

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **EL SALVADOR**

### **SOCIAL POLICY SUPPORT PROGRAM**

**(ES-0140)**

### **LOAN PROPOSAL**

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Basic socioeconomic data	<a href="http://www.iadb.org/res/externallink_list.cfm?language=en&amp;parid=1&amp;item1id=1&amp;detail=Box1-b1">http://www.iadb.org/res/externallink_list.cfm?language=en&amp;parid=1&amp;item1id=1&amp;detail=Box1-b1</a>
Status of loans in execution and loans approved	<a href="http://ops.iadb.org/approvals/pdfs/ESen.pdf">http://ops.iadb.org/approvals/pdfs/ESen.pdf</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=ES&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=ES&amp;L=EN</a>
Information available in the RE2/SO2 files	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=792351">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=792351</a>
Annex I. Summary of Related Investment Projects	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797724">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797724</a>
Annex II. Means of Verification of Fulfillment of Contractual Conditions	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797721">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797721</a>
Annex III. Policy Letter	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797717">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=797717</a>

## ABBREVIATIONS

BMI	Banco Multisectorial de Inversiones [Multisector Investment Bank]
DGICP	Dirección General de Inversión y Crédito Público [Directorate General of Investment and Public Credit]
DIGESTYC	Dirección General de Estadística y Censos [Directorate General of Statistics and Censuses]
EHPM	Encuesta de Hogares de Propósitos Múltiples [Multipurpose Household Survey]
FESAL	Encuesta Nacional de Salud Familiar [National Family Health Survey]
FISDL	Fondo de Inversión Social para el Desarrollo Local [Social Investment Fund for Local Development]
FSO	Fund for Special Operations
GDP	Gross domestic product
HDI	Human development index
IEMA	Informe Estadístico Mensual [Monthly Statistics Report]
IFF	Intermediate Financing Facility
IFMS	Integrated financial management system
IMF	International Monetary Fund
MCA	Millennium Challenge Account
MDG	Millennium Development Goal
MH	Ministry of Finance
MINED	Ministry of Education
MSPAS	Ministry of Public Health and Social Assistance
NFPS	Nonfinancial public sector
NGO	Nongovernmental organization
OC	Ordinary Capital
PBL	Policy-based loan
SIEES	Sistema de Información Estadístico Epidemiológico en Salud [Epidemiological Statistics Information System for Health]
STP	Secretaría Técnica de la Presidencia [Technical Secretariat of the Office of the President]
TC-FSO	Technical-cooperation program financed by the Fund for Special Operations (TC-FSO)
USAID	United States Agency for International Development

## PROJECT SUMMARY

### EL SALVADOR SOCIAL POLICY SUPPORT PROGRAM (ES-0140)

Financial Terms and Conditions <sup>1</sup>				
Borrower: Republic of El Salvador			Amortization period:	20 years
Executing agency: Ministry of Finance (MH)			Grace period:	5 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	Disbursement period:	Maximum 12 months, running from the effective date of the loan contract
IDB (OC):	100.0 million	100%	Interest rate:	Variable
Local:	0.0 million	0%	Inspection and supervision fee:	0%
IDB (IFF):	51.5 million	0%	Credit fee:	0.25%
Total	100.0 million	100%	Currency:	U.S. dollars from the Single Currency Facility
Project at a Glance				
<p><b>Project objective:</b></p> <p>The general objective of this new operation is to help strengthen the social safety net for the very poor, and deepen the medium- and long-term vision of El Salvador's social policy for poverty reduction.</p> <p><b>Special contractual conditions:</b></p> <p>The contractual conditions for disbursement of the first operation in the programmatic series involve two policy areas: (i) a stable macroeconomic environment; and (ii) strategic actions related to targeting tools, coordination and cross-sector efforts, community participation mechanisms, monitoring and evaluation systems, and technical strengthening. The specific details on the contractual conditions for the single-tranche disbursement of the first operation can be found in the program's policy action matrix (see Chapter V).</p> <p>Chapter V also refers to the elements that trigger the second and third operations, which are mainly related to progress toward consolidating the social protection system for the very poor, through support for the Solidarity Network (second operation in the program series) and the possibility of extending these developments to other social sector and production-oriented initiatives (third operation in the programmatic series).</p> <p><b>Exceptions to Bank policies:</b> None.</p> <p><b>Project consistent with country strategy:</b>    Yes [X]                      No [ ]</p> <p><b>Project qualifies as:</b>                              SEQ [X]              PTI [ ]              Sector [ ]              Geographic [ ]              Headcount [ ]</p> <p><b>Verified by CESI on:</b> The project concept document was examined at meeting 19-06 on 12 May 2006. No subsequent action was requested.</p>				

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.\*

\* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## **I. FRAME OF REFERENCE**

### **A. Macroeconomic environment**

#### **1. Recent context**

- 1.1 El Salvador's economy grew substantially in 2005, at an annual rate of 2.8%, the highest since 1999. This rate of growth reverses the trend that the economy presented since 1996 and was able to maintain per capita income at the same level as the previous year. On the supply side, this economic recovery in 2005 concentrated in the agricultural and transportation sectors, and on the demand side it is largely explained by the increase in gross investment and exports of goods and services. Inflationary pressure rose during 2004 and 2005 on account of the rise in oil prices and the increase in aggregate demand. The figures at December 2005 indicated that cumulative growth in prices was 4.3%, which is lower than the 5.4% posted in 2004 but higher than the 2.2% average for the three previous years.
- 1.2 The Salvadoran government has followed a very tight fiscal policy in recent years, which helped significantly to cover the considerable costs arising from the 2001 earthquakes and the transition to the new pension system. The overall nonfinancial public sector (NFPS) deficit for 2005 was 3% of GDP, including pension costs and the final remnant of the reconstruction costs. This figure is slightly higher than the NFPS deficit of 2.4% of GDP reported at the end of 2004 and occurred despite the substantial increase in tax revenues to 12.5% of GDP (0.9% higher than in 2004). Although stable, this fiscal situation has led the economic authorities to continue with their strict control over public spending and to maintain their efforts to increase revenues as an avenue for reducing the NFPS primary deficit, thus effectively lowering its debt levels in the medium term.
- 1.3 Given this fiscal picture, gross financing needs for 2006 (fiscal deficit including pensions plus NFPS debt repayments) are estimated to be on the order of 5.7% of GDP (US\$1,020.3 million), one percentage point lower than in 2005. Between January and July 2006, the economic authorities issued US\$664 million worth of bonds (3.7% of GDP) on international and local markets. As international interest rates continue to rise between 2006 and 2007 and the international market becomes less liquid, it can be expected that the government will seek alternatives to selling bonds on the markets, which explains its inclination for programming freely-available resources with the Inter-American Development Bank and the World Bank, and its efforts to access resources from the Millennium Challenge Account (MCA).
- 1.4 Although El Salvador's NFPS debt is among the lowest in the region (40% of GDP at the end of 2005), it has grown considerably over the last six years (by close to 10% of GDP in the period), particularly after the 2001 earthquakes and the change in the pension system. The country's authorities have managed the debt prudently so that the country can continue to benefit from access to relatively cheap

international credit, owing to its good sovereign risk rating. An analysis of fiscal sustainability performed by the Bank in 2004 (using a medium-term sustainability indicator) showed that an adjustment in the NFPS deficit of between 2.6% and 3% of GDP was necessary if the net public sector debt was to remain constant. The NFPS primary balance fell by 1% of GDP between 2003 and 2005 and, given the government's projections, it is expected to fall by an additional 1% between 2006 and 2009 thanks to the increase in revenues due to tax effort and the reforms introduced at the end of 2004.

- 1.5 As for the external sector, the current account deficit was 4.6% of GDP in 2005 owing to the impact of oil prices and the decline in maquila exports, which led to deterioration in the current account compared to 2004. However, family remittances continue to be a key factor for the external sector's balance, given that at December 2005, remittances amounted to US\$2.830 billion (for growth of 11.2% over the same period in 2004) accounting for about 16.6% of GDP.
- 1.6 At present, the Government of El Salvador has no assistance program with the International Monetary Fund. The most recent Article IV consultation published by the IMF was approved by its Executive Board in July 2006. That review acknowledged the government's achievements in fostering economic growth and improving social conditions in the country. To continue along this path of economic and social progress, the report cited the need to make the economy more responsive to external shocks, deepen its competitiveness, and continue strengthening the fiscal framework so as to stabilize debt levels and consolidate the financial stability achieved.

## **2. Economic outlook**

- 1.7 According to the government's projections as of the end of May, economic growth will continue to recover up to 3.5% during 2006, with the figure remaining stable between 2007 and 2009. This recovery in growth will be linked in particular to the recovery in private investment and the increase in nontraditional exports to the United States and the rest of Central America. It is also anticipated that the sustained increase in family remittances will continue to spur consumption and investment in El Salvador. As a complement, these projections see inflation falling to 4% in 2006 and stabilizing at 3% a year starting in 2007, assuming that the oil market returns to normal and the fiscal situation remains stable.
- 1.8 In fiscal terms, the government's projections indicate that the NFPS deficit will fall steadily from an estimated 3% of GDP in 2006 to 1.8% in 2009, due mainly to an increase in tax revenues and stabilization of total spending by the NFPS. These projections consider that the transition costs of the pension system remain relatively stable at around 2.1% of GDP, and that grants and assistance from the MCA will not affect the fiscal results, since they cancel each other out. With this improvement in income and with stabilized spending and an increase in economic growth rates,

the general and primary deficits of the NFPS fall consistently, putting debt levels on the road to stabilization in the medium term.

- 1.9 With these fiscal projections, the country's gross financing requirements (deficit plus amortizations) for the period 2007-2009 will be about 3.5% of GDP on average. 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.

## **B. Social context<sup>1</sup>**

- 1.10 El Salvador has made significant progress in the social area, when measured by its progress in the Human Development Index (HDI) of the United Nations Development Programme (UNDP) and the poverty indicators, particularly in the 1990s after the Peace Accords were signed. According to the HDI, which takes life expectancy from birth, school enrolment, and per capita income indicators into account, the country rose from 0.65 in 1990 to 0.72 in 2002, ranking 105th in the world out of 177 nations. Poverty affected 66% of the population in 1991, and 42% in 2003, falling 24 percentage points in 12 years. However, since the end of the 1990s poverty reduction has slowed, and the advances in reducing extreme poverty, which affected 17% of Salvadorans in 2003, have been modest.<sup>2</sup>

### **1. Extreme poverty**

- 1.11 Although 45% of all poor people and 40% of all extremely poor people live in urban areas, most of the poor (55%) and extremely poor (60%) live in rural areas, where the problem is deeper. Half of the rural population lives in poverty, and 25% is indigent. Poor and indigent rural families are more vulnerable on account of the volatility of their income in the face of lower prices for their products, crop losses, and greater exposure to natural disasters, which has a direct impact on food

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<sup>1</sup> The contents of this section are chiefly based on the document "Programa Social de Atención a las Familias en Extrema Pobreza de El Salvador: Red Solidaria" [Social program for assistance for families living in extreme poverty in El Salvador: Solidarity Network] published by the Technical Secretariat of the Office of the President (STP) and the President's National Social Area Coordination Office in March 2005. The World Bank Document "El Salvador. Poverty Assessment: Strengthening Social Policy," published in December 2005, has also been very useful as a reference.

<sup>2</sup> Directorate General of Statistics and Censuses (DIGESTYC), 2004.



consumption and the risk of child malnutrition. In contrast, only 29% of the urban population lives in poverty, and just 9% is extremely poor.

- 1.12 A typical household living in extreme poverty in El Salvador is composed of a head with fewer than three years of formal education (functionally illiterate), has no piped water service (58% of the rural population) or basic sanitation, and lives in a house with a dirt floor (nearly 46% in rural areas). According to the 2003 Multipurpose Household Survey, El Salvador still has weak education indicators, particularly in rural areas. Eighteen percent of the population over 15 years of age is illiterate, and in rural areas the figure rises to 30%. Close to 1 million Salvadorans have no access to basic health care or nutrition services, particularly in rural areas, where just 54% of deliveries are attended by professionals.

## **2. Social spending and the role of remittances**

- 1.13 Although programs have been implemented and steps taken to improve basic social services for the population and reduce poverty levels, greater efforts must be made to increase public social spending as a percentage of GDP (8.1% in 2003; the overall average figure in Latin America and the Caribbean is 14%). The pace of public social spending continues to be insufficient to cover the shortfall in access to education, health care, nutrition, and sanitation, among other social services, despite the increases in that spending in the last 12 years, mainly on education and health care, which account for 3.3% and 1.5% of GDP, respectively. Given the country's constraints on significantly increasing social spending, it becomes necessary to improve its efficiency and effectiveness, with better targeting of investments and efforts to coordinate and integrate social policy to overcome extreme poverty.
- 1.14 The flow of family remittances from Salvadoran migrants has been important, as has support from the international community, nongovernmental organizations, and organizations of Salvadorans living abroad who have supported social initiatives. However, these advances in remittances are limited in terms of reducing extreme poverty, since the private safety net created by the flow of family remittances is insufficient to assist the very poor.

## **3. Social policy for poverty reduction**

- 1.15 El Salvador has begun actions to enhance the effectiveness of its poverty reduction efforts by developing a comprehensive social policy that contributes to the human capital development of all Salvadorans, improves everyone's access to the market and basic services, and provides support for the very poor and the most vulnerable families through an effective social protection system. The vision of developing a social protection system is relatively new in El Salvador and is justified for several reasons: (i) in general, the poorest and most vulnerable people do not benefit greatly from economic progress, mainly because of the human capital disadvantage caused by their scant access to education, health care, and other basic services, with the

- serious risk that it will be passed on to their children; (ii) extremely poor people tend to be more vulnerable to both natural and economic shocks; and (iii) the very poor do not generally have access to the self-protection network created by migration and remittances.
- 1.16 Given the medium- and long-term vision of the need to develop a social policy to reduce extreme poverty that is consistent with the country's fiscal constraints, the government has decided to embark on the road to effective social protection by implementing, beginning in 2005, a comprehensive program of assistance for the poorest families, known as the Solidarity Network, which takes a cross-sector and participatory approach to the different facets of poverty over the medium and long terms. Under this policy framework, the Solidarity Network has three major strategy areas to prioritize and integrate actions intended to gradually overcome extreme poverty in the country, particularly in rural areas: (i) the **family solidarity network** includes actions targeted to families living in extreme poverty in prioritized municipios and conditional cash transfers to mothers and instruction and support in meeting family commitments, chiefly relating to education, nutrition, and health care for children and pregnant women; (ii) the **basic services network**, which includes projects to improve the supply of basic education, health care, nutrition, and civil registration services in the prioritized municipios, coupled with a strong component for potable water and sanitation infrastructure, rehabilitation and equipping of health facilities, strategic infrastructure to remove barriers to service access, and electrification in rural communities, including schools and health care units; and (iii) the **family sustainability network**, which will initially support microlending and production-oriented projects to help rural families diversify their sources of income and boost their productivity.
- 1.17 In these three major strategy areas, Solidarity Network targets its activities using the poverty map designed to prioritize geographic areas by their level of extreme poverty, grouping the municipios in those areas according to whether they suffer from severe, high, medium, or low extreme poverty, considering income and the percentage of children who are severely undersize in first grade. The municipios in each group are then classified using the integrated index for municipal marginalization, which includes indicators for income, unmet basic needs, employment, education, and housing.
- 1.18 By December 2005, funds from the general budget had been used to cover the first 15 municipios in severe extreme poverty with conditional cash transfers for 12,500 families, out of a total of 100 municipios and 100,000 households that are the goal for 2005-2009 and which represent 45% of all families living in extreme poverty in the country. Under a sector loan (1665/OC-ES), the IDB is providing US\$57 million, and the World Bank US\$21 million, chiefly to finance the basic services network, principally drinking water and sanitation and health care, out of a total estimated cost of US\$200 million for the Solidarity Network to finance its

three major strategy areas over the same period.<sup>3</sup> The conditional cash transfer component, including services for community and family strengthening, is financed solely with government funds, while the supply of services (health/nutrition, basic infrastructure and equipment, and the civil registry), as well as the targeting, monitoring and evaluation, coordination, and dissemination systems are financed with resources from the Banks.

#### **4. Institutional framework**

- 1.19 The Technical Secretariat of the Office of the President (STP), acting through the President's National Social Area Coordination Office, is responsible for general coordination of the Solidarity Network and, once resources have been allocated, for its guidance, supervision, control, development, and the dissemination of its achievements and outcomes. Strategically, there is a network steering committee chaired by the Technical Secretary and composed of all social-sector ministers and the ministers of agriculture, environment and economic affairs and finance, the mandate of which is to propose poverty alleviation policies and strategies which are supervised by the Executive Board of the Solidarity Network. In turn, the administrative and financial management of the network is the responsibility of the Social Investment Fund for Local Development (FISDL) with policy and technical coordination by the STP.
- 1.20 The execution plan for the Solidarity Network is decentralized with regard to delivery of the different services. Municipal committees are established in the target areas as cross-sector coordination bodies at the local level for planning interventions and solving problems that arise at the community level. These committees are composed of representatives of the government institutions and agencies involved in program execution, municipal authorities, and community leaders, coordinated by the heads of FISDL's municipal operations. The committees review compliance with their responsibilities by each of the participating institutions and facilitate comprehensive initiatives to solve local problems that affect the communities. The minutes of the meetings are used as instruments for solving problems that are the responsibility of the national authorities but which are detected on the local level.
- 1.21 In this institutional framework, the main mechanism and initial social protection instrument used by the Solidarity Network is conditional cash transfers, whose objective is to raise the education and health levels of children who live in extreme poverty, by providing selected families with 'allowances.' Obligatory commitments are established for the beneficiary families, such as enrolling their children between the ages of 5 and 14 in school and ensuring they attend regularly until grade six,

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<sup>3</sup> This overarching financial framework for 2005-2009 is referenced in the government document cited above, "Programa Social de Atención a las Familias en Extrema Pobreza de El Salvador: Red Solidaria" [Social program for assistance for families living in extreme poverty in El Salvador: Solidarity Network].

compulsory attendance at prenatal checkups, and growth controls and a full series of vaccinations for children under five. Depending on the family makeup, families living in severe and high levels of extreme poverty receive a total monthly payment of between US\$15 and US\$20.

- 1.22 The education component of the Solidarity Network is represented by the effective schools networks,<sup>4</sup> whose objective is to improve timely school attendance and increase the years of schooling for people living in selected municipios. The main actions of these networks include: (i) an increase in the coverage of preschool and basic education; (ii) accelerated learning programs to reduce overage students; (iii) targeted development of literacy programs and basic education for adults; (iv) development of processes to improve the performance of students in language and mathematics through teacher training, the provision of materials, and academic reinforcement activities; (v) rehabilitation of school infrastructure; and (vi) the development of the school meal program, among other initiatives.
- 1.23 Last, the health contribution to the Solidarity Network consists of expanding the coverage of essential nutrition and health services to extremely poor municipios by contracting NGOs and/or entering into agreements with public health establishments to offer preventive checkups for pregnant women and children under five in isolated rural areas, plus immunization campaigns and the delivery of nutritional supplements.

### **C. The country's strategy**

- 1.24 The Solidarity Network represents the initial efforts of the Salvadoran government to design and implement a comprehensive strategy to assist families in extreme poverty, which seeks in the short term to improve the social indicators for education, health, and nutrition. This new approach combines the traditional role of social safety net and social protection with social development, in that it simultaneously attacks the factors immediately contributing to poverty while promoting sustainable poverty reduction in the long term by improving family education and health, strengthening community organization, and moving toward the consolidation of an effective social safety net for the very poor. In particular, investments in education, health, and nutrition for children play a vital role in breaking the intergenerational transmission of poverty.
- 1.25 With this policy-based loan (PBL), the government seeks to support these efforts with a series of policy actions in such areas as targeting tools, institutional arrangements and cross-sector efforts, mechanisms for community participation,

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<sup>4</sup> Effective School Networks is an intervention strategy that integrates into a single nucleus a limited number of schools in the same geographic zone in order to offer children and youths the opportunity of completing basic education under the same pedagogical model and with a coordinated administrative system. Each network has a lead school that is responsible for administrative and pedagogical coordination.

information systems, and technical studies to improve quality in implementation of the Solidarity Network and to define the minimum conditions for the replication of these instruments in other social sector and production-oriented initiatives, gradually establishing a more effective social safety net for the very poor and laying the medium-and long-term groundwork for deepening social policy for poverty reduction in El Salvador.

#### **D. The Bank's strategy and experience**

- 1.26 The Bank's country strategy with El Salvador 2005-2009 has the central objective of poverty reduction. To achieve this, it proposes two interrelated strategic objectives that are consistent with the government's plan "País Seguro 2004-2009:" (i) to promote sustainable economic growth by increasing competitiveness; and (ii) to strengthen human capital and improve opportunities for the poorest segments of the population through better targeting and efficiency of social spending, focusing it on achieving the Millennium Development Goals (MDGs), while also improving the coverage and quality of social services. This operation correlates directly with the Bank's second strategic objective in El Salvador, since it will support the country in its strategic social development priority, to gradually overcome extreme poverty, achieve the MDGs, and strengthen the institutional framework of its social safety net for the very poor.
- 1.27 To give an idea of more recent Bank experience in El Salvador, Annex I (["Summary of Related Investment Projects"](#)) summarizes the main investment projects related to this operation in terms of their objectives, components, financing, lessons learned, and the value-added of this new operation. All these investment efforts require support from specific policies to facilitate their execution, a condition that can be furthered by PBLs to achieve greater complementarity in incentives for the supply and demand of social services. In terms of specific experience with PBLs, the main lessons learned from the evaluations of the actions of the Bank and other international agencies<sup>5</sup> with respect to their design, which have been taken into account in this operation, are: (i) the process of preparing the policy action matrix can lead to dialogue within the government that enhances its viability; (ii) the policy program should be based on a sound sector analysis; (iii) the programmatic modality can be a useful tool for mitigating risks associated with the implementation of policy actions; (iv) it is important to include outcomes in the policy action matrix, provided they are not beyond the government's control; and (v) national strategy documents and targets should be adopted so as to ensure a sense of ownership by the government.

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<sup>5</sup> World Bank (2003), Programmatic Adjustment Lending Retrospective.

## **E. Program rationale**

- 1.28 This operation's chief value-added is support for adoption of a series of policy actions that help to consolidate targeting tools, institutional arrangements for cross-sector coordination, mechanisms for community participation, information systems, and technical studies that will make, in the medium and long terms, for an effective social protection system. This new operation makes it more likely that the medium- and long-term vision of social policy for the very poor can be built on a suitable set of instruments and implementation mechanisms, lessening the risk that the initial efforts will be viewed simply as the initiatives of a given administration. In addition, the strengthening provided by this programmatic operation will make it more likely that the Solidarity Network can improve its implementation and become consolidated institutionally as an effective social safety net for the very poor, adding a State vision to the country's social policy.
- 1.29 Under the initial strategy that embodies the Solidarity Network as a coordinated, integrated, and cross-sector effort to combat extreme poverty, this new operation differs from the investment projects that also support its implementation, by adding strengthening for the framework of specific policies that are necessary to consolidate the welfare system, and by helping to deepen the medium- and long-term vision of El Salvador's social policy for poor groups. This will be done through a series of technical studies that seek to provide systematic support for the policy dialogue with the country, in order to improve the implementation of the Solidarity Network, set the minimum conditions for replication in other social initiatives, and generate medium- and long-term strategic guidelines to deepen social policy for poverty reduction in El Salvador.
- 1.30 A programmatic PBL loan has been selected as the financing modality. It will comprise three operations, each with a single-tranche disbursement, given the medium- and long-term horizon that the government has set for the Solidarity Network as a policy to combat extreme poverty. Within this planning horizon, the starting points for the strategy design are clear, but flexibility is needed to adapt to new information and changing circumstances during execution, with the possibility of revising the scope of the program over time and building up the medium- and long-term vision of a State social policy to overcome extreme poverty in the country.
- 1.31 By way of example, there is no absolute certainty as to concrete actions to support building the Solidarity Network into a social safety net for the poor, and it is clear from international experience with conditional cash transfer programs that there are uncertainties and operational difficulties in this process that make systematic monitoring necessary.<sup>6</sup> One example is good design and implementation of

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<sup>6</sup> A New Generation of Social Programs: Ideas for Development in the Americas (IDEA), IDB, Research Department, Volume 1, 2003.

targeting tools that do not leave out people who are the initiatives' primary focus and benefit those ineligible for this kind of intervention. Another is avoiding dependency on outside assistance for these initiatives, by promoting a productive approach that makes the interventions more sustainable. To overcome difficulties of this kind, the technical strengthening provided by the program will enable studies to be done for policy decisions about the path to be followed to strengthen the social safety net for the very poor.

- 1.32 Additionally, and from the Bank's strategic perspective, this operation will also help to adopt a programmatic approach in its activities in the country, through the synergy between its current and future portfolio of social-sector operations. Given the government's limited resources, this programmatic PBL can play an important role as an interconnection to achieve greater complementarity in incentives for the supply and demand of social services promoted by the investment projects. Also, it will permit the Bank to maintain a direct policy dialogue in the country's social sector for the next three years.
- 1.33 Last, and given the importance of external financing to achieve the social goals and the MDGs, coordination with the international community is a requisite for achieving the synergy needed to turn that support into tangible results. In pursuit of synergy, this program will seek to coordinate effectively with the MCA initiative, which will contribute significant funding to the challenge of achieving the MDGs in El Salvador, and with bilateral cooperation agencies such as USAID, which concentrates its investments in health care and education in the country's poorest municipios. The IDB maintains close coordination with the World Bank in taking a broad sector approach that jointly finances the development of the basic services network for the Solidarity Network.

## **II. THE PROGRAM**

### **A. Objectives**

- 2.1 The general objective of this new operation is to help strengthen the social safety net for the very poor, and deepen the medium- and long-term vision of El Salvador's social policy for poverty reduction. More specifically, and taking the Solidarity Network model as a guide, the operation will support gradual progress in social policy to overcome extreme poverty through policy actions that ensure the systemization, strengthening, preservation, and consolidation of its targeting tools, its interagency and cross-sector mechanisms for coordinating the participating social sector ministries and institutions, its instruments and mechanisms for community participation, and its monitoring and evaluation systems, alongside its technical studies, with a view to creating, in the medium and long terms, an effective social safety net for the very poor.

## **B. Program structure**

- 2.2 The program's policy action matrix presented in Chapter V gives a specific description of the actions to be done prior to disbursement of the first operation in the programmatic series,<sup>7</sup> and generally describes the indicators that will trigger preparation of the second and third operations in the series. A more detailed description of the objectives and policy actions included in the first operation and the triggers for the second and third operations follows.

### **1. Macroeconomic environment**

- 2.3 The objective of macroeconomic monitoring throughout the entire programmatic series is to help maintain sustained economic growth as the basis for the country's macroeconomic stability. From this standpoint, the condition for the single tranche of the first programmatic operation is that a macroeconomic context be maintained that is consistent with the program's objectives. On account of its importance, this same condition will be monitored in the second and third operations.

### **2. Strategic actions**

#### **a. Targeting tools**

- 2.4 One of the challenges for targeting is the need to complement the poverty map with other tools that can make the targeting of the interventions of the Solidarity Network to the beneficiary families more efficient. For example, the poverty map should be complemented with family censuses for the socioeconomic characterization of the families and with a proxy means test to classify and select them as beneficiaries when they do not live in municipios with severe extreme poverty, also applying eligibility criteria that include rurality, standard of living, and the makeup of the family group. As their consolidation progresses, it is anticipated that these tools can be used by other social sector and production-oriented initiatives targeting the very poor, to make social spending on them more efficient.
- 2.5 Given these challenges, the objective of the three operations in the programmatic series is to design, apply, improve, and extend targeting tools intended to prioritize public investment in the poorest municipios and families. Along these lines, the conditions for the single tranche of the first programmatic operation identify: (i) the design and application of the poverty map as a tool for geographic targeting on the municipal level; (ii) the design and application of family censuses as a tool for identifying families eligible for the conditional cash transfers; and (iii) the design of the proxy means test.

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<sup>7</sup> For more details on the contractual conditions precedent to the first operation in the programmatic series see also Annex II ("[Means of Verification of Fulfillment of Contractual Conditions](#)").



- 2.6 As triggers for the second operation, it is expected that the poverty map, the family censuses, and the proxy means test will have up-to-date information, have been adjusted to make them relevant to the characteristics of the beneficiaries, and be applied more extensively as targeting tools in the beneficiary municipios. For the third operation, it is expected that the targeting tools will be used in other social sector and production-oriented initiatives because they accurately select the beneficiaries within acceptable margins of error, and the cost of obtaining the information lies within the defined standards.

**b. Areas for cross-sector coordination and efforts**

- 2.7 With respect to institutional coordination arrangements, the challenge is to consolidate the Solidarity Network's steering and executing bodies to ensure continuity in the comprehensive approach to interventions and maximum efficiency in cross-sector efforts, while incidentally facilitating the extension of these social policy coordination bodies to other social initiatives. Also, the role of the municipal committees as support for decentralized execution efforts needs to be strengthened to establish ongoing dialogue with the national level and improve planning, with a cross-sector approach, at the same time as it is necessary to develop instruments for budget coordination and management to provide medium- and long-term sustainability for the Solidarity Network. It is also important to support a series of cross-sector actions that are keys for assuring full support for families in extreme poverty, such as the conditional cash transfers (in social protection), the effective school networks program (in education), the essential health care and nutrition services, and the microcredit program for productive development in isolated zones—initiatives whose implementation needs to be improved if the process of consolidating them as models for intervention in the country's poor rural zones is to begin.
- 2.8 Therefore, the objective of the entire programmatic series is to contribute to the creation, functioning, and strengthening of the national and municipal bodies that coordinate social policy for reducing extreme poverty, with their corresponding tools for budget coordination. Also, and through cross-sector efforts, a contribution will be made to halting the intergenerational cycle of poverty, by promoting incentives for supply and demand to improve education, health, and nutritional levels among children living in extreme poverty
- 2.9 In the sphere of institutional coordination arrangements, the conditions for the first programmatic operation identify: (i) the establishment and operation of the Solidarity Network's steering committee, its intersector committee, and its municipal coordination committees as effective coordination bodies; and (ii) the inclusion in the 2006 budget of a general line item to be transferred to finance the Solidarity Network program, with its respective budget codes and tracking through the integrated financial management system (IFMS). With respect to the triggers for the second operation: (i) the coordination bodies are expected to perform periodic

- monitoring of their decisions, solve problems in execution expeditiously, and communicate effectively with decision makers; and (ii) guidelines and directives are expected to be issued instructing the ministries and public institutions with links to the Solidarity Network to program, using budget codes and tracking through IFMS, the funds from their budgets earmarked to finance the Solidarity Network. For the third operation, the triggers are: (i) the coordination bodies are effective in ensuring a comprehensive public response to the problems associated with extreme poverty, which is extended to other social sector and production-oriented initiatives; and (ii) the budget coordination mechanism is extended to other social initiatives linked to the social protection system and tracking is performed through the IFMS.
- 2.10 With respect to cross-sector efforts, the conditions for the first programmatic operation identify the design and application in extremely poor municipios of social protection, health, education, and productive development initiatives related to: (i) the conditional cash transfers and monitoring of the beneficiary families for compliance with the conditions; (ii) the effective school networks to improve attendance and retention for students in basic education; (iii) the literacy program to permit the beneficiaries to complete their primary education; (iv) the model for the expansion of coverage of essential health care and nutrition services; and (v) the model for microcredit coverage.
- 2.11 As triggers for the second operation, it is expected that: (i) the process and the delivery mechanisms for the conditional cash transfers have been improved to ensure transparency, efficiency, and compliance by the beneficiary families with the conditions; (ii) the effective school networks have been organized and are functioning on the basis of technical pedagogical characteristics, types of management modalities, and channels for community participation that ensure school attendance and retention; (iii) the literacy program for youths and adults is functioning based on a revised curriculum, learning modules in use, and certified tutors; (iv) the Ministry of Public Health and Social Assistance (MSPAS) has improved its model for the extension of coverage, with better access and treatment capability, also promoting adherence to the same quality levels for the cooperating NGOs that provide services in extremely poor rural zones; and (v) the Banco Multisectorial de Inversiones (BMI) [Multisector Investment Bank], through microfinance institutions, has helped to improve the microcredit program by establishing a network to develop borrowers and users.
- 2.12 As triggers for the third operation, it is expected that: (i) the exit strategy for families benefiting from the conditional cash transfers has been defined, as a condition for their replication among other families that are socially excluded; (ii) the effective school networks model can be replicated in other rural municipios because it has a more cost-effective model for school organization and more efficient allocation of resources; (iii) the adult literacy and education program can be extended to other municipios because it has designed a strategy for program promotion, organization, and execution and for the design of the evaluation and

certification of the beneficiaries' learning; (iv) the MSPAS has reviewed the cost-effectiveness of the model for expanding coverage and its possibilities for financial sustainability, to consider its replication in other rural municipios; and (v) the network to develop borrowers and users of microcredit has been consolidated and extended to the rest of the country's municipios.

### **c. Community participation mechanisms**

- 2.13 In this policy area, the challenge is to support the community committees as organizations that represent the beneficiaries, to enable them to exercise social oversight, verify the transparency of the processes, and supervise the effective implementation of the interventions. Links between the community and the beneficiaries and the services provided by the participating institutions (including NGOs) are expected to be strengthened through the community committees, channeling the applications and claims of the beneficiary families and organizing the group in charge of social oversight. As support for consolidation, it is expected that all these mechanisms will be used by public and civil society entities in other social initiatives to promote community participation bodies to cooperate in the functions of social oversight.
- 2.14 In light of these challenges, the objective of the three operations in the programmatic series is to promote community participation and empowerment to solve their problems and exercise social oversight over public programs. To that end, in the first operation it is expected that the supply of services by specialized NGOs to promote community participation and support the beneficiary families will have begun in municipios living in severe extreme poverty. With respect to the progress indicators that will trigger the second operation, it is expected that: (i) the family support and education services offered by NGOs are provided regularly and expeditiously, using appropriate participative methods; and (ii) the community committees perform social oversight in areas related to the conditional cash transfers and education and health services. With respect to the third operation, its preparation will be triggered when high levels of participation by the beneficiaries have been attained, the interventions are becoming sustainable, and effective accountability is promoted, so that their replication can be considered in other social initiatives by public institutions and/or civil society organizations.

### **d. Monitoring and evaluation systems**

- 2.15 With respect to information systems for monitoring the interventions, the main challenge is to generate on-going, relevant, timely, and systematic information for decision making, in order to ensure that the processes and means used will efficiently obtain the outputs and goals expected from the Solidarity Network. Performance of an impact evaluation is a relevant challenge to ensure the sustainability of the initiative, provided it demonstrates the initiative's pertinence, efficiency, and effectiveness as it relates to the direct and indirect benefits of the

interventions with poor families, linked to a reduction in infant malnutrition, an increase in health controls, and a reduction in overage, repeater, and illiteracy rates, as support for compliance with the 2015 MDGs. As part of the impact evaluation, qualitative aspects will also be examined to determine the quality and sociocultural relevance of the services and beneficiary satisfaction as an important referent for evaluating progress in consolidation of the social safety net for the very poor.

- 2.16 Given these challenges, the programmatic series as a whole is intended to contribute to the design, implementation, and application of a system for monitoring and evaluation of the Solidarity Network, promoting its replication in other initiatives. From this standpoint, the conditions for the first programmatic operation include: (i) the design of the system for monitoring the conditional cash transfers and the main interventions of the Solidarity Network in its three major strategy areas; and (ii) the design of a methodology to evaluate the impact of the Solidarity Network, including instruments to evaluate beneficiary satisfaction.
- 2.17 Regarding triggers for the second operation, it is expected that: (i) the effectiveness of the systems for monitoring the cash transfers and the other Solidarity Network interventions have been experimentally evaluated through a pilot project in extremely poor municipios; and (ii) the baseline for the evaluation of the impact of the Solidarity Network has been established and the control groups have been defined. For the third operation, it is expected that: (i) the midterm evaluation of the Solidarity Network has been performed and the results are used to perfect its design and implementation; and (ii) the monitoring instruments and impact evaluation methodologies are relevant for the social and ethnic characteristics of the beneficiaries and have been divulged to the national and local agencies and are available for replication in other social initiatives.

#### **e. Technical strengthening**

- 2.18 Last, the great challenge in this policy area is to strengthen the Solidarity Network as the center of the social safety net for the very poor, helping to set criteria for improvements in the quality and replicability of this initiative and deepening the medium- and long-term vision of social poverty-reduction policy. To address this challenge, the objective of the entire programmatic series is to develop priority technical studies on topics such as: (i) analysis of the operation of the Solidarity Network and proposals for its improvement, including exit strategies and/or evolution for the conditional cash transfers; (ii) analysis of how beneficiary families perceive the transfers; (iii) systems for monitoring the management of the Solidarity Network; (iv) technical criteria for the replication of the policy instruments in other social sector and production-oriented initiatives; (v) strategic foundations (white

paper) for deepening the social policy for poverty reduction in El Salvador; and (vi) the scale of spending and the financing strategy.<sup>8</sup>

- 2.19 The first three thematic lines will be developed through a technical-cooperation program financed by the Fund for Special Operations (TC-FSO) that supports the work of preparing the first operation in the programmatic series, with contracting estimated in the fourth quarter of 2006 and the final report by the end of the first half of 2007. The other thematic lines will be developed under a TC-FSO to support preparation of the second programmatic series, so that they can benefit from the results of the studies to support improvements in the implementation of the Solidarity Network and progress in its consolidation as a social protection system for the very poor.
- 2.20 Accordingly, the first operation will have to present to the Bank's satisfaction, the terms of reference and evidence that the studies have been contracted which are priorities for the process of improving the implementation and consolidation of Solidarity Network as an effective social safety net for the very poor. As a trigger for preparation of the second operation, it is expected that the reports from the studies contracted under the first operation will support a qualitative improvement in the process of implementing and consolidating the Solidarity Network, and that terms of reference have been designed and there is evidence that the studies to define the technical criteria for replication and develop the strategic foundations for deepening the social policy for poverty reduction have been contracted. In turn, to launch preparation of the third operation, the reports from the studies contracted under the second operation should support a review of the minimum conditions for replicating the instruments and intervention methods developed under the Solidarity Network, to consider their extension to other social initiatives and to help deepen the medium- and long-term vision of social poverty-reduction policy.

### **C. Cost and financing**

- 2.21 The cost of the first operation in the series will be US\$100 million, drawn from the Bank's Ordinary Capital, and the Government of El Salvador has requested that US\$51.5 million of that amount benefit from the Intermediate Financing Facility. The total for the series is an estimated US\$300 million, with each of the other two operations costing US\$100 million as well. It is anticipated that the second operation will be approved in the second half of 2007, and the third in the second half of 2008. The total for the programmatic series is justified by the country's external financing needs, as explained earlier in the section on the macroeconomic environment.

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<sup>8</sup> The choice was made to move ahead with the first three studies originally to be financed under loan 1665/OC-ES, using Bank technical-cooperation resources, given the delay in legislative ratification of the loan and initial payment of the conditional cash transfers. If the loan is ratified, the resources originally earmarked for the studies could be reallocated to other priorities for strengthening the Solidarity Network.

### **III. PROGRAM EXECUTION**

#### **A. Borrower and executing agency**

- 3.1 The borrower will be the Republic of El Salvador, and the executing agency will be the Ministry of Finance (MH), in cooperation with the Technical Secretariat of the Office of the President (STP).

#### **B. Execution and management**

- 3.2 Responsibility for general program coordination and management will be borne by the Ministry of Finance, acting through its various units. In this role, the Ministry will: (i) ensure compliance with the policy actions included in the program, in each of the sequential operations in the programmatic series; (ii) administer the fast-disbursing financial resources in accordance with Bank rules for PBLs; and (iii) compile and present to the Bank the information required to authorize the disbursement of each operation. The Directorate General of Investment and Public Credit (DGICP) will be the borrower's primary interlocutor with the Bank.
- 3.3 For its part, the STP will act as technical coordinator of the social sectors that participate in the program to ensure compliance with the strategic policy actions and the midterm monitoring and evaluation indicators, consolidating and reporting on progress to the MH. Therefore, the STP will: (i) supervise the actions of the participating sector institutions, particularly with regard to implementing the policy actions agreed on to proceed with the disbursement of the single tranche for each loan in the programmatic series, including the institutional arrangements on the central level involving the Solidarity Network's steering committee and its intersector committee; (ii) monitor progress in the program agreed on with the Bank to facilitate readying the triggers for the second and third operations, through semiannual progress reports, including yearly information on progress toward the midterm monitoring and evaluation indicators; and (iii) present to the Bank, through the executing agency, the final program evaluation. In this technical coordination function, the STP will be supported by the Presidential National Social Policy Coordination Office and the Office of the Executive Director of the Solidarity Network.
- 3.4 Operationally speaking, FISDL, the Ministry of Education (MINED), MSPAS, and the BMI will bear technical responsibility for promoting and complying with the policy actions agreed on in each loan contract in the programmatic series, ensuring the delivery in due time and form to the STP and the MH of the documentation that has to be processed with the Bank to authorize disbursements. FISDL, through its General Manager's Office, will be responsible for complying with the policy actions in the areas of targeting tools, institutional arrangements on the local level, and sector social protection efforts, community participation mechanisms, information systems, and technical strengthening. In addition, MINED's

Directorate General of Education, MSPAS' Planning Directorate, and BMI's General Manager's Office will be the technical bodies in charge of promoting and complying with the other sector policy actions.

**C. Execution period, amounts, and disbursement schedule**

- 3.5 The execution period for the first operation will be 12 months after the loan contract comes into force. In that period, the funds will be disbursed in a single tranche of US\$100 million, which is expected to take place in the first half of 2007. The second and third operations in the programmatic series are expected to be approved in the second half of 2007 and 2008, respectively, also with a single tranche of US\$100 million each to be disbursed in the first half of 2008 and the first half of 2009, respectively.

**D. Conditions precedent to the disbursement of the first operation**

- 3.6 Disbursement of the first tranche, which corresponds to this first operation in the series, will be conditional on compliance with the policy actions described in Chapter II, summarized in the matrix of program policy actions in Chapter V, and specified in Annex II (["Means of Verification of Fulfillment of Contractual Conditions"](#)). It will also be necessary to comply with the general conditions precedent to the first disbursement that apply contractually to all PBLs.

**E. Program monitoring and evaluation**

- 3.7 Considering the execution period and the special nature of this programmatic PBL, it will be systematically monitored through semiannual progress reports to ensure timely compliance with the indicators that will trigger the second and third loans in the series, acting as early warnings to detect any delays and take corrective actions, so that all the triggers for the second and third operations will be complied with.
- 3.8 For the final program evaluation, to be reflected in the project completion report, a series of intermediate tracking indicators have been agreed on with the Salvadoran authorities to measure performance of the actions and measures envisaged by the program. To that end, a 2004-2005 baseline has been established for the following intermediate indicators of coverage in extremely poor municipios or at the national level, as available: (i) social protection: prevalence of malnutrition (weight/age) in children under five; (ii) education: overage rate in grade three, number of seven-year-olds enrolled in grade one, and repeater rate in grade one; and (iii) health: checkups of children under one, prenatal checkups before the 12th week of pregnancy, and attendance at deliveries by qualified personnel. Goals for 2006, 2007, 2008, and 2009 have been set for each of these coverage indicators, so as to gauge progress against the 2004-2005 baseline. Chapter V presents the baselines and goals for each of the performance indicators.

- 3.9 Taking the support offered by this operation for attaining the MDGs into consideration, a series of outcomes indicators have also been agreed upon to measure the program's effectiveness in terms of its contribution to progress in these indicators for the social area, such as the goals for the reduction of extreme poverty, access to primary education, reduction of illiteracy among people between the ages of 15 and 24, and reduction in the maternal and infant mortality rates. These outcomes indicators are also presented in Chapter V, compared to the baseline for 1991, the progress made up to 2004-2005, and the goals for 2009 and 2015. The 2009 goals are related to the program's ex post evaluation and the 2015 goals are related to the country's commitments to the international community in the context of the MDGs.
- 3.10 Under current policies and procedures, the Salvadoran authorities were consulted about their willingness to perform an ex post evaluation of the program. The authorities did not wish to conduct that evaluation, but undertook to maintain the necessary information on the performance indicators mentioned in Chapter V and to make it available to the Bank in the event that it wished to conduct an ex post program evaluation at a later date.

**F. Policy letter**

- 3.11 The Bank agrees with the borrower on the policies outlined in the [Policy Letter](#) attached as Annex III of this document. The letter presents a summary of the Salvadoran government's economic and social policies and refers briefly to the main contents and advances in the social policy for poverty reduction and the Solidarity Network program. It also synthesizes the central elements for consolidating the social safety net for the very poor and for deepening the poverty reduction policy that supports the present program, underlining its contribution to the successful implementation and achievement of the government's social policy objectives.

**G. Eligible costs**

- 3.12 The fast-disbursing funds from policy loans can be used to finance the aggregate cost, in foreign currency, of eligible imports from Bank member countries. In this case, the Bank's procedures for PBLs established in document GN-2001-2 will be applied. The funds will be disbursed when requested by the borrower and evidence is presented that all contractual conditions have been complied with to the Bank's satisfaction.

**H. External audits**

- 3.13 The Bank reserves the right to ask the borrower for financial reports on use of the loan proceeds, certified by independent auditors found acceptable in advance by the Bank. Therefore, the borrower undertakes to: (i) maintain separate accounting



records and supporting documentation to permit external audits or requested verifications to be made of the use of the funds; (ii) maintain a separate bank account to deposit the loan proceeds; (iii) prepare the disbursement requests and present them to the Bank; and (iv) not to use the proceeds to procure articles that appear on the negative list or to procure goods from countries that are not IDB members.

## **I. Inspection and supervision**

- 3.14 The Bank will establish the inspection procedures it considers necessary to ensure satisfactory execution of this policy program. To that end, the borrower, through the executing agency, will cooperate fully by providing all the necessary assistance and information. The project team, in close cooperation with the Bank's Country Office in El Salvador will be responsible for program supervision based on the reports and monitoring and evaluation instruments agreed on in this loan proposal. At the request of the Bank's Country Office in El Salvador, administration and technical supervision missions will be carried out for optimum execution of this program.

## **IV. FEASIBILITY AND RISKS**

### **A. Feasibility**

- 4.1 By the end of the programmatic series of three sequential operations in the period 2006-2009, it is expected that El Salvador will consolidate the Solidarity Network as an effective social protection system for the country's poorest population, so that the efforts will continue beyond the current administration's term and become a State policy for combating extreme poverty. It is this policy orientation that recognizes the effort made to start up the Solidarity Network, the support for qualitative improvements in its implementation, and the definition of minimum conditions for its replication in other social initiatives, which confers political feasibility on the program. In the extent to which this effort is seen by the different political players to be the result of State policies to address extreme poverty, there will be greater possibilities for this operation to win support for legislative ratification and priority in the allocation of budget resources to assure its future sustainability.
- 4.2 From the institutional standpoint, it should be underlined that the country already has an institutional plan that facilitates a comprehensive and cross-sector approach to coordinating public actions to reduce extreme poverty, represented by the Solidarity Network steering committee, its intersector committee, and its municipal committees, which ensure the participation of the national and local public agencies that are committed to the fight against poverty. Another important aspect that has a positive influence on the potential for success of this operation is related to the agreements on its execution mechanisms, that confer technical and operational

leadership on the line units of all the participating ministries. This helps to create more permanent management capacity inside the MH, STP, MINED, MSPAS and FISDL, so that the knowledge acquired can be used beyond the execution horizon for this operation, avoiding duplication of functions and potential organizational conflicts created by the existence of coordination units separate from the line agencies.

- 4.3 Also, and from the economic and financial standpoints, it should be underlined that this operation supports the design, start up, improvement and replication of a series of targeting tools that are expected to have a positive influence on the good allocation of public funds to people who need them most, reducing the possibility that part of them will be filtered off to people who do not live in extreme poverty, or that people will be left out who ought to benefit from social interventions such as the conditional cash transfers, the effective school networks, essential health and nutrition services, and the microcredit initiatives for productive development. Coupled with this greater efficiency in the allocation of public funds, the government has committed to allocate an additional US\$200 million in the period 2005-2009 to this comprehensive and cross-sector effort to overcome extreme poverty, an effort that is joined by the international community of bilateral donors and supported by international agencies such as the IDB and the World Bank, to provide sustainability for these actions beyond this government's term.

## **B. Social and environmental impact**

- 4.4 Given its focus on social policy to combat extreme poverty and the benefits expected from its actions, this operation qualifies as a social equity enhancing project (SEQ), as described in the document on the Eighth General Increase in Resources (document AB-1704). As a policy operation, it does not qualify as a poverty-targeted investment.
- 4.5 Owing to the nature of PBLs, this operation will have no direct environmental impact and it will not be necessary to take environmental precautions during its preparation and execution. By strengthening the mechanisms for community participation, participation by women will be encouraged to benefit their own development and the development of their families and communities. As for cultural relevance, the diagnostic studies available for the municipios with the highest concentrations of indigenous population have been taken into account so that the Solidarity Network and the social safety net to be consolidated will include culturally appropriate interventions. Also, the municipal committees will have delegates from the community and, in municipios with large indigenous populations, indigenous representatives will play an even more relevant role since apart from the function of social oversight, they will also be able to advise service providers and the municipality on how to offer culturally relevant services.

## **C. Benefits**

- 4.6 By the end of the program, it is expected that all the initiatives directed to the very poor can be designed and implemented with this comprehensive and cross-sector vision, using the targeting tools, institutional coordination arrangements, community participation mechanisms, technical studies, and information systems for monitoring and evaluation that have been developed. This will make it possible to consolidate an effective social safety net for the very poor that protects them from economic and natural shocks, improving the quality of the process of implementing the Solidarity Network and extending the use of its policy instruments to other social initiatives based on minimum conditions for replication. Last, it is also expected that the medium- and long-term vision of El Salvador's social policy for poverty reduction will be deepened.
- 4.7 As a more direct effect of the program, a significant improvement is expected in the behavior of its tracking indicators in extremely poor municipios where efforts to combat poverty will be targeted, such as malnutrition rates (weight/age) in children under five, the repeater rate in grade one, overage in grade three, the coverage of checkups during pregnancy and attendance during deliveries by qualified personnel, as shown in Chapter V. As for the expected medium- and long-term impacts, by 2009 it is expected that the Solidarity Network will benefit more than 100,000 families living in extreme poverty, particularly in rural areas, with a comprehensive and coordinated set of interventions that seek to reduce their vulnerability and social risk in the face of cyclical changes in income, and to break the cycle of the intergenerational transmission of poverty by promoting human capital formation for their children.
- 4.8 The above will represent a significant advance toward 2015 in one of the main MDGs to which El Salvador has made a commitment to the international community: to halve extreme poverty compared to 1991. That goal has already been surpassed and it is hoped there will be additional improvements by 2015. In addition, and as reflected in Chapter V, it will permit substantial progress to be made in other social MDGs associated with the reduction in maternal and infant mortality and full coverage of basic education.

## **D. Risks**

- 4.9 One major risk of this operation is the political cycle, in a context in which a new government, which will take office in June 2009 just when execution of the final operation in the programmatic series is completed, might decide to change the direction of social policy aimed at extreme poverty, jeopardizing the sustainability of the policy actions supported. To mitigate this risk, work has been done to support a set of targeting tools, institutional coordination arrangements, participation mechanisms, information systems, and technical studies that will permit the Solidarity Network to be more than an isolated initiative of the current government

and become consolidated as a State policy vision, as an effective social safety net for the very poor. In addition, there is a broad political consensus in the country on the need to combat extreme poverty that can help with the institutionalization and consolidation of social policy to reduce poverty.

- 4.10 Another important risk is the excessive delay in ratifying loan contracts with multilateral lending agencies that is currently the case in El Salvador's legislative assembly, an aspect that could be of concern in the context of a PBL with a programmatic structure that will require the ratification of three loan contracts in the period 2006-2008. The possibility of having a source of financing from the Bank such as a PBL, which has more convenient financial costs for the country compared to selling bonds on international markets, can help to muster the political support necessary for expeditious ratification.

## V. POLICY ACTION MATRIX

Objectives	Actions precedent to the disbursement of the first loan in the programmatic series (2006)	Triggers for a second loan in the programmatic series (2007)	Triggers for a third loan in the programmatic series (2008)
<b>I. Macroeconomic context</b>			
To help maintain sustained economic growth as the basis for the country's macroeconomic stability.	The macroeconomic context is consistent with program objectives.	The macroeconomic context is consistent with program objectives.	The macroeconomic context is consistent with program objectives.
<b>II. Strategic actions</b>			
<b>A. Targeting tools</b>			
To consolidate the design, application, and extension of targeting tools to prioritize public investments in the poorest municipios and families.	<p>Poverty map designed and applied as a geographic targeting tool at the municipal level.</p> <p>Family censuses designed and administered as a tool for identifying the families eligible for conditional cash transfers.</p> <p>Proxy means test designed to classify and select families.</p>	Poverty map, family censuses, and proxy means tests have up-to-date information, have been adjusted to be relevant for the characteristics of the beneficiaries, and their application as targeting tools has been extended in the beneficiary municipios.	The targeting tools developed (poverty map, family censuses, and proxy means test) are used in other social sector and production-oriented incentives because they select beneficiaries accurately within acceptable margins of error and the cost of collecting information falls within the defined standards.
<b>B. Coordination and cross-sector efforts</b>			
To consolidate the functioning and expansion of the national and municipal bodies that coordinate social policy for extreme poverty reduction, including tools for budget coordination.	The Solidarity Network's steering committee, intersector committee, and municipal coordination committees have been established and are operating as coordination bodies of the Solidarity Network.	The Solidarity Network's steering committee, intersector committee, and municipal coordination committees regularly review their decisions, address execution problems in a timely manner, and communicate effectively with decision-makers.	The interagency coordination bodies are effective in ensuring a comprehensive public response to the problems associated with extreme poverty, and such bodies are extended to other social sector and production-oriented initiatives.

Objectives	Actions precedent to the disbursement of the first loan in the programmatic series (2006)	Triggers for a second loan in the programmatic series (2007)	Triggers for a third loan in the programmatic series (2008)
	The Ministry of Finance programs a general transfer line item in the 2006 budget to finance the Solidarity Network program with its own budget codes and tracking by the integrated financial management system (IFMS).	The Ministry of Finance issues guidelines and directives instructing the ministries and public institutions involved in the Solidarity Network to program resources from their own budgets to finance the Solidarity Network, with their own budget codes and tracking by the IFMS.	The budget coordination mechanism is extended to other social sector initiatives linked to the social safety net with tracking by the IFMS.
<b>Social protection</b>			
To help break the cycle of poverty by promoting incentives for demand to improve education, health, and nutrition levels for children living in extreme poverty.	Interventions using conditional cash transfers have been designed and are being introduced in extremely poor municipios, and compliance with the conditions by the beneficiary families is being monitored.	The process and mechanisms for delivering conditional cash transfers are improved to ensure transparency, efficiency, and compliance with conditions.	The exit strategy for families receiving conditional cash transfers has been defined, as a condition for replicating the transfers with other families living in social exclusion.
<b>Education</b>			
To improve the supply of formal education to assure timely attendance (preschool and basic education) and raise levels of schooling, by organizing and operating effective school networks that become consolidated as models for intervention in isolated poor areas.	The effective school networks model has been designed and is beginning to be implemented in extremely poor municipios, to increase school attendance and retention for students in basic education.	Effective school networks are organized and operating in accordance with technical and pedagogical features, management methods, and community participation bodies that assure school attendance and retention.	The effective school networks model is replicable in other rural municipios, because it is a more cost-effective model for school organization and more efficient allocation of resources.

Objectives	Actions precedent to the disbursement of the first loan in the programmatic series (2006)	Triggers for a second loan in the programmatic series (2007)	Triggers for a third loan in the programmatic series (2008)
	The technical proposal to strengthen and expand the literacy program for youths and adults has been designed and is beginning to be implemented in extremely poor municipios, so that the beneficiaries can complete their primary schooling.	The literacy program for youths and adults is operating on a revised curriculum, with learning modules in use and certified tutors.	The literacy and adult education program is ready to study extension to other municipios when it has designed a strategy for promotion, organization, and execution of the program, and has designed means for the evaluation and certification of the beneficiaries' learning.
<b>Health</b>			
To help ensure the supply of a series of essential health and nutrition services for families living in extreme poverty.	The model to expand coverage of essential health and nutrition services into extremely poor rural areas is compulsory for all public and nonpublic (NGO) service providers under an official operations manual endorsed by the Ministry of Public Health and Social Assistance (MSPAS).	MSPAS has improved its offerings under the model for the expansion of coverage with greater access and treatment capability, and promotes compliance with the same levels of quality by cooperating NGOs that provide services in extremely poor rural areas.	MSPAS has reviewed the cost-effectiveness of the model for the expansion of coverage and its potential for financial sustainability, in order to consider its replication in other rural municipios.
<b>Productive development</b>			
To promote participation by microfinance institutions in developing a sustainable strategy for poverty reduction by increasing the coverage of microlending in the poorest municipios.	A model of microlending coverage targeted to extremely poor rural areas has been designed and is being implemented.	Through microfinance institutions, the Multisector Investment Bank (BMI) has helped to improve the microcredit program by establishing a development network of borrowers and users.	The development network of microcredit borrowers and users has been strengthened and expanded to the rest of the municipios.

Objectives	Actions precedent to the disbursement of the first loan in the programmatic series (2006)	Triggers for a second loan in the programmatic series (2007)	Triggers for a third loan in the programmatic series (2008)
<b>C. Community participation mechanisms</b>			
To promote the participation and empowerment of communities to solve their problems and exercise social oversight over the Solidarity Network and other public programs.	Services by specialized NGOs to promote community participation and support the beneficiary families have begun in municipios with severe extreme poverty.	Family support services and education for families through NGOs are offered in a regular and timely manner, using suitable participatory methodologies.  The community committees exercise social oversight in matters related to the conditional cash transfers and health and education services.	The community participation mechanisms achieve high levels of beneficiary participation, contribute to the sustainability of the interventions, and promote real accountability, so that they can be considered for replication in other social initiatives by public and/or civil society institutions.
<b>D. Monitoring and evaluation systems</b>			
To consolidate the design, implementation, and application of the monitoring and evaluation system for the Solidarity Network, promoting its replication in other social initiatives.	<p>The technical and operation design has been completed for the system to monitor conditional cash transfers and Solidarity Network interventions.</p> <p>The conceptual design has been completed for the proposed methodology to evaluate the impact of the Solidarity Network, including qualitative instruments to measure beneficiary satisfaction.</p>	<p>The effectiveness of the systems to monitor conditional cash transfers and other Solidarity Network interventions has been experimentally evaluated as a pilot project in extremely poor municipios.</p> <p>The baseline for evaluating the impact of the Solidarity Network has been set, and control groups defined.</p>	<p>The midterm evaluation of the Solidarity Network has been done, and the results used to improve its design and implementation.</p> <p>The monitoring and methodological instruments for impact evaluation are relevant for the social and ethnic characteristics of the beneficiaries, have been released to national and local agencies, and are available for replication in other social initiatives.</p>



Objectives	Actions precedent to the disbursement of the first loan in the programmatic series (2006)	Triggers for a second loan in the programmatic series (2007)	Triggers for a third loan in the programmatic series (2008)
<b>E. Technical strengthening</b>			
<p>To perform technical studies to help strengthen the Solidarity Network as the core of the social protection system for the very poor, and deepen the medium- and long-term vision of social policy for poverty reduction.</p>	<p>The terms of reference have been prepared for priority studies to improve the process of implementing and consolidating the Solidarity Network, and the studies are being contracted.</p>	<p>The reports from the studies contracted under the first operation support a qualitative improvement in the process of implementing the Solidarity Network on its path to consolidating the social protection system for the very poor.</p> <p>The terms of reference have been prepared for the studies to set the technical criteria for replicability and the strategic foundations for deepening social policy for poverty reduction, and the studies are being contracted.</p>	<p>The reports from the studies contracted under the second operation support a revision of the minimum conditions for the replication of the instruments and modes of intervention developed with the Solidarity Network, to consider their extension to other social initiatives, and help to deepen the medium- and long-term vision of social policy for poverty reduction.</p>

## MIDTERM INDICATORS FOR PROGRAM MONITORING AND EVALUATION

Main MDGs 2015				Midterm indicators		Annual goals				
						2006	2007	2008	2009	
Social protection <sup>1</sup>					Baseline 2002-2003					
Reduction in the population living below the poverty line by one half (%).				The malnutrition rate (weight/age) for children under five (%).		Total country: 10.3	9.5	9.3	9.1	8.8
Baseline 1991	Progress 2004	Goal 2009	Goal 2015 <sup>2</sup>							
32.6	15.2	11.3	8.0							
Education <sup>3</sup>					Baseline 2004					
100% net enrolment in primary school (7 to 12 years) (%).				Overage rate in grade three (%).  Number of seven-year-olds enrolled in grade one.  Repeater rate in grade one (%).		100 municipios: 23.4  100 municipios: 14,481  100 municipios: 16.7	20.7  15,496  15.7	20.1  15,961  15.2	19.5  16,440  14.7	18.9  16,933  14.3
Baseline 1991	Progress 2004	Goal 2009	Goal 2015							
78.0	93.1	96.0	100.0							
100% literacy for people between the ages of 15 and 24 years (%).				Percentage of people enrolled in level one who continue in level two of the literacy program for youths and adults.		100 municipios: 55	61	67	73	81
Baseline 1991	Progress 2004	Goal 2009	Goal 2015							
85.0	93.8	96.0	100.0							

Main MDGs 2015				Midterm indicators		Annual goals			
<b>Health<sup>4</sup></b>					<i>Baseline 2005</i>				
To reduce mortality in children under five by two thirds. <sup>5</sup>				Number of children under one enrolled in the Child Program.	100 municipios: 16,972	18,130	19,288	20,445	21,603
<b>Baseline 1991</b>	<b>Progress 2004</b>	<b>Goal 2009</b>	<b>Goal 2015</b>						
41	24	18.75	15						
To reduce maternal mortality by three quarters. <sup>6</sup>				Number of pregnant women registered for prenatal checkups.	100 municipios: 13,958	22,205	25,504	28,803	32,102
<b>Baseline 1991</b>	<b>Progress 2004</b>	<b>Goal 2009</b>	<b>Goal 2015</b>						
91-223	106-239	58-113	23-56						
(1983-1993)	(1993-2002)			Number of deliveries attended by qualified personnel.	100 municipios: 10,940	17,170	19,662	22,154	24,646

<sup>1</sup> The source for the MDG for social protection is the Multipurpose Household Survey (EHPM), 2004. The source for the baseline for the midterm indicator is the national family health survey (FESAL, 2002-2003) and the goals will be monitored through MSPAS' monthly statistics report.

<sup>2</sup> Since the MDG was achieved in 2004, the government has established as its goal for 2015 to reduce extreme poverty to approximately 8%.

<sup>3</sup> The source for the MDGs for education is the EHMP, 2004 and the goals established in MINED's Education Plan 2021. The source for the midterm indicators are MINED's educational statistics reports.

<sup>4</sup> The source for the MDGs for health is FESAL. The source for the baseline for the midterm health indicators is MSPAS Five Year Strategic Plan 2004-2009. The goals will be monitored using official MSPAS data obtained from the epidemiological statistics information system for health (SIEES) through the monthly statistics report (IEMA).

<sup>5</sup> The figures are for every 1,000 live births.

<sup>6</sup> The figures are for every 100,000 live births. Given the problems of underreporting, the baseline was expressed in a range, which means that the goals are also expressed in a range.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/06

El Salvador. Loan \_\_\_/OC-ES to the Republic of El Salvador  
Social Policy Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of El Salvador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a social policy support program. Such financing will be for the amount of up to US\$100,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_ \_\_\_\_\_ 2006)

LEG/OPR/RGII/IDBDOCS792790  
ES-0140

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/06

El Salvador. Partial Payment of Interest on Loan \_\_\_\_/OC-ES to the Republic of El Salvador  
Social Policy Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "Account", to enter into such contract or contracts as may be necessary with the Republic of El Salvador, as Borrower, and to adopt such other measures as may be necessary to utilize the resources of the Account to pay a part of the interest owed by the Borrower on outstanding balances of up to US\$51,500,000 of the loan authorized by Resolution DE-\_\_\_/06, in accordance with applicable Bank policy.

(Adopted on \_\_\_\_ 2006)

LEG/OPR/RGII/IDBDOCS792803  
ES-0140