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EL SALVADOR

IDB COUNTRY STRATEGY
2015-2019

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ABBREVIATIONS

CEPA	Comisión Ejecutiva Portuaria Autónoma [Executive Autonomous Port Commission]
CUT	Cuenta Única del Tesoro [Single Treasury Account]
ICT	Information and communication technologies
IPSAS	International Public Sector Accounting Standards
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
NEO	New Employment Opportunities
NSG	Non-sovereign guaranteed (operations)
OVE	Office of Evaluation and Oversight
PAPTN	Plan de la Alianza para la Prosperidad del Triángulo Norte [Plan of the Alliance for Prosperity in the Northern Triangle]
SAFI	Sistema de Administración Financiera Integrado [Integrated financial management system]
SG	Sovereign guaranteed (operations)
SIAC	Sistema Integrado de Adquisiciones y Contrataciones [Integrated procurement system]

EXECUTIVE SUMMARY

Country context: El Salvador is a small economy that is closely linked to the U.S. economy and is vulnerable to natural disasters. In the last decade, it has made significant progress in reducing poverty and inequality. In terms of human capital, it has surpassed the millennium development goals in key education and health indicators, which must continue over time. However, in the last 20 years its annual economic growth has averaged less than 2%, and the country's competitiveness lost momentum. Although extensive, the road system connecting production and service hubs and markets is showing signs of wear, and a high percentage of roads are unpaved. With respect to public finance, the fiscal consolidation efforts made since 2009 have reduced the fiscal deficit, but this consolidation process needs to continue in order to stabilize the growing level of public debt. The fragile state of citizen security limits progress in human capital and growth. To address these challenges, the government has drafted its Five-year Development Plan 2014-2019, which seeks to build a country that is more productive, educated, and safe.

Priority areas for 2015-2019: The strategy's approach with El Salvador consists of supporting the government's efforts to create conditions for broad-based economic growth, and the Bank will therefore support initiatives to (i) improve the quality of spending on human capital; (ii) improve logistics infrastructure; and (iii) strengthen public finance. The approach of the new IDB country strategy with El Salvador, and the portfolio operations are aligned with the priorities identified in the Five-year Development Plan and the Bank's Institutional Strategy Update. The private sector windows will participate in these priority areas by complementing sovereign guaranteed loans and providing financing for small and medium-sized enterprise, financial inclusion, and renewable energies, where a portfolio and experience already exist.

Lending framework: The country's gross financing requirements total approximately US$7.3 billion for the period 2015-2019, including pension system needs. The Bank has two financial scenarios. The base scenario includes an estimated US$1.060 billion in new approvals and US$1.047 billion in total disbursements, assuming an improved outlook in the primary balance of the nonfinancial public sector. If this does not occur, an alternative scenario of US$580 million in approvals and US$684 million in disbursements would be considered.

Strategy risks: The main risk of implementing the strategy is related to the legislative approval of sovereign guaranteed operations, since the government party does not have a majority in the Legislative Assembly and must negotiate alliances with other political factions. Another significant risk has to do making improvements in the expected fiscal debt path.

I. Country Context

1.1 El Salvador is a small, dollarized economy that is closely linked to the economy of the United States, from which it receives remittance revenue equal to 16% of GDP, and is vulnerable natural disasters.[1] The rate of growth of the global economy, international financial market interest rates, and the prices of commodities, especially oil, are risk factors that impact the country's macroeconomic situation and competitiveness.[2]

1.2 Over the last decade, El Salvador's annual economic growth has averaged less than 2%, which is below the Central American average of 4%, and traditional exports have lost ground, especially the maquila industry. Although new productive sectors have emerged, they are not large enough to spur economic activity and create jobs.[3] Challenges in the way some institutions operate and a lack of public safety exacerbate this situation, which has led to increased emigration, especially to the United States.[4]

1.3 An analysis of existing production hubs with development potential[5] reveals the need for better physical connections between production areas, transportation hubs (ports, airports, and border crossings), and markets. The transportation network is extensive and is in better condition that in countries with similar income levels,[6] although in recent years it has been showing signs of deterioration, and a high percentage of roads are unpaved.

1.4 The country has made progress in reducing poverty, which fell from 39% of households in 2000 to 30% in 2013, and inequality also decreased over the same period.[7] This is partly due to pro-poor growth and an effective social and economic expenditure policy aimed at reducing poverty, especially extreme poverty.[8] In terms of human capital, the millennium development goals were surpassed in key health and education indicators. For example, institutional deliveries increased by 23% between 2008 and 2012, basic preventive care check-ups rose 17%, and basic curative care visits were up 24%. In addition, the net student enrollment rate in primary schools rose from 83% in 2000 to 94% in 2011. There is still room for improvement in education quality test results, which remain poor and where the system is not able to bridge learning gaps. There is

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[1] El Salvador is the sixth most at-risk country from climate change in Latin America and the Caribbean (Global Climate Risk Index, German Watch 2013).

[2] In 2006 El Salvador ranked 53rd out of 122 countries in the World Economic Forum's competitiveness index, and in 2014-2015 it ranked 84th out of 144 countries.

[3] Sectors such as plastics and derivative products, paper, cardboard, and electrical materials.

[4] According to official estimates, nearly three million Salvadoran citizens reside abroad, with 2.5 million living in the United States.

[5] Executive Autonomous Port Commission (CEPA) (2014) "Plan Nacional para el Desarrollo Económico, Sistema Logístico y sus polos de desarrollo" [National Plan for Economic Development, the Logistics System, and Its Development Hubs].

[6] See link to analysis of Development Gaps.

[7] The Gini coefficient fell from 0.54 in 2003 to 0.40 in 2013.

[8] Social development expenditure increased from 6% of GDP in 2000 to 12% of GDP in 2012. Lustig et al. (2014) found that social programs in El Salvador make an impact, reducing poverty by nearly 6% and extreme poverty by nearly 16%. Telerina and Muñoz (2015) found that growth over the period from 1992 to 2012 was pro-poor, which helped reduce poverty by 18.9 percentage points, from a total of 24 points.

limited use of technology in schools, and infrastructure poses a challenge, particularly at the secondary level.[9] This is reflected in a poorly prepared workforce with an average of eight years of education, where only 24% of workers have a high school diploma. In addition, women's participation in the workforce and the business environment for female entrepreneurs lag behind the rest of the region.[10] In terms of health, the new basic healthcare system has proven to be an efficient alternative and should be expanded to every municipio in the country, while consolidating the system at all levels of care. Progress in the area of human capital is being limited by migration and by the insecurity, which affects school attendance.

1.5 With respect to public finance, a sustainable fiscal position is necessary for stability and growth. Fiscal consolidation efforts have reduced the fiscal deficit and must be continued and accelerated in order to stabilize public debt, which has been trending upward and accounted for 57.6% of GDP in 2014 compared to 50% in 2009. In terms of revenues, tax revenue intake increased by 2.4 percentage points of GDP between 2009 and 2014, and the authorities have been working to improve tax administration. In terms of expenditure, the pension system, subsidies, and the labor training system absorb a significant portion of resources (3% of GDP) and tend to be regressive and ineffective. The government is working on the design and implementation of a national planning system that would help link the development plan with the budget process, and is also prioritizing public investment.

1.6 To put the country on a path of higher growth that will improve the quality of life of its inhabitants, El Salvador must increase investment, which accounted for 15% of GDP in 2014 (one of the lowest levels in the region), improve the productivity of factors involved in the production of tradable goods, and decrease costs associated with crime and violence.[11] Factor productivity partly stems from the level of education and education quality and the concentration of economic activity in sectors with limited technological innovation potential. The homicide rate was 41.2 deaths per 100,000 inhabitants in 2013, well above the average of 22.5 in Latin America and the Caribbean.[12] The estimated security cost for businesses is 7.7% of their budgets, and violence costs account for more than 10% of GDP.[13] Furthermore, El Salvador has development gaps that negatively impact its growth potential and the population's quality of life. Levels of health, education, access to credit and institutions, and security are below what would be expected given the country's income level.[14]

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9 Students must travel an average of 20 minutes to get to their high school, compared to 10 minutes at the primary and early childhood levels.

10 Women's participation in the Salvadoran workforce is 46.8% compared to a weighted average of 52.9% in Latin America. El Salvador ranks 17th of 26 countries in the business environment index for female entrepreneurs (Economist Intelligence Unit, 2013). In addition, the fertility rate among 15 to 19 year old teenage girls in 2010 is nearly 80 births for every 1,000 women, one of the highest in Latin America.

11 See link to Diagnostic Assessment of Growth.

12 United Nations Office on Drugs and Crime (UNODC) Homicide Statistics 2013.

13 Acevedo (2008).

14 See link to the analysis of Development Gaps.

1.7 To address these challenges, the Salvadoran government has formulated the Five-Year Development Plan 2014-2019: A Productive, Educated, and Safe El Salvador.[15] The plan's priorities are to (i) stimulate productive employment through a sustained economic growth model supported by the boosting of strategic sectors that provide greater value added, within a stable macroeconomic environment; (ii) enhance education with inclusion and social equity; and (iii) improve citizen security. To this end, the government has adopted and is implementing the 2014-2019 Justice, Security, and Coexistence Policy, which led to the creation of a National Council with the participation of different sectors, which formulated the Safe El Salvador Plan. In addition to including specific actions to prevent and fight crime and delinquency, this plan identifies actions and investments in different sectors such as health, education, job placement, transportation, urban development, and housing. Furthermore, to support these key areas of the Five-year Plan, two important initiatives that enhance them are included: the second compact signed with the Millennium Challenge Corporation (MCC) for US$365 million, US$277 million of which was contributed by the United States, provided the country meets the indicators on corruption control, civil liberties, and political rights that are required in order to access the funds; and the Plan of the Alliance for Prosperity in the Northern Triangle of Central America promoted and formulated by Guatemala, Honduras, and El Salvador with the support of the IDB, which seeks financial cooperation from the United States and other development partners to improve human capital, enhance citizen security and provide access to justice, boost the productive sector, and strengthen institutions in the three countries.

II. THE IDB IN EL SALVADOR

2.1 **The IDB is El Salvador's main source of multilateral financing.** Over the course of the Bank's previous country strategy with El Salvador (2010-2014), 20 sovereign guaranteed loan operations were approved for a total of US$1.225 billion,[16] which focused on six priority areas: (i) public finance with seven operations and 51% of the loan proceeds,[17] (ii) social protection with four operations and 12% of the resources, (iii) urban environment with one operation and 6% of the resources, (iv) water and sanitation with one operation and 2% of the resources, (v) transportation with four operations and 17% of the resources, and (vi) energy with one operation and 8% of the resources. Two operations for US$50 million were also approved, which supported the country's priorities in the areas of violence prevention and institutional development. The IDB also played a fundamental role in the generation and dissemination of knowledge and provided technical support in the priority areas. Bank disbursements over the 2010-2014 period averaged US$151 million per year. The net flow of loans was

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15 See El Salvador: Five-year Development Plan 2014-2019.

16 In addition, the following operations were approved: three investment grants for US$32 million; a contingent line of credit for US$100 million; and 43 technical cooperation operations for US$13 million. A loan that was cancelled was not included.

17 Interventions in the productive development sectors were included since, in the area of public finance, the country strategy proposed possible productive development interventions, MSMEs, and innovation, in response to the government's proposal to supplement the tax reform implementation process with productive development strategies.

positive and represented an influx of US$164.5 million in resources. Execution of the portfolio from the preceding period was successful, despite delays in the legislative approval of some operations.[18]

2.2 **Outcomes achieved during the period 2010-2014**. During the period from 2010 to 2014, the Bank renewed its portfolio with El Salvador to address the country's priority development challenges in the areas of public finance, social development, and productive development. In **fiscal** matters, the Bank supported two tax reforms that resulted in the tax revenue intake increasing from 12.5% of GDP in 2010 to 16% in 2014, and positioned the Bank as a technical and financial partner in this area, thereby ensuring ongoing support for the strategy's fiscal sustainability objective. In the area of **social development,** the Bank supported better targeting of public expenditure on the poorest segments, expanding basic healthcare services, improving neighborhoods, and property titling in the poorest urban areas, as well as making improvements in access to clean drinking water and sanitation in rural areas. The Bank also supported the implementation of the comprehensive Ciudad Mujer [Women's City Centers] healthcare model, by financing five centers that are already serving approximately 125,000 women per year. This was accompanied by a security program that addresses violence prevention issues that is starting to be implemented. In the area of **competitiveness and growth**, progress was made in connecting producers and markets by improving rural roads, and the regulatory framework of the energy sector was strengthened, which made private investment in electricity generation viable. In addition, the dialogue on El Salvador's growth challenges led to productive development initiatives that are starting to be implemented, focused on the Marine Coastal Strip and support for micro, small, and medium-sized enterprises (MSMEs).

2.3 The **private sector** windows approved US$226.1 million for projects, including US$212.8 million in loans, US$5 million in guarantees, US$7.4 million in technical cooperation funds, and a US$1 million uncommitted line of credit for trade facilitation (Trade Finance Facilitation Program-TFPP). The private sector was involved in a wide range of sectors including financial services, agroindustry, health services, housing, water and sanitation, and microinsurance. A significant part of the non-sovereign guaranteed operations (78% of loan approvals) were concentrated in projects with financial intermediaries that support MSMEs to promote financial inclusion. Synergies were created between sovereign

[18] In El Salvador, the entry into effect of the operations approved between 2010 and 2014 took longer than the Bank average (317 days vs. 228 days). However, once the projects were declared eligible, their rate of execution was faster. On average in El Salvador, when 66% of the time had passed between the date the projects were declared eligible and their original completion date, 69% of the resources had been disbursed, which exceeds the Bank's average of 42%. See link to Portfolio Report.

guaranteed and non-sovereign guaranteed operations in the areas of health, housing, and water and sanitation.[19]

2.4 **Lessons learned**. During implementation of the previous strategy, important lessons were learned that were incorporated into the design of the current strategy, in terms of priority-setting, risk analysis, and mitigation measures. In addition, OVE's recommendations from the Country Program Evaluation: El Salvador 2009-2014 (see Annex VI) were incorporated. Specifically, the following issues that impacted the effectiveness of the portfolio in the period 2010-2014 were also identified and will be taken into account in implementing the current strategy: (i) the time between the date the operations are approved by the IDB and the date of their legislative approval; (ii) the restrictive interpretation of the government's General Budget Act on the part of certain executing agencies, which requires that there be a budget allocation covering the total cost of a construction project that would be carried out over more than one calendar year, instead of only the amount that would be spent in the budget year, which results in under-execution of the public investment budget; (iii) the existence of small projects with multiple executing agencies and scattered areas of implementation (urban-rural); and (iv) the poor institutional capacity of some executing agencies.

2.5 **Current portfolio**. The sovereign guaranteed loan portfolio currently in execution with El Salvador is comprised of 17 operations for a total of US$725 million, with a remaining undisbursed balance of US$470.5 million. It is broken down among the following sectors: productive development (41%), social protection (14%), urban environment (4%), water and sanitation (1%), transportation (31%), and citizen security (9%). This balance includes four operations for US$205 million, pending implementation. There is also a portfolio of 20 technical cooperation projects with an available balance of US$4 million, in the areas of gender, institutional strengthening, emerging cities, and climate change, and three grants with an available amount of US$14.5 million, in the areas of health, water, and energy. The portfolio also includes 13 non-sovereign guaranteed loan operations for US$148 million. The current portfolio will support implementation of the strategic priorities and will serve as a basis for continuing the dialogue on issues that are important to the country.

2.6 In addition, the Bank has supported the Governments of El Salvador, Guatemala, and Honduras in formulating the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN). This plan arose as a result of the significant increase in the flow of unaccompanied minors arriving illegally in the United States in 2014, a situation that led the countries to take immediate near-term actions and to propose medium and long-term solutions. The plan seeks to keep the population in their countries through a structural change that offers economic opportunities and transforms the quality of life of the people, primarily in the

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[19] For example, in housing and clean drinking water, the MIF complemented sovereign guaranteed projects in these sectors (ES-L1022 and ES-L1046) by promoting small loans for home improvement, including access to clean drinking water, through local microfinance institutions. The Opportunities for the Majority Sector (OMJ) and the Structured and Corporate Financing Department (SCF) are promoting better access to mortgages for populations at the base of the pyramid. In the health sector, the MIF launched a program to support access to microinsurance for low-income women, which complements the Comprehensive Integrated Healthcare Service Networks System (RIISS) supported by the Project ES-L1027.

regions with the highest rates of poverty, emigration, vulnerability, and insecurity.[20]

III. THE BANK'S STRATEGIC PRIORITIES 2015-2019

3.1 The new country strategy with El Salvador is focused on supporting the government's efforts to spur broad-based economic growth. Accordingly, the Bank has proposed three priority areas in this strategy: increasing the quality of spending on human capital, improving logistics infrastructure, and strengthening public finance. These areas were selected based on the policy dialogue with the new government, taking into account the analytical results, the Bank's comparative advantages, and the interventions that are currently in the portfolio and are expected to be implemented during this country strategy period. The priority areas of the new country strategy as well as the operations currently being executed are aligned with the priorities identified in the Five-year Development Plan 2014-2019. Some of the areas that are important to the country, such as citizen security, will continue to be supported by the portfolio in execution, and have been included as dialogue areas. This strategy also supports the policy objectives identified in the Bank's Institutional Strategy Update for the period 2010-2020, particularly the development of quality human capital, improvement of regional infrastructure, and the formulation of a more distributive fiscal policy.[21]

3.2 The private sector windows will participate in the priority areas of human capital and logistics infrastructure. They will also contribute to the financing of small and medium-sized enterprises, financial inclusion, and renewable energies, which are areas currently included in the portfolio where the IDB Group has a competitive advantage due to its experience and partnerships, and where there is unmet demand for medium-term financing on the part of such enterprises. In addition, the non-sovereign guaranteed windows are willing to execute projects in other areas when new opportunities for collaboration arise that are compatible with the Bank's priorities set out in the Institutional Strategy Update, as well as with the windows' specific strategies.

A. Priority areas

1. Increasing the quality of spending on human capital

3.3 El Salvador has succeeded in improving the social indicators of its population, although the level of human capital is still low with respect to the rest of the region, and health and education outcomes are below what would be expected given the country's level of development.[22] In this context, the government's Five-year Development Plan includes the objective of developing human potential and identifies the need to make progress in the areas of health and education as one of its priorities.

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[20] See Annex VII.

[21] Paragraphs 3.6(a), 3.7(a), and 3.5(b) of document AB-3008.

[22] See analysis of Development Gaps.

3.4 In terms of education, the net enrollment rate at the primary level increased from 83% in 2000 to 91% in 2013, whereas enrollment in secondary schools increased from 44% to 62.5% over the same period. The sector continues to face challenges related to the quality of education received by students and enrollment at the secondary level. In terms of quality, standardized assessments show that student learning is lower than expected at both the primary and secondary levels, which limits the students' ability to satisfactorily continue with higher education studies or obtain quality employment.[23] The information on education quality that is regularly produced is not used to improve the efficiency of the educational system. One of the factors that explains these learning outcomes is teacher quality. Weakness in the teachers' knowledge is partly due to the quality of their initial and in-service training, and the lack of incentives for choosing a teaching career. Furthermore, although secondary school coverage has increased, only 62.5% of students are covered in net terms. The limited number of secondary schools explains the low rate of students who continue their studies at that educational level.[24]

3.5 The Bank will work in three areas to help the government improve education quality: (i) introduction of improvements in teaching practices; (ii) support for the implementation of information and communication technologies (ICT)[25] in schools; and (iii) increased use of information systems for decision-making. These actions will be complemented by improvements in education infrastructure. They will be supported through the Bank's private sector windows by seeking investments that will maintain the criteria of quality and inclusion in educational institutions that are not able to easily obtain financing in the market. The non-sovereign guaranteed (NSG) windows would support higher education loans for low-income students, as has been done in other countries in the region,[26] and complementary job placement programs for youth.[27]

3.6 The proposed support is aligned with the challenges of social exclusion and inequality and low productivity and innovation in the Institutional Strategy Update, and with the objectives of eradicating poverty, providing inclusive infrastructure and infrastructure services, and developing quality human capital.

3.7 In the education area, the main risks identified are: (i) teacher resistance to any changes to the status quo, and (ii) suboptimal use of information technologies in schools. International experience shows that processes to improve teaching

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[23] The Learning and Aptitude Test Upon Completion of Secondary Education (PAES) in 2013, which is administered at the end of the secondary level of education, as well as the Primary Education Learning Achievement Test (PAESITA), administered at the end of the basic education cycle, show a high percentage of students who only have basic knowledge.

[24] The lack of nearby schools was identified as one of the reasons why 16-to-20-year-olds do not attend school. The average travel time to school for secondary students is 25 minutes.

[25] The government has launched a technology program in schools to improve education quality. For example, computers were distributed to students on a one-to-one basis, as a tool for improving students' math, science, and technology skills.

[26] The legal framework that has been in force in El Salvador since 2004 stipulates that every higher education institution must be incorporated as a nonprofit entity, which limits the possibilities for finding private projects.

[27] The MIF has launched the NEO Program ("Youth Pathways"), which seeks to improve the integration of at-risk youth from urban fringe neighborhoods into the labor market and into society.

practices generate opposition in certain groups of society, particularly teachers unions. To minimize these risks, relevant stakeholders will be involved from the outset, and the experience of other educational systems in the region that have made progress in teaching practices will be followed. With respect to the risk of proper functioning of ICT, the goal is to ensure that any equipment supplied is accompanied by proper teacher training and ongoing support by infrastructure and technology experts.

3.8 The NSG and SG operations in the portfolio that include violence prevention, job training, and entrepreneurship activities will complement the proposed interventions for educational development.

3.9 In the area of health, El Salvador has made significant progress in recent years: the mortality of children under 5 decreased from 32 to 11 per 1,000 births between 2000 and 2014, and maternal mortality dropped from 211 to 71 deaths per 100,000 live births between 1990 and 2005. By 2014 this figure fell to 52.6, surpassing the millennium development goal in both cases. At the same time, there are still inequities in access to and the use of quality healthcare services.[28] Furthermore, the country is entering an advanced stage of demographic transition accompanied by the corresponding changes in disease burden. Between 1992 and 2014, the percentage of the population over 65 rose from 5.5% to 7.6%. In 2010, 60.6% of the causes of disease were attributable to noncommunicable diseases.

3.10 A major sector reform process has been under way since 2009, the main objective of which is to achieve universal health coverage by providing basic public health services under the Comprehensive Integrated Healthcare Service Networks System (RIISS).[29] Nevertheless, the reform currently only covers 28% of the total population. In addition, there is a lack of integration among the institutions that are part of the National Health System, which has an impact on the efficient use of resources. El Salvador's Ministry of Health (MINSAL) serves individuals insured by the Salvadoran Social Security Institute (ISSS), but does not receive any reimbursement payments in return. In terms of health system management, there are significant medication supply shortages along with a lack of solid referral and counter-referral mechanisms, and obstacles to reproductive health services such as family planning and pregnancy testing, among other areas, have been reported by adolescent women.

3.11 The Bank will continue to support the government's efforts to consolidate the health services network, with actions aimed at improving management of the

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[28] For example, in terms of the prevalence of low height for age, a significant difference was observed between the children of mothers in the lowest income quintile (31.3%) compared to the highest income quintile (4.6%). Moreover, the percentage of intra-hospital deliveries in the highest income quintile is 97% compared to 68.2% in the poorest quintile.

[29] The cornerstones of this system are the Community Family Health Teams (ECOS), which provide primary care services.

health system and expanding coverage at all levels of care.[30] The Bank's private sector windows will focus their attention on actions that complement the delivery of public health services, such as diagnostic clinics and microinsurance. The proposed support is aligned with the challenges of social exclusion and inequality, and low productivity and innovation in the Institutional Strategy Update, and with the objectives of eradicating poverty, providing inclusive infrastructure and infrastructure services, and developing quality human capital.

3.12 The main risks identified in the area of health relate to: (i) delays in reform consolidation due to lack of consensus; (ii) high turnover rates or lack of staff in remote areas; and (iii) lack of financial sustainability of the reform. To mitigate these risks, the Bank will provide technical assistance to support the dialogue process, the creation of financial scenarios, the design of an incentive plan, and institutional strengthening.

3.13 The proposed investments will seek to supplement the PAPTN, which also emphasizes the development of human potential in order to reverse the migration of adolescents and promote the country's productive development (see Annex VII).

2. Improving logistics infrastructure

3.14 El Salvador's growth rate was lower than the average for Central America, and the private investment it received is also below regional levels. The country is in the midst of a productive transformation process that seeks to revitalize the economy by supporting the productive sectors that already have comparative advantages, so that their products have a greater presence in international trade. Although El Salvador has already implemented key reforms and investments to facilitate this productive development process and attract new investments, there are still limits to promoting the emergence and strengthening of a dynamic and diversified export sector.

3.15 Given El Salvador's geographic location, logistics infrastructure is vital to international trade,[31] but there are several medium-term challenges in terms of vulnerability to climate change, as well as maintenance quality and resources. The Logistics Performance Index for El Salvador shows that it dropped 27 places between 2007 and 2012, due to a weakening in the customs component as well as deficiencies in the traceability of international shipments. Although there have been improvements in some sectors, El Salvador has remained behind in terms of how quickly these improvements have been made with respect to other countries. The country needs to improve connectivity between production hubs

[30] One of the Bank's current operations is the Integrated Health Program (PRIDES – ES-L1027), which will continue to support the reform of the National Health System based on an integrated primary healthcare strategy. The Bank has also stepped up implementation of the reform in 14 of the poorest municipios in El Salvador through the Mesoamerican Health Initiative 2015, in which two grants for US$6.5 million and US$3.94 million were approved in 2011 and 2014, respectively. The final operation of this initiative will support the outcomes of this country strategy.

[31] In all, 56.2% of exports by weight and 43% by value are transported by ground. If multimodal transport is added, the figure increases to 70% of exports by weight.

and its main logistics assets, which would directly benefit 1.5 million inhabitants.[32]

3.16 Road infrastructure has deteriorated as a result of poor maintenance, and a significant percentage of roads are still unpaved. Ports have a notable lack of proper equipment such as container cranes, as well as physical space. Infrastructure at border crossings is inadequate, and the implementation of integrated border management remains partial,[33] which increases the transit time of products shipped to external markets.

3.17 The objective of the Bank's support in this area is to contribute to El Salvador's productive transformation process by making improvements in logistics infrastructure. Taking into account the activities currently in progress financed by the loans in the portfolio,[34] the new actions will focus on supporting trade facilitation under the Coordinated Border Management concept, including modernization of the customs system, and development of a medium and long-term financing strategy for the maintenance, rehabilitation, and construction of road infrastructure. The Bank's private sector windows will complement these actions by continuing to provide technical support to the Comisión Ejecutiva Portuaria Autónoma [Executive Autonomous Port Commission] (CEPA) with respect to public-private partnerships, and will explore opportunities for investments in ports, airports, and nonport zones, and strengthening regulatory frameworks and related administration issues. Every attempt will be made to ensure that investments in this sector are complementary to the PAPTN (see Annex VII). The proposed support is primarily aligned with the challenge of limited economic integration set out in the Institutional Strategy Update 2010-2020 and with the objective of improving regional infrastructure.

3.18 The main risk associated with this area would be the failure to coordinate and align the vision among the various stakeholders. To mitigate this risk, the Bank's experience will be used to strengthen the institutional framework and build technical capacity to determine project priority[35] and disseminate good practices in coordinated border management.

3. Strengthening public finance

3.19 The country has made headway in the fiscal area, but has not been able to reverse the upward trend in the debt stock. The fiscal deficit for 2014 was 3.6%

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[32] This includes 10 large cities, four of which are border crossings and five are cities that have production hubs (San Salvador, San Miguel, Santa Ana, Sonsonate, and Usulután). Official data from the 2007 El Salvador Population Census.

[33] In order of importance, the border crossings are La Hachadura, El Amatillo, Anguiatú, El Poy, San Cristóbal, and Las Chinamas. Of these crossings, only one is accessed by two lanes, and only two have a truck parking area. The International Goods Transit system has been implemented in four of the six border crossings.

[34] The Bank has portfolio operations aimed at improving logistics infrastructure and strengthening productive chains. Operations ES-L1061 Rural Connectivity and ES-L1085 Mesoamerican Pacific Corridor are focused on improving road infrastructure. The Productive Corridors Program (ES-L1075) finances activities to improve the logistics and productivity of the Marine Coastal Strip. It is also helping to strengthen the institutions related to innovation and increase exports through trade facilitation.

[35] Some operations already approved under the previous strategy are starting to be implemented in the areas of innovation, regional development, and transportation in the Marine Coastal Strip.

of GDP, and public debt accounted for 57.6% of GDP. The country introduced measures to increase tax revenue intake, which rose by 2.4 percentage points of GDP between 2009 and 2014, but was still insufficient to offset the increase in public expenditure, due in part to the expansion of social programs. In the institutional area, the Salvadoran government is making progress in implementing the Fiscal Framework, the Medium-term Expenditure Framework, the Results-based Budget, Accrual Accounting, Fiscal Risk Management, and the design of the second generation of the Integrated Financial Management System (SAFI II).

3.20 In terms of fiscal resources, net taxation remains low (15% of GDP in 2014) as a result of the dependence on indirect taxes and low tax productivity. The country does not have a property tax, and there are no recent or updated estimates or cost-benefit analyses of tax expenditure. Furthermore, there is room for improvement in the area of tax administration.

3.21 Public expenditure has increased in recent years as a result of increases in compensation associated with the social function and a higher rate of subsidies, whereas investment has remained at around 3% of GDP. Along with this increase in expenditure is the government's commitment to cover the pension system deficit, which accounts for 2% of annual GDP, equivalent to nearly half of the 2014 fiscal deficit. There are opportunities for improving the efficiency, equity, and quality of public expenditure. In the case of gas and electricity subsidies, there is still substantial leakage to the top income deciles.[36] In addition to being a substantial fiscal burden for the State, the government's commitment to take over responsibility for the pensions deficit represents an intergenerational equity problem,[37] as well as an equity problem within the system and with the population in general.[38] The professional technical training system is financed through a contribution of 1% of wages (0.1% of GDP), but there is no coordinated training system with appropriate mechanisms for ensuring relevance and quality.

3.22 To ensure greater effectiveness, efficiency, and impact of public investment, the management of the National Public Investment System (SNIP) should: (i) modernize the regulatory framework; (ii) improve coordination; (iii) institutionalize the social and ex post evaluation of projects; (vi) increase efficiency and transparency in the process of awarding projects; (vii) expand the monitoring of subnational government investment; and (viii) build the technical capacity of staff in the lead investment agency and executing entites. In addition, planning, investment, and budget systems must be coordinated.

3.23 Against this backdrop, the Bank's objective is to strengthen fiscal sustainability and management by supporting the Salvadoran government's actions in the following areas: (i) taxation, financial management systems, and strengthening of

[36] Thirty percent (30%) of the richest households receive 28% of electricity subsidies, 28% of liquefied petroleum gas subsidies, and 47% of the water subsidies provided by the national water and sewer authority (ANDA).

[37] The financial structure adopted to finance this deficit has an impact on the return on savings of future retirees.

[38] Fifteen percent (15%) of the beneficiaries received 60% of the pensions in 2012 for pensioners in the private system, and only 2.4% of the Salvadoran population receives benefits from the pensions system equivalent to 1.8% of GDP.

the budget framework, (ii) achieving greater spending efficiency and equity,[39] (iii) ensuring greater equity, financial sustainability and proper management of the pensions system, and (iv) results-based planning systems, prioritization of public investment and coordinating it with the budget, and generation of information needed to make decisions and monitor outcomes. This approach is aligned with the challenge of social exclusion and inequality set out in the Institutional Strategy and with the objective of creating a more distributive fiscal policy.

3.24 The main risks are associated with the controversy that may arise from possible pension system reforms and public spending efficiency measures, as well as from a certain degree of fatigue with respect to additional reforms in the area of tax administration and fiscal institutions. To mitigate the risk of disputes, an awareness-raising and educational plan will be formulated on the benefits of the proposed reforms. In terms of tax administration and the investment system, communication activities will be part of the specific actions, and the reform process will be based on the application of best practices in the design and implementation of policies in this area.

B. Crosscutting issues and dialogue areas

3.25 **Crosscutting issues**. The areas of logistics infrastructure and strategic public investment planning will focus on reducing vulnerability to natural disasters and environmental degradation, climate change adaptation, and Mesoamerican regional integration. In addition, specific challenges to the empowerment of women and gender equality in education and health will be addressed.[40] Particular attention will be given to reproductive health and teenage pregnancy, which affects the life cycle of women, by increasing school dropout rates and limiting their participation in the workforce. In addition, crosscutting support will be provided in the priority areas to mitigate the causes of migration under the PAPTN.

3.26 **Dialogue areas.** The Bank will continue to deepen dialogue in the area of **citizen security**, under the Safe El Salvador Plan that was recently mutually agreed upon by the different sectors in the country. In addition, given how relevant **energy** is to the country's competitiveness, the dialogue with the authorities on regulatory and regional integration matters and coverage of the electricity system will be continued. In the areas of **land management, urban development and housing**, the Bank, in conjunction with the authorities, will identify optimal intervention modalities, using the lessons learned by the sector and retaining as a priority the actions complementary to the PAPTN. The dialogue will continue,

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39 Including subsidies for utilities and the Professional Training System.

40 In the area of education, better teaching quality and a lower school dropout rate will lead to a greater accumulation of human capital among youth, which will incentivize a higher rate of participation in the workforce and lead to higher incomes. The Ministry of Health plays an important role in addressing the challenges that affect women, through participation in the Ciudad Mujer program, which is the main point of contact with women who visit the centers, as well as the implementation of policies such as the Intersectoral Plan for the Prevention and Care for All Forms of Violence Throughout the Life Cycle. In addition, the private sector windows are particularly active in this crosscutting issue: the MIF's technical cooperation project ES-M1043 focuses on the women's entrepreneurship initiative, ES-L1074 on financing for microenterprises headed by women, and the IIC has its FINPYME Mujer Empresaria program for women entrepreneurs.

and consensus-building between the public and private sectors will be encouraged on **productive development** issues, with an emphasis on financial inclusion, the productive use of remittances, and business climate, in order to generate private investment and public-private partnerships.[41] There is currently a portfolio in execution for all of these areas, which will serve as a basis for leveraging the dialogue. Another important dialogue area will address implementation and Bank support in coordinating donors for implementation of the PAPTN.

3.27 **Support for portfolio operations**. Thirty-two percent (32%) of the remaining portfolio operations are aligned with the priority areas (31% for logistics infrastructure and 1% for health), and their outcomes are therefore part of this strategy. Fifty-four percent (54%) of the operations are aligned with the dialogue areas (41% for productive development, 9% for citizen security, and 4% for urban development).

IV. LENDING FRAMEWORK

4.1 The government is currently undergoing a fiscal consolidation process aimed at reducing the deficit and the accumulation of public debt, and it is therefore expected that the fiscal resources allocated to investment projects will be limited in the short and medium term.[42] The country's gross financing requirements are on the order of US$7.3 billion for the 2015-2019 period, including pension system financing needs.

4.2 Based on the fiscal stricture and the undisbursed portfolio balance, the strategy considers two financial scenarios, a base scenario and an alternative scenario, which are indicative in nature. The lending volume and modalities, which will be determined in the Bank's annual programming process, will take into account changes in macroeconomic conditions and absorptive capacity. In the base scenario, Bank support over the period 2015-2019 would total US$1.060 billion in new approvals and US$1.047 billion in total disbursements. The Bank's exposure in the country would remain at around 57% of the debt with multilateral organizations and would account for 27% of external debt by the end of the country strategy period. The average annual amount of loan approvals and disbursements would be US$212 million and US$209 million, respectively. This base scenario assumes a fiscal position that would make it possible to improve the balance of the nonfinancial public sector, including pension system costs, from a primary deficit of 1.2%[43] of GDP in 2014 to no more than 0.2% of GDP in 2016. If this is not achieved and the primary balance is more negative, consideration will be given to an alternative lending scenario with a total of US$580 million in approvals over the period and US$684 million in disbursements, equivalent to US$116 million and US$137 million per year, respectively.

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[41] For more information, see: Nuevas fuentes de financiamiento para el Desarrollo Productivo de El Salvador [New sources of financing for productive development in El Salvador].

[42] According to the Ministry of Finance, capital spending is expected to remain at 3% of GDP in 2014-2019.

[43] Equivalent to a primary surplus of 0.7% of GDP, not including pensions.

V. IMPLEMENTATION OF THE STRATEGY

5.1 **Measures to boost the effectiveness of the Bank's operations**. To boost effectiveness, support will continue to be offered through the following measures: (i) make better use of "lost" time between the approval and effective date of the operations in order to speed up their readiness for execution;[44] (ii) conduct workshops in coordination with the Ministry of Finance, to reinforce the interpretation and implementation of the article of the General Budget Act that authorizes the tendering and contracting of works financed by external loans based on the total or partial availability of funds, and incorporate this article in the text of new loan contracts;[45] (iii) target financing to a limited number of projects to increase the impact of the operations; (iv) design operations focused on a minimum number of strengthened executing agencies, and/or make better use of existing capacities; and (v) strengthen the monitoring of the Bank's internal targets for response time to executing agencies. Alternative modalities may also be used to accelerate execution, such as the design/build method and/or partnerships with other cooperation agencies and entities such as the Millennium Challenge Corporation (MCC) or the Road Conservation Fund (FOVIAL).

5.2 **Strengthening of country systems**. In the area of financial management, there is currently 100% use of the budget, treasury, and accounting subsystems of the Integrated Financial Management System (SAFI), as tools for the financial management of Bank-financed operations in the nonfinancial public sector. Continued support for the Ministry of Finance is expected over the course of the new country strategy (2015-2019), in terms of implementing actions aimed at strengthening the SAFI system. Consideration will also be given to moving forward with actions focused on the conceptual and technological modernization of SAFI, as well as making headway on the implementation of International Public Sector Accounting Standards (IPSAS), conducting an internal audit pilot in the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU), and implementing the Single Treasury Account (CUT) mechanism.

5.3 In the area of procurement management, the Bank's Board of Executive Directors approved the partial use of the Integrated Procurement System (SIAC), specifically the use of the independent management subsystem. The Bank will continue to support the SIAC in order to develop an electronic platform to increase MSME participation in public procurement processes. The Bank will also support a dialogue on potential reforms of the Procurement Act (LACAP), with market studies to demonstrate the advantages of including other procurement subsystems (for example, framework agreements, catalogue), and

[44] This includes speeding up the preparation of the works' final designs, from the programming of operations funded by the Salvadoran Fund for Preinvestment Studies (FOSEP) or other resources, the formulation of terms of reference for contracting executing agency staff, the procurement of goods and services, and mapping of the required processes for eventual incorporation into the budget.

[45] The articles states that: "To conduct processes for the procurement of works, goods, and services to be financed by the proceeds of current external loans and counterpart funds, the executing agency may call for bids based on the total or partial availability of the proceeds of loan agreements, and must program funds in its institutional budget for each fiscal year as required to fulfill its commitments based on the annual budget execution programming of the aforementioned contracts for works, goods, and services, pursuant to the provisions of Art. 34 of the government's Financial Management Act." This text is already included in the contracts for four operations approved as of August 2013.

intraregional cooperation to share practices and knowledge. A significant challenge is to continue the dialogue and strengthening activities with the Salvadoran Auditor's Office (CCR), such as modernization of methodologies, and implementation of cost-efficiency and cost-effectiveness criteria, so that the Auditor's Office can audit the Bank's projects.

5.4 The following table summarizes the status of country systems in El Salvador, and the expected actions and progress to be made during the country strategy period:

Table 1: Country Systems

Use of country systems	Baseline 2013	Expected use in 2019	Expected actions during the country strategy
Budget	100%	100%	Modernization of the public budget system
Treasury	100%	100%	Stabilization and expansion of the CUT
Accounting	100%	100%	Implementation of IPSAS
Financial reporting	0%	30%	Generation of IDB reports using SAFI II
Internal audit	0%	0%	Better supervision and ex post review of executing agencies
External control	0%	0%	Institutional strengthening of the Auditor's Office (CCR)
Information system	100%	100%	Improvement of the portal
Shopping	0%	70%	Use of the independent management subsystem (shopping) in projects
Individual consultant	0%	20%	Support legal reforms and use the specified subsystems when they depend on legal reforms
Partial NCB	0%	30%	
Advanced NCB	0%	0%	

5.5 **Donor coordination.** In 2009 the Vice Ministry of External Cooperation was created as the lead agency in charge of cooperation in El Salvador. Its mission is to coordinate, integrate, and increase international development cooperation with donor partners, mayors' offices, and civil society. The Vice Ministry has established a donor coordination forum and thematic roundtable discussions based on the priorities and objectives established in the Five-year Development Plan 2014-2019, involving the donor agencies that have operations in the sectors. Other multisector coordination mechanisms are FOMILENIO II, the Safe El Salvador Plan, and the PAPTN. The Bank will continue to leverage funding for infrastructure projects through cofinancing (European Investment Bank, Latin American Investment Fund, etc.). In addition, it will continue to conduct joint studies with the European Union and the World Bank on subjects related to public management.

VI. RISKS

6.1 **Political risk.** The degree of political polarization in the country necessitates the ongoing forging of agreements to obtain the support required to approve and implement the reforms and investment projects. In the past, this has led to delays in the legislative approval of the Bank's projects. To mitigate this risk, an early dialogue with relevant stakeholders will be promoted and consensus will be sought by analyzing alternatives and publicizing the benefits of the projects. The Bank will continuously monitor these risks during the portfolio programming and review missions. If the required consensuses are not reached, the Bank will use technical assistance and administrative resources and other nonreimbursable instruments to continue the dialogue with the Salvadoran government on the priority areas.

6.2 **Fiscal risk.** The fiscal situation in the country is fragile and represents a risk to the implementation of the country strategy. The government is committed to moving forward with a consolidation process, which includes passage of a fiscal responsibility law that will provide a medium-term framework for public finance and will be a key factor in improving fiscal sustainability. To manage the risk of the country's fiscal outlook deteriorating, the Bank will use nonreimbursable resources to deepen the dialogue with the Salvadoran government on the priority areas, especially public finance. It will also emphasize the lines of action in the area of productive transformation and international trade facilitation in order to boost medium-term growth of GDP, since this is a factor that is critical for fiscal sustainability. The Bank, through the Macroeconomic Safeguards Framework, will periodically monitor the country's macroeconomic situation.

6.3 **Execution risks**. The execution and coordination capacities of the local counterparts could slow the pace of execution and affect the performance of the portfolio. To mitigate this risk, the Bank will support institutional strengthening and fiduciary training activities, which involve identifying new design and execution arrangements adapted to local capacities. In addition, the readiness of the projects will be supported throughout the period from the approval of operations to their effective date, by reviewing the planning, starting to prepare the bidding terms and conditions, and working to fulfill the conditions precedent. The Bank will continuously monitor the execution risks through the project supervision and monitoring systems and portfolio missions. Another identified risk related to continuing to make progress in the use of the SIAC has to do with reaching the political consensuses needed for approval of the Procurement Act reforms. The Bank will continue to monitor the country systems.

6.4 **Natural disaster risks.** Due to its geographic location and various social, economic and population density factors, El Salvador is vulnerable to different natural events such as droughts, flooding, landslides, and earthquakes. The occurrence of a natural disaster could affect achievement of the outcomes set out in the strategy, due in part to the high economic costs of the events and in part to a redefinition of priorities by the national authorities. For this reason, the Bank will enter into a dialogue with the country to identify risk mitigation measures, especially for infrastructure works, through financial mechanisms such as contingent credit lines, technical assistance, etc.

RESULTS MATRIX

Government Priority	Area	Strategic Objective	Expected Outcomes	Indicators	Baseline/Source/Frequency
Develop the human potential of the Salvadoran people	**Increasing the quality of expenditure on human capital**	Improve education quality	Students in public schools improve their learning at the primary level.	Scores obtained by public school students on the PAESITA test[1] (6th grade)[2]	4.74 (MINED, 2012) Annual assessment
			Students in public schools improve their learning at the secondary level	Scores obtained by public school students on the PAES test (12th grade)[3]	5.12 (MINED, 2013) Annual assessment
		Consolidate the network of healthcare services	Increase in primary and preventive healthcare	Percentage of 15-to-19-year-old women who are pregnant or have at least one child	19.19% (MICS, 2014) At the end of the country strategy
				Percentage of early enrollment[4] of children under 1	87.3% (MINSAL, 2012) Annual assessment
				Coverage of 3rd dose of pentavalent vaccine[5] in children under 1	92.3% (MINSAL, 2012) At the end of the country strategy
				Coverage of prenatal enrollment prior to the 12th week of pregnancy	66.8% (MINSAL, 2012) Annual assessment
			Families have health care based on Ministry guidelines[6]	Families registered in the new healthcare model registries	1,894,866 (MINSAL, 2013) Annual assessment

[1] Basic Education Learning Achievement Test. The test is graded on a scale of 0 to 10.

[2] The project will disaggregate data by gender, since there is currently only gender-disaggregated data at the global level, and not just for the public sector.

[3] The test is graded on a scale of 0 to 10.

[4] Before they are eight days old.

[5] Combined vaccine that protects against five diseases: diphtheria, whooping cough, tetanus, influenza type B, and hepatitis B.

[6] See guidelines document at https://www.salud.gob.sv/servicios/descargas/documentos/Documentación-Institucional/Lineamientos-y-Filtros/Equipos-Comunitarios-de-Salud-Familiar-y-Especializados/Lineamientos-operativos-para-el-desarrollo-de-actividades-en-los-ECOS-Familiares-y-ECOS-Especializados/.

Government Priority	Area	Strategic Objective	Expected Outcomes	Indicators	Baseline/Source/Frequency
				Municipios that have adopted the new healthcare model	164 (MINSAL, 2013) At the end of the country strategy
Position the country as a major export and production hub with competitive logistics costs	**Improvement of logistics infrastructure**	Improve the connectivity between development hubs and markets by strengthening infrastructure and transport services.	Reduction of general travel times and transport costs on the sections of road that connect production hubs with free zones and the final destination of freight	% of paved roads in good (and very good) condition[7]	40% (1,287 km paved) (SIGESVIAL, MOPTVDU, 2013) At the end of the country strategy
		Promote/facilitate Mesoamerican regional integration	Reduction of average time at border crossing	Average wait time at the country's borders (hours)	6 hours (Customs Authority, 2013) At the end of the country strategy
Restore fiscal sustainability	**Strengthening of public finance**	Strengthen fiscal sustainability	Medium-term improvement in the primary fiscal balance	Primary fiscal balance (excluding pensions) as a % of GDP	0.7% (Ministry of Finance, 2014) Annual assessment
		Improve the efficiency and equity of public spending	Reduction of annual cash flow deficit in the contributory pension system.	Projection of annual cash flow deficit in contributory pensions system by 2019	3.1% of GDP (SSF and IMF data, World Economic Outlook Database 2013) At the end of the country strategy
			Improve the targeting of public utility subsidies	% of electricity and liquefied petroleum gas subsidies received by the 7th to 10th income distribution deciles.	48.2% (electricity) and 45.6% (gas) (FUSADES 2013) At the end of the country strategy
		Improve the effectiveness of investment by prioritizing projects with high social returns	System for evaluating the social return of public investment projects in execution	Percentage of public investment projects that are evaluated in terms of social return	0% (Ministry of Finance, 2013) At the end of the country strategy

[7] Principal road network. The Ministry of Public Works defines very good condition as a highway whose original construction has been completed, and good condition as that same highway with little wear and tear, which will require future maintenance. These assessments are made using the Ministry of Public Works' El Salvador Road Management System (SIGESVIAL).

COUNTRY SYSTEMS MATRIX[8]

Strategic objectives	Expected outcomes during the country strategy	Indicator	Baseline	Indicative targets	Frequency
Support the Salvadoran Auditor's Office (CCR) in its institutional modernization process	Identification of priority areas for intervention based on the diagnostic assessment of the external control system conducted using INTOSAI's SAI-PMF methodology	CCR strategic plan, 2015-2019	Strategic actions, July-Dec. 2015	Strategic plan formulated and in execution	At the end of the country strategy
Support the government in improving the country financial management system	Progress made in implementing IPSAS	% progress in executing the IPSAS implementation plan	Government decision to adopt IPSAS	25%	At the end of the country strategy
Strengthen the country financial management system	SAFI II designed to generate reports based on the Bank's requirements	% of the loan portfolio that generates reports for rendering accounts directly from SAFI II	SAFI cannot generate information at the level of investment component and category	30%	At the end of the country strategy
Make progress in the internal audit system	Internal audit pilot implemented in the MOPTVDU	Internal audit pilot in the MOPTVDU	The MOPTVDU does not have an internal audit system with standards that are acceptable to the Bank	Pilot plan implemented	At the end of the country strategy
Strengthening of the SIAC	Publication of procurement processes for COMPRASAL projects	% of the portfolio that publishes COMPRASAL procurement processes	50%	90%	At the end of the country strategy
	Implementation of the independent management subsystem (shopping)	% of the loan portfolio that uses the subsystem	0%	70%	At the end of the country strategy
	Redesign of COMPRASAL	Launch of the redesigned website	0%	100%	At the end of the country strategy

[8] Measurable outcome indicators for the country strategy period (2015-2019).

Strategic objectives	Expected outcomes during the country strategy	Indicator	Baseline	Indicative targets	Frequency
	Access to information and statistics of procurement processes through COMPRASAL	Availability of and access to the information	30%	80%	At the end of the country strategy
	Technical discussion events with the government on public procurement reforms	Number of events	0	3	At the end of the country strategy
	Study of public procurement market	Study conducted	0	1	At the end of the country strategy

MAIN ECONOMIC AND SOCIAL INDICATORS

Relevant Macroeconomic and Social Indicators						
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Real GDP (% Var.)	-3.1	1.4	2.2	1.9	1.8	2.0
Current transfers (% of GDP)	16.7	16.8	16.6	16.8	16.2	16.7
Current account (% of GDP)	-1.5	-2.7	-4.9	-5.3	-5.1	-4.7
Foreign direct investment (US$ millions)	365.8	99	420.1	515.8	155	N/A
Population (millions)	6.15	6.18	6.21	6.25	6.29	6.33
Poverty (% of total population)	37.8	36.5	40.6	34.5	29.6	N/A
Gini coefficient	0.48	0.46	0.44	0.41	0.40	N/A
Illiteracy rate	14.1	14	13.7	12.7	12.4	N/A
Households with access to electricity (%)	81.6	80.8	80.8	81.6	83.4	N/A
Households with access to sanitation (%)	95.3	95.6	96	96.3	96.5	N/A
Households with access to running water (%)	78.7	81.9	82.9	83.8	85.4	N/A
GDP per capita (US$)	3,358.1	3,464.1	3,723.9	3,818.8	3,838.4	3,931.1
Total revenue NFPS (% of GDP)	17.3	18.5	19.1	19.8	20.1	19.7
Total expenditure NFPS (% of GDP)	21.2	21.1	21.2	21.4	22.3	21.4
Current savings (with pensions, % of GDP)	-3.1	-1.9	-2.0	-1.2	-1.2	-1.2
Primary balance (% of GDP)	-1.3	-0.2	0.1	0.7	0.2	0.7
Primary balance (with pensions, % of GDP)	-3.1	-1.9	-1.7	-1.1	-1.6	-1.2
Overall balance (% of GDP)	-3.9	-2.6	-2.1	-1.6	-2.2	-1.7
Overall balance (with pensions, % of GDP)	-5.7	-4.3	-3.9	-3.4	-4.0	-3.6
Pension payments to the Public Pension System (SPP) (% of GDP)	1.8	1.7	1.8	1.8	1.8	1.9
Gross debt of the NFPS (with pensions, % of GDP)	50.0	51.5	51.6	56.6	56.8	57.6

Source: Ministry of Finance and DIGESTYC.

INDICATIVE LENDING FRAMEWORK

The government is currently undergoing a process of fiscal consolidation aimed at reducing the fiscal deficit and accumulation of public debt, in order to create macroeconomic stability and equilibrium. As a result of this policy, the fiscal headroom for investment projects is expected to be limited in the short and medium term.[1] In view of this restriction and the fact that the IDB portfolio has an undisbursed balance of US$470.5 million, the financial scenario was prepared based on the premise that there will be limited fiscal headroom for new investment projects to be financed by the Bank during the period 2015-2019.

The country's gross financing needs total approximately US$7.3 billion for the period 2015-2019, including the pension system deficit. The Bank's support for 2015-2019 is expected to be US$1.060 billion in new approvals and US$1.047 billion in total disbursements. The Bank's exposure in the country will remain at around 57% of the debt with multilateral organizations and will account for 27% of external debt by the end of the strategy period. The average annual approval and disbursement amounts are US$212 million and US$209 million, respectively.

Base Financial Scenario
(US$ millions)

	2015	2016	2017	2018	2019	Total 2015-2019	Average 2015-2019
New approvals	180	210	250	300	120	1,060	212
Disbursements	108	251	256	276	155	1,047	209
Repayments of principal	140	162	175	177	180	833	167
Net lending flow	-31	89	81	100	-25	215	43
Subscriptions							
Net capital flow	-31	89	81	100	-25	214	43
Interest and fees	47	43	39	34	30	193	39
Net cash flow	-78	46	43	65	-55	21	4
IDB debt/GDP	8%	8%	7%	7%	7%		
IDB debt/External public debt	25%	25%	26%	27%	27%		
IDB debt/Debt with MDBs	54%	55%	57%	60%	56%		

Source: IDB.

The base scenario for new approvals and disbursements assumes a fiscal situation that will allow the nonfinancial public sector's balance, including pension costs, to improve from a primary deficit of 1.2% of GDP in 2014 to no more than 0.2% of GDP in 2016. If this is not achieved and the primary balance is more negative, an alternative lending scenario will be considered with US$580 million in total approvals for the period and US$684 million in disbursements, which is equivalent to US$116 million and US$137 million per year, respectively.

[1] According to information provided by the Ministry of Finance, capital expenditure is expected to remain at around 3% of GDP during the period 2014-2019.

Alternative Financial Scenario
(US$ millions)

	2015	2016	2017	2018	2019	Total 2015-2019	Average 2015-2019
New approvals	180	100	100	100	100	580	116
Disbursements	108	245	95	107	127	684	137
Repayments of principal	140	162	175	177	180	833	167
Net lending flow	-31	84	-80	-69	-53	-149	-29.8
Subscriptions							
Net capital flow	-31	84	-80	-69	-53	-149	-29.8
Interest and fees	47	43	39	34	30	193	38.6
Net cash flow	-78	40	-118	-104	-83	-342	-68.4
IDB debt/GDP	8%	8%	7%	6%	6%		
IDB debt/External public debt	25%	25%	24%	23%	23%		
IDB debt/Debt with MDBs	54%	55%	53%	51%	48%		

Source: IDB.

DONOR COORDINATION

International cooperation continues to play a fundamental role in achieving the Salvadoran government's development targets. The IDB is one of its main multilateral partners, along with the Millennium Challenge Corporation (MCC), the World Bank, CABEI, the European Union, and the United Nations agencies. The bilateral donors with the largest presence in El Salvador are the United States, Spain, Japan, Italy, Taiwan, Germany, Chile, Brazil, and Mexico.

During implementation of the Country Strategy 2015-2019, the IDB will work closely with the international cooperation agencies to support the objectives of the government plan in the priority areas, as well as in crosscutting and dialogue issues.

In the area of education, USAID has a program for at-risk youth who neither study nor work, but have family responsibilities, which is aimed at helping them finish their studies through support provided by the EDUCAME initiative. It is also implementing a Full-time Inclusive School Support Program (US$25 million). In addition, seven other cooperation agencies are supporting the sector through inclusive schools, safe community environments, technology, and other programs.

In terms of health, the World Bank is executing US$80 million in financing aimed at expanding the coverage of quality healthcare services and achieving greater equity in their use, and strengthening MINSAL's ability to manage functions. This operation will benefit 2.4 million people living in 90 priority municipios. The World Bank/IDB financing was designed in a coordinated manner to support health reform. The Pan American Health Organization (PAHO) also participated in formulating the strategy and collaborated with the IDB to design studies that break down the cost of healthcare services by establishment and type of service, as well as pilot studies on the functioning of networks and invoicing for services between institutions.

The IDB has been coordinating logistics infrastructure with the MCC, which in September 2013 approved an initiative with a total investment of US$365.2 million that includes an MCC grant of US$277 million and the government's counterpart contribution of US$88.2 million. Between the IDB, the MCC, JICA and the Fondo Yucatán (FY), an estimated US$581 million should be invested in logistics infrastructure over the next few years, improving productive development in the Marine Coastal Strip, the Mesoamerican Pacific Corridor, and the border crossings.

In terms of public finance, six organizations and agencies are supporting the strengthening of the Ministry of Finance in fiscal policy and tax reform matters. For example, the World Bank has granted a US$20 million loan for strengthening the institutional framework, modernization of public expenditure, and financial management, together with improving transparency, *inter alia*. In addition, the IDB is supporting planning and tax inspection issues, among others, through technical cooperation projects.

In the crosscutting issue of gender, eight cooperation agencies are working together on the development of enterprises headed by women. The United Nations Population Fund (UNFPA) and USAID are providing support to prevent violence against women and ensure their access to justice, whereas PAHO has investigated the prevalence of violence against women. The Spanish Agency for International Development

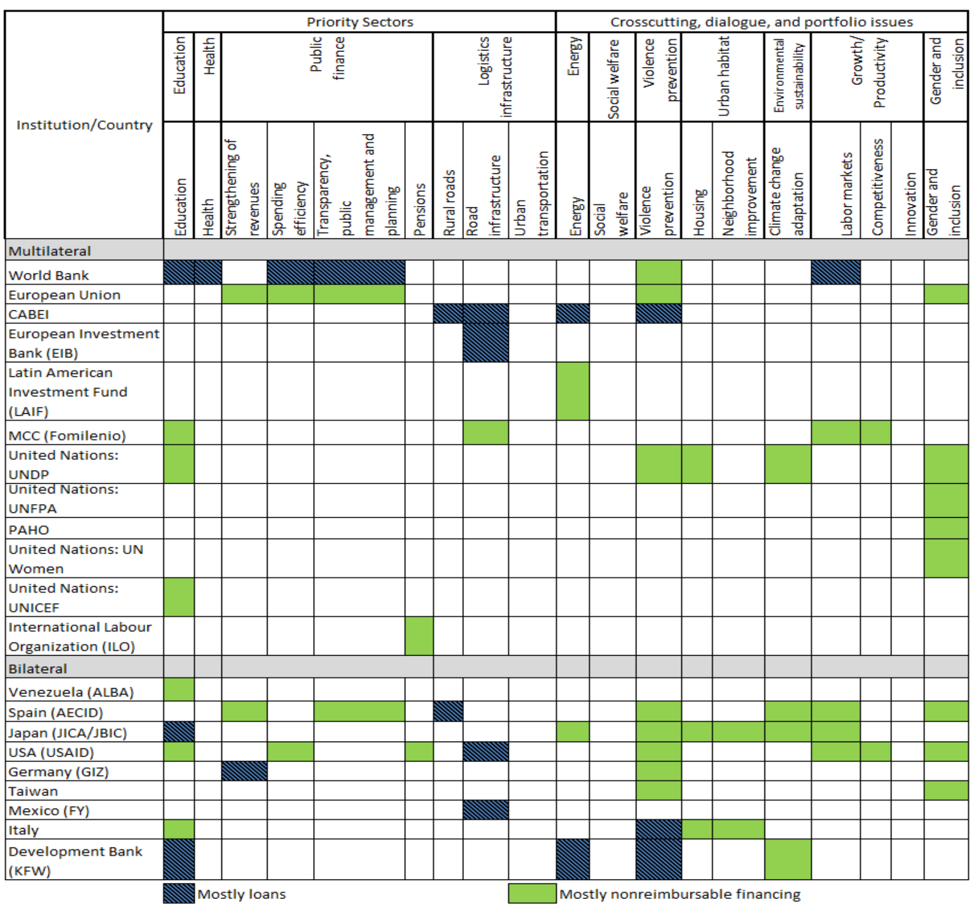
Cooperation (AECID) has worked on the institutional strengthening of the Salvadoran Institute for the Development of Women. Finally, PAHO and UNFPA are working to prevent teen pregnancy by providing specialized reproductive and sexual health services.

The IDB has been closely coordinating work in the area of citizen security, from the design and approval of the operation to date. The country has secured financing from several donors: CABEI has an $82 million program for prisons and prison farms; USAID is financing US$67 million; KfW US$20 million; GIZ US$5 million; Italy US$5 million; and Taiwan US$2 million, in different areas of the sector. All of this assumes a significant increase in the number of cooperation agencies and financing that prioritize security.

With respect to energy, work has been done jointly with JICA to prepare a diagnostic assessment of the sector and identify its main challenges, such as greater energy efficiency, coverage, and diversification of the generation mix. Based on the outcomes of this collaboration, JICA and the National Energy Board (CNE) have agreed to launch a technical cooperation operation to prepare an energy efficiency program in the public sector (street lighting, public buildings, etc.) with a view to obtaining a possible loan from JICA and other interested donors.

The map of cooperation agencies shows the priority and crosscutting areas of the country strategy, which means that good coordination will be critical to the success of all programs.

Table 1. Map of Cooperation Agencies – Priority Sectors and Other Areas



MACROECONOMIC CONTEXT

Low economic growth and loss of competitive advantage with respect to the rest of Central America. El Salvador's economic growth has been limited. The country grew an average of 1.9% per year starting in 2000, compared to an average of 3.8% in other Central American countries. Gross investment is also lower in El Salvador than in other countries in the region. The Government of El Salvador has implemented a number of public policies aimed at boosting economic activity, such as the new public-private partnerships act, an update to the free zones act, and the drafting of the international services act, among others. To date, the impact of these measures has been limited. There are several key problems to El Salvador's growth, starting with the cost associated with crime and the low productivity of factors of production.

The deficit and debt level of the nonfinancial public sector (NFPS) has been deteriorating. Although the fiscal deficit has been reduced with respect to the levels recorded in the 2009 global financial crisis, it worsened starting in 2011, climbing to 4% of GDP in 2013. In 2014, the fiscal deficit fell to 3.6% of GDP, due primarily to the under-execution of investment. Tax revenue intake benefited from the fiscal reforms adopted in 2009 and 2011, rising from 12.6% of GDP in 2009 to 15.0% in 2014. Despite the favorable performance of revenues, there were significant increases in public expenditure in terms of current spending, which accounted for 18.7% of GDP in 2014. Public debt likewise increased by 7.6 percentage points of GDP starting in 2009, reaching 57.6% of GDP by the end of 2014. The debt incurred to finance pension funds represents a growing obligation, which in the last five years jumped by more than 5% of GDP, added a burden of more than 2% of GDP per year, and in 2014 constituted an obligation of around 12% of GDP. The use of short-term debt instruments (Letras del Tesoro - LETES) to meet financial needs is also noteworthy, since they increased from 0.9% of GDP in 2010 to 1.3% in 2014, after peaking at 3.5% of GDP in 2012. A debt sustainability analysis for El Salvador shows that debt dynamics are affected by the growth of the economy and by the depth and timing of fiscal reform implementation. It is important that El Salvador implement a fiscal plan that, while taking the current level of growth into account, succeeds in stabilizing and starting to lower the debt level with respect to GDP. Given that the country does not have a flexible monetary policy, fiscal policy plays a pivotal role in maintaining economic stability.

Although the export structure has been diversified, remittances continue to finance the current account. Over the past decade, the country has been able to diversify the structure of its exports, moving toward increased participation of the nontraditional sector and less participation of the maquila industry. This diversification helps strengthen the external sector, although other factors such as remittances maintain the country's economic dependence on the United States. Remittances remain the principal source of monetary flows to finance the current account deficit, accounting for 16.7% of GDP in 2014. The current account balance remains at a deficit (around 4.7% of GDP in 2014), with a rising trade deficit (20.7% of GDP in 2014). In addition, net foreign direct investment remains low, with annual investment flows falling from a maximum of 5.7% of GDP in 2007 to 1.1% in 2014. In addition, net international reserves decreased in 2013 and 2014, but remain at levels that can cover more than three months of expected imports.

The financial system remains stable. The liquidity of the banking system and the net assets of institutions continue to exceed the required levels, ending 2014 with a liquidity of 23.5% and a net equity ratio of 18.8%. In addition, past-due and reserve coverage indicators remain stable, where past-due accounts represent 2.5% of the portfolio and the reserve coverage level accounts for 117% of the nonperforming portfolio. Credit granted to the private sector has increased in the last three years. According to the last financial sector stability assessment (FSSA), remaining issues include improving risk-based supervision, strengthening the financial safety net, and developing the local capital market. In addition, the IMF recommends gradual adoption of the Basel III standards.

Low inflation levels reflect the dynamics of economic activity. Because the Salvadoran economy is dollarized, inflations levels have been lower than in other countries in the region, ending 2014 with an inflation rate of 0.5%. In addition, inflationary pressures on the demand side are low, due to the slow pace of internal economic activity, together with the drop in fuel and energy prices.

COMMENTS ON THE COUNTRY PROGRAM EVALUATION: EL SALVADOR 2009-2014

Recommendation	Management's Response
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.	**Agree.** As part of preparing the 2015-2019 country strategy, the Bank has conducted a series of diagnostic assessments to identify El Salvador's development challenges in the following areas: education, health, logistics, fiscal management, the national public investment system, pensions, and gender. As OVE indicated, the Bank's country strategy will include the criteria used to select the sectors for intervention, including country priorities, the assessments conducted, the portfolio in execution, the presence of other strategic partners, and institutional priorities. The 2010-2014 strategy (document GN-2575) included mention of the selection criteria for priority areas (in paragraph 3.2). Based on the diagnostic assessment conducted on fiscal management, the Bank is engaging in technical dialogue on the topic with the government that could result in that area being included in the strategy, bearing in mind country priorities and the Bank's institutional strategy. The Bank is already supporting the government in strengthening the pension system and preparing a Fiscal Responsibility Law. Potential fiscal deterioration is also included as one of the risks to implementing the strategy. El Salvador is committed to carrying out a fiscal austerity process, and the Bank will make available to the country its technical expertise and the financial instruments available to support it.
2. Mitigate the impact of fiscal and budgetary matters on the Bank's program, particularly as regards its sustainability. More specifically: (i) 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. (ii) 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.	**Partially agree.** Management agrees with the need to ensure that policy-based loans (PBLs) support substantive reforms. It does not agree, however, with OVE's comment in the document that during the evaluation period budget support objectives prevailed over reform objectives, which is why Management only partially agrees with the recommendation (see paragraph 3.7, Section III, Additional comments). Investment projects always have (and will continue to have) a cost analysis in relation to the net present value of benefits and of sustainability, which is conducted during the design phase. That exercise involves coordinating with the government so that the loan contract includes a clause stipulating that the national budget will include recurrent expenditures for operations as well as the maintenance plan for the works once the projects are completed. For example, the salaries of medical staff initially financed by the health project in execution (ES-L1027) were financed in full (100%) in the 2015 Budget Act. In addition, according to the operation's cost-benefit study, the

Recommendation	Management's Response
	average cost of services at the primary care level was approximately US$5 per service, compared to US$25 at hospitals, so that the sustainability of the initial investment is cost-effective. In the case of highways, the Bank coordinates with the government so that all the roads financed by the IDB become part of the network maintained by the Road Conservation Fund (FOVIAL), which has a dedicated source of financing for road maintenance. The Millennium Challenge Corporation (MCC) is currently preparing an in-depth diagnostic assessment of FOVIAL and of the financial sustainability of maintenance of the national road network and, as recommended by OVE, the new country strategy will include actions to strengthen FOVIAL.
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.	**Agree.** In the new country strategy that is being prepared, political polarization in the country has been identified as one of the risks to implementation. To mitigate this, the Bank will continue to promote early dialogue with relevant players and will seek to build consensus by examining alternatives, always in coordination with the government. Resources for this dialogue could come from technical cooperation operations (TCs) or administrative resources. To improve the likelihood of legislative ratification and improve execution during the period of the new country strategy, support will continue to be provided by: targeting financing at a small number of projects to increase the impact of the operations; designing operations targeting a minimum number of stronger executing agencies and/or better leveraging existing capacities; and making better use of the time between approval and entry into effect of the operations for execution readiness, as was done in the country strategy under analysis. For example, there was intensive work on all aspects of readiness for the operation "Reduction of Vulnerability in Informal Urban Neighborhoods in the San Salvador Metropolitan Area" (ES-L1016). That includes preparing the final designs for the works, preparing terms of reference for contracting executing unit staff, purchasing goods and services, and mapping the processes required for the potential budget incorporation. Thanks to that advance work, operation ES-L1016 had the record shortest time from ratification by the Legislative Assembly to eligibility for first disbursement in the active portfolio—3.5 months (106 days) compared to the average of 7.9 months (239 days) for the rest of the portfolio.
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	**Agree.** The country strategy with El Salvador 2015-2019 that is being prepared will consider fiscal risks and risk of delays in legislative approval of operations as implementation risks and will include mitigation measures (see responses to Recommendations 1 and 3). The current methodology analyzes risk in country

Recommendation	Management's Response
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.	strategies at two levels. The first is sectoral, where for each priority area the risks affecting the Bank's proposed approach are included, together with mitigation measures, as appropriate. The second level of analysis looks at those risks that are not sectoral in nature but could affect implementation of the strategy's proposed objectives (macroeconomic, political, institutional, natural disasters, etc.). Mitigation measures the Bank could adopt are also included. Changes to this methodology will be considered as part of the review of the methodology for preparing country strategies and for programming that Management is conducting in consultation with the Board. That exercise is being carried out as part of implementation of the recommendations from OVE's evaluation of IDB-9.
5. Strengthen dialogue with the government in order to carry out pilot experiences and dimension the 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.	**Partially agree.** Where possible Management, in its dialogue with the government on the design of operations, will seek to ensure that there is evidence of a project's impact before expanding pilots. Regarding OVE's conclusion regarding a lack of ex ante evidence in loan components, Management would like to clarify that in the cases examined—the Ciudad Mujer project (ES-L1056) and the Comprehensive Support for Effective Labor and Social Security Policies project (ES-L1063)—innovative components were introduced, for relatively small amounts; in both cases they involved conducting impact assessments to determine whether they would be viable on a larger scale.

PLAN OF THE ALLIANCE FOR PROSPERITY IN THE NORTHERN TRIANGLE (PAPTN)

I. CHALLENGES OF COUNTRIES IN THE NORTHERN TRIANGLE OF CENTRAL AMERICA

1.1 The pace at which the countries in the Northern Triangle of Central America (El Salvador, Guatemala, and Honduras) have moved to improve the quality of life of their inhabitants has been too slow to substantially change the opportunities for progress available to a predominately young and growing population. In recent years, poverty, a lack of opportunities, informality, and violence have become the principal causes of emigration.

1.2 In recent years the countries in the Northern Triangle of Central America have been faced with a continuous and growing rate of emigration, where nearly 9% of the population has made the decision to migrate. This phenomenon became particularly relevant in 2014 with the significant increase in the flow of unaccompanied minors who illegally entered the United States. This situation is related in part to economic growth that is insufficient for reducing poverty and creating job opportunities and productive activities with higher value added, and in part to the recent profusion of violence and insecurity.

II. OBJECTIVE AND STRATEGIC LINES OF THE PAPTN

2.1 The particular problems found in these three countries have led to the formulation of a joint medium-term plan that offers structural solutions and guides priority actions for creating the economic and social conditions required to generate more and better opportunities that will help the population develop and remain in the country, particularly young people.

2.2 The plan's objective is to create economic opportunities through the following strategic lines: (a) revitalize the productive sector, (b) develop human capital, (c) improve citizen security and access to justice, and (d) strengthen institutions.

a. Revitalize the productive sector

2.3 To boost growth and create jobs, improving the operating conditions of the productive sector is essential. To this end, actions coordinated at the regional level are necessary to develop a broad market platform that will create the conditions in each country needed to generate more investment and promote the country's effective integration with the rest of the world.

Lines of action:

- *Promote strategic sectors and attract investments.*
- *Modernize and expand infrastructure and logistics corridors*.
- *Reduce energy costs and improve the reliability of electricity service.*
- *Promote coordinated border management.*
- *Facilitate and boost international trade.*

b. Develop human capital

2.4 In order to create economic, labor, educational, and social opportunities, the needs of the productive sector must be closely linked to the training of the labor force, to ensure more effective and permanent job placement, particularly in terms of the younger population. In addition, improvements in education, health, nutrition, and quality of life will be crucial for the development of future generations.

Lines of action:

- *Improve technical and vocational training to ensure employment and job placement.*
- *Expand coverage and the quality of secondary education.*
- *Improve the quality of housing environments.*
- *Improve childhood health, nutrition, and development.*

c. Improve citizen security and access to justice

2.5 Comprehensively addressing the problems of insecurity and violence is an urgent task. To this end, work must be done in all social arenas (family, school, and community) to protect children and youth from exposure to violent environments, and at the same time to continue to fight drug trafficking, organized crime, and human trafficking.

Lines of action:

- *Improve violence prevention programs.*
- *Establish centers to serve youth at social risk.*
- *Strengthen citizen security institutions.*
- *Modernize the justice system.*

d. Strengthen institutions

2.6 In order to ensure the sustainability of the plan's actions over time, it will be necessary to strengthen public finance, improve the management and handling of public debt, improve spending efficiency, and introduce better accountability and transparency mechanisms.

Lines of action:

- *Strengthen the government's financial capacity.*
- *Improve spending efficiency.*
- *Boost transparency.*

III. Implementation of the Plan and Coordination with the Bank's Country Strategy with El Salvador 2015-2019

3.1 The plan was designed on the basis of the work that has been done in the three countries in terms of promoting productive activity and in the social area, which provides a starting point against which to measure progress.

a. Execution arrangements

3.2 The plan will be implemented based on a territorial approach that will make it possible to maximize the impact of the proposed initiatives and actions. To more effectively achieve the objectives, integrated multisector solutions will be implemented that are targeted to specific geographic areas. The territorial approach is a key strategy for building scale and creating synergies between sector actions that facilitate the attraction of private investment and investment in human capital. Forty-four municipios in El Salvador have been selected, which will in turn make up eight conglomerates where the plan will be implemented. Ten of these municipios are in the northern region, and the rest are in the marine coastal zone.

3.3 The plan introduces a results-based execution model that includes the participation of the private sector and increases regional coordination in order to maximize the impact of the actions.

b. Coordination with the Bank's country strategy with El Salvador 2015-2019

3.4 The country strategy 2015-2019 will be closely coordinated with and will support the PAPTN. The strategy's priority sectors are education, health, logistics infrastructure, and strengthening of public finance, whereas urban development, productive development, and security are dialogue areas. All of these sectors are aligned with the plan's strategic lines. In addition, the activities of the operations financed by the Bank will target the 44 municipios prioritized in the PAPTN.

3.5 Finally, seven operations for US$375 million that are pending legislative approval or recently completed that process in Congress will support the PAPTN strategic lines to "Revitalize the productive sector" and "Improve citizen security and access to justice" (see table below).

Number and name of IDB operation	PAPTN strategic lines	
	Revitalize the productive sector	Improve citizen security and access to justice
ES-L1058 Innovation for Competitiveness Program	X	
ES-L1066 Tourism Development of the Coastal-Marine Zone	X	
ES-L1075 Productive Corridors Program	X	
ES-L1089 Financing Productive Development for El Salvador	X	
ES-L1063 Comprehensive Support for the Effectiveness of Labor and Social Security Policies	X	
ES-L1085 Mesoamerican Pacific Corridor Improvement Program	X	
ES-L1025 Comprehensive Support for the Violence Prevention Strategy		X

SUMMARY DEVELOPMENT EFFECTIVE MATRIX

Country Strategy: El Salvador 2015-2019

STRATEGIC ALIGNMENT (measures two dimensions (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action.)

Consistency of strategic objectives: The strategy identifies three priority areas for Bank action: Increasing the quality of spending on human capital, improvement of logistics infrastructure, and strengthening of public finance. The crosscutting issues to be considered are: gender, reduction of vulnerability to natural disasters, and environmental degradation and climate change adaptation; Mesoamerican regional integration; and mitigation of the causes of migration in connection with the Plan for the Prosperity of the Northern Triangle (PTN). The dialogue areas are energy, citizen security, land management, urban development and housing, productive development, and Bank support in the coordination of donors for implementing the PTN. The selected work areas address the country's development challenges, are the result of dialogue between the country and the government, and are consistent with the government's priorities. The country strategy is also aligned with the Bank's Institutional Strategy.

Mix of products and participation by other donors: The strategy specifies the use of different Bank instruments such as sovereign guaranteed, non-sovereign guaranteed, and technical cooperation operations. The strategy takes into account the interventions of other donors such as the European Union, the Central American Bank for Economic Integration (CABEI), and the World Bank.

EFFECTIVENESS (measures whether the country strategy is likely to achieve its intended objectives, through an examination of four dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build-up of country systems; and (iv) the analysis of the lending framework.)

Effectiveness dimensions	**%**
I. Sector diagnostics	
- Identifies the main problems based on empirical evidence	100
- Identifies the main beneficiaries	100
- Identifies and measures the factors that contribute to the problems identified	100
- Presents the policy framework and a sequence for Bank intervention	100
- The diagnostic corresponds to the objectives presented in the strategy	100
II. Results matrix	
- The expected outcomes are clearly defined	100
- The indicators are outcome indicators and are SMART	100
- The indicators have baselines	100

Ten **sector notes** were submitted as part of the strategy. All of them refer to diagnostic assessments of the entire sector.

All the sector notes:
- clearly identify the main sector problems based on empirical evidence.
- identify the potential beneficiaries in each area of intervention.
- identify or measure the factors that contribute to the problems identified.
- identify the policy framework and a sequence for Bank actions.

- In all sector notes there is consistency between the note and the Bank's proposed strategic objectives.

Results matrix: The results matrix contains 10 strategic objectives for Bank action and 14 indicators to measure progress toward the proposed objectives.
- All strategic objectives clearly identify expected outcomes.
- All indicators used measure outcomes and are SMART.
- All indicators have baselines.

Country systems: There are diagnostic assessments for all financial management and procurement subsystems. Support for the Ministry of Finance is expected to continue during the strategy period, with respect to the implementation of actions aimed at strengthening the SAFI. Moving forward with the implementation of International Public Sector Accounting Standards is also considered, as is continued support of the SIAC in order to develop an electronic platform to increase the participation of MSMEs in public procurement processes, and actions to strengthen the Salvadoran Auditor's Office (CCR).

Lending framework: The strategy contains an analysis of the country's financing requirements and includes a base scenario that assumes the allocation of Ordinary Capital resources for US$1.060 billion over the period. The base scenario is subject to improvements in the primary balance of the nonfinancial public sector. If this does not occur, the use of an alternative scenario with a total of US$580 million will be considered.

RISKS (measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.)

The strategy identifies risks associated with Bank participation in each of the strategic sectors and identified mitigation measures. Political, fiscal, execution and natural disaster risks are also identified, which will be monitored during the strategy period.