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INTER-AMERICAN INVESTMENT CORPORATION

STRATEGIC AGREEMENT BETWEEN EL SALVADOR AND THE IDB GROUP COUNTRY STRATEGY

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ABBREVIATIONS

CABEI	Central American Bank for Economic Integration
CAPDR	Central America, Panama, and the Dominican Republic
CCLIP	Conditional Credit Line for Investment Projects
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	Gross domestic product
ICT	Information and communications technology
IMF	International Monetary Fund
INCAF	Instituto Nacional de Capacitación y Formación (National Institute for Training and Education)
MAPS	Methodology for Assessing Procurement Systems
MSMEs	Micro, small and medium-sized enterprises
NFPS	Nonfinancial public sector
OECD	Organisation for Economic Co-operation and Development
p.p.	Percentage point(s)
PISA	Programme for International Student Assessment
SMART	Specific, measurable, achievable, relevant, and time-bound

INTRODUCTION

A NEW APPROACH FOR IMPACT

El Salvador's Potential

In recent years, El Salvador has made significant progress on reducing criminal violence, enabling stronger economic growth and improved living conditions for the Salvadoran population.¹ Likewise, efforts have been observed on the fiscal front, particularly in terms of fiscal institutions, including the implementation of a new fiscal responsibility law providing for a new fiscal rule and strengthening the medium-term fiscal framework. In addition, the government has implemented expenditure rationalization measures and signed an agreement with the International Monetary Fund (IMF), which have already led to an upgraded credit rating and are helping to create a more favorable economic climate for investment. Moreover, in the social sphere, the poverty rate has dropped 9.3 percentage points since 2010.

The country is well positioned to sustain its growth path, leveraging opportunities to responsibly mobilize resources for investment, boost public sector efficiency, promote job formalization, and foster productivity. To this end, it will prioritize expanding access to and improving the quality of essential services: education, health, water, sanitation, and housing. Thus, the Government of El Salvador is moving forward on policies designed to lay the groundwork for sustained, inclusive, and sustainable growth, in collaboration with the private sector and with a focus on improving the quality of life of the Salvadoran population.

The IDB Group, as the country's chief development partner, will provide support for these efforts, focusing its collaboration on three strategic areas: (i) supporting fiscal sustainability and modernization of the public sector; (ii) building the population's capacities for dynamic, equitable growth; and (iii) fostering a competitive private sector.

Country strategy new approach

The Country Strategy with El Salvador 2025-2029² aims to maximize the IDB Group's impact, emphasizing strategic selectivity in its engagement with the country, based on the identification of areas with the highest potential for delivering tangible results, and by leveraging resources, experience, and alliances with other development partners. This selectivity process starts with alignment of the government's priorities, as reflected in the Fiscal Plan 2025-2027, Digital Agenda 2020-2030, Ready and Resilient Americas initiative, El Salvador National Tourism Plan 2030, and Trade and Investment Policy, with the IDB Group's strategic objectives, as set out in the Country Development Challenges document, IDB Institutional Strategy+ (IDBStrategy+), IDB Invest and IDB Lab Business Plans, and the *América en el Centro* regional program. It is also based on an analysis of the IDB Group's strategic positioning in El Salvador, its operational experience, and the lessons learned during implementation of prior strategies. The risks associated with strategy execution are also considered, using the IDB Risk Taxonomy (GN-2547-15) and describing the respective mitigation measures. As a result of this comprehensive process, the IDB Group has identified the priority areas on which it will focus its support, prioritizing actions with the greatest transformative potential and capacity to generate a sustainable impact. All of the chosen areas are spheres in which the IDB Group has already been working actively,

¹ Multipurpose Household Survey (EHPM) 2023, prepared by the National Office of Statistics and Censuses. The World Bank reported that the country had a poverty rate of 30.3% in 2023 in its "Poverty and Equity Assessment for El Salvador 2024" report.

² The IDB Group Country Strategy with El Salvador 2025-2029 will be in effect from its approval by the Boards of Executive Directors until 31 December 2029. The transition period will be up to 31 December 2030.

Identified pillars of intervention and expected impact

which will allow it to continue its ongoing efforts and consolidate progress, in line with the recommendations made by the IDB Office of Evaluation and Oversight.

The Country Strategy will be structured around three pillars:

1. **Supporting fiscal sustainability and modernization of the public sector.** This pillar seeks to continue to strengthen macroeconomic stability and help modernize and build institutional capacity. To that end, the IDB Group will prioritize actions to strengthen the management of public finances, continue to modernize the tax administration, support the technological transformation of the public sector, and improve regulatory quality.
2. **Building the population's capacities for dynamic, equitable growth.** This pillar aims to improve the quality of education and its linkage with employment, as well as to expand access to and improve the quality of housing, health, and water and sanitation services. To that end, the IDB Group will support interventions that will ensure complete educational pathways, emphasizing technical and vocational training. Likewise, it expects to strengthen and expand the provision of healthcare services, expand the coverage and improve the quality of water and sanitation services, and facilitate access to sustainable housing solutions.
3. **Fostering a competitive private sector.** This pillar will focus on strengthening the productive infrastructure, reinforcing the regulatory framework, and bolstering trade facilitation and regional integration to make the private sector more competitive. To that end, the IDB Group will support improvements to the airport infrastructure; energy sustainability; the development of innovative financial solutions; more resilient tertiary, rural, and unpaved roads with better traffic conditions; and enhanced urban mobility. It will also provide support for improving access to and the sustainability of the energy sector, and for expanding access to financing, with a special emphasis on micro, small, and medium-sized enterprises (MSMEs) and women-led companies. Accordingly, it will develop innovative solutions and instruments, foster the development of venture capital options, and strengthen credit information systems and the financial infrastructure. It will also support the digital transformation of the private sector and encourage trade facilitation through the simplification and digitalization of procedures and improved customs controls.

Through the IDB, IDB Invest, and IDB Lab, the IDB Group is working together with the Government of El Salvador on an Action Plan for Growth (APG), conceived as a practical, results-oriented roadmap for boosting sustainable and inclusive economic growth. The APG seeks to leverage existing efforts, coordinate enabling reforms, generate visible quick wins, and lay a solid foundation for sustained growth in the medium term.

In addition to the three proposed pillars, the Country Strategy 2025-2029 includes crosscutting actions to promote the integration and equity of opportunities, and to strengthen environmental resilience and sustainability.

During the Country Strategy 2025-2029 period, the IDB Group will channel its support through: (i) new sovereign guaranteed and non-sovereign guaranteed operations with high potential impact; (ii) the portfolio of projects in execution; (iii) nonreimbursable technical assistance; and (iv) advisory services. In addition, it will promote strategic coordination among the IDB Group windows, as well as the leveraging of resources and the consolidation of key partnerships to maximize the impact of interventions. The three IDB Group windows will seek to work in concert, sharing knowledge, offering integrated financial solutions, scaling up innovative initiatives, and promoting regulatory, institutional, and market reforms

prioritized by the government and designed to create conditions conducive to increasing private-sector participation and attracting investments. Specifically, the following six areas with strong potential for the development of synergies have been identified: (i) public-private investment coordination mechanisms; (ii) technical-professional training and job placement; (iii) energy development; (iv) innovation and digital transformation; (v) financial inclusion, including MSMEs; and (vi) transportation, logistics, and sustainable tourism.

El Salvador - IDB Group partnership

The collaboration between El Salvador and the IDB Group has been key in moving toward the country's sustainable and equitable development. In the fiscal sphere, the IDB Group's support has been especially significant, adding to the government's efforts to further strengthen fiscal sustainability, preserve the space needed to meet increasing social demands, and improve macroeconomic resilience. During the COVID-19 pandemic, it included budget support and the use of a contingent credit facility to enable the country to rapidly respond to various emergencies caused by extreme natural events. In the social sphere, the IDB Group has supported a program of long-term reforms in sectors like health, primary and secondary education, and employment, to improve social integration and strengthen workforce skills. During the health emergency, this support was expanded to buttress the country's health services, including COVID-19 case detection, emergency medical care, the push for telemedicine, and vaccination, thereby contributing to the system's continuity and resilience.

In the productive sphere, the IDB Group has worked to improve access to financing and further the sophistication of the financial market, to close gaps in infrastructure and digital connectivity, and to support the sustainable development of key strategic sectors like tourism and agriculture. IDB Invest has complemented these efforts by supporting access to financing for MSMEs, infrastructure development, and trade facilitation, playing a countercyclical role and promoting the creation of conditions to foster postpandemic recovery led by the private sector.

Furthermore, IDB Lab has played a fundamental role in strengthening the innovation ecosystem in El Salvador, which is becoming a technological hub in Central America. This role has entailed backing dynamic enterprises, developing technological solutions for financial and social inclusion, and promoting disruptive business models with a high potential for scaleup. IDB Lab's involvement has been especially significant in speeding up the adoption of emerging technologies, building the capacities of local entrepreneurial talent, and facilitating their coordination with global innovation networks.



I. BUILDING A NEW COUNTRY STRATEGY: PURPOSE AND APPROACH

A. FOSTER DYNAMIC AND EQUITABLE GROWTH

- 1.1. **Historically, El Salvador's economic growth has been influenced by factors such as public investment, improvements in citizen security, and a more favorable economic environment.** From 2010 to 2023, the country's average gross domestic product (GDP) growth rate was 2.5%, with a 2.1% increase in per-capita GDP in terms of purchasing power parity. In 2023, GDP grew 3.5%, bolstered by public investment, progress in security, and steps aimed at strengthening economic activity, thereby creating opportunities to consolidate more sustainable growth.³
- 1.2. **Between 2010 and 2023, aggregate demand in El Salvador was driven by consumption: private-sector consumption averaged around 83% of GDP, while public-sector consumption remained stable at about 18% of GDP.**⁴ Gross fixed capital formation averaged about 17% of GDP, and net foreign direct investment inflows were approximately equivalent to 1.6% of GDP per year. Taken together, the data indicate that growth during this period was mainly attributable to consumption, with investment playing a comparatively minor role.^{5 6}
- 1.3. **At the same time, the diaspora is contributing to the vitality of the Salvadoran economy.** Remittances, equivalent to 21.6% of GDP, have sustained the growth in consumer spending, but have also encouraged an increase in imports in recent years. Improved security and government policies have led to an influx of 15,000 Salvadorans, 12% more than the previous year, according to the Department of Migration and Foreign Nationals, boosting the labor supply and investment possibilities in the country.
- 1.4. **Economic performance has had a positive influence on the country's capacity to close social divides.** Between 2010 and 2023, GDP per capita in terms of purchasing power parity went from US\$6,854 to US\$12,547.⁷ At the same time, total poverty decreased by 9.3 percentage points (p.p.) and extreme poverty by 2.4 p.p. The government remains committed to continuing to take action to maintain this poverty reduction trend. At present, around 27.2% of households are living in general poverty and 8.8% in extreme poverty.
- 1.5. **To maintain robust and sustainable growth, it is essential to stimulate productive investment and strengthen the country's competitiveness.** This entails simultaneously

³ International Monetary Fund (2025, April). World Economic Outlook (WEO), April 2025. <https://www.imf.org/en/Publications/WEO>.

⁴ World Bank. (2025). Household final consumption expenditure and NPISHs (% of GDP) (NE.CON.PRVT.ZS) – El Salvador. World Development Indicators (WDI). <https://databank.worldbank.org/source/world-development-indicators>.

⁵ World Bank. (2025). Gross fixed capital formation (% of GDP) (NE.GDI.FTOT.ZS) – El Salvador. World Development Indicators (WDI). <https://databank.worldbank.org/source/world-development-indicator>.

⁶ World Bank. (2025). Foreign direct investment, net inflows (% of GDP) (BX.KLT.DINV.WD.GD.ZS) – El Salvador. World Development Indicators (WDI). <https://databank.worldbank.org/source/world-development-indicators>.

⁷ Source: IMF – World Economic Outlook (WEO), April 2025.

advancing toward: (i) a solid and predictable macrofiscal framework; (ii) institutional reforms aimed at strengthening governance, regulation, and digitalization; (iii) ongoing human capital development; (iv) narrowing gaps in basic and productive infrastructure; (v) broader access to financing; and (vi) modernization of the mechanisms for trade facilitation and regional integration. These are determining factors for competitiveness and innovation, as pointed out by the World Economic Forum (2019) and the World Intellectual Property Organization (2023). The country has established a solid basis for progress. The homicide rate has fallen from 108 per 100,000 inhabitants in 2015 to 2.4 per 100,000 inhabitants in 2023, supporting a safer business environment. In addition, tangible strides have been made in digital transformation, fiscal management, and public sector efficiency. Building on this foundation, the country's ongoing transformation provides a strategic opportunity to bolster productive capacity and consolidate inclusive long-term growth.

1.6. In this context, the IDB Group will support El Salvador in advancing initiatives to reinforce the country's growth potential, with a view to promoting more dynamic, inclusive, and sustainable economic development. The planned actions will be geared toward creating conditions conducive to fostering greater private investment, strengthening the competitiveness of the productive sector, and encouraging the private sector to take on a more prominent role as an engine of development.

B. MAIN LESSONS LEARNED FROM THE COUNTRY STRATEGIES 2015-2020 AND 2021-2024

1.7. The Country Strategy 2021-2024 was implemented in a context initially shaped by the COVID-19 crisis, which created significant fiscal pressures, affected the State's operational capacity, and forced a reshuffling of policy priorities. These impacts occurred in an environment of limited fiscal space and institutional capacity-building in progress. Against this backdrop, the IDB Group supported the country through a program aimed at consolidating fiscal stability, improving basic and productive infrastructure, promoting social inclusion, and making progress on digitalization of public services. While significant progress was achieved, the impact of some interventions was tempered by the need to address emergencies arising from the pandemic and by execution challenges. These experiences provide key lessons for designing future strategies with greater impact, resilience, and adaptability.

1.8. The Office of Evaluation and Oversight's operational monitoring of the portfolio, progress reports, and Extended Country Program Evaluation 2015-2024 have provided key lessons for enhancing the next country strategy, which will cover the years 2025 to 2029. These lessons are grouped into three categories: strategic, operational, and development effectiveness.

1.9. Strategic lessons. The following lessons and mitigating measures are of particular note for this country strategy:

a. Improve the alignment of the country strategy's strategic objectives with the expected outcomes. The experience gained during implementation of the Country Strategies 2015-2020 and 2021-2024 has revealed the need to better align the country strategy's strategic objectives, interventions, and expected outcomes. Specifically, opportunities were identified for building a more complete analysis of the causal links, improving the programmatic logic, and anticipating execution scenarios that would allow for greater adaptability. Accordingly, the new Country Strategy 2025-2029 incorporates a more robust vertical alignment structure, based on a clear connection between the development challenges and the prioritized target areas. Likewise, operational criteria have been developed for program adaptation and a detailed analysis of the strategic risks has been included, along with specific mitigation measures. These elements will contribute

to improved strategic planning, more effective implementation, and a greater capacity to respond to changes in the operational environment.

- b. Hone technical support to promote structural reforms.** The IDB Group was more effective when its technical support facilitated dialogue on long-term public policy areas like fiscal sustainability, with the series of programmatic policy-based loans on fiscal strengthening for inclusive growth, and strengthening the healthcare system, with related loans and technical-assistance programs. The new country strategy prioritizes knowledge development, technical assistance, and structured dialogue around the fiscal agenda, productive transformation, and institutional modernization.
- c. Ramp up coordination among the IDB Group windows to promote the development of markets.** The IDB's coordination with IDB Invest and IDB Lab was effective, particularly in sectors where the two entities had a history of working together or a shared long-term programmatic approach, such as in the energy sector and in access to financing for MSMEs (for example, with the First Program of Access to Lending for the Recovery of MSMEs, under the conditional credit line for investment projects (CCLIP) (ES-00009)). However, in new sectors like tertiary education, the lack of prior joint work and shared operational knowledge made it more difficult to develop operations. The Country Strategy 2025-2029 provides for this coordination through joint planning, the optimization of advisory instruments, and the active search for cofinancing to obtain critical mass in priority sectors.
- d. Plan the response to implementation challenges early.** Some projects, particularly in the infrastructure area, were faced with operational challenges during the initial stages of execution, especially with regard to procurement processes and pre-investment. In response, the Bank and the government have been strengthening their support capabilities in the form of improvements to project supervision and management, such as by implementing monitoring systems, conducting workshops for execution units, and organizing procurement fairs, leading to improvement in the health of the portfolio. For the new strategic cycle, the Bank will continue to expand the use of portfolio management tools, promote operational technical cooperation, and strengthen the capacity of the execution units to anticipate bottlenecks and address them in timely fashion.
- e. Ensure sustainability of the outcomes through more robust designs with tangible benefits.** The most sustainable outcomes were the ones that led to visible benefits for the government and population, like electronic health systems and electronic invoicing, driven by IDB Group support. The new country strategy will expand the efforts to ensure effective application of mandatory sustainability criteria in operation design, placing greater emphasis on promoting scalable pilots, knowledge transfer, and specific government commitments to continuity.
- f. Incorporate lessons learned from working with the private sector to boost its development impact.** The IDB Group's recent experience, especially through IDB Invest, shows that sustainable and social bonds, along with advisory services, have strengthened financial inclusion and that regulatory adjustments have already attracted private capital toward renewable energy generation. To solidify these achievements, public-private partnership arrangements and mixed public-private companies could be used more broadly in strategic sectors, thereby strengthening institutional capacity. At the same time, operations targeting MSMEs have shown progress, with 38% of disbursement targets met during the planned timeframe, indicating that there is room for improvement with a view to optimizing results in future interventions. The new country strategy will promote a more diversified portfolio, with risk-mitigation instruments (coguarantees and first-loss insurance) and technical assistance to bolster results measurement, with a view to consolidating a dynamic, competitive, and inclusive business ecosystem.

1.10. Operational lessons. One significant lesson was the importance of the Bank's proactive role in addressing execution challenges by introducing improvements to project supervision and management. The Bank sought out strategies to tackle the implementation challenges. Specifically, these measures include: (i) implementing a system to follow up on and closely monitor operations; (ii) facilitating events, fora, and training sessions for execution units; (iii) promoting bidding processes and organizing procurement fairs with potential suppliers; (iv) disseminating information on supplier payment processes; and (v) hiring a consultant to support the procurement specialist. The following lessons and mitigating measures are of particular note for this country strategy:

- a. **Continue to strengthen the counterparts' institutional capacity to improve portfolio execution.** In the course of implementing operations, opportunities were identified for continuing to reinforce the management capacity of some executing agencies, especially in relation to complex procurement processes and the coordination of multisector projects. In this regard, the Bank has been providing ongoing technical and financial support, including to the Ministry of Public Works and Transportation, by means of loans and technical-cooperation operations aimed at enhancing operational efficiency and planning. The new strategy envisages institution-strengthening through technical assistance, specialized training, and coordination with knowledge centers with a view to continuing to support public management and effective project execution.
- b. **Promote innovative mechanisms for supervising projects with a presence in the territory.** Projects with broad coverage require differentiated monitoring and support approaches to ensure they will be sustainable. Under the Country Strategy 2021-2024, the Bank implemented an operation-monitoring system called TRIAGE, which involves classifying each operation's key processes and a warning system. This system led to positive results in the performance of the portfolio. The IDB Group will continue to leverage remote monitoring tools, community participation arrangements, and local ownership strategies to reinforce monitoring mechanisms.

1.11. Consolidate training on procurement and safeguards. In order to continue to strengthen procurement processes and the use of environmental and social safeguards, the IDB Group will continue to consolidate continuing education arrangements within the execution units, with a priority focus on the preventive, timely management of projects' fiduciary, social, and environmental risks. It will promote practical, applied methodologies, given that they have been shown to be more effective than exclusively theoretical approaches, and to inspire more interest and a greater sense of ownership in the executing staff as well as government authorities, which incentivizes institutionalization and eventual scaleup. To ensure sustained improvement over time, this technical-support system will be structured in iterative cycles that combine specialized training with continuous technical assistance and regular feedback. Likewise, process indicators—such as the execution of training plans, retention of key staff, and fulfillment of implementation milestones—will be incorporated, to systematically monitor institution-strengthening and adapt the support to each executing agency's pace of progress.

1.12. Development effectiveness lessons. The following lessons and mitigating measures are of particular note for this country strategy:

- a. **Strengthen the strategy's theory of change and improve the quality of the results matrix indicators.** Recent experience revealed limitations in the monitoring and measurement of project outcomes, due to weaknesses in the theory-of-change design and to the lack of suitable indicators. In response, the new Country Strategy 2025-2029 reinforces its effectiveness approach through a clearer, more structured theory of change that establishes an explicit connection among the development challenges identified and the expected results in each priority area. SMART (specific, measurable, achievable, relevant, and time-bound) indicators were incorporated, for systematic monitoring, more

precise progress evaluation, and informed decision-making over the lifecycle of the operations. This strengthening will help consolidate a results-based management culture and maximize program impact.

- b. Perform regular portfolio reviews with a focus on outcomes.** In several approved operations, the program included actions to strengthen the systems for monitoring and evaluating the executing agencies and processes for reviewing the results matrices. Reviews that focus solely on physical and financial targets do not always reflect progress toward development objectives. With the government's collaboration, El Salvador has been one of the first pilot countries in which the new results-based portfolio review model was incorporated. Under the Country Strategy 2025-2029, the IDB Group will continue to apply this approach and to incorporate early monitoring and risk analysis tools, to boost the capacity to make timely adjustments to promote the effectiveness of interventions and ensure they stay relevant.
- c. Incorporate effectiveness criteria throughout the entire project cycle.** Experience has demonstrated the need to systematically integrate criteria like relevance, efficiency, and sustainability starting in the operation design stage. The new strategy will push for integrating effectiveness evaluations into supervision processes, to facilitate decision-making and accelerate achievement of results.

1.13. The Country Strategy 2025-2029 enhances selectivity, considering the IDB Group's capacity for contribution in El Salvador. In the current strategy, the selectivity approach prioritized strategic dialogue, experience, and operational positioning; coordination and synergies among the three IDB Group windows; and identification of objectives that could be evaluated. The selection of a more limited set of strategic objectives and expected results for this new country strategy aims to ensure that the country program can more effectively help drive progress on the identified development priorities through dialogue with civil society, the private sector, and government.

C. FOCUS ON SELECTIVITY TO DELIVER TANGIBLE IMPACT

HOW DO WE SHARPEN FOCUS?

1.14. Strategic alignment of priorities: The following lessons and steps are of particular note: The Country Strategy 2025-2029 uses the combination of national and regional medium- and long-term development priorities as a starting point. These priorities are reflected in the Fiscal Plan 2025-2027, Digital Agenda 2020-2030, El Salvador National Tourism Plan 2030, Ready and Resilient Americas initiative, Trade and Investment Policy, and OECD report on the Government of El Salvador's priorities. They were then integrated with the development principles established in the IDBStrategy+ 2024-2030, IDB Invest Business Plan 2025-2027, and IDB Lab Business Plan 2025-2027, based on the identification of El Salvador's main development challenges, as described in the country diagnostic assessment, regional initiatives (América en el Centro), sector frameworks, and action plans. This initial thematic integration was matched with the areas of active dialogue with the government, stemming from the requests for operational support and the Bank's specialized knowledge. As a result of this analysis, the following areas, in which the Government of El Salvador's priorities are strategically aligned with the IDB Group's, were identified: (i) macrofiscal sustainability; (ii) health; (iii) education; (iv) housing; (v) transportation; (vi) energy; (vii) digital infrastructure; (viii) access to financing for the private sector; (ix) trade facilitation; and (x) attraction of investment.

1.15. The IDB Group's strategic positioning. As a strategic multilateral partner and key ally for El Salvador, the IDB is strongly positioned in fundamental sectors like the fiscal, financial, health, innovation, and digital transformation sectors. From 2010 to 2021, the IDB was El Salvador's most important multilateral partner. However, starting in 2014, its share of the country's multilateral debt, which at that time was approximately 60%, began to shrink progressively. This trend intensified in the following years, until in 2023 the Central American Bank for Economic Integration (CABEI) surpassed the IDB as El Salvador's largest multilateral creditor, and continued in 2024, at which point the IDB's share of the country's multilateral debt stood at 35.8%, compared to CABEI's 41%. In turn, the International Bank for Reconstruction and Development's share stayed relatively stable at between 12.5% and 15% of El Salvador's total multilateral debt (it is currently around 14%). In this context, the IDB has strengthened its position considerably starting in 2025, regaining part of the strategic space that it had historically occupied and once again establishing itself as a pivotal actor in the country's public policy dialogue and development financing. All told, 37.2% of El Salvador's multilateral debt is currently held with the IDB, compared to 39.6% with CABEI. In addition, IDB Invest and IDB Lab maintain significant and complementary roles in their respective areas of action. IDB Invest stands out as having the most diversified sector portfolio of all the multilateral organizations analyzed, and due to its leadership in the financial, industrial, and energy sectors. Meanwhile, IDB Lab is recognized for its impact on the financial inclusion of vulnerable populations, promotion of the digital transformation of small and medium-sized enterprises, broad reach in the innovation and entrepreneurship ecosystem, and active intervention in the water and sanitation sector.

1.16. Operational experience and effectiveness. In order to understand the performance of its sovereign guaranteed operations, the IDB Group has developed an operational experience and effectiveness index that analyzes three key components: (i) execution alerts during the life cycle of the operations; (ii) effectiveness; and (iii) programmatic pathway or maturity. This index makes it possible for the IDB to quantitatively and qualitatively identify the areas and sectors in which it will be able to maximize its impact and foster a programmatic approach. As for alerts, delays have been observed to occur in eligibility and in the first disbursements. Furthermore, extensions and the pace of execution are also important factors in the performance of the portfolio. With regard to effectiveness, the IDB Group has made notable contributions in areas like the fiscal agenda, urban development and housing, health, infrastructure, and integration and trade. Several factors that played a role in these achievements have been identified, namely: alignment of objectives with the State's long-term policies, the IDB technical quality seal (as in the technical support for results-based programs), and the application of lessons learned from steady sector support (especially in infrastructure and health). In terms of the programmatic path and maturity, continuity in topics like fiscal issues, trade, investment in tourism, financial markets, and the transportation sector has made it possible for the IDB Group to delve into and consolidate programmatic visions backed by more robust dialogue and technical-assistance resources. All in all, the operational experience index underscores the need for the IDB to continue to focus on the fiscal, health, education, natural disaster management, urban development and housing, financial markets, transportation, and trade sectors, and on investment in tourism, to maximize its impact. As for non-sovereign guaranteed operations, IDB Invest has contributed to developing innovative financial solutions in the domestic market, like the sustainable social bonds that, combined with advisory services, have enhanced development impact and boosted the financial inclusion of underserved segments. Regulatory advancements have made it possible for private companies to generate power from nonconventional renewable sources and share in the associated IDB Invest financing. In the medium term, the following needs are particularly salient: closer cooperation with the IDB to strengthen the regulatory and institutional frameworks for increasing private-sector participation in the economy, and further refinement of the offering of financial solutions and risk absorption and mitigation mechanisms for

deploying productive infrastructure and fostering access to financing for the real sector and underserved segments.

1.17. Risk assessment. The risk analysis helped identify factors influencing the effectiveness of the IDB interventions and guide the selection of priority areas with high potential for impact. Risks were identified associated with changes in the executing agencies that could impact the execution of projects. In response, a dialogue will be maintained with national authorities and executing agencies with a view to strengthening institutional coordination and planning. At the same time, there are risks associated with the availability of civil servants with certain profiles and a limited universe of bidders for the construction of works in smaller scale projects. To mitigate these challenges, technical training will be promoted, along with the creation of strategic partnerships, the dissemination of information on procurement processes, and the anticipation of risks from the early stages of projects. Lastly, the risk of natural disasters could interrupt the implementation of projects and put pressure on public finances. As a mitigation measure, integrating disaster risk management into the design and implementation of projects has been proposed, ensuring the incorporation of adaptation and mitigation measures from the initial stages.

1.18. Results from the application of the strategic selectivity framework. The application of the four criteria from the selectivity framework helped determine the areas in which the IDB Group windows could maximize their impact on El Salvador's development: (i) supporting fiscal sustainability and modernization of the public sector; (ii) building the population's capacities for dynamic, equitable growth; and (iii) fostering a competitive private sector. The set of interventions will incorporate crosscutting approaches for equity, resilience, and sustainability. All of these actions will be driven by both operations in the portfolio currently in execution and new programs that will be approved under the new Country Strategy.



II. PRINCIPAL PILLARS OF ACTION AND EXPECTED IMPACT

2.1. The objective of the Country Strategy 2025-2029 is to contribute to sustainable, equitable growth in El Salvador by bolstering fiscal sustainability and modernization of the public sector, building the capacities of the population, and fueling a more competitive private sector. Accordingly, the Country Strategy 2025-2029, pursuant to the selectivity framework described above, is organized into three priority pillars: (i) supporting fiscal sustainability and modernization of the public sector; (ii) building the population's capacities for dynamic, equitable growth; and (iii) fostering a competitive private sector. In addition, the Country Strategy 2025-2029 includes, by way of crosscutting areas in each of these priority pillars, elements to foster the integration and equity of opportunities and strengthen environmental resilience and sustainability.

Estrategia de País 2025-2029: Pilares y Objetivos Estratégicos



PILLAR 1: SUPPORTING FISCAL SUSTAINABILITY AND MODERNIZATION OF THE PUBLIC SECTOR

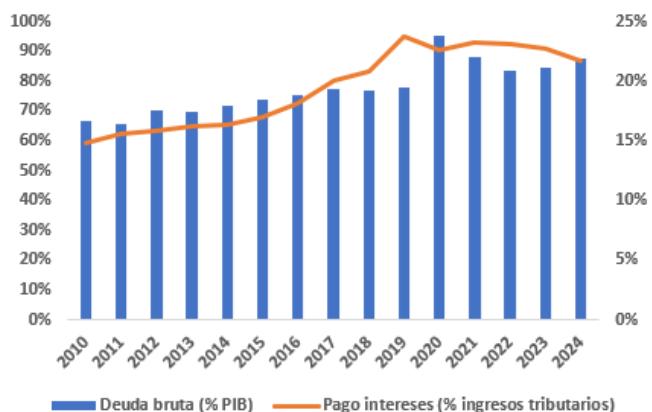
WHY IT MATTERS

2.2. Significant progress has been made in El Salvador's public finances, particularly in terms of fiscal revenues. Institutional strengthening continues to move forward on the fiscal front with the implementation of the new fiscal sustainability law, particularly addressing fiscal institutions and strengthening the medium-term fiscal framework. In addition, the implementation of expenditure rationalization measures and signing of an agreement with the International Monetary Fund (IMF) have enabled a process of fiscal consolidation equivalent

to 3.7% of GDP, consistent with greater current expenditure efficiencies and prioritization of public investment, contributing to a credit rating upgrade.⁸

2.3. Between 2010 and 2024, nonfinancial public sector (NFPS) expenditure increased by 7.2 p.p. of GDP, raising the average deficit for the period to 4.1%. This fiscal effort was aimed, on one hand, at cushioning external shocks, COVID-19, and the rising cost of fuel and food, and on the other hand, at reinforcing national priorities in security, education, and health. At the same time, the public sector wage bill stands at around 12% of GDP, and interest payments totaled 4.6% of GDP in 2024 (2 p.p. more than in 2015), while the pension system and other budgetary rigidities continue to put pressure on the public finances. Making progress on current expenditure efficiency, prioritizing high-impact investments, and optimizing management of the debt will be key to ensuring fiscal sustainability and anchoring inclusive and lasting growth.

Figure 1. Nonfinancial public sector debt and interest payments



Source: April 2025 WEO.

2.4. In 2024, NFPS public debt stabilized at around 87.3% of GDP (Figure 1). There has been improvement since 2023, reflected in a maturity profile that is more conducive to greater fiscal sustainability. The recent agreement reached with the IMF (February 2025) has helped reinforce this progress, consolidating the improved perception of sovereign risk and strengthening the country's credit rating.^{9 10} Given the external context of restrictive international financial conditions, making progress on a sustained fiscal consolidation that will bolster the country's macroeconomic resilience has become even more important.

2.5. At the same time, El Salvador continues to make headway in strengthening its management of the civil service, which helps to enhance spending efficiency. The country's score on the IDB Civil Service Development Index shows significant advancement.

⁸ Ministry of Finance of El Salvador. (2024). Presupuesto – SPNF: Inversión pública del SPNF 2009-2023 (Budget – NFPS: NFPS public investment 2009-2023) [database]. Fiscal Transparency Portal. <https://www.transparenciafiscal.gob.sv>.

Ministry of Finance of El Salvador. (2025). Gestión de las finanzas públicas, a diciembre 2024 (Public finance management as of December 2024). <https://www.transparenciafiscal.gob.sv>.

⁹ The Emerging Markets Bond Index Global indicator for El Salvador has improved considerably since 2022, when it reached 3,512 basis points. It currently stands at around 461 basis points (Bloomberg 2025). Emerging Markets Bond Index (EMBIG) – El Salvador. Bloomberg Terminal.

¹⁰ International Monetary Fund. (2025, February 26). El Salvador: IMF Executive Board approves new 40-month US\$1.4 billion Extended Fund Facility arrangement.

Having gone from 11 points in 2004 to 35 points in 2024, it reflects substantial progress in the initial stages of institutional modernization. The country has ample room for further progress by securing a more professional and strategic civil service through greater decentralization of functions, interoperability between management systems, and institutionalization of open and public competitions, as well as through an expanded capability for professional training and development of human talent. These efforts will strengthen the State's capacity to design and implement public policies more effectively.

2.6. El Salvador has strengthened its public finances thanks to a sustained rise in tax revenues: between 2010 and 2024, driven by modernization and upgrading of the tax administration, revenue collection grew by 6.2 p.p. of GDP to reach around 26% of GDP. Consolidating this progress in tax collection efficiency will be essential for ensuring sustainable revenues over time. In addition, the efforts toward greater economic formalization are an opportunity to expand the tax base by means of comprehensive policies meant to foster job creation, build up tax culture, and improve oversight mechanisms.

2.7. In the current context of fiscal consolidation, modernization of the public sector will be of strategic importance for continuing to strengthen public finance efficiency, transparency, and sustainability. Spending efficiency has been improving in recent years, with technical inefficiency decreasing from 6.5% to 5.7% of GDP amid a substantial improvement in the efficiency of transfers. These efficiency gains are helping to reduce budget rigidities and represent an opportunity to strengthen performance evaluation mechanisms. In addition, the country's commitment to enhancing fiscal transparency, as reflected in the Fiscal Sustainability Law and under the IMF agreement, is a resolute step toward more modern and effective public management that includes regular publication of the medium-term fiscal framework.¹¹

2.8. In the context of the efforts to modernize the State, digital transformation is a strategic pillar for enhancing public sector effectiveness, improving the quality of citizen services, and moving toward more efficient, flexible, and results-oriented management. El Salvador has achieved significant progress on this agenda and has opportunities to make further strides in terms of digitalization of public services, interoperability between institutional systems, citizen participation on digital platforms, and strengthening of the regulatory framework.¹² Addressing these opportunities will make it possible to enhance interagency coordination, streamline processes, and maximize the strategic use of data for more effective decision-making. Against this backdrop, initiatives such as the national digital identity system, expanded deployment of e-signatures, and the digital citizen folder are strategic steps forward toward strengthening digital governance and positioning the State as an active facilitator of development. Promoting this agenda will make it possible to not only improve administrative efficiency and citizen trust, but also to expand equity and social and economic integration and enhance national competitiveness.

WHAT WE WILL DO

2.9. In response to the fiscal and institutional challenges facing El Salvador, the IDB Group will direct its actions under this pillar toward enhancing fiscal sustainability and fostering the comprehensive modernization of the public sector. To that end, it will prioritize four interrelated strategic objectives: (i) strengthen the management of public

¹¹ Galindo, A., & Izquierdo, A. (2024). 2024 Latin American and Caribbean Macroeconomic Report: Ready for Take-Off? Building on Macroeconomic Stability for Growth.

¹² United Nations (2024). E-Government Survey 2024. Accelerating digital transformation for sustainable development.

finances; (ii) modernize the tax administration; (iii) support the technological transformation of the public sector; and (iv) improve the quality of the national regulatory framework.

- 2.10. To start, in connection with the first strategic objective, the IDB Group will provide support for strengthening fiscal management through an approach geared toward efficiency and sustainability.** The IDB Group will continue to support the country's efforts to develop a robust institutional and regulatory framework that envisages compliance with fiscal rules, as well as the strengthening of institutional and technical capacities for identifying, evaluating, and managing fiscal risks. In this context, the IDB will help improve the quality of the fiscal adjustment to which El Salvador committed under the agreement with the IMF, by promoting measures to encourage the efficiency and rationalization of public spending, while ensuring that the country safeguards its public investment and protects the provision of essential services for the most vulnerable sectors.
- 2.11. In addition, to help the country make progress on more efficient fiscal management, the IDB will support actions that improve the efficacy of public expenditure and the quality of the civil service, addressing structural rigidities to boost technical efficiency in budget allocation and execution.** It will foster measures designed to better rationalize current spending, the public procurement and contracting systems, and the allocation and targeting of intergovernmental transfers. Furthermore, it will provide technical assistance to optimize public investment processes, through mechanisms that prioritize projects with high social, environmental, and economic impact, promoting greater alignment of the planning, budget, and expected outcomes. The IDB will also support the comprehensive improvement of public debt management, placing particular emphasis on extending maturities, reducing the average financing cost, and mitigating refinancing risks.
- 2.12. Second, in connection with the second strategic objective, the IDB Group will continue to promote the comprehensive modernization of the tax administration as a key component for increasing collection efficiency and sustainably expanding the taxpayer base.** The IDB Group's support will focus on deepening the digitalization of tax processes, strengthening control and oversight systems, optimizing collection management, and fostering a culture of voluntary compliance. It will also advance the implementation of digital services for taxpayers and the adoption of advanced analytical tools for detecting risks and compliance gaps. These actions will help facilitate the transition from informal economic units to formal ones, by reducing compliance costs and improving the incentives for regularization.
- 2.13. Lastly, in connection with the third and fourth strategic objectives, the IDB Group will help enhance regulatory quality and the digital transformation of the public sector.** It will promote a secure, robust, and interoperable digital architecture, by stimulating investment in technology infrastructure, data management systems, and institutional capacity-building for the strategic use of information. Furthermore, it will continue to support the modernization of the national statistics system and the development of key digital tools, like e-signatures, digital identity, the citizen folder, and cybersecurity solutions. These initiatives will help boost operational efficiency and public sector accountability, build citizen and institutional trust, and create conditions conducive to innovation and to attracting investment. At the same time, technical assistance will be provided for updating and standardizing the national regulatory framework, so as to promote a modern, coherent regulatory climate aligned with the ongoing technological, institutional, and economic transformations. Taken together, these measures will also reduce barriers to entry into the formal economy, by facilitating access to key procedures and public services for individuals and microenterprises.

EXPECTED IMPACT

Improved fiscal sustainability and greater macroeconomic stability. The IDB Group strategy will help strengthen El Salvador's fiscal sustainability through a comprehensive approach that will prioritize both spending efficiency and revenue quality. By supporting measures to manage public expenditure, improve the quality of the fiscal adjustment, and protect essential investments, the IDB Group will help enhance the country's macroeconomic resilience. This support will be essential for consolidating the commitments that El Salvador took on as part of the agreement with the IMF, bolstering fiscal credibility, and improving conditions for accessing international financial markets.

Improved budget management and optimization of public expenditure. The implementation of specific actions to address budgetary rigidities, promote the timely publication of medium-term fiscal frameworks, and strengthen the public procurement systems is expected to lead to substantive improvements in the management of public finances and, in particular, in spending efficiency. Likewise, the improvement in the budget allocation and execution systems will enhance the targeting of expenditure toward interventions with high social, economic, and environmental impact, promoting greater equity and effectiveness in public policy.

Increased collection efficiency and sustainable expansion of the tax base. The actions to modernize the tax administration will enable a sustained increase in collection efficiency, provide support for effectively expanding the taxpayer base, and help reduce the dependency on tax rate adjustments. Specifically, the use of digital tools, data analysis, and online services will help improve the State's capacity to detect evasion, encourage voluntary compliance, and facilitate the formalization of economic activities.

Digital transformation of the public sector. The push for digital transformation will significantly improve the public sector's operational efficiency, optimize management processes, and speed up and reduce costs in the provision of services. The more strategic use of data for decision-making is expected to result in greater interoperability among institutions, greater availability of online services, and improved expenditure quality.

Modernization of the regulatory framework and enhanced regulatory quality. The updating and harmonization of the national regulatory framework will make it possible for El Salvador to avoid legal fragmentation, adapt to new institutional and technological dynamics, and promote a more predictable climate favorable to investment. These reforms will facilitate the implementation of key digital solutions, like the digital identity, e-signature, and citizen folder, while laying the foundation for public governance that is more modern, effective, and results-oriented. The business climate is also expected to be positively impacted.

Programmatic approach. To assist in improving fiscal sustainability and modernization of the public sector, the IDB Group will on a supplementary basis use a set of instruments that include technical-cooperation operations, investment loans currently in execution,¹³ and new loans (both investment and policy-based). The projects currently in execution are focused on: (i) strengthening the statistics system and expanding the use of official statistical information in both public and private decision-making; (ii) modernizing the data infrastructure; and (iii) enhancing digital connectivity and the provision of State digital services in order to bolster the digital economy. These activities will be supplemented by new investment operations aimed at advancing the State's digital transformation through the adoption of digital

¹³ ES-L1128, ES-L1145, ES-L1168.

technologies designed to improve the competitiveness and efficiency of public administration and the efficiency of national regulation. In addition, these actions will be accompanied by technical assistance and cooperation aimed at, among other objectives, strengthening governance and building the information technology infrastructure needed to improve the management, storage, availability, and sovereignty of State data, and enhancing efficiency by supporting reforms of the regulatory framework, as well as other knowledge products and close dialogue with the Salvadoran government and the IMF in the framework of the fiscal sustainability agreements. Potential policy-based programs aimed at strengthening sustainability and fiscal management are also under consideration with the government. All of these actions will be rolled out in concert to achieve the expected results under this pillar.

PILLAR 2: BUILDING THE POPULATION'S CAPACITIES FOR DYNAMIC AND EQUITABLE GROWTH

WHY IT MATTERS

- 2.14. The strengthening of human capital in El Salvador has made significant progress, especially in reducing poverty, and continues to be a priority pillar for securing more inclusive and sustainable development.** Supporting the closing of gaps in key spheres like education, health, and housing is essential for promoting social mobility and boosting the population's productive capacities. Improving the level of learning and young people's preparedness for the labor market requires further strengthening the education system and expanding the offering of technical training aligned with production demands.¹⁴ Strengthening the acquisition of the required skills, facilitating job placement in dynamic sectors, and ensuring a more equitable access to high-quality basic services will contribute to comprehensive development of the country's human potential.
- 2.15. Along these lines, intensifying El Salvador's efforts to improve the coverage, equity, and relevance of education will assist in creating quality learning and narrowing socioeconomic gaps, particularly in rural areas.** The years of schooling of the country's young population, which are now nine on average, need to increase, and performance in mathematics, reading, and science needs to improve.¹⁵
- 2.16. There is room to increase the coordination between skills development and the needs of the productive sector by expanding employers' participation in the design and implementation of training programs.** Reinforcing this connection, especially for young people, will help to complement learning at the basic education level, facilitate entry into the labor force, and provide businesses with the talent they require. Today, around 22.6% of young Salvadorans ages 15 to 29 neither study nor work; this statistic illustrates the potential of such collaborative initiatives.¹⁶
- 2.17. Strengthening human talent through digital skills is a critical opportunity to support the productive transformation and advance toward a more innovative and inclusive economy.** El Salvador has been making significant digitalization efforts, and there is room to continue to expand the availability of specialized technical skills that respond to the demands

¹⁴ World Bank. (2020). Human Capital Index. <https://www.worldbank.org/en/publication/human-capital>.

¹⁵ OECD. (2023). PISA 2022 results (Volume I): The state of learning and equity in education. OECD Publishing. <https://doi.org/10.1787/83b2b4f2-en>.

¹⁶ Central Reserve Bank of El Salvador. (2023). Multipurpose Household Survey 2023.

of the labor market and productive sector. Moving toward a comprehensive national framework for the development of digital skills would make it possible to provide training guidance from the early stages of the education system through the vocational and higher education levels in a coordinated and progressive manner. The growing importance of occupations tied to the digital economy reinforces the need to continue to promote public policies, strategic partnerships, and practical training mechanisms that will strengthen employability and maximize the use of digital tools by companies, especially microenterprises and small businesses, thereby contributing to productive development and social inclusion.¹⁷

2.18. Reinforcing the connections between the job training system and the productive sector remains a priority area for advancing toward increased employability, especially among the young population. There is a need to coordinate the development and implementation of training programs with the private sector. El Salvador has made significant strides in this direction through the National Institute for Training and Education (INCAF). Using instruments such as the National Labor Demand Survey, the INCAF has gathered key evidence for aligning the training offerings with actual market needs, promoting roadmaps for updating, converting, and certifying relevant skills. These actions are essential to close the gaps between education and employment, offset basic skill deficits, and support young people who currently face high barriers to entry into the labor market. A deepening of these efforts will contribute to more informed decision-making and render the training system more adaptable to productive transformations and more responsive to business needs.

2.19. At the same time, El Salvador has made progress on improving the coverage of health services with a view to moving toward universal access. Between 2014 and 2018, there was an improvement in the percentage of the population with access to healthcare services, which rose from 85% to 91%. The country is undergoing an epidemiological transition toward a disease burden of predominantly chronic noncommunicable diseases, currently responsible for 68% of deaths. This trend is associated with lifestyle risk factors and chronic stress conditions, as well as with extreme weather events like higher temperatures, prolonged droughts, and intense rainfall. Chronic noncommunicable diseases explain 61.44% of disability-adjusted life years, and they will become more prevalent due to the gradual aging of the population: the percentage of the population older than 65 is expected to increase from 8.55% in 2024 to 15.7% in 2050.¹⁸ This change in the demand profile poses major challenges for the hospital system, whose response capacity needs to be strengthened. As for infrastructure, El Salvador has made significant investments to expand and improve care services, but it needs to continue to support an upgrade of assets and an increase in the infrastructure's resilience to natural disasters.^{19 20} Likewise, the country needs to put hospital-level standardized processes in place to ensure quality and facilitate systematic monitoring and supervision of the care received by users, with a view to strengthening the system's capacity to quickly identify and correct weaknesses.

2.20. There are opportunities to reduce the housing shortage and expand the coverage of basic services. At present, an estimated 80% of the population lives in housing that, while requiring improvements in materials and location due to risks, already has access to basic services to some extent.²¹ As for access to drinking water, 24% of households are subject to an improvement in basic coverage, and in rural areas the opportunity to improve coverage

¹⁷ Amaral, et al. (2017). The interplay between emotion and learning in the human brain: A systematic review of the evidence. *Frontiers in Psychology*, 8, 1137.

¹⁸ For both sexes and all ages, the percentage reflects the noncommunicable disease burden measured in terms of disability-adjusted life years.

¹⁹ In 2021, the country had 11.6 beds for every 10,000 inhabitants, versus the average of 19.2 in the Latin America and the Caribbean region. World Health Organization. (2024). Global Health Observatory data repository. <https://www.who.int/data/gho>.

²⁰ United Nations, 2023.

²¹ Habitat for Humanity, 2023. <https://www.habitat.org/lac-es/where-we-build/el-salvador>.

may reach 58% of households.²² In terms of sanitation, 42.6% of households have adequate systems, mostly in urban environments; this allows focusing expansion efforts on areas with lower coverage. Moreover, the country already collects 72% of the waste generated, making this a strong platform for strengthening adequate management and disposal systems and for improving the efficiency and sustainability of the treatment infrastructure.²³ These partial advances provide a tangible foundation for expanding coverage, reinforcing resilience to geological and climate risks, and improving the quality of life of the population by means of strategic investments and institutional coordination through the implementation of a comprehensive national housing, urban development, and land-use planning policy.

- 2.21. As for water and sanitation, El Salvador needs to continue to promote investment and improved regulation and governance to help expand access to sustainable, quality services.** The sector's financing needs are estimated to be over US\$12 billion, a significant gap that poses a public investment challenge. Although the country has made progress on building a regulatory framework for the sector, there is a need to strengthen the technical and financial capacities of sector stakeholders and move forward on developing specific laws for the various subsectors, in order to improve the coordination, efficiency, and sustainability of the system. Furthermore, the effects of climate change make it ever more urgent to invest in resilient infrastructure and mechanisms to protect water sources, in order to mitigate the short- and long-term risks associated with the drinking water supply.
- 2.22. Improving access to adequate and resilient housing solutions provides a key opportunity to boost the well-being of Salvadoran families and advance toward more equitable and sustainable territorial development.** Recent progress in reducing overcrowding levels, as reflected in the Multipurpose Household Survey 2023, shows the potential for continued improvement in living conditions, especially in rural areas. Against this backdrop, expanding access to home financing, particularly for lower-income households, is a priority means of enabling progressive improvements in housing quality. The current situation creates an opportunity for designing and implementing more inclusive and flexible financial instruments adapted to the various needs of the population. In addition, it provides valuable room for strengthening El Salvador's affordable housing policies and accelerating the adoption of housing solutions resilient to natural disasters, in line with the country's efforts to promote safer and more sustainable territories that offer greater opportunities to everyone.
- 2.23. Lastly, a potential increase in the number of returnees creates opportunities for boosting local development by leveraging skills and experience acquired abroad.** Strengthening the registration and monitoring systems, certifying skills, providing job placement services, and promoting social cohesion programs will facilitate the entry of returnees into the formal labor market and foster productivity in the territories.

WHAT WE WILL DO

- 2.24. The IDB Group's actions under this pillar will be geared toward continuing to expand access to and improve the quality of social services, with an emphasis on strengthening the link between education and employment, and on expanding access to health, housing, and water and sanitation services.** To that end, the IDB Group will prioritize building human capital by expanding relevant professional training, with a focus on strategic sectors of the economy, which will help generate more opportunities for job placement in the private sector. As part of this effort, it will encourage the country to take advantage of the human capital of diaspora returnees, promoting their productive integration and the recognition of their skills. These actions will also help reduce informality by facilitating access to formal

²² Ministry of Health (2009).

²³ Technological University of El Salvador report (2013).

employment through the improved alignment of job skills and market demand. Furthermore, they will encourage the modernization of the education system to ensure it can provide education aligned with market demands, and will promote the digital transformation of the healthcare system as a mechanism to improve the efficiency, coverage, and quality of health services.

2.25. In line with this approach, in the education sphere, the IDB Group will focus its efforts on improving school infrastructure as a key element for ensuring quality conditions, expanding coverage, and facilitating complete educational pathways. It will prioritize the refurbishment and improvement of existing educational centers, to create safer and more functional learning environments conducive to comprehensive student development. Specifically, in rural areas, IDB Group actions will foster expansion of the education offering by building classrooms and schools to adequately meet local demand, thus helping to narrow territorial gaps in access to education. These interventions will be designed based on sustainability, universal accessibility, and climate resilience criteria, and will use materials, technologies, and equipment that minimize the environmental impact and reduce vulnerability to the effects of natural disasters. Moreover, the IDB Group will work to expand equitable educational coverage, prioritizing populations such as persons with disabilities, adolescent mothers, at-risk young people, and rural communities. Likewise, it will work to ensure returned school-age children can enter the education system and complete their studies in the country. To guarantee access to continuous and relevant educational pathways, the IDB Group will promote flexible learning modalities that will allow dropouts to return to school, as well as specific support and retention programs. It will also work to expand access to educational materials and improve the quality of teaching through systematic training processes and pedagogical support for directors and teachers, emphasizing the development of key competencies—especially in reading, languages, and mathematics—to support the skills needed for productive entry into the professional world.

2.26. Along with the actions described above, the IDB Group will work to strengthen technical and vocational training programs, and to help develop opportunities for quality jobs in the private sector, including by promoting technological entrepreneurship as a key engine for revitalizing production and creating jobs. The IDB Group interventions will seek to consolidate the alignment of education and employment through strategies geared toward the acquisition, improvement, and updating of skills, with a particular emphasis on young people, older adults, and diaspora returnees. These actions will involve fostering linguistic skills with a focus on bilingualism, incorporating digital education content from early ages, implementing professional retraining programs with an emphasis on technological skills, and developing a national strategy for digital talent aligned with the demands of the labor market and the opportunities for productive transformation. The IDB Group will also foster job creation through IDB Invest support for investment projects in strategic sectors like productive infrastructure and education. At the same time, the country's human capital will be strengthened through technical and professional training programs in coordination with the recently created the INCAF, to make the priority sectors for the country's economic development more productive and competitive.

2.27. Concurrently, in the health sector, the IDB Group will support El Salvador's response to the triple burden of disease—chronic noncommunicable diseases, communicable diseases, and conditions associated with external causes—through a comprehensive, differentiated approach focused on the life cycle. For chronic noncommunicable diseases, the IDB Group will help strengthen and expand comprehensive management services, incorporating prevention, timely diagnosis, treatment, and monitoring actions, both in person and through digital health solutions. In strategic terms, it will back the development of national policies and plans that address these challenges holistically, to encourage the integration of health promotion at all care levels. As for conditions with external causes, it will prioritize bolstering services for women, boys, and girls in vulnerable situations. This will entail providing

specialized training for healthcare providers, improving care protocols, and setting up safe spaces to ensure timely, respectful care. In addition, it will continue to support maternal/child care, focusing on reducing the gaps in access found in contexts of high levels of vulnerability. It will develop programs to guarantee quality prenatal and postnatal care, as well as comprehensive child healthcare services, with the objective of reducing maternal and neonatal mortality and improving quality of life for children and mothers living in unfavorable conditions. All of this will be done in accordance with the Nacer, Crecer con Cariño (Birth and Growth with Love) program.

- 2.28. The IDB Group will also back reform of the healthcare services model and the expansion and more efficient management of health system resources.** This support will include the analysis and strengthening of the network care system to optimize the organization and operation of the various levels of care, improve emergency response capacities, and promote the more efficient and timely provision of health goods and services. Likewise, the IDB Group will foster expansion of the sector's digital transformation, as a key tool for improving operational efficiency, traceability, and equity in access. It will also support strategic management of the health system's productive resources, to include strengthening human talent, improving institutional resilience, and expanding the coverage and enhancing the quality of physical and technological assets (including investment in infrastructure), according to the principles of good governance and sustainability. As part of this effort, IDB Invest will complement the role of the public sector, supporting private-sector projects that help modernize the health infrastructure. The objective is to facilitate investments that strengthen service quality and accessibility, particularly for vulnerable populations. This line of work does not entail privatization processes, but rather seeks to mobilize additional resources and promote innovative solutions that complement and reinforce the public health system.
- 2.29. In addition to these measures, in the water and sanitation sector, the IDB Group will work to expand coverage and improve service quality and sustainability, while continuing to support efforts to manage the risks of floods in urban areas.** To that end, it will foster strategic planning and investment in infrastructure to enhance comprehensive management of water resources, with particular emphasis on stormwater drainage systems, loss reduction, and making operating expenditure more efficient. In support of these actions, it will work to strengthen the regulatory framework for greater efficiency in sector-specific regulations and encourage the circular economy, including through the reuse of water in industrial processes. The IDB Group will also address institutional constraints through programs to build technical and management capacities, supported by continuing education for staff, improved processes, and the implementation of monitoring and early warning tools.
- 2.30. The IDB Group will help foster access to sustainable housing solutions in better conditions.** To do so, it will support initiatives that target the institutional strengthening of housing sector stakeholders, the development of more equitable and resilient land-use planning frameworks, and the consolidation of public policies that guarantee access to decent housing. Priority will be given to promoting low-income housing programs, improving vulnerable urban environments, and fostering solutions adapted to the socioeconomic conditions of the neediest households, taking the area's environmental risks and characteristics into account. Likewise, the IDB Group will foster the development of financial instruments that facilitate access to adequate financing to expand housing coverage, as well as more active private-sector participation in the real-estate market, including the low-income housing market. In addition, the IDB Group will promote the use of sustainability criteria in project design and implementation, to improve the population's quality of life and help consolidate more resilient and balanced urban settlements.
- 2.31. Lastly, the IDB Group will collaborate with the country's efforts to receive and socioeconomic reintegrate diaspora returnees to El Salvador.** The IDB Group will promote strengthening the registration, identification, and monitoring systems to ensure the

country has up-to-date information to guide evidence-based programs and policies. In addition, it will promote inclusion of this population in the Multipurpose Household Survey and will facilitate their economic integration through skills certification, job placement services, and entrepreneurship programs that leverage their capabilities for local development. These actions will foster their placement in formal economic activities with social protection and will reinforce cohesion in the host communities, thereby contributing to inclusive and sustainable integration processes.

EXPECTED IMPACT

Improved coverage, quality, and outcomes in education. The IDB Group's actions will target consolidating complete educational pathways, through projects that enhance access, reinsertion, retention, and learning, while augmenting the education system's resilience to environmental and structural challenges. Educational coverage rates are expected to steadily increase, especially for preschool and secondary school, and the high school graduation rate should improve. The IDB Group interventions seek not only to expand access, but also to improve the quality of instruction, so as to substantially improve students' academic outcomes, especially in secondary school.

Improved linkage of education and employment, and contribution to increased job opportunities. The IDB Group's support will be aimed at strengthening the nexus between the education system and the job market, by boosting the supply of and demand for relevant, quality technical/professional programs. These actions will facilitate access to the labor market, by helping attendees develop multidisciplinary skills and by strengthening mechanisms for coordination with the private sector. Moreover, the productive investments channeled through IDB Invest are expected to drive the creation of formal jobs, through the growth of strategic sectors in the productive apparatus as well as the hiring of workers for infrastructure projects and other employment-intensive activities. Together, these projects will aim to breathe new life into the labor market, enhancing employability and creating job opportunities for young people, so as to expand their options for personal development and fulfillment in the country.

Greater access to specialized medical services. Through a comprehensive approach that entails strengthening the healthcare infrastructure, transforming the service-delivery model, and improving the management of human talent, the IDB Group will aim to make specialized services more available and accessible, especially in areas with higher levels of social and territorial vulnerability. These interventions will make it possible to narrow the gaps in access to specialized medical services and improve health outcomes, thereby building up the system's capacity to respond more effectively to the population's complex needs.

Increased coverage of water and sanitation services. The IDB Group's actions will focus on improving the sector infrastructure, with particular emphasis on stormwater drainage, which will make it possible to significantly reduce communities' exposure to floods and other climate risks. In addition, the strategic investments in infrastructure will promote the more efficient and sustainable management of water resources, by reducing losses in distribution systems and optimizing water use. Together with these improvements, measures will be taken to build the sector's institutional capacity and strengthen its governance, to guarantee more equitable, resilient, and results-oriented delivery of services.

More and better access to housing, especially for vulnerable populations. The IDB Group initiatives will help expand access to affordable, sustainable, and resilient

housing solutions, prioritizing communities, particularly those affected by a qualitative housing deficit (at a minimum, a lack of materials, basic services, or structural conditions). Sustainable social housing will also be promoted through the training of developers and incorporation of stricter construction standards, including energy efficiency criteria. These actions will not only shrink the housing deficit and improve quality of life for families, but will also promote more balanced territorial development, through institution-strengthening and the implementation of land-use and management plans.

Programmatic approach. The pillar aimed at building the population's capacities for dynamic and equitable growth will include a programmatic approach in several sectors, with coordinated action from the various windows of the IDB Group to help achieve the expected results. To this end, the Bank will use a combination of instruments, including investment loans in the active portfolio, geared toward: (i) expanding and improving early childhood services, the quality of the educational offering for vulnerable youth, the efficiency of educational management, and the consolidation of complete educational pathways; (ii) enhancing the reliability of the drinking water service in the metropolitan area of San Salvador; (iii) expanding employment, particularly formal employment, in the tourism sector; (iv) creating inclusive access to a social protection system; (v) improving the management and efficiency of the healthcare network and of the delivery of support services to hospitals and primary care facilities; and (vi) helping to reduce the housing deficit. New approvals will use investment instruments (including CCLIPs) as well as public and private guarantees to deepen efforts aimed at consolidating complete educational pathways and strengthening vocational training, expanding access to housing for vulnerable populations, and regenerating and revitalizing local markets. In addition, the IDB Group will use technical cooperation operations to continue to build capacity both in the public sector and in the population and to support the above-described objectives as a whole.

PILLAR 3: FOSTERING A COMPETITIVE PRIVATE SECTOR

WHY IT MATTERS

2.32. **To stimulate socioeconomic development, El Salvador needs to continue to boost both public and private investment, bolstering private-sector growth as a fundamental driver of job creation, innovation, and productivity.** The country needs to continue to strengthen the efficiency of public investment in order to maintain the growth trend of recent years. This entails continuing to pursue policies designed to narrow the gaps in access to and quality of basic services, human capital development, and infrastructure. At the same time, private investment has risen steadily, going from 13% to 19.5% of GDP between 2016 and 2023, driven by the substantial reduction in criminal violence and impacting short- and medium-term growth.²⁵ Capitalizing on this trend will require further efforts to create an enabling environment that allows complementarity with the private sector to expand the country's growth potential and facilitate progress toward more equitable, inclusive, and sustainable development, in which young people will have opportunities to build their future in the country.

²⁵ Central Reserve Bank of El Salvador (2024). *Estadísticas económicas* (Economic statistics). <https://estadisticas.bcr.gob.sv/>.

2.33. In this context, strengthening and modernizing the productive infrastructure will be key to fueling El Salvador's economic potential. Notably, the El Salvador International Airport has significantly increased its air and passenger traffic, transporting 4.5 million passengers in 2023, far more than before the pandemic. However, in order to viably continue along this path of growth, the airport must expand its operational capacity and become more efficient, which will help it reinforce its positioning as a regional hub. From 2019 to 2024, the country managed to see the second-largest increase in international tourists in the world (up 84%).²⁶ Investments aimed at improving the operational efficiency of the El Salvador International Airport so that it will be able to satisfactorily meet the sustained demand for airport services will be a critical factor enabling the growth of GDP, employment, exports, and investment generated by the tourism sector. The priority aspects identified include speeding up the entry of international passengers at migration control points and improving the checked baggage delivery processes in order to adapt to the growing demand.

2.34. Tourism is becoming consolidated as a strategic sector with strong potential to transform the Salvadoran economy. From 2010 to 2023, its share of total exports grew from 7.8% to 25.9% (Figure 3). In 2023, the "Travel" item in the balance of payments posted a surplus of close to 5.8% of GDP.²⁷ To sustain this momentum, in addition to capitalizing on the opportunities in airport infrastructure, it is essential to expend further efforts in institutional strengthening, land-use planning, support infrastructure, human capital development, and environmental sustainability. Making progress on these fronts will be decisive in order to secure the sector's growth and guarantee conservation of the natural assets.

2.35. Strengthening logistics corridors provides a strategic opportunity to boost the country's competitiveness and improve the quality of life of the population. In recent years, El Salvador has made strides in developing road infrastructure projects focused on regional integration and logistics efficiency. In addition, there are opportunities associated with maintenance of the country's road network, which significantly impacts rural areas, where companies, especially MSMEs, have to pay high transportation costs that erode their competitiveness and restrict their access to markets. In this context, intensifying efforts in investment, maintenance, and efficient management of the road network, including innovative financing arrangements and public-private collaboration, will help to improve connectivity, reduce logistics cost overruns, and bolster the opportunities for economic development throughout the nation's territory.

2.36. The public transportation system presents opportunities in terms of coverage, quality, and efficiency, particularly in the metropolitan area of San Salvador. At present, the formal service covers close to 7% of motorized trips and has a user satisfaction rate of 34%. These data support initiatives now underway to increase service frequency, renew the fleet (as almost half of the vehicles are more than 12 years old), and improve fare integration. Traffic congestion results in travel times that, on certain routes and during peak hours, can approach 90 minutes, and this has spurred motorcycle use. The update to the Mobility Master Plan, together with priority corridor projects, vehicle modernization, and promotion of alternative modes of transport, will reduce travel times, elevate service quality, and reinforce road safety, thereby contributing to urban productivity and the well-being of the population.

2.37. Furthermore, although the national electricity system covers 97.7% of the country, there is a commitment to achieving universal coverage. Disparities between urban and rural areas restrict equitable access to basic services and hamper production, the productive use of energy, and the closure of territorial gaps. Reducing these gaps is consistent with the universal coverage objective established in the National Energy Policy 2020-2050.

²⁶ UNWTO, 2024.

²⁷ Sources: BCR, "Annual Balance of Payments" and "GDP: production, expenditure and revenue, current prices."

2.38. Fossil fuels account for a large share of El Salvador's energy matrix. In 2023, 73.5% of end consumption was powered by petroleum products and natural gas, used primarily in the transportation (51.8%) and industrial sectors. This makeup of the energy matrix heightens the country's vulnerability to external shocks resulting from volatility in international prices (its oil bill reached 7.2% of GDP in 2023).

2.39. Energy efficiency is an area with high potential for contributing to the competitiveness and sustainability of the productive apparatus. In 2021, El Salvador's energy intensity was 3.3 megajoules per US\$ of GDP (2017 purchasing power parity), which suggests that there are opportunities to continue to move toward a production structure that more efficiently incorporates the use of energy to generate added value. Optimizing this indicator would reduce operating costs in productive sectors and facilitate a transition to more sustainable, resilient, and competitive models. In this regard, the design and implementation of policies aimed at an efficient energy use could become a catalyst for enhancing the country's economic and environmental performance.

2.40. Expanding private investment to increase digital connectivity is essential for consolidating advances and leveraging its transformative potential. With 10 fixed broadband subscriptions per 100 inhabitants and 60% of the population having effective broadband access, El Salvador is facing a digital divide that affects competitiveness, human capital development, and citizens', companies', and the State's adoption of digital technologies. Notable advancements have been made over the past few years on expanding the digital infrastructure, such as the connection to new underwater cables and improved mobile coverage (92% in 3G and 75.5 mobile broadband subscriptions per 100 inhabitants). However, opportunities remain with regard to affordability (fixed broadband costs 7.6% of the first two quintiles' monthly income) and service quality (average download speed of 34.4 megabits per second on the mobile network and 74.2 megabits per second on the fixed network), impacting primarily MSMEs, the entrepreneurial ecosystem, and rural areas, where only 4.1% of households have internet access, compared to 41.8% in urban areas.

2.41. Sustained economic recovery in turn requires the country to continue to make progress on financial inclusion. It is estimated that 36% of the adult population has a bank account,²⁸ and 28% has made a digital payment,²⁹ affecting the formalization of companies and jobs as well as access to opportunities and financial resilience, especially in rural areas and among vulnerable groups.

2.42. Furthermore, access to financing provides significant room for promoting expansion of the production sector. While bank credit grew from 22.4% to 26.5% of GDP between 2015 and 2023, close to 21% of companies, particularly MSMEs and women-led businesses, identify obtaining financial resources as their main challenge (Figure 2).^{30 31} This situation is partly explained by the high level of informality and a credit bureau penetration of approximately 53%, leading to information asymmetries and curtailing the offering of financial services. Strengthening credit records, expanding financial solutions tailored to small businesses, and deepening economic formalization will make it possible to channel larger volumes of capital toward key segments and support equitable productive development.

2.43. Strengthening the regulatory framework for trade facilitation and investments is a strategic opportunity to improve the business environment and stimulate business growth. El Salvador has opportunities to continue to strengthen its regulatory framework,

²⁸ According to a Salvadoran Banking Association (ABANSA) study on bank usage in El Salvador, this figure goes up to 43.5% (2024).

²⁹ Global Findex, World Bank (2021).

³⁰ Ibid.

³¹ Central Reserve Bank, indicators of credit to the private sector.

simplifying processes and reducing administrative burdens, with a view to improving the business environment and promoting investment and competitiveness. Moving forward on this regulatory improvement agenda, under an interinstitutional approach including dialogue with the private sector, can significantly contribute to competitiveness and sustainable productive development.

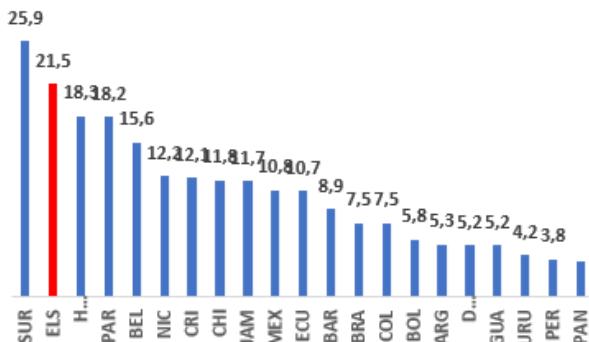
2.44. In the foreign trade sphere, El Salvador made substantial progress in recent years, as reflected in the sustained rise in exports, which went from 24.5% of GDP in 2020 to 32.8% in 2024.³² Salvadoran exports are booming, having posted an average growth rate of 11.89% between 2021 and 2023. Since 2010, service exports have grown almost 20 percentage points as a share of total exports, particularly due to the strong expansion of the tourism sector.³³ In 2023, tourism accounted for 55.75% of service exports. This reflects an annual growth rate of 8.1% since 2019 (UN Tourism, 2025). To consolidate this positive trajectory, there are opportunities for continuing to build up the logistics infrastructure (including airport capacity) and trade facilitation frameworks and continuing to promote the incorporation of value added into products and services in order to continue to reduce the costs associated with exports and foster the country's fuller insertion into regional and global value chains. El Salvador's progress in the digitalization of processes and the country's growing trade integration create a strategic opportunity to diversify and refine its export portfolio. The government has stated its commitment to improving the logistics and trade environment, and moving forward with a comprehensive implementation of the World Trade Organization (WTO) Trade Facilitation Agreement is a tangible means of advancing these efforts. Full implementation of the agreement could generate significant benefits, such as a reduction of trade costs, a 61% increase in intraregional trade, and a rise in regional GDP of up to 4.3% by 2030.³⁴

³² World Bank data (<https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=SV&view=chart>).

³³ Prepared by IDB/INT with data from the World Bank World Development Indicators and the Central Reserve Bank of El Salvador (BCR).

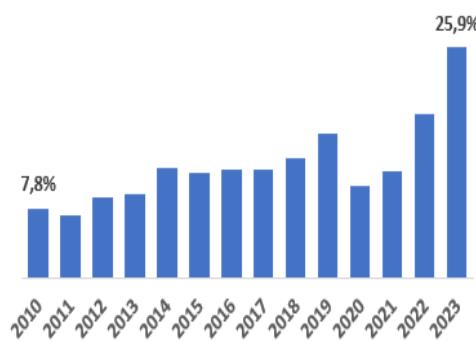
³⁴ Several research studies indicate that Salvadoran exports have clear growth potential, given the country's recent evolution and the fact that the new export activities have already demonstrated their ability to sell in international markets or are very similar or comparable to others that have. A recent Central Reserve Bank study estimated that leveraging merely 25% of this potential would increase the growth rate by 1.8 points.

Figure 2. Percentage of companies that cite access to financing as the greatest obstacle for their businesses



Source: Enterprise Surveys. World Bank.

Figure 3. Tourism exports (% total exports)



Source: Central Reserve Bank.

WHAT WE WILL DO

2.45. The IDB Group actions under this pillar will aim to strengthen the conditions conducive to productive development and business competitiveness, through three strategic objectives: (i) improve the productive infrastructure; (ii) improve access to financing; and (iii) facilitate trade, logistics, and regional integration. Through these lines of action, the IDB Group will work to foster a more vibrant and competitive ecosystem for private-sector growth, strengthen the country's integration into regional and global value chains, reduce territorial and sector-specific gaps, and decrease poverty, while contributing to social well-being through private-sector operations. These actions, furthermore, will be coordinated with the pillars of the América en el Centro regional program, especially those focused on increasing productivity and sustainable economic integration.

2.46. First, the IDB Group will foster investments in productive infrastructure (airport, road, and urban mobility) as an essential foundation for improving the country's internal and external connectivity, lowering operating and logistics costs, and enhancing systemic competitiveness. The IDB Group will prioritize interventions designed to modernize and expand the operational capacity of the country's main airport, by strengthening and improving the infrastructure enabling operating processes (like immigration and baggage pickup) and boosting the capacity to handle growth in international tourism. The IDB Group will also support the expansion and upgrading of the secondary and tertiary road networks, with a territorial focus, prioritizing integration of productive zones, agroindustrial chains, and urban and rural MSMEs with national and international markets. In addition, the IDB Group will design safe and sustainable mobility solutions for urban areas, especially the metropolitan area of San Salvador, to address the challenges of traffic, road safety, and efficient public transportation options, with a view to improve quality of life, drive business competitiveness, and facilitate access to services and employment.

2.47. In line with the foregoing, the IDB Group will continue to provide support for strengthening the tourism sector, which has posted export growth on the order of 10 percentage points over the past 5 years.³⁵ To maintain this trend, the country will have to overcome challenges in sector planning, infrastructure, human capital, and sustainability. Accordingly, the IDB Group will provide support for modernizing the country's airport and tourism infrastructure, diversifying and improving the quality of sustainable tourism products,

³⁵ The share of tourism in Salvadoran exports went from around 16% in 2019 to 26% in 2023, for an increase of close to 10 percentage points. Central Reserve Bank of El Salvador (BCR).

and bolstering the competitiveness of tourist destinations. Along with these interventions, the IDB Group will aim to help strengthen sector governance and promote data- and evidence-based management to facilitate more efficient decision-making, the identification of opportunities, and the measurement of impacts in terms of job creation, investment attraction, and territorial development. It will also promote the development of local value chains involved in tourism activities and the deployment of resilient support infrastructure, with private-sector participation.

2.48. At the same time, the IDB Group will support the government in improving access to reliable, clean, and efficient energy, by fostering public and private investment and strengthening the regulatory framework. Along these lines, it will foster projects designed to expand electricity coverage in rural and periurban areas, which will contribute to the country's energy security and improve the efficiency and sustainability of the electricity system with the incorporation of new renewable sources, energy storage, and the promotion of energy efficiency measures. These actions will help bring down energy costs and boost the competitiveness of the productive ecosystem. Moreover, these lines of work will support the country in its progress toward meeting the targets set in the National Energy Policy 2020-2050 and align with its nationally determined contribution. This will not be limited to the use of other alternative energy sources.

2.49. The IDB Group will also support the expansion of digital connectivity as an enabling condition for productivity, financial inclusion, and business digitalization. In coordination with the operations currently being executed, the IDB Group will promote investments in digital infrastructure to expand broadband access, especially in areas with low levels of connectivity. It will also foster digital skills development programs for civil servants and private-sector workers and entrepreneurs, focusing on MSMEs and young people. These actions will help narrow the digital divide, facilitate technology adoption, and improve the continuity and efficiency of public and productive services, while creating new economic opportunities in the country, especially for young people.

2.50. The IDB will also work to expand and improve financial inclusion and access to business financing, including for MSMEs, with specific instruments for each type of enterprise. The IDB Group will seek to improve access to financing for companies facing tighter credit restrictions, like MSMEs and women entrepreneurs. It will also aim to help expand credit in municipios with low participation rates, by identifying the barriers that limit access. To overcome these barriers, the IDB Group will encourage the development of financial instruments and the deployment of innovative solutions—like guarantee programs, seed capital, and digital platforms—designed to improve access to financing and to foster greater inclusion in digital payment systems, especially in rural areas and for vulnerable groups. The IDB Group will also work to enhance regulation and financial supervision for stability, integrity, and consumer protection, and to strengthen the credit information systems and financial infrastructure. IDB Group actions will foster initiatives to channel remittances toward productive activities, prioritizing the promotion of innovative ventures that have a high potential for impact on local economic development. Lastly, IDB Invest will seek to support (i) the financial system, with product designs and lending technology to meet the needs of households, underserved segments, and MSMEs; (ii) commercial banks, with long-term financing and increased financing for investment projects in the business segment; (iii) alternative financial inclusion mechanisms, like financing for productive chains and foreign trade; and (iv) initiatives to expand nonbank financial intermediaries, including leasing, factoring, and investment funds. IDB Invest will also aim to contribute directly to the financing of companies that promote productive investment and drive productivity, innovation, and integration.

2.51. In parallel, the IDB Group will spearhead actions to support logistics modernization and trade facilitation. Specifically, it will continue to support the improvement of key infrastructure for moving merchandise, like border crossings, land routes, and multimodal hubs, as well as

the digitalization of customs and interoperability among institutions. It also expects to strengthen coordinated border management models, which should be extended to ports and airports. In this context, the IDB Group also expects to support the attraction of foreign direct investment to strategic sectors through the strengthening of duty-free zones, industrial parks, and promotion mechanisms.

2.52. Concurrently, the IDB Group, through its various windows, plans to support improved trade efficiency and regional integration via regulatory reforms and support for the simplification of procedures. Specifically, it will work to help El Salvador adopt quality standards and simplify regulatory processes that affect international trade, by expanding the coverage and functionality of digital platforms for trade procedures (such as registries and licenses) and seeking to avoid overlaps and reduce processing times. It will also foster regional integration through binational projects and by strengthening institutional frameworks for coordination. IDB Invest, meanwhile, will continue to provide financial solutions for exporting and importing companies, including specific trade financing products like the Trade Finance Facilitation Program, with a focus on productive chains and periods of volatility.

EXPECTED IMPACT

Improved airport infrastructure. The IDB Group will support projects to improve El Salvador's airport infrastructure, thereby helping to make the growth of the tourism sector more viable, increase the number of international visitors, and increase spending by tourists. It also plans to enhance the sector's sustainability and resilience via comprehensive support for implementation of the National Tourism Plan 2030.

Improved road transportation network and urban mobility. The IDB Group interventions aim to substantially improve the productivity of El Salvador's companies, through lower operating costs and shorter transaction times, as well as improved market access for producers and MSMEs, which will facilitate the productive integration of small-scale producers and merchants from underdeveloped areas, thereby promoting more inclusive and balanced socioeconomic development. These improvements will also help improve citizens' quality of life, expand their access to essential goods and services, increase their job opportunities, shorten their average transportation times, and reduce traffic accident rates.

Expanded electricity coverage and more efficient energy use. The IDB Group will support investments and policy measures to expand the country's electricity coverage, reduce dependence on fossil fuels, and promote improved energy efficiency, all of which will make it possible to boost competitiveness and move toward a more sustainable and resilient economy.

Expanded digital connectivity for the private sector and stronger digital skills among workers and business owners. The IDB Group will support investments in digital infrastructure that will expand broadband access, which will improve connectivity for companies, public services, and communities. This will facilitate the digitalization of business processes, access to financial services, and the development of new business models. In addition, the digital skills training programs for entrepreneurs, MSMEs, and workers will bolster the country's capacity to enhance productivity, bridge the gaps in skills and capacities, and create higher-quality jobs.

A more sophisticated financial system and greater financial inclusion, especially for MSMEs, women, and the rural population. The IDB Group will support the expansion of credit lines, guarantees, digital platforms, and digital means of payment, as well as the institutional strengthening of the financial sector. All of this will help expand access to credit and increase formalization, which should result in increased private investment.

Increased and more diversified foreign trade and greater regional integration. The IDB Group will provide support to strengthen El Salvador's logistics infrastructure, modernize its border crossings, digitalize procedures, enhance interoperability among public institutions, harmonize regulatory frameworks, and optimize trade-related regulatory processes. These measures are expected to lead to increased exports and greater regional integration, as well as to a substantial drop in the costs and duration of foreign trade operations, which will help improve business competitiveness. Furthermore, the IDB Group will work to bolster the insertion of Salvadoran companies into global value chains, promote strategic binational projects, and strengthen institutional frameworks for regional integration. Together these actions will lead to El Salvador's deeper integration into goods and services markets and better use of the opportunities stemming from global trade.

Programmatic approach. For the pillar aimed at fostering a competitive private sector, the IDB Group will also use a combination of portfolio operations with new investment operations (including the expected use of CCLIPs) and innovative financial instruments such as bonds and guarantees designed to boost competitiveness and improve the business environment, support MSME growth and expanded access to medium- and long-term productive credit for MSMEs, simplify and automate foreign trade processes, finance investments promoting energy efficiency, and modernize the airport. All of this will go hand in hand with technical cooperation operations as well as dialogue and knowledge products, in addition to IDB Invest and IDB Lab interventions to achieve the expected results under this pillar.

CROSSCUTTING AREAS

WHY THEY MATTER

2.53. The crosscutting areas of the Country Strategy with El Salvador 2025-2029 are fundamental for ensuring that the country's economic and social growth will be sustainable, equitable, and resilient. The IDB strategy focuses on two priority areas: promoting the integration and equity of opportunities, and strengthening environmental resilience and sustainability. These areas address the country's structural challenges and make it possible to maximize the impact of the interventions in each of the three strategic pillars.

2.54. **Promoting integration and equity of opportunities.** El Salvador is working to expand economic opportunities in an inclusive way. The IDB Group's support will make it possible to address the gaps that still especially affect women, young people, and vulnerable populations like persons with disabilities. Women have a lower workforce participation rate than men (50.5% versus 81.5%) and face higher barriers than men in accessing financing and achieving representation in strategic sectors. Furthermore, the social safety net remains limited, forcing many families to depend on remittances as their main source of income. To address these challenges, the IDB strategy aims to: (a) promote jobs for women and young people, by expanding opportunities in dynamic sectors and reducing barriers to economic participation; (b) strengthen the social protection system, by optimizing resource allocation to ensure sustainability and equity; and (c) expand access to basic services, including education, health, and housing, with a special emphasis on vulnerable communities and specific groups like persons with disabilities. These interventions will facilitate inclusion of the targeted groups, fostering a more equitable and resilient economy.

2.55. **Strengthening environmental resilience and sustainability.** El Salvador is one of the countries with the highest exposure to natural disasters, such as tropical storms, droughts, and others, that adversely impact infrastructure, agricultural production, and water availability. Furthermore, limited resilient infrastructure and climate adaptation strategies exacerbate the long-term economic and social risks. To mitigate these impacts, the IDB strategy will prioritize the: (a) inclusion of sustainability criteria in public investment, to ensure infrastructure projects are resilient to natural disasters; (b) improved management of water and energy resources, to promote efficient water usage and the clean energy transition; and (c) strengthening of the natural disaster response capacity, by improving the early warning and risk management systems. These actions will help reduce the country's vulnerability, promoting sustainable economic development.

WHAT WE WILL DO

2.56. **Strengthening environmental resilience and sustainability.** In the context of the country strategy, the IDB Group will mainstream the equity of opportunities and environmental sustainability approaches across all of its operations. These lines of action will enable the IDB Group to maximize the impact of the three strategic pillars, guarantee more inclusive and sustainable development, and better respond to the country's structural challenges.

2.57. **Promoting integration and equity of opportunities.** The IDB Group will promote the economic and social inclusion of women, young people, persons with disabilities, and other vulnerable groups by mainstreaming approaches to ensure equity and social cohesion in the design and implementation of its operations, as well as by strengthening institutional capacities to identify, address, and monitor equity gaps. The IDB Group will foster equitable access to basic services like healthcare, education, employment, and housing, prioritizing interventions in geographic areas where the interventions can create the greatest impact, prioritizing gaps, productive potential, and coordination with authorities. The IDB Group will also work to

strengthen the social protection system, by promoting reforms that make social spending more efficient and expand the coverage of programs aimed at reducing poverty and inequalities.

2.58. Strengthening environmental resilience and sustainability. The IDB Group will incorporate sustainability and disaster risk management criteria throughout the entire operation preparation and execution cycle. It will prioritize the financing of resilient infrastructure in key sectors like transportation, water, agriculture, and energy. The IDB Group will also promote the institutional strengthening of agencies responsible for natural resource management, territorial planning, and the country's emergency response. It will support the development of information systems, early warnings, and tools for evidence-based decision-making, as well as the mobilization of concessional finance. These actions will make it possible to reduce the country's vulnerability to extreme events, preserve its natural capital, and move toward a more resilient economy. With a long-term vision, the IDB Group will work with the country on building an adaptive social protection system that will provide immediate support in response to natural disasters, economic crises, or food insecurity. To that end, it will establish a social registry, interagency governance system, and mechanisms for delivering transfers to the population.



III. HOW WE WILL DO IT

A. PROGRAMMATIC APPROACH

- 3.1. **Strengthening the prioritized areas, the IDB Group will support implementation of structural reforms to foster the revitalization of growth and the transformation of El Salvador's strategic sectors.** The Country Strategy 2025-2029 adopts a programmatic approach that focuses efforts on sectors with pre-existing consolidated technical and institutional trajectories, to facilitate the continuity, expansion, and scalability of interventions. This approach will include both public and private operations; optimize the combined use of financial instruments, including investment loans, CCLIPs, budget support programs, policy-based loans, guarantees, and technical-cooperation operations; and promote effective coordination among the IDB Group windows.
- 3.2. **In this context, the Bank will work on a strategy to align and optimize the current portfolio, prioritizing operations that fall within the country strategy priority areas established in the strategic selectivity process, while also remaining very aware of the complementarities and synergies (internal and external), efficient use of resources, and focus on impact and results.** Above all, it will emphasize supporting investments with technical assistance, ongoing sector dialogue, knowledge generation, and institutional capacity-building. Specifically, the IDB Group will also promote the use of CCLIPs as a vehicle for expanding upon the long-term programmatic approach, allowing for a more strategic and targeted allocation of resources in priority sectors. This framework will make it possible to more effectively address interrelated challenges like fiscal sustainability, the quality and coverage of public services, the strengthening of the productive infrastructure, and the mobilization of private investment, to maximize the transformative impact of the IDB Group's actions and contribute to El Salvador's macroeconomic stability and sustainable economic development.
- 3.3. **Likewise, the IDB Group will leverage the América en el Centro regional program to enhance regional cooperation and crossborder coordination,** promoting the adoption of shared or coordinated investments and public policies with the potential to multiply the impact on El Salvador's sustainable development and the country's integration with the Central American region.

B. SYNERGIES

- 3.4. **Important opportunities exist for boosting synergies within the IDG Group in El Salvador to more effectively reach the objectives prioritized in the three Country Strategy pillars.** Specifically, the IDB Group has identified the strong potential for executing public upstreaming actions aligned with each of the pillars, which will be fundamental for progressing toward a climate more conducive to private investment. These actions aim to correct market failures, improve regulatory frameworks, and strengthen institutional capacities, to create conditions that will allow IDB Invest to structure a solid portfolio of projects that can be financed through innovative instruments and diversified development financing

mechanisms. Beyond upstreaming, the strategic synergies within the IDB Group are clearly emphasized in Pillar III, in which joint IDB, IDB Invest, and IDB Lab efforts can catalyze transformational impacts through coordinated interventions in productive investment, innovation, and private-sector development.

- 3.5. Pillar 1: Supporting fiscal sustainability and modernization of the public sector.** The IDB Group will aim to strengthen the regulatory and institutional frameworks governing public-private investment mechanisms to make it possible for companies to participate in infrastructure projects. It will also help create the conditions for improving access to the debt market. Lastly, it will aim to build public capacities for supporting governance structures and the digital transformation, and continue to improve the public sector's operational efficiency policies.
- 3.6. Pillar 2: Building the population's capacities for dynamic and equitable growth.** With the aim of expanding access to and improving the quality of services, the IDB Group will seek to support the government in identifying, prioritizing, structuring, and financing mechanisms like public-private partnerships, mixed public-private companies, and innovations at scale, as well as in designing suitable incentives for private investment and the improvement of monitoring tools. The IDB Group will also provide support for collaboration among the government, companies, and academia to promote vocational training, updating curricula, job placement assistance, the certification of skills gained abroad, and the expansion of upskilling and reskilling opportunities to help make the population, especially young Salvadorans, more employable.
- 3.7. Pillar 3: Fostering a competitive private sector.** To contribute to the expected outcome of a more accessible and sustainable electricity system, the IDB Group will improve conditions enabling private investment in energy generation and will explore providing support for power transmission projects. It will also evaluate the design of a mechanism to make the electricity system more sustainable in the face of climate vulnerability, while supporting optimization of regulations and improvements to sector governance, which are essential for successful implementation of the mechanism.
- 3.8.** To achieve the expected outcome of expanded broadband connectivity, the IDB Group will strengthen the digital ecosystem by upgrading regulatory frameworks to allow for public-private connectivity solutions, and will seek to make innovative technological investments to drive productivity.
- 3.9.** To achieve the strategic objective of a better business environment with greater access to financing, the IDB Group will strive to combine instruments, capacities, and experience from its different windows to reach underserved market segments. In particular, it will aim to strengthen national strategic plans and regulatory frameworks for key sectors, like the airport sector, water and sanitation sector, and housing sector, and to expand partial credit guarantees backed by the public sector to provide financing for segments that face credit constraints (including the MSME segment) and productive sectors traditionally neglected by the financial system. At the same time, it will foster the development and improvement of regulatory frameworks that allow for digital financial inclusion products, as well as fiscal incentives to encourage business formalization.
- 3.10.** Public-private financial education programs will be developed to bolster MSME management and access to credit. Furthermore, the IDB Group will foster open banking, to improve competition and the flow of information among financial institutions. These initiatives will be complemented with investments in the private sector, through IDB Invest, to expand financial inclusion using market-based solutions.
- 3.11.** To support the strategic objective of facilitating international trade and integration and improving logistics, the IDB Group will first and foremost promote private investment in transportation and logistics assets, simultaneously strengthening sector-specific institutional and regulatory frameworks, which are essential for broadening project-financing mechanisms. Second, to

enhance regional integration, including the integration of services, the IDB Group will support investments in sustainable tourism, through a combination of its public and private window capacities. Thus, the IDB Group aims to make regulatory and institutional improvements to land-use planning, environmental and social management, and the deployment of resilient support infrastructure, in coordination with subnational governments and the private sector. These efforts will be complemented with integrated re-risking financial solutions to expand access to adequate financing to tourism companies (for example, joint lines of credit from IDB Invest and the government to guarantee financial institutions' loan portfolios with these companies).

C. IDENTIFICATION OF REFORMS

3.12. The IDB Group will continue to provide technical and financial support for the implementation of strategic reforms in El Salvador, with the objectives of spurring growth, strengthening fiscal sustainability, modernizing the public sector, improving human capital, and fostering a more competitive private sector. These reforms are structured into three strategic pillars, with a crosscutting focus on climate resilience and adaptation and disaster risk management for sustainable economic growth. The IDB has a solid track record of providing support in these areas, especially in public sector modernization and the search for greater public sector efficiency, fiscal strengthening, and financial sector development. In addition, a significant level of institutional progress has been made on many of these reforms, meaning a sound technical and operational foundation is already in place.

3.13. Pillar 1: Supporting fiscal sustainability and modernization of the public sector. Fiscal sustainability and the modernization of the public sector are fundamental enabling conditions for macroeconomic stability, the efficient delivery of services, and the consolidation of a more flexible, efficient, and results-oriented State. Moreover, this is one of the areas in which the IDB Group has a solid track record of technical and financial assistance in El Salvador, through programmatic operations, investment loans, budget support programs, and technical cooperation funding over the course of several country strategies. Given this basis, the country now has a window of opportunity to further potential structural reforms designed to strengthen modernization, tax management, fiscal discipline and control of public expenditure, improved processes, and stronger financial information systems. Meanwhile, for several years the IDB Group has been supporting the government in identifying, designing, and implementing reforms to propel a more ambitious and coherent digital transformation of the State and lay the foundation for digital, interoperable, and inclusive public management. Likewise, the digital transformation of the State is a pivotal strategic pillar for achieving a more efficient, flexible, and citizen-focused public management. In this sphere, the IDB will support consolidation of the e-government ecosystem, which will facilitate the delivery of digital public services. This support will include promotion of the Digital Identity Law, Electronic Signature Law, Law on Digital Government, and other enabling regulations, such as those that establish the operational principles for long-distance processing, authentication, electronic filing, the unique digital address, and electronic notifications. These initiatives will facilitate citizens' electronic interaction with the government, and will reduce the administrative burden, improve process traceability, and bolster legal security of digital interactions. The level of maturity of the dialogue on and technical support for the issues included under Pillar 1 is the most advanced of all the strategic pillars.

3.14. Pillar 2: Building the population's capacities for dynamic and equitable growth. The development of human capital and strengthening of the social safety net are essential elements for building an inclusive, resilient growth model. In this area, the Bank has set up important venues for technical dialogue through specific investment loans, technical cooperation operations, and regional programs, leading to progress on high-impact lines of

reform. In social protection, further progress is expected to be made on the design and implementation of a more targeted and adaptive system with a higher capacity to respond to shocks, as a result of the IDB Group's support for the establishment of the El Salvador social registry and resulting institutional coordination. This tool will be key to improving the allocation of public resources and setting up protection mechanisms that are better adapted to economic, social, and climate crises. In education, the IDB Group expects to support the plan for transforming the school system, strengthening and expanding the education offering, and professionalizing departmental office teams, school administrators, and teachers. These initiatives should expand access to and improve the quality and relevance of education, improve complete educational pathways in the transition from one level to another, especially in vulnerable areas, and enhance the effective inclusion of children and adolescents with disabilities or requiring reinsertion into the system. Moreover, in the health sector, the IDB Group plans to support reforms to make the system more efficient and sustainable, including through the development of a national asset management policy and a master plan for investments in health. These measures will seek to improve planning, optimize resources, and enhance the system's capacity to respond to extreme climate and health events. Another potential line of support for key reforms is the Bank's backing of the design and implementation of the National Registry of Persons with Disabilities and the incorporation of the international classification of functioning in the Ministry of Health information systems. These reforms are expected to help reduce structural inequalities, strengthen the social fabric, and increase opportunities for the socioeconomic development and well-being of the Salvadoran population.

- 3.15. Pillar 3: Fostering a competitive private sector.** El Salvador needs to strengthen conditions conducive to private-sector development in order to stimulate economic growth, create quality jobs, revitalize investment, and foster innovation. In this area, the IDB Group has been supporting the country in identifying key reforms through various investment and technical cooperation programs. Notably, El Salvador could benefit from IDB Group support to help it move forward on an agenda of reforms intended to improve the regulatory environment in the production sphere, lower barriers to investment, and expand access to financing. This agenda is based on a solid prior track record of collaboration among the IDB, IDB Invest, and IDB Lab, which has involved strengthening the Regulatory Improvement Office, developing the Tourism Satellite Account and the National Tourism Plan, supporting the design and implementation of measures to promote the simplification of procedures, and preparation of various regulatory reviews in strategic sectors like agroindustry and financial services. The reforms that have been provisionally identified for potential Bank support include implementation of the updated Law on Free-Trade Zones and the Investment and Exports Promotion Act, whose objective is to help promote national and foreign investment.
- 3.16.** In addition, the Bank could back reforms to enhance land-use planning, another aspect that has been identified as key to facilitating investment. In the mobility and transportation sphere, the IDB Group is considering support for reforms like the new Mobility and Road Safety Law and regulations on the use of electric and hybrid vehicles as part of a comprehensive sustainable mobility agenda. Likewise, it could support interventions in the financial sector designed to strengthen the financial stability framework, evaluate the Law on Usury, and back measures to expand access to formal financial services, especially for MSMEs, women, and the rural population.
- 3.17. Environmental resilience and sustainability for sustainable economic growth.** El Salvador's vulnerability to natural disasters calls for coordinated, multisector action. The IDB will support reforms and initiatives to build institutional and community resilience and bolster environmental sustainability. Accordingly, it could support the development of key instruments like the National Climate Change Adaptation Plan and the development of a fiscal framework providing for evaluation of natural disaster risks. It could also support the design and implementation of climate vulnerability regulations in public investment projects, and will promote legal reforms that strengthen the post-disaster recovery planning frameworks. It will

also support implementation of the Electricity Sector Digitalization Roadmap and the National Strategy for Electric Mobility. Lastly, the Bank may also provide technical cooperation support for implementation of water resource management reforms, including the updating of the General Law on Water Resources and its regulations and the institutional strengthening of the National Water and Sewer Authority (ANDA). These actions will make it possible to consolidate a more resilient infrastructure and more effective environmental management, directly impacting the country's economic growth.

D. FLAGSHIP REGIONAL PROGRAMS

3.18. The Country Strategy with El Salvador 2025-2029 aligns with the three pillars of the América en el Centro program:

1. Productivity and economic integration; 2. Climate adaptation and resilience; and 3. Social development of young people. The interventions to improve productive infrastructure, facilitate trade, and enhance the business climate, envisaged under the third pillar of the Country Strategy, are included in the first pillar of the América en el Centro program. Likewise, the actions to strengthen fiscal management and modernize the tax administration under the first pillar of the Country Strategy are aligned with the first and second pillars of the América en el Centro program, as they contribute to financial sustainability and resilience in the face of macroeconomic and climate challenges. Lastly, the initiatives to strengthen the education system, expand technical training, strengthen digital skills, and improve job placement for young people under the second pillar of the Country Strategy align with the third pillar of the América en el Centro program, which supports youth employment and social inclusion.

E. STRATEGIC PARTNERSHIPS

3.19. Pillar 1: Supporting fiscal sustainability and modernization of the public sector.

The IDB Group is one of El Salvador's main development partners and will work in strategic partnerships to strengthen fiscal management and modernize the public administration. To improve the country's macroeconomic and fiscal sustainability, the IDB Group maintains a close dialogue with the IMF and World Bank, especially regarding the IMF's Extended Fund Facility technical agreement, which addresses macroeconomic challenges and reinforces governance in public management, with the objective of spurring the growth and resilience of the Salvadoran economy. Specifically, the agreement aims to improve the primary balance, rationalize spending, and bolster the efficiency and solidity of the fiscal management framework. The Country Strategy clearly aligns with El Salvador's commitments under the agreement with the IMF, facilitating the complementarity of the two institutions. In addition, the IDB Group will coordinate with the Economic Commission for Latin America and the Caribbean (ECLAC), the United Nations Population Fund, and the United States Census Bureau on further strengthening El Salvador's institutional capacity and the digital transformation of the public sector, promoting best practices in statistics and information-gathering through the existing portfolio operations.

3.20. As for digital connectivity and the modernization of public services,

the IDB Group will continue to work with the European Union and Korean development agencies (Korea Trust Funds) to improve the digital infrastructure, cybersecurity, and access to technology in key institutions like schools and healthcare centers. The IDB Group will also explore synergies with the European Union to cofinance initiatives in digitalization and modernization of the electricity sector.

3.21. Pillar 2: Building the population's capacities for dynamic and equitable growth.

With a view to improving the quality of education and expanding professional training, the IDB will strengthen its partnerships with the European Union, World Bank, and Global Partnership for

Education, to finance education programs and the development of data infrastructure in El Salvador. In the employment sphere, the IDB Group will boost digital transformation and the inclusion of independent and informal workers through the IDB Lab program “Workertech El Salvador,” in collaboration with the European Union.³⁶

3.22. In the health sector, the IDB will promote primary care and digital health in coordination with the World Bank and the Pan American Health Organization. It will also work with the World Food Programme on projects to strengthen the tourism sector, like the Gastro Lab Project. In water and sanitation, the IDB Group will hold a coordination dialogue with the World Bank to improve technical standardization and strengthen the National Water and Sewer Authority (ANDA). To foster social protection, the IDB Group will coordinate efforts with the Food and Agriculture Organization of the United Nations and the World Bank on food security and the design of an adaptive social protection system that will respond to crises and external shocks.

3.23. Pillar 3: Fostering a competitive private sector. The IDB will work with the World Bank, European Investment Bank, and Central American Bank for Economic Integration (CABEI) to improve El Salvador’s production infrastructure and urban mobility in the San Salvador metropolitan area. In access to financing, it will seek to bolster coverage for MSMEs with support from the European Investment Bank and IDB Invest, the latter of which will continue working with the local financial system to design appropriate solutions to this end. IDB Invest will also pursue new alliances with private development partners to increase investment in energy efficiency and alternative energies, as well as in other productive activities. In addition, El Salvador’s agreement with the IMF also aims to strengthen the financial system, while facilitating greater financial inclusion of households and MSMEs. This all falls under Pillar 3, which is why the IDB Group is working with the IMF in this sphere.

3.24. To enhance cybersecurity and youth employability, the IDB, through IDB Lab, will implement the CIBERLAMARR program with support from the European Union, with the goal of creating job opportunities in the technology sector and improving digital security in small businesses and medium-sized enterprises. Through IDB Invest, and in collaboration with the International Finance Corporation and responsAbility, the IDB Group has also promoted El Salvador’s first social bond with a gender perspective.

3.25. In trade and integration, the IDB will continue to facilitate regional logistics and customs modernization, coordinating efforts with the European Union and other multilateral stakeholders to strengthen access to international markets and business competitiveness. In collaboration with the financial system and other private development partners, IDB Invest will continue to provide financing for foreign trade and the production chains.

³⁶ WorkerTech: How technology can improve emerging Jobs in Latin America and the Caribbean. <https://publications.iadb.org/en/workertech-how-technology-can-improve-emerging-jobs-latin-america-and-caribbean>



IV. CONSIDERATIONS FOR IMPLEMENTATION AND CAPACITY-BUILDING

A. KNOWLEDGE

4.1 The IDB Group will continue to complement its strategic work in the prioritized pillars and crosscutting areas with an academic and operational knowledge agenda. Based on its review of the knowledge products in El Salvador, the IDB Group identified key opportunities for strengthening decision-making and improving the effectiveness of interventions, including: (i) measurement of the socioeconomic impact of the investments in infrastructure and public policies, which will make it possible to evaluate the efficiency of the expenditure and its contribution to sustainable development; (ii) analysis of agricultural productivity and policies, which will help make the sector more competitive and optimize resource allocation, while contributing to food security; (iii) studies on access to and the use of financial services, to foster the financial inclusion of vulnerable populations and promote private-sector development; (iv) evaluations of the impact of energy subsidies and their relationship to fiscal sustainability, which will facilitate the transition to more efficient and equitable models of energy sector financing; (v) research on digitalization and telecommunications, focused on expanding connectivity and enhancing productivity through technological innovation; (vi) studies on education and the development of job skills, with an emphasis on improving the quality of education, expanding technical and professional training, and improving the match between the education offering and labor market needs; and (vii) analysis of the innovation deficit in productive and public sectors, identifying structural barriers and opportunities to foster the adoption of new technologies, the development of innovative enterprises, and investment in research and development. These studies will serve as a foundation for developing evidence-based policies, to ensure the strategies implemented have a positive, sustainable impact. This knowledge agenda is meant to support development of effective, sustainable public policies aligned with the country's and region's strategic priorities, and will help strengthen the business environment, economic resilience, and the modernization of the public sector. To bolster its operational utility, this agenda will be closely aligned with the three strategic pillars defined in this Strategy. For instance, the studies on fiscal sustainability, energy subsidies, and agricultural productivity will inform the Pillar 1 actions; the analyses of education and job skills will strengthen Pillar 2; and the work on financial inclusion, value chains, innovation, and digitalization will support the Pillar 3 interventions. This alignment will help maximize the value added of the knowledge products, facilitating evidence-based decision-making and enhancing the effectiveness of the interventions throughout the strategic cycle.

B. MONITORING AND EVALUATION CAPACITY

4.2 El Salvador has progressively been moving forward on building regulatory and institutional frameworks to comprehensively coordinate planning, monitoring and evaluation, and budgeting processes. El Salvador does currently have legislation in place on budget management, which is led by the Ministry of Finance, pursuant to Decree 517 and the Organic Law on State Financial Administration. Although the Ministry of Finance is

responsible for the budgeting system, there is a need to strengthen a broader institutional framework with a view to identifying how the activities financed by the budget contribute—in terms of inputs and spending—to achievement of the government's priority targets. Most of the country's public institutions produce institutional strategic plans and annual work plans as inputs for the budget process, under the Ministry of Finance's leadership. Furthermore, targets and indicators are monitored chiefly from a budgetary perspective, primarily focused on controlling expenditure. Significant progress has been made as ministries in the social sector are incorporating planning and monitoring and evaluation tools to enhance budget formulation and make programs more effective, especially those targeting children and adolescents. One notable example is the implementation of the single identity document from birth. The Ministry of Health has taken major steps forward on integrating planning and evaluation through digital transformation processes and by aligning health policies with established objectives. Likewise, the Office of the Presidential Commissioner is strengthening the monitoring and evaluation mechanisms with a view to aligning interventions and strategic indicators. This information is systematized and is periodically submitted to the Office of the President by means of a dashboard to facilitate progress monitoring.

4.3 Opportunities exist to further the progress made in public spending effectiveness. In order to gradually move forward with implementing methodologies and tools and refining solution options, the IDB Group will continue to support management of the Comprehensive Public Policy for Children and Adolescents. This assistance would involve building the necessary methodological foundations and tools to provide the policy methodologies and tools for planning and monitoring and evaluation linked to the public budget, thereby ensuring its effectiveness and the efficiency of the respective expenditures. More specifically, this assistance would consist of the: (i) design and implementation of a compliance unit in the social sector to spearhead the policy through methodologies for prioritization, value chains, the construction and monitoring of indicators, and a dashboard tool to ensure alignment and coordinated execution of all interventions; and (ii) Ministry of Finance design and implementation of a program budgeting methodology to ensure that the programs, projects, and interventions are organized in an integrated way with the public budget, and include defined objectives and outcomes.

C. COUNTRY FIDUCIARY SYSTEMS

4.4 Financial management systems. The IDB Group will continue to support the General Directorate of Government Accounting with: (i) the process of implementing the International Public Sector Accounting Standards in central government institutions, national hospitals, decentralized noncommercial entities, and municipalities, through its access to specialized knowledge on international best practices in the area; and (ii) participation in knowledge-transfer events held by national and regional technical dialogue networks (Government Accounting Forum of Latin America, CReCER, etc.). The IDB Group will continue to support the Ministry of Finance in its participation in the Results-Based Budgeting Network for Latin America and the Caribbean and the Government Treasury Forum of Latin America (FOTEGAL). It will also support the Audit Court of the Republic in participating in knowledge-transfer events held by regional technical dialogue networks on external control issues (Organization of Latin American and Caribbean Supreme Audit Institutions, International Organization of Supreme Audit Institutions, CReCER, etc.), and in strengthening the State Assets Unit.

4.5 Public procurement system. The IDB Group will provide support for strengthening the country system for public procurement, in line with international standards. The potential areas for support include: (i) development of a roadmap for implementing a strategic plan for professionalizing and certifying procurement units led by the National Procurement Office (DINAC); (ii) promotion of sustainable public procurement, through recommendations for operation of the National Law on Sustainable Public Procurement of February 2023;

(iii) development proposal for implementing the public procurement of innovation, as established in article 35 of the Public Procurement Law in effect as of January 2023, through the design of the regulations on the public procurement of innovation, preparation of operational guidelines, training of Audit Court of the Republic auditors and procurement officers, and execution of pilot projects; (iv) evaluation of expenditure quality in public procurement and contracting, with policy recommendations to encourage efficiency and competition, and a proposal for the institutional strengthening of the DINAC; and (v) strengthening of the country systems for public procurement, to include the systemic, comprehensive development of El Salvador's electronic system for public procurement, COMPRASAL.

D. EMERGENCY RESPONSE

4.6 The Country Strategy 2025-2029 incorporates a crosscutting, selective approach to strengthen El Salvador's preparedness for and response to emergencies, prioritizing key sectors that will bolster the country's resilience and adaptability to natural events, climate impacts, and health crises. The interventions will be focused in areas where the IDB Group can provide comprehensive, sustainable solutions closely coordinated with national priorities.

4.7 Strengthening of the country's fiscal sustainability and response capacity. Through Pillar 1, the IDB Group will support financial planning and enhanced budget management for timely emergency responses, and strengthening of the State Assets Unit. The IDB Group will promote the use of innovative financial instruments and the integration of risk analysis tools, to help preserve the country's macroeconomic stability and maintain the fiscal space needed to address contingencies without affecting priority social policies.

4.8 Reinforce social resilience and the continuity of essential services. Pillar 2 will focus on the expansion of resilient basic services like healthcare, education, water, and the social safety net, especially in communities that are more exposed to extreme events. The IDB Group will promote the strengthening of capacities to ensure the continuity of these services in emergencies, and will promote adaptive solutions that protect livelihoods and guarantee inclusive recovery.

4.9 Productive investments with an adaptation approach and operational continuity. Under Pillar 3, the IDB Group will prioritize interventions in transportation, energy, technology, and logistics infrastructure, with climate resilience criteria. It will promote projects that guarantee the connectivity and operation of key sectors during and after extreme events, and thereby contribute to a quick recovery of economic activity. The interventions will be focused on strategic areas that will drive growth, improve competitiveness, speed up job creation, and promote greater territorial integration.

4.10 This emergency response strategy aims to strengthen the country's structural resilience through a number of selective, coordinated, and sustainable actions. The IDB Group will continue to support the country with financial instruments, technical solutions, and strategic partnerships to allow it to anticipate risks, mitigate their impacts, and make progress on more inclusive, sustainable development adapted to future challenges.

E. RISK EVALUATION

EXECUTION

- a. **Risk:** The limited market availability of skilled labor can pose a challenge in terms of achieving the expected outcomes and meeting the implementation timelines, potentially leading to cost overruns and affecting progress on the strategy. In addition, the still incipient level of private-sector participation in smaller-scale projects could limit competition and slow execution. These challenges are also reflected in the institutional capacity for managing permits, licenses, and procurement processes, which could increase the risk of delays in, or adjustments to the scope of, the projects.
- b. **Mitigation measures:** The following mitigation measures are proposed: (i) a comprehensive approach that includes specific training for skills development, the establishment of strategic partnerships with organizations from diverse sectors, and improved dissemination of job opportunities to attract skilled professionals, with a view to creating economies of scale by leveraging the talent profiles used in previous experiences; (ii) encouragement of project grouping to generate economies of scale, adopt long-term agreements with companies, and optimize hiring processes to improve efficiency and secure greater private-sector participation; (iii) establishment of multisector working groups to streamline the processes of obtaining permits and licenses, facilitating greater coordination among agencies; and (iv) generation of knowledge on the operational context and main execution challenges in order to plan for and mitigate risks starting in the early project stages.

SOCIOENVIRONMENTAL

- c. **Risk:** The increased frequency and intensity of natural disasters could interrupt project implementation, adversely affect the population, put pressure on the public finances, and impede progress on the Country Strategy objectives. Natural disasters adversely impact sectors like agriculture, sustainable tourism, water and sanitation, energy, and infrastructure, as evidenced by the loss in soil fertility, erosion, sedimentation of rivers and reservoirs, and landslides. Furthermore, extreme events like droughts and floods can alter the critical infrastructure, delay construction works, and lead to displacement of the population.
- d. **Mitigation measures:** The following mitigation measures are proposed: (i) include disaster risk management in project design and implementation, ensuring adaptation and mitigation measures are incorporated at an early stage; (ii) strengthen infrastructure resilience through sustainable construction strategies, the inclusion of nature-based solutions, and the use of innovative materials; (iii) develop monitoring tools like the Blue Spot Analysis model to identify critical vulnerability points in projects; (iv) promote ongoing dialogue and encourage the inclusion of local authorities in decision-making; (v) strengthen the capacities of the executing agencies and professional specialized in environmental and social issues, pursuant to the policies of multilateral organizations; and (vi) implement sustainable agricultural practices.

MACROECONOMIC

- e. **Risk:** The macroeconomic context and the commitments taken on under the agreement with the IMF could give rise to certain adjustments in programmatic priorities and the pace of implementation of the country strategy. In particular, the efforts to strengthen fiscal sustainability could require careful planning of public investment to preserve the impact of

the interventions. In this scenario, technical and financial assistance to support the country's development objectives becomes essential.

f. **Mitigation measures:** The following mitigation measures are proposed: (i) maintain close monitoring of macroeconomic trends and of implementation of the agreement with the IMF, deepening technical assistance for fiscal sustainability with the aim of bolstering economic growth; (ii) move forward on the development of early warning indicators to anticipate potential changes in the macroeconomic climate with implications for the strategy; (iii) reinforce coordination with international organizations and key private-sector stakeholders to expand financing sources and promote the sustainability of the interventions; and (iv) promote venues for dialogue with the economic authorities to exchange views on the role of public investment in economic growth and social well-being.

ANNEX I - RESULTS MATRIX³⁷

Government priority	Priority area	Strategic objective	Expected outcome	Indicator	Baseline	Source
Fiscal discipline and sustainability of public finances, reengineering of the State, and e-government	Support fiscal sustainability and the strengthening and modernization of the public sector	Strengthen management of the public finances	Improve budget management	Medium-term fiscal frameworks published simultaneously with the General Budget of the State in the past 4 years	0% (2024)	Ministry of Finance
		Modernize the tax administration	Increase the use of ICT in the tax administration system	Spending on ICT / Operating expenses (as a %) (Tax administration)	0.3 (2022)	International Survey on Revenue Administration
		Support the technological transformation of the public sector	Make progress on providing e-government solutions	E-government Development Index	0.5988 (2024)	United Nations E-governance Knowledgebase
		Enhance the quality of the national regulatory framework	Update strategic regulatory frameworks*	Number of updated strategic regulatory frameworks	0 (2025)	Official Gazette of the Republic of El Salvador
Human capital development	Build the population's capacities for dynamic, equitable growth	Improve the quality of education, expand technical and vocational training, and develop employability skills	Improve math and reading skills among young people	PISA test results in mathematics and writing	El Salvador scores: 343 (mathematics), 365 (reading), and 373 (science); 2022	OECD
			Foster complete educational pathways	Secondary school completion rate	43%	Ministry of Education, Science, and Technology

 Legacy portfolio

 New approvals

 Legacy portfolio and new approvals

³⁷ The Country Strategy 2025-2029 four-year cycle limits the availability of data for assessing the impacts nationwide. The evidence from the legacy portfolio will also be partial.

Government priority	Priority area	Strategic objective	Expected outcome	Indicator	Baseline	Source
			Increase supply of and demand for technical and professional programs	Number of graduates of formal vocational training programs	4,476 higher technical education graduates (2023)	Ministry of Education - higher education statistics
			Increase access to specialized medical services	Number of consultations conducted in noncommunicable disease specialties over the total number of consultations requested in noncommunicable disease specialties	50%	Ministry of Health
		Expand access to healthcare, water and sanitation, and housing	Expand coverage of adequate water and sanitation services in rural areas	Percentage of households located in rural areas that have access to drinking water	42%	ECLAC
				Percentage of households located in rural areas that have access to sanitation services	0%	ECLAC
			Improve housing conditions among vulnerable populations	Percentage of households in housing with a qualitative housing deficit ³⁸	50.7% of households (2023)	Multipurpose Household Survey, National Office of Statistics and Censuses
Improve the productive infrastructure, digital transformation, and business, trade, and investment climates.	Foster a competitive private sector	Improve the productive infrastructure	Improve the airport infrastructure (for passengers)	Average waiting time for checked luggage	Approximately 30 minutes (2023)	Autonomous Port Authority Executive Commission (CEPA)
			Improve urban mobility	Average vehicle speed in the San Salvador metropolitan area during rush hour	15.5 km/h (2023)	San Salvador metropolitan area transportation model (morning rush hour) and Google

 Legacy portfolio

 New approvals

 Legacy portfolio and new approvals

³⁸ Including a lack of at least one of the following: materials, basic services, or structural conditions.

Government priority	Priority area	Strategic objective	Expected outcome	Indicator	Baseline	Source
				Percentage of the automotive fleet that is public transportation/total vehicle fleet	0.51% (2025)	https://observatoriovial.fonat.gob.sv/parque-vehicular
				Increase the coverage and sustainability of the electricity system	97.7% (2024)	Central Reserve Bank
				Percentage of the electricity matrix based on renewables (%)	56.9% (2023)	Source: General Superintendence of Electricity and Telecommunications (SIGET), 2025
			Expand internet connectivity	Fixed broadband subscriptions (per 100 persons)	10.6 (2022)	World Bank
			Improve access to financing	Increase digital payments	10% (2021)	The Global Findex Database 2021 (World Bank)
			Improve private-sector access to financial products	Percentage of companies with a bank line of credit or loan	55.2% (2023)	Enterprise Surveys, World Bank
			Facilitate trade, logistics, and regional integration	Strengthen infrastructure and border trade facilitation services	2.4 (2022)	World Bank Logistics Performance Index
			Improve access to markets and increase the volume of foreign trade	Customs clearance efficiency (1=low to 5=high)	126 (2023)	Development indicators matrix – IDB Invest
			Improve access to markets and increase the volume of foreign trade	International trade flows fostered by IDB Invest (US\$ millions)	126 (2023)	Development indicators matrix – IDB Invest

 Legacy portfolio

 New approvals

 Legacy portfolio and new approvals

ANNEX II – ALIGNMENT OF PORTFOLIO AND INDICATIVE PROGRAM 2025 - 2026

Priority area	Strategic objective	Portfolio alignment	Indicative program 2025-2026
Support fiscal sustainability and the strengthening and modernization of the public sector	Strengthen management of public finances	ES-L1153-Program to Support Macroeconomic and Fiscal Sustainability in El Salvador (Approved 2025)	
	Modernize the tax administration	ES-L1153-Program to Support Macroeconomic and Fiscal Sustainability in El Salvador (Approved 2025)	
	Support the technological transformation of the public sector	ES-L1128-Program for Modernization of the Statistics System of El Salvador ES-L1145-Social Digital Connectivity Program ES-L1168-Program for the Development of El Salvador's Data Infrastructure	
	Enhance the quality of the national regulatory framework	ES-L1151-Program to Support the Recovery and Expansion of the Tourism Sector in El Salvador	
Build the population's capacities for dynamic, equitable growth	Improve the quality of education and expand vocational training	ES-L1139-Improving Education Coverage and Quality: Birth, Growth, Learning ES-L1135-Strengthening the Climate Resilience of El Salvador's Coffee Forests ES-L1151-Program to Support the Recovery and Expansion of the Tourism Sector in El Salvador ES-L1167, ES-J0001, ES-J0002 Program for Complete Educational Trajectories and Their Climate Change Resilience (Approved 2025)	
	Expand access to healthcare, water and sanitation, and housing	ES-L1095-Integrated Health Program II ES-L1146-Low-income Housing Finance Program ES-L1152-Program to Strengthen the Water and Sanitation Sector in El Salvador ES-L1159-Shock-responsive Social Protection in El Salvador ES-L1160-Smart and Comprehensive Health Program ES-L1165-Financing Program for Sustainable, Inclusive, Low-income Housing	ES-L1171-Flood Control Support Program in the Metropolitan Area of San Salvador (2025)

Priority area	Strategic objective	Portfolio alignment	Indicative program 2025-2026
Foster a competitive private sector	Improve the productive infrastructure	ES-L1135-Strengthening the Climate Resilience of El Salvador's Coffee Forests ES-L1145-Social Digital Connectivity Program ES-L1155-Rural Roads Program ES-L1158-Universal Energy Access Program in El Salvador ES-L1164-Support Program for the Urban Mobility System of the Metropolitan Area of San Salvador - First Operation (Approved 2025)	ES-L1172-Comprehensive Program for Urban Regeneration and Sustainable Revitalization of the Municipal Markets in Santa Tecla and La Libertad (2025) ES-L1173-El Salvador International Airport Modernization Program (2025)
	Improve the business climate and access to financing	ES-L1132-Global Credit Loan for the Financing of Energy Efficiency in Small and Medium-sized Enterprises ES-L1156-Access to Credit Program for Micro, Small, and Medium-sized Enterprises (MSMEs) ES-L1162-Financing Program for Energy Efficiency and Renewable Energies in Salvadoran MSMEs ES-L1163-Program to Support the Technological and Digital Transformation of MSMEs in El Salvador	
	Facilitate trade, logistics, and regional integration	ES-L1157-Trade Facilitation and Port Operation Modernization Program in El Salvador	ES-L1173-El Salvador International Airport Modernization Program (2025)

ANNEX III – COUNTRY SYSTEMS MATRIX

Strategic objective	Expected outcome	Indicator	Unit of measure	Baseline	Baseline year	Main objective	Time distribution
Increased use of country systems	Revalidate the use of the country's publicity system	Active portfolio that uses the information subsystem	% of active portfolio	0%	2024	100%	2026
	Increase use of shopping subsystem	Active portfolio that uses the shopping subsystem	% of active portfolio	0%	2024	70%	At the end of the Country Strategy period
	Increase use of the individual consultant subsystem	Active portfolio that uses the individual consultant subsystem	% of active portfolio	0%	2024	50%	At the end of the Country Strategy period
Strengthening of country systems	Implementation of action plan resulting from the MAPS assessment (*)	Conclusion of the assessment process and implementation of the action plan	% progress on plan implementation	0%	2024	50%	At the end of the Country Strategy period
	Provide support for launch of the COMPRASAL information system	Consulting support services	Consulting services	0	2025	1	At the end of the Country Strategy period
	Support the National Procurement Office (DINAC) in implementing regulatory and technological plans to strengthen the State's capacity	Consulting support services	Consulting services	0	2025	1	At the end of the Country Strategy period
	Implementation of the action plan to adopt the International Public Sector Accounting Standards	Progress on implementation of the action plan	% progress on plan implementation	60%	2024	100%	At the end of the Country Strategy period

ANNEX IV – ESTIMATED LENDING FRAMEWORK

The Country Strategy 2025-2029 sovereign guaranteed lending framework establishes approvals of between US\$2.9 billion and US\$3.52 billion during its effective period. This range has been set based on the strategic dialogue with the authorities and the operational dialogue held by the sectors. Beyond the growth of the investment loan portfolio, the IDB Group also expects to use financing instruments to help support the government's reform agenda, the country's macroeconomic stability, and the sustainability of public finances. To enhance the impact of the outcomes, the IDB Group will also look to leverage resources through strategic partnerships. The IDB Invest and IDB Lab approvals will be added to these resources. On average, these approvals totaled US\$142 million and US\$1.8 million, respectively, during the Country Strategy 2021-2024 period. In addition to the Bank's positioning as a strategic partner in providing technical support and fostering knowledge-generation in the country, the expected approvals and corresponding disbursements will make it possible for the Bank to maintain a share of between 8.8% and 11.9% of the total debt and between 21.6% and 25.7% of the country's total foreign debt.

US\$ millions	Country Strategy 2021-2024						Country Strategy 2025-2029 (Low scenario)						Country Strategy 2025-2029 (High scenario)					
	2020	2021	2022	2023	2024	Total	2025	2026	2027	2028	2029	Total	2025	2026	2027	2028	2029	Total
Approvals	870	179	333	293	641	2,316	1,130	525	350	495	400	2,900	1,130	530	590	525	435	3,210
Disbursements	289	124	189	188	208	998	640	284	406	418	486	2,234	640	506	592	619	559	2,916
Repayment (principal)	186	158	154	168	180	846	183	211	218	228	192	1,032	183	211	218	228	192	1,032
Net capital flows	103	-34	35	20	28	152	457	73	188	190	294	1,202	457	295	374	391	367	1,884
Subscriptions and contributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest and fee payments	57	56	58	73	83	327	98	118	125	127	131	599	98	123	139	150	166	676
Net cash flow	46	-90	-23	-53	-55	-175	359	-45	63	63	163	603	359	172	235	241	201	1,208
IDB debt	2,321	2,287	2,322	2,343	2,371		2,828	2,901	3,089	3,279	3,573		2,828	3,123	3,497	3,888	4,255	
Multilateral debt	4,299	5,052	5,511	6,131	6,216		7,709	8,028	9,014	10,444	11,667		7,709	8,028	9,014	10,444	11,667	
Foreign debt	10,740	11,441	11,117	11,505	12,922		13,065	13,385	14,371	15,801	16,582		13,065	13,385	14,371	15,801	16,582	
Total debt	23,766	25,545	26,661	28,805	30,851		32,191	33,189	34,040	35,078	35,895		32,191	33,189	34,040	35,078	35,895	
IDB debt/multilateral debt (%)	53.99%	45.27%	42.13%	38.22%	38.14%		36.68%	36.14%	34.27%	31.40%	30.62%		36.68%	38.90%	38.80%	37.23%	36.47%	
IDB debt/foreign debt (%)	21.61%	19.99%	20.89%	20.37%	18.35%		21.65%	21.67%	21.49%	20.75%	21.55%		21.65%	23.33%	24.33%	24.61%	25.66%	
IDB debt/total debt (%)	9.77%	8.95%	8.71%	8.13%	7.69%		8.79%	8.74%	9.07%	9.35%	9.95%		8.79%	9.41%	10.27%	11.08%	11.85%	

Source: FINSOL, preliminary estimates based on data from the Ministry of Finance, IMF, and IDB team projections.

The sources for the 2021-2024 data are as follows (in parentheses): IDB debt (IDB), multilateral debt (Ministry of Finance), foreign debt (Ministry of Finance), and total debt (IMF).

ANNEX V

DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Executive Directors approved the Development Effectiveness Framework (GN-2489) to enhance the availability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the multilateral development banks in the "Good Practice Standards" document.</p>	
<p>COUNTRY STRATEGY: El Salvador</p>	
<p>STRATEGIC ALIGNMENT</p> <p>Refers to the extent to which the country strategy's objectives are consistent with the country's development challenges and the government's priorities.</p>	
<p>EFFECTIVENESS</p> <p>This measures the extent to which the country strategy is likely to achieve its objectives, through an examination of three dimensions: (i) the quality of the diagnostic assessments on which the Bank's actions in each area of work are based; (ii) the quality of the results matrix for the country strategy; (iii) the use and strengthening of the country systems.</p>	
Dimensions of effectiveness	
I. Country diagnostic assessment - Country Development Challenges (CDC)*	Yes/No
- Is comprehensive/holistic/complete	Yes
- Clearly identifies the main development challenges	Yes
- Presents the main development challenges based on empirical evidence	Yes
II. Diagnostic assessment of the priority areas	%
- Clearly identifies and dimensions the specific constraints and challenges for the priority areas based on empirical evidence	100%
- Clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- Provides policy recommendations	100%
III. Results Matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected outcomes are directly related to the main challenges identified in the diagnostic assessment	90%
- The indicators are outcome indicators and are SMART	90%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The country strategy has vertical logic	Yes

* This analysis includes any potential diagnostic document used to inform.

** The results matrix comprises indicators that are meaningful to, and capture progress toward, the expected outcomes, which stem from the strategic objectives.