OVE Office of Evaluation and Oversight

Country Program Evaluation

El Salvador

2009-2014

IDB
Inter-American Development Bank
January 2015

This country program evaluation (CPE) was conducted during the preparation of a new country strategy with El Salvador for the 2015-2019 period. The evaluation therefore includes the findings from the strategy in effect from 2010 to 2014 (document GN-2575).
According to the country program evaluations protocol (document RE-348-3), the main goal of the CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."

Accordingly, this CPE aims to analyze the Bank's relationship with the country, from an independent and holistic viewpoint, assessing in particular the program's relevance, efficiency, effectiveness, and sustainability, including both financial and nonfinancial products offered by the Bank during the period under analysis.

This is the third independent evaluation of the country program carried out by OVE. The first (document RE-307) covered the 1992-2004 period, which was characterized by rapid economic growth in the wake of the Chapultepec Peace Accords. The second OVE evaluation (document RE-360) covered the 2004-2008 period; it was marked by the limited results of the ambitious reform program embarked upon in the late 1990s, as well as the political polarization that affected the Bank's program with the country.

As part of this evaluation, the team visited El Salvador on two occasions and interviewed 120 people, including the Governor of the Bank, the Minister of Finance, the Chairman of the Central Reserve Bank of El Salvador, and other top government and central bank officials. The mission also met with representatives of academia and the private sector. Lastly, the team interviewed all the staff at the Bank's Country Office, including the Representative, the chief of operations, sector specialists, fiduciary specialists, and operations analysts.
This evaluation is accompanied by sector annexes on the economy and public finances, the social protection, transportation, water and sanitation, housing and urban development sectors, and a general portfolio analysis annex.

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Abbreviations

AECID	*Agencia Española de Cooperación Internacional para el Desarrollo* [Spanish Agency for International Development Cooperation]
AMSS	San Salvador Metropolitan Area
ANDA	*Administración Nacional de Acueductos y Alcantarillado* [National Water and Sewer Authority]
BANDESAL	*Banco de Desarrollo de El Salvador* [Development Bank of El Salvador]
BCR	Central Reserve Bank of El Salvador
CABEI	Central American Bank for Economic Integration
CPD	Country Programming Document
CPE	Country Program Evaluation
DPL	Development policy loan
EHPM	*Encuesta de Hogares de Propósitos Múltiples* [El Salvador Multipurpose Household Survey]
FDI	Foreign direct investment
FISDL	*Fondo de Inversión Social para el Desarrollo Local* [Social Investment Fund for Local Development]
FMLN	*Frente Farabundo Martí para la Liberación Nacional* [Farabundo Martí National Liberation Front]
FONAVIPO	*Fondo Nacional de la Vivienda Popular* [National Low-income Housing Fund]
FOVIAL	*Fondo de Conservación Vial* [Road Maintenance Fund]
FSV	*Fondo Social para la Vivienda* [Social Housing Fund]
GDP	Gross Domestic Product
IEO	Independent Evaluation Office
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MARN	Ministry of Agriculture and Natural Resources
MCC	Millennium Challenge Corporation
MIF	Multilateral Investment Fund
NFPS	Nonfinancial public sector
ODA	Official Development Assistance
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
SITRAMSS	San Salvador Metropolitan Area Integrated Transportation System
UNISDR	United Nations International Strategy for Disaster Reduction
VMVDU	Deputy Ministry for Housing and Urban Development
WDI	World Development Indicators

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Since the end of the civil war, the country has managed to achieve a stable, although highly polarized, democracy and embarked on an ambitious process of economic reform and liberalization culminating in dollarization in 2001.

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Executive Summary

El Salvador is the smallest and one of the most densely populated countries in Latin America. Since the end of the civil war (1980-1992), the country has managed to achieve a stable—although highly polarized—democracy and embarked on an ambitious process of economic reform and liberalization culminating in dollarization in 2001. Despite its political stability and reforms, the economy continued to exhibit low levels of savings, investment, and growth.

El Salvador is a highly vulnerable country. First, it faces a situation of environmental vulnerability exacerbated by the degradation of its natural resources and the consequences of its high population density. Added to this is the economic vulnerability associated with its strong economic and financial ties (remittances) with the U.S. economy, and its dependence on imports of foodstuffs and hydrocarbons. Moreover, although the country has made strong progress on the main social indicators, it faces the major challenge of violence, social exclusion, and limited human capital.

The country underwent political changes over the 2009-2014 period against the backdrop of the international financial crisis. The main opposition party came to power for the first time since the end of the civil war in a context of recession, international crisis, and fiscal imbalance. In this situation, the government's objectives for the five-year period reflected the need to increase tax collection and reduce the fiscal deficit, while strengthening social policy and seeking to promote economic growth.

The IDB started the period with a small portfolio of very old investment loans, as a result of legislative obstruction between 2004 and 2008. In this context, the Bank's country strategy focused on six sectors: public finances, transportation,

The Bank's projects have, in general, been successful at achieving their specific objectives, particularly in the transportation and social protection areas.

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water and sanitation, energy, urban habitat, and social protection. For reasons that are not entirely clear, this prioritization left out certain important sectors (such as the environment). Given the prevailing crisis, a portfolio of US$1.080 billion was proposed, with a considerable front loading of approvals.

The implemented program was larger (US$1.360 billion, US$500 million in PBLs) and the additional amounts were confirmed at the end of the period, partially neutralizing the front-loading strategy. Over half the approved program (22 sovereign-guaranteed loans) was aligned with the strategy, although only 13 loans were ratified/achieved eligibility. The strategy's programmatic intent was reduced by programming in sectors not included in the country strategy and the failure of eight investment projects to obtain approval, one of which has already been canceled.

Disbursements of around US$724 million were made over the period, of which US$500 million were from the PBLs, with the remainder concentrated in social protection and transportation. For the investment projects that achieved eligibility, the Bank's portfolio in El Salvador has shown excellent levels of financial execution (significantly higher than in comparable countries).

Evaluating the results of the country portfolio is difficult given its youth and the limitations of the program relative to the sector challenges. The Bank's projects have, in general, been successful at achieving their specific objectives, particularly in the transportation and social protection areas. In view of the limited disbursements by the Bank relative to the sector challenges, it is not clear to what extent the specific achievements have or will have an impact at the country level. However, the Bank did make an important contribution to strengthening social and gender policies, which were implemented during the period.

A series of cross-cutting lessons have emerged from the review of the Bank's program with the country. First, fiscal difficulties can have an effect on the portfolio's relevance, efficiency, and sustainability. Second, the portfolio shows a number of weaknesses in terms of prioritization both generally and within each project. Lastly, in a context of political polarization it is essential to achieve consensus on basic public policies, ensure coordination between the various actors, and redouble prioritization efforts.

Based on these findings, and in order to help increase the effectiveness, efficiency, and efficacy of the Bank's Country Program with El Salvador, OVE recommends:

- **Recommendation 1: Articulate the country strategy and programming around a set of actions identified through an exhaustive diagnostic assessment of El Salvador's structural challenges.** The Bank's strategy with El Salvador should clearly identify the criteria for selection of sectors, priority-setting for projects, and participation of the Bank's various sectors on the basis of this assessment, the Bank's comparative advantages, the role of other actors, and the country's priorities. OVE's analysis points to low economic growth as one of the country's key structural challenges, which seems strongly determined by low labor productivity, limited human capital, a deteriorating business climate, significant infrastructure gaps, violence at epidemic levels, and strong fiscal constraints that limit investment capacity. It is important to deepen the efforts to attack the country's challenges in an integrated manner, seeking an intervention strategy that will help El Salvador capitalize on its comparative advantages, while at the same time ensuring medium-term fiscal sustainability. OVE's analysis suggests that the Bank could support the country to ensure fiscal sustainability by helping to resolve the pension problem, improve public spending efficiency, and work out substantive tax reform.

- **Recommendation 2: Mitigate the impact of fiscal and budgetary matters on the Bank's program, particularly as regards its sustainability.** More specifically:

  - In policy-based projects, it is suggested to make sure that substantive reforms are supported throughout the programmatic cycle, to avoid having budget support objectives prevail over the reform objective inherent to the instrument.

  - Given the medium-term fiscal outlook, it is suggested that investment projects incorporate the budget implications of investments (for example, direct subsidies, infrastructure maintenance, salaries for additional staff) during the design of the operations, with a view to facilitating their execution and guaranteeing their sustainability.

The government's objectives for the five-year period reflected the need to increase tax collection and reduce the fiscal deficit, while strengthening social policy and seeking to promote economic growth.

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- **Recommendation 3: Continue to deepen efforts to mitigate the impact of delays in the approval of the Bank's program.** Although approval delays are exogenous to the Bank, it has been working to mitigate them. Given the impact and costs of an operation not being ratified, the Bank should continue to experiment with new ways to mitigate this risk. Some possible proposals include front-loading programming, reducing the number of projects, or increasing the size or use of technical cooperation funding to intensify the dialogue. Provided there are reasonable expectations of ratification, the Bank may step up efforts underway to accelerate fulfillment of the eligibility conditions during the ratification period, speeding up the deployment of operations.

- **Recommendation 4: Reinforce priority setting and risk analysis in the country strategy.** It is suggested that risk analysis be reinforced to transform it into a management tool that would make it possible to reduce the impact of those risks on the Bank's program. To this end, it is suggested that two key risks be considered in detail: the risk of fiscal deterioration and the risk of legislative obstruction. In each case, it is suggested: (i) that the implications on the program be analyzed; (ii) that an action plan be formulated for the Bank to follow in the event that the risks materialize; and (iii) that specific mitigation measures be proposed based on the Bank's financial instruments (loans, technical cooperation operations, etc.) and nonfinancial instruments, priority sectors, and overall financial envelope for the period of the strategy.

- **Recommendation 5: Strengthen dialogue with the government in order to carry out pilot experiences and dimension interventions for which there is no solid ex ante evidence of their development impact.** Analysis of the country program revealed instances in which loan components were included for which there was not enough ex ante evidence of their contribution to the programs' objectives. Where necessary, opportunities and instruments should be generated that are required to carefully evaluate the pilots of these interventions and scale only those warranted on the basis of their effectiveness.

The share of traditional exports (coffee, shrimp, and sugar) in total exports dropped marginally to 9%, while the significant drop in the share of gross *maquila* exports (from 50% to 21%) was offset by the steady rise in nontraditional exports (e.g. textiles, plastics, and paper), which rose from 30% to 70%.

1 General Country Context

A. Structural considerations[1]

El Salvador is a small, densely populated, middle-income country, with a service economy. It occupies 20,720 km^2 on the Pacific coast of Central America, and is the smallest country in Latin America. With 6.3 million inhabitants distributed across an area equivalent to less than 20% of Honduras's land area, it is the second most densely populated country in the region. It has a GDP per capita of US$7,500 in purchasing power terms (the second highest in Central America after Costa Rica), making it a lower-middle-income country according to the World Bank. GDP per capita is only 60% of the Latin American and Caribbean regional average, and this gap has widened in recent years. El Salvador has experienced major changes over the last 30 years, from being an agricultural economy basically reliant on coffee production to a service economy focused on trade and financial services.

Since the Chapultepec Peace Accords ended the civil war (1980-1992), the country has enjoyed a stable—albeit ideologically polarized—democracy. The 1992 Peace Accords allowed the Farabundo Martí National Liberation Front (FMLN) to participate in the country's political life. The FMLN became the main opposition party until 2009, when it succeeded in winning the elections. Although El Salvador has successfully consolidated its democracy, it suffers from significant polarization between the two main political parties. In fact, the available measures of political polarization consistently situate the country among the world's most polarized. This tendency is worrying, as the specialized literature associates ideological polarization with smaller states, higher levels of inequality, slower economic growth, bigger fiscal deficits, and a higher likelihood of delays in the process of fiscal consolidation.[2]

With the advent of democracy a process of structural reform was begun. With the support of the IDB, the World Bank, and the International Monetary Fund (IMF) in the 1990s, El Salvador returned to macroeconomic stability, opened up its economy, privatized the main public enterprises, modernized its financial sector, and reformed its social security system. Additionally, in 2001 it adopted the U.S. dollar as its lawful currency. These reforms were well received by the markets. In 1997 the country achieved investment grade and in 2001 the Heritage Foundation ranked it first among Latin American and Caribbean countries for its reform capacity and the extent of its liberties.

However, this reform process did not manage to overcome the longstanding challenge of low growth. With the exception of a short period during the reconstruction, the Salvadoran economy has grown more slowly than that of comparable Latin American and Caribbean countries.[3] Over the 1965-2010 period the economy grew 2.2%, 1.2 and 1.6 percentage points below the Latin American and Central American averages, respectively. Meanwhile, per capita growth performed better, as El Salvador had the lowest population growth rate in Central America and one of the lowest in Latin America and the Caribbean, largely as a result of emigration. Indeed, it is estimated that there are approximately 2.5 million Salvadorans living abroad, mostly in the United States.

Sluggish economic growth is associated with the low levels of saving and investment and with competitiveness issues. Total investment averaged 15.5% of GDP over the 2000-2013 period, in comparison with 22.1% for Central America and 21.1% for Latin America and the Caribbean. The gap between investment rates in Latin America and the Caribbean and El Salvador is not just large, but has doubled over the last decade. The low level of public investment stands out; as a result of fiscal constraints it has fluctuated between 2.2% and 2.6% of GDP over the 2009-2013 period. The country also has a low—and declining—savings rate, with negative public savings in almost every year since 2000. Various factors have been identified as the causes of the low levels of investment and growth. However, the most important include the tradable goods sector's competitiveness issues, a deterioration in the overall business climate, and high levels of violence and crime.

After a considerable real appreciation between 1992 and 2000, the real effective exchange rate has shown no significant changes since dollarization. The IMF considers the real effective exchange rate to be close to its equilibrium value and in line with the country's economic fundamentals.[4] However, it should be kept in mind that the equilibrium value of El Salvador's real exchange rate reflects the impact of substantial family remittances, which have hovered between 15.5% and 16.8% of GDP over the last five years, and have primarily been channeled into private consumption, driving up the prices of nontradable goods.

Furthermore, evaluations based on structural indicators suggest low levels of competitiveness. El Salvador's share of exports on the world market declined over the past decade, while its composition changed. The share of traditional exports (coffee, shrimp, and sugar) in total exports dropped marginally to 9%, while the significant drop in the share of gross *maquila* exports (from 50% to 21%) was offset by the steady rise in nontraditional exports (e.g. textiles, plastics, and paper), which rose from 30% to 70%.

The high level of insecurity not only takes a heavy human toll, but also represents an obstacle to competitiveness. The country has the second highest homicide rate in the world (after Honduras), making this a major social scourge.[5] Insecurity also imposes significant costs on the economy as a whole, estimated at 10.8% of GDP. This is the highest level in the entire Central American region, where average costs stand at 7.7% of GDP.[6] Compared with Latin American and Caribbean averages, Salvadoran firms report higher private security costs and greater losses as a result of crime.[7] The cost of crime falls disproportionately on the poorest members of society (e.g. extortion in areas controlled by *maras* [gangs]).[8] In addition to violence, other institutional factors affect firms, including weak regulatory environments, corruption,[9] and higher contract enforcement costs.

Despite significant progress in the last few decades, the country continues to face the challenges of limited human capital, poverty, informality, and gender inequality. Progress has been made in relation to many social indicators in recent decades: the illiteracy rate has fallen consistently, reaching 12.4% for the country as a whole; life expectancy at birth is 72.1 years, and the infant mortality rate stands at 13.6 per thousand; long-term trends in poverty and inequality are declining. Nonetheless, the country still exhibits a significant human development gap compared with the rest of the region and, at the start of the evaluation period, some of the social indicators had worsened. The household poverty rate had dropped significantly beginning in the 1990s, reaching 30.7% in 2006. However, in 2008 it rose to 40% as a result of the financial crisis and rising food prices, although it has dropped since then.[10] Poverty has also gradually been transformed into a predominantly urban phenomenon: 55% of all people living in extreme poverty and 54% of all people living in poverty are located in urban areas.[11] Although formal unemployment is low (6.1%), the underemployment rate is high (30.1%), as in other countries of the region. Moreover, the high levels of informality in the labor market persist, reaching 50% of the economically active population in urban areas.[12] Lastly, gender inequality remains a major challenge, with women more likely to be affected by illiteracy and labor market inequalities.

The high population density has increased the pressure on public services in urban areas, causing significant challenges. During the 1990s the country underwent rapid internal migration to urban areas. In the absence of a regulatory framework or regional planning, a process of informal settlement took place (an estimated 350,000 lots). Although these illegal settlements enabled the housing shortage to be relatively low (8%), there are serious problems with the quality of housing, the lack of access to basic services, and environmental vulnerability.[13] As regards water and sanitation, while the coverage by water and sanitation services is relatively high, the lack of waste water treatment has resulted in the contamination of water sources. In the case of transportation, the San Salvador Metropolitan Area (AMSS) is characterized by inefficient public transport that exacerbates the city's congestion.

Environmental vulnerability is an additional challenge. The environmental indicators consistently rank El Salvador's economy among the most vulnerable, with an average of 1.63 disasters a year, resulting in annual losses of approximately US$178 million (almost 1% of GDP).[14] The causes of environmental vulnerability are both geographical and anthropogenic. For one thing, the country is located in an area of seismic activity that is also prone to tropical storms. In addition, high population density creates pressure to use natural resources unsustainably (deforestation, urban development in vulnerable areas). Lastly, weak management of natural resources has led to a marked deterioration (e.g. deforestation), further exacerbating the impact of natural disasters.

El Salvador is characterized by a high level of economic vulnerability, particularly due to its strong economic links with the U.S. economy. The United States is the main market for the country's exports and remains the main source of foreign direct investment (FDI), despite the drop in FDI lows in recent years. The United States is also the main destination for El Salvador's emigrant population, who send 90% of family remittances. These remittances constitute one of the main determinants of households' private consumption. Other sources of vulnerability relate to the country's dependence on imports of food and hydrocarbons. This factor represents a challenge to the financing of the current account, which is exacerbated by limited sources of stable financing such as FDI.[15]

B. Period under review (2009-2014)

The period under review was characterized by the first handover of power between political parties since the Peace Accords. The FMLN was victorious in the presidential elections of March 2009, obtaining 51.3% of the votes. This paved the way for the first democratic transfer of power between political parties. The FMLN also won the 2014 elections, albeit by a narrower margin (50.1%).

During the period under review, the downward trend in growth, investment, savings, and competitiveness accelerated. From 2008 onwards, the Salvadoran economy was buffeted by the global economic crisis and its impact on the U.S. economy. After contracting by 3.1% in 2009, the economy grew slowly between 2010 and 2013 (1.8%). Over the same period investment dropped to an average of 14% (despite a gradual recovery starting in 2010) and savings fell from 11.9% to 8.6% from 2009 to 2013. The main international indicators of competitiveness have also worsened significantly: between 2006 and 2013, El Salvador dropped 34 places in the World Economic Forum's Global Competitiveness Index, and 41 places in the World Bank's Doing Business Index.[16] Against this backdrop, the government launched an anti-crisis plan strongly emphasizing social spending, while calling upon the IMF for support in the form of two precautionary programs (January 2009, March 2010).

Despite slow economic growth in the 2009-2013 period, the government succeeded in raising tax revenues, although they remain relatively low. In late 2009 El Salvador's Legislative Assembly passed a package of tax measures aimed at narrowing the fiscal deficit (5.7% of GDP in 2009). These measures, together with other measures passed in 2011, improvements in the tax administration, and the economy's recovery from the crisis, helped to increase tax collection by approximately 2.75% of GDP, to reach 15.4% of GDP in 2013. Despite these efforts, tax revenues are among the lowest in the region. As an additional step to increase tax revenues, in July 2014 the Assembly passed new tax measures eliminating certain exemptions and including new taxes (e.g. a tax on financial transactions).

Increased public expenditure partly compromised the deficit reduction objective. The government's response to the crisis was to expand total public spending from 20.6% to 22.1% of GDP between 2008 and 2009 (see Table 1). Contrary to what the government had initially anticipated, spending levels remained virtually unchanged until 2011 and later even trended upward, reaching an estimated 23.3% of GDP in 2013. As a result of persistent fiscal deficits, public debt remained on an upward trend, rising from 42.4% of GDP in 2008 to 58.4% in 2013. External debt grew from 24.5% to 31.3% of GDP over the same period. Primarily as a result of improvements in tax collection, the government was able to reduce the overall nonfinancial public sector (NFPS) deficit during the period, although it remained high at 4% of GDP in 2013. Approximately half (1.8%) of this deficit corresponds to the pension system, and is financed through a special trust. Public debt associated with this trust already represents 10.8% of GDP.[17]

Rising expenditure is mainly linked to an expansion in government social spending and the rise in the wage bill. Spending on both education and health has increased over the period. Spending on current transfers (excluding pensions) has also risen, from 2% to 3% of GDP. Subsidies for electricity, water, transportation, and propane gas represent spending equivalent to 1.5% to 2% of GDP. There was also an increase in current payroll expenditure, from 7.7% of GDP in 2008 to 8.8% in 2013. The expansion in public spending took place in a context of challenges in terms of targeting and rigidities, as a consequence of various formal and functional allocations.[18]

Table 1. Main socioeconomic indicators, 2010-2014

Social indicators	2010	2011	2012	2013
Population (millions)	6.18	6.21	2012	6.28
GDP per capita (2005 US$, purchasing power parity, IMF)	7237	7352	6.24	7515
Poverty rate (national line)	36.5	40.6	7441	29.6
Gini coefficient	0.46	0.44	34.5	-
Economic indicators	**2010**	**2011**	**2012**	**2013***
Nominal GDP (US$ million)	21418	23139	23813	24259
Real GDP growth (%)	1.4	2.2	1.9	1.7
Inflation (CPI, end of period)	2.1	5.1	0.8	0.8
Fiscal accounts (NFPS, % GDP)				
Total revenue	17.8	18.3	18.9	19.3
of which taxes	13.5	13.8	14.4	15.4
Total expenditure	22.0	22.2	22.3	23.3
Overall balance	-4.3	-3.9	-3.4	-4.0
Gross public debt	52.5	52.5	57.8	58.4
External accounts (% GDP)				
Current account balance	-2.5	-4.8	-5.4	-6.5
Exports (incl. maquila, net)	21.4	20.4	19.6	19.7
Imports	37.9	39.0	38.5	39.7
Family remittances	16.0	15.8	16.4	16.3
Foreign direct investment	0.5	1.7	2.2	2.3
Saving and investment (% GDP)				
Total gross investment	13.3	14.4	14.1	15.1
Private	10.9	11.9	11.6	12.5
National saving	10.8	9.6	8.7	8.6

Note: * Projections
Source: WDI, FMI, BCR, EHPM, MEH

C. Medium-term outlook: opportunities and challenges

In the medium term, the country faces the challenge of raising investment and growth rates in a context of violence and a migration crisis. As a small and relatively open economy, positioning itself in the global economy will be of particular importance for accelerating growth. In this regard, the country needs to put forward a strategy for increasing the economy's overall productivity and competitiveness. Given El Salvador's comparative advantage in labor-intensive sectors, it will also be essential to strengthen the capacities of the population and ensure its effective access to job markets. Improved labor-market access could also help to mitigate the effects of insecurity, which remains a complex and multisectoral challenge. The recent migratory crisis Central America has been facing further underlines the urgency of addressing this challenge.

The future course of the country's political polarization will be decisive for the next administration, highlighting the importance of opening up a process of dialogue and consensus building on the main public policies. The March 2015 parliamentary elections will define the structure of the Assembly for the next few years. This will have an influence on future debates on the budgetary process, public investment decisions, and external borrowing. Against this backdrop, opening up channels for dialogue and consensus building on the main public policies is vital in the medium term.

Measures taken to narrow the structural fiscal deficit will be decisive in the medium term. In the short term, the fiscal strategy for the next few years needs to be defined. It could be based on interventions related to public spending (e.g. raising efficiency and reducing the growth rate of certain items with respect to GDP) or income (e.g. additional improvements to reduce tax evasion, increase in certain tax rates, broadening of the tax base). In the medium term there are other major challenges, such as those relating to the pension system, which requires substantive reforms in order to expand its coverage and make it more equitable and actuarially viable. Thus, if a strategy of raising investments through public-private partnerships is pursued, the associated contingent liabilities need to be carefully evaluated. A draft bill of a Fiscal Responsibility Law, currently being debated in the Assembly, may play an important role towards achieving a sustainable fiscal position in the medium term.

Reversing environmental degradation and improving citizen security seem to be long-term strategic bets, priority areas, and priority objectives of the five-year plan.
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2 The Bank's Program (2010-2014)

A. Strategic documents

The Bank's Management presented its Country Strategy with El Salvador for the 2010-2014 period in June 2010. The document (GN-2575) focused on six sectors: (a) public finance; (b) social protection; (c) urban habitat; (d) water and sanitation;(e) transportation; and (f) energy. Management justified the choice of these sectors by arguing that these areas *"are covered by the administration's Five-year Development Plan, respond to the challenges identified in the research, and were agreed upon in view of the administration's priorities and the value-added that the Bank can provide […]."*[19] In fact, most of the main sectors directly match both the pillars of the national strategy and several of the priorities of the strategy, such as improving the social protection system, strengthening public finances, and supporting production and employment through public investments in housing and infrastructure, citizen security, and the environment and natural disasters.[20] However, given the strategy's generality, its alignment with the Five-year Plan is no surprise.

Although the Bank's strategy and the five-year plan are, in general, aligned, there are some sectors where the alignment was less obvious (citizen security, agricultural productivity, and the environment). Reversing environmental degradation and improving citizen security seem to be long-term strategic bets, priority areas, and priority objectives of the five-year plan. However, this prioritization did not translate into the pillars of the Bank's Country Strategy. The environment is not considered in the strategy, while citizen security is mentioned in the context of social programs, although it was subsequently programmed in these sectors. The country strategy makes no mention of agriculture, which was prioritized by the government in its five-year plan as part of its strategy to reduce dependence on food imports. The reasons why these sectors prioritized by the government were excluded from the country strategy were not clearly stated.

The annual programming documents (CPDs) still have weaknesses in terms of their consistency with the country strategy, their consistency with CPDs from previous years, and the quality of the outcomes reported. Even though CPDs are prepared annually, they sometimes contain projects that are not obviously linked to the pillar they are supposed to support. For example, the name and description of the tourism development program (ES-L1066) was different in the 2012 and 2013 CPDs. What is more, according to the CPDs this operation contributes to the "Public Finance" pillar as it would increase tax collection by creating new jobs. Not only is the operation's connection to new jobs far from obvious, but even if it were to create jobs, the fiscal impact would be negligible (it would increase tax collection/GDP by 0.02% relative to a baseline of 12.2%).[21] Other projects have similar weaknesses in terms of a disconnect between the project's objective and the strategy (ES-L1075, ES-L1085). As regards results reporting, despite having an extensive table of indicators and targets, the CPDs only focus on recent operations and do not take into account older operations that may be having an impact on outcomes. The points mentioned in this paragraph are similar to the OVE's recent findings in other countries and suggest that the weaknesses relate to the guidelines for preparation and the content of the CPDs.

The main financial variables exceeded all the scenarios proposed in the strategy. The strategy envisioned a base estimated lending framework for sovereign guaranteed loan approvals of US$1.08 billion in the 2010-2014 period, with total disbursements of US$998 million. Due to the international crisis context that prevailed when the country strategy was approved, the idea was to front-load approvals and disbursements. The aim was to approve 65%-70% of the total in the first two years. Approvals came to around US$1.360 billion, with the biggest differences in the last three years of the strategy. Therefore, ex post the program was not as front-loaded as planned (50% in the first two years). More generally, all the financial variables of the portfolio (disbursements, approvals, repayments, and net cash flow) fell outside the estimated parameters for all three of the scenarios. The usefulness of the financial scenarios was reduced by the lack of a baseline for the adjustment variable in the various scenarios (i.e., amount of PBLs).

In general terms, the strategy formulation process continued to suffer from weaknesses. Although the strategy identifies the risks (political, economic) correctly, this is of limited use given the lack of mitigation measures, which are the main purpose of identifying the risks. Similarly, the usefulness of the targets and indicators in the new country strategies is limited by the disconnect between the strategy and programming.

B. The implemented program

The IDB is El Salvador's main development partner and an important source of financing. The country's debt of US$2.233 billion to the IDB accounts for 61% of total NFPS debt from multilateral agencies, and 21% of total external debt. Sovereign-guaranteed (SG) Bank disbursements averaged US$170 million per year over the 2010-2013 period, equivalent to 0.7% of GDP, 43% of public investment or 4.9% of central government current revenue.[22]

At the start of the review period, the Bank held a small loan portfolio that was coming to the end of execution. After having reached the figure of 20 active loans in the 1990s, the investment loan portfolio dropped to 10 loans in 2009. Of these, only three loans in water and sanitation, environment, and housing had disbursements pending.[23] Consequently, when considering the Bank's strategy, the active investment portfolio was extremely old, with an average age of 11.2 years (see Figure 1).

Figure 1:
Age of investment portfolio.

Source (OVEDA)

The size and age of the portfolio is explained by the political polarization existing between 2004 and 2008, which prevented the necessary majorities from being reached for external borrowing to be approved and for the Bank's loans to be ratified. The country did not ratify any of the investment projects (4) the Bank had approved in the 2004-2009 country strategy. These were reformulated as PBLs and emergency lines (3) towards the end of the period, in view of the imminent government turnover and the onset of the international financial crisis.[24] In practice, this reformulation altered the Bank's programmatic emphasis. In this context, OVE's country program evaluation considered the possibility of political gridlock as one of the fundamental challenges for the next country strategy (document RE-360, paragraph 5.3.)

The approved sovereign-guaranteed portfolio remained skewed towards fast disbursing operations even where not entirely consistent with the country strategy. Three PBLs were approved for a total of US$500 million, for fiscal reform (2010), energy reform

(2011), and fiscal/climate change issues (2012). In addition, there were a pair of credit lines for the public development bank (BANDESAL, US$100 million in 2014) and a contingent credit line to support the BCR's role as lender of last resort (ES-X1007, US$100 million, 2013). Apart from fast-disbursing loans, the investment portfolio (US$660 million, 48.5% of the approved portfolio) was concentrated in 17 investment loans in transportation (32%, four loans), social protection (26%, five loans), housing (11%, one loan), and health (9%, one loan). Of the approved amounts, 43% were concentrated in sectors that had not been prioritized by the strategy (e.g. environment, financial markets, etc.). See Annex Portfolio.

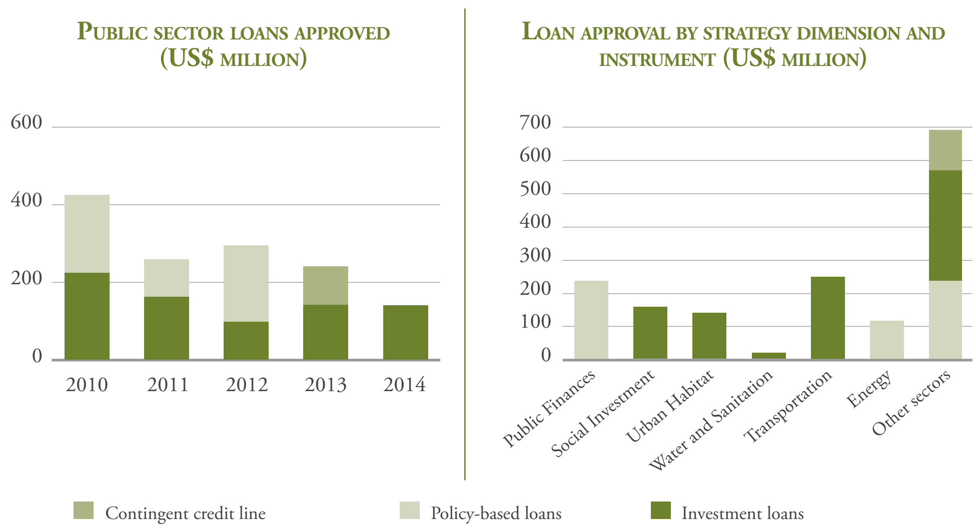
The Assembly ratified 60% of the loans, including all the PBLs, which were very quickly ratified. Of 22 projects, one did not need legislative ratification (the BCR credit line), 13 obtained legislative ratification in 7.6 months—3.9 months for the PBLs and 8.8 months for the investment loans. Seven projects have been waiting an average of 13.6 months since Bank approval without having been ratified; three of them have spent almost two years waiting since Bank approval (ES-L1025, ES-L1063, ES-L1058). Only one project (ES-L1044) was canceled during this period.

The long parliamentary ratification periods negatively affected the relevance, efficiency, and effectiveness of the Bank's portfolio in the country. First, the existence of a large portfolio of loans pending ratification raises the probability of cancellations and reprogramming, as happened during the previous programming period, which has an impact on the relevance of the Bank's program. Also, preparing projects has a cost for the Bank in terms of staff time and technical cooperation operations, which are not used efficiently in the event of a cancellation. Indeed, OVE estimated that the cost incurred in cancellations, assuming that the three operations that have been awaiting ratification for almost two years are eventually canceled, will come to US$4.2 million. Lastly, late ratification can also affect project effectiveness, given the changes in the context for which they were designed.

Figure 2:

Summary of approvals during the period

Source: OVEDA



Apart from delays in legislative ratification, the portfolio of projects in execution was disbursed rapidly, at a faster rate than in comparable countries. OVE estimates that approximately 95% of the disbursements that could have been made under a very fast execution scenario were made (85% if PBLs are excluded).[25] OVE also compared the portfolio of investment loans in El Salvador with 1,000 portfolios of similar structure built based on projects in CID's C and D countries (see Figure 3). This exercise shows the El Salvador portfolio to be above average (50%) for the distribution of synthetic portfolios, indicating, almost uniformly, higher levels of disbursement for any point in time since eligibility.

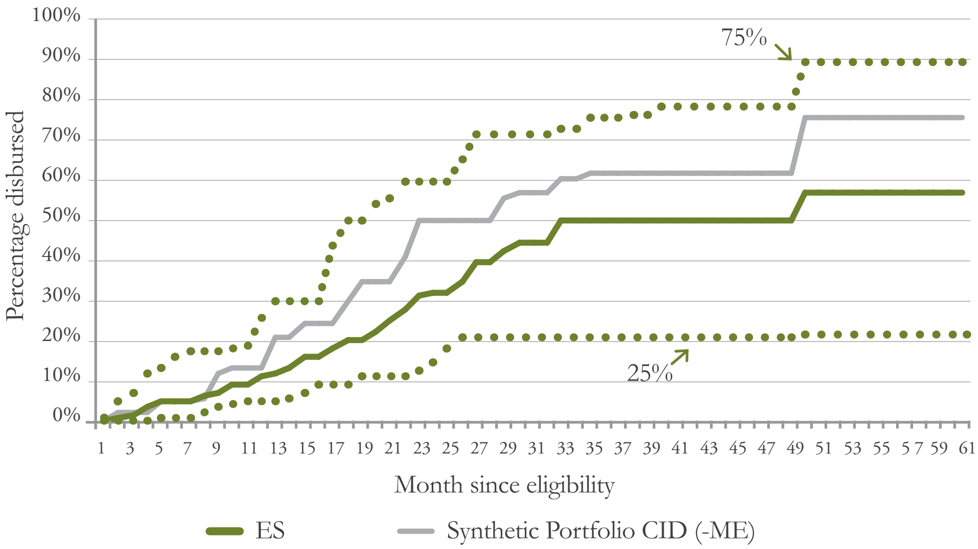


Figure 3:
Analysis of synthetic portfolios

Despite the portfolio's excellent performance in terms of disbursements, a number of specific challenges in portfolio execution were confirmed that were handled correctly by the Bank. A general review of the portfolio shows certain specific challenges relating to counterpart problems (ES-L1056 and ES-L1027), political risks that could affect the executing unit (ES-L1027, ES-L1017) or relating to the slow and difficult procurement processes (e.g. ES-L1045, ES-L1046, ES-L1022). These challenges were mitigated by the Bank through fiduciary training, joint work with the Court of Accounts, and, mainly, country support in the introduction of an article in the budget law allowing calls for tender on the basis of the loan resources available and not the budgeted amount for the current year. In some cases progress was made on preinvestment activities and compliance with eligibility conditions during the ratification period (e.g. ES-L1050).

The Bank's total disbursements (at October 2014) came to US$724 million, although PBLs accounted for US$500 million. Of the remaining US$224 million (US$204 million in loans and US$20 in investment grants), over 90% was concentrated in four sectors: social protection (32%), transportation (30%), urban habitat (17%) and water and sanitation (13%). If PBLs are included, 56% of disbursements were for public finance, 15% for energy, and 10% for social protection.

Nonreimbursable assistance was mainly concentrated on support for portfolio design and execution, and was not that relevant to bolstering country dialogue. In addition to the investment grants for water supply and sanitation and the "Salud Mesoamerica" health program (US$30.5 million), the portfolio comprised 51 technical cooperation operations for US$15.72 million, and 12 MIF operations for US$6.26 million).[26] The majority of the technical cooperation operations were to support the Bank's Country Office in El Salvador and operation design or execution (36 operations, US$11.35 million). The Bank also supported a number of institutional strengthening initiatives (e.g. Technical Secretariat of the Office of the President, civil registry, environmental fund, Court of Accounts) and certain nonreimbursable projects (decentralization and municipios, financial inclusion). However, the part not associated with the portfolio was very limited (US$4.15 million, 16 technical cooperation operations).

C. Other donors

The main donors present in El Salvador are multilateral agencies (loans) and the governments of the United States and Spain (grants). Over 90% of loans were from three multilateral agencies operating in the country (the IDB, the World Bank, and the Central American Bank for Economic Integration – CABEI) with loans totaling US$3.167 billion. Grants from the United States and Spain comprise 85% of the total. The grant initiatives include, in particular, the Millennium Fund compacts (FOMILENIO), the second phase of which has just been approved. In terms of the presence by sectors, most was concentrated in social investment (IDB, World Bank, CABEI), support for public finances (IDB, World Bank), transportation (CABEI, IDB, AECID) and environment/natural disasters (IDB, World Bank, JICA). Excluding the IDB, each cooperation agency participated in an average of 2.3 sectors, the multilaterals having the slightly higher number (four for the World Bank and five for CABEI). The IDB was present in 13 of the 14 possible sectors.

El Salvador is experiencing a drop in official development assistance flows, which are already among the lowest in Central America. Official development assistance (ODA) dropped from US$284 million in 2009 to US$232 million in 2012. This tendency is partly due to the 2009 crisis, but is also related to more structural factors associated with the country's economic achievements in the 1990s. Indeed, ODA per capita has dropped from around US$100 per capita in the early 1990s to US$35 in 2005-2009. Although there has been some growth since then, El Salvador has Central America's lowest ODA after Guatemala. This trend is worrying given the country's challenges, particularly in the environment and water and sanitation sectors.

United States grants through FOMILENIO served as an anchor for coordination between the operations of the various donor agencies. The first compact (US$461 million, approved in 2007) targeted its resources on connectivity along the country's northern axis, where poverty rates are higher. Many of the Bank's operations—particularly in transportation—are located in the same area. The second FOMILENIO compact is the financing backbone of the Government of El Salvador's strategy approved in 2013, for the comprehensive development of the marine/coastal strip. A number of recently approved IDB projects are part of this framework, such as the tourism and productive corridor operations (ES-L1066, ES L1075).

3

The five-year plan's priority projects included modernizing the urban transportation system to reduce congestion and improve mobility in the AMSS, and upgrading rural roads.
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3 Outcomes

The analysis of outcomes is limited by the early stage nature of the portfolio and the usual attribution difficulties. First, with the exception of the PBLs (70% of disbursements), only one project has concluded (Salud Mesoamerica) and it only did so recently. There are just two water and housing loans from the inherited portfolio that correspond to approvals from the early 2000s. The investment projects had average annual disbursements of US$44 million and were concentrated in the social protection, transportation, urban habitat, and water supply and sanitation sectors. The small sums involved make it impossible to attribute progress in the targeted sectors to the IDB.

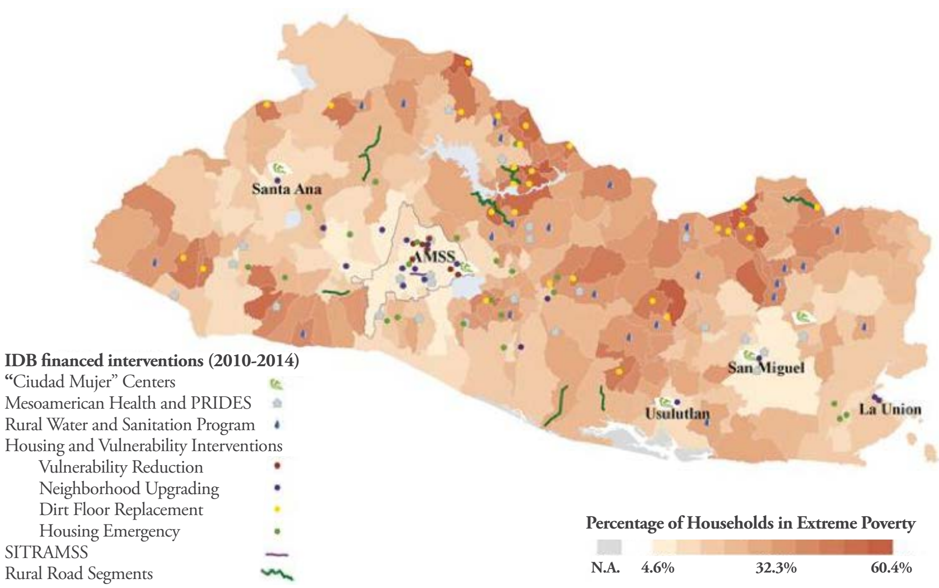


FIGURE 4:

Territorial distribution of the Bank's investments

The Bank's activity was not necessarily concentrated in the municipios with the highest poverty rates; 48% of the financing benefitted the poor. Although projects were approved in urban areas where there was a larger number of people living in extreme poverty, not all of them included components targeting the poor (a smaller percentage of the total urban population), and a large share of the portfolio consisted of PBLs. Of the projects that can be located geographically, the rural road and flooring improvement projects and, to a lesser extent, the water and sanitation projects were situated in the poorest areas of the country. Some of the interventions were concentrated in the AMSS and in the major cities.

The indicators for the strategy's six priority sectors have shown uneven progress in terms of outcomes, with strong advances in urban habitat and social protection. OVE gathered outcome indicators on the main pillars of the strategy, of which 14 match up with the country strategy indicators. A progress indicator was developed with 2008 as the base year, and subsequent changes were studied. Two sectors showed significant progress: urban habitat, where progress was reflected in the reduction in the housing shortage; and social protection, where the progress was basically reflected in the drop in extreme poverty and maternal mortality. The energy sector saw slight progress, in the form of rural electrification, an area in which the Bank did not operate in this period. Lastly, the public finance sector made limited progress and transportation worsened. In the case of public finance this was due to the persistent deficits, and in that of transportation, to the deterioration of the paved road network.

The Bank program outcomes in each of the sectors prioritized by the strategy are discussed below. Some of the portfolio's cross-cutting findings will then be given.

Figure 6:

Progress in the strategy's outcome indicators (Index 2008 = 100)

A. Program outcomes by strategy sector

1. Public finance (including financial support to the BCR)

At the start of the review period the government set out to reduce the fiscal deficit through a combination of tax reforms in the context of agreements with the IMF. In January 2009 a precautionary stand-by agreement for US$800 million was approved, backed by the presidential candidates so as to reduce uncertainties in an electoral context. However, a combination of increased spending and falling tax revenues pushed up the deficit, which was double the target set in the agreement with the IMF. In March 2010 this agreement was replaced with a new stand-by agreement for a similar amount (also precautionary) that aimed to gradually reduce the fiscal deficit over a period of three years. Specifically, the fiscal program's objective was to reduce the deficit to 4.7% of GDP in 2010 and to continue consolidating public finances in order to achieve a deficit of 2.5% in 2012. In the medium term, the program envisioned a broad fiscal reform to generate additional income (1.5% of GDP) through a fiscal pact on complicated issues, such as the possibility of expanding the tax base, raising the value added tax rate, and redirecting spending. Although the government approved a tax package in 2009 and adopted another package with complementary measures in 2011, the 2011 fiscal deficit exceeded the envisaged targets and, in the absence of agreement on policies for the remainder of the period, the standby agreement with the IMF became nonoperational at the end of 2011 and lapsed in March 2013.

During the review period, the IDB had two budgetary support operations targeting public finances, and one channeling liquidity to the financial system through the Central Reserve Bank of El Salvador (BCR). Over the 2009-2014 period the Bank's de facto strategy had two pillars. First, two fiscal strengthening PBLs were approved (ES-L1047 in 2009, ES-L1071 in 2012), which were supported by a series of four technical cooperation operations, mostly to support the first PBL. The second pillar of the Bank's action was support for the financial system's emergency liquidity, which is highly relevant in the case of a dollarized economy. In late 2008, the Bank had approved an operation to provide funds to the BCR for the acquisition of a portfolio of financial institutions (a US$400 million line approved in the context of the Liquidity Program).[27] Since 2013 the Bank has been providing support through a contingent credit line whose triggers are related to the liquidity situation in the local financial system.[28]

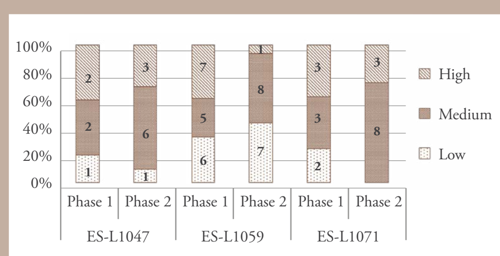
The PBLs had sufficient flexibility to support the Government of El Salvador's financing requirements but did not resolve the fiscal sustainability issue. The first fiscal program supported a series of reforms in the context of the stand-by arrangement with the International Monetary Fund, including the 2009 tax reform (with specific policy and tax administration components), the creation of the Deputy Ministry for Revenue, a cut in subsidies, and increased transparency. Although all the components were fulfilled (except reduction of the liquefied gas subsidies), the implemented reforms were insufficient to achieve a sustainable medium-term fiscal position. The climate change PBL (ES-L1071) supported the 2011 complementary measures, including the creation of a tax on dividends, an increase in the maximum income tax rate, and adjustment of individual income tax brackets to make the tax schedule more progressive. For its part, liquidity support was relevant to achieving the financial stability objective, although execution of the first operation (ES-L1029) was costly for the country and complex due to the legal restrictions constraining the BCR's abilityto act as a lender of last resort.

Box 1. Structural depth of PBLs in El Salvador

To analyze the intensity of the conditionality of these operations, OVE used the methodology of the IMF's Independent Evaluation Office ("Structural Conditionality in IMF Supported Programs, Background Papers", IEO, 2007). Essentially, each condition identified is assigned a rating (high, medium or low) based on the "Structural Depth" (SD) criterion, which is understood as the degree of structural change brought about in the institutional framework as a result of implementing the condition. To ensure the classification is consistent, these ratings were reviewed and discussed by the OVE team.

A total of 68 conditions were identified in budgetary support operations, which were classified according to their structural depth. Additionally, OVE reviewed the documents associated with the reporting of conditions that had been met. Based on the dates provided as evidence for verification, it was possible to build a measure enabling an approximation of the added value of the reforms, while controlling for the disbursement phases.

This analysis yielded two points. First, most of the proposed reforms have an intermediate structural depth (approximately 47%). Second, the structural depth seems to be greater in the second phases of operations (see figure). With the exception of operation ES L1059, the second phase of which was not approved, all the other loans have a larger number of conditions with medium and high structural depth in the second phase. Lastly, there is a correlation between the conditions that have already been met and the phase of the PBL: according to our metric, approximately 26% of conditions had already been met when the loan operations reviewed were approved. This percentage rises to 51% when reforms proposed only in the first phases are considered.



These findings suggest that in structural reform programs the continuity of lines is the key, as the reforms that can be included in the second phase are generally deeper.

The flexibility of the support meant that achieving longer-term sector objectives was postponed due to short-term fiscal needs. The Bank was flexible in preparing and disbursing projects very quickly. For example, the climate change PBL was prepared in three months and the two tranches disbursed within nine months of their approval, faster than anticipated in the project document. Support was given even when there were fiscal setbacks with respect to the IMF program and a policy agreement had not been reached for the rest of the period covered by the stand-by arrangement. Therefore, although the flexibility was financially relevant, it impaired achievement of the reform objectives (see Box 1) and demonstrated limited coordination with other cooperation agencies (see Figure 7).

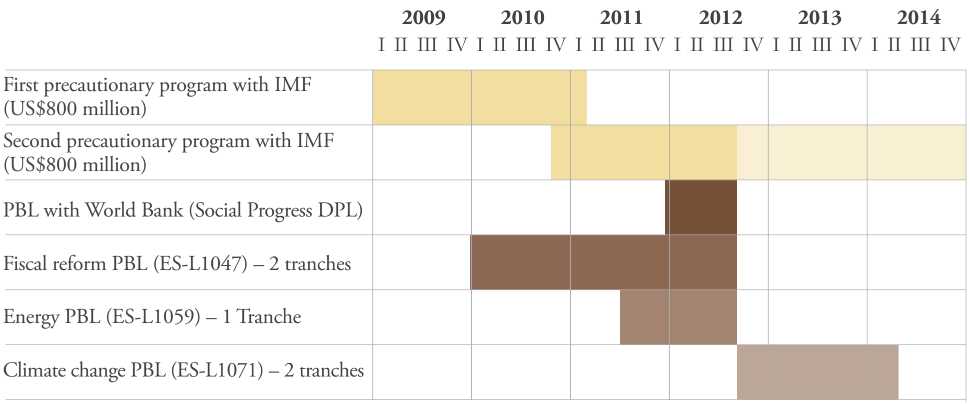


Figure 7:
Chronology of budgetary support in El Salvador

2. Social protection

The government's strategic objective in the social sector, established in the five-year plan, was to reverse the upward trend in poverty observed in recent years and broaden coverage of basic social services. The government sought to accelerate the reduction in social inequalities in the country by stepping up the State's distributional role. This strategy was implemented through a Universal Social Protection System that sought to gradually expand coverage of basic social services to the entire population. The pillars of this policy were health reform, the "Vamos a la Escuela" [let's go to school] program, and other social programs created during the period. With the exception of the education sector, the Bank supported the country in practically all the social sectors, approving operations in the health sector, urban poverty reduction, promotion of gender equality, and workforce integration. Health care reform (ES-L1027) emphasized implementing an integrated and comprehensive health care model, attaching greater importance to primary care.

The Bank also approved loans to combat urban poverty, including support for the "Urban Solidarity Communities" program (ES-L1044). This included components expanding health care supply and supporting early childhood development, along with a violence prevention component. Lastly, the Bank also played a significant role in implementing the "Ciudad Mujer" program (Box 2). The productive development and workforce integration program (ES-L1063) has not yet been ratified.

The preliminary analysis of these loans suggests a high degree of integration between them; however, some of the synergies were lost when ES-L1044 was canceled. Project ES-L1027 was implemented almost entirely and some of its resources were used in the 14 beneficiary municipios of the Salud Mesoamerica program (ES-G1001), since the latter did not provide for infrastructure costs. Similarly, the Ciudad Mujer centers financed by the Bank were more expensive than originally estimated, and some of the resources of ES-L1027 were used to build health care modules in two of the five centers financed by the Bank. The high degree of synergy and the Bank's flexibility made it possible for implementation of these programs to be more effective. Nonetheless, the coordinated and cross-cutting approach to addressing urban poverty with an emphasis on closing gaps in care and access to basic services was incomplete when loan ES-L1044 was not ratified.

Box 2: Ciudad Mujer

Ciudad Mujer centers are single points of care providing critical services for women in four key areas: (i) health services, with emphasis on sexual and reproductive health; (ii) economic autonomy (e.g. vocational training, microfinance); (iii) prevention of violence against women and victim assistance; and (iv) awareness raising about women's rights. Ciudad Mujer centers also provide childcare services for women visiting them. The design's central idea is that concentrating all these services at a single location makes them easier to use. At the same time, the model makes it easier for victims of domestic violence to access support services in pleasant surroundings and avoiding social stigma.

The idea was conceived during the 2009 election campaign and created considerable public expectation. However, despite the project's high profile, execution was not immediate due to the lack of resources to formulate it, identify the problem to be addressed precisely, and make the pre-investment.

The Bank responded effectively to the Government of El Salvador's request for support for the Ciudad Mujer initiative given the inability of other donors (e.g. United States Agency for International Development) to move forward with the proposal. The Bank-country dialogue began in 2010. In December the first technical cooperation operation was approved for the design of the centers (ES-T1151) and in May 2011 the investment loan (ES-L1056) had been approved. With a total of US$20 million, the project planned to build five Ciudad Mujer centers. Additionally, the Bank approved a technical cooperation operation for impact evaluation (ES-T1158), two technical cooperation operations to support the economic autonomy module (ES-M1043 and ES-T1182), and one for violence prevention (ES-T1166). In total, between 2010 and 2012 the Bank approved one loan and five technical cooperation operations to support the project, demonstrating its high level of commitment and the Government of El Salvador's gender policy efforts.

The main challenge for implementation of the program was to balance demand for rapid action with the lack of knowledge and information in the sector. The diagnostic assessment was conducted using 2008 data, and the impact evaluation baseline is subsequent to the opening of three of the centers. The lack of knowledge may have limited the effectiveness of the centers somewhat. For example, despite the high rate of teenage pregnancies, teenage girls do not use Ciudad Mujer services extensively.

The impact assessment being prepared by the Bank provides evidence that there is an increase in the use of services, the centers having cut the monetary cost and time for their users. There is also evidence of a significant increase in the use of assistance services by victims of violence and of some specialized services. It is still too early to measure the long-term impacts.

The Bank was able to respond to the government's demands rapidly and efficiently in most projects approved in this period, in particular those projects that were a priority for the government. A clear example was the Ciudad Mujer project, where the Bank and the government worked together to make it a reality within a very short period. The negotiations between the Bank and the government began in early 2010, and in May 2011 the loan had been approved, based on the design proposed by the technical cooperation operation begun in January of that year. At the end of May 2014, after just over 50% of the project's scheduled life, 95% of the proceeds had been disbursed.

The objectives proposed in the health sector and the Ciudad Mujer program are close to being achieved. Despite the adjustments made during implementation of ES-L1027, the goal of increasing service coverage and, in particular, the number of families registered at the health centers, is close to being—or has already been—achieved. The main gap was in the implementation of the information system, which still has limitations and weaknesses, restricting the ministry's monitoring and planning capacity. The first phase of Salud Mesoamerica has recently been completed, and the second phase is at the approval stage. In the case of Ciudad Mujer, four of the five centers are already in operation and demand for their services has exceeded expectations.

The Bank sought to support the Ministry of Labor, which faces significant budgetary constraints to implement labor regulation policies; however, this support could have been targeted better. The Comprehensive Support for Effective Labor and Social Security Policies loan (ES-L1063) emphasizes strengthening the regulatory and oversight capacity of the Ministry of Labor, and active policies (job placement for young people and SME productivity), coordinated with the government's strategy of "productive transformation;" the approach involved an initially small and gradual intervention, accompanied by technical assistance and diagnostics. However, the relevance of the SME support components in this loan is questionable, given the urgent need for the Ministry of Labor to improve its regulatory capacity, and the limited evidence of the effectiveness of the interventions proposed in the Bank's program.[29]

3. Urban habitat

Although the five-year plan did not emphasize urban development, urban habitat was one of the six priority areas of the country strategy. The Bank's objective was to improve living conditions for vulnerable urban households and facilitate low-income families' access to housing. In this context, the Bank approved projects in housing (ES-L1022) and vulnerability (ES-L1016), in direct response to the strategy objectives. It also worked on municipal development topics (through technical cooperation operations under the Sustainable Emerging Cities program, in which the municipio of Santa Ana participates). Given that urban development is an inherently cross-cutting topic, the sector was boosted by the approval of water and sanitation (ES-L1046) and urban transportation (ES L1050) programs.

In housing, the Bank was the country's main partner and enabled the housing program developed in 2001 (ES0087) to continue by approving its second phase in 2010. The second phase of the program was necessary to continue the progress made up to that point. This progress included strengthening housing finance institutions (the Social Housing Fund - FSV and the National Low-income Housing Fund FONAVIPO), modernizing the Office of the Deputy Minister for Housing and Urban Development (VMVDU) with new services and a trained technical team, and proposed laws to create land management tools.[30] In addition to supporting the sector's institutional framework, the second phase (ES-L1022) continued subsidies for social housing solutions, the provision of basic services in informal urban settlements, emergency housing, and floor improvement. Considering the lessons learned from the slow execution of the first loan, the Bank used technical cooperation funds to evaluate the previous loan, prepare draft plans for the neighborhoods to be targeted, set up the executing unit, and thus make progress towards meeting the eligibility conditions. The loan presents coordination challenges as it has four executing agencies. Indeed, the lack of coordination between the Municipality of San Salvador and the central government led to significant delays in the neighborhood improvement component, especially because the Court of Accounts did not ratify the agreement. Progress on the execution of the remainder of the components has been good (49% financial execution) both in the case of infrastructure works and the housing solutions and regularization process.

In 2012 the Bank approved a loan to reduce the vulnerability of the San Salvador Metropolitan Area and address the needs of the population at severe risk. The need to support the neighborhoods at high and extreme risk in the AMSS was identified, as they ended up excluded from traditional programs because of the complexity of their problems and the high cost of resolving them. This loan enabled the VMVDU to offer comprehensive solutions for eight severely at-risk neighborhoods, serving 29% of the 27,200 people identified as being at high risk of flooding or landslides in the AMSS. Each intervention costs an average of US$3.4 million, well in excess of the cost of a traditional neighborhood improvement program, and includes mitigation works and resettlement when necessary. The project includes an important drainage component to reduce the effects of rain on urban infrastructure. Execution of this loan was affected by the complex parliamentary ratification process (which took 20 months). It has not yet been possible to start the works, partly as a result of the complexity of the interventions. The first attempt to call for bids was void as the three companies expressing an interest either did not meet the minimum requirements or did not submit the necessary supporting documents.

Both loans address urgent, priority problems, but there are challenges in terms of coordination, sustainability, and comprehensiveness of the interventions. Encompassing the largest number of people and communities is a valid objective, but combining interventions can reduce fixed costs and enhance impact. Despite the complementarity between these two loans, not only were they executed by different divisions of the Bank, but they depended on different executing units within the VMVDU.[31] Creating executing units can streamline effective loan implementation, but leads to duplication of personnel within the VMVDU that undermines sustainability, particularly in a context of budgetary constraints. Given that these loans finance key offices within the VMVDU, there is a risk of losing trained personnel at the end of execution. Lastly, although the delivery of basic services and low-income housing solutions requires subsidies, it is important for these subsidies to be more efficient and proactive, leverage private investment, and be coordinated with municipal development plans.

4. Water and sanitation

The country's objectives in the water supply and sanitation sector are fragmentary, insufficiently coordinated, and focused on coverage. As regards water and sanitation services, the five-year plan puts the emphasis on expanding the coverage of basic social services and provides targets for water supply coverage but not sanitation. The service provider (ANDA) includes both services in its mission, however. Wastewater treatment is listed as a priority in the five-year plan, but is not a priority for ANDA, which does not include it among its strategic objectives or targets for the end of the period. Given that the level of pollution, mainly from wastewater, is severe and that less than 12% of the water studied is of sufficient quality to allow aquatic life to develop, wastewater treatment is considered one of the sector's main challenges. Added to this are the institutional challenges (e.g. the lack of a consistent framework for water supply and sanitation services) and financial challenges (e.g. policy of subsidies consistent with sustainability).

Although the strategy was relevant to identifying priority investments in wastewater treatment and sanitation in the San Salvador Metropolitan Area, programming was geared towards expanding coverage. Bearing in mind the environmental challenge arising from the lack of wastewater treatment and the reduced availability of the resource for use, failure to include these topics in the programming reduced the relevance of the Bank's action. What is more, by failing to have a comprehensive service delivery strategy and financing water supply and sanitation projects that do not complete the logical cycle of the service with respective sewage treatment, the Bank could be indirectly contributing to increasing the sector's challenges.

The only project approved during the period was to finance rural water supply and sanitation systems and improve ANDA's efficiency (ES-L1046/ ES X1002). The Bank's loan (ES-L1046, US$20 million) focuses on the ANDA strengthening component—i.e., prioritizing the AMSS. Meanwhile, the rural water component is basically financed with funds from the investment grant (ES-X1002, US$24 million). The program experienced some initial delays that were partly explained by the fact that it had three subexecuting agencies (FISDL, ANDA, and MARN), although eventually healthy interagency coordination was achieved. The loan has now reached a high level of physical and financial execution (82%) and ANDA's energy bill has been cut by around US$500,000 a month by reducing water losses. Meanwhile, the rural water component has a level of financial execution of 54% and has so far completed 13% of the water systems and 51% of the sanitation solutions. Both projects are on track to achieve their specific objectives.

In terms of what has been executed so far, the portfolio has been somewhat ineffective, due to the reformulation of the available resources to address environmental emergencies, the lack of political support for establishing sector reforms, and the limited resources available. During the period, the water sector reform project (ES0068), approved in 1998 and reformulated in 2005 to address natural disasters, came to an end. The draft water and water supply and sanitation services laws that were prepared in order to implement the sector reforms did not achieve the necessary consensus. The failure to approve the sector framework jeopardizes the sustainability of the loan in execution and future investments in the sector. The water supply and sanitation sector within the country's project portfolio was of limited significance both within the Bank's portfolio and in terms of the sector's needs (4.4%). The projects mentioned were complemented with a number of nonreimbursable technical-cooperation operations, basically to support the sector's institutional framework, and one Opportunities for the Majority project. All in all, the sector portfolio is not just small, but has tended to shrink.

5. Transportation

The Bank aligned its strategic objectives and approvals with the transportation priorities defined by the government. The five-year plan's priority projects included modernizing the urban transportation system to reduce congestion and improve mobility in the AMSS, and upgrading rural roads. Additionally, as a longer-term strategic objective, establishing El Salvador as a major transport and freight logistics corridor at the regional level was proposed, involving investments in its main connectivity routes (e.g. the northern highway under FOMILENIO I) and ports. Except for the port improvements, the Bank supported all the other priorities, approving two rural road operations (ES-L1045, ES-L1061) and an urban transportation program in San Salvador (ES-L1050) to finance the construction of the central segment of line 1 of the AMSS Integrated Transportation System (SITRAMSS). These projects were complemented by three nonreimbursable technical-cooperation operations to support and prioritize investments. The Bank supported the strategy of developing the marine coastal strip, including specific investments in this geographical region, which would mainly be financed with funds from a second Millennium Challenge Corporation (MCC) compact (FOMILENIO II).[32] In this context the Bank approved two operations (ES-L1085 and ES-L1075), both of which have yet to be ratified.

Analysis of the rural roads projects showed significant progress in terms of rural roads and improvements in serviceability, although questions remained about efficiency and sustainability. In particular, ES-L1045 has advanced furthest, having invested in five roads executed at a lower cost than was estimated. The second rural roads project, ES-L1061, is less well advanced and stands out because its design incorporated a "progressive road improvement" approach, in which the roads receive minimum treatment to improve their serviceability, while waiting for more funding to become available in the future. The completed sections are estimated to have achieved reductions in vehicle operating costs, increased traffic speeds, and a reduction in the number of days when the roads are not serviceable. However, it is too early to estimate the outcomes of these operations. A number of questions arise as to the efficiency of building and maintaining these roads and the capacity of the country's systems to manage them going forward. Another question concerns the efficiency of the investment, since the sections prioritized by the Bank in the technical cooperation operation (ES-T1132) differ from the sections executed.[33]

SITRAMSS benefited from a good technical design and rapid start to execution, although it subsequently met with delays, holding back the planned start of the system's operations. The project moved quickly at first, utilizing the preinvestment funds available (FOSEP), complemented by a reallocation of a MIF technical cooperation operation (TC0201108) to finance the preparation of designs and environmental impact studies during the parliamentary ratification period. This initial flexibility made it possible to compensate for the subsequent delays in construction of the integration terminal at Soyapango. There were also coordination difficulties between national and local authorities regarding land use, alignment and location of the stations, and construction permits.

The main questions going forward relate to operational and financial sustainability, particularly as regards the size of the subsidies required. The Bank's project has focused on financing infrastructure, without complementing the system's operational design. The most important questions going forward include the level of subsidies necessary to run the system—which is not yet clear—and how the transition will be made from a model involving multiple providers (in which each is assigned a specific route) to a model in which one concession is awarded per corridor, with a limited number of companies. There is also still an opportunity to link the transport system to regional planning and housing development areas, which would boost its impacts and reduce sustainability risks. At the moment the deployment of SITRAMSS (estimated for 2015) is a first step in the modernization of the public transport system.

6. Energy

Both the Bank and the government prioritized the expansion of coverage in the period (emphasizing rural areas), institutional framework strengthening, and diversification of the energy matrix.[34] This priority setting is understood according to the characteristics of El Salvador's energy sector, which is characterized by an energy matrix with a strong bias towards fossil fuels, which are largely imported. The country's high level of dependence on hydrocarbon imports is further complicated by oil-price volatility, electricity subsidies (0.7% of GDP, IMF), and the effects of the 1990s energy reform, which disrupted the system's planning capacity.

In practice, the Bank's action was focused on a single loan operation (ES-L1059), which, although it contributed to the government's financing needs, was less significant in supporting sector reform. The operation sought to strengthen the sector's institutional framework, promote renewable energy, bioenergy, and energy efficiency, and improve regulatory management and private participation in the electricity market. The operation was prepared in eight months and closed one month after approval. This speed was explained by the inclusion of conditions that had either been—or were certain to be—met (Aide-mémoire, Identification Mission, 7 to 11 February 2011). The fact that the second PBL (ES-L1067) was not approved, even though a climate change PBL was approved in 2012 (ES-L1071), compromised achievement of the outcomes of the programmatic line (See Figure 7, manuals PR-301).

The Bank's technical cooperation program was relevant in supporting sector reform. Although the loan operation did not strengthen the sector, its approval and disbursement was only possible given the Bank's long history of supporting the sector through technical cooperation operations (ES-T1007 and ES-T1061 for institutional framework, ES-T1119 for energy efficiency, and ES-T1096 for biofuels). No new technical cooperation operations were approved to support the energy sector during the strategy period.

7. Other sectors

Beyond the strategy pillars, there was specific support through other areas for public finance, science and technology, the environment, State modernization, and citizen security. The science and technology program (which has not been ratified) aims to boost El Salvador's competitiveness and productivity by supporting innovation. Approvals in the modernization area covered various topics and were somewhat scattered, showing some specific results in municipal, civil registry, and legislative branch strengthening. It has been almost two years since the citizen security project was approved and it has not yet been ratified. Despite the situation of severe environmental degradation recognized in the five-year plan, the Bank has not prioritized the sector, although it has approved a PBL basically focused on the fiscal area.

As regards the private sector, although the country strategy anticipated support to provide goods and services to the poorest (paragraph 3.12), approvals and disbursements were concentrated in a credit line with the main local bank. Compared with the previous period, new approvals were reduced, although disbursements increased.[35] OMJ's attempts to support original public-service delivery solutions (water, health care) ran into serious challenges (costs, legal requirements) that led to cancellations, even of what could be considered successful projects (local markets). However, most of the disbursements were under a credit line for the main local bank (30% of the system's assets and deposits). The value added of some credit lines (ES-L1069) was related to the personalized technical assistance and training provided in addition to the credit. Importantly, the projects in support of micro, small, and medium-sized enterprises could have benefited from greater coordination with other Bank interventions through both the public- and private-sector windows.

B. Cross-cutting topics

In general, analysis of the portfolio reveals that a weak fiscal situation can undermine the portfolio's relevance, efficiency, and sustainability. In terms of relevance, one concern stems from the use of policy instruments, in which there is a tension between financing needs and reform objectives. In El Salvador's case, this tension became clear as the period progressed, the IMF arrangement became inoperative, and the country's financing needs grew more pressing. The lack of budgetary resources to support complementary investments can also delay execution of Bank operations, or even the achievement of their outcomes, if they require additional budgetary items to complement the investments (e.g. staff). In other cases, a project's sustainability could be affected by direct subsidies (e.g. on urban transportation or housing) or the financial sustainability of related institutions (e.g. FOVIAL, FONAVIPO, ANDA).

Several projects in the portfolio raise prioritization challenges that need to be mitigated in execution. Projects in El Salvador tend to have numerous subexecuting agencies, leading to coordination challenges, particularly in situations of political polarization (e.g. ES-L1022). What is more, the division of resources among subexecuting agencies can reduce project effectiveness by diverting resources for subordinate goals (e.g. SME support in the ES-L1057 projects), or requiring a non-specialized ministry to carry out implementation tasks (e.g. ES-L1016). Support for SMEs in productive corridors projects (ES-L1075), tourism (ES-L1066), and OMJ (ES L1069) could boost their impact if there were more coordination between them.

Although the Bank's portfolio had innovative and original interventions, their effectiveness and sustainability should be explored going forward, particularly if they are intended to be scaled up. Some examples are the "progressive road improvement" strategy in the rural roads loan, the interventions integrated through CONAMYPE with a view to strengthening productive transformation, or the innovative gender strategy contained in the "Ciudad Mujer" interventions. Analysis of the effectiveness of these policies, which in some cases is already under way, should lay the groundwork for these interventions to be scaled up.

The Bank's country strategy focused on six sectors: public finances, transportation, water and sanitation, energy, urban habitat, and social protection. For reasons that are not entirely clear, this prioritization left out certain important sectors (such as the environment).

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4 Conclusions and Recommendations

The IDB started the period with a small portfolio of very old investment loans, as a result of legislative obstruction between 2004 and 2008. In this context, the Bank's country strategy focused on six sectors: public finances, transportation, water and sanitation, energy, urban habitat, and social protection. For reasons that are not entirely clear, this prioritization left out certain important sectors (such as the environment). Given the prevailing crisis, a portfolio of US$1.080 billion was proposed, with a considerable front loading of approvals.

The implemented program was larger (US$1.360 billion, US$500 million in PBLs) and the additional amounts were confirmed at the end of the period, partially neutralizing the front-loading strategy. Over half the approved program (22 sovereign-guaranteed loans) was aligned with the strategy, although only 13 loans were ratified/achieved eligibility. The strategy's programmatic intent was reduced by programming in sectors not included in the country strategy and the failure of eight investment projects to obtain approval, one of which has already been canceled.

Disbursements of around US$724 million were made over the period, of which US$500 million were from the PBLs, with the remainder concentrated in social protection and transportation. For the investment projects that achieved eligibility, the Bank's portfolio in El Salvador has shown excellent levels of financial execution (significantly higher than in comparable countries).

Evaluating the results of the country portfolio is difficult given its youth and the limitations of the program relative to the sector challenges. The Bank's projects have, in general, been successful at achieving their specific objectives, particularly in the transportation and social protection areas. In view of the limited disbursements by the Bank relative to the sector challenges, it is not clear to what extent the specific achievements have or will have an impact at the country level. However, the Bank did make an important contribution to strengthening social and gender policies, which were implemented during the period.

A series of cross-cutting lessons have emerged from the review of the Bank's program with the country. First, fiscal difficulties can have an effect on the portfolio's relevance, efficiency, and sustainability. Second, the portfolio shows a number of weaknesses in terms of prioritization both generally and within each project. Lastly, in a context of political polarization it is essential to achieve consensus on basic public policies, ensure coordination between the various actors, and redouble prioritization efforts.

Based on these findings, and in order to help increase the effectiveness, efficiency, and efficacy of the Bank in El Salvador, OVE recommends:

- **Recommendation 1: Articulate the country strategy and programming around a set of actions identified through an exhaustive diagnostic assessment of El Salvador's structural challenges.** The Bank's strategy with El Salvador should clearly identify the criteria for selection of sectors, priority-setting for projects, and participation of the Bank's various sectors on the basis of this assessment, the Bank's comparative advantages, the role of other actors, and the country's priorities. OVE's analysis points to low economic growth as one of the country's key structural challenges, which seems strongly determined by low labor productivity, limited human capital, a deteriorating business climate, significant infrastructure gaps, violence at epidemic levels, and strong fiscal constraints that limit investment capacity. It is important to deepen the efforts to attack the country's challenges in an integrated manner, seeking an intervention strategy that will help El Salvador capitalize on its comparative advantages, while at the same time ensuring medium-term fiscal sustainability. OVE's analysis suggests that the Bank could support the country to ensure fiscal sustainability by helping to resolve the pension problem, improve public spending efficiency, and work out substantive tax reform.

- **Recommendation 2: Mitigate the impact of fiscal and budgetary matters on the Bank's program, particularly as regards its sustainability.** More specifically:

    - In policy-based projects, it is suggested to make sure that substantive reforms are supported throughout the programmatic cycle, to avoid having budget support objectives prevail over the reform objective inherent to the instrument.

    - It is suggested that investment projects incorporate the budget implications of investments (for example, direct subsidies, infrastructure maintenance, salaries for additional staff) during the design of the operations, with a view to facilitating their execution and guaranteeing their sustainability.

- **Recommendation 3: Continue to deepen efforts to mitigate the impact of delays in the approval of the Bank's program.** Although approval delays are exogenous to the Bank, it has been working to mitigate them. Given the impact and costs of an operation not being ratified, the Bank should continue to experiment with new ways to mitigate this risk. Some possible proposals include front-loading programming, reducing the number of projects, or increasing the size or use of technical cooperation funding to intensify the dialogue. Provided there are reasonable expectations of ratification, the Bank may step up efforts underway to accelerate fulfillment of the eligibility conditions during the ratification period, speeding up the deployment of operations.

- **Recommendation 4: Reinforce priority setting and risk analysis in the country strategy.** It is suggested that risk analysis be reinforced to transform it into a management tool that would make it possible to reduce the impact of those risks on the Bank's program. To this end, it is suggested that two key risks be considered in detail: the risk of fiscal deterioration and the risk of legislative obstruction. In each case, it is suggested: (i) that the implications on the program be analyzed; (ii) that an action plan be formulated for the Bank to follow in the event that the risks materialize; and (iii) that specific mitigation measures be proposed based on the Bank's financial instruments (loans, technical cooperation operations, etc.) and nonfinancial instruments, priority sectors, and overall financial envelope for the period of the strategy.

- **Recommendation 5: Strengthen dialogue with the government in order to carry out pilot experiences and dimension interventions for which there is no solid ex ante evidence of their development impact.** Analysis of the country program revealed instances in which loan components were included for which there was not enough ex ante evidence of their contribution to the programs' objectives. Where necessary, opportunities and instruments should be generated that are required to carefully evaluate the pilots of these interventions and scale only those warranted on the basis of their effectiveness.

[1] Unless stated otherwise, the figures in this section come from the World Bank; World Development Indicators (WDI), 2013, IMF; April edition of World Economic Outlook (WEO); and the Central Reserve Bank (BCR), particularly its quarterly bulletin for January-March 2014. In 2013, the nominal (unadjusted) GDP per capita was US$3,900.

[2] A full review of the literature is beyond the scope of this document. For more details see Adam Bonica, Nolan McCarty, Keith T. Poole, and Howard Rosenthal, "Why Hasn't Democracy Slowed Rising Inequality?", *Journal of Economic Perspectives,* Vol. 27, No. 3, 2013; Lindqvist, Erik and Robert Ostling, "Political Polarization and the Size of Government," American Political Science Review, Vol. 104, No. 3, August 2010; See Jones, Mark P., "The Role of Parties and Party Systems in the Policymaking Process," paper presented at the IDB Workshop on State Reform, Public Policies and Policymaking Processes, Washington D.C., IDB, 2005; Eslava, Marcela, "The Political Economy of Fiscal Deficits: A Survey," *Journal of Economic Surveys,* Vol. 25, No. 4, 2011; Keefer, Philip and Stephen Knack, "Polarization, Politics and Property Rights: Links Between Inequality and Growth," Public Choice, April 2002, Issue 1-2, pages 127-154.

[3] During the period of reconstruction (1991-1994) the economy grew by 6.8%, in one of the country's two episodes of sustained growth. Since then, growth has been much slower (averaging 2.5% from 1995 to 2013), slightly higher than the historical average but well below that of Latin America (3.4%).

[4] Real appreciation was 40% from 1992 to 2000. Using three standardized methods, during its latest Article IV Consultation, the IMF concluded that the real exchange rate was in line with the fundamentals of the economy (a range of 8% to 2% over-/undervaluation).

[5] Data from the United Nations Office on Drugs and Crime, based on the average number of homicides for the 2005-2012 period. The homicide rates of Honduras and El Salvador average 67 and 60.2 per 100,000 inhabitants, respectively.

[6] See Acevedo, Carlos, "Los costos económicos de la violencia en Centroamérica," [The economic costs of violence in Central America] *mimeo*, National Public Safety Council, El Salvador. This study was subsequently cited in a 2011 World Bank study entitled "Crime and Violence in Central America: A Development Challenge," 2011

[7] According to the World Bank's Enterprise Survey, 87% of Salvadoran firms pay for security (compared with 62% for Latin America and the Caribbean as a whole). The costs of security services and crime-related losses are equal to 3.4% and 1.6% of turnover, respectively—more than double the averages for Latin America and the Caribbean (1.4% and 0.8%). More than half of companies identify crime as one of their most significant problems, highlighting it as the second biggest obstacle to doing business.

[8] See World Bank, "Crime and Violence," *Op. Cit.,* page 17. For more on the relationship between poverty, conflict, and violence, see also Cramer, Christopher, "Violent Conflict and the very poorest," Chronic Poverty Research Center, Working Paper 129, 2009.

[9] According to *Enterprise Survey*, 59.9% of firms identified corruption as a main obstacle to doing business, compared with 43.9% in Latin America and 31.9% in the rest of the countries in the world. The importance of fighting corruption to improve the business climate is also explicitly mentioned in El Salvador's Five-year Development Plan 2010-2014 (paragraph 235, page 134).

[10] Social indicators from the WDI (2012) and the El Salvador Multipurpose Household Survey (EHPM). The poverty figures cited here, based on EHPM official data, refer to the national poverty line. In 2012, poverty was at 29.6%.

[11] In 2012, El Salvador's urban population accounted for 65.2% of the total (WDI), slightly below the average for Bank borrowing member countries (65.9%). The distribution of the population in poverty was estimated using EHPM data.

[12] Poverty, employment, and informality data in this paragraph are from the EHPM.

Notes

[13] According to analysis by the Deputy Ministry for Housing (VMVDU) based on the 2007 population and housing census, 27% of homes do not have concrete walls, 23% have dirt floors; and 8%, 12%, and 6% do not have access to water, electricity, and sanitation, respectively. It is also estimated that 200,000 families live in informal settlements, most of which do not have basic services. They tend to be located in the outskirts of the city (Source: Office of the Deputy Minister for Housing and Urban Development).

[14] The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the United Nations Disaster Assessment and Coordination (UNDAC), 2010, "Evaluation of National Emergency Response Capacities," estimated that 88.7% of El Salvador's territory and 95.4% of its population are at risk from the effects of climate change. Figures from 1980-2010 were used to calculate the losses. Source: UNISDR PreventionWeb project.

[15] The United States is the destination/origin of 45% of exports and 30% of FDI (2013). Hydrocarbons and food represented (2013) 18% and 16% of imports of goods and services (Source: BCR and WDI). The reference to the origin of the remittances was taken from the Article IV Consultation Report, 2013. Over the last five years FDI averaged less than 2% of GDP.

[16] Figures taken from World Economic Outlook, based on data supplied by the central bank. Between 2006 and 2013, the country fell from 63rd to 97th in the World Economic Forum's Global Competitiveness Index. El Salvador also dropped from 77th in the World Bank's 2006 Doing Business Index to 118th in 2013. In terms of governance indicators, the country ranks relatively low in the area of legal certainty, particularly in relation to contracts, property rights, policing and the judicial system, and crime and violence.

[17] Statistical information taken from the IMF's 2013 Article IV report, *Op. Cit.*

[18] Education spending rose from around 3% of GDP in the years prior to the 2009 crisis to 3.54% in 2013. Public spending on health care increased from 3.6% to 4.3% of GDP over the 2001-2011 period. The entire increase in health care expenditure was in the form of noncontributory public spending.

[19] Document GN-2575, p. 3.

[20] Government of El Salvador, 2010, Plan Quinquenal de Desarrollo [Five-year development plan], 2010-2014, El Salvador, November.

[21] To make this calculation 3,053 jobs were assumed (BL, 3,323 target) and the GDP per worker applied (US$8,791, World Bank, WDI, 2012). It was then assumed that 20% of gross salary would be taken as tax, bringing a net tax collection of US$5.36 million. This is equivalent to 0.16% of tax collection and 0.02% of GDP.

[22] If the private sector is taken into account, the figures rise to US$205 million, or 0.88% of GDP, 52% of public investment, and 5.8% of the government's current income. Source: IDB, BCR.

[23] Of the 10 investment loans, four were fully disbursed in 2008, two completed disbursements in early 2009 (ES0119 and ES0120) and another was a regional operation canceled for El Salvador (CA0034). Only the decontamination (ES0074), water and sanitation (ES0068) and housing program (ES0087) operations had balances pending disbursement.

[24] The PBLs comprised the PBL to support social policy (ES0140, Bank approval 2006, ratified in 2008, US$100 million), reformulated and expanded by PBLs (ES-L1030 and ES-L1040, approved and ratified in 2008 and 2009, US$400 million). The other PBL, in the form of an emergency loan, was liquidity line ES L1029, for US$400 million, approved in 2008. The investment loans approved in 2005 (ES-L1001, ES L1002, ES L1003, and ES0159) in the education, State reform, and social protection sectors for a total of US$210.9 million were all canceled in 2007.

[25] Rapid execution means disbursements of 100% in four years from ratification for investment loans (with proportional disbursements) and one year for policy-based loans. From this viewpoint, the SG investment portfolio that could have been disbursed was US$740 million, of which the Bank disbursed US$704. The number is of course slightly lower (81%) if the total approved amount of the portfolio in execution (US$868 million) is considered. Excluding PBLs, the percentages are 85% and 55%, respectively.

[26] Refers to the portfolio approved between 2010 and 2014. The inherited portfolio came to US$8.2 million in 23 operations (two MIF operations for US$0.6 million and 21 technical cooperation operations for US$7.5 million).

[27] The Liquidity Program (document AB-2633) was approved in 2008 (Resolution AG-9/08). The loans approved under the program must comply with the same requirements as emergency loans, with the sole difference that only an Article IV Consultation is required and not a program with the IMF. Under this arrangement, El Salvador approved a line for US$400 million (ES-L1029).

[28] Development sustainability contingent credit line to provide temporary liquidity to the financial system (ES X1007, the line was approved by the Governors, Resolution AG-9/12, document AB-2890).

[29] See, for example, Pages, 2010, *La era de la productividad: Cómo transformar las economías desde sus cimientos,* Chapter 9, in which the effectiveness of supporting SMEs is questioned.

[30] With the Bank's support, work was done on drafting the Special Law on Developments and Subdivisions for Housing, but its final design ended up favoring developers. Passed in 2012, the law reduced the minimum requirements for regularizing a settlement, and lacks the tools to halt informal settlements.

[31] Loan ES-L1016 is being executed by SCL/SPH and INE/WSA, while loan ES-L1022 is being executed by IFD/FMM.

[32] The Sustainable and Comprehensive Development Strategy for the Marine Coastal Strip 2012-2024 was presented in November 2013 in anticipation of a second MCC compact. The planned investments, mainly in the coastal strip, would come to around US$900 million, of which a third would be from FOMILENIO II. The Yucatán Fund (Mexico), JICA, CABEI, and the IDB would also participate.

[33] The government asked to Bank to replace some priority projects with others in the marine coastal strip, believing that they would have a greater impact since they complemented FOMILENIO II. The prioritized and replaced segments would be included in other loans being prepared.

[34] See document GN-2575 (country strategy), paragraph 3.34 and for the government, see five-year plan, paragraph 174. To these three priorities the Government of El Salvador added: (i) promoting a culture of energy saving and efficiency; (ii) energy innovation and technology development; and (iii) regional energy integration.

[35] Approvals (excluding B loans, US$24 million, and including MIF loans, US$1.5 million) came to US$150 million in the 2010-2014 period, compared with US$170 million in 2004-2009. Disbursements totaled US$107.5 million against US$55.6 million in the previous period, in part due to various OMJ cancellations. Five of the seven OMJ operations active in the period were canceled.

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