Technical Secretary, Office of the President of the Republic
- Zablah Touché, Jorge, Fundación Empresarial para la Acción Social (FUNDEMAS) [Social Action Business Foundation], FUSADES Advisor
- Zepeda Peña, Ciro Cruz, President of the Legislative Assembly

NOTES

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[1] The continuity of this agenda has been facilitated by the fact that subsequent administrations, which have maintained this focus, have all been from the same political party (ARENA).

[2] For more detailed information on these initial agendas, see Tables AI-1–3 in Annex I.

[3] Moody's has given El Salvador an investment-grade rating (Baa3) since July 1997, while Fitch and Standard & Poor's have put it a notch below investment grade (BB+).

[4] Employment in the maquila sector climbed from 0.3% to 2.1% of the economically active population (EAP) between 1991 and 1996 (see Table 5.9, IDB, IPES, 2004), while maquila merchandise exports rose from 12% to 59% of total merchandise exports between 1990 and 2002. A considerable reduction in the concentration of exports was also observed between the 1980s and the 1990s (see Figure 8.2, IDB, IPES, 2004).

[5] As of the late 1990s, around 50% of all wage earners were not covered by social security (see Figure 7.3, IDB, IPES, 2004).

[6] *Ibid*. See Table AI-4 in Annex I.

[7] The IMF calculates the exchange rate's appreciation at 60% between 1992 and 2000, after which its computations indicate that the exchange rate stabilized until 2003; the central bank's figures, on the other hand, show the real effective exchange rate dropping by over 10% between 1995 and 1997 and then remaining stable since then.

[8] El Salvador ranks second in Latin America and 24th out of 161 countries on the Heritage Foundation's 2005 Index of Economic Freedom: http://www.heritage.org/research/features/index/countries.cfm.

[9] See Figure 1.13, IDB, IPES, 2004.

[10] According to the calculations of the United Nations, achieving universal coverage for basic services would require an increasing level of additional expenditures, reaching 4.3% of GDP by 2015; these calculations do not take service quality into consideration and assume that the public sector is wholly responsible for service coverage.

[11] The NFPS debt, after having been relatively stable at less than 30% of GDP through 1999, climbed to 40.6% of GDP in 2003 due to a rise in the deficit in recent years, due to the impact of the earthquakes (see Figure AI.2 in Annex I). Since 1997, El Salvador has had an investment-grade rating, which has prompted it to replace part of its traditional borrowings with international offerings on more advantageous terms, irrespective of IMF financing.

[12] This is preliminary information from the close of fiscal year 2004 published by the central reserve bank of El Salvador; it includes pension payments.

[13] The decline in Salvadoran banks' rates of return and their excess liquidity have prompted many of them to expand into foreign markets. This poses a number of regulatory challenges, particularly in relation to the opening of branches in neighboring countries. At the same time, there is a shortage of financing for private production activities, especially for microenterprises and small businesses.

[14] The public-sector financial system consists of two commercial banks (Banco de Fomento Agropecuario (BFA) and Banco Hipotecario (BH)), a second-tier bank (BMI), and a social housing fund (Fondo Social para la Vivienda (FSV)), in addition to other institutions such as the Instituto Nacional de Pensiones de los Empleados Públicos [National Pension Institute for Civil Servants] and the Consejo Salvadoreño del Café [Salvadoran Coffee Council].

[15] In addition, pension fund managers (AFPs) are required to invest in FSV securities, which offer a below-market rate of return; this is tantamount to an indirect subsidy and works to the detriment of savers who invest in the privately run pension system.

[16] The World Bank calculates that the elasticity of total poverty to growth was 1.3 in the period 1991-2002. That is to say, a rise in per capita income of 1% is associated with a 1.3% drop in poverty, with income distribution remaining constant.

[17] According to the United Nations (2003), the Gini coefficient based on per capita income was 0.54 in 2002, which is considerably higher than the world average (0.4) and even the average for Latin America (0.47).

[18] The calculations of the United Nations (2003), on the other hand, indicate that a 30% increase in per capita income will reduce poverty by only 10%; by the same token, if inequality were to diminish by 30%, poverty would automatically decrease by 23%.

[19] The net rate of emigration rose steadily throughout the 1990s. See Figure 3.18, IPES (2004).

[20] Compensatory expenditures in war zones and areas hit by natural disasters have been guided by damage mapping procedures, however.

[21] Conventional SIF project funding procedures have been supplemented with mechanisms for mobilizing and pulling together resources for local development programs that the beneficiaries have helped to design. Technical assistance in building management capacities has also been provided. The new institution—the Fondo de Inversión Social para el

Desarrollo Local (FISDL) [Social Investment Fund for Local Development]—has worked on providing guidance at the local level and has become a knowledge center that monitors resource use and employs the lessons learned to improve management mechanisms on an ongoing basis.

22 El Salvador's educational coverage and quality levels are among the lowest in Latin America. See Figures 3.20 and 3.21, IDB, IPES, 2004.

23 Privatization of the administration and operation of Acajutla cut rates by more than 25%, bringing them in line with international pricing similar to that in competing ports, such as Quetzal in Guatemala and El Cortés in Honduras.

24 Legislative Decree 994 of 1 October 2002; Official Journal No. 182, Volume 357.

25 Note of understanding between the Government of El Salvador and the Japan Bank for International Cooperation (JBIC).

26 Legislative Decree 582 of 18 October 2001; Official Journal No. 198. Volume 353.

27 In San Salvador, 40% of households are headed by a woman alone (30% nationwide).

28 Since 2000, the FMLN has controlled over a third of the seats in the Legislative Assembly, and it can therefore block borrowing proposals that require a two-thirds majority.

29 The Calderón administration passed reactivation bills and launched a drive to modernize the public sector in an effort to boost the economy's competitiveness, reduce institutional rigidities, and rectify structural flaws. When, by 1998, growth had not picked up in response to these initiatives, the administration passed a new reactivation program to bolster those adopted in 1996 and early 1997.

30 Although the country paper (document CP-1181) was approved by the Programming Committee in December 1996 (half way through the administration's term in office), it was not approved by the Board of Executive Directors until June 1998 (document GN-1981-1), one year before a new administration was to take office. For the purposes of this analysis, the programming period is considered to have begun in 1996, although the changes introduced in the final version that was ultimately approved have been taken into account.

31 One noteworthy development in terms of stability was dollarization in 2001 (Economic Integration Act); with respect to administrative reforms, cargo handling services in private operators are worthy of note; the reform of the Ministry of Public Works, the creation of FOVIAL, and the creation of the Ministry of the Interior improved the security situation; and regarding fiscal management, the Tax Code and the Customs Act were adopted and income and customs exemptions were reduced.

32 The Bank has recognized the progress made in carrying out privatizations, introducing pension reforms, carrying out fiscal and financial modernization efforts, expanding the coverage of basic education, and implementing reforms in the civil service and administration of justice. At the same time, however, it has drawn attention to a number of problems: incomplete regulatory and supervisory systems for financial services and infrastructure; a lack of correspondence between the rates charged by some public utilities and their costs; an excessively small tax burden; over-reliance on remittances; too low a level of social expenditure given existing deficits, especially in terms of health care; the high rate of violence and serious public safety issues; a lack of legal certainty and an incomplete legal framework for government procurement; a failure to consolidate the country's democratic system; a framework for decentralization that involves a number of fiscal challenges; and the country's increased vulnerability to exogenous shocks.

33 Borrowing on the capital market entails the same difficulties in terms of congressional ratification but, in contrast to the situation with Bank financing, the country can access such borrowings immediately, without waiting for their inclusion in the budget and without having to fulfill conditions precedent to their disbursement. The country was also able to obtain competitive interest rates, thanks to the generally low levels of rates in recent years and its investment-grade risk rating.

34 See "Country Program Evaluation (CPE): El Salvador, 1992-2003", OVE, December 2004, revised version, Chapter III.

35 The computations conducted for the purposes of this analysis take into account all the loans granted in 1990-2004 and all technical cooperation operations (TCs), PPFs and MIF projects in excess of US$100,000 during that period. The TCs represent 94% of the total amount approved for the period.

36 The increase in TCs coincided with the shrinkage of the loan portfolio. The TC operations were less controversial and could be financed from a limited supply of soft funds. In addition, there were differences regarding the allocation of TC resources from the funds for Group C and D countries, which may not be assigned at the Bank's discretion (GN 1940-3).

37 Project ES-0074, "Environmental Pollution Control in Critical Areas" had eight TCs, and ES-0119 "Agribusiness Reengineering Project" had five.

38 The use of funds earmarked for Group C and D countries played an important role in this respect.

[39] Natural disasters were a focus of 15 projects totaling US$286 million, versus six projects totaling US$195 million relating to political/institutional factors.

[40] Thus far, five operations totaling US$190 million that were approved by the Board of Executive Directors have not been implemented; these projects represent nearly 40% of the approved portfolio for 2000-2003.

[41] This problem was pointed out by a number of officials in the 2000-2004 administration.

[42] In 2000, around 50% of the portfolio was held up by problems in securing the ratification or budgetary approval needed for disbursement. In 2001, when El Salvador was hit by major earthquakes, these obstacles were removed by modifying the institutional reform and modernization components so that assistance could be focused on rebuilding the country’s infrastructure.

[43] This situation has arisen because the country’s investment-grade rating gives it access to low interest rates and because borrowings on external markets can be obtained more rapidly, since bonds can be issued immediately. This means that there is no need to wait for the passage of the next budget in order to secure approval for national counterpart funds or to assume the transaction costs involved in fulfilling conditions precedent to disbursement and completing complicated disbursement procedures. The Bank is also in a relatively less competitive position vis-à-vis other multilateral lenders active in the region (e.g., CABEI).

[44] Of the US$99.2 million still pending disbursement, 70% are from the absence of disbursement of reallocations of funds under operations in place before the 2001 earthquakes, and 20% from the hospital reconstruction loan recently approved by the Legislative Assembly in mid-2003 (US$20 million). While the 2004 budget did cause some delay in disbursements for this purpose, needs remain; much of this balance is not for emergency purposes.

[45] Execution of projects dealing with social sectors, local development, and the environment has gone more slowly; these are also the sectors that were hurt the most by the reallocation of resources in response to natural disasters, although this did not interfere with the achievement of their development objectives to any substantial degree.

[46] This includes projects that were reformulated by the Board of Executive Directors (5% of approved projects), projects that were restructured by Management and whose funding was reoriented in ways that appear to have interfered with the attainment of their objectives (8%), and projects that were approved but were never ratified (13%).

[47] In terms of the amounts originally approved, the substantive modifications affected 29%.

[48] ES-0053, ES-0068, ES-0074, ES-0113, ES-0116, ES-0130, and ES-0134.

[49] These were some of the projects placed on alert status by Management.

[50] These figures indicate that this is a widespread problem for the Bank.

[51] Fourteen months, of which seven months transpires between approval and authorization of signature and seven months between authorization of signature and ratification.

[52] Executing agencies’ capacities have been improving in recent years thanks to a determined effort on the part of the Bank and the country, which have developed a positive dialogue in this connection.

[53] This was reflected in a low level of execution, since the chief use made of these resources was to pay VAT for suppliers of goods and services paid for with Bank funds.

[54] Primarily ES-0053, ES-0068, ES-0074, ES-0087, ES-0090, ES-0119, and ES-0129.

[55] These projects could be adjusted and adapted during the next change of administration.

[56] This refers only to projects begun since 1996, since the imputation of costs is more complete for this period. These data are from the Operational Cost Data System (OPRCOS) (15 April 2005). Calculations were run as of two dates: 1 December 2004 (first version of the CPE), and 15 April 2005. Two shortcomings were found that Management was not able to clarify: firstly, the direct costs of the simple of projects executed as of 15 April 2005 were 10% lower than those as of 1 December 2004; secondly, 10% of the total direct costs were not broken down between preparation and supervision of execution of projects. This inhibited more precise analysis through the use of indicators for measuring performance in this area.

[57] For the purposes of this analysis, this figure should be compared with the inspection and supervision fee (FIV) that the Bank deducts from the amounts approved for loan operations. In contrast, in 2003 and 2004 the FIV funds were disbursed.

[58] Although the available information is not overwhelming in terms of the breakdown of the total cost between project preparation and supervision, supervision is believed to account for two-thirds of the total cost. Moreover, the marginal cost of project preparation has been considerable higher than the preparation cost from the sample of executed projects used in the calculations (an estimated 70% higher, in keeping with the delays and transactions problems of recent years).

[59] Refers to 1998-2003, for which systematized information is available in the database.

[60] See RE-293: "The Project Supervision System: An Evaluation of Use of Its Instruments", OVE, March 2004. Two indicators are analyzed in order to measure compliance with mandatory supervisory activities: (i) the CMI covers the aggregate use of six instruments: planned administration missions, technical inspection visits, financial inspection visits, project performance monitoring reports (PPMRs), audited financial statements (AFSs), and country portfolio reviews (CPRs); and (ii) the OCMI includes the CMI instruments, averaged over the review period, plus five compulsory aperiodic instruments: planned startup missions, planned midterm review missions, project completion reports (PCRs), the final evaluation programmed by the Bank, and the final ex post evaluation conducted by the borrower.

[61] The index for PPMRs, CPRs, financial inspection visits, AFSs, and PCRs is 1 or very close to 1.

[62] This is corroborated by the information given in the fourth section concerning the ex ante and ex post analyses of the evaluability of projects in El Salvador and in the CPR documents regarding lessons learned.

[63] This issue is a relevant one in El Salvador because the team that designs and approves operations is not the same team that starts them up and is in charge of their execution.

[64] This situation is complicated by two other factors that have been observed on a number of occasions: first, staff are rotated in and out of the executing agencies; and, second, the local staff involved in drawing up a project are not on the team that implements and evaluates the operation.

[65] Portfolio development risk is defined as the number of (or amount of funds represented by) projects in execution per year that have been rated as problem projects (operations that will be unable to meet their development objectives), plus projects experiencing implementation problems and/or those rated as having a low probability of bearing out their assumptions on the basis of their PPMR, plus projects on alert status under the PAIS system. Information is available only from 1998 on.

[66] The PAIS indicator thresholds that have an adverse effect on project risk ratings are a delay of over 17 months for project startup in countries where ratification is required, disbursement of less than 10% of the initial balance in the past 12 months for eligible projects, and a delay of 12 months or more in achieving eligibility.

[67] One of the two indicators involved in putting a project on PAIS alert status is almost always reached. It is therefore highly likely that a large percentage of the portfolio of approved loans is on PAIS alert status, which is triggered by a failure to reach the required levels of any two of the eight indicators used for this purpose.

[68] See FN-263-24, 26 July 2002: "Proposal for a performance based allocation of IFF resources".

[69] In addition, the number of auditing firms found to be eligible to prepare audited financial statements for TCs has increased, thereby fueling competition.

[70] The aim here is to mitigate the impact of staff rotation and the Country Office's loss of institutional memory.

[71] The substantive work required of the Country Office is difficult to reconcile with the day-to-day administrative tasks that specialists are required to complete. It is estimated that these tasks take up approximately 80% of these staff members' total time, thereby restricting their ability to work on project development.

[72] The Bank program's relevance to the country's development challenges, its alignment with the country's priorities and those of other multilateral agencies, and its alignment with projected results and the integration of program instruments have been discussed in Section II.

[73] For further details regarding the methodology used to evaluate country programs, see Annex A of OVE RE-299: "Country Program Evaluation (CPE): Argentina, 1990-2002".

[74] Evaluability was assessed only for investment projects; projects that had been evaluated but not approved prior to the beginning of the review period were not included.

[75] Flaws in ex ante results frameworks should not be construed as a criticism of Management or of national officials, since these requirements have been emphasized only in the past few years, not during the entire review period.

[76] The evaluation assumes that if the achievement of objectives has been satisfactory or fairly satisfactory and the objectives are sustainable, then the project is making a positive contribution to the country. Project risk management has also been included, since, if risks materialize, the context of project outcomes can change substantially. The findings of this analysis are then compared with Management's self-evaluation of the portfolio in order to determine how verifiable its ratings are and how it corresponds to those results.

[77] The evaluation was based on a wide range of activities on the ground, which included an examination of the Bank's documentation, the views of specialists and officials in the region, the consultation of secondary sources, and the use of a standardized system for interviews with government officials and former officials, beneficiaries, and other informants. All of these inputs were used to arrive at semi-quantitative calculations that gave rise to the findings summarized in this section. For more detailed information in this regard, see: "Evaluación del Programa de País (CPE): El Salvador, Período 1992-2003; OVE working paper, December 2004, revised version.

[78] Project evaluations are based on a systematized cluster of criteria that lead to conclusions concerning five different aspects: the project's consistency with the program; the efficiency of the project approval process; a results-based determination of the quality of the project design; the efficiency of implementation; and outputs and outcomes. Two supplementary categories are: the occurrence of exogenous risks (project assumptions) and how they influence the outcome; and a decision as to whether the extent of implementation is a sufficient basis for an appraisal of the effectiveness and sustainability of the project's outcomes.

[79] A rating of 1 is used when the result is found to be satisfactory; 0.5 represents a rating of "fairly satisfactory" and is assigned when a project makes substantive but partial progress which is, nonetheless, significant enough to ameliorate the development problems that gave rise to the operation in the first place; a 0 rating is assigned when the results for the specific criterion or the aggregate assessment are found to be unsatisfactory.

[80] ES-0088: Program for the Expansion of the Energy Sector; ES-0090: Judicial Reform Program; and ES-0053: Health Sector Modernization Program.

[81] The FISDL-related projects are: ES-0109: "Local Development Program" and ES-0120: "Local Development Program II".

[82] Although it should be noted that the FISDL II included an increase in the counterpart contribution, so that in the future the expenses are incurred by the municipio.

[83] ES-0068: "Potable Water and Sanitation Program"; ES-0074: "Environmental Pollution Control in Critical Areas"; ES-0119: "Agribusiness Reengineering Project"; and ES-0087: "Housing Program".

[84] In response to this situation, the municipios have been organizing themselves into macro-communities in an effort to neutralize the country's fragmentation into its 262 mayoral districts.

[85] The reallocation of operational funds for use in repairing infrastructure damaged by natural disasters accounts for virtually all of the reallocations, which totaled 8% of the portfolio of approved operations for that period. This suggests that the natural disasters that hit the country at that time played an important role in triggering the removal of institutional barriers to operations awaiting approval or awaiting the ratification of counterpart funds in the years leading up to 2001.

[86] The remaining percentage represents projects that are still at too early a stage to be evaluated.

[87] This situation arose as a result of differences of opinion with the government concerning some initiatives and political and/or institutional problems relating to the timing of projects' submission for ratification.

[88] The program objectives were not articulated components of a strategy for Bank action in the country aimed at generating outputs that would lead to certain outcomes, with benchmarks to measure progress. Because of the absence of this structure, the Bank was not held accountable for the results and it was less likely that lessons would be learned from the experience.

[89] Fiscal risks include macroeconomic factors (growth and volatility of economic variables), institutions (budgetary process), and public accounts (public revenues and expenditures and their implications). This last category can be subdivided into direct obligations (which are certain to occur) and contingent liabilities, whose materialization depends on the occurrence of an uncertain event.

[90] Annex II presents an analysis of how an exercise of this nature can help, in both methodological and operational terms, to improve the Bank's strategic relationship with the country.

[91] This instrument of analysis stems from the work of J. Tinbergen and others who have followed in his footsteps. It involves constructing a matrix that links the instruments used in the various interventions with the program objectives.

[92] The Ministry of Finance of El Salvador is currently executing an IDB grant in the amount of US$250,000 to strengthen national capacity in financial management and natural disaster risk reduction; see Annex II of the IDB Evaluation of El Salvador, revised version.

[93] The country was working with the World Bank on technological development programs, formation of clusters, and venture capital promotion programs.

[94] Little progress was made in the area of labor reform; hiring and firing costs remain high, and the degree of flexibility in terms of labor and work shifts (expensive overtime) is low.

[95] Remittances put upward pressure on the prices of nontradables, including labor.

[96] A comprehensive social strategy that is integrated into budgetary management. See Chapter III regarding the impact of transaction costs on program execution.

[97] See OVE, RE-303, "Evaluation of the Bank's Direct Private Sector Lending Program 1995-2003."

[98] The methodology for analyzing fiscal risk and contingent liabilities is based on Brixi and Mody (2002). "Dealing with Government Fiscal Risk: an Overview". In Brixi and Schick, *Government at Risk, Contingent Liabilities and Fiscal Risk*. World Bank.

[99] The base scenario does not include contingent liabilities.

[100] In the case of pensions, the sensitivity analysis shows that the option of reducing transition spending by raising the retirement age does not have a significant fiscal impact.

[101] The spending needs in public budgets are generally classified as follows: explicit direct obligations, which the Treasury is legally required to meet; implicit direct obligations, which the government is expected to provide for, although there is no legal obligation until the priority becomes an expenditure and translates into resources to finance them (e.g., certain categories of social spending); and contingent liabilities, both explicit and implicit, which depend on the occurrence of an uncertain event that requires a policy measure in order to be prevented or which must be anticipated, even though its occurrence is uncertain (an example of an explicit contingent liability is a claim on deposit insurance, since that is provided for under the law; an example of an implicit contingent liability is an earthquake, since the government is expected to make provisions for such an event).

[102] Information from the Ministry of Finance of El Salvador.

[103] Information used to construct the matrix of purposes and the instruments used to attain them.