



Central
American
Bank for
Economic
Integration

CABEI

EL SALVADOR

COUNTRY STRATEGY 2015-2019





CABEI

**Central American Bank for
Economic Integration**

**EL SALVADOR
COUNTRY STRATEGY
2015-2019**

COVER PAGE



This document is an operational instrument that allows CABI to tie its strategic guidelines for 2015-2019 to El Salvador's development priorities and needs, in order to provide strategic vision to stimulate economic growth and social development. It will also guarantee the Institution's relevance as a strategic ally to El Salvador. In order to achieve this goal, this strategy has the flexibility and capacity to adapt with any fundamental changes in the environment; so it can be adjusted to meet the requirements, contingencies, and express requests from the authorities of the country. The data and projections included are available as of December 31, 2015. The preparation of this Country Strategy include the feedback from meetings with officials from public and private institutions in El Salvador, whom the Bank appreciates their willingness and valuable collaboration.

The cover of this Strategy and the Section IV "2015-2019 CABI Strategic Offer for El Salvador" includes graphic elements and a color palette, with a specific meaning.

The hexagons found throughout the document represents the six focus areas defining CABI's strategic offer for El Salvador, in line with sustainable development, and its contribution towards the strategic axes social development, competitiveness and regional integration. The color palette represents four traditional elements from Salvadoran culture: indigo blue, from its principal export crop, deep pink from its national tree Maquilishuat; yellow, from the national bird the Torogoz and green, from the agricultural usefulness of its national flower, Flor de Izote.

The cover is a composition of six hexagons with graphic representations from the six focus areas, whose dynamism represents the operational flexibility and availability of CABI to El Salvador.

Tegucigalpa, Honduras, 2016.

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Central American Bank for Economic Integration.

Annex DI-65/2016.

2015-2019 El Salvador Country Strategy

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INTRODUCTION

The Republic of El Salvador is a country of lower middle income and medium human development. The country's dollarized economy is highly dependent on private consumption, a component which is strongly rooted in family remittances from Salvadorans living abroad – mainly in the United States of America. This flow has been growing in recent years; in 2015 it grew US\$125.0 million over the previous year, to reach US\$4.30 billion. The country's exports have also managed to recover their dynamism, to such an extent that by the end of 2015 there was net growth of 4.0%, with the coffee and *maquila* sectors strengthening this trend.

El Salvador is expected to receive greater flows of foreign direct investment that are necessary to activate an economic take-off. Development - especially that of the low-income population - requires the emergence of virtuous circles that encourage the growth of the Salvadoran economy.

The nation is currently facing a series of local, regional and global challenges. The current situation presents a panorama of crises and opportunities. From this reality, the aspirations of the Salvadoran people require greater social stability and sustainable development. The various sectors of society are facing this future through proposals which, from their own vision, are intended to lead the country towards scenarios of greater well-being.

The new Salvadoran authorities began a second consecutive period of national government on June 1, 2014. Their prior efforts were characterized by the development of important works of social and productive infrastructure. As in the previous period, issues of low economic growth, violence and criminality continue to influence the agendas of all sectors in the country.

The Central American Bank for Economic Integration (CABEI) is available to support El Salvador with respect to the fields of action defined by its Board of Directors. Throughout its history, the Bank has played a leading role for the Central American region,

accompanying both the public and private sectors in various interventions of great impact.

In the face of a new government administration, the Bank confirms its willingness to continue supporting El Salvador through projects that fall in framework of the focus areas defined in its Institutional Strategy and that comply with the guidelines established by the Institution.

THE 2014-2019 FIVE YEAR PLAN FOR A PRODUCTIVE, EDUCATED AND SAFE EL SALVADOR is the strategic commitment of the present government to its vision for achieving the country's equitable and inclusive development. Its contents include the central ideas and action plans that have been structured to meet the targets within the current five-year period. In practice, these initiatives involve specific projects that require funding. The government must use its own resources, grants and external funding to deal with the challenge.

This document involves a roadmap through which CABEI can meet the country's needs with an integrationist perspective and a focus on environmental sustainability, using its extensive experience in development projects in the Central American region.



SECTION
I

SUMMARY

The Salvadoran economy showed an uptick in 2015, while short term prospects are favorable.

At the close of 2015, the official estimate of GDP growth stood at 2.5%, higher than the average registered during the last five years (2.0%). Short term prospects are favorable, taking into account the international context and the continued implementation of public policies to promote greater economic growth.

The country recorded progress in the reduction of poverty and inequality, while implementing a new methodology for poverty measurement.

The percentage of homes in a condition of poverty (measured by income) dropped from 37.8% to 31.9% (2009-2014), and income distribution improved. On the other hand, the country implemented a new multidimensional poverty measurement methodology that identifies major lacks in households and will help to guide public policies. Moreover, the country must face the environmental challenges involving natural disasters and the effects of change climate.

The Bank's operations contributed to the financing of Salvadoran development priorities, generating impacts through the six focus areas of the CABI 2010-2014 Institutional Strategy.

The Bank approved 40 operations amounting to US\$1.13 billion and made disbursements of US\$1.30 billion, in the 2010-2014 period. The approved amounts concentrated on the focus areas of Productive Infrastructure, Energy and Human Development and Social Infrastructure areas (71.7%); while disbursements focused on Financial Intermediation and Development Finance, and Human Development and Social Infrastructure (74.1%).

THE BANK EXPECTS TO APPROVE OPERATIONS
ON THE ORDER OF US\$ 1.32 BILLION AND
DISBURSED APPROXIMATELY US\$ 1.64 BILLION

The proposed CABI strategy for El Salvador for the five-year period 2015-2019 will support the country's authorities to provide opportunities for improving the population's living standards, raising the potential for economic growth, strengthening social equity and inclusion and fostering conditions to increase public safety levels. The Bank will promote interventions that lead to sustained higher and more inclusive economic growth, capable of generating jobs in sectors with high added value. For this purpose, the Bank will contribute to the development of support infrastructure for productive activities; facilitate efficiency and energy security; promote the development of a more inclusive financial system; contribute to raising the human capital of Salvadorans through interventions that expand access to education and healthcare; impact the well-being and quality of life of Salvadorans through the development of affordable high-quality housing solutions with adequate basic services coverage; and promote initiatives that have an impact on strengthening public safety.

The 2015-2019 El Salvador Country Strategy has been designed by taking into account the country's development priorities, the Institutional Strategic Framework and the main elements of the world development agenda. The strategy takes as reference the country's priorities expressed in its 2014-2019 Five-Year Development Plan (5YDP): El Salvador, Productive, Educated and Safe. It is also part of the CABI 2015-2019 Institutional Strategy: Integrating Sustainable Competitiveness and Development. The Country Strategy also incorporates the main elements of the world development agendas with regard to the Sustainable Development Goals (SDGs). For this purpose, the Bank expects to approve operations on the order of US\$ 1.32 billion and disbursed approximately US\$1.64 billion.





SOCIOECONOMIC AND ENVIRONMENTAL

SECTION

II

CONTEXT

MACROECONOMIC CONTEXT

The Salvadoran economy showed positive momentum in 2015 as a result of production growth in all of the economic activities and the dynamic of the aggregate demand. At the close of 2015, the official estimate of real GDP growth stood at 2.5%, above the average registered during the last five years (2.0%). On one hand, all the economic activities showed real positive variation in the third quarter; standouts included real estate and business services (4.0%); trade, hotels and restaurants (3.8%); manufacturing (2.9%); actual growth reached 2.6%. On the other hand, the components of aggregate demand showed positive development; trade stood out with annual growth of 8.8% in exported volume (4.0% in value), mainly in activities related to the manufacturing industry, whose sales abroad accounted for 95.7% of the total value of exports in the period. Likewise, private consumption was stimulated by the increase in real wages (7.5% through the third quarter), as well as by increases in nominal credit to households (5.6% through November) and a higher annual flow of family remittances (3.0%), in a context of low inflation¹.

The international panorama presents a favorable short-term economic outlook for the country.

Salvadoran authorities are predicting a GDP growth rate of 2.6% for 2016, mainly underpinned by the expected rebound of the US economy (its effect on the dynamics of trade and family remittances) as well as by improvement in the terms of trade. In this context, the authorities envisage enhancing opportunities through continuity in the implementation of public policies to promote stronger economic growth. It is important to note that this forecast is consistent with the estimates of international agencies², and the predicted recovery is in line with the objective of the Salvadoran authorities to raise the potential growth of the economy to 3.0% by the end of 2019³.

The authorities have identified important challenges to directing the country toward greater sustainable economic growth, with the cross-cutting challenge of improving public safety conditions. The authorities recognize that, to promote an economic take-off that is sustainable in the long term, it is of vital importance address certain aspects that limit the potential of the economy. Standing out among them is the need to promote productivity in the tradable sector, as well as to generate higher levels of investment, mainly in specialized services and sectors with the possibility of providing greater added value. In addition, it is important to encourage the development of comparative advantages, as well as to support productive chains and credits, which would contribute to the establishment of a sustainable⁴ approach to competitiveness. In addition, the cost of violence in El Salvador represents approximately 11.0% of GDP, which shows that the lack of security is a binding constraint to the country's economic growth and productivity⁵.

The sustainability of public finances has been a priority policy matter, and higher economic growth is expected to improve the fiscal situation. During the last five years, the authorities implemented measures to stimulate the collection of tax revenue, which was used for various purposes, including attention to emergencies caused by natural disasters, liabilities from the reform of the pension system and social protection and public safety policies. Thus, the government was able to increase revenue from 14.3% to 15.9% of GDP, reduce the deficit of non-financial public sector from 4.3% to 3.6% of GDP⁶, and mitigate the growth of the public debt ratio, which amounted to 56.8% of GDP in June 2015, among other aspects. On the medium term, it is expected that economic growth will facilitate the implementation of measures that contribute to expanding the taxable base, increasing the tributary collection and reducing the debt ratio.

SOCIAL CONTEXT

The country recorded progress in the reduction of poverty and inequality.

Between 2009 and 2014, the percentage of households below the national poverty line fell from 37.8% to 31.9%, representing more than 600,000 people who came out of the condition of poverty⁷. In this context, reducing poverty (measured by revenue) has been particularly significant with regard to extreme poverty, which fell from 12.0% to 7.6% in the period. Similarly, there was improvement in the income distribution, which was reflected in the decrease of the Gini coefficient from 0.48 to 0.38; this represents a significant accomplishment because it contrasts with the increase in inequality in many emerging countries⁸. According to the government's Five Year Development Plan (SYDP), inequality reduction was initially favored by migration and remittances, and in recent years, by a set of factors involving the impact of the various social programs promoted by the Government.



The recent adoption of a multidimensional poverty measurement methodology is expected to help guide public policy in the coming years.

The country adopted a measurement methodology⁹, which recognizes that poverty is more than a phenomenon involving lack of income. The methodology is composed of 20 indicators, grouped into five areas of well-being, which each involve areas where the population is deprived: (i) education; (ii) housing conditions; (iii) work and social security; (iv) health, basic services and food security; and (v) habitat quality. This new work scheme is expected to help improve the management of public policies through a greater impact, by facilitating the identification of the main areas in which the fight against poverty, as well as the formulation and evaluation of these policies, should focus.

The first measurement carried out in 2014 identified that 35.2 % of Salvadoran households are multidimensionally poor¹⁰. According to the results, the main deficiencies are associated with low adult education, access to social security, underemployment and job instability, sanitation and overcrowding. The report on multidimensional poverty measurement¹¹ reflected differences in the incidence of poverty at a national level, which demonstrated the detrimental state of rural areas, where the rate reached 58.5%; in urban areas it was 22.5%. In addition, qualitative differences were identified between urban and rural areas; in urban environments, there is a predominance of deprivation in the quality of habitat associated with the lack of public spaces for recreation, the incidence of crime and the restrictions caused by public insecurity. In rural environments, there is greater deprivation with regard to the physical conditions of housing, access to basic services, and shortcomings in the educational opportunities for children.

The country has attained average progress of 96.4% in relation to the compliance of the MDGs¹². El Salvador reached the second best position in the Central American region, surpassed only by Costa Rica with 98.1%. With respect to the achievement of specific targets, standouts include those linked with reducing extreme poverty, eliminating gender disparities in primary and secondary education, reducing the incidence of malaria and other major diseases, as well as halving the population without access to basic sanitation services.

THE FIRST MEASUREMENT CARRIED
OUT IN 2014 IDENTIFIED THAT 35.2 %
OF SALVADORAN HOUSEHOLDS ARE
MULTIDimensionALLY POOR



ENVIRONMENTAL CONTEXT

El Salvador is a country that is highly vulnerable to natural phenomena and the effects of climate change. The country is rated as “Highly Vulnerable” environmentally by the South Pacific Applied Geosciences Commission (SOPAC), which is part of the United Nations Environment Program (UNEP). El Salvador tops the list of countries with the highest risk in the world, with 88.7% of the national territory, where 95.4% of its population lives and 96.4% of its gross domestic product is generated, considered a risk area¹³. The effects of the changing climate have been manifested in such ways as substantial changes in the rainfall distribution patterns, in time and space and in the increase of the occurrence of adverse climatic events, which have occurred more and more frequently in recent decades, with high human and economic costs. For example, between November 2009 and October 2011, the economic damage amounted to US\$1.30 billion or the equivalent of 6.0% of the GDP¹⁴.

The country's main environmental problems involve the degradation of its ecosystems, the state of water resources and the levels of contamination. Human intervention, without an environmentally sustainable approach, has led to losses in valuable ecosystems, such as mangroves, wetlands, coffee plantations, water bodies and watersheds. Thus, for example, the Five Year Development Plan (SYDP) notes that between 1996 and 2010, the amount of land covered by forests declined from 18.6% to 12.8%, while with regard to water supply, since 2008 El Salvador has been one of the countries with the lowest availability of water per capita in Latin America¹⁵. The quality of water sources is poor due to the irresponsible management of toxic materials, domestic and industrial waste, which is discarded without proper treatment, and the abuse of chemicals in agriculture. In addition, currently air pollution levels in El Salvador are above the WHO guidelines¹⁶, and with increasing urbanization and increasing automobile use, the situation could worsen.

International environmental evaluations demonstrate that the country has deficiencies in environmental matters. The 2014 Environmental Performance Index¹⁷ placed El Salvador 115 out of 178 countries on a global level; comparing it with a subset of regional countries, the report identifies relative weaknesses in air quality; access to water and sanitation; waste treatment; and deforestation; as well as biodiversity and habitat. On the other hand, the country's results, with respect to the economic sustainability of the Social Progress Index¹⁸, show that the country presents relative weaknesses when compared with other countries of similar per capita income, with regard to the percentage of water extraction in relation to the availability of the resource, as well as biodiversity and habitat.





SECTION
III

EL SALVADOR

2010-2014

During the five-year period from 2010-2014, CABEI contributed to strengthening El Salvador's social development, competitiveness and regional integration. The Bank approved 40 financial operations amounting to US\$1.13 billion, which represented 14.8% of approvals to the region¹⁹ during the five-year period. 91.8% (20 approvals totaling US\$1.04 billion) was distributed to the public sector with 8.2% (20 approvals totaling US\$92.2 million) to the private sector. With respect to disbursements, the Bank disbursed US\$1.30 billion, which was 18.7% of disbursements to the region during the five-year period (US\$6,969.4 million). 89.4% (US\$1,165.4 billion) was distributed to the public sector with 10.6% (US\$138.0 million) to the private sector.

APPROVALS AND DISBURSEMENTS BY FOCUS AREAS

The Bank's operations contributed to financing Salvadoran development priorities, generating impacts through the six focus areas of the 2010-2014 CABEI Institutional Strategy. The approved operations concentrated on the focus areas of Productive Infrastructure, Energy and Human Development and Social Infrastructure, amounting to US\$811.3 million, equivalent to the 71.7% of the total. On the other hand, the areas of Financial Intermediation and Development Finance and Human Development and Social Infrastructure received the majority of disbursements (74.1%).

The approved Productive Infrastructure operations will allow greater local and regional physical integration, leading to lower transportation costs and to greater competitiveness of the productive sectors. CABEI approved four operations on the order of US\$351.0 million to strengthen productive infrastructure. Approvals went mainly to initiatives for the development of road and port infrastructure including noteworthy projects, such as the expansion of the highway to Puerto La Libertad, Sections II and III, and the construction of the Arce and Anguiatu bridges on the borders between El Salvador-Guatemala at Hachadura and Anguiatu. Along those lines, US\$163.0 million was disbursed, of which 45.6% was channeled through credit lines.

DURING THE FIVE-YEAR PERIOD FROM
2010-2014, CABEI APPROVED 40
FINANCIAL OPERATIONS AMOUNTING
TO US\$ 1.13 BILLION AND DISBURSED
US\$ 1.30 BILLION TO EL SALVADOR

TABLE I.

Approvals and disbursements by focus areas, five-year period from 2010-2014
(millions of dollars and percentages)²⁰

FOCUS AREA	APPROVALS			DISBURSEMENTS	
	Numbers	Amounts	Percentages	Amounts	Percentages
Productive Infrastructure	4	351.0	31.0	163.0	12.5
Energy	5	234.5	20.7	55.9	4.3
Human Development and Social Infrastructure	5	225.8	20.0	295.7	22.7
Financial Intermediation and Development Finance	24	205.4	18.2	669.7	51.4
Agriculture and Rural Development	1	60.0	5.3	54.1	4.2
Industry, Urban Development and Competitiveness Services	2	54.4	4.8	64.9	5.0
Total	40	1,131.2	100.0	1,303.4	100.0

Source: CABEL-OPEP.

The interventions approved to the Energy sector will contribute to increasing generation capacity through renewable sources, reducing air pollution, reducing production costs and promoting energy security.

The Bank allocated US\$234.5 million to the funding of five renewable energy interventions. Noteworthy approvals of resources for the development of sustainable and viable energy alternatives, include the Project of Expansion of the 5 de Noviembre Hydroelectric Plant and the 15 de Septiembre Photovoltaic Plant Project. Also notable are two operations involving the issue of compliance guarantees on behalf of the Hydroelectric Executive Commission of the Lempa River (CEL) for US\$24 million and US\$22 million respectively; taking into account that CEL is one of the main generators in the market²¹, the operation contributed to the country's energy security. The resources disbursed in this focus area amounted to US\$55.9 million, of which 15.3% was channeled through credit lines.

The interventions approved in Human Development and Social Infrastructure were geared to facilitating access to housing for the lower-income population, improving access to services, such as water and sanitation, improving education and health infrastructure, as well as strengthening institutional capacities in the field of public safety.

In line with the Bank's priority of strengthening the region's social development, CABEL approved five interventions for a total of US\$225.8 million to support human development and social infrastructure. The initiatives promoted during the five year period targeted improving the conditions of life of the inhabitants, through funding for the development and execution of public investment in social infrastructure projects. It should be noted that regarding the issue of public

security, an operation was approved to strengthen the institutional capacity of the Office of the Attorney General; this will involve investments that promote the standardization, professionalization and modernization of all entities involved in security and the administration of criminal justice, while simultaneously ensuring that the victims and the general public may have access to services in an orderly, efficient and agile manner. In the framework of this area, disbursements amounted to US\$295.7 million, channeled through the network of financial intermediaries in El Salvador (US\$168.2 million) and through direct credit for the execution of projects (US\$127.5 million).

In Agriculture and Rural Development, CABEI approved an operation that will reduce poverty levels in rural areas through the creation of wealth and well-being for families that are involved in family agriculture. The US\$60.0 million approved corresponded to the Plan for Family Agriculture and Rural Entrepreneurship for Food and Nutritional Security (PAF), which is expected to improve agricultural production systems, thereby meeting the nutritional needs of families in subsistence conditions. The program also expects to reduce the levels of chronic malnutrition in children of beneficiary families under two years old and to optimize agricultural productivity by increasing the area sown and introducing technology, as well as by improving post-harvest and agricultural management. Those disbursements amounted to US\$54.1 million, and 56.9% was channeled through credit lines.

In the area of Financial Intermediation and Development Finance, operations will contribute to improving the capacities of the public and private financial system to increase access to credit and boost local entrepreneurship, as well as to strengthen the stability of the financial system. The Bank approved 24 operations for US\$205.4 million in this focus area. On the one hand, new credit lines were approved through the Bank's network of public and private financial intermediaries, totaling US\$105.4 million. On the other hand, CABEI approved a US\$100 million credit line of to the Salvadoran Central Reserve Bank (BCR)²², which will allow it to support the Deposit Guarantee Institute (IGD) to deal with potential bank closings; this will contribute to strengthening the country's financial stability. Regarding disbursements, CABEI channeled US\$232.2 million through credit lines for financial intermediation and US\$437.5 million for a credit line for the BCR.

Operations in the area of Industry, Urban Development and Competitiveness Services were geared to strengthening the government's institutional capacity. The Bank approved US\$54.4 million for strengthening the institutional capabilities of the Attorney General of the Republic²³ and for the construction and equipment of modern facilities for the Legislative Assembly. Disbursements for the five year period amounted to US\$64.9 million, all channeled through credit lines.



Family Farming and Rural Entrepreneurship Program Plan for Food and Nutrition Security, El Salvador

APPROVALS AND DISBURSEMENTS BY SECTOR

The Bank allocated 91.8% of its approvals to the public sector, mostly to attend projects, while the rest went to the private sector through financial intermediation programs. The Bank approved US\$1.04 billion to finance public sector operations, of which US\$846.5 million was destined principally for the execution of projects (US\$799.8 million) and for financing guarantees (US\$46.7 million). Likewise, US\$192.5 million was approved through new credit lines for the public sector, of which US\$92.5 million was allocated to financial intermediation. As regards the private sector, US\$92.2 million in new credit lines was approved for financial intermediation.

The financial sector channeled the vast majority of resources that the Bank disbursed to the country.

The Bank disbursed US\$951.5 million to institutions in the financial sector and US\$351.9 million to non-financial institutions. Of the resources that were disbursed to the financial sector, US\$437.5 million (46.0%) went to the BCR, while US\$514.0 million (54.0%) was allocated to strengthen the capacity of the financial system by increasing access to credit for low-income communities and encouraging local entrepreneurship. In terms of the resources disbursed to the non-financial public sector (US\$351.9 million), 81.4% was destined for the execution of public projects (US\$286.6 million).

TABLE II.
Approvals and Disbursements by sector
(millions of dollars and percentages)

SECTOR	APPROVALS			DISBURSEMENTS	
	Number	Amounts	Percentages	Amounts	Percentages
Non-financial Public Sector	15	846.5	74.8	351.9	27.0
Financial Public Sector	5	192.5	17.0	813.5	62.4
- BCR	1	100.0	8.8	437.5	33.6
- Other	4	92.5	8.2	376.0	28.8
Financial Sector (private)	20	92.2	8.2	138.0	10.6
Total	40	1,131.2	100.0	1,303.4	100.0

Source: CABI-OPEP.

THE BANK ALLOCATED 91.8% OF ITS APPROVALS TO THE PUBLIC SECTOR, MOSTLY TO ATTEND PROJECTS

2010-2014 CABEI APPROVALS AND THE MILLENNIUM DEVELOPMENT GOALS (MDGS)

As the entity responsible for the promotion and integration of the economic and social development of its member countries, CABEI supported the country to comply with the Millennium Development Goals. Approvals during the 2010-2014 period were directly tied to the MDGs, categorized by the level of expected development impact as measured by the I-CABEI tool. Of the 40 interventions approved for El Salvador in the 2010-2014 period, 38 had links with at least one of the Millennium Development Goals. Most of the approvals were geared to contribute to the fulfilment of the MDG 1²⁴: Eradicate Extreme Hunger and Poverty (38 operations), MDG 8²⁵: Develop a Global Partnership for Development (27 operations) and MDG 7: Ensure Environmental Sustainability (9 operations).

LESSONS LEARNED

With the purpose of improving the effectiveness of operations in El Salvador, the Bank has identified a number of lessons from the review of its recent experience in the country, which will be taken into account in the implementation of this strategy.

- **Integral proposal based on institutional experience and proactivity.** While the 2010-2014 El Salvador Country Strategy did a good job of identifying specific potential financing needs derived from the SYDP, such interventions were not necessarily part of a systematic, comprehensive and integrated development scheme that allowed them to maintain their linkage to the focus area as proposed, due to changes in the external and internal environment. Therefore, it is necessary for country strategies to have the flexibility necessary for interventions to be better linked with the development scheme defined by the country, through an integral proposed based on institutional experience and proactivity to attend other priority areas.
- **Provision of prioritized financing toward relevant interventions.** Although the CABEI framework of action is expansive enough to support a variety of initiatives, taking advantage of a country's institutional financing capacity implies prioritizing relevant interventions. To that end, the Bank should maintain a close relationship with the Government of El Salvador in order to continuously identify and prioritize interventions that lead to the country's social and economic progress, such as those aimed at increasing competitiveness in the framework of public safety, social inclusion and productive infrastructure.
- **Institutional support for the process of formulation and implementation of public sector projects.** The technical support provided by sector specialists and project executives to the executing units has yielded fruits in El Salvador by transforming general action lines into projects that are subject to financing. In this regard, it is important to consider that, while the public sector leads in terms of proposed CABEI projects, the implementation of a more aggressive support strategy by the Bank would facilitate proactive identification of sector initiatives that conform to institutional interests, mainly those achieving the desired impact, balanced resource placement according to the focus areas and compliance with goals.



- **Management of non-reimbursable cooperation resources under more favorable conditions for pre-investment.** Pre-investment has been an effective tool that makes it possible to meet the technical assistance needs of the executing units and leverage new interventions for the country's development. The Bank must strengthen its management oriented at the promotion and placement of pre-investment through the CABEL Country Office, while at the same time ensuring the procurement of resources on non-reimbursable terms or those more favorable than current conditions.
- **Development of the financial system as a channel of support to El Salvador's inclusive growth.** Global credit lines represent a significant portion of the operations in the country and have managed to position CABEL as a resource provider in a niche market of financial institutions, mainly cooperatives, which in many cases, cater to business segments and persons that are not served by the traditional banking system. Strengthening access to intermediated financing will allow to the CABEL expand the scope of its impact and, at the same time, contribute to the inclusive growth of El Salvador. In addition, support to the Central Bank for the management of its liquidity and the maintenance of its contingent credit line will continue to be relevant for strengthening the soundness of the financial system, in the context of a dollarized economy.
- **Promotion of alternative financing schemes. The breadth of needs expressed in the 2014-2019 SYDP poses the challenge of innovating and promoting financing schemes that do not involve direct borrowing by the public sector.** One mechanism that allows a combination of the different sectors' abilities and resources, through medium and long term investment, is the Public-Private Partnership (PPP). The legal framework²⁶ of El Salvador has evolved to make possible the execution of projects with a high social impact, under clear rules, with well determined risks, providing legal certainty for investors. In that sense, CABEL can provide technical assistance and financial resources for specific areas, supporting the identification of strategic projects that could involve a PPP, training officials and local authorities, as well as supporting the search for potential private investors.
- **Increase the operational efficiency of development interventions.** El Salvador has presented timelines for formalization and implementation of its interventions that are in line with the time periods established for such purposes. However, it would be convenient to improve response times at all the stages of the Project Cycle, in order to optimize processes related with timely attention to the needs of the country and mitigate the risks associated with delays in the continuity of the business.





2015-2019

CABEI'S STRATEGIC OFFER FOR

SECTION
IV

EL SALVADOR

REFERENCE FRAMEWORK

The 2015-2019 El Salvador Country Strategy has been designed by taking into account the country's development priorities, the institutional strategic framework and the main elements of the world development agenda. In order to strengthen the relevance and positioning of the CABEI Plan for El Salvador, the Strategy takes as reference the 2014-2019 Five-Year Development Plan: El Salvador, Productive, Educated and Safe (**Annex I and Annex II**), which posits the implementation of industrial development policies, strengthening human capital and a safe and conducive environment for business. Likewise, the Strategy is based on the CABEI 2015-2019 Institutional Strategy: Integrating Sustainable Development and Competitiveness, which defines the long term strategic approach to the Bank's management, especially through its strategic axes of Social Development, Competitiveness, Regional Integration and Environmental Sustainability. Similarly, the Strategy is strengthened through the incorporation of the principal elements of the world development agendas, particularly in relation to the Sustainable Development Goals (SDG)²⁷.

STRATEGIC OBJECTIVE

The proposed CABEI strategy for El Salvador for the five-year period from 2015-2019 will support the country's authorities to provide opportunities for improving the population's living standards, raising the potential for economic growth, strengthening social equity and inclusion and fostering conditions to increase public security levels. The Bank promotes interventions that lead to sustained higher and more inclusive economic growth, capable of generating jobs in sectors with high added value. For this purpose, it will contribute to the development of support infrastructure for productive activities, which will facilitate trade and encourage investment and the generation of quality employment, both in urban and rural areas. Likewise, it will facilitate energy efficiency and security, through a greater generation capacity and use of renewable energy sources. In addition, it will promote the development of a more inclusive financial system, in support of the competitiveness of Salvadoran companies. The Bank will also contribute to strengthening the human capital of Salvadorans through interventions that expand access to education and healthcare; impact the well-being and quality of life of Salvadorans through the development of affordable high-quality housing solutions with adequate basic



services coverage; and promote initiatives that have an impact on strengthening public safety.

The Country Strategy is an operational instrument with the flexibility to make adjustments to a changing environment. In the framework of the definition of these areas, the Bank recognizes the challenge of maintaining continuous operational flexibility, mainly due to the complex local context. In this sense, it is important to emphasize that, while this Strategy constitutes a road map, the approaches presented are, to a certain point, indicative of the actions that the Bank want to achieve in the country. However, in a constantly changing and volatile context, planning on the level of specific interventions must be adjusted to respond to requirements, contingencies, and requests expressed by the country's authorities.

FOCUS AREAS - DIAGNOSIS, MAJOR STRATEGIC INITIATIVES AND IMPACT ROUTES

In the framework of its 2015-2019 Institutional Strategy, CABEL offers the country a program structured by focus areas. This clarifies the Bank's orientation and facilitates decision-making for approving strategic initiatives aimed at attending the country's development priorities. In that context, this section is the product of a combination of the abovementioned conceptual framework and the objectives of the 2014-2019 Five-Year Development Plan. In order to objectively identify interventions, a CABEL's mission visited private and State institutions, which contributed valuable inputs that are now reflected in this document.



HUMAN DEVELOPMENT AND SOCIAL INFRASTRUCTURE

The area denominated Human Development and Social Infrastructure focuses its support on interventions aimed at improving human potential and the quality of life of the population. Capitalizing on its institutional experience, the Bank will place a special emphasis on projects aimed at the construction and equipping of sector infrastructure, in order to assist in reducing the intensity and incidence of deprivation experienced by Salvadoran households in terms of basic needs coverage and quality. The range of operations that can be attended by CABEL in El Salvador includes projects related with the areas of social housing, water and sanitation, as well as health and education.

SOCIAL HOUSING

El Salvador faces the challenge of resolving the situation affecting 944,000 families, who are living in overcrowded conditions, in poor housing, with little or no access to basic services. Given that context, social housing presents a significant opportunity for CABEL. Such interventions allow the Bank to mitigate a condition that affects six of every ten Salvadoran households²⁸. The Bank directs its Strategy towards the development of sustainable cities, aligning itself with the objectives of the Sustainable Development Goals (SDG), especially with regard to urban poverty, access to basic services, competitiveness and public safety.

Income limitation is one factor that hinders the acquisition of housing in El Salvador. According to data published by UNDP²⁹, only 28.0% of households nationwide have the ability to pay the value of a proper housing unit for living. This means that low

demand will not produce the necessary incentives for commercial builders to provide an adequate supply for the needs of the low-income housing market. The UNDP report states that in order to close the gap, there is the need to build 29,300 homes per year, which implies an investment of US\$395.0 million annually. The same source notes that US\$263.0 million is required to repair 667,500 homes that are deficient in terms of quality conditions.

The National Policy of Housing and Habitat (PNVH) is the instrument through which the Government of El Salvador defines its route for achieving the aspirations embodied in its commitment to the nation of “progressively ensuring the population’s access to livable housing and an appropriate habitat.” Among the specific objectives of the PNVH are reducing the quantitative housing deficit by 2.0%, and reducing the qualitative deficit by 3.0%. In order to ensure sustainability and accessibility for the population, it is undertaking the establishment of a financing system for housing and habitat.

CABEL has a program called the Central American Program for Housing and the Development of Sustainable Habitat (VIDHAS), which is designed to improve the quality of life of Central Americans through improved access to housing in an expanded urban environment by means of funding interventions that promote social inclusion and poverty reduction, thereby satisfying the demand for social housing and services. The Program for Housing and Improvement of Precarious Urban Settlements³⁰ of the Vice Ministry of Housing and Urban Development (VMVDU) is in line with the Bank’s program in such aspects as attention to the homes of poor families affected by natural disasters or in at risk situations; the implementation of modalities such as the construction of on-site housing; the establishment of new organized settlements; and the provision of existing housing. The Ministry of Public Works, Transportation, Housing and

Urban Development (MOPTVDU) estimated that an amount of US\$173.0 million is required to meet the priority needs of the housing and urban development sector in El Salvador.

ACCESS TO WATER AND SANITATION SERVICES

CABEI's Regional Water and Sanitation Program (PRAS) has the objective of improving the quality of life of Central Americans by providing access to basic services, such as drinking water and sanitation, including the treatment of wastewater. This is achieved through development interventions that effectively improve the current conditions of the target population.

A report on Measurement of Multidimensional Poverty in El Salvador states that 23.7% of Salvadoran households do not have access to safe drinking water, while 46.9% of them are affected by lack of access to sanitation. In addition, the lack waste and wastewater treatment generates high levels of pollution, to such degree that the Ministry of Environment and Natural Resources (MARN) reports that only the 5.0% of the water in rivers is unpolluted; the collateral damage is manifested in the impact on the social and economic sectors of the country, such as waterborne diseases, changes in agricultural production, food security risks, loss of crops, low productivity and high production costs, among others.

According to the National Administration of Aqueducts and Sewers (ANDA), there is an urgent need to carry out the replacement and modernization of the infrastructure at strategic points, such as the Las Pavas Water Treatment Plant, which is critical because it supplies drinking water to the majority of inhabitants (1.7 million) in the Metropolitan Area of San Salvador (AMSS). In this context, CABEI has supported ANDA in determining the scope and definition of the project to rehabilitate of the Las Pavas Water Treatment Plant, for which financing which has been approved, to be supplemented with concessional funds from the Republic of France. The implementation of this project is scheduled to start in 2016. The project is consistent with several of the objectives included in the 2014-2019 ANDA Institutional Strategic Plan, including increasing the rate of coverage of operations and maintenance by 15.0% through 2018; reducing the consumption of electrical energy by at least 25.0% through the renewal of electromechanical equipment and rehabilitation of the Lempa river system (Las Pavas) pumping stations; as well as increasing the production and expansion of drinking water coverage to 200,000 homes in the Gran San Salvador area.

In addition, the Bank is financing studies to determine opportunities for improving energy efficiency at the institutional level. Continued support is expected for the formulation and funding of those viable projects that are proposed as a result of the research. Similarly, the Bank will continue to work with the Government of El Salvador in the definition and structuring

of other projects that are geared to improving capabilities and achieving efficiencies in the distribution of drinking water in the northern part of the country. Sanitation programs on a regional level also constitute an opportunity for CABEI to provide support.



Las Pavas Water Treatment Plant, El Salvador



Maria Isabel Rodriguez, MD, Women's National Hospital, El Salvador

UNIVERSAL HEALTH CARE ACCESS AND COVERAGE

The Declaration of the UN General Assembly (2012) argues that health is an important cross-cutting policy issue in the international arena, since it is a pre-requisite, a result and an indicator of social, economic and environmental development.

According to the data published in the report on measurement of Multidimensional Poverty³¹, 15.2% of Salvadoran households do not have access to healthcare services. The same report states that healthcare is not available to the 16.5% of the homes in a situation of multidimensional poverty. 70.1% of households nationwide generally do not participate in the social security system.

One of the main aspirations reflected in the 2014-2019 SYDP is to gradually ensure the Salvadoran population's universal access and coverage to quality healthcare. The same document cites, as one of its main healthcare challenges, the establishment of an integrated organizational and managerial model for such services in order to ensure the continued quality of attention.

The Salvadoran Government's interest in deepening healthcare reform began in the five-year period from 2009-2014 and will now be realized through the action lines set out in the 2014-2019 SYDP for accomplishing its goals; these focus on reducing maternal mortality, lowering infant mortality, immunization programs and reducing healthcare expenditures by Salvadoran households. The authorities have declared that this will require increased investment to make a decisive advance towards the integration of the National Healthcare System (SNS)³².

In this context, the Bank continues to support the work of construction and equipping of the National Maternity Hospital by means of disbursements scheduled to finish the project. Likewise, the needs of the health sector will continue being considered as opportunities for intervention by CABEL, with a focus on strategic initiatives aimed at hospital infrastructure and equipment. The Bank has preferential interest in all actions that contribute to the achievement of the objectives set out by the authorities through State policies regarding the National Integrated Health Care System (SNIS), the Law for Development and Social Protection, the Hospital Infrastructure Program - Living More and Better and the Social Development, Policy, among others.

EDUCATIONAL DEVELOPMENT

Education developed from a perspective of inclusion and quality constitutes an essential part of the contribution to the process of social transformation through integral human development. The education sector's efforts to implement policies and programs to overcome the gaps in coverage and quality serve as a basis to foster a productive society, with greater capacity to generate wealth and greater knowledge and professional and technical expertise, as reflected in the efficiency and competitiveness of productive activities.

The 2014-2019 5YDP states that not only is education one of the three priorities for the present five-year period, but it is the key factor for breaking the vicious circle of poverty, inequality, insecurity and poor growth on the long run. The goal is to progressively close the educational gaps in the country, thus fostering the progress and well-being of the population. The 2013 Report on Human Development in El Salvador (IDHES 2013) declares that if a family group has 10 years of education, this opens the probability of escaping poverty. The 2014-2019 5YDP seeks to increase average schooling to 6.7 grades on a national level.

The basis for the development of skills needed throughout life takes place in early childhood; in the case of El Salvador, there is an opportunity to provide better access to early education and preschool. In 2014, the effort to increase the participation of boys and girls resulted in a 1.7% increase on the national level, with the poorest municipalities showing lower response levels. One of the goals for the five years from 2014-2019 consists in expanding the coverage of early education by 10%, thereby supporting the National Policy for the Education and Integral Development of Young Children.

The Educational Infrastructure Policy was established at the end of 2014 and sets out a comprehensive model for the construction of buildings that provide all the conditions for an appropriate process of teaching and learning, including and taking into account the underlying characteristics of the environment.

According to official figures of the Ministry of Education (MINED), CABEL gave US\$11.0 million (74.1%) of the amount invested in rehabilitation and/or construction projects during the 2014 - 2015 period³³; the Bank also supported the MINED with US\$49.2 thousand for land survey projects. Such contributions accounted for 44.3% of the total of investment by MINED in infrastructure projects and provision of school furniture during that period. Based on the goals in the 2014-2019 5YDP, it can be affirmed that El Salvador will continue presenting intervention opportunities for CABEL, focusing mainly on attention to educational infrastructure on a national level.



Educational and Public Safety, Rural Works and Risk Mitigation Support Program, El Salvador



PRODUCTIVE INFRASTRUCTURE

The Central American Bank for Economic Integration (CABEI) supports El Salvador in its efforts to increase its productive capacity, thereby enabling sustainable and inclusive economic development in the country. To that end, the Bank's interventions in the sectors of transportation, logistics and mobility contribute to achieving this goal.

(Two programmatic goals of the 2014-2019 SYDP, which depend on the development of the country's productive infrastructure: i) increasing exports to Central America and the Caribbean by 10.0% and; (ii) increasing foreign investment by 5.0%. The sectors of industry, tourism and trade are closely tied to increased growth and investment opportunities. The facilitation of national and intra-regional trade and the strengthening of production is best achieved if there is an extensive, efficient road network in good condition. The port and airport capacities must be suitable to allow a timely response to the country's trade opportunities in a demanding global environment.

Official data from the Salvadoran Ministry of Public Works, Transportation, Housing and Urban Development (MOPTVDU)³⁴ estimate that the priority investment in public works in El Salvador amounted to US\$788.0 million. Two-thirds of that amount (US\$521.0 million) is earmarked for civil works. Such funds serve to support strategic projects such as the development and modernization of logistical corridors (national and Central American), roads for productivity, bridges for development, mitigation works, and the highway north of the Metropolitan Area of San Salvador, among others.

Noteworthy among recent CABEI contributions to El Salvador is a loan for the construction of the expansion of the road to Puerto de La Libertad, the bypass at Puerto de La Libertad and of two binational bridges located at heavily transited border crossings (Anguiatu and La Hachadura). This loan contains an

important component of non-reimbursable funds obtained through the Yucatan Fund Program, which CABEI signed with the Infrastructure Fund for Mesoamerica and the Caribbean (FIPAMEC). It is estimated that these works will be under construction starting in 2016.

The Bank also has supported the logistical corridors, specifically in the maintenance of routes CA8W (Sonsonate Bypass) and CA125 (La Libertad–Puerto de Acajutla) through the execution of a loan to support productive and social investment. Consideration has also been given to continue financing the completion of road works in the northern part of the country; these represent the counterpart for the successful closing of the first FOMILENIO. Additionally, CABEI is working with MOPTVDU to arrange financing for a series of strategic works that have been prioritized by the authorities in order to promote a program of logistical corridors and vulnerability reduction; execution is expected to begin in 2016.

CABEI will contribute to the structuring of a financing program that promotes the scheme pursued by Salvadoran authorities to convert the country into a high-level export center - productive, efficient, and competitive - through the expansion and modernization of the passenger and freight terminals at the "Monseñor Oscar Arnulfo Romero y Galdámez" International Airport of El Salvador. These projects would open strategic intervention possibilities for the Bank. The proposed installation is already an important regional airline connection center, which is currently equipped with 17 positions for passengers and three for freight; it manages traffic that exceeds 2 million passengers per year.

Other of the Bank's significant initiatives include the modernization and adaptation of secondary national airports, development of extra-port zones, modernization of border posts, and of works related to the implementation of the FOMILENIO II Program, now on a national scale.



5 de Noviembre Hydro Plant Expansion Project, El Salvador



ENERGY

CABEI is willing to support public and private programs that encourage the achievement of the goals of the National Energy Policy of El Salvador. In that sense, the Bank will consider initiatives that contribute to diversifying the country's energy matrix and to promoting renewable energy sources; promoting energy efficiency and savings; strengthening interconnections to the regional energy market; and to expanding the country's energy coverage and security.

The 2015 Annual Report on the El Salvador Energy Market (CNE) illustrates the energy matrix's degree of dependency on hydrocarbons. 45.6% of the installed capacity was produced from thermal generation (756.6 MW); hydraulic was in second place with 28.5% (472.6 MW); 14.0% (226.0 MW) was produced from biomass; finally, geothermal generated 12.0% (204.4 MW)³⁵. This perspective justifies the decision of national authorities to transform the country's energy composition, within a context of expanding coverage and achieving greater cost efficiency and environmental sustainability. The definition of new regulatory frameworks will allow a transition to scenarios where renewable energy plays a much greater role.

In the 2014-2019 5YDP, the Salvadoran Government expresses its intention to increase electrical energy coverage by at least 2.0% during the five year period³⁶. In El Salvador, almost all households (95.1%) have electricity service³⁷, although not all of them have a connection of their own.

The Bank may support projects based on new sources of renewable energy. Notable initiatives include the Metapán Wind Park and the 15 de Septiembre Photovoltaic Plant; small hydroelectric projects; and biogas plants, such as that on Acelhuate river- the project not only enables clean energy generation, but will also reduce the pollution produced by inhabitants of the communities, trade and industry in the municipalities where the

river passes. The Government's goal of the 2014-2019 period is to increase the production of renewable energy by 15.0%, with respect to total produced energy.

Additionally, CABEI provides direct support to finance projects that use geothermal energy; these efforts are led by the CEL group and carried out by La Geo in Chinameca, Berlin and San Vicente. The eastern part of the country will also be the stage for continued funding of the construction of the El Chaparral Hydroelectric Plant the expansion of the 5 de Noviembre Hydroelectric Plant. In addition, the CEL group has communicated the need to contract a guarantee for faithful compliance with environmental issues, which is also eligible for the CABEI support.

With regard to the regional market, the Bank may provide support for complementary investments to the Central American Electrical Interconnection System (SIEPAC) to expand and improve the network and its connections. In a joint effort with the Guatemalan National Institute of Electrification, the CEL group received support from the Bank for a pre-feasibility study of hydroelectric projects on the Paz river. The potential project would take advantage of water resources shared by both countries for the benefit and progress of both nations. If requested, CABEI would be willing to support the development of this interesting binational energy project.

CABEI will contribute to promoting the efficient use of energy sources through a focus on clean production systems that allow a reduction in business costs. Likewise, the Bank will provide support to small-scale energy projects for business purposes and for logistical facilities, such as ports. The Bank can support initiatives involving rural electrification and urban settlements with social housing that make it possible to close gaps in household coverage.



Family Farming and Rural Entrepreneurship Program Plan for Food and Nutrition Security, El Salvador



RURAL DEVELOPMENT AND THE ENVIRONMENT

CABEI has the experience, programs and resources to help the country with initiatives that promote rural productivity, food security, environmental sustainability and climate change mitigation and adaptation. Facing an environment characterized by the incidence of droughts, crop pests in strategic crops and deterioration of climate and environmental conditions, El Salvador has addressed these challenges by establishing the goals reflected in the 2014-2019 Five-Year Development Plan.

The Presidency of the Republic of El Salvador has made a commitment to accelerate economic growth and work on sustainable poverty reduction; the objective is to decrease inequality and territorial, sector and gender imbalances, with a special emphasis on rural families, helping them move from subsistence production to agriculture that generates economic surplus and that can ensure their food and nutritional needs.

The five-year goal of the Salvadoran Government is to increase basic grain self-sufficiency to 85.0% in order to reduce dependency on imports that are currently required to supply the national market³⁸. This is in line with the first objective of its program - to boost the economy in benefit of families, companies and the country.

The 2007-2008 IV Agricultural Census identified 395,588 producers. The population is characterized by working on small farms, operating with low productivity and in conditions of poverty; there is limited or no access to credit and technology. 325,044 smallholders consume the majority of what they produce and

sell the surplus to supplement their subsistence needs³⁹. The remaining 18.0% are commercial producers. This involves activities of low added value⁴⁰ without crop diversification, mainly grains such as corn, beans, and sorghum; they are also at risk from natural disasters. In addition, the lack of technical support and credit access limits their use of more efficient technologies⁴¹.

According to the 2014 Multipurpose Household Survey (EHPM), almost one fifth⁴² of the economically active population (EAP) on a national level is dedicated to the field of agriculture and livestock⁴³, which occupies second place in the four most important activities of the Salvadoran economy. In rural areas, the activity is located in first place with the 41.8% of the population involved.

The profile of the Ministry of Agriculture and Livestock's (MAG) "Project to Support Family Farming for Good Living in El Salvador" describes an opportunity for comprehensive development for which CABEI may provide support to El Salvador; this would be through its Plan for Rural Agriculture and Rural Entrepreneurship for Food and Nutrition Security (PAF), which has operated successfully in the country since 2012. The new project involves six major components⁴⁴.

Another of the major challenges faced by El Salvador is to reduce the vulnerability of its territory; this can be observed in gradual changes in average temperature, changes in the sea level and radical alterations in rain pattern, in terms of frequency, intensity and location. The annual economic damage suffered by the country as a result of extreme climatic events is high, averaging US\$1.30 million between November 2009 and October 2011, which is equivalent to 6.0% of GDP⁴⁵. It should be recognized that environmental degradation and climatic variability hinder economic development and affect the quality of life of the population, especially the most vulnerable. The Global Fund for Disaster Reduction and Recovery has determined that El Salvador

tops the list of countries with the highest risk in the world. According to this source, 88.7% of the national territory is at risk; this same area is inhabited by the 95.4% of the total population and generates 96.4% of GDP. Climate variability is the main cause of annual agricultural fluctuation - rains and drought of an extreme nature, which result in agricultural losses each year. Climate variability also impacts human settlements with adverse climatological effects that can result in destructive damage to households and communities⁴⁶.

Goal 7 of the 2014-2019 SYDP seeks sustainability and resilience to climate change in the economy and society. Some of the goals considered that could be supported by the Bank's strategic initiatives include: i) reduce economic losses caused by climate variability in the agricultural sector by 1.0% of GDP; (ii) increase the number of at-risk municipalities with early-alert systems by 20.0%; (iv) recover 10,000 hectares of salty forest and surrounding ecosystems; (v) renew 30.0% of coffee farms to ensure their resilience to climate change ; (vi) reduce the number of threatened species or those in danger of extinction by 10.0%; and (vii) decrease the consumption of substances that deplete the ozone layer by 25.0%.

The Bank's support may be directed at those interventions and plans described in the government's National Climate Change Plan, the National Environmental Policy and National Biodiversity Strategy; taken together, they would make it possible to promote initiatives for the sustainable productivity of smallholders through actions such as specialized technical assistance, organic farming and slaughter houses linked to markets, among others. The Bank will provide El Salvador and the region with resources obtained as a result of CABI's accreditation as an implementing entity of the Adaptation Fund, and formalization of the accreditation process with the Green Climate Fund is expected. In this framework, CABI will continue its support to the country for the formulation and implementation of national and regional initiatives that contribute to issues, such as the fight against drought, management of water resources and financing change climate management initiatives.





FINANCIAL INTERMEDIATION AND DEVELOPMENT FINANCE

The Bank's efforts will continue to focus on expanding the financial system's attention capabilities in order to promote greater financial inclusion through its different programs. In the specific case of El Salvador, during the current period the Bank has considered continuing with its support for strategic financial intermediation initiatives, such as expanding the Global Credit Lines (GCL) to public and private financial institutions, which, due to their coverage levels and commercial vocation are properly qualified to channel funds to the various sectors of the population. In addition, CABEL's efforts will continue to contribute to the stability of the financial system through a contingent line in favor of the Central Reserve Bank, with the intention of supporting the financial needs of the Deposit Guarantee Institute.

The Bank's interventions will complement the Government's efforts related to the objectives embodied in the recent Law to Facilitate Financial Inclusion, the Investment Funds Law, the National Policy for the Development of Micro and Small Enterprise, the National Entrepreneurship Policy and the Law for Promotion, Protection and Development of Micro and Small business, among others. In this sense, the Bank will keep up a proper communication with the Government in order to support actions and initiatives that allow the harmonization of financial indicators with the rest of the region - such as greater access to credit and incentives for saving.

The Bank will support the channeling of resources and promote intermediation initiatives that allow the development of an MSME financing system. Among the goals that we aim to achieve are the following: encourage their capitalization and increase their productivity; promote processes of regional integration of MSMEs; and support regional cooperation efforts, among others. Through its long history of support for this sector, the Bank has distinguished itself as a significant multilateral development organization, specialized in the fund channeling and administration, both its own and those of countries that support the region.

The GCL that the Bank makes available to its Intermediaries Financial Institutions (IFI) provide the institutions with a revolving credit quota which may be used for disbursements in the framework of the financial intermediation programs. At the level of its regional portfolio, there are 13 specialized financial intermediation programs for strategic areas, as detailed below: i) Support Program for MSMEs; ii) MSME Program - Agribusiness; iii) MSME Program - Energy Efficiency; iv) MSME Program - Renewable Energy; v) MSME Program Biodiversity-Friendly; vi) Program for MSMEs affected by natural disasters; vii) the CABEL Educational Credit Program; viii) the Social Housing Program; ix) Middle Income Housing Program; x) Municipal Infrastructure Financing Program (PROMUNI); xi) Promotion Program for Productive Sectors (PROSEP); xii) Liquidity and Financial System Expansion Program (PROSIFI); and xiii) Foreign Trade (IFACIL).



COMPETITIVENESS SERVICES

CABEI will support El Salvador in the process of strengthening and development of the competitiveness and management of the public sector. The Bank will promote strategic initiatives that contribute to reducing the gaps observed in certain sectors mentioned in the National Policy for Development, Diversification and Productive Transformation, including market intelligence, productive linkages, and trade facilitation, among others. Within this framework, it is worth mentioning two major goals of the 2014-2019 Five-Year Plan: increasing exports to Central America and the Caribbean by 10.0%, and expanding foreign direct investment by 5.0%.

The Bank will continue to support the country in projects involving modernization of government infrastructure, such as the construction of the Integrated Judicial Center at Santa Tecla; Construction, Equipment and Modernization of the Central Offices for the Salvadoran Attorney General; Construction and Equipment for Offices for the Legislative Assembly; Construction and Basic Equipment of the National Civil Police Center.

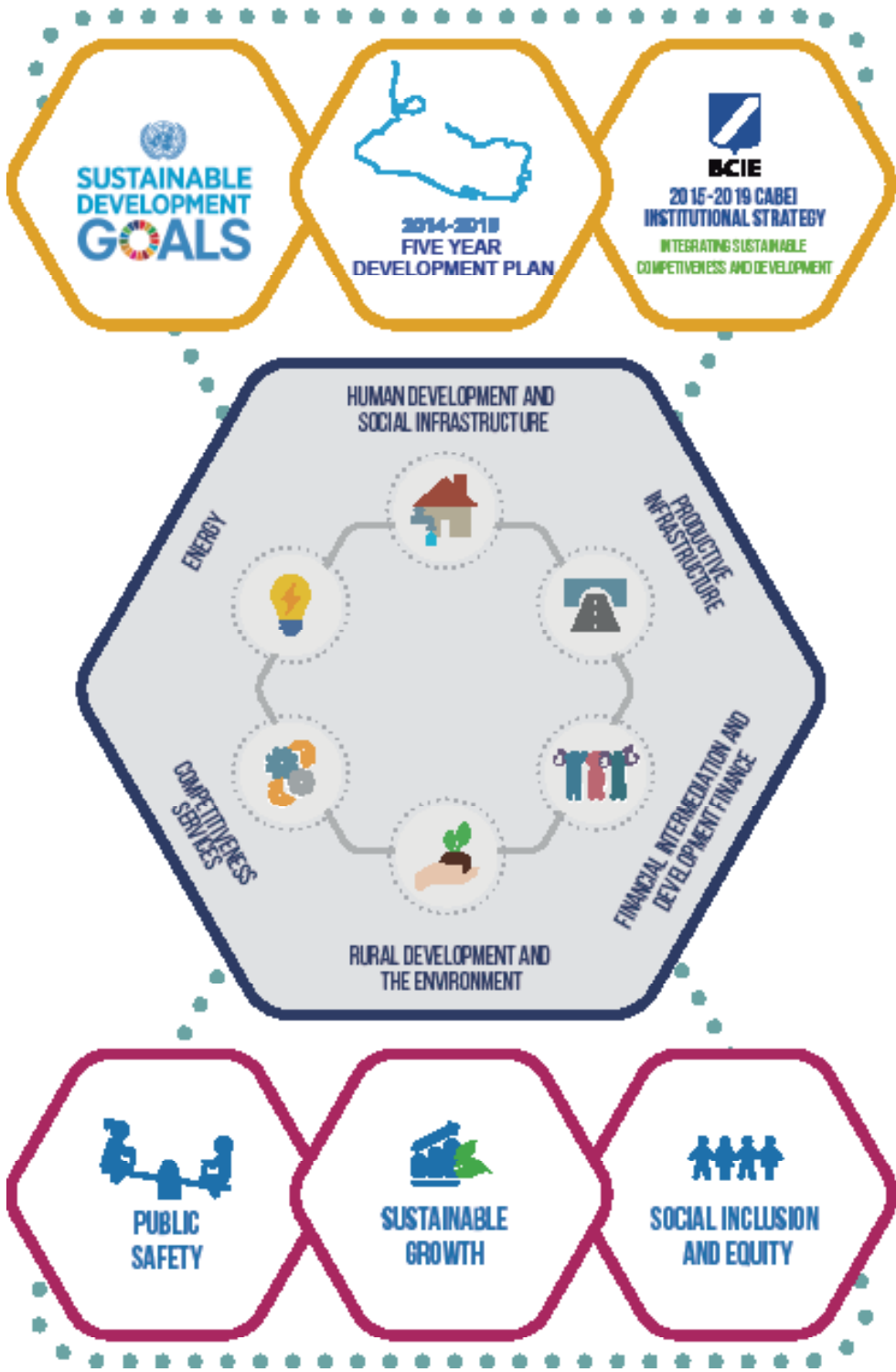
Phase II of “Midiendo El Salvador” is a project of the National Registry Center (CNR) supported by the Bank; it will benefit the Salvadoran population by providing free cadastral and registry information, as well as information about boundaries and the size of their houses, among others. The National Planning System, designed to create a government capable of planning and managing development, is one of the proposals for the five-year period, which will allow CABEI to identify viable strategic initiatives.

The Bank will facilitate the support to initiatives that seek to increase the levels of Public Safety. One of the Government’s goals is to reduce the rate of victimization by 10.0% by the end of the five-year period. The interventions will be oriented at supporting the objectives of the Safe El Salvador Plan; the Strategic Institutional Plan of the National Civil Police (PNC); the National Justice Policy, Public Security and Coexistence Policy; and the National Strategy for Violence Prevention and the Central American Security Strategy (ESCA)⁴⁷, which together seek to provide an integral response to the violence problems suffered by the Salvadoran population. To that end, the Bank will keep close communication with the Salvadoran authorities to find opportunities for funding to support some of the goals.

The Special Program of Public Safety in El Salvador (PESCES) has been approved by CABEI to strengthen the capabilities of the National Civil Police (PNC) to combat crime, through interventions that strengthen and support criminal investigation, its operations in general and police presence in the entire territory of El Salvador. In its five-year plan, the Presidency of the Republic noted that prisons are at triple capacity; this a high level of overcrowding hinders the recovery and reintegration of convicted persons. To address this problem, it has set the goal of reducing prison occupancy by 40.0%.



2015 - 2019 EL SALVADOR COUNTRY STRATEGY





IMPLEMENTATION

SECTION V

MECHANISMS

BUSINESS MODEL AND STRATEGIC ALIGNMENT

The institutional proposal for the following five years requires policies oriented at promoting economic integration and balanced economic and social development, both within the country and in its interactions with its fellow Central American countries. Strengthening the CABEL value proposition requires key efforts to strengthen its relevance to the region, such as diversifying services and products; and improving the credit risk rating to facilitate funding in international markets.

The Bank should strengthen its resources at different levels to ensure greater impact and efficiency in its operations with the region's countries. In the period from 2015-2019, the Bank must strengthen its strategic alliances and develop its human, economic and technological resources; strengthen relationships with its members and develop service channels; consolidate a viable, sustainable and consistent financial strategy, as well as a portfolio of products better tailored to the characteristics and needs of its members; and focus its attention on the development needs prioritized by the countries, in a scenario of financial sustainability.

In order to maximize the Bank's contribution to the development of El Salvador, it will implement the Country Strategy pursuant to the alignment defined in the Institutional Strategic Framework.

In that sense, the Country Strategy should ensure flexibility and adaptability in accordance with fundamental changes in the country, always taking into account the objectives and goals of the 2015-2019 CABEL Institutional Strategy. On the other hand, attention to initiatives must be carried out through the application of the instruments and mechanisms defined by the sector intervention frameworks for each focus area. Likewise, the five-year programming proposal must serve as a reference for the formulation of the annual operational programming over the five years.

In order to strengthen CABEL's relevance in the context of international cooperation, it is important that **the Country Strategy is in line with the objectives of the assistance provided by the principal development agencies present in El Salvador**. In that sense, CABEL's proposal will complement actions that other donors are carrying out in the country, particularly in the fields of social development, competitiveness, economic growth and regional integration.

CABEL will continue to support El Salvador with technical assistance resources for pre-investment, which allow strengthening the formulation of projects and the management of resources for new operations. In this sense, the Bank will promote mechanisms that facilitate access to resources on terms favorable to the country.

The Bank will manage its human talent to increase efficiency in the process of identification and generation of development initiatives. The availability of specialized knowledge, experience and capabilities will allow greater involvement in the design and structuring of initiatives from their early stages in order to consolidate institutional relevance and strengthen the development impact of such interventions.

FINANCIAL PROGRAMMING

CABEL's value proposition for El Salvador during the five year strategic period from 2015-2019 will support financial programming that involves estimated approvals of US\$1.32 billion, an annual average of US\$264.8 million; and it will make disbursements US\$1.64 billion, equivalent to an annual average of US\$328.1 million. With this offer, the Bank reaffirms the degree of commitment it has with the country and with the 2014-2019 Five-Year Development Plan (5YDP) structured by the Government of El Salvador.

The amounts presented are justified by the national needs and projects that are set out, subject to the country's particular financial restrictions. One of the principal institutional objectives is to guarantee these projections by maintaining a net positive flow towards the public sectors of its founding member countries. It is also important to emphasize that the annual implementation of this programming will be defined in detail by annual operating plans, which will be adjusted according to the express requirements of the country's development needs and priorities, in order to design different intervention profiles of that may be of interest to the authorities.

It should be noted that these projections are indicative of the magnitude of the operations that the Bank expects to undertake and are in accordance with the country's capacity to absorb resources and execute operations, as well as the estimated growth of the Bank's funding capacity. Likewise, the real figures could vary depending on the materialization of one or more of the risks set out in Chapter VI of this Strategy.

As mentioned previously, CABEL will mainly promote those operations within the framework of its current regulations and in line with the strategic axes of Competitiveness, Integration and Social Development, and which are framed within the focus areas defined in its Institutional Strategy.

TABLE III.

Projection of 2015-2019 CABEL Approvals and Disbursements in El Salvador
(US\$ million)

	2015*	2016	2017	2018	2019	TOTAL
Approvals	340.5	231.0	239.0	241.0	272.7	1,324.2
Disbursements	326.6	299.8	320.0	346.0	348.0	1,640.4

* Actual figures to the year 2015

Source: CABEL - Financial Division and Sectors and Countries Division

EXECUTION

CABEI will execute this strategy through the joint work of the El Salvador Regional Office and the advice of other technical areas involved in the various stages of the project cycle, pursuant to its regulations in force; among others it may carry out the following activities:

- Ensure that successive annual operational plans correspond to the strategic principles set out in this Strategy.
- Prioritize those operations and projects that best impact the country's strategic principles and priorities, as established in the present strategy, which is the management tool of the CABEI Country Office for scheduling its operations in the 2015-2019 period.
- Stimulate the design and the approval of financial instruments that facilitate the progress in the attention to the areas of focus defined.
- Propose alliances and collaboration agreements, technical cooperation and business with other institutions in order to strengthen the strategy's execution.
- Create synergies, additionality and complementarities with other cooperation agencies present in the country to promote interventions in strategic sectors.
- Maintain links with government, private, financial and academic information sources, given the possible changes that might arise in the country, in order to update the Bank's strategic guidelines.

ALIGNMENT OF COOPERATION IN EL SALVADOR

International cooperation is an important component of the country's financing scheme with CABEI playing the role of a valuable strategic partner for El Salvador among the other cooperating institutions operating in the country. International cooperation plays an important role in the financing projects for the development of the country. In this context, CABEI has established itself as a relevant strategic ally, having disbursed US\$3.12 billion in the 2005-2014 period, which is equivalent to 49.0% of the disbursements made by multilateral banks to El Salvador⁴⁸; in this way the Bank generates impacts in the country's priority areas through different focus areas.

CABEI HAS ESTABLISHED ITSELF AS A RELEVANT STRATEGIC ALLY,
HAVING DISBURSED US\$3.12 BILLION IN THE 2005-2014 PERIOD



There are opportunities to increase the impact on the country through interventions that complement and generate synergies with interventions financed by other institutions.

According to the current projects, it can be observed that most of the interventions of these organizations are in line with the focus areas of the 2015-2019 CABEL Institutional Strategy, which deal with Human Development and Social Infrastructure, Productive Infrastructure, Rural Development and the Environment, Energy and Competitiveness Services. In this sense, areas of convergence are analyzed, together with the other bilateral cooperation agencies, in light of their respective strategies and active projects for the next five years. Table IV illustrates the intervention areas of the World Bank, the Inter-American Development Bank (IDB), the International Fund for Agricultural Development (IFAD), the German Development Bank (KfW), the International Cooperation and Development Fund (ICDF) of the Republic of China (Taiwan), the Japanese International Cooperation Agency (JICA) and the Institute of Official Credit (ICO) providing an analysis of their strategic instruments for El Salvador and describing their projects under implementation⁴⁹.

Opportunities for cooperation with the World Bank involve initiatives in the focus areas of Human Development and Social Infrastructure; Banking and Development Finance; Rural Development and the Environment; and Competitiveness Services. Importantly, the World Bank recognizes the work of other agencies in the country on issues such as the prevention of violence and crime, energy, environmental risk management, local development, etc. and has determined that its strategic proposal should consider this information to create synergies and avoid the concentration of resources in one sector.


With the IDB, the analysis was based on the areas that are considered relevant to its strategy and the sectors in which it has active projects. In that sense, opportunities for synergy can be observed in the focus areas of Human Development and Social Infrastructure, Productive Infrastructure, Energy and Competitiveness Services. In addition, the IDB has strategic proposals that are aimed at reducing vulnerability to natural disasters and environmental degradation and fostering adaptation to climate change, which are in line with the focus area of Rural Development and the Environment, and it has active projects that seek financial inclusion, which could be in line with the focus area of Financial Intermediation and Development Finance.

IFAD focuses its efforts on the development of agricultural initiatives, including programs for food security and nutrition and productive rural development, among other topics. This allows for opportunities to harmonize initiatives in CABEL's focus area of Rural Development and the Environment that provide opportunities for men and women in rural areas to escape poverty.

TABLE IV.

Areas of intervention of cooperation agencies in El Salvador

Focus Area	WB	IDB	IFAD	KfW*	ICDF*	JICA*	ICO*
Human Development and Social Infrastructure							
Productive Infrastructure							
Energy							
Rural Development and the Environment							
Financial Intermediation and Development Finance							
Competitiveness Services							

 According to current Country Strategy

 According to the projects listed as active by the Ministry of Economy or the website of the cooperation agency.

* Bilateral organization



The German Development Bank (KfW) focuses its efforts on coordinating interventions with other multilateral agencies; however, it works directly on initiatives that focus on social development, rehabilitation of port infrastructure and trade, among others. The opportunities for synergy with CABEL therefore center on the focus areas of Human Development and Social Infrastructure, Productive Infrastructure and Competitiveness Services.

The Republic of China's (Taiwan) International Cooperation and Development Fund (ICDF) executes projects involving housing reconstruction and access to potable water that are congruent with the focus areas Human Development and Social Infrastructure. It also has several programs focused on the country's agricultural development that are in line with the focus area of Rural Development and the Environment. In addition, the ICDF has several financial development programs that correspond to the objectives of the focus area of Financial Intermediation financial and Development Finance.

The Japan International Cooperation Agency (JICA) supports road infrastructure projects that are congruent with the objectives of the focus area of Productive Infrastructure. In addition, this agency has environmental and natural risk mitigation projects, and agricultural improvement projects that are in line with the objectives in the focus area of Rural Development and the Environment. Likewise, there are projects that seek to strengthen public security through the implementation of a communal police force; and support for micro, small and medium-sized entrepreneurs, which are congruent with the objectives of the focus area of Competitiveness Services.

The Institute of Official Credit (ICO) works on projects to construct healthcare centers and hospitals, and recreational and sports centers. This allows opportunities for synergy with initiatives in the focus area of Human Development and Social Infrastructure.

MONITORING & EVALUATION

CABEL will carry out an evaluation of the El Salvador Country Strategy pursuant to its existing regulations. The evaluation will analyze the fulfillment of the objectives and goals of these strategies to draw conclusions about institutional performance in the country and to generate lessons that promote the Bank's effectiveness in contributing to the development of El Salvador.



SECTION VI

MITIGANTS

The implementation of the strategy will be subject to changing internal and external factors. The execution is exposed to various risks that can generate deviations from the strategic plan and that can affect the normal process of approvals, disbursements and project execution, as well as the expected impact of development interventions, among other effects. In this regard, project identification and appropriate management is essential. The following are some of the major risks, which can come from both inside and outside the country or that are inherent to CABEL.

EXTERNAL RISKS

Deterioration in conditions of the international economy. The country could be affected by a scenario in which its trading partners, mainly the United States, experience drops in their rates of economic growth. In addition, deterioration of terms of trade, mainly an eventual recovery in oil prices, could reduce growth prospects.

Increases in external financing conditions. Successive increases of interest rates in international markets could affect financing costs in the coming years.

Adverse Natural Events. Due to its geographical location, El Salvador is exposed to the negative impacts of the occurrence of natural events, whose effects can be amplified insofar as they are interrelated with social

behaviors that increase the vulnerability of certain population groups. The country's reaction to these events can directly or indirectly affect the Bank's operations by changing the priorities of the public and private sectors, which could therefore delay or eliminate their investment projects.

INTERNAL RISKS

Fiscal Deterioration. Scenarios involving lower revenues, greater pressures for expenditures, or both, may limit the country's debt capacity and/or lead to a reorientation of its priorities.

Deterioration of the business environment. Events that damage the underlying conditions to the business climate, such as the public safety conditions, the execution capacity of public investment, legal stability, red tape, transparency in governance, access to financing, provision of productive infrastructure, and productivity in the labor market.

Reduced capacity to establish political agreements. Difficulties in achieving consensus and reaching political arrangements could delay the legislative approval of new operations that require public debt with a sovereign guarantee.

Mitigating Factors: To mitigate the potential external and internal risk impact, the Bank will conduct constant monitoring of the most important variables in the national economy, assessing the impact that its evolution may have on operations with the country in order to take appropriate preventive measures. Likewise, the Bank will maintain

mechanisms of continuous communication with the country's authorities and may provide technical support to improve the management capacity of the executing counterparts.

THE IMPLEMENTATION OF THE STRATEGY WILL BE
SUBJECT TO AN EFFECTIVE RISK MANAGEMENT

CABEI RISKS

Delays in programming capitalization. Lower levels of capitalization would cause in a less availability of loanable resources. **Mitigating Factors:** Profit generation and the creation of strategic partnerships with other agencies.

Failures in integral risk management. This refers to events that could cause economic losses to the Bank in case of failures in integrated risk management and controls against money laundering and terrorism financing. **Mitigating Factors:** Strengthening and implementation of the integrated risk management policy. In addition, the strengthening of procedures and controls in risk management by adopting international standards and best practices.

Deterioration of the of credit risk ratings. This could make access to other sources of financing more expensive. **Mitigating Factors:** Strengthening equity capital, geographic diversification of sovereign exposure and profit generation.

Interruptions in the Project Cycle. Delays in the process of project formulation, approval and/or management that could affect the continuity of the business. **Mitigating Factors:** Strengthening operational efficiency at every stage of the project cycle and mechanisms linked to the business continuity plan.

REFERENCE NOTES

SECTION II

¹ The low inflationary pressure was partly due to the fall in the international prices of oil and its derivatives, which led to savings for businesses and homes.

² The IMF projected a rate of 2.5% while ECLAC projected 2.4%.

³ Currently, the International Monetary Fund estimates the potential GDP growth level in El Salvador at 2.0%.

⁴ In this regard, the Government of El Salvador is promoting various policies, notably the *Política Nacional de Fomento, Diversificación y Transformación Productiva de El Salvador*.

⁵ Systematic Country Diagnosis. World Bank (2015).

⁶ Ministry of Finance. Basic statistics on public finances through June 2015.

⁷ Estimates of Mario Garza and Bogdan Lissovlik (2015): *"El Salvador: Transición para elevar el crecimiento y reducir la deuda."* 7.1% of the population was in extreme poverty, and another 22.5% is in relative poverty.

⁸ Government of El Salvador. 2014-2019 *Plan Quinquenal de Desarrollo 2014-2019: El Salvador Productivo, Educado y Seguro (PQD)*.

⁹ It was established by the Article 44 of the Salvadoran Law of Development and Social Protection enacted in 2012.

SECTION III

¹⁸ 2015 Social Progress Index. Report and country fact sheet.

¹⁹ CABEL approved 176 operations in the region amounting to US\$7.67 billion.

²⁰ Due to the multidimensional character of its impact, the project for the construction, equipment and modernization of the central offices of the Prosecutor General of the Republic of El Salvador falls in the framework of two focus areas: i) industry, urban development and competitiveness services, and ii) human development and social infrastructure.

²¹ According to the SIGET statistical bulletin, CEL's generation in 2014 covered 26.02% of national demand.

²² In the framework of the Credit Program for Liquidity Contingencies of the Central Banks of the Founding Member Countries (LC 2085).

²³ The project for the construction, equipment and modernization of the central offices

SECTION IV

²⁷ For further reference, see the document of the Central American Bank for Economic Integration: "Sustainable Development Goals: Institutional Strategic Alignment".

²⁸ Government of El Salvador. *Plan Quinquenal de Desarrollo 2014-2019: El Salvador Productivo, Educado y Seguro (PQD)*.

²⁹ United Nations Development Program, *Informe de Desarrollo Humano de El Salvador 2013: Imaginar un nuevo país – Hacerlo posible*.

³⁰ Ministry of Public Works Annual Report. *Informe de Labores 2014-2015: "Informe sobre la obra y el deber cumplido."*

³¹ STPP and MINEC-DIGESTYC (2015). *Medición Multidimensional de la Pobreza El Salvador*.

³² Ministry of Health 2014-2015 Annual Report: *"Salud y Equidad. Hasta el Último Rincón de El Salvador."*

³³ Ministry of Education. *Memoria de Labores 2014-2015*.

³⁴ Ministry of Public Works, Transportation, Housing and Urban Development. 2014-2015 Annual Report: *"Informe sobre la obra y el deber cumplido."*

³⁵ National Energy Council (CNE). 2015 Annual Report *"Del mercado eléctrico de El Salvador."*

³⁶ Government of El Salvador. *Plan Quinquenal de Desarrollo 2014-2019: El Salvador Productivo, Educado y Seguro (PQD)*.

³⁷ Office of Statistics and Censuses - Ministry of Economy. *Resultados de la Encuesta de Hogares de Propósitos Múltiples El Salvador 2014 (EHPM 2014)*.

SECTION V

⁴⁷ It contains four components: i) social prevention of crime, ii) combatting crime, iii) promotion of rehabilitation and social reintegration and iv) institutional strengthening.

⁴⁹ IDB and World Bank accounted for the rest.

¹⁰ According to the methodology, a household is considered poor if it is deprived in at least 7 of the 20 indicators.

¹¹ STPP and MINEC-DIGESTYC (2015). *Medición Multidimensional de la Pobreza El Salvador*.

¹² For further reference, see the ECLAC statistics: "Millennium Development Goals: Country profiles."

¹³ Harmening, Sven. Global Climate Risk Index 2011. Who suffers most from extreme weather events? Cited by the Ministry of Environment and Natural Resources in its 2012 Environmental Policy.

¹⁴ Ministry of the Environment and Natural Resources. *Política Nacional del Medio Ambiente. June 2015*.

¹⁵ The water consumption indicator for El Salvador was 3,000 cubic meters per capita, with a minimum recommended by UNESCO of 4,000 cubic meters.

¹⁶ World Bank (2015) Systematic Country Diagnosis. May 2015.

¹⁷ Yale University. Environmental Performance Index (EPI): 2014 Report. The EPI is an index that measures nine environmental factors: i) climate and energy, ii) biodiversity and habitat, iii) fisheries, iv) forestry, v) agriculture, vi) water resources vii) water and sanitation, viii) air quality, and ix) exposure to health risks.

of the Prosecutor General of the Republic of El Salvador amounted to \$44.9 million. In response to the multidimensional nature of the project, the amount for the project is divided equally among the following focus areas: i) industry, urban development and services for competitiveness, and ii) human development and social infrastructure.

²⁴ MDG 1 contributes to the goals for: (i) Halving the percentage of people whose income is less than one dollar per day, and (ii) Achieving full and productive employment and decent work for all, including women and young people.

²⁵ MDG 8 contributes to the goals for: (i) Further development of an open, rule-based, predictable and non-discriminatory commercial and financial system.

²⁶ Excluded from the scope of this law are projects in the sectors of health, social security, including the Salvadoran Social Security Institute (ISSS), public safety, justice in relation to custody, rehabilitation and prison labor of inmates, water and education, including the University of El Salvador.

³⁸ Government of El Salvador. *Plan Quinquenal de Desarrollo 2014-2019: El Salvador Productivo, Educado y Seguro (PQD)*.

³⁹ FAO 2012. *La FAO y la Agricultura Familiar, el caso de El Salvador*.

⁴⁰ In 2014, the sector of agriculture, hunting, forestry and fishing represented 12.1% of the country's GDP.

⁴¹ Oscar Cabrera Melgar. *Evolución de la Agricultura Familiar en El Salvador*.

⁴² Office of Statistics and Censuses - Ministry of Economy. 2014 *Resultados de la Encuesta de Hogares de Propósitos Múltiples El Salvador 2014 (EHPM 2014)*.

⁴³ Includes hunting and forestry.

⁴⁴ PAF Components: (i) Expansion and strengthening of the agricultural extension; (ii) Development of agriculture under irrigation; (iii) Promotion of research, innovation and technological development; (iv) Investment for productive adaptation and mitigation to climate change; (v) Institutional strengthening to support the development of technologies that facilitate increased production, productivity and competitiveness of agriculture, forestry, fisheries and aquaculture; generating decent employment and higher levels of food security; and (vi) Strengthening the competitiveness of small coffee producers, contributing to the recovery of the areas affected by coffee rust.

⁴⁵ Ministry of the Environment and Natural Resources. *Plan Nacional de Cambio Climático en El Salvador*. June 2015.

⁴⁶ Ministry of the Environment and Natural Resources. *Política Nacional del Medio Ambiente*. MARN (2012).

⁴⁹ Ministry of finance in El Salvador <http://www.transparenciafiscal.gob.sv/ptf/es/DeudaPblica/DatosDeuda.html> and web pages of the cooperation agencies.

ABBREVIATIONS, SYMBOLS AND ACRONYMS

5YDP:	Five-Year Development Plan
ADS:	CABEI Upper Management
AMSS:	San Salvador Metropolitan Area
ANDA:	National Association of Aqueducts and Sewerage Systems
AOD:	Official Development Assistance
BCIE:	Central American Bank for Economic Integration
BCR:	Central Reserve Bank of El Salvador
CEL:	Lempa River Hydroelectric Executive Commission
CEPA:	Autonomous Executive Port Commission
CEPALSTAT:	Statistics of America Latin and the Caribbean
CNE:	National of Energy Council
DIGESTYC:	General Directorate of Statistics and Censuses
EAP:	Economically Active Population
PESCES:	Special Program of public safety in El Salvador
ECLAC:	Economic Commission for Latin America and the Caribbean
EHPM:	Survey of Households and Multiple Purposes
ESCA:	Central America Security Strategy
FOMILENIO II:	Program financed with funds from the Millennium Challenge Corporation
FOVIAL:	Road Conservation Fund
GEM:	Global Entrepreneurship Monitor
GDP:	Gross Domestic Product
GERES:	CABEI Regional Office in El Salvador
GERIES:	CABEI Institutional Risk Division
GERSY:	CABEI Division of Sectors and Countries
GOES:	Government of El Salvador.
I-BCIE:	CABEI Development Impact Index
ICDF:	The International Cooperation and Development Fund of the Republic of China (Taiwan)
ICO:	Official Credit Institute
IDHES:	El Salvador Human Development Report:
HIV/AIDS:	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
VMT:	Vice Minister of Transportation
VMVDU:	Vice Minister of Housing and Urban Development
US\$:	Dollar of the United States of America
IDB:	Inter-American Development Bank
IFAD:	International Fund for Agricultural Development

FIPAMEC:	Infrastructure Fund for Mesoamerica and the Caribbean / Mesoamerica Project
IMF:	International Monetary Fund
IGD:	Deposit Guarantee Institute
ISSS:	Salvadoran Social Security Institute
JICA:	Japan International Cooperation Agency
KFW:	German Development Bank
LAGEO:	Salvadoran Company generating geothermal energy
M-ODM:	Matrix of Contribution of CABI Approvals to the MDGs
MARN:	Ministry of the Environment and Natural Resources
MDG	Millennium Development Goals
MINEC:	Ministry of the Economy
MOP	Ministry of Public Works, Transportation, Housing and Urban Development.
OFIC:	CABI Compliance Office
MSE:	Micro and Small Enterprise
MINSAL:	Ministry of Health of El Salvador
MSME:	Micro, Small and Medium Enterprise
OMS:	World Health Organization
OPEP:	CABI Office of Strategic Planning and Programming
PAF:	Family Farming and Rural Entrepreneurship Plan for Food Security and Nutrition
PNC:	National Civil Police
PNVH:	National Policy on Housing and Habitat
PPP:	Public Private Partnership
PRAS:	Regional Water and Sanitation Program
PROESA:	El Salvador Agency to Promote Exports Investment
PROMUNI:	Program of Financing Municipal Infrastructure
REDCA:	Central American Telecommunications Network
SDG:	Sustainable Development Goals:
SECMCA:	Executive Secretary of the Central American Economic Council
SIEPAC:	Central American Electrical Interconnection System
SNP:	National Planning System
SNS:	National Health System
SNIS:	National System for Integrated Health
SICA:	Central American Integration System
SOPAC:	Commission of Applied Geosciences of the South Pacific
STPP:	Technical and Planning Secretariat of the Presidency
UNDP:	United Nations Development Program
UNEP:	United Nations Environment Program
VIDHAS:	Central American Program for Housing and Sustainable Habitat Development
WB	World Bank

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ANNEX I:

SUMMARY OF THE FIVE-YEAR DEVELOPMENT PLAN (2015-2019): EL SALVADOR, PRODUCTIVE, EDUCATED AND SAFE.

The 2014-2019 Five-Year Development Plan (SYDP), El Salvador, Educated, Productive and Safe is the policy instrument of the Government of El Salvador and is structured around the country's three main priorities.

In order to foster economic growth and social development, the Government has prioritized the need to generate productive employment through a sustained economic growth model, to promote education with equity and social inclusion and to foster effective public safety. These three priorities embody the objectives, strategies and action lines for the five year period, during which the Government expects to reach growth of 3.0% and a human development index of 0.7; that is the first step for joining the Group of countries with high human development indices.

The SYDP is based on a concept of long-term multidimensional development. The plan's philosophical framework is based on the concept of the "good living," which conceives of development as an integral, inclusive process that should incorporate cultural, social, political, economic and environmental dimensions, in order to achieve full development of the population in harmonious coexistence. In this context, a series of long-term structural changes are planned with a 20 year vision⁵⁰; the five-year period from 2015-2019 is considered as the beginning of this process of transformation.

The Plan contains 11 goals, each one with its respective action lines; they also include such cross-cutting focuses as human rights, gender issues and the cycle of life, which will be incorporated through three types of strategies called equity, social inclusion and social protection.

The objectives are as follows.

- Boost the national economy to generate opportunities and prosperity for families, companies and the country.
- Develop human potential.
- Increase citizen safety levels.

- Gradually ensure access and coverage of quality healthcare services to the Salvadoran population.
- Accelerate the transition to an equitable and inclusive society.
- Progressively ensure the population's access to and enjoyment of suitable housing and habitats.
- Transition to an economy and a society that are environmentally sustainable and resilient to the effects of climate change.
- Promote culture as a right, a factor of cohesion and identity, as well as a transformative social power.
- Encourage the foreign Salvadoran population to fully exercise their rights and promote their effective integration into the country's development.
- Strengthen El Salvador's image as a country integrated with the region and the world that creatively contributes to peace and development.
- Progress towards the construction of a proactive state, centered in its citizens and oriented towards results.

Emphasis on planning and development management. This development vision seeks to promote a transformation of the state and its institutions, with the purpose that that they can i) exercise their capacities of governance, planning, regulation and redistribution; (ii) assume the commitment to recognize, respect and guarantee the rights of the population. Likewise, the government will promote the creation of a National Planning System, which will integrate processes, institutions and instruments that facilitate the processes of planning, monitoring and articulation of the public and private sectors. Finally, the government will seek to institutionalize the link between the state's actions and citizen participation.

The Plan includes guidelines for the execution and management of public finances.

Given the multidimensionality that characterizes the development vision which underlies the SYDP, it incorporates a series of guidelines that take into account the diversity of dimensions. Additionally, a notable aspect is that it recognizes the importance of optimal resource management and also includes guidelines for the management of public finances, which deals with the issues of fiscal policy, public investment, current expenditure, alternative resource mobilization, as well as the promotion and attraction of private investment.

Projected investments. Planning includes a multi-annual investment program, which totals US\$5.37 billion for the five-year period (3.1% of GDP) and will be linked to strategic projects. It is expected to be distributed as follows:

**Projected public investment by sector of activity
(Percentages)**

SECTORS	2014	2019
Social and Security	56.7	47.2
Economic	43.3	52.8

Source: Government of El Salvador. 2014-2019 Plan Quinquenal de Desarrollo 2014-2019: El Salvador Productivo, Educado y Seguro (P-00).

⁵⁰The vision for 2034 is "El Salvador is a prosperous, equitable, inclusive, supportive and democratic country that offers opportunities for good living to its entire population".

ANNEX II:

POINTS OF CONVERGENCE BETWEEN THE FOCUS AREAS AND THE STRATEGIC OBJECTIVES OF THE 5YDP

OBJECTIVE 01: BOOST THE NATIONAL ECONOMY TO GENERATE OPPORTUNITIES AND PROSPERITY FOR FAMILIES, COMPANIES AND THE COUNTRY.

ACTION LINES OF THE 5YDP

CABEI FOCUS AREAS AND STRATEGIC INITIATIVES

Diversification of the productive matrix	Productive Infrastructure <ul style="list-style-type: none"> • Port, airport infrastructure or related services. • Road Infrastructure • Information and telecommunications. 	Financial Intermediation and Development Finance <ul style="list-style-type: none"> • Intermediated financing with productive ends. • Intermediated financing with productive and development-related ends. • Investment instruments
Development of MSME capacities	Financial Intermediation and Development Finance <ul style="list-style-type: none"> • Intermediated financing with productive ends. • Intermediated financing with development-related ends. • Intermediated financing with productive and development-related ends. 	Competitiveness Services <ul style="list-style-type: none"> • Trade of goods. • Business services • Tourism • Transportation and warehousing
Strengthening levels of sovereignty and food security	Rural Development and the Environment <ul style="list-style-type: none"> • Food security and nutrition 	
Diversification of the energy matrix	Energy <ul style="list-style-type: none"> • Renewable energy generation. • Non-renewable energy generation. 	<ul style="list-style-type: none"> • Energy efficiency and cleaner production. • Efficiency of power grids.
Inclusive development of the territories	Human Development and Social Infrastructure <ul style="list-style-type: none"> • Inclusion and social cohesion. 	Productive Infrastructure <ul style="list-style-type: none"> • Port, airport infrastructure or related services. • Road infrastructure • Information and telecommunications.
Consolidation of the public finance sector and alliances with the private financial sector	Financial Intermediation and Development Finance <ul style="list-style-type: none"> • Liquidity and expansion of the financial system. • Stock markets and mechanisms that facilitate the flow of resources in the region. 	
Promotion and attraction of investments	Competitiveness Services <ul style="list-style-type: none"> • Industrial activities. 	<ul style="list-style-type: none"> • Business services.

OBJECTIVE 02: DEVELOP THE HUMAN POTENTIAL OF SALVADORANS

ACTION LINES OF THE 5YDP

CABEI FOCUS AREAS AND STRATEGIC INITIATIVES

Modernization of school infrastructure and equipment

Human Development and Social Infrastructure

- Education.
- Municipal infrastructure.
- Inclusion and social cohesion.

OBJECTIVE 03: INCREASE PUBLIC SAFETY LEVELS.

Building and deployment of community policing

Competitiveness Services

- Public security

OBJECTIVE 04: GRADUALLY ENSURE ACCESS AND COVERAGE OF QUALITY HEALTHCARE SERVICES TO THE SALVADORAN POPULATION.

Progressive expansion of health coverage to the entire population and comprehensive provision of health services that are timely, accessible, affordable, effective and high quality

Human Development and Social Infrastructure

- Health.

OBJECTIVE 05: ACCELERATE THE TRANSITION TO AN EQUITABLE AND INCLUSIVE SOCIETY.

Strengthening programs for the integral eradication of poverty

Human Development and Social Infrastructure

- Education.
- Health

Strengthening the non-contributory social protection pillar

Progress on guaranteeing the rights for priority population groups

OBJECTIVE 06: PROGRESSIVELY ENSURE THE POPULATION'S ACCESS TO AND ENJOYMENT OF SUITABLE HOUSING AND HABITATS.

Improvement and extension of the appropriate financial mechanisms for construction of and access to housing, land and habitat

Financial Intermediation and Development Finance

- Intermediated financing with development-related ends.

Reduction of the gaps in quality of housing and habitat that exist in urban and rural area

Human Development and Social Infrastructure

- Social housing
- Municipal infrastructure.
- Inclusion and social cohesion.
- Culture, sport and recreation.

OBJECTIVE 07: TRANSITION TO AN ECONOMY AND A SOCIETY THAT ARE ENVIRONMENTALLY SUSTAINABLE AND RESILIENT TO THE EFFECTS OF CLIMATE CHANGE.
ACTION LINES OF THE 5YDP
CABEI FOCUS AREAS AND STRATEGIC INITIATIVES

Comprehensive water management and security leading to improved quality of life and inclusive and equitable economic development

Human Development and Social Infrastructure

- Water and Sanitation

Reducing levels of pollution and environmental contamination

Human Development and Social Infrastructure

- Elimination of waste, treatment of waste and similar activities.

Rural Development and the Environment

- Climate change adaptation and mitigation

Reduction of environmental and socio-economic vulnerability to the effects of the changing climate and natural phenomena

Rural Development and the Environment

- Climate change adaptation and mitigation
- Reforestation and conservation of the environment, natural resources and environmental services.

- Integrated the water resource management.
- Integrated Management of Natural Disaster Risks.

OBJECTIVE 08: PROMOTE CULTURE AS A FACTOR OF COHESION AND IDENTITY, AS WELL AS A TRANSFORMATIVE POWER OF SOCIETY.

Development of the arts and of the country's cultural wealth.

Human Development and Social Infrastructure

- Culture, sport and recreation.
- Inclusion and social cohesion.

Competitiveness Services

- Tourism.

OBJECTIVE 09: ENCOURAGE THE FOREIGN SALVADORAN POPULATION TO FULLY EXERCISE THEIR RIGHTS AND PROMOTE THEIR EFFECTIVE INTEGRATION INTO THE COUNTRY'S DEVELOPMENT.

Promotion of respect for and protection of human rights of Salvadoran migrants and their families.

Competitiveness Services

- Government and municipal infrastructure.

OBJECTIVE 10: STRENGTHEN EL SALVADOR'S IMAGE AS A COUNTRY INTEGRATED WITH THE REGION AND THE WORLD THAT CREATIVELY CONTRIBUTES TO PEACE AND DEVELOPMENT.

Social and economic integration of the Central American region.

Productive Infrastructure

- Port, airport infrastructure or related services.
- Road infrastructure
- Information and telecommunications.

Competitiveness Services

- Trade of goods.
- Transportation and warehousing

Strengthening of the national defense system to safeguard sovereignty and promote development and peace.

Competitiveness Services

- Government and municipal infrastructure.
- Public security

OBJECTIVE 11: PROGRESS TOWARDS THE CONSTRUCTION OF A PROACTIVE STATE, CENTERED ON ITS CITIZENS AND ORIENTED TOWARDS RESULTS.

Revitalization of local development and territorialisation of the state to make it accessible to all the people.

Competitiveness Services

- Territorial Development

INFOGRAPHIC



The infographic is composed of three hexagons on the top that represents the main inputs of this strategy; the 2014-2019 Five-Year Development Plan, the Sustainable Development Goals (ODS) and CABI 2015-2019 Institutional Strategy. In the middle, a hexagon with the focus areas represents the ways this proposal will be implemented through strategic development initiatives. At the bottom, the main objectives this country strategy will address. All these elements are integrated with two triangles opposed to allegorize dynamism, strategic alignment and flexibility of the Country Strategy.



CABEI

**Central American Bank for
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EL SALVADOR
COUNTRY STRATEGY
2015-2019