ove Office of Evaluation and Oversight


Country Program Evaluation

# El Salvador

## 2015-2019

IDB    IDB | Invest

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# Country Program Evaluation

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Inter-American Development Bank

IDB Invest

# Table of Contents

# Preface

This country program evaluation (CPE) is the fourth independent evaluation of the Bank's country program with El Salvador conducted by the Office of Evaluation and Oversight (OVE). The first (document RE-307) covered the 1992 2004 period, which was characterized by rapid economic growth in the wake of the peace accords that put an end to the country's long civil war. The second OVE evaluation (document RE-360) covered the 2004-2008 period, marked by the limited results of the ambitious reform program embarked upon in the late 1990s, as well as the political polarization that began to affect the Bank's program with the country. The third OVE evaluation (document RE-474-3) covered the 2009-2014 period, including the global financial crisis and El Salvador's path toward economic recovery in a context of fiscal deterioration.

According to the Protocol for Country Program Evaluation (document RE-348-3), the main goal of the CPE is "to provide information on Bank performance at the country level that is credible and useful and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance." Accordingly, this CPE, which analyzes the IDB Group's work with the country in the 2015-2019 period, is intended to serve as an input for the preparation of a new country strategy with El Salvador, now being prepared by IDB Group Management.

The evaluation is structured into four chapters plus supplementary annexes. Chapter I analyzes the general context in the country in the framework of the IDB Group's work. Chapter II examines the IDB Group's program in 2015-2019, with particular reference to the relevance of the country strategy and program, as well as the efficiency of their implementation. Chapter III evaluates the degree of progress toward the strategic objectives set out by the Bank in the country strategy for the 2015-2019 period and the IDB Group's contribution toward the achievement and sustainability of those objectives. Chapter IV presents conclusions and recommendations. Lastly, the annexes provide a breakdown of the portfolio and analyses in support of the CPE, including on the extent to which IDB Group Management implemented the recommendations from the previous CPE (document RE-474-3).

# Acknowledgements

This document was prepared by a team consisting of Alejandro Soriano, Team Leader; Roni Szwedzki, Galia Rabchinsky, Lina Pedraza, Marcela Magaña, and Xiomara Rojas-Asqui, under the general supervision of Ivory Yong-Prötzel, OVE Director.

# Abbreviations

| | |
|---|---|
| **AMSS** | San Salvador Metropolitan Area |
| **BANDESAL** | Development Bank of El Salvador |
| **bps** | Basis points (each equal to 0.01%) |
| **BRT** | Bus Rapid Transit |
| **CABEI** | Central American Bank for Economic Integration |
| **CCLIP** | Conditional credit line for investment projects |
| **CID** | IDB Country Department Central America, Haiti, Panama, Mexico, and the Dominican Republic |
| **CNE** | National Energy Board |
| **COMPRASAL** | El Salvador's electronic public procurement system |
| **CPE** | Country program evaluation |
| **DEG** | German Development Finance Institution |
| **DPR** | Diversified Payment Right |
| **ECLAC** | Economic Commission for Latin America and the Caribbean |
| **ECOSF** | Community family health teams |
| **EHPM** | Multipurpose Household Survey |
| **FAOSTAT** | United Nations Food and Agriculture Organization Corporate and Statistical Database |
| **FDI** | Foreign direct investment |
| **FMO** | Netherlands Development Finance Company |
| **FOVIAL** | Road Conservation Fund |
| **GDP** | Gross domestic product |
| **ICT** | Information and communication technology |
| **IFC** | International Finance Corporation |
| **IGR** | Investment grant |
| **IMF** | International Monetary Fund |

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|---|---|
| **JICA** | Japan International Cooperation Agency |
| **KfW** | Germany's Reconstruction Credit Institute |
| **MCC** | Millennium Challenge Corporation |
| **MH** | Ministry of Finance |
| **MINSAL** | Ministry of Health |
| **MITUR** | Ministry of Tourism |
| **MOPT** | Ministry of Public Works and Transportation |
| **MSMEs** | Micro, small, and medium-sized companies |
| **MW** | Megawatt |
| **NINI** | Person who neither works nor studies |
| **NSG** | Nonsovereign guaranteed |
| **ODA** | Official development assistance |
| **OMR** | Regulatory Improvement Office |
| **OVE** | Office of Evaluation and Oversight |
| **PAPTN** | Plan of the Alliance for Prosperity in the Northern Triangle |
| **PBL** | Policy-based loan |
| **PBP** | Programmatic policy-based loan |
| **PPP** | Public-private partnership |
| **PRIDES** | Integrated Health Program |
| **PROESA** | El Salvador's Export and Investment Promotion Agency |
| **RIIS** | Comprehensive Integrated Healthcare Service Networks System |
| **SIGET** | General Superintendence of Electricity and Communications |
| **SITRAMSS** | San Salvador Metropolitan Area Integrated Transportation System |
| **SMEs** | Small and medium-sized enterprises |
| **SNS** | National Health System |
| **TFFP** | Trade Finance Facilitation Program |
| **UCSF** | Community family health unit |
| **USAID** | United States Agency for International Development |
| **VMVDU** | Deputy Ministry of Housing and Urban Development |
| **WB** | World Bank |

# Executive Summary

Decades after achieving peace, El Salvador has made real social strides but continues to face challenges in reaching consensus as to the path toward sustainable growth. The country strategy period was marked by a critical event of technical default, laying bare the difficulty of reaching consensus and affecting the expectations of economic actors. El Salvador suffers from a chronic deficit in investment, making domestic consumption the linchpin of a comparatively small and uncompetitive economy with a large trade deficit that creates few formal job opportunities and motivates approximately 1% of the population to emigrate each year. Furthermore, the country continues to have high insecurity levels, which represent an economic and social scourge. Despite low growth, El Salvador has achieved remarkable social gains, becoming one of the most egalitarian countries in Latin America and the Caribbean. Nonetheless, it faces persistent challenges in terms of social equity, gender, and vulnerability to natural disasters.

The IDB Group's country strategy with El Salvador identified seven highly relevant strategic objectives in three priority areas: human capital, logistics infrastructure, and public finance. However, the country strategy's results matrix had weaknesses. The strategic objectives (hereinafter, the objectives) were aligned with the urgent need to address the country's fiscal situation—indicated as a recommendation in the previous CPE—and preserve the continuity of long-term investments in human capital and logistics infrastructure, which the IDB was already working on in the health and transportation sectors. These strategic objectives were in part consistent with the objectives laid out by the Government of El Salvador in its Five-year Development Plan 2014 2019: A Productive, Educated, and Safe El Salvador. The country strategy also set out the expected role of the private sector windows, three crosscutting issues, and four dialogue areas. At the aggregate level, the strategy's results matrix had weaknesses, including the lack of targets and the fact that in the case of the selected indicators, there were difficulties in collecting data to track progress, the indicators did not correspond very closely with those set out in the national monitoring and evaluation systems, and they only partially covered the planned actions and the program that was actually executed.

These objectives were aligned with country needs, but it is not clear which criteria were used to select them nor why significant portions of the program as executed were poorly aligned with them. It was to be expected that the IDB would respond to the country's requests and that this would influence the way in which priorities were set within the larger set of needs. However, the country strategy set strategic objectives in sectors such as education, where the IDB neither had, nor achieved, the presence needed to support them during the period under evaluation, while neglecting to set objectives in key sectors like productive development. Moreover, two major areas of the program executed during the evaluation period were poorly aligned with the strategic objectives of the country strategy: (i) most of the legacy portfolio, which had undisbursed balances equivalent to nearly half of the approvals planned for the period; and (ii) the private windows, which were expected to play various roles, including in two priority areas, but which in practice concentrated on operations that had no connection to any of the objectives in the country strategy.

The country strategy also failed to provide a consistently clear description of the division of labor with other donors. El Salvador received five times more official development assistance (ODA) than did the region of Latin America and the Caribbean as a whole. The country strategy mapped out the areas of support from the major donors but did not consistently explain how the work with these agencies would be coordinated. For example, the country strategy described its synergies with the Plan of the Alliance for Prosperity in the Northern Triangle (a multinational plan to combat the causes of migration) but failed to consider Fomilenio II (the other major international initiative of the period, which had begun to be designed three years prior to the country strategy), even though this initiative had adopted education objectives resembling the IDB's, supporting them through US$100 million in concessional resources that reduced the space available for the IDB. Fomilenio II also supported productive development objectives that were relevant for the country.

Despite a decline in sovereign guaranteed loan approvals during the period, which was consistent with the approach taken by other institutions, the IDB Group remained the largest donor of resources in support of the country's development among the international financial community. With US$845 million in sovereign guaranteed approvals (seven loan operations) in the 2015 2019 period, the IDB's program landed between the two indicative financial scenarios projected in the country strategy. Despite a significant drop in the number of approvals with respect to the preceding period (19 loan operations), the IDB continued to be the main source of financing for the country's development, partly because other partners also scaled back their activities. At the same time, the share of nonsovereign guaranteed (NSG) support increased with respect to prior periods; with US$320 million (18 loan operations), IDB Invest was the international financial institution with the largest volume and number of nonsovereign guaranteed loan operations in El Salvador. IDB Invest succeeded in adapting to the rising country risk, focusing on operations with solid counterparts, using innovative structures, and attracting cofinancing.

The blend of instruments that were used supported most of the stated objectives. The program stood out for the prominent role of policy-based loans (PBLs), which accounted for two thirds of sovereign guaranteed approvals for the period and were used in conjunction with a series of technical cooperation operations to mobilize reforms in public finance. While the remainder of the objectives were left with less sovereign guaranteed space, investment focused on the second phases of programs. Technical cooperation operations were used strategically in areas with lower availability of loan proceeds to strengthen the capacities of key counterparts, support loan execution, and generate consensus. Meanwhile, although nonsovereign guaranteed support grew to one fourth of the portfolio, it was concentrated on support to small and medium-sized enterprises (SMEs) and energy, which were not country strategy objectives. The expected nonsovereign guaranteed support in the areas of human capital and logistics did not materialize, partly due to lack of consensus on the use of public-private partnerships (PPPs).

With consensus proving elusive, delays in legislative ratification of loan operations continue to be a challenge. The IDB's Country Office in El Salvador actively worked to streamline the loan ratification process, promoting the benefits of the loan operations and proactively cancelling part of the portfolio to convey the importance of adhering to schedules. Except in areas such as the fiscal sector, where consensus was successfully forged with the support of technical cooperation operations, ratification times continued to be long, averaging three years (twice as long as in the previous period). This affected the cost and relevance of operations at the time of their execution, generating high commission fees for the country and unrecoverable costs for the IDB (on the order of US$2 million) in the case of cancelled operations. In fact, close to half of the legacy balances were cancelled under operations that had on average been approved 2.9 years earlier.

There were some setbacks with execution times and costs, which were partially mitigated by the heavy use of PBLs and the continuation of large operations with experienced executing agencies, while the strong presence of the IDB's Country Office in El Salvador had a mixed effect. The delays in the expected timeframes for implementation continued to be extensive, and the costs of implementation rose. However, the heavy use of PBLs accelerated the pace of disbursements. In addition, preparation times and costs for investment loan operations improved due to the continuation of operations with experienced executing agencies and an increase in the average size of operations. The Country Office in El Salvador has specialists in most sectors, and clients value their support, which constitutes an advantage for the IDB over other donors. However, its staffing level seems high in relation to the portfolio and does not cover some operations in execution.

Human capital objectives were unevenly addressed: in health, the IDB helped to consolidate a country vision of the healthcare service model and promoted actions for its sustainability, while in education, the country strategy set ambitious objectives that did not end up receiving substantive support. In health, the country strategy proposed continuing to support the efforts of the Government of El Salvador to consolidate the network of services through better management and broader coverage at all levels of care. This was done through the Integrated Health Program (PRIDES), which was then underway, and through the approval of a second phase with nearly three times the resources, which is only now starting execution. PRIDES I helped to develop a primary care model that increased access to first-level healthcare services, achieving broader coverage for the new healthcare model and improved results in reproductive and maternal and child health. In addition, with IDB assistance, execution was boosted through capacity-building and an agreement by which the Ministry of Health would ensure the sustainability of the program through its budget. The strategic objectives in health were also supported by the second phase of the Mesoamerica Health Initiative, which achieved 9 of its 11 targets. By contrast, in education, the IDB worked only through technical cooperation operations that supported isolated tools, such as strengthening partial information systems, while most of the areas of work proposed under the country strategy did not receive any support.

The logistics infrastructure objectives were primarily supported through road operations, but regional integration and the development of a sustainability strategy received limited support. At the start of the period, there were four operations with the Ministry of Public Works and Transportation (MOPT), but the largest was cancelled due to delays in ratification. The other operations executed the scheduled works despite difficulties in the procurement of land and the selection of contractors. The IDB's contribution focused on continuing to support the MOPT as a key counterpart in road infrastructure through a series of loan operations and technical cooperation projects to build capacity. However, this continuity is at risk because new loan operations were not approved during the period and a medium- and long-term financing strategy for the maintenance, rehabilitation, and construction of road infrastructure was not developed as envisaged in the country strategy. Regarding regional integration, the IDB concentrated on the fiscal aspect of customs collections rather than on infrastructure and services, but implementation is not yet very far along. The two indicators proposed in the country strategy are expected to have deteriorated: the proportion of paved roads in good or very good condition worsened, and delays at customs are estimated to have lengthened.

With regard to public finance objectives, the IDB took the lead in supporting the country, helping to create consensus and lock in reforms for fiscal sustainability. Since the start of the period, the fiscal reforms were being supported through technical cooperation operations, which were critically important for examining options and helping to generate the necessary consensus, and through an investment loan aimed at strengthening the tax administration. This support was reinforced through the powerful incentive of a programmatic series that had been planned for approval since 2015 but which only materialized in 2018, when the country consolidated a series of fiscal sustainability laws and reforms. Phase I was approved in 2018, and phase II in 2019. The indicators for the programmatic series show the expected progress, except in public procurement and in effectiveness of public investment through greater use of a project prioritization arrangement based on the expected social returns of the projects (which was one of the objectives set out in the country strategy).

There was a notable increase in nonsovereign guaranteed support, primarily targeting SMEs and the consolidation of a renewable energy market, for which the IDB has been promoting regulatory improvements since the previous country strategy. The funding for SMEs was mostly channeled through financial intermediaries, since IDB Invest discontinued its direct lending during the period. For credit risk reasons, the new approvals with financial intermediaries were concentrated at the largest banks in the country. In a context of rising country risk, these large financial intermediaries experienced restrictions, which IDB Invest was able to mitigate using innovative instruments and attracting cofinancing. In general, the results achieved through financial intermediaries posed attribution challenges, particularly in the case of large financial intermediaries with portfolios of which the IDB Group financing accounted for a negligible portion. Nonsovereign guaranteed support also contributed to the consolidation of the renewable energy market through a progressive sequence of operations, helping to create rules for public-private interaction in the sector. This nonsovereign guaranteed support was supplemented by sovereign guaranteed loan operations with the Development Bank of El Salvador (BANDESAL) to finance micro, small, and medium sized enterprises (MSMEs) and, more recently, to promote energy efficiency in SMEs.

Execution generated lessons learned, including the importance of promoting consensus, of offering technical support in project management, and of providing mechanisms to promote sustainability. In several areas, the IDB played a key role promoting consensus through technical studies that helped to solidify reforms. Equally important was the IDB's approach of expediting technical studies and designs to mitigate delays in ratification of loan operations. In addition, the IDB's work with execution units enabled effective use of technical cooperation operations and loan operation components to strengthen technical and project management capacities. Meanwhile, sustainability was uneven. In some projects, the completed works were delivered to municipios that had no budget for their proper maintenance or where the agreements required for their proper operation had not been formalized. However, in areas such as health, the IDB performed a key role both in creating the conditions needed to absorb and institutionalize the projects within the country's budget structure and in providing training.

Based on these findings, OVE has four recommendations for IDB Group Management:

1. **Set clear criteria for prioritizing country strategy objectives, taking into account the potential contribution of the legacy portfolio, IDB Invest, and synergies with other donors.** The constraints imposed by the country's limited fiscal space could well persist into the 2020-2024 period, so selecting the strategic objectives for the new country strategy will require a rigorous process of setting priorities that seeks to maximize the use of program resources. The legacy portfolio and private sector operations may constitute valuable inputs towards fulfilling the selected objectives. Likewise, it will be more important than ever to promote effective coordination with other donors. Accordingly, OVE recommends: (i) setting clear and explicit criteria for prioritizing the country strategy objectives; and (ii) taking into account the contribution of the legacy portfolio and IDB Invest, as well as possible synergies with other donors with similar objectives.

2. **Foster the strategic use of technical cooperation operations to promote a national consensus designed to bring about the resolution of key development issues and the legislative ratification of loans.** The technical default that took place in 2017 and the lengthy ratification times for loans illustrate a larger problem for the country: difficulty in reaching consensus. In this context, the IDB's technical cooperation operations have been shown to play a key role in achieving consensus on controversial issues such as fiscal reform, which in turn expedites legislative ratification of the associated

loans. Accordingly, OVE recommends: (i) continuing to make strategic use of technical cooperation operations to promote the availability of objective analyses of key issues for the country's development that can be used by the parties to reach consensus; and (ii) facilitating technical dialogue on the operations during the legislative ratification process.

3. **Promote mechanisms to reinforce the sustainability of investments supported by the IDB.** Despite visible improvements over the period, the sustainability of the reviewed operations could not be guaranteed as planned. In a context of fiscal constraints, there were (unanticipated) challenges in terms of allocating the budgetary resources needed to give continuity to these services as well as to maintain the investments made. The sustainability challenges were not limited to the financial sphere but rather also encompass the need to consolidate State policies (to which the preceding recommendation contributes), agreements (including at the subnational level), and coordination and maintenance mechanisms. Accordingly, OVE recommends: (i) considering, in the design stage of country program operations, the future budgetary implications for the country, e.g. infrastructure maintenance or additional staff; (ii) promoting agreements between the stakeholders involved, seeking to lock in their commitment to sustainability; and (iii) advancing the country's interest in strengthening institutional mechanisms responsible for the maintenance of investments.

4. **Reinforce the results framework of the IDB Group's new country strategy with El Salvador, so that it may guide the program to be executed, promote learning, and achieve greater use of country monitoring and evaluation systems, helping to strengthen them.** OVE found that the results framework of the country strategy made it difficult to collect data and that the selected indicators only partially covered the expected actions and the program as executed. This made it hard to use the framework to guide implementation, evaluate outcomes, and generate lessons applicable across the program. Accordingly, OVE recommends: (i) seeking greater alignment between the results framework of the new country strategy, its objectives, and the lines of action of the program to be executed; (ii) promoting the use of this framework as one of the tools to monitor the effectiveness of the program and extract lessons; and (iii) supporting the country in efforts to strengthen its monitoring and evaluation system, so that system indicators can serve as the basis for the results framework of the country strategy and the operations and can be updated in a timely and reliable manner.

# 01

# Context

1.1 El Salvador is a geographically small but demographically active country. With 6.6 million inhabitants living in an area five times smaller than that of Honduras or Guatemala—the two countries that share its borders—El Salvador has the third highest population density in Latin America and the Caribbean.[1] As a result of internal migration, close to two thirds of its population resides in cities.[2] Meanwhile, following decades of external migration, which have mobilized an average of 1% of the population each year, approximately one out of every four Salvadorans now lives abroad.

1.2 The country is distinguished by its strong ties to the United States of America and considerable access to official development assistance (ODA), which it receives at levels five times greater than the average for Latin America and the Caribbean. The United States is the destination market for half of El Salvador's exports of goods and accounts for one third of the country's foreign direct investment (FDI) inflows. In addition, 90% of Salvadoran emigrants live in the United States, where they generate income equivalent to three times the gross domestic product (GDP) of El Salvador and send family remittances to El Salvador in an amount equivalent to almost 20% of the country's GDP, far exceeding the average of 1.5% of GDP for the Latin American and Caribbean region. These remittances benefit people in the lowest income deciles, who use them primarily to purchase consumer goods.[3] Between 2000 and 2017, annual ODA for El Salvador averaged 1.15% of GDP, compared with 0.22% of GDP for Latin America and the Caribbean as a whole. The United States accounted for close to half of this ODA, primarily through the investment and reform compacts under the Millennium Challenge Corporation (MCC): Fomilenio I in 2006 for US$461 million and Fomilenio II in 2014 for US$277 million.[4]

1.3 El Salvador is also characterized by the orthodoxy of its reforms, which gave the country a relative macroeconomic stability but did not manage to keep fiscal deficits at bay or public debt from accumulating during the period. In the 1990s the country adopted an extensive menu of reforms, including vigorous trade and

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1 El Salvador is the smallest country in Latin America. With 307 inhabitants per square kilometer, it is surpassed in population density only by Barbados and Haiti (which have 664 and 398 inhabitants per square kilometer, respectively).

2 In all, 60.2% of El Salvador's population lives in urban areas. The largest of these—the San Salvador Metropolitan Area (AMSS)—has expanded its urban footprint fourfold since 1971, while most of the country's 262 municipios have diminished in size. (2018). Multipurpose Household Survey (EHPM).

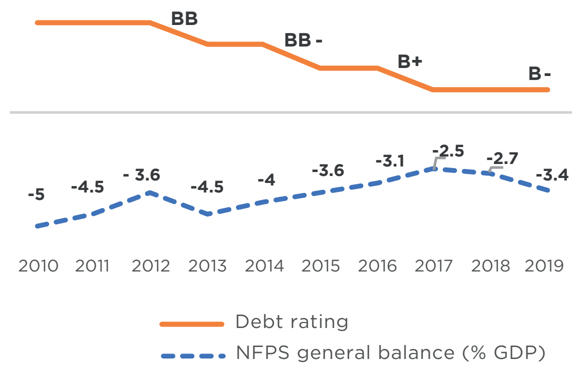
3 Hazell R. Cid Marroquin and Clemente A. Blanco (2018). *Reporte de Resultados de la Primera Encuesta Nacional de Acceso a Servicios Financieros en El Salvador 2016.* Central Reserve Bank.

4 Since 2016, the international community has also supported the Alliance for Prosperity in the Northern Triangle—jointly with Guatemala and Honduras—to improve opportunities in areas with high rates of emigration.

financial liberalization. In 2001 the U.S. dollar became the country's legal currency, which led to low inflation rates (1.26% on average from 2009 to 2018). Starting in 1997, El Salvador gained access to financing in the international markets, but the fiscal deficits lingering on from the 2008 global crisis led to a steady deterioration of the country's sovereign debt rating (Figure 1.1). The nonfinancial public sector (NFPS) debt grew from 39.3% of GDP in 2007 to 60.9% of GDP in 2016, and 23% of this debt (14% of GDP) was incurred to cover gaps in the social security system.

**Figure 1.1**
**Overall fiscal debt and sovereign debt rating**

*Source:* Fitch Ratings and IMF Article IV 2019




1.4 Decades after achieving peace, the country continues to face challenges in reaching consensus, affecting the expectations of economic agents. The 1992 peace accords put an end to more than 10 years of civil war, creating an institutional design that favored legislative representation by minority parties. The legislature was granted broad powers, including itemized ratification of public debt. The lack of a legislative majority for the governing party (Figure 1.2) contributed to a critical event of technical default in 2017. The subsequent lowering of the country's rating ceiling raised the cost of borrowing for the entire economy by some 100 basis points (bps), a much higher amount than that which had given rise to the dispute in the legislature.[5]

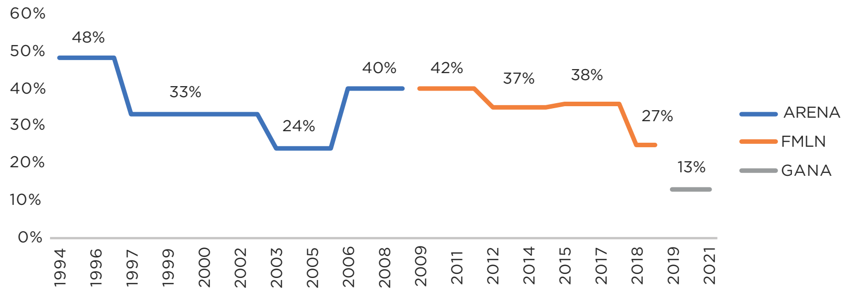
1.5 El Salvador suffers from a chronic deficit in investment. Between 2009 and 2017, gross capital formation averaged 16%, compared with 22% in Latin America and the Caribbean. Over the same period, FDI averaged 1.5% of GDP and was thus three times lower than the average of 4.9% for Central America. In contrast, Salvadoran business groups are net investors (in amounts equivalent to 0.3% of the country's GDP) in the rest of Central America, especially in services. The global competitiveness index of the World Economic

5 On 7 April 2017, the Government of El Salvador was required to pay US$28.8 million to pension funds in interest, but the resources were not provided for in the budget. The support of two thirds of the legislature was required to authorize a debt issue, but the opposition made it contingent on a commitment to reduce the fiscal deficit, giving rise to a delay in payment which Fitch interpreted as restricted default.

Forum (2018) ranked El Salvador in 98th place out of 140 countries, citing challenges that included crime, corruption, and government bureaucracy, in addition to political fragmentation.

**Figure 1.2**
**Governing party and its representation in the Assembly**

*Source:* Electoral Supreme Court




1.6 Numerous international treaties, which initially granted preferential terms, are still in place in a country that now imports almost twice as much as it exports. El Salvador is an open economy with numerous trade agreements. However, most of the related trade balances are negative for El Salvador.[6] The resulting trade deficit (21% of GDP in 2018) exposes the country to the volatility of international prices for many commodities.[7] Since 1998, El Salvador has also been promoting a system of free zones that accounted for as much as 60% of exports in 2003 but declined to 19% in 2017. In addition, these exports have little local value added and create few productive linkages.

1.7 Thus, domestic consumption has become the linchpin of a comparatively small, low-growth economy. Since 1990, El Salvador has gone from an agricultural economy to an economy focused on nontradables. In the last decade, agriculture accounted for only 6.4% of GDP and 19.5% of total employment. Coffee, the country's most important agricultural item, suffered a crisis from which it has yet to recover.[8] The economy is small, with a GDP about 20 times smaller than that of the Washington, D.C., metropolitan area in the United States, where most Salvadoran emigrants reside. Anchored in domestic consumption, real GDP growth between 2010 and 2017 averaged 2.5%, half the average for Central America (4.7%).

6 Given the low capital accumulation, the exportable supply is of low complexity: 36 products account for more than 75% of exported value and only 338 businesses export more than US$ 1 million a year. (2018). *Informe Estadístico de Comercio Exterior de Bienes de El Salvador.* Central Reserve Bank.

7 Family remittances were the main source of trade deficit financing, covering 86% of the trade deficit. (2019). *BIDeconomics El Salvador: Impulsando el crecimiento inclusivo y sostenible*. IDB.

8 Over five consecutive years, El Salvador has faced heavy droughts with negative effects on agricultural crops, primarily coffee. In 2016, coffee accounted for 10% of agricultural production, 12% of exports, and 30% of agricultural salaried employment. (2016). FAOSTAT.

1.8 Despite its low growth rate, the country made significant social strides. Poverty decreased significantly. After climbing to 40% in 2011 due to the financial crisis and rising international food prices, it dropped to 29.2% in 2017. Life expectancy at birth reached 74 years in 2017. Between 2010 and 2017, infant mortality (children under 1) per 1,000 live births went from 17 to 13, and mortality for children under 5 went from 19 to 15.[9] Over the same period, the illiteracy rate fell to 10% at the national level.[10]

1.9 El Salvador became one of the most egalitarian countries in Latin America and the Caribbean but continues to have significant income, rural, and gender equality challenges. Between 2007 and 2016, the Gini coefficient decreased by almost five percentage points, driven by a rise in income for the poorest 20% of the population as a result of migration and remittances.[11] However, there are persistent gaps between income quintiles in various aspects of human development, including secondary school graduation rates. In addition, poverty has a distinct rural bias: 34% of the rural population lives in poverty, compared with 25% of the urban population. Gender inequality continues to be a challenge: in 2018, the country was ranked in 20th place (out of 24 countries analyzed in Latin America and the Caribbean)[12] in the global gender gap index.

1.10 Access to work is informal in terms of both the precariousness of employment and the low skill level of workers. The economy creates jobs that for the most part (71%) are short-term or informal. This limits not only the return on human capital investment but also the contributions to the social security system, and the resulting deficit has an impact on public expenditure.[13] With an average schooling rate of 6.9 years, the workforce is unskilled. Educational quality is low, with rigidities in teacher training and technology use. Among Latin American and Caribbean countries, El Salvador has the third largest proportion of persons aged 15 to 24 who neither study nor work

9 Teenage pregnancy (in 2014, 19.2% of 15-to-19-year-old Salvadoran women were pregnant or had at least one child) is associated with higher maternal and child mortality rates.

10 Source for this and the following paragraphs. (2017) World Development Indicators. World Bank.

11 In 2017, 21.7% of Salvadoran households received remittances. The fact that the changes in the poverty and inequality indicators have taken place in a context of low growth suggests that they result from emigration patterns (which reduce the number of persons) and remittances (which raise the income of family members who remain in the country), rather than from structural changes. (2017). EHPM.

12 The global gender gap index covers four areas: health, education, economy, and policy. (2018). The Global Gender Gap Report. World Economic Forum. The country has the highest femicide rate in the region: 10.2 per 100,000 women, followed by 5.1 in Honduras. (2017). ECLAC.

13 Without reforms, the pension deficit would go from 1.4% of GDP in 2018 to 1.9% in 2024. (2018). IMF.

(NINIs). In the lowest income quintile—which receives a larger proportion of remittances—almost half of the young people are NINIs, compared with 13% in the highest income quintile.

1.11 Despite recent improvements, crime remains a major economic and social scourge. The homicide rate dropped from 103 per 100,000 inhabitants in 2015 to 60 in 2017. Nevertheless, the cost of crime and violence is still equivalent to 6% of GDP, twice the region's average.[14] The costs of insecurity, partly associated with organized crime, disproportionately affect the poorest people and the smallest businesses.[15] Successive punitive control policies have led to an overcrowded prison system and the world's second highest incarceration rate.[16]

1.12 The gaps in infrastructure and access to credit undermine the country's competitiveness and productive development. Despite advances in coverage, El Salvador is ranked 90th (out of 140 countries) in the infrastructure pillar by the World Economic Forum, lagging in areas such as efficiency of ports and quality of logistics and customs services. The costs associated with infrastructure gaps and administrative barriers—estimated at 18.3% of total export value—not only erode the competitiveness of the exportable supply[17] but also limit the development of sectors with potential, such as tourism. The financial system is stable, but in 2017 only 22% of enterprises had access to credit for production oriented activities.

1.13 There are also gaps and inequalities in public services. In 2017, 95.5% of urban households had access to piped water, compared with 76.5% of rural households. With regard to housing, in addition to the quantitative deficits, close to one third of households have qualitative deficits.[18] In contrast, electricity coverage expanded from 92% in 2010 to 99% in 2016, and the proportion of energy generated from renewable sources went from 57% in 2014 to

14 As well as the direct costs of security, the figure includes indirect costs, such as those of medical bills or lost production. "The Costs of Crime and Violence," Jaitman et al., IDB, 2017.

15 (2011). Crime and Violence in Central America: a Development Challenge. World Bank.

16 In 2018, El Salvador had 614 prisoners per 100,000 inhabitants, second only the United States, with 655 per 100,000 inhabitants. World Prison Brief, 2018.

17 *La Unión Aduanera Centroamericana: Probables Impactos Económicos y Sociales.* (2018). ECLAC.

18 UN-Habitat, 2013. Request for information No. 062-2018, El Salvador Transparency Portal.

70% in 2018.[19] However, social spending (which includes energy subsidies) is still inefficient and poorly targeted, limiting the fiscal headroom for investment.[20]

1.14 Lastly, the country faces a high risk of natural disasters, aggravated by a deteriorating ecosystem. El Salvador is the world's 14th most exposed and vulnerable country to natural disasters.[21] Since 1980, the country has suffered about 1.63 disasters per year, with annual losses averaging 1% of GDP. The expansion of informal urban settlements and the deforestation of 80% of the country's land exacerbate this vulnerability. More than 95% of domestic wastewater is dumped untreated, and solid waste management is inadequate. Furthermore, the country has a water crisis, with rising demand and a legal framework that impairs rational water use.

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19 Electricity costs remain a challenge: in 2017, the average retail price was US$17.4 cents per KWh, similar to Panama's (17.3), but higher than in Costa Rica (14.7) and Honduras (14.5). (2017). ECLAC.

20 It is estimated that in 2015, the country had targeting inefficiencies in social spending equivalent to 1.6% of GDP, primarily in energy subsidies. Izquierdo, Pessino, and Vuletin. (2018). IDB.

21 United Nations University Institute for the Environment and Human Security and Bündnis Entwicklung Hilft, World Risk Report 2018.

# 02

# The IDB Group in El Salvador, 2015-2019

## A. Relevance of the IDB Group's country strategy with El Salvador

2.1 In its country strategy with El Salvador for the 2015 2019 period, the IDB identified three priority areas for its work with the country: human capital, logistic infrastructure, and public finance. According to the country strategy, the strategic approach would consist in *"supporting the [Salvadoran] government's efforts to create conditions for broad-based economic growth." To this end, the IDB would support initiatives in three priority areas: "(i) improve the quality of spending on human capital; (ii) improve logistics infrastructure; and (iii) strengthen public finance."*

2.2 The strategic objectives identified in the country strategy were established exclusively with respect to these priority areas (Figure 2.1). The strategic objectives were: (i) improve the quality of education; (ii) consolidate the network of healthcare services; (iii) improve the connectivity between development hubs and markets; (iv) promote Mesoamerican regional integration; (v) strengthen fiscal sustainability; (vi) improve the efficiency and equity of public spending; and (vii) improve the effectiveness of public investment. The country strategy established a results framework with 14 indicators (Table II.1, Annex), but, as described in the next chapter, close to half of these indicators involve metrics of limited availability and collection frequency.

2.3 In addition, the country strategy set out the role of the nonsovereign guaranteed windows, as well as three crosscutting issues and four areas of dialogue (Table 2.1). The private sector windows of the IDB Group would "participate in these priority areas [particularly in human capital and logistics infrastructure] by complementing [the Bank's interventions and [additionally] providing financing for small and medium-sized enterprises, financial inclusion, and renewable energies, where a portfolio and experience already exist[ed]." The three crosscutting issues that the country strategy expected to include in the country program were: (i) a focus on reducing vulnerability to natural disasters, climate change adaptation, and regional integration in logistics infrastructure and in public investment in general; (ii) greater empowerment of women and gender equality in education and health, with particular attention to reproductive health and teenage pregnancy; and (iii) mitigating the causes of migration in the context of a major regional plan supported by the Bank (PAPTN). The country strategy also envisaged four areas of dialogue with the country: (i) citizen security, in the context of the Safe El Salvador Plan, recently agreed upon by the country's various constituencies; (ii) energy, to support the country's competitiveness, around which a dialogue will be pursued with the authorities on regulatory aspects, regional integration, and coverage of the power grid; (iii) land management, urban development, and housing, whereby activities will be pursued, jointly with the authorities, to identify the best methods of intervention, using lessons learned in the sector and maintaining complementarity of actions with PAPTN as a priority; and (iv) productive development, with an emphasis on financial inclusion, productive use of remittances, and the business climate, in order to generate private investment and public-private partnerships, for which dialogue will continue to be pursued and consensus built between the public and private sectors.

### Table 2.1. Priorities under the country strategy for 2015-2019

| **Priority areas – Strategic objectives** |
|---|
| 1. Improve the quality of spending on human capital<br>(i) Improve the quality of education<br>(ii) Consolidate the health services network<br>2. Improve the logistics infrastructure<br>(iii) Improve the connectivity between development hubs and markets by strengthening infrastructure and transportation services<br>(iv) Promote/facilitate Mesoamerican regional integration<br>3. Strengthen public finance<br>(v) Strengthen fiscal sustainability<br>(vi) Improve the efficiency and equity of public spending<br>(vii) Improve the effectiveness of public investments by prioritizing projects with high social returns |
| **Role of nonsovereign guaranteed (NSG) windows** |
| 1. **NSG** participation in the priority areas of human capital and logistics infrastructure.<br>2. **NSG** financing for productive development: SMEs, financial inclusion, and renewable energy. |
| **Crosscutting issues** |
| 1. **Reducing vulnerability** to natural disasters, climate change adaptation, and regional integration in logistics infrastructure and in strategic planning for public investment.<br>2. **Empowerment of women and gender equality** in the areas of education and health, with particular attention to reproductive health and teenage pregnancy.<br>3. Mitigation of **causes for migration** in the framework of the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN). |
| **Dialogue areas** |
| 1. **Citizen security**<br>2. **Energy**<br>3. **Land management, urban development, and housing**<br>4. **Productive development** |

*Source:* OVE, based on the IDB country strategy with El Salvador (2015 2019), document GN-2828.

2.3 In addition, the country strategy set out the role of the nonsovereign guaranteed windows, as well as three crosscutting issues and four areas of dialogue (Table 2.1). The private sector windows of the IDB Group would *"participate in these priority areas [particularly in human capital and logistics infrastructure] by complementing [the Bank's interventions and [additionally] providing financing for small and medium-sized enterprises, financial inclusion, and renewable energies, where a portfolio and experience already exist[ed]."* The three crosscutting issues that the country strategy expected to include in the country program were: (i) a focus on reducing vulnerability to natural disasters, climate change adaptation, and regional integration in logistics infrastructure and in public investment in general; (ii) greater empowerment of women and gender equality in education and health, with particular attention to reproductive health and teenage pregnancy; and (iii) mitigating the causes of migration in the context of a major regional plan supported by the Bank (PAPTN). The country strategy also envisaged four areas of dialogue with the country: (i) citizen security, in the context of the Safe El Salvador Plan, recently agreed upon by the country's various constituencies; (ii) energy, to support the country's competitiveness, around which a dialogue will be pursued with the authorities on regulatory aspects, regional integration, and coverage of the power grid; (iii) land management, urban development, and housing, whereby activities will be pursued, jointly with the authorities, to identify the best methods of intervention, using lessons learned in the sector and maintaining complementarity of actions with PAPTN as a priority; and (iv) productive development, with an emphasis on financial inclusion, productive use of remittances, and the business climate, in order to generate private investment and public-private partnerships, for which dialogue will continue to be pursued and consensus built between the public and private sectors.

2.4 The strategic objectives of the country strategy were partly aligned with the objectives set out by the Government of El Salvador in its Five-year Development Plan 2014-2019: A Productive, Educated, and Safe El Salvador, with a reduced emphasis on two of three key issues highlighted in the development plan, namely productivity and citizen security. The country's priorities are reflected in five-year plans for each period of government. The Five year Development Plan 2014-2019 had three pillars: (i) a Productive El Salvador, which aimed to stimulate productive employment through a sustained economic growth model supported by the boosting of strategic sectors that provide greater value added, within a stable macroeconomic environment; (ii) an Educated El Salvador, which sought greater inclusion and social equity in education; and (iii) a Safe El Salvador, which addressed the scourge of insecurity.[22] The country strategy was in line with the development plan in prioritizing education but diverged from it in not identifying productivity and citizen security as priority areas. However, the country strategy indirectly prioritized productivity by promoting improvements in

22 The Five-year Development Plan was wide-ranging, setting targets in health, housing, migration, SMEs, and integration in addition to these three broad issues. During the period, the Government of El Salvador also adopted two broad strategic initiatives that identified priorities supplementing those set out in the development plan: the Justice, Security, and Coexistence Policy (2014-2019), with annual funding of US$420 million for five years for prevention, jobs, and education; and the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN), a joint initiative by El Salvador, Guatemala, and Honduras with strong international support to tackle the structural challenges that incentivize emigration: low productivity, human capital, security, and transparency.

logistics infrastructure and possibly even by focusing on public finance (in view of the potential effects of public finance on business environment variables, such as fiscal pressure or interest rates).

2.5 While it was to be expected that the IDB would respond to the country's requests, the country strategy did not clearly outline the criteria for selecting priority areas and strategic objectives within the larger set of needs as recommended in the previous CPE. According to the Country Strategy Guidelines that were in effect when the country strategy was being prepared (document GN 2468-6), the strategy should "target the sector(s) or thematic area(s) [that represent] *"a limited selection from the country's multiple objectives."* To prepare the country strategy, the IDB performed an exhaustive diagnostic assessment of barriers to growth,[23] concluding that the country needed to *"increase investment [to] improve [...] productivity." According to the country strategy, this "[low] productivity partly stem[med] from the level of education and education quality"* (an issue that was prioritized), but also from *"the concentration of economic activity in sectors with limited technological innovation potential"* (issues that were not prioritized). Moreover, in the case of El Salvador, the Board of Executive Directors had endorsed an OVE recommendation from the preceding CPE that required that priorities were set based on clear criteria and attempted to tackle El Salvador's structural challenges, among which both the fiscal situation and the country's productive development figured, and continue to figure, prominently.[24]

2.6 In addition, the country strategy did not consistently explain the division of labor with other donors. The country strategy mapped out the areas of support of the major multilateral and bilateral cooperation agencies (Table II.9, Annex) but did not consistently explain how the work would be coordinated with them. For example, the country strategy described the expected interaction with the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN), one of the two major initiatives undertaken in the period with international support (Box 2.1). The country strategy contained an annex that mapped out the "*alignment [of the PAPTN] with the priority sectors and dialogue areas" and proposed that "the operations financed by the Bank target the 44 municipios prioritized in the PAPTN."* Yet, the other major initiative, Fomilenio II, which had begun to be designed three years prior to the country strategy,[25] was hardly mentioned despite its focus on education and regional

23 Using the methodology of Rodrik, Hausmann, and Velasco. Growth Diagnostics. (2015). IDB.

24 The Annex analyzes the degree of implementation of the five recommendations set out in the preceding CPE.

25 The Fomilenio II Conceptual Notes selecting its three areas of support were prepared in October 2012 and Fomilenio II was approved in August 2014. The Bank's country strategy was approved in October 2015.

integration (priority areas under the country strategy) and on productive development (a priority for the country and a dialogue area under the country strategy), affecting results in various areas (see Chapter III).

*Box 2.1. PAPTN and Fomilenio*

The PAPTN is a joint initiative of the governments of El Salvador, Guatemala, and Honduras, with strong support from the IDB. The PAPTN was aimed at mitigating the causes of migration by improving infrastructure, human capital, citizen security and institutions, access to justice, and productivity. It sought to keep the populations in their countries through a structural change designed to offer economic opportunities and transform the quality of life of the people, primarily in the regions with the highest rates of poverty, emigration, vulnerability, and insecurity. The plan was to be in effect from 2016 to 2020, with an average annual budget commitment of US$950 million by each country and of US$750 million by the United States for all three countries. The annual support provided by the United States was gradually reduced, totaling US$615 million in 2018. The IDB played an essential role in establishing the PAPTN, acting as the plan's first technical secretariat and supporting its dissemination and monitoring.

Fomilenio II is the successor of the first compact under the MCC, which seeks to improve the country's business environment and competitiveness. The first compact, for US$461 million, focused on education, public services, agricultural production, rural development, and road infrastructure, with an emphasis on the northern area of the country. In 2014, once El Salvador had achieved corruption control, civil liberties, and political rights targets, a second compact was signed, funded with US$277 million from the United States, to finance three major projects: (i) human capital, including education, to link up the supply of skills with the labor market; (ii) regulatory reform and partnerships with the private sector to facilitate doing business in El Salvador; and (iii) logistics infrastructure to lower the transportation costs of regional trade. Numerous governmental agencies associated with private export promotion were developed through Fomilenio, including El Salvador's Export and Investment Promotion Agency (PROESA) and the Regulatory Improvement Office (OMR). Fomilenio II will conclude in mid-2020 and is not subject to extensions or renewals.

2.7 Moreover, two major areas of the program executed during the evaluation period were not aligned with the strategic objectives set out in the country strategy: (i) most of the legacy portfolio; and (ii) most of the private sector operations. Undisbursed balances in the legacy portfolio were equivalent to nearly half of the approvals planned for the period. The bulk of these balances were aligned with issues identified only as dialogue areas in the new country strategy but not with its strategy objectives.[26] While a significant

26 The legacy portfolio was distributed among productive development (39%), land management, urban development, and housing (13%), and citizen security (8%). The country strategy did not set objectives in any of these areas.

portion of this legacy portfolio was subsequently cancelled, this had not been envisaged in the country strategy nor did it result in a better alignment of the remaining balances with the objectives.[27] Similarly, various roles had been envisaged for the private windows, including support for the priority areas of human capital and logistics infrastructure, but in practice these windows focused on operations unconnected to the country strategy objectives, for SMEs and energy.

2.8 The objectives in the area of public finance were highly relevant due to their alignment with the country's needs. In 2015, the country was undergoing a process of fiscal consolidation that gained in prominence during the strategy period and that the IDB supported through relevant and comprehensive objectives in expenditure improvement, revenue collection, and public investment. Despite the growing recognition of the need for fiscal reforms, only toward the end of the period did the country begin to converge toward the recommendations arising from the consultation process under IMF Article IV. Donors like the World Bank virtually halted their loan programs as they waited for this convergence to occur.

2.9 The human capital and logistics infrastructure objectives were also relevant, but in the case of education the country strategy did not clearly explain how the IDB would be able to contribute. In human capital, the country strategy identified improving the quality of spending as a priority area, which was consistent with the context of fiscal constraints that defined the period and with the needs of the country in this area. In health, the strategy set relevant objectives that gave continuity to long-term investments in a sector in which the IDB played a central role and had vast experience. In education, the objectives were equally ambitious and similarly relevant, but the country strategy did not explain how it would contribute to achieving them. The situation in education was particular because it meant that the IDB would need to resume its contributions to a sector from which it had been absent for more than a decade, the last education-related loan having been approved in 1998 and the last technical cooperation operation in 2008. In addition, Fomilenio II had set similar objectives and supported them with sizeable grants, with the potential effect of crowding out the IDB. In the priority area of logistics infrastructure, the objectives in transportation were relevant given the IDB's extensive experience in the sector and the country's needs, which were also aligned with the country strategy objectives in regional integration.

27 It should be noted that according to the current Country Strategy Guidelines (paragraph 4.17), "Although the country strategy need not detail actions to be taken, it would identify in general terms the need and scope for adjusting the active portfolio towards achievement of the country development objectives set forth in the country strategy."

## B. Relevance of the IDB Group's program with El Salvador

2.10 The program was characterized by the presence of legacy loans that were largely unaligned with the country strategy objectives. During the previous period (2010 2014), the IDB had actively renewed its portfolio following a long impasse in prior years that had hindered the legislative ratification of loan operations. A good part of the balances in this portfolio were inherited for execution during this period, including 19 sovereign guaranteed loan operations and 15 nonsovereign guaranteed loan operations, which in early 2015 had US$595 million and US$66 million in undisbursed balances, respectively (Table 2.2). Only about 40% of the balances corresponding to sovereign guaranteed operations remained aligned with the objectives of the new country strategy, primarily in the priority areas of logistics and human capital (health), as legacy balances in the priority area of public finance were not significant.

**Table 2.2. Portfolio by 2015-2019 country strategy priorities**

| 2015 2019 country strategy priorities | Sovereign guaranteed portfolio | | | | | | | | Nonsovereign guaranteed portfolio | | | | Total CPE portfolio | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Legacy[a] | | | | Approved 2015-19 | | | | Legacy[a] | | Approved 2015-19 | | | |
| | Loans | | CTs | | Loans | | CTs | | Loans | | Loans | | | |
| | # | US$M | # | US$M | # | US$M | # | US$M | # | US$M | # | US$M | # | US$M |
| **Priority areas – Strategic objectives** | | | | | | | | | | | | | | |
| Improve the quality of spending on human capital | 2 | 25 | 5 | 4.5 | 1 | 170 | 13 | 5 | - | - | - | - | 21 | 205 |
| Improve logistics infrastructure | 6 | 213 | - | - | - | - | 2 | 0.03 | - | - | - | - | 8 | 213 |
| Strengthen public finance | 1 | 1 | 8 | 1.5 | 3 | 580 | 13 | 4 | - | - | - | - | 25 | 587 |
| **Role of nonsovereign guaranteed windows and support for the private sector (SG and NSG)** | | | | | | | | | | | | | | |
| Human capital and logistics infrastructure | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| SMEs, financial inclusion, and renewable energy[b] | 2 | 200 | - | - | 1 | 20 | 2 | 2 | 15 | 66 | 18[c] | 320 | 38 | 608 |
| **Crosscutting issues (specific operations)** | | | | | | | | | | | | | | |
| Natural disasters and climate change | - | - | 3 | 1.1 | 1 | 45 | 1 | 1 | - | - | - | - | 5 | 47 |
| Empowerment of women and gender equality | 1 | 1 | 2 | 0.3 | 1 | 30 | 4 | 1 | - | - | - | - | 8 | 32 |
| Mitigation of causes of migration in the context of the PAPTN | - | - | - | - | - | - | 2 | 0.1 | - | - | - | - | 2 | 0.1 |
| **Dialogue areas** | | | | | | | | | | | | | | |
| Citizen security | 1 | 45 | 1 | 0 | - | - | - | - | - | - | - | - | 2 | 45 |
| Energy | - | - | 2 | 0.3 | - | - | 1 | 0.2 | - | - | - | - | 3 | 0.7 |
| Land management, urban development, and housing | 5 | 80 | 6 | 1.2 | - | - | 5 | 2 | - | - | - | - | 16 | 83 |
| Productive development | 1 | 30 | 1 | 0 | - | - | 2 | 0.5 | - | - | - | - | 4 | 30.5 |
| **Total** | **19** | **595** | **28** | **9** | **7** | **845** | **45** | **16** | **15** | **66** | **18** | **320** | **132** | **1,851** |

a. Undisbursed balances as of 1 January 2015. b. Includes supplementary sovereign guaranteed financing through the Development Bank of El Salvador (BANDESAL) aimed at private financial intermediaries, as well as a liquidity line for the Central Reserve Bank, also aimed at supporting financial intermediaries. c. The American Industrial Park operation (2019) includes a loan component and a guarantee component.

*Source*: OVE, based on the IDB Group's data warehouse.

2.11 The active cancellation of almost half of the balances did not succeed in improving the alignment of the legacy portfolio with the strategic objectives.[28] Although not envisaged in the country strategy, at the start of the period legacy operations were cancelled that had been approved on average 2.9 years earlier and had not yet been ratified.[29] Except for the cancellation of the Mesoamerican Pacific Corridor Improvement Program (which was aligned with the regional integration objective and interacted with another tranche supported by Fomilenio), the cancellations were largely unaligned with the objectives of the country strategy. The other cancellations included a loan for job training, a specific operation on the issue of gender (the second phase of Ciudad Mujer, approved in 2015), and a loan for productive innovation. However, because the Corridor operation was for a much larger amount, just 32% of the legacy porfolio ended up being aligned with the objectives.

2.12 The program also included the sovereign guaranteed approvals for the 2015 2019 period (seven loan operations for US$845 million), which for the most part were relevant to the objectives. Nearly 90% of the sovereign guaranteed financing approved in the period supported country strategy objectives: two large policy-based loans (PBLs) to support fiscal sustainability and another in human capital (specifically, in health). The remainder of the approvals did not align with the country strategy objectives, instead promoting crosscutting issues through specific operations (on gender and climate change) or aligning with the role that the country strategy expected the private sector to perform (through a supplementary sovereign guaranteed operation to support SMEs and renewable energy). In addition, close to US$16 million was approved in 45 technical cooperation operations and investment grants; more than half of these approvals supported country strategy objectives, including education, where there were no loan operations, while the remainder lined up with dialogue areas and crosscutting issues.

28 In total, close to 30% of the sovereign guaranteed program was cancelled. Aside from the direct consequences for the composition of the portfolio, this had financial implications, preventing the country from incurring commitment fees that would have been charged retroactively had the loans been ratified, but at the same time preventing the Bank from recovering the costs of preparing these operations.

29 At this time there were active communications with the legislature on the timeframes, which having been exceeded, resulted in cancelations. The evidence shows that some ratification timeframes have become shorter following these cancelations and that the counterparts are aware of the consequences.

2.13 In addition, the IDB's program included the nonsovereign guaranteed operations approved in the period (17 loan operations for US$315.4 million, as well as a loan for US$3.5 million that is expected to be approved before year-end 2019),[30] which fit into the role envisaged in the country strategy but did not provide the desired support for the human capital and logistics infrastructure objectives. The nonsovereign guaranteed portfolio approved during the period continued to focus on financial intermediaries and additionally ventured into renewable energy.[31] While this fit the role envisaged in the country strategy, none of these operations supported the strategic objectives. In fact, the only aspect of the role expected of the private sector windows that could have supported these objectives (in human capital and logistics infrastructure) did not materialize, in part due to a lack of consensus in the country for implementing public-private partnership (PPP) arrangements.

2.14 In short, the implemented program supported the country strategy objectives, but this support, while relevant, was incomplete and not fully targeted. The program supported the three priority areas for which strategic objectives were established. The emphasis on the area of public finance enhanced the program's relevance given the primacy of the country's fiscal challenges. Public finance received continuous support through technical cooperation operations and through timely PBLs as the necessary consensus was achieved. Logistics and regional integration were supported through the legacy portfolio and technical cooperation (transportation). The health objectives were supported through a series of loan operations and technical cooperation projects, but the support delivered in education via isolated technical cooperation operations was insufficient to promote the objective of improving the quality of education. Furthermore, the nonsovereign guaranteed support that was expected in the areas of logistics infrastructure and human capital failed to materialize. In addition, 68% of the legacy balances (after the cancellations) and the nonsovereign guaranteed financing (focused on SMEs and energy) were not aligned with the country strategy objectives. Lastly, the expectations in the Country Strategy Guidelines of *"promoting a strengthening of [crosscutting issues] in the design and implementation of the operations program"* were only partially achieved: despite the applicability of these issues, gender was promoted in 44% of nonsovereign guaranteed loan

30 In addition, one of the loan operations approved in 2019 included a guarantee for US$1.3 million.

31 In addition, this portfolio continued to include Trade Finance Facilitation Program (TFFP) lines, closing 15 guarantees and 12 loan operations for US$8 million, relatively small amounts with respect to the country's trade flows. Furthermore, IDB Lab (not covered in this CPE) has since 2015 approved two loan operations (US$4.4 million), 10 technical cooperation operations (US$5.1 million), and two small projects (US$1.8 million), concentrating in human capital (38%), water and sanitation (22%), and SME development (19%).

operations (11 loans), climate change was promoted in 20% (five operations), and migration was promoted in 4% (one regional loan, not yet ratified).

## C. Approach and financial relevance of the IDB Group in El Salvador

2.15 The program was characterized by the preeminent role of PBLs, in which fast disbursement and technical support constituted an appropriate approach to the country's fiscal challenges, while also positioning the IDB as a key partner for the country in this area. Close to two thirds of the sovereign guaranteed approvals in the period supported the strengthening of public finance, a significant increase from 1% in the 2005-2009 period and 26% in the 2010-2014 period. This also influenced the blend of instruments, resulting in a strong share of fast-disbursing PBLs: 65% of the sovereign guaranteed approvals in the period were PBLs, compared with 44% in the 2005- 2009 period and 38% in the 2010-2014 period. Unlike in previous strategy cycles, in which social, energy, and climate change issues were also tackled, the PBLs in this cycle focused on fiscal issues. The PBLs were both preceded and followed by technical cooperation operations, in keeping with the long maturation process of the reforms, which began to be consolidated only toward the end of the cycle. This support, along with the absence of a program with the IMF, positioned the IDB as a key partner in the area.

2.16 The IDB took advantage of the limited remaining fiscal headroom to give continuity to investments with a select group of investors, strengthening them and enabling them to expand their services, which was relevant to the country's needs. Eighty percent of the sovereign guaranteed investment resources approved in the period were second phases with prior executing agencies that the IDB had been strengthening through technical cooperation operations and components of the loans they were executing. Given the fiscal restrictions, these operations financed not only civil works and equipment (which accounted for the allocation of about half of the proceeds) but also services for final beneficiaries (40% of the proceeds were used to fund services for program beneficiaries, both individuals and businesses).[32] Both were relevant in view of the limited resources for investment and the demand for services, although the sustainability of the latter will depend on their absorption into the national budget.

32 Based on the use of funds per category for the 18 most recent sovereign guaranteed investment loans on which the Bank's systems report this information in detail (Table II.10, Annex).

2.17 To counter the reduced space for sovereign guaranteed loan operations and strengthen key counterparts, the IDB made strategic use of nonreimbursable technical cooperation operations.[33] Priorities such as human capital went from accounting for close to 40% of the loan amounts between 2004 and 2014 to accounting for less than 20%, although the amount of support in this area in the form of technical cooperation operations increased. The opposite occurred in public finance, where loan support increased and technical cooperation operation funding declined. Technical cooperation operations also focused on capacity building: in terms of numbers, 79% of the technical cooperation operations provided support to the client, while 19% provided operational support to investment loans and 3% supported research and dissemination activities. In addition, the IDB doubled the number of intraregional technical cooperation operations to share regional good practices.[34]

2.18 In this context, the country strategy also proposed an approach that would leverage resources from other donors; this would have been relevant but was only partially achieved. In health, public finance, and security, the IDB succeeded in creating a division of labor or of geographic areas, generating synergies with cooperation agencies such as the World Bank or the Central American Bank for Economic Integration (CABEI). However, coordination was less pronounced in areas such as education, where the IDB deployed only technical cooperation operations, which did not succeed in fully integrating with much larger investments (over US$100 million), such as those financed with Fomilenio funds.[35]

2.19 Along the same lines of identifying appropriate approaches given the reduced fiscal headroom, the IDB Group used a larger proportion of nonsovereign guaranteed financing and the umbrella of a large-scale regional operation. Nonsovereign guaranteed support grew in relative terms, reaching 26% of total approvals (sovereign guaranteed and nonsovereign guaranteed), compared with 13% and 8% in 2009 2014 and 2005 2008, respectively. About 50% of the nonsovereign guaranteed amounts were for preferential loans to financial intermediaries, mostly in support of SMEs; 40% of those amounts were for renewable energy projects; and the remainder went to direct corporate financing for businesses. Since these areas were not aligned with the country strategy objectives,

33 The number of annually approved technical cooperation operations declined from 21 in 2004-2008 to 12 in 2009-2014 and to 10 in 2015-2018, but their average amount respectively went from US$166,000 to US$281,000 and then to US$300,000.

34 Intraregional technical cooperation operations finance travel and per diem expenses to facilitate the exchange of advisory services and training between member countries. With regard to 2010-2014, intraregional technical cooperation operations went from an average of 1.6 per year to 3 per year.

35 The country has expressed interest in a CCLIP operation in education, once Fomilenio has ended.

the increased sovereign guaranteed support did not translate into a contribution to those objectives.[36] In addition, in 2018, a regional line was approved under the umbrella of PAPTN (RG-O1667) for investments in large infrastructure projects (mainly highways and ports, which was in alignment with the country strategy objectives) but it has not yet been ratified in El Salvador.[37]

2.20 In addition, the IDB sought to strengthen and promote the use of country systems, except in the case of monitoring and evaluation systems and safeguards systems. The country strategy set targets for the use of country systems (Table II.6, Annex). The most ambitious targets focused on the procurement systems, introducing innovations in shopping and introducing a reverse auction system, which is being studied with a view to its potential acceptance within IDB standards. In contrast to this, the country strategy did not set any targets for two types of country systems that would have been relevant: the monitoring and evaluation country systems and the environmental and social safeguards systems. In other areas, such as accounting and financial management, the country strategy sought to move forward on the use of country systems for reporting at the component and IDB investment category level, but progress was limited. A broader adoption of international standards was achieved in internal audits; however, there were fewer advances in the use of the national counterpart in external audits.

2.21 The IDB Group's approach was also characterized by the strong presence of the Country Office in El Salvador, which was relevant but seemed to be relatively large in relation to the portfolio. Among other actions, the IDB's Country Office in El Salvador has organized events such as semiannual portfolio reviews to improve project implementation, workshops on bidding process and management issues, and technical coordination roundtables. The Country Office in El Salvador has spearheaded the dialogue with the legislature and the dissemination of the program's benefits. There are specialists in most sectors, and clients value their support and consider it an IDB advantage over other donors.[38] In 2018, the Country Office in El Salvador had 21 officers, 17 contract employees, and four contractors, a net increase of 6 persons over 2015. Management estimates that seven officers spend 35% of their time on other countries, but in turn half (or 36% by amount) of the country's

36 It should be noted that these nonsovereign guaranteed operations were in alignment with the priority areas established in the IDB Invest Business Plan (2016-2019), approved subsequently to the country strategy.

37 Financing and Risk Mitigation Program for Strategic Investments in the Northern Triangle CCLIP for US$750 million, US$250 million of which (yet to be ratified) would be for El Salvador.

38 At present there are specialists in natural disasters, modernization of the State, social protection, transportation, and water and sanitation. There is an IDB Lab specialist as well as a support team for corporate operations and operations with financial intermediaries. Some of these specialists also perform support duties for other countries in the region.

active sovereign guaranteed loans are being led by project team leaders based in other country offices. Accordingly, the headcount in the Country Office in El Salvador seemed high in relation to a portfolio consisting of some 25 operations and just seven sovereign guaranteed loan operations approved during the period.

2.22 The IDB's financial relevance fell into the expected range, with sovereign guaranteed disbursements equivalent to 3% of the country's gross capital formation or 8.3% of its gross financing needs.[39] With US$845 million in sovereign guaranteed approvals in the 2015 2019 period, the program fell between the two indicative financial scenarios projected in the IDB's country strategy with El Salvador (Table 2.3): a base scenario assuming US$1.060 billion and an alternative scenario assuming US$580 million, which according to the country strategy would obtain if the nonfinancial public sector (NFPS) deficit, including pension system costs, were to exceed 0.2% of GDP in 2016 (which did not occur).

**Table 2.3. Sovereign-guaranteed financing scenarios**

| Total amounts 2015-2019 | Scenarios vs. current (US$ million) | | |
|---|---|---|---|
| | Base | Alternative | Current |
| Approvals | 1,060 | 580 | 842 |
| Disbursements | 1,047 | 684 | 856 |
| Capital repayments | 833 | 833 | 768 |
| Net loan flows | 214 | -149 | 88 |
| Interest and fees | 193 | 193 | 286 |
| Net country inflows | 21 | -342 | -199 |

*Source*: OVE, country strategy 2015- 2019, and IDB data warehouse.
*Notes:* "Current" column data as of 31 October 2019.

2.23 The IDB continued to be the international financial institution providing the largest amount of resources for the country's development, despite a decrease in sovereign guaranteed approvals during the period, which was consistent with the approach of other organizations.[40] Bilateral and multilateral organizations (including the IDB) went from accounting for 54% of the country's external debt in 2012 to accounting for 45% in 2018. The IDB represented 53% of the country's total bilateral and multilateral debt, followed by the World Bank with 23% and CABEI with 21%.[41] The IDB continued to be the international financial institution with the largest volume of sovereign guaranteed approvals. Other institutions reduced both the number and the volume of approved loan operations with respect

39 Estimated at US$7.300 billion for the 2015-2019 period, including the pension system deficit.

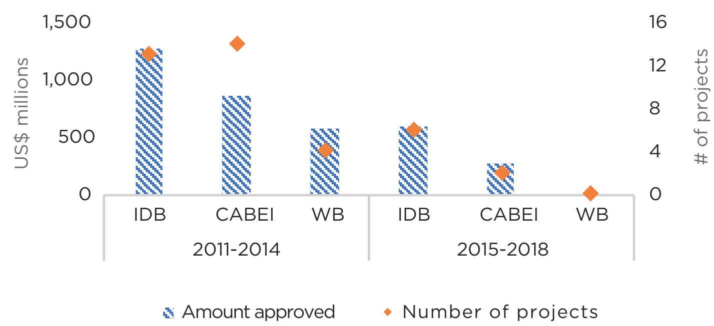
40 Does not include funds provided as official development assistance (ODA), which totaled about US$700 million in the 2011-2014 period and about US$400 million in the 2015-2018 period. WDI. (2019). World Bank.

41 Figures as of October 2018. El Salvador's Ministry of Finance (MH).

to the preceding period (Figure 2.1). For example, the World Bank did not approve any sovereign guaranteed loan operations in the period, as it waited for the country to achieve greater coordination with the IMF.

**Figure 2.1**
**Sovereign-guaranteed loan approvals**

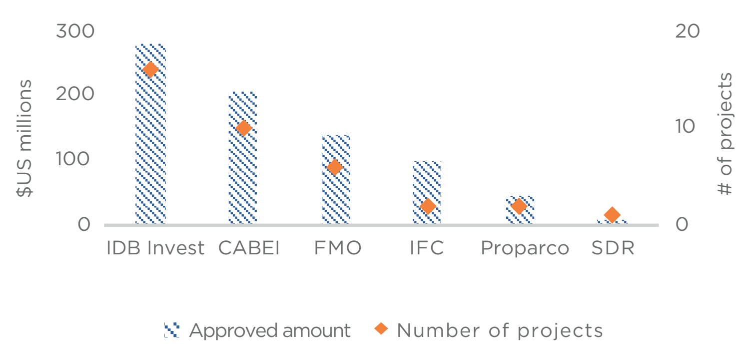
*Source:* Prepared by the authors using databases of finantial intermediaries.




2.24 IDB Invest was the international financial institution with the largest volume and number of nonsovereign guaranteed loan operations (Figure 2.2), using a flexible approach consistent with the expected role of the IDB's private sector but without contributing to the objectives of the country strategy. IDB Invest approved 19 operations for US$320 million in the 2015 2019 period.[42] About 50% of these were aimed at financial intermediaries, 40% were for the energy sector, and the balance were corporate loans. The other institutions focused on lending to financial intermediaries, often to the same borrowers and with similar objectives of providing credit to SMEs, and on financing renewable energy projects.[43] IDB Invest showed flexibility in adapting to the rise in El Salvador's country risk during the period. In that regard, IDB Invest encouraged operations with solid counterparts. Examples include operations with large financial institutions, which received most of the funding, or renewable energy projects backed by supply agreements with major distributors. In addition, IDB Invest used innovative financing arrangements secured by assets located abroad, such as family remittance flows.

**Figure 2.2**
**SGS loan approvals**

*Fuente:* Prepared by the authors using IFIs Database.




42 Figures as of November 2019.

43 In addition, the United States Overseas Private Investment Corporation approved US$295 million in coverage to guarantee seven operations with private companies domiciled in the United States.

## D. Program implementation and costs

2.25 The planning of operations—set out in annual program documents—generally underestimated the difficulties of approval (Table II.7, Annex). It is estimated that the 2015-2019 period will conclude with seven approved sovereign guaranteed loan operations out of the nine originally planned. Two planned operations aimed at continuing initiatives underway in the transportation sector (the second phases of the San Salvador Metropolitan Area Transportation Program and Country Road Improvement Program) could not be approved due to problems with their respective initial phases. The largest operation of the period—the first fiscal PBL—went into annual planning in 2015 but was only approved in 2018 due to lack of political consensus before 2017. Nonsovereign guaranteed loan operations were affected as well: two operations in energy and four operations with small financial intermediaries were ultimately not implemented either because the borrowers obtained alternate funding or because their risk rose in tandem with El Salvador's country risk.

2.26 With regard to loan preparation, costs and timeframes improved due to an increase in average loan amount and the continuation of operations with experienced executing agencies. The preparation costs of new investment operations per US$1 million approved fell by 43% with respect to the 2009-2014 period to US$3,637, which is lower than the average for CID (Country Department Central America, Haiti, Panama, Mexico, and the Dominican Republic) countries excluding Mexico (US$4,655) but higher than the average for all IDB countries (US$2,999). The average preparation time[44] decreased from 18 months to 13 months over the previous period. These improvements stem from an increase in the average size of investment operations (from US$42 million in 2009-2014 to US$59 million in 2015-2019) and from the fact that most were second phases.

2.27 However, as identified in the previous CPE, legislative ratification continued to be a challenge, taking close to three years on average and affecting not only the timeframes but also the relevance and costs of the operations. Of the eight borrowing member countries of the IDB that require ratification, the timeframes for El Salvador were the longest.[45] The long ratification process increased the likelihood of cancellations and delayed the start of execution, affecting the cost and relevance of the operations at the time of execution, either because the situation had changed or because the projects had been started with other funding sources. The IDB

44 From the time of registration to approval.

45 On average during the 2015-2019 period, loan operations in El Salvador took 823 days to be ratified from their date of approval, compared with 703 days in Costa Rica, 647 days in Paraguay, 270 days in the Dominican Republic, 166 days in Honduras, 132 days in Bolivia, 78 days in Nicaragua, and 69 days in Haiti.

Country Office in El Salvador sought to streamline the ratification process by providing legislators with more information on the program, particularly its expected benefits, and alerting them to the costs associated with delays. The IDB cancelled five loans, highlighting the risk of loss of financing if deadlines were not met. Nevertheless, ratification times doubled with respect to the previous period. In contrast, in areas like the fiscal sector, where consensus was achieved with the support of technical cooperation operations, the two PBLs took only a few months to be ratified.

2.28 These delays in ratification generated costs for the country and for the IDB. The delays in starting operations created a financial burden, as commitment fees accumulated over the time period it took to ratify them and were charged retroactively to the country once the operations were ratified.[46] When operations were cancelled before being ratified, the country did not pay commitment fees but the preparation costs were borne by the IDB. OVE estimated that costs borne by the IDB due to cancellations during the period totaled about US$2 million.[47]

2.29 In terms of execution, costs have remained high and timeframes long. In comparison to the preceding period, the timeframes for investment loans from initial eligibility to initial disbursement remained unchanged at 2.4 months, and extensions of the expected timeframe for implementation continued to be high (longer than 14 months).[48]The costs per US$1 million of investment loan disbursements (US$8,398) rose by 13% and were lower than the average for the CID region excluding Mexico (US$9,579) but higher than the average for the IDB as a whole (US$6,956)[49] (Table II.8, Annex).

2.30 Execution times between PBLs and investment loans diverged as expected but also pointed up differences in executing agency experience and country priorities. In the investment loan operations in areas in which the country strategy had identified objectives, the experience of the executing agencies correlated to delays in execution. For example, the experienced Ministry of Public Works and Transportation executed operations with fewer delays than

46 Credit fees as a percentage of the Bank's total interest and fee payments went from 2% per year in the 2011-2014 period to 4% per year in the 2015-2018 period. However, since payment obligations are extinguished upon cancelation, this percentage was lower than in other countries that require loan ratification, such as Paraguay (11%), Bolivia (14%), or Costa Rica (20%).

47 These calculations include the costs of preparing loan operations and the amounts disbursed in technical cooperation operations that assisted in their preparation. It is worth noting that these costs were not entirely lost since part of the work was reused in other operations.

48 On average, the final disbursement date was extended by 445 days for projects in El Salvador, thus exceeding the average extension for the CID region excluding Mexico (414 days) and for the IDB as a whole (366 days).

49 This considers the disbursements and annual costs attributed to each project in the Bank's systems, separated into preparation and execution stages, before and after the corresponding approval dates.

expected. But experience was not the only factor. For example, in citizen security, progress was made despite the lack of experience at the executing agency (Ministry of Justice and Public Security) because the level of priority assigned to this issue by the country during the period served to reinforce interinstitutional support and budgetary availability. The maturity of operations also mattered: in general, the legacy portfolio was executed more rapidly toward the end. In addition, the PBLs invigorated execution of the entire program. The year 2018 was the first since 2012 with positive net inflows for El Salvador, owing to the disbursement of US$350 million under the first fiscal PBL, an amount equivalent to the sum of all disbursements over the previous five years.

# 03

## Outcomes

3.1 This chapter describes the progress made towards the objectives of the IDB Group's country strategy as well as the findings on the effectiveness of its work, its potential contribution, and its sustainability. Except for the PBLs fully disbursed in the 2018-2019 period, only two of the sovereign guaranteed investment loan operations approved between 2015 and 2019 became eligible for disbursement and even these two only disbursed less than 10%. Similarly, few of the nonsovereign guaranteed loan operations in the period reached operational maturity. Accordingly, the reported execution and outcomes (grouped by country strategy objective) mostly correspond to the legacy portfolio. Nevertheless, since the outcomes do not hinge solely on financial execution, the rest of the operations are also analyzed to the extent that they have contributed to achieving the country strategy objectives.

3.2 According to the results framework of the country strategy with El Salvador (Table II.1, Annex), eight of the fourteen indicators improved during the period, three deteriorated, and there is no information available on the remaining three. Nevertheless, weaknesses in the results matrix made it hard to get a full picture of the achievements. The following sections describe the outcomes in each area of the program. However, these findings should be taken in context for a number of reasons. Firstly, in accordance with the current guidelines, the country strategy did not identify targets for any of the indicators, so improvements or declines may only be reported with respect to the respective baselines, but no determination can be made as to whether any progress made was adequate. Secondly, the selected indicators in the priority areas (particularly in human capital and logistics infrastructure) were partial in terms of their coverage of the lines of action that the country strategy identified as necessary for achieving the objectives. Thirdly, for the various reasons indicated in the preceding chapter, 43% of the sovereign guaranteed and nonsovereign guaranteed amounts executed in the period, even after the cancellations, were in areas not aligned with the objectives, meaning that part of the program cannot be linked with those objectives or their metrics.[50] Fourthly, close to half of the indicators in the results framework posed challenges for measuring their progress: for more than 20% of these indicators, there were no available data (they are shown as "N/A" in the tables provided in the following sections), while for close to 30% of them, the most recent data had been collected over one year prior and thus there were no current data to evaluate them (OVE used the data for the most recent year available). Fifthly, more than two thirds of the

50 With respect to the sovereign guaranteed portfolio, given the preponderance of PBLs aligned with the objectives in public finance, 74% of disbursements made during the period in this portfolio were aligned with the country strategy objectives.

selected indicators were unconnected to the national monitoring and evaluation system, which was one of the few country systems that the country strategy did not propose helping to improve.

## A. Quality of expenditure on human capital

**Table 3.1. Country strategy objectives and portfolio-Quality of expenditure on human capital**

| Country strategy objectives | | | |
|---|---|---|---|
| **Strategic objective** | **Indicator** | **Baseline** | **Progress** |
| Consolidate the network of healthcare services | Families registered in the new healthcare model registries | 502,324 (2013)[a] | 1,532,449 (2019) |
| | *Municipios* that have adopted the new healthcare model | 164 (2013) | 187 (2019) |
| | Percentage of 15-to-19-year-old women who are pregnant or have at least one child | 19.19% (2014) | ND |
| | Coverage of prenatal enrollment prior to the 12th week of pregnancy | 66.8% (2012) | 83.8% (2014)[b] |
| | Percentage of early enrollment of children under 1 | 87.3% (2012) | 93.5% (2017) |
| | Coverage of third dose of pentavalent vaccine in children under 1 | 92.3% (2012) | 84.7% (2017) |
| Improve education quality | Scores obtained by public school students on the PAESITA test ($6^{th}$ grade) | 4.74 (2012) | ND |
| | Scores obtained by public school students on the PAES test ($12^{th}$ grade) | 5.12 (2013) | 5.88 (2018) |

| CPE portfolio 2015-2019 | | | | | |
|---|---|---|---|---|---|
| **Project number** | **Name** | **Type[d]** | **Approved** | | **% Disbursement** |
| | | | **Year** | **US$M** | |
| ES-L1027 | Integrated Health Program (PRIDES) | INL | 2010 | 60 | 100% |
| ES-L1063[c] | Comprehensive Support for Effective Labor and Social Security Policies | INL | 2012 | 20 | 0% |
| ES-G1002 | Mesoamerica Health Initiative 2015: Second Individual Operation | IGR | 2014 | 3.94 | 100% |
| ES-L1095 | Integrated Health Program II (PRIDES II) | INL | 2015 | 170 | 1% |
| ES-G1003 | Mesoamerica Health Initiative - Third Individual Operation | IGR | 2018 | 1.53 | 7% |

*Note:* In addition, 15 technical cooperation operations for US$5.5 million were analyzed (Table III.3, Annex). [a] OVE found an inconsistency in the baseline information reported in the country strategy: while the indicator refers to "families," the figure of 1,894,866 reported in the country strategy refers to "persons." OVE adjusted the value based on 3,772 persons per household, using data from the Multipurpose Household Survey (EHPM) (2013). [b] The most recent available data is for 2014; thus, technically there are no data on the progress made during the country strategy period. [c] Cancelled operation. INL = investment loan, IGR = investment grant.

*Source:* OVE, using IDB and country systems data. Disbursements as of 31 October 2019.

3.3 In health, the country strategy proposed "continuing to support the Government of El Salvador's efforts to consolidate the health services network, with actions aimed at improving management of the health system and expanding coverage at all levels of care." In 2009 the Government of El Salvador launched a process of reform of the National Health System (SNS), seeking universal coverage of public prevention and primary care services through a Comprehensive Integrated

Healthcare Service Networks System (RIISS). However, by 2015 the reform covered only part of the population and there were inefficiencies and weaknesses in integrating the public and private entities that comprise the SNS, in the capacities of the Ministry of Health (MINSAL) as the sector's apex agency, in the mechanisms for referral to another level of care, in the supply of inputs, and in preparation for providing necessary services, such as reproductive health services.

3.4 The program supported the country strategy objectives of increasing the coverage of the new health model and improving reproductive and maternal and child health outcomes. The IDB supported improvements in coverage by executing the Integrated Health Program (PRIDES, ES-L1027), then underway, and by approving a second phase with close to three times the resources, which is only now starting execution. In addition, the IDB used the Mesoamerica Health Initiative (two grants, for US$6.5 million in 2011 and US$3.94 million in 2014, that were continued through a third phase in 2018) to support improved reproductive and maternal and child health as a way of training the healthcare network and targeting it toward the 14 poorest municipios. Lastly, although not required for achieving the objectives, the country strategy envisaged that nonsovereign guaranteed resources would complement the delivery of public health services by supporting diagnostic clinics and microinsurance. However, this failed to materialize, for reasons that included the increase in El Salvador's country risk and the absence of political consensus to implement public-private partnerships.

3.5 The IDB helped to consolidate the sector vision through the continuity of PRIDES, which solidified a healthcare model that endured despite changes of national authorities. PRIDES I contributed to the development of a comprehensive primary care model, increasing access to primary-level health services for some 766,000 people by building, expanding, rehabilitating, and equipping 61 community family health units (UCSFs) and 45 community family health teams (ECOSFs). From 2009 to 2016, preventive care checkups at the ECOSFs supported by PRIDES increased from 15% to 44%, prenatal enrollment increased from 56% to 90%, and child enrollment increased from 56% to 96%, contributing to the objectives of the country strategy. In addition, maternal and child mortality rates improved as did the institutional capacities of MINSAL as executing agency and governing body of the SNS.

3.6 With IDB assistance, the Government of El Salvador improved the sustainability of this model by including it in the national budget and providing training reinforcement. Starting in 2015, MINSAL included the staff previously financed by PRIDES I in the national budget, along with the supply of medications to the new healthcare centers and the maintenance of the new infrastructure. PRIDES II envisages the gradual incorporation of the staff after three years of project execution. To promote spending efficiency and mitigate the fiscal impact of these items, MINSAL is moving forward on: (i) a review of the pay scale; (ii) an evaluation of performance based on results; and (iii) a staff redistribution based on needs. The technical sustainability of the interventions was worked on with the support of the Mesoamerica Health Initiative, through training of healthcare staff, to ensure appropriation of the healthcare model and improvement of processes.

3.7 The Bank's proactive support helped to mitigate delays and boost execution by reinforcing the capacities of the execution unit. It took almost 2.5 years for PRIDES II to be ratified by the legislature, and the support of the Country Office in El Salvador was needed to expedite the process. As was recommended in the previous CPE, the simultaneous execution of technical cooperation operations made it possible to move forward with preinvestment studies of the works. The Bank used lessons extracted from PRIDES I, which had faced challenges in obtaining legal title of land for the works. In addition, the IDB trained MINSAL in procurement, the use of the country's electronic public procurement system (COMPRASAL), and the use of joint tendering of "design and construction" (in the case of two hospitals under PRIDES II). MINSAL's execution unit also received technical assistance from the IDB's team of specialists, as well as training in project management and monitoring tools.

3.8 The second phase of the Mesoamerica Health Initiative reached 9 of its 11 targets,[51] contributing to achievement of the country strategy objectives. Over the period, there were improvements related to the objectives of the country strategy. While there are no recent measurements of teen pregnancy, other associated objectives improved, such as enrollment rates for prenatal care and care of children under 1. There was also an increase in institutional childbirth coverage (from 85.7% in 2013 to 98% in 2017) and in the use of modern family planning methods (from 54% in 2013 to 75% in 2017). Lastly, pentavalent vaccination rates declined rather than increased.[52]

51 The targets for postnatal checkups one week after childbirth and for 12-to-59-month-old children receiving two doses of antiparasitic treatment in the last year were not met.

52 The pentavalent vaccine protects against diphtheria, pertussis (whooping cough), tetanus, Haemophilus influenzae type B, and hepatitis B.

3.9 In education, the country strategy identified similarly ambitious objectives that were not adequately supported by the program. The country strategy sought to improve the quality of education by: (i) improving teaching practices; (ii) implementing information and communication technologies (ICTs) in the schools; and (iii) using information systems for decision-making purposes. In addition, it was expected that the private sector would facilitate access to higher education loans and job placement programs for youth. The program supported only some aspects, not enough for concluding that the IDB contributed to the partial strides made by the country in education (Table 3.1). There were seven relatively isolated technical cooperation operations, including one (ES-T1233) to create an online information system in the education sector, but it focused only on students, not on teachers and infrastructure as originally planned, and it would have been better aligned with the priority area of quality of spending.[53] The support expected in the form of operations for teacher quality and ICTs in schools did not materialize and neither did the expected nonsovereign guaranteed support.[54]

3.10 The IDB did not succeed in achieving a critical mass of work in education or in coordinating with other donors, which, relying on concessional resources, implemented initiatives with similar objectives to those of the country strategy. USAID led the EDUCAME initiative, to help persons who neither study nor work (NINIs) complete their education, and a Full-time Inclusive School Support Program with US$25 million in funding. Fomilenio II allocated US$115.7 million to human capital, particularly for reforming the education vocational training system and improving the quality of education (practically replicating what the IDB had proposed in the country strategy). With regard to quality of education, Fomilenio "would strengthen and expand the implementation of a full-time inclusive school model; lengthen the school day from 25 to 40 hours per week; improve the curricula, with an emphasis on English, mathematics, science, and information technologies; train teachers; improve school infrastructure; and provide educational materials and equipment."

53 Another technical cooperation operation (ES-T1261), currently in execution, provides continuity to this operation, generating studies to strengthen the capacity for the design of educational policies focused in preschool education.

54 The country's public development bank, BANDESAL, had a student lending program not related to the IDB. In addition, three IDB Lab operations (ES-L1101, ES-M1049, and ES-M1054) sought to improve job placement and societal integration for young people living in poverty in urban shantytowns.

## B. Logistics infrastructure

**Table 3.2. Country strategy objectives and portfolio – Logistics infrastructure**

| Country strategy objectives | | | |
|---|---|---|---|
| **Strategic objective** | **Indicator** | **Baseline** | **Progress** |
| Improve the connectivity between development hubs and markets | Percentage of paved roads in good (or very good) condition | 40% (2013) | 33% (2017) |
| Promote/facilitate Mesoamerican regional integration | Average wait time at the country's borders (hours) | 6 hours (2013) | ND (2019) |

| CPE portfolio 2015-2019 | | | | | |
|---|---|---|---|---|---|
| **Project number** | **Name** | **Type** | **Approved** | | **% Disbursement** |
| | | | **Year** | **US$M** | |
| **ES-L1045** | Rural Roads for Development | INL | 2010 | 35 | 100% |
| **ES-L1061** | Rural Connectivity Program for the Northern and Eastern Zones | INL | 2011 | 15 | 100% |
| **ES-L1085**[a] | Mesoamerican Pacific Corridor Improvement Program | INL | 2013 | 115 | 0% |
| **ES-L1066** | Program for the Tourism Development of the Coastal-Marine Zone | INL | 2013 | 25 | 84% |
| **ES-L1075** | Productive Corridors Program | INL | 2014 | 40 | 50% |

*Note:* In addition, there were two technical cooperation operations for US$29,000 (Table III.4, Annex) and Component II of loan operation ES L1131. [a.] Cancelled operation (strengthening of customs tariff management (US$3.9 million).

*Source:* OVE, using the IDB database. Disbursements as of 31 October 2019.

3.11 The country strategy proposed improving the condition of the road network and Mesoamerican customs integration, while also expecting to promote the participation of nonsovereign guaranteed financing in logistics infrastructure. To this end, the IDB proposed improvements in the logistics infrastructure, supporting trade facilitation under the concept of coordinated border management, including modernization of the customs system, and developing a medium and long-term financing strategy for the maintenance, rehabilitation, and construction of road infrastructure. In addition, it was expected that the private sector windows would complement these actions by continuing to provide technical support with respect to public-private partnerships and would explore opportunities for investments in ports, airports, and nonport zones.

3.12 The program addressed these objectives but only partially, through legacy road operations and early-stage support in customs (Table 3.2). There were four road operations with the Ministry of Public Works and Transportation (MOPT): two operations on rural road improvements (ES-L1045 and ES-L1061), currently in execution, a Mesoamerican Pacific Corridor Improvement Program (ES-L1085), which was not ratified and was ultimately cancelled, and a Productive Corridors Program

(ES-L1075). In customs, a loan operation (ES-L1131) with the Ministry of Finance to improve revenue collection—a departure from the proposed objective of reducing customs clearance times—was approved, but only 5% of it has been executed, pending clarification of investment priorities by other donors.

3.13 Despite difficulties, the operations were executed, but their share of total investment was limited. The operations for rural road improvements completed their planned outputs[55] and met their serviceability and traffic speed targets. However, these operations accounted for a small portion of the total investment in rural roads between 2015 and 2018, namely less than 11%.[56] The Productive Corridors Program (ES-L1075) is still in execution and its outputs are making progress despite delays stemming from difficulties in securing legal title to land parcels and lack of availability of contractors with adequate experience and cost proposals.

3.14 The IDB's contribution focused on continuing to support the MOPT as the key counterpart in road infrastructure through a series of capacity-building loan operations and technical cooperation projects. However, this continuity is at risk because new loan operations were not approved during the period and the largest operation in that portfolio (Mesoamerican Pacific Corridor, for US$115 million) was cancelled before being ratified.[57] There were also technical cooperation operations to carry out preinvestment studies (ES-T1239), an innovative study (using cellphones) to update origin-destination matrixes and the transportation model for San Salvador (ES-T1275), and a National Infrastructure Plan (ES-T1289), which could indirectly contribute to the objective of improving the road network. Interaction with other entities relevant to the logistics objectives—the Road Conservation Fund (FOVIAL) or the Executive Autonomous Port Commission (CEPA)—was less pronounced.

3.15 However, there is no evidence of progress on the objectives and there are sustainability challenges. In a restricted fiscal context, a medium- and long-term financing strategy for the maintenance, rehabilitation, and construction of road infrastructure has yet to be developed as envisaged in the country strategy. This undermines the sustainability of FOVIAL as the entity charged with addressing unforeseen needs. Of the country strategy's two indicators in this priority area, the proportion of paved road network in good or very good condition experienced a setback, going from 40% in the base year (2013) to 33% in 2017. There are

55 66.15 kilometers in six roads targeted in the first project and 58.79 kilometers in five roads targeted in the second project. This represents about 4% of the unpaved rural roads in the country.

56 MOPT Work Report.

57 In addition, in 2016 the Bank attempted to provide continuity to the rural roads program through a Country Road Improvement Program (ES-L1097), but approval of this operation has been delayed.

no data for the other indicator (average wait time at the country's borders), but, indirectly, the burden of customs procedure (part of the Global Competitiveness Index) worsened.

3.16 With regard to nonsovereign guaranteed financing, there was no progress due to a combination of country risk and absence of consensus on a PPP mechanism. The Special Public-Private Partnerships Act was approved in 2013, but the first project was only just tendered in late 2019 under this legislative framework (Cargo Terminal at the International Airport), which has made it difficult to generate lessons learned. While Infrascope (2019) ranks El Salvador in sixth place in Latin America and the Caribbean, with a regulatory and institutional framework promoted by Fomilenio, there has been no progress in creating political will. The IDB has sought to provide alternative forms of support, approving a regional operation in 2018 (RG-O1667), not yet ratified, to attract public-private investment in infrastructure. Similar situations that delay investment occur in sectors with multiplier potential such as tourism, which lack consensus based diagnostic assessments and regulatory frameworks to clarify the roles of the public and private sectors. The incoming Salvadoran government administration has shown an interest in this type of consensus.

## C. Public finance

### Table 3.3. Country strategy objectives and portfolio – Public finance

| Country Strategy Objectives | | | |
|---|---|---|---|
| **Strategic objective** | **Indicator** | **Baseline** | **Progress** |
| Strengthen fiscal sustainability | Primary fiscal balance (not including pensions) as a percentage of GDP | 0.8% (2014) | 2.2% (2019) |
| Improve the efficiency and equity of public spending | Projected annual cash flow deficit in the contributory pension system in 2019 | 2.1% of GDP 2014 (2013) | 1.4% of GDP 2018 (2019) |
| | Percentage of electricity and gas consumption subsidies allocated to income deciles 7 through 10 | 48.2% electricity, 45.6% gas (2013) | 31.2% electricity, 37.8% gas(2018) |
| Improve the effectiveness of public investment by prioritizing projects with high social returns | Percentage of public investment projects that are evaluated for social return[a] | 0% (2013) | 0% (2018) |

| CPE portfolio 2015-2019 | | | | | |
|---|---|---|---|---|---|
| **Project number** | **Name** | **Type** | **Aprobado** | | **% Desembolso** |
| | | | **Año** | **US$M** | |
| **ES-L1017** | Legislative Branch Modernization II | INL | 2010 | 5 | 100% |
| **ES-L1131** | Tax Administration Strengthening Program | INL | 2016 | 30 | 5% |
| **ES-L1093** | Fiscal Strengthening for Inclusive Growth | PBL | 2018 | 250 | 100% |
| **ES-L1137** | Fiscal Strengthening for Inclusive Growth II | PBL | 2019 | 300 | 100% |

*Note:* In addition, there were 21 technical cooperation operations for US$6.5 million (Table III.5, Annex). a. Measurement of benefits and costs from the standpoint of social welfare.

*Source:* IDB country systems data. Disbursements as of 31 October 2019.

3.17 The country strategy proposed "strengthening fiscal sustainability, achieving greater public spending efficiency and equity, and improving the effectiveness of public investment" through a comprehensive set of actions. According to the country strategy, these objectives were to be supported by the following actions: (i) taxation, financial management, and strengthening of the budgetary framework; (ii) audits and other measures to achieve greater expenditure efficiency and equity; (iii) reforms to achieve greater equity, financial sustainability, and better management of the pension system; and (iv) introducing results-based planning systems, prioritizing public investment and coordinating it with the budget, and generating the information needed for decision-making and results monitoring.

3.18 The IDB provided ongoing support through technical cooperation operations and investment loans that assisted in implementing these actions and creating political consensus. The fiscal reforms had been under discussion before, but it was only after the 2017 payment default that legislative consensus was achieved. In fact, the IDB supported the legislature (ES-L1017) in improving its capacity for analysis, which was relevant for the legislature's consideration of the fiscal reform.[58] Along the same lines, a Tax Administration Strengthening Program (ES-L1131) has begun to finance revenue collection improvement tools such as electronic invoices, comprehensive databases, and organizational reinforcement of the Ministry of Finance.[59] Moreover, ongoing support provided through technical cooperation operations was crucial for analyzing options and helping to generate the required consensus in a highly fragmented political context.

3.19 Once consensus was achieved, the Bank helped to consolidate the actions required to meet the objectives of the country strategy through a programmatic policy-based loan (PBP) operation with conditions of relatively high structural depth—as the OVE had recommended in the previous CPE—, which were mostly implemented.[60] The fiscal PBLs (ES-L1093 and

58 The effectiveness of the legislative process (measured as laws approved in relation to initiatives submitted) exceeded the target of 50% (71%). In addition, the proportion of institutions on which the legislature has adequate information for monitoring went from 60% to 80%. However, OVE believes that a key issue was left unresolved, namely the legislature's long-term planning capability to timely support the country's development needs.

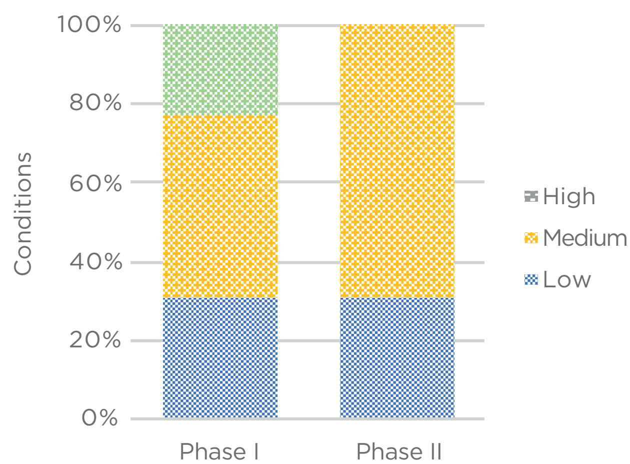
59 There was a proposal to create a Deputy Ministry of Revenue (which did not achieve legislative agreement and instead resulted in the creation of an office at a lower hierarchical level), and Offices of Economic Policy and of Tax and Customs Modernization were created along with Large Taxpayer and Collection Units.

60 The program required legal changes, including the Fiscal Responsibility Law (2016) and the Law on Reform of the Pension Savings System (2017); regulatory changes, including implementing regulations for the Public Administration Procurement Law (2016) and 11 other sets of implementing regulations; and 23 implementation actions.

ES-L1137), which comprised the two phases of the PBP, were approved only at the end of the period (2018 and 2019). OVE estimates that close to 25% of the conditions of Phase I were of high structural depth, while those of Phase II were of medium and low structural depth (Figure 3.1).[61] There is only a single results matrix for the entire programmatic series and plans call for evaluating it only in 2020. Nonetheless, there has been progress according to the country strategy indicators (Table 3.3): the primary balance went from 0.8% of GDP in 2014 to 2.2% of GDP in 2019, the annual cash flow deficit in the contributory pension system dropped from 2.1% to 1.4%, and subsidy targeting improved. However, no progress was made on enhancing the effectiveness of public investment by prioritizing projects based on their social returns.

**Figure 3.1**
**Depth of reforms associated with the fiscal PBP**

*Source:* OVE, using BID Database.




3.20 However, sustainability of the achievements required deeper actions to improve expenditure and public procurement. According to the diagnostic assessments that have been used to assist the IDB's work, it is necessary to continue to enhance expenditure efficiency. This is an area that the IDB had already been supporting through technical cooperation operations for headcount studies, salary scales, and payroll audits. The PBL envisaged that the COMPRASAL-II system would be used for all government procurement; however, this system is not yet processing the expected amounts. The reverse auction mechanism is still not being applied across the board, although the IDB is attempting to validate it for its projects.[62]

61 Depth.

62 https://www.comprasal.gob.sv/comprasal_web/estadisticaSumario.

## D. Role of the nonsovereign guaranteed windows and support for the private sector (SG and NSG)

**Table 3.4. Portfolio – Role of the nonsovereign guaranteed windows and support for the private sector (SG and NSG)**

| CPE portfolio 2015-2019 | | | | | | |
|---|---|---|---|---|---|---|
| Type of operation | Legacy portfolio | | | 2015-2019 approvals | | |
| | # | US$M | % Disbursements | # | US$M | % Disbursements |
| Large financial intermediaries | 7 | 176 | 100% | 5 | 153 | 83% |
| Small financial intermediaries | 4 | 20.5 | 100% | - | - | - |
| Bandesal | 1 | 100 | 100% | 1 | 20 | 0% |
| Renewable energy | - | - | - | 6 | 133.2 | 81% |
| Corporate operations and SMEs | 3 | 42 | 100% | 8 | 34 | 100% |
| Temporary liquidity for the financial system[a] | 1 | 100 | 0% | - | - | - |

*Note:* In addition, there were two technical cooperation operations for US$1.7 million (Table III.6, Annex). a Cancelled operation ES X1007 (US$100 million).

*Source:* OVE, using the IDB database. Disbursements as of 31 October 2019.

3.21 The country strategy anticipated that nonsovereign guaranteed financing would support the priority areas of human capital and logistics infrastructure in addition to supporting SMEs, improvements in the country's financial inclusion, and renewable energy projects. As indicated above, there was no nonsovereign guaranteed support to the objectives of the country strategy. Instead, a good portion of the funding in support of the private sector was aimed at SMEs through financial intermediaries, private companies, and BANDESAL[63] (Table 3.4). Financial inclusion was promoted through two technical cooperation operations by IDB Lab (ES-M1051 and ES-M1052 of 2015), which supported a Simplified Account Opening Law and reinforced the capacity of financial intermediaries to serve SMEs. A liquidity line for SME portfolio factoring (ES-X1007), approved during the 2008 crisis to address the lack of a lender of last resort in a dollarized financial system, was cancelled (via nonrenewal) at the start of the period. In energy, three nonsovereign guaranteed loans were approved for complex solar energy projects that were among the first to be implemented in the country.

3.22 With the increase in country risk, the support for SMEs shifted to large financial intermediaries, which were assisted through funding and innovative products. The new approvals were concentrated on the three or four largest banks in the country, which together control more than two thirds of the market. These large financial intermediaries offered greater capillarity and execution capacity and also benefited from

63 BANDESAL received support in the form of NSG, as well as sovereign guaranteed, loans. Both modalities are discussed in this section.

access to funding that had become difficult to obtain due to the country's deteriorating credit rating. IDB Invest innovated with instruments such as diversified payment rights (DPRs),[64] which helped to mitigate the country risk ceiling. This instrument was also used with a smaller financial intermediary. Meanwhile, IDB Lab helped some financial intermediaries to innovate with products for women SME leaders. The IDB continued to make active use of the TFFP for foreign trade finance, where lines of credit for large financial intermediaries were also predominant. In addition, the IDB Group assisted in attracting cofinancing: US$32.5 million from the China Co-financing Fund for Latin America, US$1.3 million from the Nordic Development Fund, US$20 million for the Green Climate Fund via Bandesal (ES-L1132), and US$12 million in syndicated loans. The shift toward large-scale operations was also evident in direct funding for SMEs, affecting the FINPYME Credit program, which had been very active in the country but which IDB Invest decided to discontinue in 2017.[65]

3.23 Bearing in mind that there are gaps in the availability of information—especially with respect to operations with smaller financial intermediaries—, most of the funding was directed at large financial intermediaries that succeeded in expanding their relevant portfolios; however, the IDB's contribution is not clear.[66] The support to small financial intermediaries through operations inherited from the preceding period seemed to accompany the expected expansion of their relevant portfolios in the few cases for which outcomes were systematically reported.[67] The operations with large financial intermediaries that have achieved operational maturity report an expansion of relevant portfolios (except in one case). However, on average, the IDB Group loans accounted for less than 3% of the portfolios of these financial intermediaries and it is therefore not evident

64 A Diversified Payment Right is the right of an onshore bank to receive payments from an offshore bank because a payment order has been initiated offshore in favor of a person or entity situated onshore. DPRs are appropriate for banks that process substantial cash flows from foreign residents, such as remittances being sent to countries with a low credit rating, as in the case of El Salvador.

65 The OVE Evaluation of Direct Support to SMEs (CII/RE-23-3, 2017) recommended discontinuing these small operations because the local financial intermediaries have clear advantages in terms of serving SMEs.

66 Of the operations with financial intermediaries approved during the period of the Bank's current country strategy, none has reached early operational maturity and the Finpymes were not subject to full reporting requirements.

67 Of the six operations with small financial intermediaries, only two report financial results. Both show improvements in their relevant portfolios, e.g. SME, women-led SME, or mortgage portfolios.

that the IDB played a key role in expanding them.[68] In fact, the country's financial inclusion experienced setbacks, highlighting the powerful influence of the economic cycle.[69]

3.24 The IDB Group also worked effectively with BANDESAL, El Salvador's public development bank. Through technical cooperation operations and both sovereign guaranteed and nonsovereign guaranteed funding, the IDB Group supported the transformation of the country's development banking system which culminated with the creation of BANDESAL. In 2014, the IDB Group approved a sovereign guaranteed operation (ES-L1089) for micro, small, and medium-sized enterprises (MSMEs),[70] which surpassed its goals. In 2018, it approved sovereign guaranteed funding (ES-L1132), ratified in December 2019, to promote energy efficiency in SMEs. Aside from its direct effects, the IDB's support has helped to capitalize BANDESAL through the cumulative earnings generated from the cost differential of IDB funding (and of funding from other agencies that support BANDESAL, including CABEI with US$130 million and KfW with US$30 million). In turn, this differential is being multiplied through the turnover of funds, since the IDB's maturities exceed 20 years while BANDESAL lends for an average of four years. The future challenge is to continue to solidify the sustainability of BANDESAL and its development role in product innovation.

3.25 In addition, the IDB Group helped to consolidate a renewable energy market through a progressive sequence of nonsovereign guaranteed investments. From 2011 until the end of the previous evaluation period, the IDB supported a comprehensive reform of the electricity sector, which strengthened the National Energy Board (CNE) as the sector's apex agency and helped to delineate the bidding processes for energy projects. Since 2015, the nonsovereign guaranteed window has helped to solidify this sector framework, financing both a small (1.2 megawatt (MW)) solar power plant that served as a pilot and the country's first commercial-scale solar project, which at 100 MW became the largest solar plant in Central America upon its completion in 2017. A third project, approved in 2018, used lessons learned from the previous two and from the IDB's work with the public sector to ensure that the power purchase agreements would be

68 Balance sheet as of December 2018. Superintendence of the Financial System of El Salvador.

69 Borrowing from financial institutions and credit card use among persons over the age of 15 declined from 20.5% in 2014 to 11.5% in 2017. The proportion of persons over the age of 15 with an account at a financial institution dropped from 34.6% in 2014 to 29.3% in 2017. World Bank. World Development Indicators. The proportion of businesses applying for credit for productive activities went from 15.4% in 2014 to 22.3% in 2017. ECLAC. Dynamic Survey of MSMEs.

70 4,193 MSMEs versus 2,783 planned, and 1,273 MSMEs led by women versus 1,280 planned.

standard and bankable. In addition, the country increased its use of energy from renewable sources, which went from 57% of dispatched energy in 2015 to 71% in 2018.[71]

## E. Support for crosscutting issues and dialogue areas (SG)

### Table 3.5: Portfolio – Support for crosscutting issues and dialogue areas (SG)

| CPE portfolio 2015 2019 | | | | | |
|---|---|---|---|---|---|
| Project number | Name | Type | Approved | | % Disbursement |
| | | | Year | US$M | |
| **Crosscutting issues – gender, climate change, and migration – Specific operations** | | | | | |
| **ES-L1056** | Ciudad Mujer | INL | 2011 | 20 | 100% |
| **ES-L1092** | Ciudad Mujer II | INL | 2015 | 30 | 0% |
| **ES-L1135** | Strengthening the Climate Change Resilience of El Salvador's Coffee Forests | INL | 2019 | 45 | 0% |
| **Dialogue areas** | | | | | |
| **Citizen security** | | | | | |
| **ES-L1025** | Violence Prevention Strategy Comprehensive Support Program | INL | 2012 | 45 | 86% |
| **Energy** | | | | | |
| **-** | - | - | - | - | - |
| **Land management, urban development, and housing** | | | | | |
| **ES-L1046** | Rural Water and Sanitation program | INL | 2010 | 20 | 100% |
| **ES-L1022** | Program for Housing and Comprehensive Improvements for Informal Urban Neighborhoods | INL | 2010 | 70 | 100% |
| **ES-L1016** | Reduction of Vulnerability in Informal Urban Neighborhoods in the San Salvador Metropolitan Area | INL | 2011 | 50 | 100% |
| **ES-L1050** | Transportation Program for the San Salvador Metropolitan Area | INL | 2011 | 45 | 100% |
| **ES-L1086** | Habitat for Humanity: Increased Access to Home Improvement Financing for BOP | INL | 2014 | 5 | 100% |
| **Productive development** | | | | | |
| **ES-L1057** | Program to Support Production Development for International Integration | INL | 2011 | 30 | 100% |
| **ES- L1058**[a] | Innovation for Competitiveness Program | INL | 2012 | 30 | 0% |

*Note:* In addition, there were 12 technical cooperation operations for US$4.2 million on crosscutting issues (Table III.7, Annex) and 19 technical cooperation operations for US$31 million in dialogue areas (Table III.8, Annex). a. Cancelled.

*Source:* OVE, using IDB data. Disbursements as of 31 October 2019.

3.26 In terms of crosscutting issues, gender was considered in 11 sovereign guaranteed loans (44%) and climate change was considered in five (20%), but there were also specific operations

71 CNE statistics. In 2019, the IDB Group approved a photovoltaic park on the roofs of an industrial park.

that addressed these issues (Table 3.5). Ciudad Mujer,[72] executed through the Social Inclusion Secretariat, was supported by the IDB from its inception. In 2016, an initial loan to develop five centers was finalized, followed by another loan (approved in 2015) that was cancelled due to questions about the use of funds from the preceding operation. This limited the program's expansion, but Ciudad Mujer continues to operate six centers with specialized female staff, financed through mandatory contributions from the participating institutions. According to the final evaluation of the first loan, the operation had effects in reducing gender violence, improving credit access, reducing maternal mortality and teenage pregnancy, and promoting rights. However, the evaluation also indicated that these efforts should be systemic. On climate change, the IDB used technical cooperation operations to generate diagnostic assessments on vulnerability to natural disasters, including proposals for construction regulations, maps of infrastructure vulnerability, and an action plan to combat seismic vulnerability. In 2019, the IDB approved a loan operation to reduce the climate vulnerability of the coffee-growing sector. In migration, the IDB played an active role in coordinating the PAPTN, providing technical cooperation for planning and monitoring activities and approving in 2018, under the PAPTN umbrella, a line (RG-O1667) that has not yet been ratified.

3.27 In the dialogue area of citizen security, the IDB reinforced the efforts of the Government of El Salvador to tackle a problem that had created a sense of urgency. The Government of El Salvador identified security as a priority area in its Five-year Development Plan. In 2012, the IDB approved a loan operation (ES-L1025) that was executed mostly from 2015 onward and which was aimed at preventing youth crime. To this end, the operation supported strengthening the Deputy Ministry for Prevention at the Ministry of Justice and Public Safety; launched an integrated crime information system; strengthened the Office for Social Prevention of Violence and Peace Culture and a center for electronic monitoring of inmates; improved the video surveillance network in the AMSS and Parques de Convivencia for youth violence prevention; and supported the Yo Cambio program for job training at correctional institutions. The operation identified the risk of delays in ratification, promoting consensus in the legislature on the importance of caring for at-risk youth. To support the program's sustainability, the commitments were secured from various entities, such as the Ministries of Education and of Labor, local governments, and

72 Ciudad Mujer sought to centralize the services of 18 State agencies in a single physical location to satisfy the basic needs of women, empower them, facilitate their financial independence, and enable them to develop in environments free of gender violence and discrimination.

donors. Accordingly, a governance committee was created and its budgetary sustainability was agreed upon. In addition, the country made strides on security issues; thus, the homicide rate was reduced almost by half, from 103 homicides per 100,000 inhabitants in 2015 to 60 homicides per 100,000 inhabitants in 2017 (the most recent year with available data).

3.28 In the dialogue area of land management, urban development, and housing, there was a substantial legacy portfolio whose execution was boosted over the period. The Rural Water and Sanitation Program (ES-L1046) succeeded in solving challenges in obtaining land parcels and coordinating with municipios and other territorial entities, achieving its goals for works. In addition, actions were carried out to strengthen the capacity of the executing agency and help develop a master plan for drainage and source improvement in priority microwatersheds. During the period, the IDB also completed the execution of the Program for Housing and Comprehensive Improvements for Informal Urban Neighborhoods (ES-L1022) of 2010, followed by another operation in the San Salvador Metropolitan Area (AMSS) (ES-L1016).[73] These loan operations supported reform of the legal framework, strengthening of the sector's institutional structure,[74] building and zoning codes, improvements in housing and basic services, and reduction of water vulnerability.[75]

3.29 At the subnational urban level, the IDB helped to create the San Salvador Metropolitan Area Integrated Transportation System (SITRAMSS), but its benefits were limited due to design defects. The IDB supported a Bus Rapid Transit (BRT) system (ES-L1050), financing seven stations along 6.4 kilometers as the first phase of a 19-kilometer mobility project. The operation was complex, because it required a variety of actors to come to an agreement in a polarized political context. In addition, being very visible, the operation was exposed to detailed scrutiny by part of the population. Execution was delayed and ultimately completed in 2015, but the benefits of the system failed to materialize due to a lack of integration of feeder roads, opposition from transportation trade unions, limited private investment (only 18% of the buses went into operation), and an interim judicial measure that halted the dedicated lane in 2017 (and was upheld in 2019), removing a key advantage of the BRT system. Nevertheless, users report partial benefits.

73 Combines basic and social infrastructure in a sample of 29 informal urban neighborhoods vulnerable to landslides and floods with actions outside the informal urban neighborhoods to address the water risk in the San Salvador Metropolitan Area.

74 Salvadoran Housing Fund, National Low-income Housing Fund for subsidies, and the Deputy Ministry of Housing and Urban Development as the governing body.

75 Worth noting is the *laguna de laminación,* a large urban stormwater reservoir built in an area of conflict between gangs, which the Bank and the social areas of government worked to create.

3.30 In the dialogue area of productive development, there was less progress, partly because of the high country risk. The Program to Support Production Development for International Integration (ES-L1057) sought to strengthen exporting SMEs, diversify exports, and attract foreign direct investment (FDI). The program had three, inexperienced coexecuting agencies. Multiple challenges were tackled, but none of them were addressed in a substantive manner.[76] However, for some executing agencies this support was essential. El Salvador's Export and Investment Promotion Agency (PROESA) managed a US$7.5 million component, considerable in relation to its annual budget of US$5 million and relevant because Fomilenio, the initiative that fostered it, is coming to an end in 2020. At the country level, exports and FDI decreased over the period.[77]

76 For example, the economic and commercial counselors initiative at embassies, executed by the Foreign Ministry, was underexecuted and the profiles differed from expectations. In addition, there were problems in developing the "country brand," promoting commercial agreements, and building the National Quality Center. However, support was provided to 22 SMEs so that they could begin to export, courses were given in commercial policy, and Salvadorans abroad were selected as investment promoters.

77 Exports of goods and services went from 28.9% of GDP in 2014 to 27.6% of GDP in 2017; net FDI went from 2.2% of GDP in 2014 to 1.3% of GDP in 2017. World Development Indicators. World Bank.

# 04

# Conclussions and Recommendations

4.1 The country strategy objectives were relevant, but there is a lack of clarity as to the criteria used to identify them as priorities among the country's larger set of needs. The objectives proposed by the country strategy were relevant, reflecting the urgency of addressing the country's fiscal situation and preserving the continuity of long-term investments in human capital and logistics infrastructure. To prepare the country strategy, the IDB performed an exhaustive diagnostic assessment that pointed up a broad set of challenges. As had been recommended by OVE in the previous CPE, the country strategy objectives were to consider the country's structural challenges, including both the fiscal area and the productive area. Although it was expected that strategy would respond to the country's requests, it failed to justify the selection of strategic objectives on the basis of clearly identified criteria that objectively considered the needs of the country, the comparative advantages of the IDB Group, and the division of labor with other actors.

4.2 Major areas of the executed program were poorly aligned with the strategic objectives of the country strategy, while in education an objective was set even though the IDB neither had, nor achieved, the presence needed to support it during the period. The balances corresponding to the legacy portfolio were equivalent to nearly half of the approvals planned for the period, but the bulk of these amounts (60%) was not aligned with the country strategy's strategic objectives. The nonsovereign guaranteed windows significantly increased their relative share, coming to account for 26% of the approvals for the period (compared with an average of about 10% in previous periods). However, although various roles had been envisaged for the private windows, including support for the priority areas of human capital and logistics infrastructure, in practice these windows focused on operations unconnected to the country strategy objectives, such as financing for SMEs and energy. Meanwhile, the country strategy set an objective in education, which the program then failed to support.

4.3 In addition, the country strategy did not consistently specify the division of labor with other donors, which made it hard to coordinate in pursuit of shared objectives, such as in education. The country strategy mapped out the areas of support from the major donors but did not consistently explain how the work with these agencies would be coordinated. On the one hand, the country strategy described the expected interaction with the Plan of the Alliance for Prosperity in the Northern Triangle (PAPTN), one of the two major initiatives undertaken in the period with international support. On the other hand, the other major initiative, Fomilenio II, which had begun to be designed three years prior to the country strategy, was hardly mentioned despite its focus on education, where it adopted objectives similar to the IDB's and supported them through more than US$100 million in grants; logistics infrastructure (a priority area of the country strategy); and productive development (a priority for the country and a dialogue area of the country strategy). Fomilenio II will conclude in 2020, extinguishing this source of support in education as well as key entities for productive development (PROESA for foreign direct investment and OMR for regulatory improvement).

4.4 In a complex fiscal context, the IDB continued to be the country's main financial partner, providing a blend of instruments that supported most of the strategic objectives. The IDB reduced the volume of approved sovereign guaranteed loans almost by half, which was consistent with the fiscal context and the need to manage the sizeable legacy portfolio. The program stood out for the prominent role of PBLs with relatively strong conditionalities, made possible by the political consensus that the IDB helped to create through technical cooperation operations, and of large-sized loans, predominantly consisting of second phases to provide continuity to long-term investments and strengthen key counterparts.

4.5 The proportion of nonsovereign guaranteed support grew to one fourth of the portfolio and succeeded in adapting to the country's risk environment, but challenges persist in attracting private investment and implementing PPPs. Nonsovereign guaranteed financing focused on productive development, an expected role but one that did not support any strategic objective in the country strategy. However, IDB Invest succeeded in innovating and adapting its products to the country's risk environment both with financial intermediaries and in renewable energy, where it helped to create a market through a series of operations. Ultimately, the expected nonsovereign guaranteed support for the priority areas of logistics infrastructure and human capital did not materialize, partly due to the country's risk environment and the lack of consensus on the use of PPP mechanisms.

4.6 Most of the objectives in the area of public finance were achieved, with the Bank playing a proactive role in an issue of central importance for the country, and objectives in the other two priority areas—human capital and logistics infrastructure—were also achieved, though to a lesser extent. In public finance, improvements are evident in fiscal sustainability and targeting of subsidies, which are related to actions promoted through the IDB's technical cooperation operations and PBLs, although challenges persist in public expenditure, prioritization of investments, and resilience to shocks. In human capital, the program did not provide adequate support for the education objective; however, in health, the IDB helped to consolidate a new healthcare model and promote improvements in maternal and child health. In logistics infrastructure, the IDB succeeded in concluding several projects, but the deterioration in road services highlights the importance of placing renewed focus on maintenance. The objective of customs integration was not given adequate support.

4.7 However, the weaknesses in the country strategy results matrix made it hard to get a full picture of the achievements. The objectives only partially covered the portfolio that was expected to be executed and the actions which, according to the "change theories" delineated in the country strategy, were presumably necessary to achieve them. Updated data were only available for half of the indicators selected under the country strategy, and data could be regularly obtained from the country's monitoring and evaluation systems only for about one third of the indicators. It should be noted that monitoring and evaluation was one of the few country systems that the country strategy did not propose supporting during the period.

4.8 There were some setbacks in terms of execution costs and times. The IDB's Country Office in El Salvador actively worked to support the program and expedite the ratification process. Nevertheless, ratification times averaged three years, thus doubling with respect to the previous period and generating costs for the IDB and for the country. The presence of the Country Office in El Salvador was appreciated, but its staffing level seems high in relation to the program for the period. The delays in expected implementation times continued to be extensive, and implementation costs rose. However, the use of PBLs accelerated the pace of disbursements by a factor of five. Similarly, the costs and times associated with preparing investment loan operations fell, partly due to the continuation of operations with experienced executing agencies and an increase in the average size of operations.

4.9 Although progress was made, the sustainability of the investments supported by the IDB was uneven. In areas in which consensus had been achieved, such as in health, gender, and security, the Government of El Salvador undertook to absorb the cost of services to ensure their continuity. However, in other areas, the IDB did not succeed in establishing, in advance, as envisaged in the country strategy, a medium- and long-term financing strategy for the sustainability of works and services. For example, in the rural water and sanitation sector, the plan is to transfer works to subnational entities, but agreements for maintenance of the works have yet to be signed. A similar situation occurred with services, such as the economic councils at embassies, which were not fully maintained.

4.10 Based on these findings, OVE has four recommendations for IDB Group Management:

1. **Set clear criteria for prioritizing country strategy objectives, taking into account the potential contribution of the legacy portfolio, IDB Invest, and synergies with other donors.** The constraints imposed by the country's limited fiscal space could well persist into the 2020-2024 period, so selecting the strategic objectives for the new country strategy will require a rigorous process of setting priorities that seeks to maximize the use of program resources. The legacy portfolio and private sector operations may constitute valuable inputs towards fulfilling the selected objectives. Likewise, it will be more important than ever to promote effective coordination with other donors. Accordingly, OVE recommends: (i) setting clear and explicit criteria for prioritizing the country strategy objectives; and (ii) taking into account the contribution of the legacy portfolio and IDB Invest, as well as possible synergies with other donors with similar objectives.

2. **Foster the strategic use of technical cooperation operations to promote a national consensus designed to bring about the resolution of key development issues and the legislative ratification of loans.** The technical default that took place in 2017 and the lengthy ratification times for loans illustrate a larger problem for the country: difficulty in reaching consensus. In this context, the IDB's technical cooperation operations have been shown to play a key role in achieving consensus on controversial issues such as fiscal reform, which in turn expedites legislative ratification of the associated loans. Accordingly, OVE recommends: (i) continuing to make strategic use of technical cooperation operations to promote the availability of objective analyses of key issues for the country's development that can be used by the parties to reach consensus; and (ii) facilitating technical dialogue on the operations during the legislative ratification process.

3. **Promote mechanisms to reinforce the sustainability of investments supported by the IDB.** Despite visible improvements over the period, the sustainability of the reviewed operations could not be guaranteed as planned. In a context of fiscal constraints, there were (unanticipated) challenges in terms of allocating the budgetary resources

needed to give continuity to these services as well as to maintain the investments made. The sustainability challenges were not limited to the financial sphere but rather also encompass the need to consolidate State policies (to which the preceding recommendation contributes), agreements (including at the subnational level), and coordination and maintenance mechanisms. Accordingly, OVE recommends: (i) considering, in the design stage of country program operations, the future budgetary implications for the country, e.g. infrastructure maintenance or additional staff; (ii) promoting agreements between the stakeholders involved, seeking to lock in their commitment to sustainability; and (iii) advancing the country's interest in strengthening institutional mechanisms responsible for the maintenance of investments.

4. **Reinforce the results framework of the IDB Group's new country strategy with El Salvador, so that it may guide the program to be executed, promote learning, and achieve greater use of country monitoring and evaluation systems, helping to strengthen them.** OVE found that the results framework of the country strategy made it difficult to collect data and that the selected indicators only partially covered the expected actions and the program as executed. This made it hard to use the framework to guide implementation, evaluate outcomes, and generate lessons applicable across the program. Accordingly, OVE recommends: (i) seeking greater alignment between the results framework of the new country strategy, its objectives, and the lines of action of the program to be executed; (ii) promoting the use of this framework as one of the tools to monitor the effectiveness of the program and extract lessons; and (iii) supporting the country in efforts to strengthen its monitoring and evaluation system, so that system indicators can serve as the basis for the results framework of the country strategy and the operations and can be updated in a timely and reliable manner.

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