Action Fiche El Salvador, Latin America

1. Identification

Title/Number	**"Support to the Social Protection Programme in El Salvador (PACSES[1])" - DCI-ALA/2010/022-647**		
Total cost	**EUR 47,400,000**		
Aid method / Method of implementation	Sector Policy Support Programme: - Sector budget support (direct centralised management);		
DAC-code	**16010**	Sector	**Social/welfare services**

2. Rationale and country context

2.1. Country context and rationale for Sector Policy Support Programme (SPSP)

2.1.1. Economic and social situation and poverty analysis

Since the signing of the Peace Accords in 1992 that marked the end of the 12-year civil war, El Salvador has made steady progress in consolidating peace and has undergone a major political and public sector transformation. The reform agenda led to high rates of growth (averaging about 6 percent per year) during the 1990s, but growth slowed in the first years of the last decade to less than 2 percent, reflecting a series of external and internal shocks. The adoption of the U.S. dollar as legal tender in 2001 resulted in lower inflation, reducing business uncertainty and lowering interest rates.

During this period, the economic progress was accompanied by improvements in the country's social conditions, and increases in social spending contributed to improvements in the basic socioeconomic indicators. Between 1991 and 2007, life expectancy increased from 64.4 to 71.3, infant and child mortality rates decreased more than 60 percent, and child sub-nutrition fell from 11.2 percent to 8.6 percent. In addition, access to basic services such as safe water and sanitation increased by more than 15 percentage points between 1991 and 2007. Other important health indicators, such as infant and child mortality, and child nutrition, showed improvements as well. Finally, net enrolment in primary and secondary education increased by 12 percentage points, reaching 94 percent and 54 percent, respectively, in 2007.

In 2009, El Salvador was severely hit by the global financial crisis, interrupting a period of steady economic growth, having reached a 4.3 growth rate in 2007 – the highest gross domestic product (GDP) growth rate in the decade. GDP contracted by 3.5 percent in 2009, owing to the sharp fall in remittances, lower private capital inflows, and reduced foreign demand. The slowdown hit all sectors, with manufacturing, construction, and retail being the most affected.

[1] PACSES stands for *"Programa de Apoyo a Comunidades Solidarias en El Salvador"*. Comunidades Solidarias is the main poverty reduction programme of the Government of El Salvador.

DEVCO (2011) 583576

The recent crisis reversed many of the gains in poverty reduction achieved in the last decade. The poverty rate reached 40 percent at the end of 2008 and remained relatively high at 37.8 percent in 2009, while extreme poverty grew to 12 percent in 2009, down slightly from 12.4 percent in 2008. The poor, and in particular the urban poor, were severely affected by a hike in food prices of about 17 percent in 2008.

2.1.2. National development policy

El Salvador's development policy is laid out in its *Plan Quinquenal de Desarrollo 2010-2014 (PQ),* and is the first comprehensive national development plan issued in the country over the last 30 years. The government has given equity, social inclusion and poverty reduction the highest priority on the national development agenda, which account for 44 percent of the plan's total implementation cost. The country's social protection policy was first announced by President Funes during his Inauguration speech[2] as part of the Global Anti-Crisis Plan (PGA in Spanish) and was later elaborated in the Universal Social Protection System (SPSU in Spanish). The SPSU is based on a rights-based approach and seeks to guarantee a minimum level of social services to all citizens through a gradual intervention, targeting the most impoverished and excluded population. Furthermore, it addresses vulnerabilities at different age-related and other stages of life (life-cycle approach), in order to break with intergenerational poverty cycles.

The SPSU is the cornerstone of the PQ and aims at addressing the current sector challenges by implementing *Comunidades Solidarias*, one of its key social strategies to eradicate urban and rural poverty. Government ownership of the social policy is strong, as shown by the high priority given to the PQ, and to the Technical Secretariat of the Presidency (STP), as the institution responsible for social policy design and coordination. Moreover, relevant line ministries have been fully engaged in the design and implementation of the strategy.

2.2. Sector context: policies and challenges

(1) Sector context:

El Salvador's poverty dynamics have been similar to those observed in the region, with poverty figures declining steadily from 1991 to 2007, resulting in an improvement of the *Gini* coefficient from 0.52 to 0.45 in the same period. While the 2000 to 2007 period was characterized by an improvement in social indicators (education and access to basic social infrastructure), in line with increases in social spending and social protection interventions in rural areas such as *Red Solidaria,* this positive trend was offset by the impact of the global economic crisis and hike in food and oil prices. The poverty headcount is estimated to have risen from 38.1 percent in 2006 to 46.4 percent in 2008, reaching the highest ratio since 1999. The most recent Multiple Purpose Household Survey (EHPM 2009) reveals that 37.8 percent households live in poverty conditions, of which 12 percent in extreme poverty and 25.8 percent in relative poverty.

The proposed sector policy support programme (SPSP) provides continuity to the European Union (EU)'s support to poverty reduction efforts in El Salvador, and builds on the advances made through the EUR 37.0 million *Poverty Alleviation Programme in El Salvador* (PAPES), implemented from 2006 to 2010. While PAPES results were broadly satisfactory, the programme supported a poverty reduction strategy (*Red Solidaria*) that was not embedded

[2] Presidencia de la República. Discurso de Toma de Posesión, Sr. Mauricio Funes. 1 de Junio 2009.

within a broader social protection framework, relied mostly on conditional cash transfers and investment in basic social infrastructure, and was limited in scope to rural areas. An important issue raised in the framework of the EU policy dialogue throughout PAPES implementation was the need to advance towards the preparation of an integral social policy and poverty reduction strategy.

The government's preceding poverty reduction strategy, *Red Solidaria*, was launched in 2005 and its goal was to intervene in the 100 municipalities with extreme and high poverty figures in rural areas as ranked in the 2005 Rural Poverty Map[3]. *Comunidades Solidarias* builds on the strengths of *Red Solidaria* and introduces a comprehensive, multi-sector, programmatic approach to social protection and poverty reduction. The strategy is divided into two main programmes: one to address urban poverty (*Comunidades Solidarias Urbanas*) and the other to address rural poverty (*Comunidades Solidarias Rurales*). Programme interventions have been designed to follow the targeting mechanism used in *Red Solidaria* and, hence, will be focalised in the poorest municipalities in rural areas and in precarious urban settlements (AUPs in Spanish) as identified in the Rural and Urban Poverty Maps[4] (2005, 2010 respectively). Interventions for both urban and rural areas are built around four pillars: Human capital (Pillar 1), basic social infrastructure (Pillar 2), income generation (Pillar 3), and territorial management (Pillar 4).

(2) Main findings of the assessment of the sector budget and its medium term financial perspectives;

The historically low levels of public social spending in El Salvador along with the low levels of tax revenue have limited the country's capacity to finance social policies. According to the Economic Commission for Latin America and the Caribbean (ECLAC), social expenditures as a percentage of GDP in El Salvador reached 11.1 percent in 2007[5], lagging behind the Latin American average of 17.3 percent. Additionally, 2007 figures also show that El Salvador maintains one of the lowest social per capita spending levels (US$ 291, at 2000 constant prices), compared to Brazil (US$1,019), Chile (US$756), Costa Rica (US$894) and Panamá (US$ 491)[6].

Social sector budget allocations in the last five years have remained stable, averaging 30 percent of total expenditures of the Non-financial Public Sector (NFPS). Budget execution during the same period has been high both in relation to sector budget allocations and total expenditures. The 2010 budget execution report shows that actual expenditures in the social sector surpassed the total expenditures budgeted (104.1 percent) and social expenditures accounted for 40.6 percent of total expenditures. The approved 2011 budget for the social sector sees a 12 percent increase compared to the 2010 approved budget, and accounts for 38.7 percent of total expenditures. As mentioned earlier, the country's national development programme places a high priority on equity, social inclusion and poverty reduction (44 percent of total implementation budget), of which 28 percent account for *Comunidades Solidarias'* implementation cost. The authorities have expressed their commitment to gradually increase social expenditures over the medium term with additional resources derived from higher tax revenue collection and the redirection of non-targeted subsidies. In

[3] The 2005 Rural Poverty Map was prepared by the Social Investment Fund for Local Development (FISDL) with support of the Latin American Faculty for the Social Sciences (FLACSO).

[4] The Urban Poverty and Social Exclusion Map was prepared with technical support from FLACSO and UNDP and identifies households in precarious settlements.

[5] ECLAC. Social spending as % of GDP in Latin America 1990-2008.

[6] ECLAC. Social spending per capita in Latin America (2,000 USD at constant prices) 1990-2008.

addition to monitoring increases in social expenditures allocations, their composition will be a key issue to follow with the authorities over the medium term, as current expenditures represent 75 percent of total social expenditures.

As regards the *Comunidades Solidarias'* implementation cost, the authorities are in the process of defining the strategy's total financing needs, currently estimated at about US$ 820 million (of which 40% is secured). The authorities plan to cover this breach as programme implementation advances through a combination of increased internal resources (consistent with increases in tax revenues in the period), external aid flows from an agreed disbursement schedule with Multilateral Banks ((Inter-American Development Bank (IADB), World Bank (WB), and the Central American Bank for Economic Integration) – included in International Monetary Fund's programme medium-term projections (IMF) – and potential debt issuance.

(3) Description of the coordination process with the beneficiary country

Government leadership has been strong and decisive for achieving important advances in government-donor coordination in El Salvador. The Vice-Ministry for Development Cooperation (VMCD in Spanish) and the STP started a process in early 2010 to strengthen sector coordination efforts and creating a partnership for development with donors supporting the implementation of *Comunidades Solidarias,* by means of subscribing a Code of Conduct. The Code of Conduct lays down the foundations, principles and mechanisms that will guide the participation and coordination between the main stakeholders in the programme and was signed[7] on February 18, 2011 during the joint EU/Spanish International Development Cooperation Agency (AECID)/Lux Development formulation mission. The signature of the Code represents an important step in the alignment and harmonisation agenda. The next steps in this process are the discussion of a Performance Assessment Framework (MED in Spanish) and the establishment of the Technical Work Group, which will facilitate dialogue and decision-making to ensure implementation of the policy's sector-wide approach and will also be responsible for strategy monitoring and evaluation. Active participation in this instance will facilitate programme performance monitoring and improve harmonisation of donor interventions. In addition, an inter-institutional reference group was created as a counter-part to the EU in the preparation of the National Indicative Programme II; comprising about 18 institutions involved in strategy implementation, and has proven to be a particularly useful counter-part during the identification and formulation phases of the programme.

The choice of sector budget support as an aid modality for this programme ensures the use of national systems and alignment to national policies and strategies, consistent with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. In December 2010, the EU Delegation signed the "National Agenda for Aid Effectiveness in El Salvador", a document elaborated by the Government after adhering to the Paris Declaration in May 2009 to bring home the commitments of signatories present in the country.

(4) Assessment of institutional capacity;

As regards institutional capacity and implementation arrangements, the authorities are building on the experience gained from the implementation of *Red Solidaria* –which has been confirmed as broadly positive by independent evaluations. Hence, programme implementation

[7] Signatories include: the Ministry of Foreign Relations, the Technical Secretariat of the Presidency, and the Ministry of Finance, the EU, AECID, Luxembourg, and the United Nations Development Programme (UNDP).

will rely on the institutions that have already proven to have adequate capacity to execute the activities proposed in the strategy and also on some of the already established coordination mechanisms at the local level.

Discussions held with the authorities during the formulation phase, particularly those related to the coordination challenges posed by the implementation of a complex, multi-dimensional strategy, confirmed that it will be crucial to provide technical assistance to the STP, Municipalities, and the Investment Fund for Social and Local Development (FISDL in Spanish) as the institutions that are largely accountable for programme coordination and implementation. The authorities submitted a proposal of activities for EU support.[8] Activities to be carried out will support the authorities in the implementation, monitoring and follow up of the programme *Comunidades Solidarias* as well as to support the implementation and supervision role given to municipalities. In addition, a mapping of technical assistance and advisory activities already being supported by donors for *Comunidades Solidarias* is underway and it will be helpful in coordinating and harmonising future donor support.

(5) Overall framework for performance monitoring for the implementation of sector policies and strategies;

The established framework for monitoring performance under the strategy includes the implementation of three management tools: (a) a Single Registry of Participants to follow up on programme beneficiaries (b) an Information System on Social Programmes, and (c) a System to Monitor and Evaluate Social Policies. In addition to these tools, two main instances have been set up to follow up on strategy implementation: an Inter-institutional committee (represented by Heads of Line Ministries) and a Technical Committee (represented by technical staff in charge of programme implementation).

In contrast to earlier experiences where donors supporting poverty reduction efforts undertook monitoring and evaluation activities separately, performance monitoring for *Comunidades Solidarias* will be done jointly and made in the framework of the monitoring mechanism and process agreed upon in the Code of Conduct. A preliminary global sector programme Performance Assessment Matrix has been prepared by the authorities, with advisory support from ECLAC. The proposal is currently being discussed and a first meeting of the donor-government Technical Work Group was held in early April 2011. Future discussions will further define mechanisms, a roadmap, and means of verification to follow up on strategy implementation.

(6) Macroeconomic framework:

In response to the effects of the economic crisis, the authorities launched an ambitious Anti-Crisis Plan for 2009–2010, providing a stimulus of US$ 587 million (about 2.0 percent of GDP) aimed at protecting social spending. Despite government efforts to control expenditures, the NFPS deficit reached 5.6 percent of GDP in 2009, driven by a sharp decline in government revenues (1 percentage drop).

Recent economic developments suggest that El Salvador has started to recover from the impact of the global crisis; however medium term projections remain conservative, owing to the country's close ties to and the uncertain pace of recovery of the U.S. economy. **GDP growth** projections are consistent with a gradual recovery, with rates of 0.7 percent in 2010,

[8] Matriz de Asistencias Técnicas en curso o solicitadas para el programa Comunidades Solidarias.

2.5 percent in 2011, and 3.0 percent in 2012. **Inflation** is expected to remain under control in the medium term, as it is projected to increase to 3.5 percent in 2011 (up from 2.1 in 2010), and to remain at an average of 2.8 percent over 2012–2015. The **current account** deficit is expected to deteriorate in the medium term, at 2.8 percent in 2010 and 3.1 percent in 2011, caused by an increase in import demand and the recent rise in commodity prices. The recovery in imports and exports is expected to continue in 2011 and 2012 as both the global and domestic economic recoveries firm up. The expected widening in the current account deficit should be compensated by expected higher capital inflows. Similarly, following the dramatic decline observed in 2009 (8.5 percent), workers' **remittances** have been growing at a cumulative rate of 2.2 percent in 2010 and are expected to increase to 5.5 percent in 2011 to sum up to 18 percent of GDP.

Fiscal policy is aimed at reducing non financial public sector (NFPS) deficit and placing public debt on a firm downward path, while redirecting spending on non-targeted subsidies toward social programmes and investment in key sectors. The authorities' economic programme targets an increase in tax revenues from 13.2 percent in 2009 to 17.0 percent of GDP by 2015. These projections would bring down the overall deficit to 3.5 percent in 2011 (from 4.2 percent in 2010), and steadily down to 1.5 percent by 2015. In turn, the fiscal programme would be consistent with a slight increase in the public-sector-debt-to-GDP ratio to 50.0 percent in 2012 (up from 49.0 percent in 2009), and then enter a declining path in 2013 to reach 46.7 percent in 2015.

The deterioration of the fiscal situation during the crisis has become the main source of macroeconomic concern. As a response, the government agreed on a three-year US$790 million, precautionary Stand-by Arrangement (SBA) with the IMF. The authorities' economic programme objectives have been to support economic recovery, reduce poverty, preserve financial stability, and to ensure medium-term fiscal and debt sustainability. Performance under the SBA has been broadly satisfactory, with the First Review completed in October 2010 and the Second Review in late March 2011[9]. The IMF Staff Report[10] confirms that all performance criteria were met and that fiscal policy has helped mitigate the effects of the economic downturn by protecting social priorities. Regarding concerns over the debt situation, a recent debt sustainability analysis prepared by the World Bank[11] suggests that the medium-term public debt position in combination with the fiscal programme in the government's medium-term macroeconomic framework is sustainable, albeit sensitive to low economic growth and to a lack of fiscal consolidation.

(7) Public Financial Management (PFM):

A Public Expenditure Financial Assessment (PEFA) was completed in May 2009. While the report findings confirmed that overall El Salvador has a solid Public Financial Management (PFM) system, the report also highlighted the need to define a new strategic framework to guide the process of PFM improvement. Some of the measures suggested in the report pointed to advancing towards: budgeting for results, professionalization of the civil service, e-government, transparency and public access to fiscal information, implementation of an electronic procurement system, and improving the credibility of the budget, particularly as regards the practice of managing parallel budgets in the same fiscal exercise.

[9] IMF Completes Second Review Under Stand-By Arrangement for El Salvador. Press Release No. 11/107

[10] El Salvador: Second Review Under the Stand-By Arrangement—Staff Report. IMF Country Report No. 11/90. April 2011.

[11] World Bank. Report No. 56425 – SVB. Annex 4. December 2010.

A comprehensive action plan to follow up on PEFA recommendations has not been developed by the authorities. However, the government has advanced steadily on a reform agenda that follows recommendations made in previous PFM diagnostic studies, including the PEFA. Some of the advances in the last two years on the PFM front, include: (a) the approval and implementation of the first phase of a revenue-enhancing tax reform package in December 2009 that has yielded a percentage point increase in tax revenue in 2010 (14.2 percent), (b) elaboration of the draft reform of the national procurement and acquisition law, (c) introduction of a national transparency and anti-corruption policy on the national development agenda, (d) the creation of the Secretariat of Transparency and launching of the fiscal transparency web portal ; and (e) elaboration of pilot medium-term expenditure budget in two institutions and a medium-term fiscal framework.

The authorities have confirmed that the medium-term PFM reform process will be centred on the implementation of a comprehensive tax reform that will require national consensus among the different stakeholders to bring tax revenues from 14.2 percent of GDP in 2010 to 17.0 percent in 2015, and subsidy and financial sector reforms. Subsidy reforms consist of improving the targeting of subsidies for electricity, water, and liquid propane gas to remove existing inefficiencies while generating savings of about 0.3 percent of GDP in 2011 that would be redirected toward other social spending.

In the framework of the formulation of the proposed programme, the authorities have expressed their willingness to prepare a comprehensive Plan to follow up on previous diagnostics recommendations that will include activities underway and reforms for the medium term.

2.3. Eligibility for budget support

(1) The analysis of the sector policy and strategy set out above in section 2.2 confirms that a well-defined sector policy and strategy that responds to the poverty reduction and social inclusion problems faced by El Salvador is in place and will be gradually implemented over the next four years. As a result, the Delegation considers that *Comunidades Solidarias* is a sound strategy and an appropriate basis for the provision of EC sector budget support.

(2) The analysis of the macroeconomic framework made by the Delegation, supported by the satisfactory conclusion of the IMF Article IV Consultation and First and Second Reviews under the Stand-by Arrangement (SBA), and recent announcement of its agreement on a macroeconomic programme for 2011[12], indicates that the macroeconomic policy is conducive to stability and, hence, to meeting sector strategy objectives. As a result, this stability-oriented macroeconomic policy is an appropriate basis for providing sector budget support.

(3) The analysis of public finance management (PFM) set out above in section 2.2 shows that El Salvador has established a credible and relevant programme of improvement of PFM. The evidence from the recent PEFA report and positive trends in the implementation of the PFM reform agenda justify the allocation of

[12] IMF Mission and Salvadoran Authorities Reach Agreement on an Economic Program for 2011 in the Context of the Stand-By Arrangement. Press Release No. 11/41. February 2011.

budget support, in accordance to the legal requirements concerning the eligibility criteria for budget support.

2.4. Lessons learnt

There have been six external evaluation reports[13] on *Comunidades Solidarias Rurales* carried out jointly by the International Food Policy Research Institute (IFPRI) and the Salvadoran Foundation for Social and Economic Development (FUSADES in Spanish). A sixth and final report focusing on programme sustainability was delivered in November 2010.

The reports confirm that *Comunidades Solidarias Rurales* is amongst the best targeted conditional cash transfer programmes in the region, along with *Bolsa de Familia* in Brazil and *Subsidio Único Familiar* (SUF) in Chile –two of the most successful social protection programmes in the region. The two year implementation impact report also concluded that the combination of conditional cash transfers and the provision of complementary health and water and sanitation services have proven to have a positive impact on education and health indicators.[14] Overall implementation of the programme is considered satisfactory. Areas for improvement highlighted in the evaluations refer to administrative processes (i.e. increasing the degree of flexibility in the process registry and selection of programme beneficiaries); improving communication on how the programme functions and the criteria for selecting beneficiaries; and strengthening monitoring and evaluation mechanisms.

The most recent report findings on programme sustainability indicate that important cultural changes are taking place in rural households, including how families perceive education and their attitude towards preventive health-care measures, and go further on suggesting that such positive changes will help sustain the programme's impact in the long term. Along this line, very positive results have been identified on the gender front, presumably due to the fact that the trainings included as part of the gender component of *Comunidades Solidarias Rurales* have contributed to empowering women, improving their self-esteem and confidence to fulfil their roles in their communities and households.

2.5. Complementary actions

The EU is currently implementing three sector budget support programmes that are complementary to *Comunidades Solidarias:* Pro-EDUCA (EUR 25.0 million) supports the implementation of the education sector policy which coincides with the human capital component (Pillar 1), Pro-CALIDAD (EUR 12.1 million) is supporting activities to improve the country's competitiveness and quality framework and small and medium enterprises' participation in the economy, which will indirectly support implementation of the income generation component of the strategy (Pillar 3). In turn, PARE-ES (EUR 24.2 million), while not associated directly with a specific Pillar of the strategy, is supporting the authorities' efforts to maintaining a sustainable fiscal framework, which is crucial for making the financing of the strategy credible. Two key elements supported by PARE-ES that will help

[13] Evaluations were carried out to: construct the programme's base line data (May 2008), assess the effectiveness of the programme's targeting mechanism (August 2008), assess beneficiary satisfaction report (September 2009), evaluate one-year of implementation impact report (January 2009), evaluate two-year implementation impact report (February 2010), and assess sustainability of the interventions (November 2010).

[14] The two-year implementation impact report highlights that education results have been maximised and so have health indicators, with the most important being a 6.0 percentage point reduction in diarrhoea in infants under five. With respect to education, the evaluation finds that repetition rates have declined and enrolment of children between 7–12 years of age has increased by 4 percentage points.

increase domestic revenues and pro-poor spending include: the implementation of a tax reform package that is expected to yield a 4 percent increase in tax revenue by 2015, and redirecting spending on non-targeted subsidies to social spending.

As mentioned during the identification phase, donors have a strong presence in the social sector and particularly in poverty reduction efforts. As regards EU Member States, **Spain,** through AECID**,** recently signed a four-year Association Agreement with El Salvador (2010–2014) for EUR 265 million, of which €16 million will be allocated to support the implementation of *Comunidades Solidarias* through a programmatic sector policy support programme, and EUR 100 million for a Water Fund that will contribute to implementation of Pillar 2 of the strategy. **Luxembourg** (Lux Development) is currently designing its multi-annual cooperation programme with El Salvador and it will include a EUR 20 million allocation to support implementation of *Comunidades Solidarias* – implementation method is yet to be determined. The **Andalusian Agency for International Cooperation** (AACID in Spanish) is also in the process of formulating a new poverty reduction support programme for EUR 15 million, implementation modality yet to be defined. **Germany** is supporting *Comunidades Solidarias* with a loan of EUR14 million and a debt-swap operation for EUR 10 million, channelled through FISDL for investments in social basic infrastructure in rural municipalities (Pillar 2 of the strategy) and the Vice Ministry for Housing and Urban Development (VMVDU) for investments in social infrastructure in urban settlements. International Finance Institutions (IFIs) are also making important contributions to the programme. The **World Bank** is currently implementing a Temporary Income Support Programme (US$50 million) in support of CSU (mainly Pillar 3), of which US$2.4 million are destined to the development of an integrated Universal Social Protection System that includes monitoring and evaluation mechanisms foreseen in *Comunidades Solidarias*. The **Inter-American Development Bank's** (IADB) support to social development includes a US$35 million loan in support of CSU – currently pending approval by the Legislative Assembly. The **United States Aid Development Agency** (USAID) is supporting implementation of Pillars 1 and 3, with a US$25 million grant that was given as an immediate response to the government's Global Anti-Crisis Plan (PAC in Spanish), targeting 11 of the hardest hit municipalities by Hurricane IDA in 2009.

2.6. Donor coordination

The coordination process has been guided by the discussion and recent signature of the Code of Conduct between partners for development supporting the implementation of *Comunidades Solidarias*. As signatories of the Code of Conduct, the EU, AECID and Lux Development have agreed to make all the necessary coordination efforts to adhere to the monitoring and evaluation scheme agreed in the Code of Conduct's Technical Work Group. Moreover, the EU and AECID have agreed to establish a single Matrix of Performance Indicators, derived from the programmes' global PAM, to follow up on programme implementation and make disbursement decisions.

At the donor level, the EU will continue to participate in the Poverty Group, composed of AECID, Lux Development, the German Agency for International Cooperation (GIZ), UNDP, the World Bank, the IADB, which meets regularly to discuss sector issues and coordination of donor interventions in poverty-reduction related matters.

3. Description

3.1. Objectives

The proposed programme seeks to contribute to the achievement of the government's objective to reduce poverty, social and economic inequality and social exclusion. Accordingly, the EU will support implementation of *Comunidades Solidarias* in order to improve the living conditions of the population living under extreme and severe poverty situation in rural and urban areas, as targeted in the 2005 and 2010 Poverty Maps.

The programme's specific objectives will be to:

Social Sector:

- Improve the living conditions and citizen participation of the population living in poverty conditions and social exclusion in urban areas, particularly in precarious urban settlements located in the 25 prioritised urban municipalities
- Improve the living conditions and citizen participation in the communities living in extreme and severe poverty situation located in the 100 prioritised rural municipalities
- Reduce gender gaps in terms of economic gains and social recognition

Macroeconomic and Public Finance Management:

- Contribute to the maintenance of a stable and sustainable macroeconomic and fiscal frameworks
- Support the gradual fiscal consolidation scheme over the medium-term
- Improve the quality and composition of public expenditures, by prioritising the financing of strategies and programmes as defined in the Five-Year National Development Plan (PQ)
- Improve public accountability by improving transparency of the management of public resources

3.2. Expected results and main activities

Specific activities and results will be set in coherence with the four Pillars of the strategy, targeting population living in extreme and severe poverty conditions in rural and urban areas, and will support the following results:

- Strengthening of the human capital of the targeted population, by expanding coverage of education and health services, and providing integral attention to vulnerable groups (children, women, youth at risk and the elderly)
- Improvement of housing conditions in precarious urban settlements,
- Reduction of the gap in coverage and access to social basic services and infrastructure in rural areas
- Income generation for the population living in poverty and social exclusion conditions
- Reduction of the gender gap in terms of access to income and remunerated work
- Strengthening of the municipal government's capacity to play their role in local development
- Gradual increase of the levels of social public investment, in accordance to sector needs

- Improvements in the transparency of fiscal management and access to public information

In order to meet the above-mentioned results, the programme will support activities in the four pillars of intervention defined in the sector strategy: Human capital (Pillar 1), basic social infrastructure (Pillar 2), income generation (Pillar 3), and territorial management (Pillar 4).

3.3. Risks and assumptions

Economic and Fiscal Risks: A lower than projected economic recovery could seriously compromise the country's fiscal space to finance social policies. In this regard, the government's conservative growth projections are consistent with the uncertain scenario as regards the pace of the country's growth rate in the medium term. In addition, and while the fiscal situation remains the single most important area of concern for maintaining macroeconomic stability, the authorities are decisively moving forward in the implementation of credible fiscal consolidation scheme as demonstrated, amongst other things, by the agenda to improve tax collection (strengthening of tax and customs administration, application of an inclusive approach to build consensus on a fiscal pact). In addition, it is important to note that successful implementation of the SBA and continued support by the IMF provides a safeguard from speculation on the potential economic and fiscal risks.

Political Risks: Potential political changes have been identified by government officials as one of the most important risks for programme implementation, given the upcoming Legislative and Municipal elections in March 2012. In addition, lack of political support to advance in the fiscal consolidation agenda could undermine the credibility of the medium-term fiscal framework and implementation of the PFM reform agenda. Notwithstanding, it must be noted that the country remains politically stable and policy continuity has been guaranteed in spite of undergoing a significant political change in the last presidential, legislative and municipal elections. The Executive is maintaining an open dialogue with the Legislative and so far has been able to secure Legislative support to move ahead with its PFM reform agenda and social and economic programme. Moreover, and as noted in the most recent IMF Staff's Report, consultations with main stakeholders have been stepped up in early 2011 in an effort to maintain continued support for fiscal and financial reforms in the run-up to the congressional and municipal elections of March 2012.

Institutional capacity and Coordination risks: Lack or diminished administrative capacity (both financial and human) to deliver timely and quality basic services, along with failure to set up effective and timely monitoring and evaluation mechanisms would undermine successful strategy implementation and the authorities' ability to follow up on programme impact. The authorities, and particularly the STP, are placing a high priority on inter-institutional coordination and have undergone an internal restructuring to guarantee proper functioning of the established committees for monitoring programme implementation. To this end, the authorities have established the Technical Work Group and are advancing in the definition of the joint-monitoring and evaluation mechanisms, envisioned in the Code of Conduct. In addition implementing agencies are being involved in the elaboration of the programmes global performance assessment matrix, which helps increase ownership over the programme's expected results.

3.4. Stakeholders

Key programme stakeholders will be the Government of El Salvador, specifically:

- STP as responsible for policy and strategy design, implementation coordination monitoring and evaluation, and official counterpart for the EU programme
- VMCD as responsible for ensuring effective inter-institutional and donor communication
- Ministry of Finance, as entity responsible for the maintenance of the macroeconomic and fiscal framework that guarantees adequate financing for strategy implementation
- Key implementing ministries or institutions include: FISDL, the Ministry of Health (MINSAL), the Ministry of Education (MINED) and the Secretariat for Social Inclusion (SIS) for *Comunidades Solidarias Rurales*; and the VMVDU, the MINED, the National Commission for the Small and Medium Enterprises (CONAMYPE) and the Ministry of Labour for *Comunidades Solidarias Urbanas.*

Other partners include international donors that are co-financing the strategy, particularly AECID and Lux Development, with whom the EU Delegation has embarked on a joint formulation process and donors of the Poverty and Budget Support Groups in El Salvador. The target population as prioritised in the Poverty Maps and programme beneficiaries will be the population living in Precarious Urban Settlements (AUP in Spanish) in 25 municipalities in urban areas, and eligible population living in 100 municipalities in extreme and severe poverty conditions in rural municipalities (13.5 percent of the country's total population)., Priority will be given to women (heads of households, young women), children, youth at risk and the elderly, in both rural and urban interventions.

3.5. Crosscutting Issues

Cross cutting issues addressed in the programme will be gender equality, good governance, and human rights, and environmental risk prevention. The EU welcomes the authorities' assertive gender approach. The strategy does not only have a strong gender orientation but it successfully streamlines gender as a tangible and decisive element for policy implementation. Moreover, there are gender-specific activities and results foreseen in each component of the strategy.

4. Implementation issues

4.1. Method of implementation

The proposed sector policy support programme will be implemented as sector budget support, through direct centralised management.

4.2. Procurement and grant procedures

For actions foreseen under the complementary support, all contracts must be awarded and implemented in accordance with the procedures and standard documents laid out and published by the EU for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.3. Budget and calendar

The programme is expected to have duration of 60 months, as from the signature of Financing Agreement in year *n (2011)* and a total budget of EUR 47.4 million. The total budget allocation will be distributed in fixed and variable tranches for budget support payments (EUR 45.0 million) and complementary support (EUR 2.4 million), as follows:

Table 1. Indicative Calendar of Disbursements (in EUR million)

Tranches	n+1	n+2	n+3	n+4	Total	Percentage (%)
Fixed	11.0				11.0	23%
Variable		10.0	12.0	12.0	34.0	72%
Technical Assistance	0.8	0.8	0.4	0.4	2.4	5%
Total	**11.8**	**10.8**	**12.4**	**12.4**	**47.4**	**100%**

The indicative budget for technical assistance is EUR 2.4 million and has been assigned in accordance to the technical assistance request made by the Government of El Salvador. This amount also includes EUR 0.2 million for communication and visibility activities; and EUR 0.5 million for a potential evaluation, subject to the availability of an approved methodology to evaluate budget support by the end of the operational phase.

4.4. Performance monitoring and criteria for disbursement

All tranche disbursements (both fixed and variable) will be made upon a positive assessment and confirmation by the EU that the three eligibility criteria for budget support have been met, as follows:

1. Satisfactory progress in the implementation of *Comunidades Solidarias* drawing on performance assessment reports and the achievement of targets set forth in the programme's Performance Assessment Matrix, presented in the joint government-donor reviews and provided by the authorities in their disbursement request.

2. Satisfactory progress in the maintenance of a stability-oriented macroeconomic policy demonstrated by the government's analysis of recent economic developments and external assessments by specialised institutions, such as the IMF, on the implementation of the country's economic programme provided by the authorities in their disbursement request.

3. Satisfactory progress in the implementation of the agenda to improve public financial management as demonstrated inter alia by the government's analysis on the advances to strengthen the country's PFM system, specific diagnostics studies on PFM performance and the efficient use of public resources as demonstrated in the annual budget audits provided by the authorities in their disbursement request.

In addition to confirming compliance with the general conditions set above, variable tranche disbursement decisions will be based on the level of compliance with the specific conditions (performance indicators) and targets as established in the programmes' Matrix of Performance Indicators. Evaluation of performance in strategy implementation will be made through periodic reviews of the Technical Work Group established as part of the monitoring mechanism of the Code of Conduct for *Comunidades Solidarias*.

4.5. Evaluation and audit

A standard, validated methodology for budget support operations is yet to be approved by the EU; hence, an indicative amount (EUR 0.5 million) from the complementary support allocation will be earmarked to carry out an evaluation in case a methodology has been validated by the end of the programme's operational duration.

4.6. Communication and visibility

Communication and visibility activities will be handled through a technical assistance contract, through centralised direct management. Prior experience in communication and visibility activities for PAPES was extremely positive and activities undertaken under the contract proved to be helpful to: disseminate the results achieved through the implementation of the country's social policy agenda; provide visibility to the EU contribution to these results, including media coverage of tranche disbursements and supervision missions; and provide spaces for discussion that helped all programme stakeholders gain better understanding of the use and purpose of budget support as an aid modality.

The Delegation will make use of the communication and visibility contract to carry out activities that support fluid communication with programme stakeholders, and in general, with the media, economic journalists and members of academia in order to maintain an open dialogue around the EU's support to poverty reduction and social policy implementation in El Salvador.