RE-360

Country Program Evaluation: El Salvador 2004-2008

Office of Evaluation and Oversight, OVE
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EXECUTIVE SUMMARY

El Salvador in 2004 presented an unusual challenge for the Bank in developing a strategy for future engagement. Previous governments had undertaken deep and far-reaching economic reforms, yet the anticipated rewards from such reforms had not yet appeared. Economic growth and poverty reduction had stagnated. Progress on the political front had been substantial as well, but increased political polarization was visible at the time the Bank negotiated its new strategy with the country.

To develop a program appropriate in this context, the Bank undertook a significant diagnostic effort in partnership with a local research institute. This work sought to discover binding constraints limiting the country's development, as a prelude to proposing strategic interventions that could ease these constraints. The evaluation found this work to be of high quality, but noted that the actual interventions proposed did not fully address the constraints identified, with the result that the Bank's program was only partially relevant to the country's development needs. Problems related to low investment by private firms, inadequate infrastructure spending by the public sector and an underfunded safety net for the poor were identified as critical in the diagnostic but were largely absent from the proposed program.

The Bank's proposed program contained a relatively high percentage of fast-disbursing policy-based lending and a relatively low percentage of direct lending to the private sector without sovereign guarantee. At the time of program approval, the Bank also had a large portfolio of approved but undisbursed projects, and these were expected to lead the Bank's efforts in the country during the early part of the program period.

The program was developed within a set of fiscal parameters which sharply limited the potential contribution of the Bank to the country's development. Projected financial flows from the Bank to the country were projected to be negative for the four year term of the program, meaning that the Bank's program could not reasonably be expected to take on many of the critical challenges identified in the diagnostic work.

The political polarization noted at the time of approval developed into a partisan confrontation that blocked the ratification of virtually the entire Bank proposed lending program until the very end of the period. Thus the Bank's actual program consisted almost entirely of disbursements on previously ratified loans and the execution of technical cooperation operations that did not require Congressional approval to move ahead. As a result, the Bank's anticipation rate (the difference between programmed and actual delivery, in terms of number and dollar values) was poor.

Not only was the anticipation rate worse than the previous cycle so was also portfolio performance. During the program period, a portfolio that had previously been relatively problem-free worsened towards the average values of Central American countries. This occurred as the budget per transaction for COF was dramatically cut. Despite a recommendation in the previous CPE that the Bank rely more on local systems for the fiduciary management of projects, the country office continued to supervise projects in the traditional fashion at a time when transaction volume was increasing and local office resources were decreasing. This led the Bank's Auditor General to conclude that fiduciary information in the Bank's systems was neither complete nor reliable, and that the Bank had missed a strategic opportunity to develop a more effective supervisory partnership with country authorities.

The *ex ante* and ex post evaluability of the Bank's portfolio were poor. While this is a common finding in country program evaluations, El Salvador has a relatively well-developed national system of data collection. Local information was available on the performance of Bank projects, but this information was not incorporated into Bank monitoring and reporting systems. The evaluation used local data to examine results of seven sovereign loan operations and found generally large improvements in their development indicators. While it is not possible to attribute many of these improvements to the Bank intervention per se, OVE also carried out an impact evaluation of the Bank's National Environment Protection Program, which found that the project had an internal rate of return of 49%. It is therefore a puzzle why the Bank continues to understate its contribution to development effectiveness when it could do so with relatively little effort.

If El Salvador in 2004 presented an unusual challenge for the Bank in developing a strategy for future engagement this holds even more so in 2009. In contrast to the previous country strategy written in a time of recovery, the new country strategy is being prepared amidst a downturn whose magnitude is uncertain. The development problems, identified in 2004, of inadequate fiscal space (too low tax revenue and public expenditure), low economic growth, limited private sector capacity to discover new productive opportunities, stagnating poverty reduction, and high inequality of opportunities have all intensified. Political gridlock, which paralyzed the last lending program, remains a significant concern for the upcoming program cycle as well.

In light of past experience, the evaluation makes five specific recommendations for the next country program. First, the Bank should review with the government the diagnostic work prepared for the last program cycle, much of which remains relevant to the country's development challenges. Of particular continued relevance are concerns about inadequate investments in infrastructure and the social safety net, as well as problems of discovery of new investment opportunities by the country's private sector. This review should contribute to the construction of a program that is more relevant to the needs of the country.

Second, the financial parameters of the proposed program should be clearly established at the outset. If the program continues the past practice of anticipating significant resource transfers from the country to the Bank then the expectations for the Bank's development impact should be scaled accordingly. Such a program would need to rely on knowledge transfer rather than resource transfer for its impact, and should be monitored accordingly. Since the past diagnostic revealed significant resource shortfalls in critical areas such as infrastructure and social spending, a program with positive net transfers to the country in these critical areas could be justified, and would permit the Bank to propose a more substantial future contribution to the country's development.

Third, the Bank should consider a more inclusive approach to the programming process. Past disagreements between the executive and legislative branches on priorities completely blocked the approval of new lending operations. To avoid repeating this experience in a context of continued significant political polarization, the Bank should work to ensure that its proposed program commands a broad consensus in both the legislative and executive branch.

Fourth, the evaluation reiterates the recommendation of the prior CPE that the Bank relies much more heavily on local capacity for the management of project execution and the evaluation of project accomplishments. National systems for fiduciary management get high marks from both the IDB and the World Bank, and should be used more extensively to reduce the administrative workload on the Bank's country office staff. At the same time, national systems for results monitoring should be encouraged (via loans and technical cooperation operations) to become fully independent of the execution of programs, and the Bank should work to integrate these local evaluation efforts with its own systems for project monitoring. The new strategy should discuss the feasibility of progress in relying on local systems in the aforementioned fiduciary and evaluation tasks as well as in the areas of procurement and environment safeguards.

Finally, the next country strategy should review the nineteen specific recommendations contained in the last country program evaluation, the vast majority of which were not incorporated into the last strategy. The present evaluation believes that most of those recommendations remain valid, and should be specifically addressed (either accepted or rejected), in the next country strategy document.

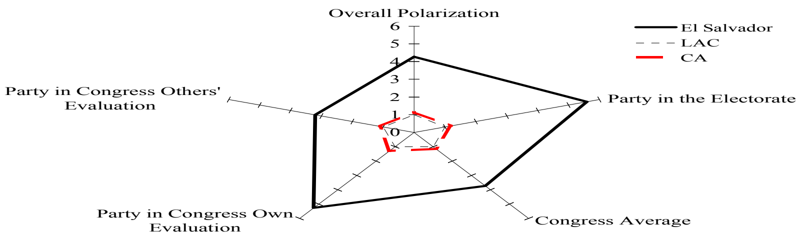
I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

1.1 El Salvador in 2004 presented an unusual challenge for the Bank in developing a strategy for future engagement. Previous governments had undertaken deep and far-reaching economic reforms, yet the anticipated rewards from such reforms had not yet appeared. With the approval of the IMF and the support of the IDB, and the World Bank, the country had maintained a stable macro environment, controlled inflation, maintained an adequate fiscal balance, adopted the dollar as the national currency, reduced barriers to trade, modernized its financial sector, privatized most state-owned industry, and reformed its social security system. For these efforts, it was rewarded with an investment-grade credit rating and enjoyed relatively good access to international financial markets. In 2001, the Heritage Foundation rated the country as the top reformer and freest LAC, while in 2003, the World Bank's policy and institutional assessment ranked it also amongst the top countries.

1.2 Progress on the political front had been substantial as well. The civil war ended with the Peace Accords of January 1992, consequently the military police demobilized, and a modified Constitution was adopted. While tensions remained between the two major political parties, enough common ground had been found for the country to come together in a relatively effective response to the 2001 earthquake, to agree on joining the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR), to approve creation of the Fondo Solidario para la Salud (FOSALUD), and to come to a difficult budget agreement regarding the financing of the 2005 budget. These accomplishments were recognized in the country strategy which stated: "*Since the civil war, El Salvador has become a model of the political, economic, and social progress that is possible in the wake of an armed conflict.*"

1.3 This formulation may, however, have overstated the degree of political reconciliation. A few paragraphs later the Bank's country strategy described the breakdown of talks between the two major political parties; a situation which deteriorated further after the document was produced. These developments reflected a longstanding pattern of political polarization in the country. Chart I.1 presents data on political polarization that shows El Salvador an extreme outlier, relative to both LAC as a whole and to Central America. Of particular interest is the discrepancy between how citizens regard their own political party and how they regard other parties. Clearly, the political polarization evidenced by the long civil conflict has not been completely eliminated from the society.

Chart I.1. Political Polarisation



1.4 Another background characteristic of the country is the extraordinary high level of crime and violence. The World Bank has done considerable analytical work on the violence problem, and a summary of their findings is presented in Box I.1.

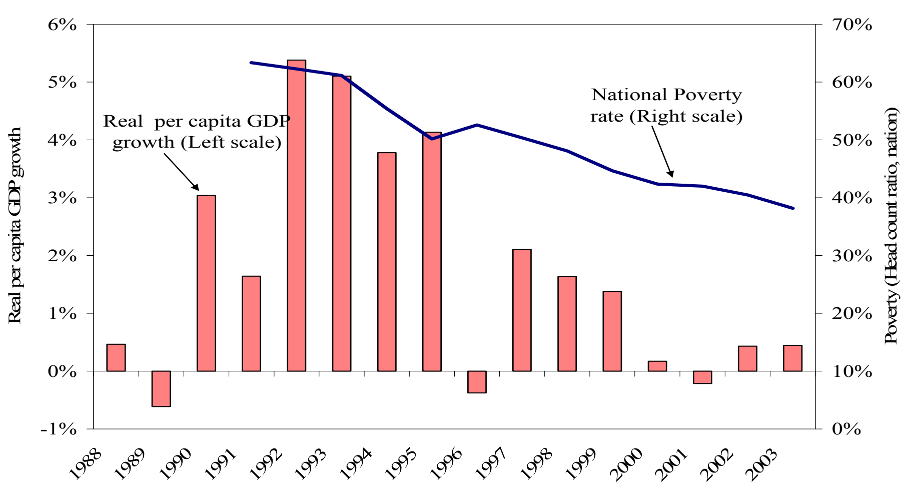
Box I.1: World Bank Assessment of Violence

Violence in El Salvador is a critical issue, with significant economic, social welfare, health, and governance impacts. Homicides, crime, youth gang (*Maras*) violence, and domestic assault are widespread and high: seven people are killed every day; the homicide rate, at 45 per hundred thousand, is among the highest in LAC; 90% of Salvadorians feel generally unsafe, and 25% report feeling insecure even when at home.
Maras are estimated at 20,000 members, and 150 out of 262 municipalities report active youth gangs in their jurisdictions. The persistently high levels of crime and violence have negatively affected the image of the country and the investment climate: a recent survey finds that firms consider it the number one constraint for business operations and investment. Crime and violence in El Salvador also undermines social capital and erodes the assets and incomes of the poor, for example by devaluing property values in insecure neighbourhoods , impeding safe access to education (when gangs take over schools) and reducing employment opportunities, particularly at night, because of the dangers of public transportation.

Source: World Bank Country Assistance Strategy, April 20, 2005

1.5 Despite more than a decade of substantial policy reform, the Salvadoran economy failed to sustain the substantial progress made on growth and poverty reduction following the initial "Peace dividend" rebound after the end of the civil war. Chart I.2 shows the broad nature of the problem.

Chart I.2. Economic Growth and Poverty



1.6 What is not revealed in Chart I.2 is that, throughout the period, growth was led by consumption, primarily driven by the rise in remittances from US$333 million (9% of GDP) in 1991 to US$2.1 billion (14% of GDP) in 2004. An initial upsurge in investment stalled out in the middle of the 1990s, and subsequent growth had been accompanied by both weak investment and declining total factor productivity (see Table I.1).

Table I.1

Composition of GDP Growth

	1991-1996	1997-2003
GDP	5.3	2.8
Labor	0.74	2.58
Capital	4.48	2.45
TFP	0.06	(2.23)

1.7 The disappointing performance of the economy in the years prior to 2004 came as a surprise to both the country and the institutions supporting its development. According to the standard theory, the country's growth performance should have improved substantially following the strong policy and institutional reforms undertaken.

1.8 To probe the reasons for the disappointing performance, and to pave the way for the next country strategy, the Bank and a leading Salvadoran research institution (*Fundación Salvadoreña para el Desarrollo Económico y Social* – FUSADES), commissioned a series of papers aimed at understanding the nature of the country's growth and poverty problems. These formed the analytical basis for the Policy Dialogue Paper ("Accelerating Growth") which was delivered to the Government in August 2004 and the Bank's new country strategy.

1.9 In comparative terms, the analytical work done directly commissioned by the Bank for the El Salvador country strategy is one of the most thorough and complete of any reviewed by OVE. Background work was done in all of the key sectors, and the technical quality of the analysis appeared to be high.

1.10 "Accelerating Growth" examined five "hypotheses" as to why growth had not been maintained (the world economic situation, the appreciating exchange rate, uncertainty generated by the fiscal situation, an investment standstill during the period, and insufficient depth of economic policy reform). None were found adequate to explain the phenomenon.

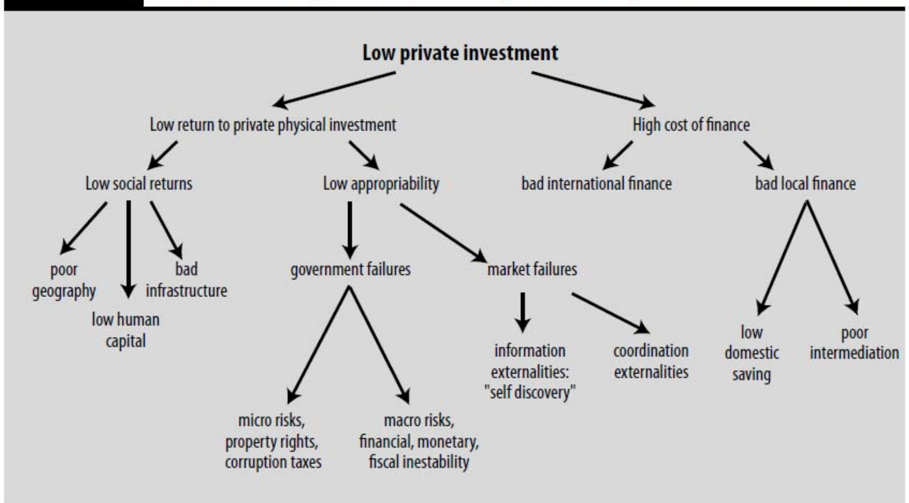
1.11 Instead, the PDP hypothesized (in paragraph 2.9) that the country's growth problem was related to structural changes following the end of the civil war in 1991. The "Peace Dividend," combined with a substantial increase in remittances created strong demand growth that quickly exhausted the productive potential of the existing capital stock. In such circumstances, adequate growth could be sustained only by a high investment rate. This had not occurred. In the five years preceding, private investment averaged a mere 13% of GDP, compared with a 23% rate in the rest of Central America and a 19% investment rate for LAC as a whole.

1.12 This analysis transformed the mystery of the missing growth into the mystery of the missing investment. To explore this mystery, the Bank launched what would later become a key part of its analytical toolkit, the use of a "growth dynamics" methodology to determine what constraints in the country were acting as the principal impediment to growth. The developers of this analytical technique (economists Hausmann, Rodrik, and Velasco of Harvard University) were employed by the Bank to explain the phenomenon of low investment in El Salvador.

1.13 The specifics of the "growth dynamics" methodology are explained in detail in a 2009 report from the Bank's research department (Agosin, et al, 2009). Briefly, it starts with the observation that private investors are not producing adequate levels of investment and then systematically explores a "decision tree" of possible explanations for this phenomenon. The generic tree is shown in Box I.2 below, drawn from the 2009 research department paper.

Box I.2

FIGURE 1.5 Decision Tree Approach for Finding the Binding Constraint to Investment



Source: Hausmann, Rodrik, and Velasco (2005).

1.14 Each branch of the tree represents a line of questioning. Examining data at higher levels of the tree directs inquiry toward those further branches which might be contributing to the pattern at higher levels. The lowest levels of the tree (no further branching), represent the basic possible data explanations for low investment growth. There are 10 of these possibilities:

Poor geography	Low human capital
Bad infrastructure	Micro risks to appropriation of gains
Macro risks to appropriation of gains	Information externalities
Coordination externalities	Low Domestic savings
Poor intermediation of savings	Bad international finance

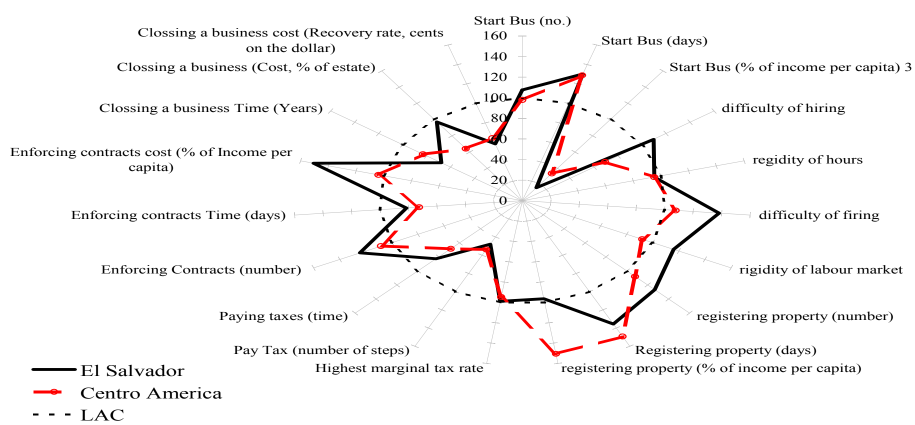
1.15 In the case of El Salvador, the Bank's growth diagnostic concluded that most of the "usual suspects" did not appear to explain the observed pattern of low investment.

Geography puts the country in an area vulnerable to earthquakes and hurricanes, but the economy had generally managed such shocks well (Hurricane Mitch in 1998, and earthquakes in 2001). Domestic savings were extremely low, but this is largely a data artefact: remittances are not calculated in income for determining savings rates, so households appear to be spending far more than their income. Interest rates paid on deposits were low, suggesting no excess of demand for savings over supply, and thus no failure of domestic financial intermediation. Access to international finance was extraordinarily good, a reflection of the country's investment grade rating and low overall debt burden.

1.16 Macro risks to investors (inflation, devaluation and large cyclical instability) were low because of the successful macro reforms and history of prudent fiscal management. Another potential macro risk – high levels of taxation – was similarly not a problem. Tax effort was low by comparative standards, leading researchers to conclude: In fact, El Salvador may be suffering from the opposite problem. Tax revenue may be so low that the government lacks the resources to provide an adequate supply of public goods needed to make economic activity productive. (Hausmann and Rodrik).

1.17 Micro risks associated with a poor policy environment were also low. Most indicators regarding the costs of doing business were relatively favourable (see Chart I.3 below), and Accelerating Growth praised the country's strong ranking in terms of competitiveness, standing in fourth place among 20 LAC countries in the 2003-2004 Global Competitiveness Report.

Chart I.3. Doing Business Indicators



1.18 By process of elimination, the growth diagnostics methodology narrowed the field of possible binding constraints down to two: poor quality of public services, particularly infrastructure, and problems with the process of "discovery" of new productive opportunities by private investors. In Box I.3 below is shown a table taken from the background paper by Hausmann and Rodrik that shows the relatively poor performance of El Salvador on measures of overall infrastructure (ranking 56th in the world), and on road quality (ranking 65th.)

Box I.3

TABLE 3. Indicators of Infrastructure and Public Service Quality[a]
Index (1 to 7)

Component	*El Salvador*	*Regional leader*	*Ireland*	*Global leader*
General infrastructure quality	3.2 (56)	4.2 (Chile, 40)	3.4 (53)	6.7 (Switzerland)
Road quality (% paved)	19.8 (65)	49.4 (Dom. Rep., 42)	94.1 (17)	100 (Austria)
Rail quality	1.1 (76)	2.7 (Argentina, 49)	2.5 (54)	6.7 (Japan)
Port quality	2.7 (68)	6.0 (Panama, 11)	3.6 (49)	6.7 (Singapore)
Public school quality	2.2 (68)	4.1 (Costa Rica, 42)	6.1 (6)	6.4 (Austria)

Source: *Global Competitiveness Report 2002–03* (World Economic Forum, 2003); Instituto Centroamericano de Administracion de Empresas (INCAE).
a. Overall ranking in parentheses.

1.19 A key reason for the country's poor infrastructure is a chronic shortfall in public capital formation relative to need. Public capital formation averaged 3.3% of GDP during the 1990s, and had been on a declining trend since 1992. The principal reason for low investment is the relatively low level of taxation in the country, (averaging only 11% of GDP between 1980 and 2003, the second lowest in Central America). Background papers for the PDP argued for the need for increased taxation of between three to five percentage points of GDP to fund an adequate public investment program.[1]

1.20 The table also shows relatively poor performance in measures of the quality of schooling, suggesting that this, too, could possibly have been a constraint on investment. The growth diagnostics methodology explored this possibility by looking at market returns to schooling. If education levels are the binding constraint, then those with better educations should be able to command a premium for their very scarce skills. Low returns to education, in contrast, indicate that there is little demand for more educated workers. Data on El Salvador showed relatively low returns to education, suggesting that this was not the key binding growth constraint.

1.21 The final candidate for binding constraint relates to the capacity of actors in the country to discover new things to produce and export. The fast growing countries of Asia have generally been good at developing comparative advantage in new product areas, and thus are able to build more resilient, dynamic, and fast growing economies.

1.22 El Salvador is not particularly dynamic in identifying new products. A 2005 study done by the World Bank looked at the "discovery" of new product areas that grew to account for more than a million dollars of exports. The data for El Salvador in the 1997-2002 period forty-six total discoveries, fewer than Guatemala (106), Bolivia (89), Colombia (74), Uruguay (63), Honduras (59), Ecuador (58),

[1] Juan C. Gómez Sabatini, Osvaldo H. Schenone. El Salvador: Diagnóstico de la Política Tributaria y Propuesta de Reforma, Abril 2004.

Nicaragua (55), Panama (51), and Peru (50). The only country in the region with a comparable level of income and a worse discovery performance is Paraguay (38)[2].

1.23 This is an acute problem for El Salvador because of a series of negative shocks to its traditional areas of production and export. The country lost its domestic cotton production as a result of disease, and coffee exports have suffered from the global price collapse for this commodity. Sugar, another traditional export, also suffers from global oversupply and collapsing prices. Textile exports, long given preferential access to the US market, were likely to suffer significantly from the ending of the Multi Fiber Agreement in January of 2005, which would bring the country into direct competition from much lower wage countries such as China and India.

1.24 Problems of discovery of new opportunities was seen in the growth diagnostics framework as the product of two factors: information externalities (the returns to new opportunities cannot be internalized and spill over from the firm to the broader market); and coordination failures (returns cannot be captured by individual investors because they require coordination among many parties, and absence of such coordination prevents the emergence of new activities). As explained by the Bank's 2009 study: "the production and export of goods and services that are not being produced at present require a different set of public goods and non-tradable inputs than exists now, which renders the coordination problem a particularly difficult one to solve. In order to move to other sectors where they might develop a comparative advantage, these countries have to start building institutions and investing in sector-specific public goods basically from scratch."[3]

1.25 A third obstacle to discovery is not part of the growth diagnostics framework, but was part of the problem in El Salvador: the lack of competition in domestic markets. If firms are not exposed to competition, incentives for discovery will be reduced. A background paper commissioned by the Bank and referenced in the PDB noted longstanding competition problems, ranging from a few large firms dominating critical infrastructure sectors, the lack of an appropriate antitrust framework, and weak consumer protection laws. El Salvador had policies that were effectively pro business, but not pro market. The analysis concluded: "the main message in this chapter is that it emphasizes the important distinctions between a pro-business and a pro-market agenda. Often leaders that favor market reforms believe that any policy good for business must be good for the country as well. This is not true."[4]

1.26 This point was elaborated further in the World Bank's proposed Development Policy Loan for El Salvador, approved in January, 2005. It stated: *One of El*

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2 Klinger, Bailey, and Daniel Lederman. 2005. "Diversification, Innovation, and Imitation off the Global Technological Frontier?" Washington: World Bank, Office of the Chief Economist for Latin America and the Caribbean. Mimeographed.

3 See Agosin et al, "Growing Pains: Binding Constraints to Productivity in Latin America", IDB, 2009.

4 Engel, Eduardo, "A Pro-Market Agenda for El Salvador," Yale University Economic Growth Center, January, 2005. http://ssrn.com/abstract=648622.

Salvador's key deficiencies in international competitiveness rankings is the persistence of perceptions of anti-competitive practices in some markets as well as the lack of modern anti-trust and bankruptcy laws.

1.27 In the overall context of the country, the background paper by Hausmann and Rodrik concluded that discovery was the key binding constraint: *If, as argued above, El Salvador cannot grow by producing more of the same, it will have to grow by developing new, non-traditional industries. Significant private investment will be required to transform the county's productive structure, but the challenge of structural change is also an obstacle for private investment. Producing new is a different proposition from producing more. Entrepreneurs need to undertake investments in new areas where profitability is inherently uncertain and depends on the complementary investments of others in the private and public sectors. Low investment, associated with low perceived returns to capital, is therefore both a cause and a symptom of the economic challenge that confronts El Salvador. Market forces, left on their own, will generally remain too weak to achieve the productive transformation that El Salvador needs.*

1.28 To implement this approach, the Bank's policy dialogue paper proposed a number of options, including developing grant programs for successful new producers, increasing funding to academic centers to increase diffusion of innovations, targeted investments in infrastructure to support strategic "clusters" of industries, and develop specific targeted training programs to supply workers with the skills needed to staff new enterprises. (paragraph **7**).

1.29 Although focused primarily on growth, the Bank's Policy Dialogue Paper did devote a portion of one chapter to the analysis of the country's poverty problem. The slowdown in growth had also led to a marked slowing of progress in the reduction of poverty. After falling more than five percentage points a year in 1994 and 1995, progress slowed and almost came to a standstill in 2001, before registering small gains in both 2002 and 2003. Despite this slowdown, the PDP remained optimistic that the country would achieve the Millennium Development Goal of cutting the poverty rate in half by 2015.

1.30 In discussing what to do about the problem of poverty, the PDP focused on the improved provision of basic social services in areas such as education, health, housing and income support. Here the diagnostic found the root of the problem in insufficient social spending. The PDP presented the following table, quoting a UNDP analysis that "*the insufficiency of social spending is most evident if one considers that in order to achieve a universalization of basic social services (nutrition, health, education, housing, water and electricity) by the year 2015, social spending needs to be increased by 1.5 percent of GDP in 2003, and increase gradually to reach an additional 2.7 percentage points in 2010 and 4.3 percentage points additional in* 2015."

Table I.2. Index of the Human Development and Social Public Expenditures, 2001

	Life Expectancy (years)	Adult literacy rate (%)	Combine registration rate (%)	GDP per capita (US$ PPP)	Human Development Index	Social Public Expenditure (% of GDP)
Costa Rica	77,9	95,7	66,0	9.460	0.833	18,2
El Salvador	70,4	79,2	64,0	5.260	0.720	8,1
Guatemala	65,3	69,2	57,0	4.400	0.652	6,2
Honduras	68,8	75,6	62,0	4.245[a]	0.666	10,0
Nicaragua	69,1	66,8	65,0	3.994[a]	0.644	13,2
Panama	74,4	92,1	75,0	5.750	0.788	25,5
Dominican Rep.	66,7	84,0	74,0	7.020	0.737	7,6
Chile	75,8	95,9	76,0	9.190	0.831	16,0
Mexico	73,1	91,4	74,0	8.430	0.799	9,8
MCCA Average	70,3	77,3	62,8	5.472	0.703	11,1

Source: Referenced in the Bank's Policy Dialogue Paper. Original source: UNDP. The "Human Development Report El Salvador 2003", San Salvador, 2003
** Adjusted by new estimations.*

1.31 Calculations by OVE are in line with the UNDP analysis. In 2003, it would have taken additional spending of approximately 1.7% of GDP to completely eliminate the country's "poverty gap", assuming all resources went directly to transfers to the poor at zero administrative cost.

1.32 OVE finds that the quality of diagnostic work done by the Bank in 2003 was high. Not only was sectoral data examined in detail, the Bank made an unprecedented effort to use analysis to establish priorities for action. The growth diagnostic pinpointed problems of low public investment in social services and infrastructure as a problem for both growth and poverty, explored in detail possible reasons for low investment by the private sector, and recommended a focus on improving the process of discovery of new products to produce and export. OVE considers that this diagnosis should be rated highly relevant to the developmental needs of the country.

II. PROGRAMMING

2.1 After a period of dialogue with the government on the analysis in the PDP, the Bank produced its country strategy paper in October of 2005. The broad outline of the program can be found in Box 2.1, taken from the country Strategy Paper.

Box II.1.Summary of the Bank's Strategy: 2004-2009

According to the ***sequence of the strategy****, IDB support will initially focus on accelerating economic growth, mainly through the portfolio in execution, especially the Sector Program for Competitiveness Reforms, a group of key technical-cooperation projects to improve the investment climate…*

…the new <u>*loan*</u> *program with the Government of El Salvador focuses on the social sectors, through operations to diminish poverty and strengthen human capital (Support to Red Solidaria, Basic Education for All, Social Sector Reform, and Strengthening of the National Statistics System).*

It also includes operations to promote sustainable economic growth (Multiphase Program for Sustainable Roads in Rural Areas, Rural Electrification, Improvement of Higher Education, and the facility for Natural Disaster Prevention).

As improvements are made in the country's fiscal capacity, in financial management, and in financial supervision, the IDB's operational program (high scenario) will be able to take advantage of the greater fiscal capacity to make public investments in essential infrastructure needed to continue promoting sustainable development (Local Development Program III and Integrated Urban Transport System),

and to consolidate the financial sector (Modernization of the Financial Sector Program).

2.2 The Bank proposed to lead its strategy through the execution of its existing portfolio, specifically the competitiveness sector loan, approved in 2003 but not yet disbursed at the time of presentation of the strategy. Table II.1 shows the Bank's existing portfolio available for disbursement at the start of the period, along with the proposed new lending operations in both the "base" and "high" lending scenarios. It is interesting to note the relatively high percentage of "policy-based" lending (26% to 36% for the high and low scenarios) in the proposed program. If the 2003 competitiveness sector loan is included as part of the program, more than 50% of proposed disbursements during the period were expected to come from PBL operations. These figures hint at an unarticulated financing objective that should be considered part of the Bank's strategy for the period

2.3 .While not a part of the country strategy document, such an objective is clearly stated in the 2006 loan proposal for the sector loan for a social policy support program. Noting that the country's financing needs (including amortization) were estimated to amount to 5.7% of GDP, the loan noted a weakness in the country's strategy for financing its debt: *Thus far, the government has based its financing strategy mainly on bond sales (internal and external), with this source of financing accounting for an average share of 73% between 2004 and 2005. If World Bank and IDB support is confirmed through freely-available resources that are programmed in the period 2006-2009, then the government could reduce the relative share of bonds in its overall financing to 47%, bringing it down to almost half of what it was between 2004 and 2005. This change in the structure of financing would permit the government to reduce the cost of its financing (in a context of rising interest rates) and obtain a better debt profile, given the longer* *amortization periods for loans from multilateral institutions.* Restructuring the stock of debt and thereby improving the financial conditions for the country, were thus an explicit objective of this PBL, and likely also part of the other PBL operations, though not as explicitly stated

2.4 Not shown in the table were the two private sector loans contained in the Bank's country strategy: a partial credit guarantee for the Banco de Comercio Mortgage Bond Program (US$20 million), and Oceanic Digital Communications mobile telecommunications network (US$25 million). Neither was discussed in the country strategy itself[5]. The small size of the proposed private sector portfolio also compromises somewhat the relevance of the proposed strategy, given the emphasis on private sector investment in the background analytical material.

Table II.1 Programmed and Actual Stock of Projects

Project	Name	Approval year	Current expiration year	Current approved amount	Balance Dec 2003
Bank's existing portfolio at start				US$ million	
ES0024	National Environment Protection Program	1995	2006	29.8	4.0
ES0053	Modernization of the Health Sector	1998	2007	20.5	12.6
ES0068	Water and Sewer Program	1998	2009	43.3	41.4
ES0108	Educational Technology Support Program	1998	2007	71.6	44.7
ES0110	Educational Infrastructure	1998	2005	70.4	1.4
ES0074	Decontamination of Critical Areas	1999	2009	37.2	28.3
ES0093	Legislative Branch Modernization	1999	2009	3.5	2.9
ES0115	Institutional Strengthening Financial Sector Regulatory Institutions	1999	2009	3.8	3.6
CA0007	Central America Electric Interconnection	2001	2010	40.0	40.0
ES0087	Housing Program	2001	2009	69.3	69.1
ES0119	Retooling Agro-Enterprise	2001	2009	24.8	24.1
ES0120	Local Development Program II	2001	2008	69.6	41.9
ES0129	Sustainable Rural Roads Program	2001	2009	57.7	35.5
ES0151	Sector Program for Competitiveness Reforms	2003	2007	100.0	100.0
Bank's Proposed Lending Program by scenarios				Base	High
	2005-2006				
ES-L1001	Multiphase Program for Sustainable Roads in Rural			55.4	55.4
ES-L1003	Strengthening of the National Statistics System			13.5	13.5
ES-L1002	Support to "Red Solidaria" (SWAp)			57	57
ES-0160	Strengthening of the University of El Salvador-UES			25	25
ES-0159	Basic Education for All			85	85
ES-0140	Social Sector Reform Program (PBL)			100	100
	2007-2009				
ES-L1004	Natural Disaster Prevention			5	5
ES-0153	Rural Electrification			40	40
S/N	Local Development Program III (FISDL)				50
ES-0154	Urban Transport Integrated System				10
ES-0125	Modernization of Financial Sector Program (PBL)				100

5 These two operations were part of a list of six possible private sector operations listed in Annex 1 of the programming document. Although the Banco de Comercio project of US$20 million (with 40% in bond issue) was approved it was cancelled in December 2005. Banco de Comercio was incorporated into the Canadian New Scotia Bank as the New Scotia Bank of El Salvador that obtained triple rating hence obtained better terms in private markets. Oceanic had a concession to provide digital mobile telecommunication network, however, the company gave up its concession rights that were returned to the country's government. Thus the project was dropped in September 2006. It is worth noting that the company pre-paid an IDB loan in Jamaica which was in a similar area. The other four operations, whose dollar values were not specified in the programming document, were not approved.

2.5 OVE considers that the Bank's proposed program was only partially relevant to the development challenges of the country in light of the Bank's own prior diagnostic work. The focus on "competitiveness" in the already approved sector loan and certain technical cooperation operations, proposed to improve the country's investment climate, despite the fact that the background diagnostics suggested only small returns to such activity, given the country's already high scores on investment climate indicators. Specific measures to tackle the problem of "discovery" that formed a key part of the diagnosis were not included in the proposed program.

2.6 Similarly, the priorities in the proposed social lending operations do not appear completely consistent with the diagnostics. The large basic education loan may not have been particularly relevant, given the lack of evidence that growth was human capital constrained. Financing of the country's proposed conditional cash-transfer program (Red Solidaria), through the social sector reform loan did not propose to help increase the overall low level of social spending which the UNDP analysis had indicated was the heart of the poverty problem. The same is true for the proposed infrastructure investments, which were programmed within the country's existing low level of public investment and made no attempt to address that problem. The problem of low tax effort was approached indirectly, by conditioning the "high" lending scenario on the emergence of "greater fiscal capacity" (specifically the assumption that the tax ratio would rise by 4 percentage points of GDP over the forecast period, through actions not explained in the strategy).

2.7 Some of this failure to address issues of overall spending and investment levels comes from the fiscal constraints accepted by the government as a context within which the Bank needed to operate. While the country's overall debt level is low, it had increased from 30% to nearly 40% of GDP in the period immediately prior to the Bank's new program. This was largely the result of recovery expenses associated with the 2001 earthquake, and the transitional expenditures associated with fixing the country's pension system. In this context, the government thought it essential for maintaining credibility with markets that annual fiscal deficits (and associated increases in debt levels) be strictly contained.

2.8 That decision shaped the financial terms of the proposed IDB program. Box II.2 below, taken from the BCS document, shows a projection of very slow growth of the country's overall indebtedness to the IDB during the forecast period. It also shows that the Bank and the country were aware of the fact that the Bank would actually be taking resources out of the country in every year except 2006, as interest payments and debt repayments were projected to be larger than new disbursements.

Box II.2. Proposed Financial Flows and Debt Exposure Indicators

Table IV-1
Exposure indicators
(in US$ million)

Item		Base Scenario					High scenario				
	2004	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Approvals[1]		125.9	110.0	145.0			125.9	110.0	145.0	150.0	10.0
Disbursements[1]	52.2	132.4	187.6	147.9	115.8	93.0	132.4	187.6	147.9	124.8	151.0
Repayments[2]	78.0	81.8	89.0	97.0	106.0	114.0	81.8	89.0	97.0	106.0	114.0
Net flow of loans	-25.8	50.6	98.6	50.9	9.8	-21.0	50.6	98.6	50.9	18.8	37.0
Interest and charges[2]	55.4	55.2	68.9	71.0	73.8	74.9	55.2	68.9	71.0	75.0	76.6
Net flow	-81.2	-4.6	29.7	-20.1	-64.0	-95.9	-4.6	29.7	-20.1	-56.2	-39.6
Total debt with IDB	1,615.2	1,665.8	1,764.4	1,815.3	1,825.1	1,804.1	1,665.8	1,764.4	1,815.3	1,834.1	1,871.1
IDB exposure (<18%)	2.6%	2.5%	2.5%	2.5%	2.3%	2.2%	2.5%	2.5%	2.5%	2.4%	2.3%
External debt service/exports	21.1%	20.9%	25.0%	22.4%	20.6%	20.0%	20.3%	24.2%	21.1%	19.1%	18.5%
Debt service IDB[2]/exports (<8%)	4.1%	4.2%	4.6%	4.6%	4.6%	4.6%	4.2%	4.5%	4.5%	4.5%	4.4%
Debt service IDB[2]/External debt service[2](<30%)	19.7%	20.1%	18.3%	20.7%	22.5%	23.0%	20.5%	18.6%	21.2%	23.4%	23.6%
Total public debt[3] (US$ million)	6,041	6,802	7,247	7,660	7,975	8,238	6,688	7,116	7,457	7,716	8,102

Source:
1 COF/CES and RE2/OD3 projections based on BCS-ES (base or high) scenario
2 Ministry of Finance projections
3 Nonfinancial public sector debt. Ministry of Finance projections

2.9 The financial parameters agreed to by the Bank and the country thus meant the Bank's program could not reasonably be expected to take on many of the critical challenges identified in the diagnostic work.

2.10 .

2.11 The Bank's formally-articulated objectives for the 2004-2009 country program, are laid out in a matrix at the start of the CS document, attached as Annex I. The first column of the matrix defines 31 specific objectives, but only 13 have corresponding entries in the column of "monitoring indicators". Nearly two-thirds of the Bank's objectives thus can neither be measured nor evaluated, giving the program as a whole a relatively low evaluability score. In a separate review of country strategies by OVE, the 2004 El Salvador country strategy received a score of 21 out of a possible 100 in evaluability, placing it near the bottom of strategies reviewed. Even where there are proposed indicators, there is often not a clear connection between the indicator and the corresponding Bank effort. For example, one target was to increase the level of public spending on social safety net programs by 0.3% of GDP, but none of the Bank actions connected to this target contain such an objective in their proposals. Evaluative comments on each of the proposed objective-indicator pairs can be found in Chapter V.

2.12 A final assessment of programming relates to the incorporation of recommendations from the prior country program evaluation. Annex II provides a list of previous CPE recommendations, with comments regarding their incorporation into subsequent programming and execution. The data suggest a relatively low incorporation of prior recommendations, and a consequent persistence of problems from one generation to the next.

III. DELIVERY OF THE PROGRAM

3.1 The breakdown in political negotiations between the country's main political parties that was described in the Bank's country strategy document became a protracted political impasse, with the result that the legislature did not ratify any of the new lending projects proposed in the country strategy. The failure to ratify Bank loans did not, however, mean that the projects did not go forward, just that they did not go forward as Bank projects. Many ideas developed originally by the Bank were eventually funded through alternative arrangements that bypassed the need for Congressional approval. Among these mechanisms were grants from other development agencies (Red Solidaria was supported by a grant from the E.U.), and loans to non-sovereign entities, such as the CABEI loan to the rural roads trust fund.

3.2 However, things changed in late 2008. Interviews suggest that three factors came to head simultaneously: (i) payoff of the Bank's bilateral discussions with the FMNL, (ii) the expectations of electoral victory by the FMNL led to its willingness to approve external financing by the multilaterals (and not, as feared, to increased political polarisation prior to the 2009 elections); and (iii) the looming economic crisis. Thus in November and December of 2008, two fast-disbursing loans started disbursing (one social sector PBL, originally approved in 2006, was taken off the shelf, and the second was within the newly approved Growth-Liquidity Facility for the central bank). The World Bank also dusted off an operation originally approved in 2005.

3.3 Because the resources attached to Policy Based loans are not directly tied to their development objectives, it is possible to apply PBL disbursements to a variety of different objectives. In the case of the US$500 million "Social" PBL, an authorization by Congress predetermined its uses.[6] US$200 million is to be set aside to finance the amortization of Eurobond, due in 2011. Further set-asides were to finance some of the activities of Bank-proposed projects that had not been ratified or approved: rural roads (US$40 million), mitigation of risk (US$20 million), University of El Salvador (US$20 million); education (US$30 million). The rest was allocated for health (US$100 million), agriculture (US$70 million), and water (US$30 million).

3.4 However, the inability to push loans through Congress does not account for the discrepancy between planned and actual non-sovereign loans in such a pro-business country until late 2008. Several factors could explain the discrepancy. First, until the middle of 2006, the Bank's mandate limited the scope of private operations, such that the Bank could support only infrastructure and financial markets, reducing the Bank's relevance. Second, the Bank's fixed due diligence costs[7] in the context of the small -sized operations in El Salvador made the Bank uncompetitive,

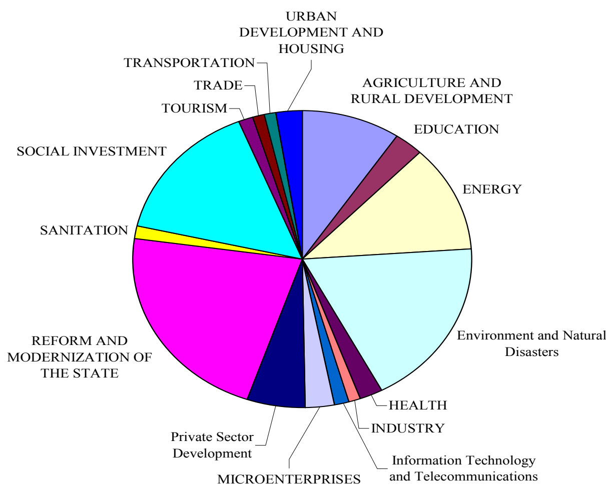
[6] Decreto N0. 788, November 5, 2008, Asamblea Legislativa.

[7] The Bank's private operations have a high fixed cost structure due to the need of hiring international consultants for conducting due diligence, legal analysis, structuring, and drafting, project monitoring, closing and other services.

particularly given the liquidity of the markets even after the mandate was widened. This context changed in 2008, when 8 out of 15 private sector operations in the country (99.9% of the dollar amount) were approved.

3.5 In contrast, the Bank was very active in Technical Cooperation (TC) and non-financial products. While in 2003, there were 90 open TCs valued at US$$16 million, by February 2009 there were 117, with an original approved amount of US$23 million. Chart III.1 shows the distribution of Bank TCs by sector.

Chart III.1: TCs by Sector



3.6 The program's loan anticipation rate in dollar terms, i.e. the ratio of approved to programmed projects was 56% and the improvisation rate, i.e. approved but not programmed, was 74%. This is worse than the previous programming cycles, where the earlier CPE found an anticipation rate 61% and an improvisation rate of 28%. The loan dollar value anticipation rate in terms of programmed, approved and ratified was zero (see Table III.1).[8] Because of the low approval rate, disbursements fell well below levels programmed, and net cash flow was substantially more negative than had been anticipated.

[8] Note to avoid double counting we are treating the $500 million social sector support loan (ESL1030) approved in December 2008 and ratified as a different loan to the $ 100 million social sector loan approved in 2006 (ES5140) but not ratified. Although both have similar objectives and share some conditionality, the former is classified under the calculation of improvisation rate while the latter is classified into the anticipation rate.

Table III. 1 Programmed and Actual Delivery						
Programmed by scenario and actual (2005-2008)					Anticipation rate (%) 2/	
	Programmed		Actual			
Million US$	Base	High	Total	Total Exc.1/	Base	High
Approvals	380.9	530.9	942.4	0.0	0.0	0.0
Gross Disbursment	583.7	592.7	576.9	356.4	61.1	60.1
Net Cash Flow	-59.0	-51.2	-77.7	-287.5	-228.5	-236.3

Note: Includes all operations from ORC and FSO funds

1/ Excludes non-programmed and non-ratified projects

2/ Programmed and ratified projects as % of programmed. For net cash flow the figures refer to the difference between actual and programmed

3.7 Table II.3.b shows that in terms of disbursement expected for individual operations that had been approved in previous programming cycles. There was considerable progress over the period, with the exception of the Water and Sewerage Program, and Central America Electric Connection projects. National Environment Protection Program, Educational Technology Support Program, and Educational Infrastructure were not listed in the country strategy's matrix (see Annex 1).

Table III.2 Actual and Target Disbursements

Project	Name	Target 2005-2009	Actual by dec 2008	Balance Dec 2008
Bank's existing portfolio by 2004				
ES0024	National Environment Protection Program	N/A	96%	0.0
ES0053	Modernization of the Health Sector	55%	98%	(0.0)
ES0068	Water and Sewer Program	98%	77%	9.0
ES0108	Educational Technology Support Program	N/A	96%	(0.0)
ES0110	Educational Infrastructure	N/A	60%	(0.0)
ES0074	Decontamination of Critical Areas	93%	85%	4.1
ES0093	Legislative Branch Modernization	63%	81%	0.5
ES0115	Institutional Strengthening Financial Sector Regulatory Institutions	71%	83%	0.6
CA0007	Central America Electric Interconnection	100%	30%	28.0
ES0087	Housing Program	96%	80%	13.2
ES0119	Retooling Agro-Enterprise	96%	98%	0.3
ES0120	Local Development Program II	29%	99%	0.0
ES0129	Sustainable Rural Roads Program	30%	99%	-
ES0151	Sector Program for Competitiveness Reforms	100%	100%	-

3.8 The efficiency of program delivery is a function of both time required to disburse and the transaction burden created by Bank rules and procedures. Time measures are largely meaningless for new loans, since all were blocked at the ratification stage. Implementation costs for previously-approved loans are affected by the Bank's decision to manage the portfolio using traditional fiduciary mechanisms rather than following the recommendation of the prior CPE to place greater reliance on local systems for implementation monitoring.

3.9 Despite the country procurement assessment report (CAPR) giving El Salvador a low risk classification, confidence in the ability of the country's integrated financial administration system (SAFI) to provide information required in supervision, and the adequate performance of external auditors, the Bank's projects continue to be supervised with the same control mechanisms as they have been since their inception. For example, for the 110 active operations from January 1, 2007 to August 2008, the Bank had to revise 1,120 contracts.

3.10 The table below shows the transactions generated by active operations and the local office staff and consultant budget per transaction. The falling staff ratio suggests that the Bank is becoming more "efficient" at managing disbursements, but this efficiency may have come at a price in terms of quality. A recent report by the Bank's Auditor General found that were supervisory activities in the country office that were not reflected in the Bank's systems, meaning that the data in those systems were "neither complete nor trustworthy." Of equal concern was the fact that excessive workload in fiduciary reviews of each project: *"…could endanger the development of critical fiduciary functions like the evaluation of national systems, the participation of design teams to propose supervision mechanisms according to the executing agency risk, financial visits, or ex post visits … .")* [9] The Bank is thus neither certifying and relying on country systems, nor able to carry out on its own the fiduciary reviews required in a complete and trustworthy fashion.

Table II.3 . Staff Costs Per Transaction

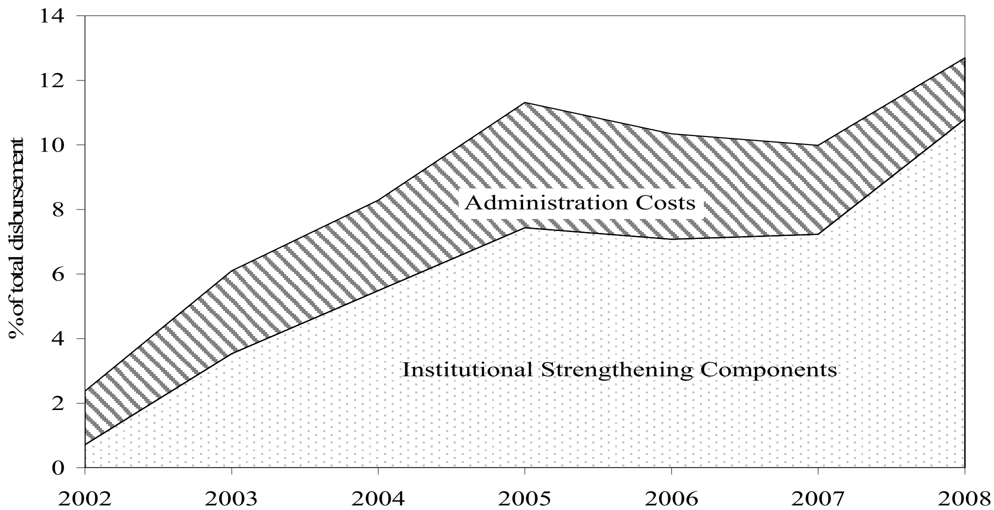
	2003	2004	2005	2006	2007	2008
Staff (US$ million)	2.3	2.0	1.9	1.7	0.9	1.0
Consultants (US$ million)	0.2	0.2	0.2	0.2	0.2	0.1
# of transactions generated by operations	711	560	579	483	442	582
Staff and consultants budget per transaction	3,229	3,589	3,247	3,547	1,967	1,680

Source: COF: Note the number of transactions only includes approvals, disbursements, fees and cancellations registered in the Bank's FINTRANS data base, hence understates the total number of transactions carried out by the Bank's local office. .

3.11 At the same time that Bank supervisory costs are falling, the overall administrative costs of the portfolio have been increasing. There are two components to this change: First, projects include a rising proportion of disbursements related to "institutional strengthening" as a program objective. Second, recorded administrative costs are also rising as a share of total disbursements. The result is a steady increase in the administrative costs to the country of the portfolio in execution, from a little more than 2% of disbursements in 2002 to nearly 12% in 2008.

[9] Informe de Auditorías: El Salvador 2008: "Auditoría de controles internos básicos en las actividades operacionales del Banco en El Salvador", 14 de Noviembre de 2008.

Chart III.2. Costs of Administration

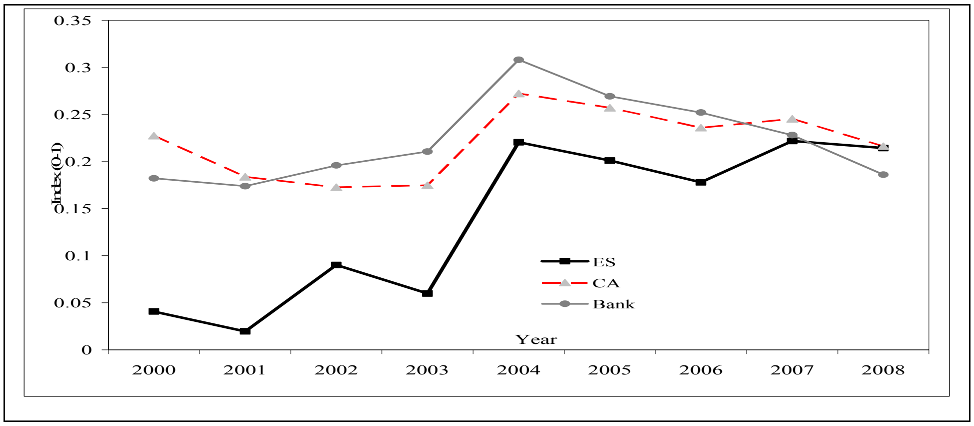


3.12 As the chart demonstrates, the principal driver of rising administrative costs are increases in the "institutional strengthening" components of projects. It is difficult to reconcile this with El Salvador's generally high scores on standard measures of governance and the quality of public institutions, and the Bank lacks any reliable system for measuring whether institutions have in fact been "strengthened" as a result of these project components.

3.13 Another characteristic of the El Salvadoran portfolio is the significant number of projects that have been restructured (7 projects) and reformulated (14), mainly to meet the needs derived from unanticipated natural disasters. Such modifications show flexibility of the Bank in the face of unanticipated events, but also involve some costs in terms of original objectives not fulfilled. For example, the Environment Program (ES-0024), of US$30 million approved in September 1995 was modified in 1998 for emergency works due to Hurricane Mitch, and modified again in 2001 to meet emergency needs related to earthquakes. These modifications meant that the original loan component related to improved environmental management was eliminated, potentially impacting the sustainability of this initiative. Similarly, the Education Infrastructure project (ES-0110) saw 50% of its resources reallocated towards areas that had suffered from the 2001's earthquake, at the cost of lowering the overall school repair objectives of the loan from 831 schools to 578. This raises the question of whether there might be better alternative responses to natural disasters, such as supplemental lending, that might provide support in emergencies without compromising the overall development program.

3.14 Finally, the portfolio in execution appears to be experiencing a rising rate of problems. The Bank monitors 18 aspects of project execution separately, which makes it difficult to see the state of the portfolio as a whole or trends over time. OVE has combined these 18 separate measures into a single "portfolio problem index" which varies from zero (good) to unity (bad). Chart III.3 below shows a trend towards increasing problems of portfolio execution in the El Salvador, which had previously been one of the Region's best performers.

Chart III.3. Evolution of the Aggregate Portfolio Problem Index



IV. DEVELOPMENT EFFECTIVENESS

4.1 The program's development outcomes can be approached in two ways: top-down and bottom-up. The top-down approach considers the strategic goals, and proposed indicators, set out in the Country Strategy documents, while the bottom-up approach considers the totality of the development goals set out in the individual projects.

4.2 The top-down approach is feasible for the 2005-2009's El Salvador program, as the country strategy enumerates monitoring indicators (both baseline values and time-bound targets) for some of the strategic goals., The programming document separates the monitoring indicators into two categories: those designed to measure the performance of the Bank, and those designed to measure the progress of the country toward achieving its development goals (see Annex III).

4.3 As the tables in Annex III show, there were 13 indicators chosen to measure Bank performance, six of which OVE found to lack adequate specificity to be useful as performance monitoring tools. The clearest and most specific indicators were not clearly linked to any proposed Bank intervention, and most of the interventions proposed in the country strategy were not executed. Another 16 indicators contained targets for changes in country performance, again not closely connected to the Bank's proposed program. The vast majority of indicators thus focused only on changes in the country that could not plausibly be attributed to Bank intervention.

4.4 The tables in Annex III show that most of the country monitoring indicators fell short of the targets set in the program. Although the targets were set for 2009, and data used is from 2007-2008 it is doubtful, given the current crisis, whether the targets that were set for 2009 will be met. Further, the indicators were obviously neither intended, nor can they be interpreted, as measures of the extent to which the assistance achieved the intentions and objectives set. At best, they show the evolution of strategic development areas in terms of numerical dimensions of the development problems that the Bank hoped to support. The figures are calculations of naïve effects, in the sense that no attribution of any observed change can be attributed to the Bank's intervention.

4.5 Turning to individual projects, the data suggest that most did not define what benefit was expected (difference between baseline and targets), and project completion narratives generally do not discuss what had been achieved in comparison with initial baselines. Almost none of the projects have a complete set of either indicator-baseline–target or indicator-baseline-current value of the proposed goals and purpose. Table IV.1 shows the calculations of *ex ante* evaluability and ex post evaluability for individual projects, respectively.

4.6 For example, the rural roads project's objectives were to facilitate the mobilization of passengers and cargo, reactivate agriculture production, integrate communities and enhance the income level of the rural population. The total number of individual objectives were four, but the proportion with indicator-baseline and target was only 0.5 as was the proportion of objectives with an indicator and a baseline. The social investment fund's objectives were to alleviate poverty, foster the development of human capital and meet the basic needs of the El Salvadoran population. The corresponding figures are: 4, 0 and 0. The Housing project's objectives were to improve the housing sector's capacity to provide an efficient and equitable response to the demand for housing among the various income groups in the urban population. The corresponding figures are: 3, 0.3 and 0.3. The Education Technology's project's objectives were to improve the quality of, and expand access to basic education by means of introducing technologies, increasing enrolment in grades 7 to 9 and improving the internal efficiency of basic education. The corresponding figures are 4, 0.25, and 0..5.

TABLE IV.1 EVALUABILITY INDICATORS

			Ex-ante evaluability indexes		Ex-post evaluability indexes	
Project	**Number of objectives of Goal or Purpose**	**Keywords for objectives**	**Proportion of objectives with indicator, baseline and target**	**Proportion of objectives with indicator and baseline**	**Proportion of objectives with indicator, baseline, target and current value**	**Proportion of objectives with indicator, baseline, and target**
ES0093 Modernización y Fortalecimiento de la Asamblea Legislativa	3	1. effectiveness, 2. efficiency, 3. transparency	0.00	0.00	1.00	1.00
ES0115 Programa de Apoyo al Sector Financiero en El Salvador	5	1. stability, 2. solvency, 3. technical training, 4. management, 5 cooperation and coordination	0.00	0.00	0.00	0.00
ES0068 Programa de Reforma del Sector Hídrico y del Subsector Agua Potable y Saneamiento	5	1. conservation, 2. rational use, 3. efficiency, 4. management (institutional strengthening), 5. decentralization	0.40	0.80	0.20	0.20
ES0024 Programa de Manejo Ambiental El Salvador	3	1. income, 2. better management, 3. conservation	0.33	0.67	0.67	0.67
ES0110 Infraestructura educativa	3	1. equity, 2. quality, 3. physical environment	0.00	0.67	0.33	0.33
ES0053 Project to Support Modernization of the Ministry of Public Health and Social Assistance	4	1. improve health of poor, 2. efficiency, 3. equity, 4. quality	0.25	0.25	0.25	0.25
ES0087 Housing Program	3	1. efficiency, 2. equity 3. management and sustainability (new policy instruments)	0.33	0.33	0.33	0.33
ES0074 Programa de Descontaminación de Áreas Criticas	3	1. contamination program, 2. municipal management, 3. municipal monitoring system	0.67	1.00	1.00	1.00
ES0120 Local Development Program II	4	1. improve living conditions of poor (with investments), 2. access, 3. community participation, 4. capacity-building in municipalities	0.00	0.00	0.25	0.25
ES0108 Support Program for Education Technologies	4	1. quality, 2. access, 3. performance, 4. community participation	0.25	0.50	0.25	0.25
ES0119 Programa de Reconversión Agroempresarial	5	1. income, 2. access to public services, 3. productivity, 4. technology transfer, 5. irrigation and drainage systems	0.00	0.00	0.40	0.40
ES0129 Programa Multifase de Caminos Sostenibles en Areas Rurales	4	1. Access to transportation and communication, 2. sustainability, 3. management (institutional strengthening), 4. earthquake repairs	0.50	0.50	1.00	1.00
Average	3.83		0.23	0.39	0.47	0.47

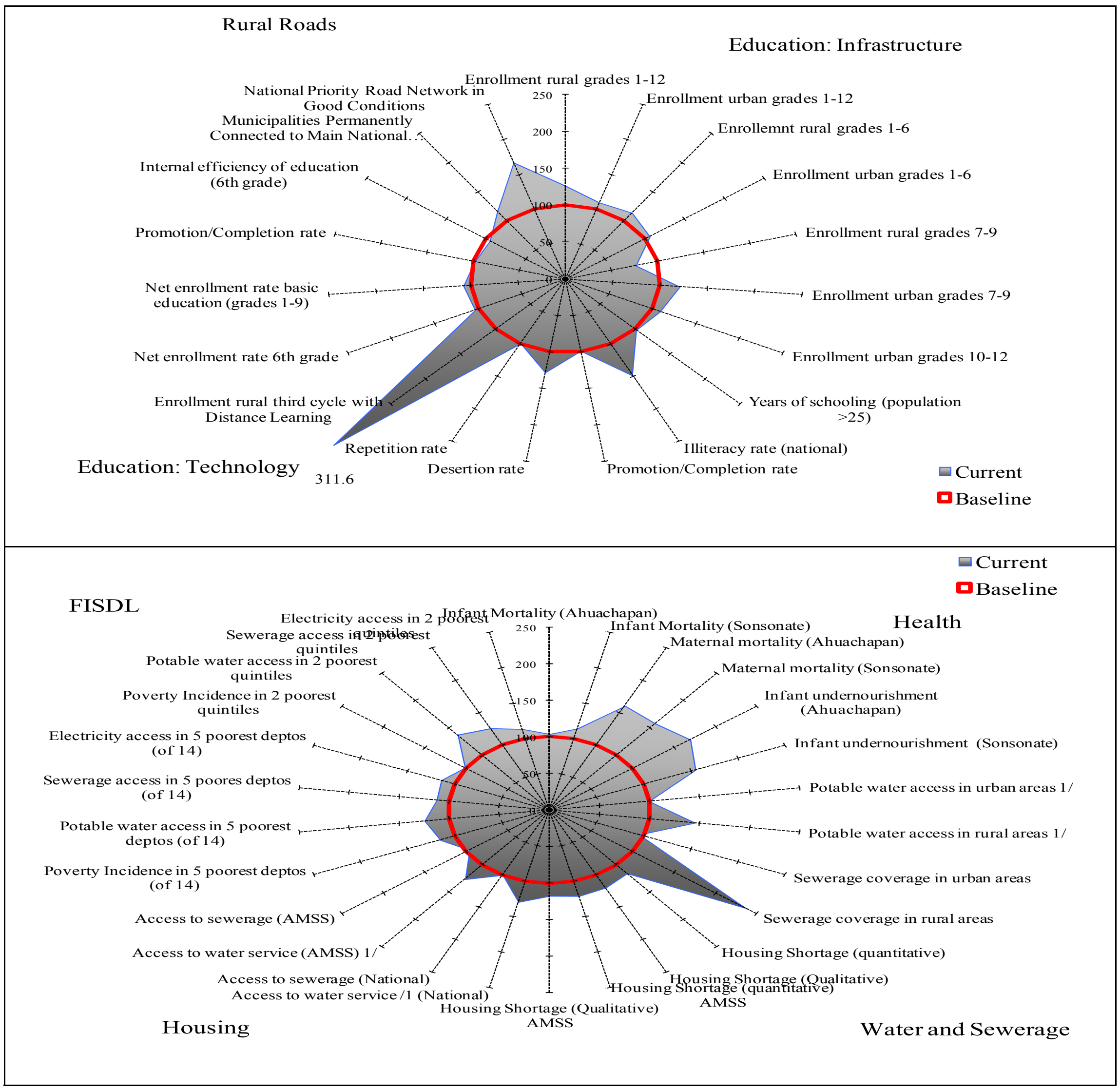
Source: Ex-ante evaluability calculated from loan documents. Ex post evaluability calculated from PCR and last PPMR.

4.7 Thus, in general, the Bank neither has a good idea of the results expected in the areas of intervention, nor generally knows what has been achieved. This is not a problem specific to the El Salvadoran portfolio, as it is a common finding in OVE's CPEs. However, in the case of El Salvador, national information systems do possess much of the information required for an assessment of the effectiveness of Bank projects. This information is not, however, incorporated into Bank project monitoring and reporting systems.

4.8 Many projects cannot easily report on results because of the nature of the project itself. For example, the two pure institutional strengthening projects had zero ex ante evaluability. The Modernization and Strengthening of the Legislature project's goals were to improve the quality (efficiency, efficacy and transparency) of legislative products, with five separate objectives; it had zero proportion with indicator-baseline and target. The same figures hold for the Institutional Strengthening of Financial Regulatory Institutions.

4.9 Other projects are more evaluable, even if the Bank did not collect data to carry out such an evaluation. OVE reviewed seven projects (accounting for 74% of total disbursements) for which there were significant disbursements during the period of the evaluation and some indicators collected in national information systems. This review identified 45 specific outcomes related to the projects, 38 of which were not included in Bank monitoring documents (84% of the total). See Annex IV por a brief description of the projects and data sources used. Charts IV.1 and IV.2 show changes in the indicators from the baseline to the values reported at the time of the evaluation. For the charts, the inner circle indicates the baseline value for each indicator, and the shaded area shows the latest value for the indicator. Thus a value outside the circle shows improvement in the indicator, and most indicators registered improvements, many of them quite large. The charts show considerable improvement in measured conditions in rural areas associated with the education, rural roads, and health and sanitation projects.

Charts IV.1 and IV.2. Development Indicators of Selected Projects



Source: See Annex IV.

4.10 However, the above measures of development effectiveness are still inadequate, as any observed change is not related to the intervention. To make such an assessment, an impact evaluation is required that looks at the results that can reasonably be attributed to the Bank's intervention. OVE carried out one such evaluation, on the country's PAES program (ES0024), and found extremely positive results. By OVE's calculation, the program had a net present value, at a 12% discount rate, equal to US$$563 per family with an internal rate of return of 49%. So, although process indicators, often the focus of the IDB's monitoring system, give the project low marks, in fact this project was highly successful in making a difference. If these phenomena are generalized, then the Bank is undervaluing its contribution towards development.

4.11 Finally, as noted previously, a large part of the portfolio was in technical cooperation. Practically all TCs involved studies plus in order of importance: training; equipment; and seminars. A large number were to support an IDB project through institutional strengthening and the preparation of laws or guidelines. Measurable indicators of results are absent in all such operations, leaving "user satisfaction," and dissemination of knowledge produced as the only available way to evaluate effort. In a survey conducted for the evaluation, user satisfaction was very high: 80% said they were very satisfied, no one reported they were unsatisfied. Dissemination, however, was problematic for most TC operations. Only 25% of studies produced are available in the Bank's intranet (IDBDOCS), and only 4% are available to the public.

V. CONCLUSIONS AND RECOMMENDATIONS

5.1 OVE considers that the Bank's proposed program was only partially relevant to the development challenges of the country in light of the Bank's own prior diagnostic work.

5.2 None of the programmed sovereign loans were approved and ratified. The political risk of non-ratification identified in the country strategy and forewarned by the previous country program evaluation was realized. In fact, the impasse between the government and the opposition, FMNL, led to a veto by Congress of all external financing until late 2008 when the Bank approved two fast disbursing loans and the executive obtained ratification from Congress.

5.3 If El Salvador in 2004 presented an unusual challenge for the Bank in developing a strategy for future engagement this holds even more so in 2009. In contrast to the previous country strategy written in a time of recovery, the new country strategy is being prepared amidst a downturn whose magnitude is uncertain. The development problems, identified in 2004, of inadequate fiscal space (too low tax revenue and public expenditure), low economic growth, limited private sector capacity to discover new productive opportunities, stagnating poverty reduction, and high inequality of opportunities have all intensified. Political gridlock, which paralyzed the last lending program, remains a significant concern for the upcoming program cycle as well.

5.4 In light of past experience, the evaluation makes five specific recommendations for the next country program. First, the Bank should review with the government the diagnostic work prepared for the last program cycle, much of which remains relevant to the country's development challenges. This review should contribute to the construction of a program that is more relevant to the needs of the country.

5.5 Second, the financial parameters of the proposed program should be clearly established at the outset. If the program continues the past practice of anticipating significant esource transfers from the country to the Bank, then the expectations for the Bank's development impact should be scaled accordingly. Such a program would need to rely on knowledge transfer rather than resource transfer for its impact, and should be monitored accordingly. Since the past diagnostic revealed significant resource shortfalls in critical areas such as infrastructure and social spending, a program with positive net transfers to the country in these critical areas could be justified, and would require a different type of monitoring than a low resource transfer scenario.

5.6 Third, the Bank should consider a more inclusive approach to the programming process. Past disagreements between the executive and legislative branches on priorities completely blocked the approval of new lending operations. To avoid repeating this experience in a context of continued significant political polarization, the Bank should work to ensure that its proposed program commands a broad consensus in both the legislative and executive branch.

5.7 Fourth, the evaluation reiterates the recommendation of the prior CPE that the Bank relies much more heavily on local capacity for the management of project execution and the evaluation of project accomplishments. National systems for fiduciary management get high marks from both the IDB and the World Bank, and should be used more extensively to reduce the administrative workload on the Bank's country office staff. At the same time, national systems for results monitoring should be encouraged (via loans and technical cooperation operations) to become fully independent of the execution of programs, and the Bank should work to integrate these local evaluation efforts with its own systems for project monitoring.

5.8 Finally, the next country strategy should review the 20 specific recommendations contained in the last country program evaluation, the vast majority of which were not incorporated into the last strategy. The present evaluation believes that most of those recommendations remain valid, and should be specifically addressed (either accepted or rejected), in the next country strategy document.

Matrix of the Bank's Country Strategy with El Salvador

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
Core objective: Support poverty reduction						
Expected performance of macro variables. Poverty 2009 (% population): 36.9%. Baseline 2002: 42.9%. GDP per capita 2009: 1.6%. Baseline 2004: -0.4%						
Strategic objective I: Promote sustainable economic growth by increasing competitiveness						
I. A. Strategic guideline Contribute to improving the investment climate and business productivity, in a stable macroeconomic environment. **Strategy** (i) Maintain a stable macroeconomic environment by strengthening the fiscal situation and the financial system. (ii) Modernize the legal framework for investments. (iii) Develop the institutional framework for competitiveness. (iv) Improve the efficiency of the financial intermediation process. (v) Strengthen the national technological innovation system and job training, and create a technical training strategy.	**Objective** To consolidate fiscal sustainability. To strengthen the institutional framework associated with a functioning market, and create conditions for economic growth based on high productivity. **Strategy** Improve efficiency and rationalize public investment. Increase the tax revenues by modernizing control arrangements. Strengthen the SSF. Modernize the legal framework for trade and investment. Create the *El Salvador Eficiente* presidential program. Design and implement a policy of comprehensive support for MSMEs. Define the technology development policy. Establish a rural public investment program. Modernize the public	**Competitiveness** World Bank, GTZ **Diversified growth** World Bank **MSME** EU, USAID **Agricultural development** World Bank, IICA, Japan, Chile	**Loans** Competitiveness Reforms (100%) Institution-Strengthening Financial Sector Regulatory Bodies (71%) **TC** Creation of Social Capital through Fiscal Reform Tax Reform for Human Development in CA Strategic Plan Information System. Banco Central de Reserva Mapping of Instruments for MSME Support Strengthening UES	**Loans** Social Sector Programs Modernization Financial Sector Strengthening UES **TC** Implementation of Competition Act Strengthening Consumer Protection Agency Support to Competitiveness and Innovation Strengthening Technical Capability MAG **PRI and IIC** Pro-Credit Capital Market Expansion Operations Financial Institutions	By June 2006, bank supervision in El Salvador using best international practices. Strategic plans of CONACYT and INSAFORP being implemented.	**By 2006, budget policy to generate nonfinancial public sector current savings of at least 0.5% of GDP. Baseline 2004: -0.3% GDP.** **Progress made to comply with recommendations of the CPAR and the CFAA for 2006.** **Financial Supervision Act on the floor of the Legislative Assembly.** Tax revenues represent at least 14.6% of GDP in 2008. Baseline 2004: 12% GDP. Credit rating with credit ratings companies maintained. Baseline 2004: Baa3 (Moodys), BB+ (Standard &

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
(vi) Promote the development of formally established, competitive, and sustainable enterprises.	institutions that support the sector. Create an agricultural outreach program. Design a rural development strategy in coordination with a local development strategy. Develop the presidential programs "*Agenda de Conectividad*", *Discovering Productive Potential, Productive restructuring of the agricultural sector*.		**PRI** Partial Credit Guarantee for Banco Comercio Mortgage Bonds (100%) **Nonfinancial** Fiscal sustainability: The case of ES Tax policy diagnostic and options for reform CFAA CPAR	**MIF** Facilitating Migrant Investment in SMEs Strengthening Ports and Maritime Authority Enterprise Development with Technology Base Technical Assistance for SMEs Exporting to USA (Regional) Facility for Business Climate Initiative (Regional) **SEP** Four projects with vulnerable groups **Nonfinancial** Guidelines for Strategic Partnerships with Private Sector		Poor's) and BB+ (Fitch).

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
I. B. Strategic guideline Upgrade basic support infrastructure for production, especially in rural areas. **Strategy** (i) Rehabilitate rural roads. (ii) Improve the quality and safety of public transportation services. (iii) Increase the coverage of rural electricity and promote institutional strengthening in the sector. (iv) Improve port and airport efficiency. (v) Expand coverage and improve quality of potable water and sanitation services. (vi) Promote private investment in infrastructure through concessions.	**Objective** To strengthen production support infrastructure. **Strategy** Invest in the strategic road network and continue FOVIAL. Improve efficiency at the port of Acajutla and cargo operations at Comalapa airport. Support construction of Puerto Cutuco. Support regional electrical integration including review of the sector framework so as to ensure competitive rates.	**Roads** CABEI **Ports** CABEI, JBIC **Urban infrastructure** CABEI **Access markets rural areas** USAID **Water and sanitation** UNDP, KFW **Reconstruction** JBIC	**Loans** Sustainable Rural Roads Prog. I (30%) Potable Water and Sewerage Programs (98%) Competitiveness Reforms (100%) **TC** Support for MINEC on Power Markets Model for Water Resources Management **MIF** Regulation San Salvador Urban Transport System	**Loans** Sustainable Rural Roads Prog. II Integrated Urban Transport System Rural Electrification **PRI** Support Transport Concession Power Generation Facilities Oceanic Digital Communications CA Infrastructure Fund **IIC** Operations S. Energy **MIF** Strengthening Ports Authority	By 2009, at least two concessions for infrastructure works. By 2009, 60% increase in potable water and sanitation coverage in 62 localities. Baseline 2000: 35%.	By 2009, public investment in infrastructure at least 4% GDP. Baseline 2004: 2.3% GDP. By 2009, 2.48 pp. reduction in population without access to better water sources. Baseline 2002: 26.3% (MDG).

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
I. C. Strategic guideline Tap opportunities offered by trade liberalization and regional integration. **Strategy** (i) Strengthen capabilities for supervising implementation of the CAFTA-DR and other trade agreements. (ii) Support competitive transition to free trade with the United States. (iii) Strengthen competitive participation in the CACM. (iv) Promote energy integration within the framework of the PPP.	**Objective** To take advantage of international trade flows. **Strategy** Promote labor legislation that establishes optimal conditions for workers, competitiveness, and productivity in the labor sector. Deepen the trade liberalization strategy, seeking negotiations with potential partners. Strengthen the Trade Policy Division of the Ministry of Economy and other agencies involved in trade negotiations. Create the Presidential “Agenda de Conectividad” Program.	**Trade** USAID, GTZ **Border development** EU	**Loans** Retooling Agro-Enterprise (96%) Competitiveness Reforms (100%) SIEPAC (100%) **MIF** Sanitary and phytosanitary standards **TC** Program Support Trade Negotiations Analysis of the Impact of CAFTA on Rural Households in CA Tactical Plans Clothing and Textile Industries Rural Economy and CAFTA	**TC** Institutional strengthening and development MINTRAB **MIF** Technical assistance to exporting SMEs **Nonfinancial** CAFTA and rural economy Sector analysis and competitive products	By 2009, 4% annual growth in exports to USA (with in-bond assembly). Baseline 2004: 2% (US$2,156 million). By 2009, 1.5% annual growth in exports to CACM. Baseline 2003: 0.78% (US$746 million).	By 2008, exports (excluding in-bond assembly and coffee) represent at least 9% of GDP. Baseline 2004: 8% GDP.

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
I. D. Strategic guideline Strengthen environmental management and natural disaster prevention. **Strategy** (i) Protect public assets and improve the capacity to prevent, mitigate, and manage the risks of natural disasters. (ii) Manage the economic and social impact of disasters more efficiently. (iii) Strengthen institutions responsible for enforcing environmental legislation and regulations. (iv) Improve environmental pollution control, waste management, and policy-making for water and forestry resources.	**Objective** To promote economic growth while protecting the environment. To develop a national environmental policy to furnish the country with a specialized legal framework and efficient regulations. **Strategy** Strengthen the institutional framework of the environmental sector. Ensure transparency in the environmental certification process. Consolidate the institutional framework and legislation on water resources.	**Protected areas** World Bank, CABEI **Environmental management** World Bank, EU, USAID, KFW, GTZ **Environmental pollution** KFW	**Loans** Decontamination of control critical areas (93%) **TC** National Capacity Financial Management and Natural Disaster Risk Reduction Municipal Environmental Action Plan Environmental Impact of Coffee Production in Central America	**Loans** Natural Disaster Prevention **TC** IDB Action Plan to Improve Natural Disaster Management Safety Studies of Hydroelectric Dams **Nonfinancial** Country Environmental Analysis: Competitiveness and sustainable development Workshop on Country Environmental Analysis	By 2008, IDB risk management index rises to 160. Baseline 2000: 142. By 2009, coverage of garbage collection services in targeted urban municipios reaches 80%. Baseline 2000: 60%.	By 2009, 3pp. reduction in population without access to better sanitation services. Baseline 2002: 15.7% (MDG).
Strategic objective II: Strengthen human capital and improve opportunities for the poorest segments of the population.						
II. A. Strategic guideline Improve the targeting and efficiency of social spending, focusing it on achieving the MDGs.	**Objective** To offer comprehensive care to vulnerable groups, specifically families living in extreme poverty.	**Social management** KFW	**TC** Strategy to Create a Social Safety net Building Social Capital through	**Loans** Social Sector Program	By 2009, 100,000 families in the 100 municipios with the most extreme poverty receive direct support.	By 2009, 7 pp. reduction of extreme poverty. Baseline 2002: 19% (MDG).

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
Strategy (i) Improve the efficiency of spending on priority social sectors by promoting reform in social spending, protecting priority lines of expenditure, and targeting, coordinating, and monitoring same. (ii) Design and implement a social safety net that responds comprehensively and effectively to the problems of families living in extreme poverty. (iii) Consolidate a national framework for local public investment in priority social sectors.	**Strategy** Create social safety net. Create National Youth Secretariat and the presidential *El Salvador-País Joven* program. Create the presidential *Oportunidades para la Mujer Jefe de Hogar* program.	**Gender** UNDP	Fiscal Reform	Support to Red Solidaria Local Development Program III **TC** Evaluation of Red Solidaria **Nonfinancial** Impact of remittances on poverty and income distribution in ES Policy dialogue workshop in the social sector	By 2009, public spending on social safety net increases to 0.8% of GDP. Baseline 2000: 0.5% GDP.	By 2009, 7 pp, reduction in rural poverty. Baseline 2002: 57.7% (MDG).
II. B. Strategic guideline Increase the coverage and quality of basic social services **Strategy** ▪Education:	**Objective** To achieve quality education for all. To achieve universal health coverage.	**Education** EU, World Bank, USAID, KFW, JICA **Health** World Bank, EU,	**Loans** Local Development Program II (29%) Support for Educational Technologies	**Loans** Support to Red Solidaria Local Development Program III	By 2009, reduce repeating rate in basic education to 4.2%. Baseline 2002: 8.5%. By 2009, reduce malnutrition rate by	By 2009, net basic education rate improved to 94%. Baseline 2002: 88%. (MDG).

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
(i) Expand coverage of preschool and basic education. (ii) Improve the quality of preschool and basic education for all. (iii) Strengthen community participation and gender equity. (iv) Consolidate managerial and institutional improvements as well as decentralization of MINED. ▪Health: (i) Improve efficiency and quality of MSPAS health services. (ii) Implement pilot projects to expand health service coverage through outsourcing. ▪Housing: (i) Reduce the housing shortage through support for financing instruments and institutional strengthening of the sector.	To help every Salvadoran gain access to a decent home. **Strategy** Design and implement 2021 National Education Plan. Develop alternative secondary school options so as to expand coverage. Deepen modernization of the health system. Expand coverage in rural areas. Promote and facilitate investment mechanisms for housing projects.	UNDP, USAID, Japan, KFW, GTZ **Housing** European Union, KFW, Japan **Infrastructure** EU, KFW **Reconstruction** World Bank, EU, UNDP	Program (33%) Health Sector Modernization Program (55%) Housing Program (96%)	Basic Education for All **TC** Strategic Plan for Human Resources Development in Health National Education Plan 2021 Social Inclusion in the Social Safety net **Nonfinancial** Policy dialogue workshop in the social sector Remittances, Poverty, and Income Distribution	2.5 pp. in boys and girls between 0 to 5 years. Baseline 2004: 10% (MDG).	By 2009, infant mortality rate 19 per 1000 births. Baseline 2002: 25 per 1000 births (MDG). By 2009, maternal mortality 150 per 100,000 births. Baseline 2002: 172 per 100,000 births. (MDG).

IDB Objective and Strategy	Country Objective and Strategy	Actions of other Agencies	Actions of the IDB		Monitoring Indicators	
			Portfolio*	Proposed	IDB	Country**
Strategic objective II: Strengthen human capital and improve opportunities for the poorest segments of the population.						
II. C. Strategic guideline Increase the efficiency and transparency of governance. **Strategy** (i) Improve the efficiency and transparency of the actions of the Legislative Assembly. (ii) Improve governance at the central and local levels. (iii) Promote development of the national statistics system.	**Objective** To promote ethical and transparent governance. To facilitate development at the local level. **Strategy** Strengthen local government financial and administrative management capacity. Validate and adopt national strategy for local development designed by the FISDL Advisory Group. Create Office of Transparency and Public Responsibility at executive level. Draw up Code of Ethics. Strengthen internal audit of Executive Branch bodies.	**Public safety** UNDP, EU **Modernization justice system** World Bank, USAID **Modernization public sector** World Bank, EU **Administration of lands** World Bank **Decentralization** GTZ	**Loans** Modernization Legislative Branch (63%) Local Development Program II (29%) **TC** Executive Branch Transparency Program Support for Preparation of the Sixth Population and Fifth Housing National Census **Nonfinancial** CFAA CPAR	**Loans** Local Development Program III Strengthening of the National Statistics System **TC** TC operations of the PRODEV Action Plan Institutional strengthening DIGESTYC	Statistical database on population and housing updated (2007); on agricultural activity and family budgets (2009).	Statistical database on population and housing updated (2007); on agricultural activity and family budgets (2009). By 2006, progress made in implementing CPAR and CFAA recommendations.

* In parentheses: % to be disbursed

** In boldface: triggers for high scenario

Annex II: Summary of Implementation Progress of Recommendations of the Previous CPE

CPE's Recommendations	OVE Comments on Implementation
The core objective in 2005-2009 should be to complement the government's efforts to make progress in terms of growth, productivity, and employment, which are essential challenges in continuing to reduce poverty and close the gap in the delivery of social services	Intent yes, delivery no
The cost-benefit analysis of projects and of the program should focus on verifying the impact on: − The quality and governance of public expenditure − Enhancing productivity, export performance, and private investment − Achieving institutional and budgetary sustainability for social spending	No
The program should help strengthen the municipal institutions,	Neither intent nor delivery
An effort should be made to define the scope of the expected contribution to resolving the development issues addressed by the program (i.e., attribution).	No
− The Bank's strategic programming should be placed in the context of the government's fiscal planning (income, expenditures, and financing) as set out in a projected multiyear budget. This should be done at a minimum for the period spanning the program, making annual adjustments.	No
− Intervention alternatives should be designed based on risk scenarios that cover the public sector's direct obligations, forward planning of contingent liabilities, and volatility in the macroeconomic environment These scenarios should be consistent with the projected budget equilibrium during the period covered by the program.	No
− The program's results framework should contain indicators agreed on with the country to verify evidence of its progress during execution in terms of the impact targets that were accorded priority. In particular, a baseline must be established for those indicators that can be used to measure progress.	No
In keeping with the foregoing, disbursements for execution of projects should be based on indicators of compliance with the planned activities in order to achieve the development objectives.31 Those indicators must reflect the progress being made in the process, not simply the end points, and must be tailored to the budget expenditure financing needs associated with the implementation of projects	No
The net future benefits of interventions and of the program should be estimated and should not be less than the costs of borrowing from the Bank.	No
With regard to the Bank's interventions: − Approval of operations by the Bank's Board of Executive Directors should be processed only when the executive branch indicates that the time is right for presenting them for ratification and authorization of their signature by the Legislative Assembly and that the effective period of the project is consistent with that ratification.	No
The design of Bank operations should seek to simplify contractual conditions and reporting requirements, rely more on government-designed initiatives and government monitoring systems, improve the adaptability of logical frameworks to the country's conditions and risk levels, delegate supervision functions, pre-verify that institutional capacity is adequate, and seek to ensure that the persons who help to formulate the program are involved in its execution in order to maintain their ownership.	No
− Any contract amendments introduced once the operation has begun should be based on evidence that the proffered changes are more efficient in terms of achieving objectives, by reducing the program's exposure to disturbances generated by exogenous risks. Foreseeable special cases should be addressed with specific instruments geared to the problem being faced bearing in mind the pertinent lessons learned.	No

CPE’s Recommendations	OVE Comments on Implementation
− Program designs should be made more evaluable in terms of their development effectiveness, chiefly by establishing verifiable targets on the efficiency of the government measure being supported and the efficiency of the instruments being used.	No
− The country’s involvement and consensus should be improved in the project cycle and in the reports generated in each stage thereof, so as to strengthen results-based public management. To that end, the collection of relevant data should be organized, in order to monitor and evaluate impact from the outset of execution.	No
− For the purposes of efficiency, once again, in project design, activities (resources) should be organized in processes that support the outputs (means), themselves organized based on the mid-term and final purposes (goals) being supported, so that the budget resources are tied to the activities to obtain outputs in the necessary time frame.	No
− Assessment of the contribution toward the development objectives should be based on, at a minimum, verification of: (i) whether the objectives achieved were those attributed to the operation; (ii) the change produced compared to the starting point; and (iii) whether the project’s contribution can be sustained by the country both institutionally and budgetarily.	No
− Risk analysis should be improved, in order to increase predictability and improve mitigation when the risks materialize in project outcomes	No
− The country’s diagnostic assessment efforts should be supported to build knowledge based on the lessons learned from the ex post impact evaluation of operations.	No
Based on the weaknesses observed in actions with the private sector, The strategic efforts of the Bank’s various private sector-related facilities should be incorporated into a shared approach for the country; Modes of participation related to streamlining and standardizing procedures, as well as reducing the transaction costs for the instruments used, should be developed; and risk management should be bolstered, in order to build confidence and attract new players to the capital market.	No intent, yes delivery

Annex III
Results Matrix and Monitoring Indicators in the 2004 Country Strategy

Monitoring Indicators: IDB		
Monitoring Indicators: IDB	**OVE Comment Ex Ante**	**OVE Comment Ex post**
Strategic objective I: Promote sustainable economic growth by increasing competitiveness		
By June 2006, bank supervision in El Salvador using best international practices	Vague, excessively broad. Objectives not contained in underlying operations referenced.	There have not been changes in banking supervision system.
Strategic plans of CONACYT and INSAFORP being implemented.	At best an intermediate indicator. Content and impact of plans unspecified	The strategic plan for CONACYT was validated in July 2006.
By 2009, at least two concessions for infrastructure works.	Clear, appropriate and measurable indicator	No concessions were made
By 2009, 60% increase in potable water and sanitation coverage in 62 localities. Baseline 2000: 35%.	Clear, appropriate and measurable indicator	The localities were not identified by name so cannot be tracked.
By 2009, 4% annual growth in exports to USA (with in-bond assembly). Baseline 2004: 2% (US$2,156 million)	Clear, appropriate and measurable indicator	Between 2005 and 2008 the average annual growth of exports to USA was 2.8%. The total export during 2008 was US$2,522 million.
By 2009, 1.5% annual growth in exports to CACM. Baseline 2003: 0.78% (US$746 million).	Clear, appropriate and measurable indicator	Between 2005 and 2008 the average annual growth of exports to CACM was 16.3%%. The total export during 2008 was US$ 1,538.
By 2008, IDB risk management index rises to 160. Baseline 2000: 142.	Internally generated number, poor indicator as subject to manipulation	This indicator has not been updated. The study was carried out once in 2000.
By 2009, coverage of garbage collection services in targeted urban municipalities reaches 80%. Baseline 2000: 60%.	Clear, appropriate and measurable indicator	By 2007 the coverage of garbage collection has increased to 77.2%.
Strategic objective II: Strengthen human capital and improve opportunities for the poorest segments of the population		
By 2009, 100,000 families in the 100 municipalities with the most extreme poverty receive direct support.	Baseline not specified	The social investment fund, FISDL, reports that by 2008 the "Red Solidaria" has reached 89 thousand families
By 2009, public spending on social safety net increases to 0.8% of GDP. Baseline 2000: 0.5% GDP.	No corresponding action is identified in Bank operations that connects to this indicator	The budget of capital social expenditure in 2008 was 1.0% of GDP
By 2009, reduce repeating rate in basic education to 4.2%. Baseline 2002: 8.5%.	Clear, appropriate and measurable indicator	The repetition rate in basic education was 6.6% in 2007
By 2009, reduce malnutrition rate by 2.5 pp. in boys and girls between 0 to 5 years. Baseline 2004: 10% (MDG).	Clear, appropriate and measurable indicator	Malnutrition rate 8% in 2008
Statistical database on population and housing updated (2007); on agricultural activity and family budgets (2009).	Activity. At best it is an intermediate indicator.	The Census, household survey, agricultural census and family budget were carried out between 2007 and 2008.

4: Monitoring Indicators: Country Performance	
Monitoring Indicators IDB\1	Compliance/Status
Expected performance of macro variables. Poverty 2009 (% population): 36.9%. Baseline 2002: 42.9%. GDP per capita 2009: 1.6%. Baseline 2004: -0.4%	No. Poverty: 39.6 (2007) Yes.Growth:1.8% (2008)
By 2006, budget policy to generate nonfinancial public sector current savings of at least 0.5% of GDP. Baseline 2004: -0.3% GDP.	No. 0.1% (2008)
Progress made to comply with recommendations of the CPAR and the CFAA for 2006.	No measurable "progress" indicators
Financial Supervision Act on the floor of the Legislative Assembly.	No
Tax revenues represent at least 14.6% of GDP in 2008. Baseline 2004: 12% GDP.	No. 13.5% (2008)
Credit rating with credit ratings companies maintained. Baseline 2004: Baa3 (Moodys), BB+ (Standard & Poor's) and BB+ (Fitch).	No. Baa3,BB+,BB (March 2009)
By 2009, public investment in infrastructure at least 4% GDP. Baseline 2004: 2.3% GDP.	No. 1.7% (2008)
By 2009, 2.48 pp. reduction in population without access to better water sources. Baseline 2002: 26.3% (MDG).	Yes. Reduction of 4.3 pp by 2007
By 2008, exports (excluding in-bond assembly and coffee) represent at least 9% of GDP. Baseline 2004: 8% GDP.	Yes. 10.3% of GDP
By 2009, 3pp. reduction in population without access to better sanitation services. Baseline 2002: 15.7% (MDG).	No. -1.3bp (2008)
By 2009, 7 pp. reduction of extreme poverty. Baseline 2002: 19% (MDG).	No. 1.2 pp
By 2009, 7 pp, reduction in rural poverty. Baseline 2002: 57.7% (MDG).	No. 3.2 pp
By 2009, net basic education rate improved to 94%. Baseline 2002: 88%. (MDG).	No. 92%
By 2009, infant mortality rate 19 per 1000 births. Baseline 2002: 25 per 1000 births (MDG).	No. Institutional infant mortality decreased 6% between 2004 and 2007 1/
By 2009, maternal mortality 150 per 100,000 births. Baseline 2002: 172 per 100,000 births. (MDG).	No. Institutional maternal mortality increased by 6% between 2004 and 2007. 1/
Statistical database on population and housing updated (2007); on agricultural activity and family budgets (2009).	Yes. Census, Household and family budget surveys were updated by 2008

ANNEX IV. PROJECT DESCRIPTIONS AND DEVELOPMENT EFFECTIVENESS

In this annex we present a brief description of seven projects, whose development effectiveness is drawn in Chart IV.1 in Chapter IV of the main body of the document, and specify the data sources used for calculating their development effectiveness. These seven projects represent 74% of approvals of sovereign investment loans that were active during the program period 2004-2008. The raw data was collected by a four member team in a 10 day mission to the country. The attempt at retrofitting projects was limited to sovereign investment loans, but excluding pure institutional strengthening projects. During the mission success in retrofitting was obtained for seven loans: Water and Sewerage Program (ES0068), Health Program (ES0053), Housing Program (ES0087), Local Development Program II (ES0120), Educational Infrastructure (ES0110), Education Technologies (ES0108), Education Technologies (ES0108), and Rural Roads Project (ES0129).

In each project description there is a table in which are specified the goal and purpose indicators in the loan document (LD), and in the Bank's monitoring and evaluation system (project completion report (PCR) or project performance monitoring report (PPMR)) and those, if not available in the Bank's monitoring and evaluation system, by OVE. Goals and purpose indicators are separated into ex ante indicators (found in the loan document) and ex post (found in PPMRs, PCRs, or by OVE. Under each table is given the data source used by OVE. Note no judgement is made on the adequacy of the indicators specified in the Bank's documents and OVE tried to get as close to the indicators that were specified.

Water and Sewerage Program (ES0068)

The US$43.7 million project was approved in May 1998 and the eligibility date was April 2000. The original closing date was March 2006; the current closing date is set for 2009.

The project had three components: (i) reforming and restructuring of the water sector; (ii) establishment of the regulatory framework for the water and sanitation sector; and (iii) commercial restructuring to create more efficient and financially viable public, private, semi-public operators of water and sanitation services.

The project was restructured in early 2001, with 75% of the resources reallocated. The reform and regulatory objectives were compromised and resources were used to repair potable water and sewerage systems in municipalities damaged by the earthquake.

The table below shows no targets were set nor has there been any data collection by the Bank. OVE collected baseline and recent values for similar indicators originally specified in the loan document. The raw data source used by OVE was from household surveys.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: Conservation and rational use and efficient of hydro resource / PPMR change Goal (Mejorar los niveles de cobertura y calidad de los servicio de agua potable, por medio de la prestación del servicio por empresas descentralizadas Sostenibles)	**LD**		**1998**	**2006**		
	Potable water consumption	Lts/Pop/Daily	120			
	Contaminated residual waters	% of residual waters	90%			
	Potable water access	% of pop with PW	56.70%			
	Sewerage (public network) access	% of pop w/ Sew con	60%			
	Served waters treated	% of served water	2%			
	Legal framework	Categorical				
	PPMR					
	Empresas descentralizadas operando sistemas de agua potable cumplen con indices de sostenibilidad financiera y de eficiencia en la continudad de la prestación del servicio de AP, publicado por la unidad de contratos de gestión y/o administración de servicios de ANDA.	n/a				
	OVE				**2000**	**2007**
	Potable water access in urban areas 1/	% of households			54.9%	54.3%
	Potable water access in rural areas 1/	% of households			27.4%	39.7%
	Sewerage coverage in urban areas	% of households			59.0%	55.9%
	Sewerage coverage in rural areas	% of households			0.9%	2.1%
Overall Purpose: To support the Government's strategy to improve the efficiency, equity and quality of the health services of the Ministry of Pubic Health and Social Assistance (MSPAS) through the implementation of institutional policy and services delivery change.	**LD**					
	Water use property rights	Categorical				
	Public acceptance favorable of hydro authority	%, satisfaction				
	Connections from ANDA	Number				
	Rural potable water and sewerage system managed by communities	% of systems				
	Water resources administration entity created	Categorical				
	Legal framework ARESA	Categorical				
	Number of private and public-private water operators	Number				

Sources: Raw data was obtained from the Ministerio De Economía (Dirección General De Estadística Y Censos) Encuestas de Hogares, (http://www.digestyc.gob.sv/). The surveys were specially processed by OVE to calculate the indicators.

Health Program (ES0053).

The US$20.7 million project was approved in January 1993 and was eligible in October 2001. The original closing date (date of last disbursement) had been January 2005. The project closed in 2007.

The project's objectives were: (i) to improve efficiency, efficacy and equity of services for the most disadvantaged population in two pilot areas; (ii) to increase the responsiveness of the ministry to local demands while streamlining procedures and establishing financial accountability in accordance with the Public Sector Modernization Program through the reorganization of key ministerial functions; and (iii) to strengthen the capacity of MSPAS to fulfil its policy-making, regulatory, evaluative and coordinating functions. The project had two components: (i) Restructuring of health care model in 20 health centers in 2 pre-identified regions; and (ii) Reorganization of key functional administrative subsystems at central level and strengthening the policy functions of the Ministry of Health and Social Assistance, MSPAS.

The project was modified in March 2001 when $5.7 million were used for the earthquake areas. Monies were taken from both existing components and a new component was created. None of the original indicators in the loan document were maintained and a new set of indicators was introduced by the PCR. The Table below reveals that this project was exceptional in that it specified indicator's baseline and target values; however, as they were dropped during execution, the PCR gives a different set. These are used by OVE.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: To improve the health of low-income Salvadorans	**LD**		**2002**	**2006**		
	Santa Ana Infant Mortality	Per 1000 life births	45	38		
	San Miguel Infant mortality	Per 1000 life births	61	52		
	Santa Ana Intra-Hospital maternal mortality	Per 100000 life births	6.8	5.4		
	San Miguel Intra-Hospital maternal mortality	Per 100000 life births	9.5	7.6		
	PCR				**2002**	**2006**
	Infant Mortality (Ahuachapan)	Per 1000 life births			29.6	28.5
	Infant Mortality (Sonsonate)	Per 1000 life births			16.9	14.5
	Maternal mortality (Ahuachapan)	Per 100000 life births			120.0	47.6
	Maternal mortality (Sonsonate)	Per 100000 life births			103.2	43.8
	Infant undernourishment (Ahuachapan)	% of children 2 & under			36.0	11.2
	Infant undernourishment (Sonsonate)	% of children 2 & under			22.1	10.1
Overall Purpose: To support the Government's strategy to improve the efficiency, equity and quality of the health services of the Ministry of Pubic Health and Social Assistance (MSPAS) through the implementation of institutional policy and services delivery change.	**LD**					
	Access to health establishments (poorest pop)	n/a		.+25%		
	Coverage of health programs	n/a		.+60%		
	Delay/ Waiting time	n/a		.+100%		
	Interpersonal treatment (Satisfaction)	n/a		.+100%		
	Programmed visits and appointments	n/a		.+100%		
	Incidence of intra-hospital infection	n/a		.+90%		
	Cost recovery from non-beneficiary	n/a		.+70%		
	Cost recovery for costs of medicines	n/a		.+40%		

Sources: Ministerio de Salud Pública y Asistencia Social, El Salvador (http://www.mspas.gob.sv/)

Housing Program (ES0087)

The US$70 million Housing Program (ES 0087) was approved in December 2001 and the eligibility data was December 2003. The original closing date was July 2007 and current closing date is 2009.

The project's goal was to improve the housing sector's capacity to provide an efficient and equitable response to the demand for housing among the various income groups in the urban population and the purpose was to support the government of El Salvador in developing and introducing a set of sustainable housing policy instruments. The project had three components: (i) formal market, to finance land titling and regulations for the mortgage market; (ii) informal market, that consisted of finance for housing subsidies; and (iii) the capital, Alcaldia de San Salvador; mainly to finance housing subsidies.

As can be seen from the table below the loan document did not specify goal indicators and only one for the purpose. OVE collected all baseline and current values of indicators compatible with the project's goal and purpose.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: To improve the housing sector's capacity to provide an efficient and equitable response to the demand for housing among the various income groups in the urban population	**LD**		**2004**	**2009**		
	n/a					
	OVE				**2004**	**2007**
	Housing Shortage (quantitative)	% of households			2.0%	1.7%
	Housing Shortage (Qualitative)	% of households			48.4%	39.0%
	Housing Shortage (quantitative) AMSS	% of households			1.9%	1.5%
	Housing Shortage (Qualitative) AMSS	% of households			21.1%	17.5%
	Access to water service /1 (National)	% of households			37.9%	49.0%
	Access to sewerage (National)	% of households			37.6%	37.6%
	Access to water service (AMSS) 1/	% of households			34.9%	44.0%
	Access to sewerage (AMSS)	% of households			79.3%	76.3%
Overall Purpose: To support the government of El Salvador in developing and introducing a set of sustainable housing policy instruments	**LD**					
	New policy of direct subsidies approved and new market interest rate policy	Categorical				
	Access to water service	% of households	74%	76%		
	Number of municipalities that continue to implement improvement programs with their own resources	Categorical				
	Percentage of population served in relation to demand	n/a				
	Greater access to water and sanitation services (AMSS)	% of households				
	Increased local investment in neighborhood improvement programs (AMSS)	Millions of US$				

Sources: Raw data was obtained from the Ministerio De Economía (Dirección General De Estadística Y Censos) Encuestas de Hogares, (http://www.digestyc.gob.sv/). The surveys were specially processed by OVE to calculate the indicators.

Local Development Program II (ES0120)

The US$70 million Local Development Program II (ES0120) was approved in September 2001 and eligible in April 2002. The original closing date was December 2006. The project closed in 2009.

The project's goal was "To improve the living conditions of poor people living in vulnerable municipalities and communities, using decentralized and participative methods that promote investments within the National Local Development Strategy (ENDL) and specified the purpose to be **:** " Allow municipalities to interact with their communities to make decisions about investment; Capacity-building to result in the municipalities becoming more competent in their core functions, through financing of technical assistance and training". The project had three components: (i) investments in social and economic infrastructure; (ii) build capacity of municipalities and community organisations to participate in local development processes; (iii) strengthen FISDL management capacity and its normative and monitoring role.

It was to finance a social investment fund managed by the Social Fund for Local Development, FISDL. The latter entity, created in 1990, which had already received three loans. FISDL is also contracted to execute IDB financed projects: School Infrastructure; the Rural Road Rehabilitation (ES-0129); and the Housing Program (ES-0087). FISDL also manages the country's conditional cash program, *Solidaria.*

As the table below reveals the loan document did not set out both baseline and target indicators for goal and purpose, and there is no evidence that data is being collected from the project's PPMR. The indicators were calculated by OVE using household surveys.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: To improve the living conditions of poor people living in vulnerable municipalities and communities, using decentralized and participative methods that promote investments within the National Local Development Strategy	**LD**		2000	2007		
	Percentage of the investment resources allocated to reconstruction of basic economic and social infrastructure, targeting the 152 (according to Logical Framework and section 2.5, but 165 were affected by earthquakes according to section 1.2) municipalities affected by the earthquakes, by the end of the project	% of resources		.+80%		
	Percentage of investment resources targeted at approximately 86 poor municipalities (quintiles 1 and 2) using the competitive bidding mechanism, by the end of the project	% of resources		.+20%		
	PCR					2007
	Mejorar las condiciones de vida en los municipios más pobres	n/a				
	Incrementar el acceso los servicios básicos é infraestructura de las comunidades afectadas y municipios más pobres.	n/a				
	Percentage of projects in municipalities affected by earthquake (654 project in 152 affected municipoalities)	% of projects				75%
	Percentage of projects in poor municipalities of quintile 1 and 2	% of projects				25%
	OVE				2000	2007
	Poverty Incidence in 5 poorest deptos (of 14)	% of households			62.3%	52.6%
	Potable water access in 5 poorest deptos (of 14)	% of households			41.6%	51.8%
	Sewerage access in 5 poores deptos (of 14)	% of households			14.7%	16.6%
	Electricity access in 5 poorest deptos (of 14)	% of households			64.4%	73.8%
	Poverty Incidence in 2 poorest quintiles	% of households			92.3%	90.7%
	Potable water access in 2 poorest quintiles	% of households			33.4%	45.8%
	Sewerage access in 2 poorest quintiles	% of households			13.6%	17.2%
	Electricity access in 2 poorest quintiles	% of households			62.4%	71.0%
Overall Purpose: (I) increase access of poor communities to basic services through the financing of social and economic infrastructure projects, (ii) build the capacity of municipal governments as well as community associations and non-government organizations to participate in sustainable local development processes, (iii) strengthen the FISDL's normative and monitoring role of local development as well as its institutional management capacity	**LD**			2007		
	Percentage increase in rate of coverage, at the national level, of basic social services and infrastructure provided through a decentralized and coordinated approach, by sector, & percentage increase in rate of coverage in extremely poor municipalities by the end of the project	coverage (%)		.+50%		
	Percentage of works and services that maintain their level of quality three years after delivery, with maintenance provided by local agents who receive training by the end of the project	n/a		.+75%		

Sources: Raw data was obtained from the Ministerio De Economía (Dirección General De Estadística Y Censos) Encuestas de Hogares, (http://www.digestyc.gob.sv/). The surveys were specially processed by OVE to calculate the indicators.

Educational Infrastructure (ES0110)

The US$70.9 million project was approved in March 1998 and declared eligible in September 1999. The original closing date was December 2002, the project closed in 2005.

The project's goal was to promote equity and equality in education and the purpose was to improve the student school environment. Essentially the "bricks and mortar" financing was to rehabilitate schools and classrooms. 50% of the project's resources were reallocated towards areas that had suffered from the 2001's earthquake.

The Table below shows that although goal indicators were defined and their baseline values specified the loan document did not specify any targets. However, targets were set for purpose of the project. No data was collected by the Bank by the Bank's Monitoring and evaluation system. All data was collected by OVE from the Ministry of Education.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: To promote equity and quality in education	**LD**		**1997**	**2005**		
	Enrollment rate primary education. BL 1996	%	95%			
	Enrollment rate lower secondary education. BL 1996	%	38%			
	Cohort graduating from sixt grade (Rural areas)	%	48%			
	Number of years of schooling (Nation)	Years	6.9			
	Improving the physical learning environment for 20% of the nation's pupils	n/a		0.20%		
	It is calculated that 250,000 children, most of them poor, who attend the participating schools will benefit from the project	Units		.+250.000		
	Total enrollment Grades 1-3 Male, urban	Units	113,912			
	Total enrollment Grades 1-3 Female, urban	Units	11,882			
	Total enrollment Grades 1-3 Male, rural	Units	161059			
	Total enrollment Grades 1-3 Female, rural	Units	176034			
	Total enrollment Grades 4-6 Male, urban	Units	93,250			
	Total enrollment Grades 4-6 Female, urban	Units	95,025			
	Total enrollment Grades 4-6 Male, rural	Units	86,150			
	Total enrollment Grades 4-6 Female, rural	Units	91,549			
	Total enrollment Grades 7-9 Male, urban	Units	83,369			
	Total enrollment Grades 7-9 Female, urban	Units	83,083			
	Total enrollment Grades 7-9 Male, rural	Units	34,546			
	Total enrollment Grades 7-9 Female, rural	Units	38,421			
	Total enrollment Grades 10-12 Male, urban	Units	79,024			
	Total enrollment Grades 10-12 Female, urban	Units	72,591			
	Total enrollment Grades 10-12 Male, rural	Units	-			
	Total enrollment Grades 10-12 Female, rural	Units	-			
	Total enrollment Grades 1-3 Public, urban	%	78.0			
	Total enrollment Grades 1-3 Public, rural	%	98.2			
	Total enrollment Grades 4-6 Public, urban	%	77.8			
	Total enrollment Grades 4-6 Public, rural	%	97.8			
	Total enrollment Grades 7-9 Public, urban	%	76.7			
	Total enrollment Grades 7-9 Public, rural	%	95.5			
	Total enrollment Grades 10-12 Public, urban	%	53.6			
	Total enrollment Grades 10-12 Public, rural	%	-			
	OVE				**1997**	**2005**
	Enrollment rural grades 1-12	Units	587,768		587,768	746,935
	Enrollment urban grades 1-12	Units	736,107		736,107	811,317
	Enrollemnt rural grades 1-6	Units	514,792		514,792	589,169
	Enrollment urban grades 1-6	Units	418,040		418,040	444,881
	Enrollment rural grades 7-9	units	177,699		177,699	136,173
	Enrollment urban grades 7-9	units	166,452		166,452	201,336
	Enrollment rural grades 10-12	units	0		-	21,593
	Enrollment urban grades 10-12	units	151,615		151,615	165,100
	Net enrollment rate rural grades 1-6	% of children (age-group)	88%		88%	
	Net enrollment rate urban grades 1-6	% of children (age-group)	85%		85%	
	Net enrollment rate rural grades 7-9	% of children (age-group)	14%		14%	
	Net enrollment rate urban grades 7-9	% of children (age-group)				
	Net enrollment rate rural grades 10-12	% of children (age-group)				
	Net enrollment rate urban grades 10-12	% of children (age-group)				
	Years of schooling (population >25)	Years	6.9		7	7
	Illiteracy rate (national)	% of population (adult)	25%		25%	13%
	Promotion/Completion rate	%			88%	86%
	Desertion rate	%			5%	6%
	Repetition rate	%			8%	7%
	Number of students benefited	Units		250,000		300,000
Overall Purpose: To improve the physical learning environment for children, to increase the provision of education and to create a geographical information system to manage the educational infrastructure.	**LD**			**2005**		**2005**
	Number of classrooms constructed/repaired	Units		3,197		3,829
	Number of schools intervened	Units	0	831		578
	Number of schools equipped	Units				2,378
	Maintance program for public schools	Categorical	0	1	0	1
	Geographical information system	Categorical	0	1	0	1

Source: Ministerio de Educación, El Salvador. (http://www.mined.gob.sv/)

Education Technologies (ES0108)

The US$73.2 million Education Technology project (ES0108) was approved in February 1998 and eligible in August 2001. The project original closing date was January 2006. The project closed in 2007.

The project's objectives were to improve the quality of, and expand access to, basic education by means of introducing technologies, increasing enrolment in grades 7 to 9 and improving the internal efficiency of basic education. About US$11.7 million were reallocated to areas affected by the 2001 earthquake.

As the table below shows the loan document did not specify goals but did so for purposes in that it set targets for two indicators (but without baseline values). OVE obtained data from the Ministry of Education.

Objectives	Source and indicator	Units	Ex ante Baseline	Ex ante Target	Ex post Baseline	Ex post Current
Goal: To improve the quality and expand the access to basic education by means of the introduction of technologies	**LD**		**1997**	**2006**		
	Improvement in learning and the internal efficiency of basic education.	n/a				
	OVE				**1997**	**2006**
	Enrollment rural third cycle with Distance Learning	Units	7,157	24,900	7,157	23,733
	Net enrollment rate 6th grade	% of children (age-group)	86.30%		86.30%	89.50%
	Net enrollment rate basic education (grades 1-9)	% of children (age-group)	84.20%		84.20%	90.60%
	Promotion/Completion rate	% of children (age-group)	87.5%		87.5%	86.10%
	Repetition rate	% of children (age-group)	5%		5%	6.40%
	Desertion rate	% of children (age-group)	7.5%		7.5%	7.40%
	Internal efficiency of education (6th grade)	% of children (age-group)	93.80%		93.80%	89.10%
	Spanish learning improves for first cycle wrt. 2003	% of children (age-group)		15%		14.16%
	Mathematics learning improves for third grade wrt. 2003	% of children (age-group)		15%		13.28%
	Number of students benefited from Interactive Radio	Units		200,000		288,843
	Number of students benefited from CRAs	Units		337,500		338,717
Overall Purpose: i) To expand access to the third compulsory cycle of basic education in rural areas by means of Distance Learning; ii) To improve the children's performance between first and third grade in mathematics and Spanish through expansion of Interactive Radio; iii) To improve the children's learning in basic education by developing new technologies to instruction; iv) To continue strengthening community participation	**LD**					
	Distance education is about 20% more cost-effective compared with regular education	n/a		.+20%		
	Spanish learning for the first cycle and third grade mathematics show an improvement of 15% relative to the baseline	n/a		.+15%		
	The introduction of the CRAs induces new teaching and learning practices leading to significant improvements in student performance compared with control groups	n/a				
	The ACES and CDEs participate actively in the development of programs for the community and the recruitment and supervision of distance education teachers and CRAS, and also the maintenance of the distance education equipment	n/a				
	PPMR					
	La oferta de educación a distancia, mediante teleaprendizaje, incrementa en 24,000 alumnos la cobertura del tercer ciclo en el area rural y es costo efectiva comparada a la oferta regular, según registros del MINED	Units		24,000		
	Aumento de alrededor de 200,000 beneficiarios del programa	Units		.+200.000		
	Se incrementa en aproximadamente un 12% el rendimiento en castellano de primer ciclo y matematicas de tercer grado de los niños en el programa de radio -interactiva vrs. el grupo control, a partir de la linea de base según registros del MINED	n/a		.+12%		
	La introducción y operación de los CRA benefician a aproximadamente 450,000 niños en nuevas práticas de aprendizaje	Units		450,000		
	Mejoras de aproximadamente un 12% en el desempeño de los alumnos de básica dentro del programa vrs. el grupo control a partir de la linea de base, según los registros del MINED	n/a		.+12%		
	Al menos diez comunidades han accesado exitosamente al Fondo de proyectos educativos para la comunidad y sus proyectos han sido evaluados	Units		> 9		
	OVE					
	Number of classrooms built/repaired for Distance Learning	Units		425		425
	Number of schools with Distance Learning equipment	Units		425		350
	Number of trained teachers for Distance Learning	Units		1,400		1,400
	ACEs trained for Distance Learning maintenance	Units		425		300
	Number of schools with Interactive Radio	Units		1,500		2,292
	Number of radio programs	Units		500		909
	Number of trained teachers for Interactive Radio	Units		24,000		14,379
	Number of schools ready to have a CRA	Units		400		361
	Number of equipped CRAs	Units		400		361
	Rules for usage of CRA disseminated	Units	0	1	0	1
	Laboratory equipment in CRAs	Units	0	1,600	0	1,800
	Libraries in CRAs	Units	0	400	0	300

Source: Ministerio de Educación, El Salvador. (http://www.mined.gob.sv/)

Rural Roads Project (ES0129)

The US$58 million Sustainable Rural Road project (ES0129) was approved in March 2001 and declared eligible in May 2002. The original closing date was April 2006 and the current closing date is 2009.

The project's objectives were to facilitate the mobilization of passengers and cargo, reactivate agriculture production, integrate communities and enhance the income level of the rural population.

As the Table below shows the loan document specified targets in percentage terms but did not give baseline values. The data for goal and purpose was collected by OVE from a consultant hired by the Bank for the project's Project completion report and directly from the Ministry of Public Works.

			Ex ante		Ex post	
Objectives	**Source and indicator**	**Units**	**Baseline**	**Target**	**Baseline**	**Current**
Goal: To increase the mobility of the rural population and freight transportation , thereby helping to reactivate the agriculture sector, to integrate the rural communities, and to improve the standard of living of the rural population	**LD**		**2002**	**2009**		
	Reduction in Vehicle Operating Costs			25.0%		
	Reduction in Travelling Times			30.0%		
	Reduction in Public Transportation Faires					
	Reduction in Freight Costs					
	Increase and Diversification of Transportation Services Supply			40.0%		
	Municipalities Permanently Connected to Main National Roads (MNRs)		74.0%	80.0%		
	Reduction of Accidents in Improved Roads			5.0%		
	OVE				**2002**	**2007**
	Reduction in Vehicle Operating Costs					31.5%
	Reduction in Travelling Times					43.0%
	Increase and Diversification of Transportation Services Supply					40.0%
	Municipalities Permanently Connected to Main National Roads (MNRs)				74.0%	86.3%
	Reduction of Accidents in Improved Roads					53.0%
Overall Purpose: to have sustainable roads in rural areas with adequate level of services, thereby assuring accessibiility, safety and social and adequate environmental mitigation mechanisms	**LD**					
	National Priority Road Network in Good Conditions		40%	70%	40.0%	67.0%
	Maintenance of the MNRs					

Source: Consultant contracted by the Bank for the project's PCR, and the Ministry of Public Works.