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ANNEX

of the Commission Implementing Decision on the "Apoyo al Plan Social 2014-2019 de El Salvador"

**Initial Action Document for "Apoyo al Plan Social 2014-2019 de El Salvador"**

**INFORMATION FOR POTENTIAL GRANT APPLICANTS**

**WORK PROGRAMME FOR GRANTS**

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following section concerning calls for proposals: 5.4.1.

<b>1. Title/basic act/ CRIS number</b>	"Apoyo al Plan Social 2014-2019". CRIS number: LA/2015/39034 financed under the Development Cooperation Instrument			
<b>2. Zone benefiting from the action</b>	El Salvador			
<b>3. Programming document</b>	Multi-Annual Indicative Programme El Salvador 2014-2020			
<b>4. Sector of concentration/ thematic area</b>	Sector 1: Youth and Social Inclusion	DEV. Aid: YES		
<b>5. Amounts concerned</b>	Total estimated cost: EUR 50 000 000 Total amount of EU budget contribution: EUR 50 000 000 of which EUR 46 000 000 for budget support and EUR 4 000 000 for complementary support  This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 133,000			
<b>6. Aid modality(ies) and implementation modality(ies)</b>	Direct management: Budget Support -Sector Reform Contract Direct management: Procurement of services Direct management: Call for proposals -			
<b>7 a) DAC code(s)</b>	16050 Multi-sector aid for basic social services, 15110 Public sector policy and administrative management, 53020 Budget Support, 16010 Social/ welfare services 11330 (vocational education),15170 Women's equality organizations and institutions.			
<b>b) Main Delivery Channel</b>	Recipient Government – 12000			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>

	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
	Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	x	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b>	NA			

## SUMMARY

The incidence of poverty in El Salvador went from 37.8% in 2009 to 31.8% in 2014. Fiscal policy – social expenditure and investment went from 40.6% of total public expenditure in 2010 to 49.7% in 2013– seems to have had a redistributive effect: the GINI coefficient went down from 0.48 in 2009 to 0.38 in 2014. The fact remains, however, that despite this positive trend almost 1 in 3 homes is still under the poverty line and of those, 23.9% lives in extreme poverty.

The Government of El Salvador is stepping up its efforts to eradicate extreme poverty and fight exclusion through the strengthening of its social policy. Drawing on the experience of its ongoing social programmes, and aiming to improve their impact on exclusion, it has embarked on the consolidation of the sector, including the development of a single planning and monitoring instrument, the Plan Social.

The proposed programme aims to support this consolidation process, and in line with the youth and social inclusion sector of the Multi-Annual Indicative Programme (MIP) – and in particular with specific objective 2– to "*support the implementation of inclusive and public policies mainly those targeting the youth and other vulnerable population groups*". To this end, one of the methods to monitor the programme's progress will be through the selection of indicators, including those related to three key initiatives contained in the *Plan Social*, dealing respectively with poverty eradication, youth employment, and women's rights and economic empowerment. Building on two previous programmes (PAPES and PACSES), and taking into account how they have bolstered the sector's planning and management, we propose to continue using budget support (sector reform contract) as the best instrument to channel our assistance focusing on poverty reduction and inclusion.

## 1 CONTEXT

### 1.1 Sector/Country/Regional context/Thematic area

El Salvador faces a number of serious economic and security challenges. Despite progress through the implementation of proactive social policies, a lot more needs to be done in a country with traditionally limited social spending and high inequality rates.

The poor human security situation is a real affliction and its negative impact is felt in all layers of society. Violence and crime affect the economic performance of businesses and take away individual development opportunities for young Salvadorans. Indeed, this unfavourable environment affects particularly the youth, and those more disadvantaged oftentimes feel their only life options are either (illegally) migrating to the US or joining the gangs.

Aware of the need to fight exclusion and generate basic welfare conditions to improve the country's global outlook, the past and current administration have significantly increased social expenditure. As an example, public spending on education increased from 2.9% of the gross domestic product (GDP) in 2009 to 3.4% in 2014, a level that nonetheless still remains well under the Latin-American average of 5.4% for that same year. Indeed, in spite of the efforts made, poverty, gender inequality, violence and job informality are still prevalent in the country; with for example almost 1 in 3 homes under the poverty line.

### **1.1.1 Public Policy Assessment and EU Policy Framework**

The projected budget support programme aims to consolidate the country's social policy by supporting the five-year "Plan Social" which has been developed in the framework of the country's "Ley de Desarrollo y Protección Social"<sup>1</sup> (LDPS). The *Plan Social* has a solid rights-based approach to social policy, which is derived from the LDPS itself, as well as from the Government of El Salvador's current strategic planning document, the "Plan Quinquenal de Desarrollo 2014 – 2019" (PQD). Indeed, one of the latter's objectives is to "accelerate the transition to an equitable and inclusive society", and fighting exclusion and inequity is the *Plan Social's* general objective. The intervention would build on an EU's long-standing commitment initiated in 2010 with the "Poverty Alleviation Programme in El Salvador" (EUR 37,000,000), and followed by PACSES ("Programa de Apoyo a Comunidades Solidarias", EUR 47,400,000), both budget support programmes.

The Government of El Salvador's *Comunidades Solidarias* provided citizens, in particular those most vulnerable, a basic social floor in terms of access to education, health, nutrition, food security, housing, basic utilities, community infrastructure, and income generation, and helped develop a comprehensive social policy system –what later was termed as the Sistema de Protección Social Universal (SPSU). In April 2014 the Ley de Desarrollo y Protección Social was adopted in Parliament by unanimity. This instrument gave the social sector a new legal framework and transformed what were government programmes (Comunidades Solidarias was adopted by an executive decree) into a State policy. The fact that the law gathered such support in Parliament owes to the social relevance gradually gained by the SPSU's key programmes. Indeed, the incidence of poverty went from 37.8% in 2009 to 31.9% in 2014. Fiscal policy –social expenditure and investment went from 40.6% of total public expenditure in 2010 to 49.7% in 2013– seems to have had a redistributive effect: the GINI coefficient went down from 0.48 in 2009 to 0.38 in 2014.

Since mid-2014, social policy is overseen by a dedicated Social Cabinet, made up by the Ministers of Health, Education, Employment, the Culture and Social Inclusion Secretaries, the national institution in charge of youth policy, and of the Social Investment Fund; the Secretaría Técnica y de Planificación de la Presidencia (STPP) acting as its executive secretariat. The Social Cabinet is in charge of coordinating implementation, and of the sector's joint planning, and has led the preparation of the *Plan Social*. The *Plan Social* is a qualitative leap for the planning and predictability of social policy, as it contains the results, targets, indicators and estimated budget for the whole sector, and includes all existing and new programmes. Designed using a management for results methodology, the Plan introduces an indicator dashboard (balance scorecard with outputs and outcomes) to enable its monitoring. Indicators for any new budget support or cooperation programme with the social sector will be drawn from this dashboard. In line with its rights-based approach, the *Plan Social* also foresees the introduction of mechanisms for citizen participation and monitoring for all social policy. The adoption of the Regulation of the Ley de Desarrollo y Protección Social expected in July 2016, is a necessary pre-requisite for the formal adoption of the Plan Social, which will be endorsed by the President through an Executive Decree. Therefore, the Plan will most likely be adopted coming August and meanwhile, work is being finalised on the fine-tuning of its monitoring dashboard.

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<sup>1</sup> Art. 12 of the "Ley de Desarrollo y Protección Social (LDPS)": "By the first semester of each presidential term, must be formulated and presented the Development Plan Protection and Social Inclusion, its objectives and purposes must be consistent with the General Plan of the Government and as a framework for social programs to be defined and implemented".

With the support of donors' technical assistance, the sector's planning and its institutions' capacities have been significantly strengthened over the last few years. This includes a number of key issues highlighted by Comunidades Solidarias' mid-term evaluation as necessary for the consolidation of social policy, such as for example the need to advance on the structuring of the social sector (adoption of the "Ley de Desarrollo y Protección Social (LDPS)"), and on interagency strategic and operational planning (drafting of the *Plan Social*). As the institution governing the social sector, the Secretaría Técnica y de Planificación de la Presidencia (STPP) benefits from PACSES' technical assistance on policy planning, the introduction of results-oriented management, and the development of strategic management tools and specialized information systems. A master plan containing prioritized technical assistance needs is currently being prepared by the STPP and will serve guide the contracting of this budget support's technical assistance component<sup>2</sup>. Our technical assistance should have a strong knowledge transfer focus in line with the Backbone Strategy<sup>3</sup> but also given country's current constraints. Indeed, in a context of savings policy in the public administration –a presidential austerity decree sets a number of barriers to administrative spending and the hiring new staff– developing the capacities of the sector and its institutions will become even more relevant.

Based on priorities settled in the "Plan Quinquenal de Desarrollo 2014 – 2019 (PQD)" national plan and based on the 2016 national budget (already approved by the Legislative Assembly), financial forecasts for the social spending are as follow:

<b>Social spending*</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>TOTAL</b>
Specific programs under the Plan Social		63.22	108.33	140.20	148.29	460.04
Social sector policies (including contributions to the Plan Social)	Education	942.20	942.20	942.20	942.20	3768.80
	Health	588.40	588.40	588.40	588.40	2,353.60
	Work/social prevision	13.70	13.70	13.70	13.70	54.80
	Housing/ Urban development	23.10	23.10	23.10	23.10	92.40
	<b>TOTAL</b>	1,630.62	1,675.73	1,707.60	1,715.69	<b>6,729.64</b>

Financial forecasts for the Plan Social –which is part of the social sector expenditure– detailed by program are:

<b>Plan Social's Investment forecast*</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>TOTAL</b>
Poverty eradication strategy	48.68	53.55	58.90	64.79	225.92
Employment/employability	5.64	33.48	57.00	62.40	158.52
"Ciudad Mujer"	8.90	21.30	24.30	21.10	75.60
Education	176.20	176.20	176.20	176.20	704.80
Health	192.00	192.00	192.00	192.00	768.00
Housing	22.50	22.50	22.50	22.50	90.00
<b>TOTAL</b>	453.92	499.03	530.90	538.99	2,022.84

\*Figures are all in USD

<sup>2</sup> AECID and Luxembourg have already expressed their commitment to continue providing technical assistance to the social sector.

<sup>3</sup> "Reforming Technical Cooperation and Project Implementation Units for External Aid provided by the European Commission. A Backbone Strategy", European Commission July 2008

From a total of USD 6,730 million foreseen for social sector expenditure in 2016-2019, USD 2,022 million will be dedicated to finance the Plan Social. The planned allocation to the latter shows a gradual increase over a four-year term, going from USD 453 million in 2016 to USD 539 million in 2019. Donations from Luxembourg and the EU together with loans from World Bank and International Development Bank are the main external contributions: they represent less than 9% of the Plan Social's cost.

The sustainability of social spending is based on the political commitment derived from the "Plan Quinquenal de Desarrollo 2014 – 2019 (PQD)", and the sector commitment reflected in the Plan Social and ultimately derived from the Ley de Desarrollo y Protección Social<sup>4</sup>. It is also enhanced by the progress registered in the modernization of the Public Financial Management (PFM). The country is planning to progressively shift from incremental budgeting to budget by results from 2017 onwards. Multiannual sector budget planning (with the development of a MTEF<sup>5</sup>) is already foreseen as part of this transition and should improve the coordination between planning and budgeting (the country already has a MTFF). The technical assistance (TA) to be provided to the Ministry of Finance through the "Support Measures" (DCI-ALA/2015/038130), will contribute to the multi-donor effort to support this rather complex process. Overall, the Government of El Salvador' commitment to the social sector is demonstrated by the fact that since 2012 it is maintaining a level of 49% of the total public spending, growing from 40.6% in 2010. See section 1.2.3 for details on improvements on PFM.

The proposed programme is in line with the youth and social inclusion sector of the Multi-Annual Indicative Programme, and with the EU's Development Cooperation policy framework. As mandated in the Agenda for Change<sup>6</sup> the programme will help promote inclusive growth mainly through universal and non-discriminatory access to basic services, gender equality and women empowerment, the provision of opportunities for young people, and social protection. The programme is also aligned with a number of policy documents and guidelines such as the 2012 Communication on Social Protection in EU Development Cooperation, the "Promoting Employment through EU Development Cooperation" Commission Staff Working Document<sup>7</sup>, the 2015 "Gender Equality and Women's Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020" Joint Staff Working Document<sup>8</sup> and the 2012 "The roots of democracy and sustainable development: Europe's engagement with Civil Society in external relations" Communication<sup>9</sup>. Finally, it will also contribute to the attainment of a number of the Sustainable Development Goals (SDGs), notably those related to poverty, gender equality and women's empowerment, employment, inequality and inclusiveness, and universal access to basic services<sup>10</sup>.

### 1.1.2 Stakeholder analysis

The programme's beneficiaries are people living in extreme poverty (7.6% of Salvadoran households), women (1,000,000 women using Ciudad Mujer's services); and 130,000 youth, of which 100,000 are poor. Elderly, children and poor households (34%) will also benefit from our support to the *Plan Social*.

The **Secretaría Técnica y de Planificación de la Presidencia (STPP)** is responsible for assuring the planning and coherence of government policies and, as such, coordinates the *Plan Social* and its implementation –carried out through programmes and measures to be executed by different institutions of the Government of El Salvador and supported by local authorities– and leads the Social

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<sup>4</sup> Article 5 of the LPDS establishes "progression" ("*progresividad*") as one of its core principles, and defined as the aim to gradually increase coverage of its social protection programmes and services both in quantitative (programmes to reach more people) and qualitative terms (wider offer and deeper benefits). In consonance with this, article 18 establishes that "*the Executive Organ (...) will aim to increase every year in real terms –and while taking into account the country's economic and financial situation– the allocation to social investment in the draft budget that it sends to the National Assembly, from a perspective of "progression" and maximum engagement of available resources.*"

<sup>5</sup> The MTEF exercise involves public sector entities on the basis of spending projections which are including macroeconomic variables, hypothesis and risks evaluation

<sup>6</sup> COM(2011) 637, Council Conclusions 9316/12

<sup>7</sup> SEC(2007)495

<sup>8</sup> SWD(2015)182 final

<sup>9</sup> COM(2012)492 final

<sup>10</sup> "Transforming our World: The 2030 Agenda for Sustainable Development", United Nations, 2015

Cabinet's work. Given its key role, the team of the Secretaría Técnica y de Planificación de la Presidencia (STPP) working on social policy is currently being strengthened in terms of allowing it to focus on the implementation of the Plan Social and through capacity building.

The Estrategia de Erradicación de la Pobreza Extrema (EEPE), like its predecessor Comunidades Solidarias, comprises measures targeted to the extreme poor that cover all basic services and provides social protection throughout the life-cycle. It is therefore, by its own nature, an inter-institutional exercise, coordinated by the STPP and in which each institution/line ministry intervenes according to its respective institutional mandate. As the EEP is an evolution of Comunidades Solidarias, most of its key actors are the same and have developed their capacities in the implementation of that programme. Nevertheless, there is still need to improve the delimitation of responsibilities, as their mandates sometimes overlap.

The **Fondo de Inversión Social y Desarrollo Local (FISDL)** has as its core responsibility to reduce poverty in El Salvador by promoting development at the local level. As it was the case under Comunidades Solidarias, the FISDL will be in charge of managing the cash transfers component (part of the social protection system) and of the programme's coordination at the local level. Other institutions involved in the service provision under the EEP are the Ministry of Economy's **CONAMYPE** -a commission bringing together the main actors on SMEs related issues-, the **Ministry of Agriculture** (on productive inclusion in rural areas), **Ministry of Education, Ministry of Health, and the Ministry of Employment**. As part of the lessons drawn from Comunidades Solidarias' implementation, the involvement of the local level (municipalities) should be re-inforced in the EEP, providing for example the community social workers ("*promotores*") that will be following up on the situation of the families targeted by the programme and guide their access to basic services and conditional cash transfers.

Led by the **Secretaria de Inclusion Social (SIS)**, Ciudad Mujer brings together 18 public institutions (**Ministries of Employment and Health, the Police, the Instituto de la Mujer**, etc.) that work in coordination in each of the programme's 6 centres located throughout the country. Ciudad Mujer provides basic social services on reproductive health, attention to victims of gender violence (including legal assistance), education on basic rights and gender issues, and economic empowerment (capacity building, designing of business plans, loan provision, etc.). The component targeted, dealing with women's economic empowerment, will be implemented with the participation of a number of the institutions already part of the programme: the **CONAMYPE** -financial training, promotion of savings and entrepreneurship-, the national professional training institute (**INSAFORP**) -vocational training-, and the **Ministry of Work** -labour market intermediation.

The **Instituto Nacional de la Juventud (INJUVE)**, the country's institution responsible for youth policy, will coordinate the Programa de Empleo y Empleabilidad Juvenil (PEEJ). In order to be able to better oversee the implementation of a programme the size of the PEEJ (130,000 youth to be reached in three years in 26 municipalities), the INJUVE is currently undergoing a comprehensive institutional strengthening exercise. The PEEJ will be also implemented by the Ministry of Employment -in what regards the identification of private sector needs and job intermediation-, the CONAMYPE -entrepreneurship and self-employment-, the Ministry of Education -working with the youth wanting to re-enter the formal education system- INSAFORP on vocational training, etc. The municipalities' will have a crucial role, as they will provide the centre's premises, coordinate their activities, and promote the programme at the local level.

Civil society organisations at the local level are also involved in these programmes. They are sub-contracted to ensure the provision of some basic services in the territories where coverage by the line-ministries entails very high costs, or where there is no local programme office, or because of their advantage in terms of their long-term presence and networks in the territories, or long-date expertise. The *Plan Social* also foresees their engagement in the social control of its implementation.

### **1.1.3 Priority areas for support/problem analysis**

In line with the youth and social inclusion sector of the MIP, and in particular with specific objective 2: "*to support the implementation of inclusive and equitable public policies mainly those targeting the youth and other vulnerable population groups*", the proposed Sector Reform Contract (SRC), while

providing a general support to all the Plan Social's initiatives, will have a specific focus on three of its programmes, dealing respectively with poverty eradication, youth employment, and women's economic empowerment.

Despite the positive trend mentioned under 1.1.1, almost 1 in 3 homes is still under the poverty line and of those 23.9% -7.6% of the country's total number of households– live in extreme poverty. Befittingly, the fight against poverty, and in particular extreme poverty, remains a key public policy priority of the Government of El Salvador. Building on the experience of Comunidades Solidarias, the Government is issuing a new *Estrategia de Erradicacion de la Pobreza Extrema (EEPE)*<sup>11</sup>, which, while keeping the former's spirit –to provide access to basic services and social protection to the extreme poor, with a life-cycle approach– redesigns some of its operational elements in order to improve its impact and cost-effectiveness.

Unemployment, underemployment, and informality affecting youth and women are not only the result of lack of job opportunities, but stem as well from a lack of access to technical and specialized job training, and the inability of existing initiatives to promote self-employment or entrepreneurship to reach vulnerable groups. The proposed budget support programme aims to bolster two more initiatives under the *Plan Social* targeted to reduce these population groups' vulnerabilities through the promotion of their employment and employability.

The youth between 15 and 29 represent 28.1% of the country's population<sup>12</sup> and 53.8% of the working-age population. Reaching 10.4%, their unemployment rate is almost twice the country's average. "Ninis" –youth neither studying nor working<sup>13</sup>–, are 24.8% of El Salvador's youth. As highlighted by a recent World Bank study<sup>14</sup>, the "nini" phenomenon does not only affect a country's growth prospects by harming productivity but also “contributes to the intergenerational persistence of inequality”, as 60% of "ninis" in the region are from households in the bottom 40% of the income distribution. According to the study, male "nini" prevalence can also be correlated to violence and crime when three factors are present: a growing number of male "ninis", a lack of employment opportunities for youth, and a growing demand for youth labour of the illegal market and criminal groups<sup>15</sup> (all three factors present in El Salvador).

The recently launched Programa Estratégico "Empleo y Empleabilidad Juvenil" (PEEJ)<sup>16</sup>–one of the "Plan Quinquenal de Desarrollo 2014-2019" three strategic programmes– aims to develop the capacities of the youth to improve their access to the labour market and facilitate their insertion in the formal economy. While the programme's employment dimension focusses on orientation and intermediation, public temporary employment, and access to the first job, the employability dimension involves professional training, competencies certification, and reinsertion in the formal education system through flexible modalities. A third dimension will enhance the creation of small enterprises through the provision of seed capital. Market intelligence studies to be carried out by the Ministry of Employment will serve guide the training offer and orientation services. To this end, national labour and investment statistic systems will be modernized. The programme aims to cover 26 municipalities, with a gradual deployment plan over four years, prioritizing those most densely populated and with higher incidence of social violence.

As part of its fight against social exclusion, the social policy of the Government of El Salvador also aims to tackle the structural inequalities that affect disproportionately women. As an example, women represent 54.4% of El Salvador's working age population, but only 47.8% of women in the working-age are employed, whereas the figure for men is 80.7%<sup>17</sup>. Women are also less likely to secure a job in the formal sector, as evidenced by informality rates of 54.7% for women and 42.1% for men in

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<sup>11</sup> The EEPE's adoption will be done through an Executive Decree and will follow the adoption of the Plan Social; it is planned for September 2016.

<sup>12</sup> Data from the Encuesta de Hogares de Propósitos Múltiples (EHPM) 2013.

<sup>13</sup> "Nini" is the Spanish term for what are also known as NEET ("Not in employment, education or training") youth

<sup>14</sup> Out of School and Out of Work : Risk and Opportunities for Latin America's Ninis, World Bank 2015.

<sup>15</sup> Ibidem.

<sup>16</sup> The programme was formally launched by the President on February 17th. The majors of the three municipalities where it will be introduced first –Soyapango, Santa Ana and San Miguel– also participated the event. It is worth noting that one of them belongs to the party in the opposition, which is noteworthy in the country's highly polarized politics.

<sup>17</sup> Encuesta de Hogares y Propósitos Múltiples 2014.

2014<sup>18</sup>. At the root of this issue is the very traditional configuration of gender roles still prevalent in the country, which amongst others results in women having significant domestic responsibilities early on, limiting their opportunities to study or work<sup>19</sup>. The *Plan Social* analyses gender inequality not only as a moral issue, but rightly links it to the country's economic performance<sup>20</sup>. The *Plan Social*' objective to reduce gender inequality on what regards women's employment and entrepreneurship is mainly operationalised via Ciudad Mujer's work on their economic empowerment (capacity building, designing of business plans, loan provision, etc.), but will also be included as a focus in all of the Plan's programmes/interventions. As an example, the "Programa de Empleo y Empleabilidad Juvenil" (PEEJ) foresees bigger stipends for single mothers, together with criterion of achieving at least parity on participant selection.

In order to ensure the effective and efficient implementation of these programmes and of the *Plan Social* as a whole, it is crucial to work on consolidating its newly introduced results-based monitoring system (in particular through the development of a culture of measuring performance throughout the State's institutions which will be responsible for the generation of the data feeding the system), and to build the GoES' capacity to implement this new public policy management approach, in particular in what regards to planning and budgeting. Other areas that need support are improving inter-institutional coordination within the Social Cabinet by building the capacities of its technical level staff. The financial sustainability of the *Plan Social*' programmes could affect quality of service provision or the feasibility of moving from geographic concentration to universal coverage of social protection instruments and basic services. Our work with the Finance Ministry under the MIPs Support Measures FA will focus on improving public expenditure efficiency and tax collection as adopting full-fledged tax reform seems rather difficult in the current political context. The link to the local level should also be strengthened as explained under section 1.1.2 above.

## **1.2 Other areas of assessment**

### **1.2.1 Fundamental values**

Since the end of the armed conflict, El Salvador has held free and fair elections, and significant democratic innovations such as cross-voting have been introduced in recent years. The fight against corruption and illicit enrichment has also made some interesting headway. Transparency and accountability were significantly bolstered by the adoption in 2011 of a Law on Access to Public Information and the subsequent creation of the Institute for Access to Public Information (IAPI), with powers to impose fines to officials withholding information. This has paved the way to a stronger control over public officials and over the management of public funds. In 2014, the Supreme Court of Justice (CSJ) approved a reform to restore powers to its Probity Section to request private information of former governmental officials from financial institutions, thus removing one of the biggest obstacles to initiate investigations on alleged corruption.

El Salvador's government has shown a strong commitment to improve social cohesion and universal access to economic and social rights, setting inclusion as one of the PQD's main objectives –as mentioned under section 1.1.1 above. The PQD also mandates the mainstreaming of gender and the rights-based and life-cycle approaches to all public policy areas. These are in keeping with EU priorities on human rights and democracy, and the EU and Salvadoran officials maintain a very open and fruitful political dialogue. The Government of El Salvador has also favoured sector-wide national dialogues on key issues such as public security, education and environmental sustainability, which has paved the way for the formulation of stronger public policies.

The outcome of El Salvador's Universal Periodic Review, adopted in March 2015, was rather positive, and the government was praised on its implementation of the recommendations made after the first UPR in 2010. Most recommendations introduced highlighted the high levels of impunity and the

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<sup>18</sup>Encuesta de Hogares y Propósitos Múltiples 2014.

<sup>19</sup>A more in-depth analysis of gender issues in El Salvador can be found in the Cross-cutting issues template annexed to this Action Document.

<sup>20</sup> "Hay un reconocimiento que la carga de trabajos domésticos y cuidados que se asigna casi exclusivamente a las mujeres es una de las barreras que les impide participar activamente en la economía nacional para generar oportunidades y prosperidad a su familia y al país", *Plan Social*, p.32.

violations of women's rights, including restrictions to reproductive rights (total ban on abortion). A current member of the UN Human Rights Council, El Salvador has shown independence and commitment to human rights in its positions, and has shown openness to support EU priorities. El Salvador adhered to the Second Optional Protocol to the International Covenant on Civil and Political Rights (ICCPR) in 2014 and to the Rome Statute on 3 March 2016, but is yet to ratify the CEDAW's or the CAT's facultative protocols. In what regards the international framework for the protection of Human Rights

Sustained commitment by the government has resulted in improvements on women's rights, in particular on access to basic rights, but inequality remains significant<sup>21</sup>. Meanwhile, the human rights situation of other vulnerable groups such as children, indigenous peoples, LGBTI individuals and prisoners has registered only modest progress.

### **1.2.2 Macroeconomic policy**

According to the World Bank (WB), with an income per capita in 2015 of USD 4,030 (8,303 PPP) – for the first time above \$4,000– El Salvador is categorized as a lower middle-income country. Estimates indicate that 6.4 million live in El Salvador, however, almost an additional 2 million live abroad and most have migrated to the US. Consequently, remittances represent a big share (16.4% of GDP in 2015). El Salvador, ranks 116 out of 188 countries in the Human Development Index (HDI) in 2015, and is therefore classified as a medium human development country. Nevertheless, it continues to face challenges regarding its development. For example, income inequality remains relatively high, according to 2014 figures: 31.9% of the population lives under the national poverty line, 7.6% in extreme poverty. The current government has tried to tackle inequality and poverty through various social programs for the more disadvantaged segments of the population. IMF (May 2016) recommends to strengthen the efficiency of social expenditure in areas such as health and education services. The Delegation, together with Spain and Luxemburg supports the government's most important social inclusion program, "Programa de Apoyo a Comunidades Solidarias" (PACSES) which is now part of the National Social Plan. Moreover, the Delegation considers that these supports have had a positive impact on the poor families and helped to protect the government social spending. There is no doubt that the central government has designed sound social, inclusive policies that fight poverty and inequality. Nevertheless, this policy is not totally financed due to a growing general pressure on public finance.

The dollarized economy is widely open: remittance, imports/exports weight for some 75% of GDP. Services dominate the economy (44.8% of GDP), followed by manufacturing (23.2%) and agriculture (12.1%). The Salvadoran economy has also lost and deteriorated its competitiveness climate during recent years. Since 2003, El Salvador has fallen 41 places in the World Economic Forum's on Competitiveness rank. In 2015, it ranks 84 out of 144, while in 2003 it positioned 43. The quality of education and training indicators are also low as well as the capacity for innovation and sophistication indicators– both are ranked 107 out of 114. In the World Bank's 2015 Ease of Doing Business ranking, El Salvador position 109, descending three positions from the previous year. El Salvador needs to improve its ease of doing business, as it is above Central America's average of 90 for doing business. Thus, as well as the IMF, we urge and recommend the government to invest in these areas if it wishes to experience growth in the medium and long term. High levels of insecurity/crime, depress investment, raise business operating costs, and hurt tourism. El Salvador's competitiveness is also affected by the historical high exchange rates of USD dollar. IMF (May 2016) considers the real effective exchange rate to be overvalued for the Salvadoran economy by around 10 %.

However, being a dollarized economy can also benefits El Salvador, as it has maintained low inflation in 2015 (+1.0% of GDP) which is still the lowest in the region. Exports (\$5,484.9m) have risen 4.0%. Although in 2015 the trade balance continued having a deficit (\$5,240.2m / 20 % of GDP), it has been reduced 1.2% of GDP. 2015 imports (\$10.415m) fell 0.9% because of the decrease in oil prices.

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<sup>21</sup> A more in-depth analysis of gender issues in El Salvador can be found in the cross-cutting issues template annexed to this Action Document.

Regarding economic growth, the country has recovered moderately since 2009, when GDP fell 3.1%. In 2015 GDP growth was the highest over the last 5 years with 2.5%; however, growth remains low compared to the rest of C.A. countries. The 2016 budget forecasts a 2.9% GDP growth. According to the Central Bank most sectors grew in 2015 compared to 2014. For example, manufacturing grew 3.6%; trade, restaurants and hotels grew 2.83%; financial institutions and insurance grew 0.99%; and consequences of drought and coffee decrease (-3.48%) agriculture, hunting, forestry and fishing sector only grew 0.78%. Sectors with negative trends in 2014 recover in 2015: mining and quarrying exploitation (+2.26%) and constructions (+1.43%). Electricity, gas and water sector get the smallest growth (+0.33%) especially services, agriculture and industry.

In 2015, formal employment reached 801,903 jobs, representing an annual increase of 0.5%, whilst unemployment rate attains 6.2% (2015); urban underemployment and the informal economy levels are astonishing, 28 and 60% of the labour force respectively. Moreover, in a country where more than 25% of the population is young (aged between 16-29 years), one out of 4 youngsters remains out of work and not studying. As explained above, this youth segment is especially vulnerable regarding the gangs criminal activities or to emigrate to the north. Employment of the youth is a real issue in El Salvador and the EU is determined to support public policies for youth social inclusion. IMF has also recently recommended (May 2016) boosting educational attainment (particularly for secondary and vocational education) by creating the necessary fiscal space for higher education spending and improving accountability for results.

According to Central Bank statistics, remittances in 2015 totalled \$4.279.6m (16.4 % of GDP), 3.0% more than 2014. According to the IMF, in 2015 the financial sector is stable but exposed to rising fiscal risks. Banking sector capital remains robust (16.7 % of risk-weighted assets), substantially above the minimum statutory level of 12%. However, bank profitability is relatively low, and credit to the public sector has been growing by nearly 15%. Household access to financial services is relatively low with only 34 % of individuals holding bank accounts. The banking system is well capitalized and liquid, with low overdue loans and adequate provisioning. More than 90% of the banking assets are foreign-owned. In 2015, international reserves amounted \$2,670m, covering 3 months of imports. Investment remains low with 15.5% of GDP; public investment is also among the lowest in the region, 2.52% of GDP in 2015.

One objective of "Plan Quinquenal de Desarrollo" is to generate conditions for macroeconomic stability, reviving the economy, attracting investment and promoting job creation. Authorities are committed to improve business climate and to increase competitiveness. In late 2016, investment should be strengthened through the implementation of a Public Private Partnership; support worth \$277m provided by the Millennium Challenge Corporation, a US development programme as well as the new US initiative, the "Alliance for Prosperity Plan". The "Plan El Salvador Seguro" could also help to create a better investment environment.

Tax collection maintained an upward trend. Tax administration improved efficiency with application of tools for control and enforcement of taxes; tax reforms also increased tax burden, which has passed from 13.7% of GDP in 2009 to 15.8% in 2015. External debt is over 60% of GDP and continues to grow, but remains within adequate parameters, and should be permanently followed. Moreover, money demand is stable due to the complete dollarization of El Salvador's economy. However, the external debt growth must be controlled gradually because it's threatening the Salvador development goals.

El Salvador's growth depends heavily on U.S. demand. Low growth rates and delicate fiscal situation (external debt over 60% of GDP) expose El Salvador to external shocks. The government makes efforts to diversify the economy and find new markets. El Salvador is highly dependent of import of oil products and food. Regarding the reduction of energy dependence, the country is trying to develop renewable energy. In 2012-2016, food prices remained stable; a reappearance of an international price crisis could affect El Salvador. The country has developed policies to reactivate the agricultural sector and food production. In conclusion, the best way for El Salvador to increase its resilience to shocks is to reduce its current level of debt to around 50% of GDP. Maintaining that level of debt would give the government flexibility when addressing a crisis or natural disasters effects. An agreement on fiscal sustainability and the adoption of a Fiscal Responsibility Law are also necessary.

The IMF staff team visited San Salvador during April 25—May 6 2016, held discussions on the 2016 Article IV consultation and released its preliminary findings on economic growth and fiscal policies with the consent of Salvadoran authorities. IMF is mostly concerned by the structural low economic growth, fiscal imbalance and the political polarization, which block the access to external financing and constantly hinder any kind of country level agreement to tackle properly fiscal issues. The main IMF findings and recommendations to the Salvadoran authorities are:

- Government must tackle the insufficient GDP growth (+2.5% in 2015) which is well below the Central American regional average of 4.5%. The main causes are: low private and public investments (15.5% of GDP in 2015), political polarization, high criminal rates and outward migration; rising unit labour costs and high logistics costs; high exposure to natural disasters; barriers to entry and expansion of business; fiscal uncertainty; and limited human capital. IMF considers that the low-growth feeds a number of vicious cycles. It hinders efforts to reduce the high crime rate and improve educational attainment, it encourages outward migration and weakens labour force participation, and it creates fiscal pressures as social demands continue to increase while tax revenues remain subdued.

- Investment and inclusive growth could be improved by forging social consensus around sound policies that: a) enhance the flexibility of wages given the fully dollarized economy (IMF believes that it would be advisable to contain minimum wage increases to low levels until there is clear evidence of rising productivity); b) ease barriers to entry and competition, curbing anti-competitive practices such as price fixing in key sectors, and improving the staffing of the Competition Superintendence and the effectiveness of the sanctions that it can impose; c) lower entry barriers in transport and electricity sectors which would help reduce utility and logistics costs; d) boost educational attainment (particularly for secondary and vocational education) by creating the necessary fiscal space for higher education spending and improving accountability for results; e) reduce crime and corruption (the authorities' "Plan El Salvador Seguro" unveiled in early 2015, and recent follow-up plans, lay out a comprehensive strategy, but financing (estimated at 1.7 % of GDP annually) is a key bottleneck).

IMF encourages the authorities to press on with their 2014–19 development plan which targets potential growth of 3 %, taking advantage also of the FOMILENIO II grant from the U.S. and the funding for the "Northern triangle" countries (Alliance for Prosperity Plan in the Northern Triangle) to raise productivity and competitiveness.

- Primary balance adjustment of 3% of GDP over 2017-19; public debt and fiscal deficit contribute to worsen the situation. The fiscal deficit is expected to increase to around 4% of GDP in 2016 and widen further in the medium term if fiscal reform is not enforced. Public debt is projected to rise to above 70% of GDP by 2021. Fiscal risks are rising. A parliamentary impasse is blocking access to external financing. Without assertive fiscal consolidation public debt will continue to rise.

There is also a need to upgrade the medium-term fiscal framework. This should include adopting a fiscal responsibility Law (FRL) that:

- Strengthens fiscal institutions, including by adopting strong procedures to increase transparency and comprehensiveness of budget presentation, improve forecasting and spending control, and reduce the upper limit on short-term borrowings issuance (Letras del Tesoro "LETES"). Ideally, the regular budgetary process should also include an automatic approval of fiscal financing once there is congressional agreement on the broad budget parameters.

- Pension reforms are essential. The transition to a fully funded defined contribution (DC) system has sputtered due to inadequate asset returns that have led the government to periodically top up and guarantee pension benefits. The pension deficit is currently about 2 % and will rise substantially without policy change. Unfunded liabilities over the long run are estimated at around 100 % of GDP in Net Present Value (NPV) terms, despite low coverage of the system and declining replacement rates.

IMF acknowledges the fiscal reforms implemented by the government have made good progress following the recommendation of the 2010 FSAP, the 2014 (Financial Stability Strategy), and other Technical Assistance reports.

The Delegation and the fiscal policy donors group in close dialogue with the Ministry of Finance's (MoF) representatives share most of the IMF recommendations, especially on fiscal sustainability and control of debt within a social consensus. On May 11th, the MoF decided to deliver by itself the IMF mission conclusions to the fiscal donors group. All are aware that the high level of external debt is a real threat to the El Salvador's development goals and the fiscal issues should be the main priorities of the policy dialogue. However, some of the donors have expressed reserve regarding the relevance and the efficiency of a measure such as the minimum wages containment until there is clear evidence of rising productivity. Minimum salaries are quite low especially in the agriculture sector, then negative effects on the social side and increase of poverty are likely to occur. Regarding the adjustment of 3% GDP over 2017-19 which is strongly recommended by the IMF, the MoF agrees but defends a lighter adjustment (+/- 2.5% of GDP) on the same period which is already planned in the Plan Quinquenal de Desarrollo 2014-2019 and the Medium Term Fiscal Framework 2015-2025. The Salvadoran authorities remain fully committed to reduce the country's fiscal deficit and to control external debt. However, they don't agree to increase by +2% the VAT and they are sceptical to remove taxes on mobile phone and financial transactions as some of these taxes had been suggested in previous years by the same IMF. The government proposes the following set of measures to reach the 2.5% adjustment:

Measures to increase fiscal revenue (1.3% of GDP):

- Special tax on non-productive and luxury property
- Coercive tax enforcement, which would permit to collect fiscal debt to taxpayers in judicial process.
- Reforms to the fiscal code
- Reforms to the penal code
- Improve technological infrastructure of MoF and Treasury.
- Maintain special taxes on telecoms and financial transaction.
- Review fiscal incentives and fiscal spending

Measures to reduce public spending (1.2% of GDP):

- Contain spending growth in wages (salary, "escalafones", contracting) from 6.2% to 4.2%
- Reduce acquisition costs growth for supply and services from 3.9% of 2.5%.
- Improve the targeting of subsidies on electricity, transport and LPG.

The MoF estimates that the pension reform, which is not part of its 2.5% adjustment plan, should save around 0.5% of GDP per year for the 2017-2019 on the spending side. The IMF adjustment includes the pension reform and then the MoF considers that they could reach the 3% IMF recommendation.

Regarding the fiscal agreement, in May 2016 the government and private sector agreed to build the foundation of a sustainable fiscal framework involving fiscal discipline for this government as well from the next to come. The government must be able to ensure the payment of public debt, including the old pension system liabilities, the cost of security plans and investments in human capital, to provide overcoming opportunities to all Salvadorans, especially the most vulnerable. This new dialogue process between government and private sector could lead to a "second generation of peace agreements" with the participation of other sectors of the civil society. The purpose is also to define a common vision for the development of El Salvador. Rules for a good dialogue have been set: respect, no disqualifications and technical coordination. Four crosscutting issues are part of the discussions: 1) Generating a confidence climate through the strengthening of democracy and rules of law 2) Solving the security problem 3) Fiscal agreement and 4) Second generation of peace agreement. Some regulation and reforms, which have been stuck for years such as the water law, pension reform, agriculture sector (coffee farming and environment), competitiveness and public investment, could be shortly resolved through this process.

The Delegation considers the high-level dialogue initiated in May 2016 between government and private sector (ANEP) as an important step forward to reach agreement on fiscal sustainability and economic growth. Over the last years, IMF has repeatedly mentioned the political polarization as the main obstacle to economic growth and fiscal balance. The IMF press release published on May 6th seemed to have a real impact on dialogue on these main issues that undermine social progress the country has achieved so far. The Delegation is aware that it is an ambitious objective and that in the past, similar initiatives have failed (the creation of Economic and Social Council – CES - in 2010 and the Legislative Agreement for fiscal sustainability in late 2012). However, this dialogue is a significant progress towards consolidating fiscal sustainability as well as democracy and rules of law. Part of the executive, President Sanchez Ceren in his official speech celebrating his two years in office (01/06/2016) expressed his wish to build a nation's agenda for security and welfare, based on the dialogue with all the sectors and following the same path of the peace agreement signed in 1992.

The Delegation considers that the pro-growth policy of the PQD, together with initiatives like the “Alliance for Prosperity Plan in the Northern Triangle” and FOMILENIO II would have a positive impact on investment and economic growth on the medium term. Lastly, after the legislation of the Association Agreement's, free trade pillar should also bolster exports to Europe especially for the SMEs; El Salvador should experience a positive impact on inclusive growth.

As explained earlier, the IMF mission that visited San Salvador in May 2016 to conduct the country's 2016 Article IV consultation is quite confident in the fiscal reforms the government has implemented so far and shows concern to maintain social expenditure level. IMF strongly recommends boosting educational attainment (particularly for secondary and vocational education) by creating the necessary fiscal space for higher education spending and improving accountability for results. Moreover, the Salvadoran authorities have the good will to implement soon the primary balance adjustment through a dialogue with private sector (ANEP) and the opposition (ARENA) represented in the legislative Assembly. The Delegation considers that the government is quite open to follow the IMF's recommendations in order to ensure the country's macroeconomic stability. The dialogue between the Ministry of Finance and donors about macroeconomic stabilization has been so far very fluid. The IMF's new staff report, expected for late June 2016, should also contribute to enhance a national dialogue between the government, political parties and key stakeholder to agree on basic policies that will ensure macroeconomic stability, external debt control, and fiscal adjustment.

Based on the analysis above and the latest IMF review dated 05/2016 "El Salvador, Staff Concluding Statement of the 2016 Article IV Mission" it is concluded that the authorities pursue a credible and relevant stability-oriented macroeconomic policy aiming at restoring fiscal and external stability and sustainability.

### **1.2.3 Public Financial Management (PFM)**

#### **Strengths:**

- The government has made efforts to strengthen revenue mobilization over the last years: tax burden of El Salvador increased from 15.1% (2011) to 15.5% (2012) and 15.8% for 2014-2015.
- After the follow-up of performance indicators of the Strategic Plan of the Ministry of Finance (2012-2014), a new Plan (2015-2019) has been formulated, approved and presented to donors.
- Main rules of fiscal policies are subject to constitutional control, and have been respected.
- Despite cash flow problems, payments on external/internal debt continue to be observed.
- Institutional progress is observed in the prevention and the fight against corruption and fraud, with active and growing participation of some civil society organizations.
- Technical assistance of donors has made a positive contribution to modernize / improve PFM.

#### **Weaknesses:**

- Further deterioration of the debt/GDP ratio, from 51.7% (2011) to 57.6% (2014) and near 60% for 2015. This trend is explained in part for the absence of reforms for the pension system.
- No significant reduction on the fiscal deficit, with some reduction of subsidy transfers but significant increase of the wage bill.
- Not enough progress in auditing-legislative scrutiny, with no multi-year expenditures outlook.

Despite fiscal difficulties, the Public Finance Management assessment shows progress with a horizon that the trend of positive reforms will continue. The Ministry of Finance has confirmed its commitment to consolidate the reforms by adopting a new 2015-2019 Institutional Strategic Plan (ISP). The 2013 PEFA assessment is a reference to support the consolidation of reforms. In the fine-tuning of a renewed strategy, the donor follow-up and TA support should help reach the results.

The ISP 2015-2019 is also aligned with the fiscal policy priorities of the 2014-2019 PQD. In addition, the 2015-2025 MTFP is now approved and will be implemented. The authorities have shown commitment to consolidate the strategy, by implementing the ISP and making periodic MTFP updates. The government has submitted a pension system reform that should generate fiscal savings.

The 2016 IMF Article IV Consultation (May 2016) has focused in measures needed to control the fiscal deficit and the growing path of public debt. As its key recommendation, the mission suggests a fiscal adjustment of 3.0 % of GDP, but nevertheless recommends protecting public investment, strengthening the social safety net and the efforts to tackle crime. The intention of the government is to undertake a sustained fiscal adjustment of around 2.5% of GDP.

Dialogue on PFM reform, is organized around the ISP priorities through a more and more coordinated TA provided by donors (mainly AECID, GIZ, USAID, IDB, EU). Donor group holds dialogue/meetings with the MH regularly. Nevertheless, the dialogue on PFM should be extended to the Congress, the Court of Auditors and political parties. The EU and donors are defining new TA initiatives in areas like Medium Term Expenditure Framework, reduction of tax evasion, increases in tax controls. In Nov. 2015, USAID/AECID/GIZ presented a report on fiscal sustainability, which was well received by authorities, which should follow some of its recommendations. Coordination should be improved also for the release of donor revenue information without inconsistencies, as stated by the PEFA Assessment (ID-7, ii).

Improvements have been observed in different PFM management areas:

- Extraordinary budget represents about 3.1% of the regular executed budget; the commitment/disbursement of these resources follows the same rules of the ordinary budget. The government is eliminating the practice of handling extraordinary budgets. In fact, the PEFA ID-7 i) was scored in 2013 as an "A", since "no extra-budgetary expenditure or revenue has been identified".
- Total expenditure in subsidies decreased, after additional reductions on the transportation subsidy and a partial targeting of liquid gas subsidy, to ensure their focus on lower-income families. This trend to reduce price subsidies will have to continue in the medium term.
- After the conclusion of the MTFP (2015-2025), the MH formulated a MTEF manual, to apply it in government institutions. Through this, it is expected to strengthen capacities to formulate strategic priorities, in the context of pluri-annual budgeting.
- The Fiscal Transparency Portal is strengthened, incorporating information on debt, investment, tax income and statistics. All institutions continue giving information about budget execution.
- Budget formulation: The formulation calendar for the budget has been complied (see 1.2.4). For the last 8 years, the National Assembly has authorized the budget on time.
- Revenue Management: Because of tax reforms, tax burden increased from 15.1% (2011) to 15.8% (2014-2015). A new 5% security tax on communication transactions has been approved to help fund the Plan El Salvador Seguro. The impact of this last reform will be measurable from 2016 onwards. The government upholds the compromise to increase tax burden to 17%.
- Budget Execution: The Government's Financial Management Report was released on time, in March 2015 and again in March 2016. As in recent years, it shows that budget execution continues to be high (above 96%).
- The projection to reduce the fiscal deficit has been partially achieved (it moved from 4.0% of GDP in 2013, to 3.3% of GDP in 2015).

As stated in the Macroeconomic assessment in annex, achieving sustained and inclusive growth will be a crucial and important part of a debt control strategy. In addition, as also confirmed by the IMF, a higher trend in fiscal revenue combined with expenditure restraint (a primary balance adjustment of at least 2.5%) continues to be important in the future in order to reverse the upward debt dynamics. The government has expressed its willingness to give steps in this direction. As a conclusion, El Salvador

remains committed to further improve an already relatively sound PFM system, and there is progress observed in different PFM management areas.

#### 1.2.4 Transparency and oversight of the budget

Entry point: 2016 budget was submitted to Congress in Sept. 2015, approved timely, on November 2015 and published in [www.transparenciafiscal.gob.sv](http://www.transparenciafiscal.gob.sv). All approved budgets/execution reports are available on this website. Some other relevant points are:

- Open Budget Index improving. El Salvador's OBI score had increased from 2010. In 2015, the score increased further to 53 points; higher than the scores of its neighbours, but Costa Rica (54). Government increasingly makes public information on budget-financial activities.
- Since 2012, the Law on Access to Public Information is implemented. 3 years after the LAIP approval, the government presented a report, with information's requests and disclosure of institutions ([www.gobiernoabierto.gob.sv](http://www.gobiernoabierto.gob.sv)). Also, in all public institution, Information Offices/Units of Access to Information were consolidated to answer to public info requests.
- The IMF/ROSC Report concluded that the country meets most Standards and Codes.
- A PEFA Assessment completed in 2013; It concludes that the PFM system displays positive elements which are compliant with international practices. It also exhibits weaknesses. The Delegation begun discussions for a 2017 PEFA; the government reaction has been positive.
- Medium Term reforms in progress. Reforms undertaken in the framework of the "Sistema de Administración Financiera II (SAFI II) should improve budget transparency, besides the implementation of the MH Plan. In addition to the budget proposal and the enacted budget, key budgetary documents are available to public.

Policy dialogue on the budget's transparency and oversight will indicatively focus on a) the comprehensiveness of the information included in the budget documentation (i.e. debt status, explanations of implications of new policy initiatives, etc.) presented by the GoES to the National Assembly to enable the budget's timely approval by the latter; b) improvements in public access to fiscal information to allow for improved accountability of the key Ministries/institutions involved in the social policy; c) the degree of follow-up on recommendations by the Court of Auditors, and d) the timely authorization of in-year budget transfers by the National Assembly.

## 2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
A failure of a viable alternative to the truce process with the youth gangs could trigger a new wave of homicides and crime.	M	Support the government' National Plan on Citizen's Security focused on crime prevention as well the Youth Policy. Follow-up the improvements made in overcrowded jails and reduction of legal impunity.
El Salvador would be more vulnerable to external shocks, such as economic downturn in the US and natural disasters. The debt growth is not properly controlled. Payments on non-targeted subsidies and unfunded pensions system are both a burden to the public finances and raised equity questions.	M	Implement a fiscal sustainability policy based on a global agreement with all the sectors of the Salvadoran society. After several IMF visits, the government is committed to continue the dialogue with this institution and is looking for a national agreement to strengthen economic growth, address fiscal imbalance, to improve the control for contracting new public debt and is planning to finally implement reforms to the pension scheme in 2016.
The Law on Fiscal Responsibility is not approved.	M	Follow-up the implementation of the already approved Law for the Social Protection System, while supporting the definition of sound and appropriate sectoral policies in key sectors. Approval of a new MTF.

Approval of public budgets not completely financed, because of the optimistic projections of income, underestimation of expenses and ineffective donors' disbursements.	H	Improve the quality of the data submitted by the Ministry of Finance to the Legislative Assembly, in the process of annual budget approval, including the impact of new policy initiatives and donor disbursements.
<b>Assumptions</b>		
<ul style="list-style-type: none"> <li>- The social budget is annually approved in the Parliament (National budget and loans).</li> <li>- The Country is not affected by extreme climatic event and natural disaster.</li> <li>- Security condition allows to delivering social services in priority areas.</li> </ul>		
<p>The budget support has an additionality effect and helps protect the social spending. The youth are one of the population groups directly targeted by the country's social policy, supported by the programme. Not reaching them could worsen the security situation of the country, as the gang phenomenon is linked to social exclusion.</p>		

### 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

#### 3.1 Lessons learnt

Both our proposed support to the *Plan Social* and the Government of El Salvador' programmes targeted by it are the product of a reflection on the existing interventions, and their design is based on the conclusions of their respective evaluations.

The Estrategia para la Erradicación de la Pobreza Extrema, is the product of the rethinking of Comunidades Solidarias, a process which has been guided by the findings of its mid-term evaluation—carried out with the support of PACSES— as well as by the evaluations of other SPSU programmes, and is influenced by the evidence-based new priorities set in the Plan Quinquenal 2014-2019. The Estrategia involves the redesigning of some of Comunidades Solidarias' components and objectives. Aiming to improve the impact on poverty, some of the main evolutions are the gradual move from the geographic concentration (based on the poverty map) to universal coverage of social protection instruments (open to all which fulfil certain living conditions criteria); an increase in the size of conditional cash transfers (based as well in the evaluations conducted and a comparative study of poverty eradication in Latin-America); and the introduction of new mechanisms to reach the targeted population which involve more actively the local level (municipalities) in the programme's implementation.

The Programa de Empleo y Empleabilidad Juvenil (PEEJ) design was supported by a comparative analysis of youth employment programmes in Central and South America carried out with the help of EUROsociAL. It also draws from a number of previous projects in El Salvador which touched on the issue of employment for the youth, albeit not in such a scale or with a comprehensive, client-oriented approach. The new program is for example influenced by the EU's Projóvenes II (2009-2013) experience. Focusing on violence prevention in the most violent and marginalised communities of the greater San Salvador, Projóvenes included a small employment component. Addressing mainly "ninis", the component linked formal capacity building with a mandatory internship in the private sector, and a number of its design elements (tutoring, small stipends, life-skills training) which were positively assessed by the programme's final evaluation, have been retained by the PEEJ. The latter also takes advantage of the experience of "Seamos Productivos", an initiative from the Ministry of Education and funded by the EU (through a contribution agreement with the UNDP), which encouraged entrepreneurship amongst young high-school graduates and provided them with seed-capital.

Ciudad Mujer's avowed objective to re-inforce its economic empowerment for women component, will be mainly geared to the promotion of access to credits for entrepreneurship based on its own experience supporting women to set up productive initiatives, which has also been supported by our cooperation under the PACSES budget.

### 3.2 Complementarity, synergy and donor coordination

This intervention aims to have synergies with the future violence prevention programme under sector 1 of the MIP, as fighting exclusion addresses one of the main root causes of social violence in El Salvador. Indeed, the Plan El Salvador Seguro, the national strategy to fight insecurity, has prevention as the first of its five intervention axes, and specifically sets the reduction of the rates of "ninis" as one of the key results to achieve in that area. Projects to be identified under sector 2 –private sector development– will be targeted mainly to increase SMEs and cooperatives investment and productivity, with the avowed objective of fighting social exclusion through job creation. Synergies could also be achieved with regional programmes such as ALINVEST 5.0, EUROsocial + (EUROsocial II technical expertise exchanges have helped shape several of the social programmes under the Plan Social). and the Youth Inclusion project (DCI-HUM/2013/317-506) which since 2015 is providing INJUVE and other GoES institutions with research, policy dialogue and capacity building on this issue.

USAID's interventions on youth employment should be complementary to our support to the PEEJ. The Fondo del Milenio (FOMILENIO II) for El Salvador is focusing on poverty reduction through economic growth, and will be helping set up a the new National System of Technical and Professional Training, involving the creation of certification systems, and the adaptation of technical education to the productive sector's demand. The new system will be the basis for certification of vocational training set up under the PEEJ.

The social sector concentrates the most development cooperation resources and is the most advanced in terms of donor coordination and aid harmonisation. Comunidades Solidarias introduced what then was a new model for aid management, a development partnership based on the principles of efficiency, efficacy and transparency, with a view to reduce poverty and consolidate the Millennium Development Goals. Led by the STPP, the new partnership included the use of advanced development cooperation instruments such as budget support, the drawing up of a formal Code of Conduct -signed by Luxembourg, AECID, the EU and the UNDP– and the setting up of a basket fund (Fondo Común de Apoyo Programático or FOCAP). Indeed Comunidades Solidarias became a model for Aid Effectiveness in the country and was one of the success stories brought by the EU to Busan on 2011.

Examples of the vitality of government-donor coordination on social policy are the organisation of donors' joint verification missions, or the joint drafting by government and donors of the programmes' evaluations. Nevertheless, following the conclusions of an evaluation of LuxDev's budget support to Comunidades Solidarias, GoES and donors have agreed on the need to streamline the numerous dialogue instances created at the programme's inception. Government-donor coordination in the framework of the *Plan Social* will build on the experience developed by Comunidades Solidarias, and use those revised mechanisms. In mid-2015, dialogue has centered on the drafting of the Plan Nacional de Desarrollo, Protección e Inclusión Social (*Plan Social*) in which donors have been involved from a relatively early stage. In March 2016 the Plan was formally presented to the donors Group (EU, Luxembourg, Spain, Germany (GIZ and KFW), UK, France, Japan, the World Bank and the UNDP) and work has started on the pledging of new funding, the determination of *Plan Social* priority indicators and the setting up of a disbursement calendar.

### 3.3 Cross-cutting issues

As explained throughout the previous sections of this document, the national programmes to be supported by the proposed Sector Reform Contract (SRC) focus on the promotion of economic and social rights and target those sectors of population considered as most vulnerable, i.e. those living in extreme poverty, women and youth. In terms of gender equality that commitment translates not only in specific elements designed to help women's rights advancement, but also in the sex disaggregation of all indicators involving people or titularity of homes, businesses etc. One of the specialised reports to be produced annually by the Plan Social, and which will guide any mid-course adaptations, will focus on gender and include both quantitative and qualitative elements.

The programmes also incorporate a rights-based approach (under which the Ley de Desarrollo y Protección Social itself is designed) in their methodology, treating beneficiaries as active rights holders. As an example, the PEEJ foresees training on labour rights for the programmes'

beneficiaries. The *Plan Social* also incorporates, as mandated by the LDPS, the principle of citizen participation in the design and monitoring of social policy programmes, and was itself submitted to a number of consultations with civil society and academia.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

In the framework of one the PQD's general objectives "to accelerate the transition to an equitable and inclusive society", the proposed SRC's general objective is to support national social policy (*Plan Social*) to contribute to the reduction of social exclusion in El Salvador.

Its specific objectives are:

1. To reduce the incidence of extreme poverty.
2. To increase the productive inclusion of women and youth
3. To strengthen coordination and efficiency of the public institutions involved in the implementation and oversight of the Plan Social.

Aligned with those objectives, the following are the programme's expected results:

- 1.1 The proportion of girls, boys and teenagers accessing and staying in the formal education system has increased.
- 1.2 The access to health services of people living in extreme poverty has increased.
- 1.3 The proportion of population covered by the social protection system has increased
- 1.4 The qualitative housing deficit of has been reduced for families living in extreme poverty.
- 1.5 The proportion of families living in extreme poverty that have developed an enterprise/self-employment initiative has increased.
- 2.1 The employability or the capacities to set up undertakings by women and youth has been improved.
- 2.2 Youth and women have access to job intermediation services, seed capital or concessional loans to start their own undertakings.
- 3.1 The Plan Social's monitoring system is being implemented and includes the mechanisms foreseen for civil society participation and oversight.
- 3.2 The RUP (Registro Único de Participantes) geographical coverage has been extended and it allows a proper targeting of the programmes under the Plan Social.
- 3.3 Institutional capacities necessary for the implementation of the Plan Social have been strengthened through the implementation of a Technical Assistance Plan.
- 3.4 GoES'/Development Partners dialogue and coordination results in the strengthening of social policy.

These objectives and results are in consonance with those established in the 2014-2020 MIP for El Salvador, which sets "contributing to the consolidation of the country's democratization and sustainable development, with a special focus on social inclusion (poverty reduction, the fight against inequality and exclusion, violence prevention), good governance and human rights (...)". To attain that objective, the MIP selects two intervention sectors: 1) social inclusion and work with the youth, and 2) private sector development. Both sectors are linked by the job creation as a cross-cutting issue that should be included in all actions.

As explained under sections 1 and 3 above, the social inclusion and work with youth sector gives continuity to the EU's interventions under the previous MIP 2007-2013, under which Comunidades Solidarias (poverty reduction), Ciudad Mujer (women's economic empowerment) and the INJUVE (violence prevention through work with the youth, including youth employment under Projóvenes II) were supported. This confirms the validity of those interventions, and the importance of sustaining in time the support to policies that aim to generate structural changes. Indeed, the 2014-2020 MIP builds

on the results of the implementation of the previous programming document.

The social plan is development results oriented and counts with 81 indicators to measure the intended objectives/results. This encompasses the most important institutional strategic outcomes and activities for the achievement of these goals. All the results, products, indicators and activities are being discussed by the institutions involved and will be approved by the Social Cabinet of Ministers. This Cabinet has already begun to work with the *Plan Social* as a tool to follow the social policy implementation.

The SRC indicators will be selected from this policy results framework, and will include those related to three key initiatives contained in the *Plan Social*, dealing respectively with extreme poverty eradication, youth employment, and women's rights and economic empowerment (*for more details on those indicators that will be linked to the disbursement of this SRC variable tranches see section 5.3.2 "Criteria for disbursement of budget support" below*).

## **4.2 Main activities**

### **4.2.1 Budget support**

In order to attain the results mentioned above, and through the proposed SRC, the Commission will:

- Transfer up to €46 million over the period (2016-2020);
- Continue political and policy dialogue with a particular focus on areas reflected in the programme's objectives, as well as wider issues concerning the country's commitment to the fundamental values;
- Provide Technical Assistance to reinforce Government's capacities related to the implementation of the Plan Social and its programmes through the SRC complementary support component;
- Continue to coordinate and further align our development cooperation through the existing Government/Donors coordination mechanisms with a view to avoiding duplication of activities and relieving the Government from multiple reporting duties;
- Monitor budget support eligibility criteria and the achievement of El Salvador's Plan Social priority objectives based on annual progress reports and other EU or development partners' reviews, supported by regular discussions in the relevant technical working groups and data verification missions.

To achieve the SRC's expected results Salvadoran authorities will carry out a number of activities in line with the Plan's main objectives and specifically under three key programmes:

1. Estrategia de Erradicación de la Pobreza Extrema (EEPE)
2. Programa de Empleo y Empleabilidad Juvenil – JovenES con Todo (PEEJ)
3. Ciudad Mujer

Activities under those programmes will mainly deal with:

- Improvement of human capital
- Provision of basic infrastructures to improve housing conditions of people living in extreme poverty
- Basic social services provision
- Provision of social protection for people living in extreme poverty
- Provision of training to improve the employability of vulnerable groups (youth, women, people living in extreme poverty)
- Provision of conditions to access entrepreneurship for vulnerable groups (youth, women, people living in extreme poverty)
- Provision of job intermediation/counselling services to vulnerable groups (youth, women, people living in extreme poverty)

#### **4.2.2 Complementary support**

Activities under the complementary support component will indicatively support the following:

1. The strengthening of the information systems and management tools of the Plan Social and its programmes, in particular the PEEJ, the EEPE and Ciudad Mujer.
2. The strengthening of institutional capacity and coordination within the social sector in general and for the implementation and monitoring of the Plan Social in particular.
3. The strengthening of the gender approach in the Plan Social and its programmes.
4. The strengthening of the communication on the Plan Social and its programmes to reach their potential beneficiaries and Salvadoran decision-makers<sup>22</sup>-
5. The participation of civil society in the oversight of the implementation of the Plan Social and its programmes

#### **4.3 Intervention logic**

Our support to this programme builds on previous assistance to social policy in El Salvador. Both our funding –that should help cover some of the Plan Social's funding gap– and our participation – together with other development partners– in the policy dialogue fora set up by the Government of El Salvador, help ensure the continuity of the GoES' commitment to fight social exclusion in a context of budgetary constraints. Complementary support will also strengthen the sector's development by providing technical assistance to enhance national capacities, and re-inforce policy oversight by helping fund civil society's participation.

### **5 IMPLEMENTATION**

The social sector recorded a significant consolidation in recent years. Therefore, it is considered appropriate to channel our support through Sector Reform Contract modality. The main reasons for using this instrument are:

- There is a sector consolidation process, which has a strong regulatory framework (Law Development and Social Protection); and coherent policy instruments. There is a multiannual Social Development Plan where programs and initiatives –which are result-oriented and have targets and indicators linked to a monitoring and evaluation– are framed.
- The institutions involved –especially the STPP- have experience handling this type of cooperation. The STPP has successfully managed PACSES in the period 2012-2017, a general budget support of 47 million euros. A sectoral reform contract could facilitate the process of disbursement to implementing institutions, in a more timely and efficient manner than a project approach.
- The sector already has several years with mechanisms for political dialogue between the government's implemented institutions and with the development partners.

The SRC proposed would have a duration of 4 years.

The implementation of the institutional strengthening component will be carried out through a technical assistance services contract to be funded from the complementary support allocation. Funds for Evaluation –also complementary support–will be executed through service contracts.

As a means of strengthening transparency, accountability, and in consonance with its rights-based approach, the Plan Social also foresees the creation of a civil society platform to guarantee citizen's access to information, enhance social participation in public policy making and monitoring, and promote external oversight on the Plan's implementation and budget execution. The Plan's monitoring system does also mandate annual reporting based on its data and including qualitative analysis elements, and the sharing of those reports with the Development Partners and Civil Society

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<sup>22</sup> The bulk of visibility and communication activities of all MIP's programmes, including the present one, will be financed by another contract through the "Support Measures" financing agreement LA/2015/038-130.

Organizations active in the social sector.

In line with this, the Sector Reform Contract will allocate funds under the complementary support component to help finance civil society initiatives take advantage of those participatory mechanisms. With this objective in mind, our support –channelled through a call for proposals– will give priority to the monitoring and social auditing – including expenditure analysis- of the Plan Social' programmes implementation (and subsequent participation in the policy debate) in what regards to: a) access to basic services (including basic infrastructure, health, and education) and social protection, b) the implementation of the PEEJ, and the c) inclusiveness of social policy (through the involvement of relevant organisations dealing with vulnerable groups such as women, people living with disabilities and children, amongst others)<sup>23</sup>. Other Development partners are also considering sponsoring this initiative.

## **5.1 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

The signature of the financing agreement is conditional to the formal adoption of the Plan Social by the Government; as well as to the finalisation of the agreed performance assessment framework.

## **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

## **5.3 Implementation of the budget support component**

### **5.3.1 Rationale for the amounts allocated to budget support**

The amount allocated for budget support component is EUR 46 million, and for complementary support is EUR 4 million. This amount has been determined based on the financing perspectives of both the Government of El Salvador and donors, which serve to calculate the funding gap on the Plan Social's flagship programmes. In order to ensure an appropriate mix of performance incentives and predictability of funding the programme will have fixed tranches every year, to be combined with variable components for years 2, 3 and 4, which results in a 65% of the funding to be channelled through variable tranches.

### **5.3.2 Criteria for disbursement of budget support**

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Plan Social and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the Salvadoran Ministry of Finance's Strategic Plan (Plan Estratégico Institucional 2015-2019 del Ministerio de Hacienda) to improve public financial management, in turn based on a number of studies such as the 2013 PEFA repeat assessment and the new assessment to be conducted in 2017.

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<sup>23</sup> "1. Civil society actors can foster pluralism and contribute to more effective policies, equitable development and inclusive growth. Civil society organizations (CSOs) have the capacity to empower, represent, defend and reach out to vulnerable and socially excluded groups, including minorities. They can also foster economic and human development, as well as social cohesion and innovation. Moreover, CSOs often engage in initiatives to advance participatory democracy for transparent, accountable and legitimate governance (...)", Council conclusions on the 2012, "The roots of democracy and sustainable development: Europe's engagement with Civil Society in external relations" Commission's Communication.

- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information in line with the PEFA's conclusions on transparency of the budget.

b) The specific conditions for disbursement that of variable tranches are the following:

-The fulfilment of a number of indicators from the Plan Social's Performance Assessment Matrix (here forth MED (Matriz de Evaluación del Desempeño), which have been selected in order to evaluate performance and guide disbursement.

Those indicators will complement the assessment of the Plan's implementation to carried out under the general conditions by focusing on the three programmes that have been selected as priorities because of their respective aims, all contributing to fight exclusion in El Salvador: reducing extreme poverty, fighting youth unemployment and exclusion, and promoting women's economic empowerment. Thus, the indicators agreed upon with the Government of El Salvador will measure progress in key initiatives under the Plan Social that aim to decrease the incidence of extreme poverty and exclusion by: tackling key vulnerabilities throughout the life-cycle, providing social protection, targeted mechanisms to improve access to social services by vulnerable populations, and promoting their productive inclusion as explained under section 4.1 above:

- Ensuring free comprehensive care –including guidance on proper nutrition, prevention of high prevalence diseases and early detection of development problems– for children under one year as the first year of life as part of the 1,000 days window that are determining for their optimal physical and intellectual development (comprehensive care coverage for children under one year with at least six checks);
- Increasing the average years of schooling of children and youth as a means to increase their future employability (number of children of families living in extreme poverty receiving stipends linked to third cycle/high school attendance);
- Decrease the vulnerability of the elderly in a context in which, due to migration, they also often times end up heading a home (13.18% of Salvadoran households are headed by someone over 70)<sup>24</sup> and having children under their care (number of people above 70 that have no other pension that receive a basic non-contributive pension – "Pensión Básica Universal or PBU);
- Support families living in extreme poverty through a personalised accompaniment (community social workers) to ensure their access to the different social protection instruments and basic services as a key mechanism of the EEPE to improve their living conditions and their capacity to lift themselves out of their exclusion situation (proportion of families living in extreme poverty that are covered by the personalised accompaniment of the EEPE).
- Promoting the productive insertion of families living in extreme poverty (proportion of families living in extreme poverty that receive support under the productive inclusion component of the EEPE) as a means to ensure – and linked with the other mechanisms under the EEPE– they have the tools to gradually lift themselves out of extreme poverty;
- Improve habitability conditions of housing by ensuring access to drinking water, as this has a direct impact on health –and malnutrition of infants– domestic workload and safety of women and children, and reduces basic expenses (number of household water connections installed);
- Promoting the productive inclusion of youth, in particular those most vulnerable, as a means to reduce exclusion and create conditions to prevent social violence (as gangs prey on and recruit mainly disadvantaged youth), and ultimately improve the country's productivity and growth perspectives<sup>25</sup> (number of youth that have received training and job intermediation services through the PEEJ);

<sup>24</sup>Encuesta de Hogares y Propósitos Múltiples 2014.

<sup>25</sup> As mentioned under section 1.1.3 above, youth between 15 and 29 represent 28.1% of the country's population and 53.8% of the working-age population.

- Promoting the productive insertion of women, in particular those most vulnerable, as a means to reduce gender exclusion, reduce poverty –35.7% of Salvadoran households are led by single women<sup>26</sup> - and promote economic growth<sup>27</sup> (number of women who receive assistance to set up an undertaking and access a concessional credit scheme).

Finally, we will also measure social expenditure, as a means to protect -in a context of low growth and fiscal constraints– the country’s favourable trend towards increasing or at least maintaining social expenditure as a means to reduce inequity and exclusion. Denominators and targets for each indicator are currently being worked on and will be included in the FA's TAPs.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Secretaría Técnica y de Planificación de la Presidencia may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### 5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into U.S. dollars will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

Budget support will be disbursed in four tranches:

- a) **One fixed** tranche of EUR12 **million** to be disbursed in 2017, after the verification of the fulfilment of the three general budget support eligibility conditions.
- b) **Three mixed tranches, composed respectively of** EUR 4 million, EUR 4 million, and EUR 2 million **fixed components, and** EUR 10 million, EUR 8 million and EUR 6 million **variable components**, to be disbursed respectively in 2018, 2019 and 2020. For these mixed tranches, the verification of the fulfilment of the three general budget support eligibility conditions will release the fixed allocations, whereas the release of the variable component will also require of the verification of the rate of compliance of the targets set in the Financing Agreement for each of the indicators selected to monitor the performance of the Government of El Salvador’ implementation of the Plan Social.

Complementary support (Technical Assistance and Visibility) will be procured and contracted after the signature of the programme's Financing Agreement.

Indicative breakdowns	Total	Year 1	Year 2	Year 3	Year 4
Fixed tranche	22	12	4	4	2
Variable tranche	24	-	10	8	6
Complementary support	4	1	1	1	1
<b>Total</b>	<b>50</b>	<b>13</b>	<b>15</b>	<b>13</b>	<b>9</b>

<sup>26</sup> Encuesta de Hogares y Propósitos Múltiples 2014.

<sup>27</sup> As mentioned under section 1.1.3 above, women represent 52.8% of El Salvador's population but only 47.2% of women in the working-age are employed, whereas the figure for men is 81%.

## **5.4 Implementation modalities for complementary support of budget support**

### **5.4.1 Grants: call for proposals “Civil society oversight of the Plan Social” (direct management)**

#### **(a) Objectives of the grants, fields of intervention, priorities of the year and expected results**

The objective of the grants is to support the Plan Social dispositions to enhance the implication of the civil society in public policy monitoring giving an external oversight on the Plan's implementation from a technical and financial perspective.

In line with this, the proposed Sector Reform Contract will allocate funds to help finance civil society initiatives for such social control.

The proposals have to deal with both of the following priorities:

-To ensure the technical and financial oversight of the implementation of the Plan Social and its programmes in what regards to: a) access to basic services (including basic infrastructure, health, and education) and social protection in the framework of the Estrategia de Erradicación de la Pobreza Extrema, b) the implementation of the PEEJ, and Ciudad Mujer c) inclusiveness of social policy. The diffusion in social media of the results of this oversight is the main outcome for this priority.

-From a right based approach perspective, to enhance the effective participation of the citizens in the participatory mechanisms established by the legal framework of social sector. The installation of local committees for social control of the Plan Social is the main outcome for this priority

To allow a national coverage of social oversight, a maximum of 4 contracts would be awarded (one for each geographic region: Occidente, Oriente, Central and Paracentral) In case there is no contract awarded in a region because the quality of the applications received is deemed unsatisfactory, funds could be available for other contracts in the other regions.

#### **(b) Eligibility conditions**

The applicants and co-applicants must be non-for profit non-governmental actors, in particular NGOs, NGOs' networks, foundations, think-tanks or universities (both private and public). Their place of establishment must be in El Salvador. A co-applicant which is not established in El Salvador but which can prove that he has ever developed activities of the same nature as those required in this call of proposal, and has a minimum of three years relevant experience in the country, is also eligible if partnering with local organisations.

The applicant (and co applicants if there are any) have to act in consortium with local-level organizations competent in social area, and which will be considered as beneficiaries of the contract.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 250,000 to 300,000. The indicative duration of the grant (its implementation period) is 36 months.

#### **(c) Essential selection and award criteria**

The essential selection criteria are the financial and technical capacity of the applicant.

The essential award criteria are: the relevance of the proposed action to the objectives of the call and its design, effectiveness, feasibility, sustainability, and cost-effectiveness.

#### **(d) Maximum rate of co-financing**

The maximum possible rate of co-financing for grants under this call is 90%.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

First trimester of 2017.

#### 5.4.2 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical assistance	Services	1	2 <sup>nd</sup> 2017
Monitoring and evaluation	Services	4	1 <sup>st</sup> 2018

#### 5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions:

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

#### 5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution in EUR
5.3. – <u>Budget support Sector Reform Contract</u>	46,000,000	
5.4. – <u>Complementary support</u>	3,700,000	
5.4.1 – Call for proposals “Civil society oversight of the Plan Social” (direct management)	1,200,000	133,000
5.4.2 – Procurement (direct management)		
5.4.2.1 – Technical assistance	2,500,000	N.A.
5.8 and 5.9 – Monitoring and Evaluation	300,000	N.A.
Totals	50,000,000	133,000

#### 5.7 Organisational set-up and responsibilities

Public institutions' roles in the implementation of the Plan Social are defined in the Plan itself, the documents of each programme and in the Ley de Desarrollo y Protección Social's regulation.

The Secretaria Técnica y de Planificación de la Presidencia, is the coordinator of the public policies of the Government of El Salvador and will assume the leadership of the Sistema Plan Social and coordinate the Social Cabinet, therefore overseeing the executing institutions and assigning the cooperation priorities under the Plan.

The Vice-ministerio de Cooperación al Desarrollo (VMCD), part of the Ministerio de Relaciones Exteriores, is the institution responsible of the Government of El Salvador' cooperation relations. Together with the STPP it will act as the secretariat of the dialogue and coordination mechanisms set

up between the Government of El Salvador and the international donors active in the country for the social sector (like the Grupo de Trabajo), and ensure the compliance of the commitments assumed within this framework.

The Ministerio de Hacienda (MH) will be a full member of the Grupo de Trabajo and as the institution responsible for the country's public finances, including investment and public debt, it will have a significant role given that the proposed intervention is an SRC. The MH has also a role for this budget support, given its central role in the country's planning and budgeting process, and therefore in the allocation of resources of the Government of El Salvador to the Plan Social and its programmes.

The public executing institutions<sup>28</sup> are those identified under the Plan Social as responsible for the implementation of the programmes and actions under it. Their work is overseen and coordinated by the STPP, institution responsible for the Plan's coordination

Civil society will be involved in the proposed SRC as the beneficiary of the grants contracts awarded under the social oversight call for proposals to be organised, and it will also have a role in the dialogue between donors/the Government of El Salvador around the Plan Social as it participates in the Grupo de Trabajo meetings.

## **5.8 Performance monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Additionally, the Commission will carry out, via independent consultants it will contract itself, three data-verification missions. Those missions, to be conducted in 2017, 2018 and 2019, will respectively review the performance of the indicators linked to the disbursement of the programme's three variable tranches, verifying the quality and reliability of the data provided by the Government of El Salvador.

## **5.9 Evaluation**

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to the institutional arrangements and capacities needed for the execution of the Plan Social and the prioritized programmes (EEPE, PEEJ, and Ciudad Mujer) under it, the Plan's monitoring system and management tools (including the RUP), and the general results achieved towards the attainment of its general and specific objectives.

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<sup>28</sup> FISDL, VMVDU, MINSAL, MINED, CONAMYPE, INSAFORP, INJUVE, ISDEMU, SIS, Ministerio de Trabajo, amongst others. See section 1.1.2 for more details.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in late 2018.

### **5.10 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision

### **5.11 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. A tender to award a global communication and visibility contract for all the programmes of the MIP is under process and should be signed at the end of 2016-beginning of 2017<sup>29</sup>. The present programme will be the first to benefit from this global contract, which will have to draft and implement a specific Communication and Visibility Plan.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

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<sup>29</sup> This contract will be funded under the Support Measures to the MIP El Salvador 2014-2020 - LA/2015/038-130 Financing Agreement.

**APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)<sup>30</sup>**

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by sex whenever relevant.

	<b>Results chain</b>	<b>Indicators</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources and means of verification</b>
<b>Overall objective: Impact</b>	[To support national social policy (Plan Social)] To contribute to the reduction of social exclusion in El Salvador.	1.Gini coefficient 2. Human Development Index	1. 0.38 (insert reference year) 2. 0.666 (2014)	1. 0.38 or lower (year) 2. 0.700 (2019)	1. Encuesta de Hogares de Propósitos Múltiples (EHPM)  2. Human Development Report (UNDP)

<sup>30</sup> Mark indicators aligned with the relevant programming document mark with '\*' and indicators aligned to the EU Results Framework with '\*\*'.

<b>Specific objective(s): Outcome(s)</b>	<p>1. To reduce the incidence of extreme poverty</p> <p>2. To increase the productive inclusion of women and youth</p> <p>3. To strengthen coordination and efficiency of the public institutions involved in the implementation and oversight of the Plan Social.</p>	1.1 Proportion of population in extreme poverty (**)	1.1 7.56% (year)	1.1 6.10%(year)	1.1 EHPM
		1.2 Proportion of households headed by a woman in extreme poverty	1.2 6.60% (year)	1.2 En definición(year)	1.2 EHPM
		1.3 Multidimensional poverty index	1.3 35.2 (year)	1.3 En definición(year)	1.3 EHPM
		2.1 Global unemployment rate	2.1 7.00% (year)	2.1 Mantener o reducir(year)	2.1 EHPM
		2.2 Unemployment rate amongst youth between 16 and 29	2.2 14.60% (year)	2.2 10.00%(year)	2.2 EHPM
		2.3 Rate of Unemployment among women	2.3 4.74 (year)	2.3 En definición(year)	2.3 EHPM
		3.1 Status of the unit/directorate responsible for the Plan Social within the STPP (Secretaría Técnica y de Planificación de la Presidencia)	3.1 Directorate does not exist(year)	3.1 Directorate or dedicated unit established (year)	3.1 DECRETO EJECUTIVO

Induced outputs/	<p>1.1 The proportion of girls, boys and teenagers accessing and staying in the formal education system has increased</p> <p>1.2. The access to health services of people living in extreme poverty has increased</p> <p>1.3. The proportion of population covered by <del>any pension</del> scheme has increased</p> <p>1.4. The qualitative housing deficit of has been reduced for families living in extreme poverty.</p> <p>1.5. The proportion of families living in extreme poverty that have developed an enterprise/self-employment initiative has increased.</p> <p>2.1. The employability or the capacities to set up undertakings by women and youth has been improved</p> <p>2.2. Youth and women have access to job intermediation services, seed capital or concessional loans to start their own undertakings.</p>	<p>1.1 Number of children of families living in extreme poverty receiving stipends linked to third cycle/high school attendance</p> <p>1.2 Coverage rate of comprehensive care for children under one year with at least six checks.</p> <p>1.3 Number of people above 70 that have no other pension that receive a basic non-contributive pension</p> <p>1.4 Number of household water connections installed</p> <p>Number of families living in extreme poverty that are covered by the personalised accompaniment of the <u>Estrategia de Erradicación de la Pobreza Extrema</u></p> <p>1.5 Proportion of families living in extreme poverty that receive support under the productive inclusion component of the <u>Estrategia de Erradicación de la Pobreza Extrema</u></p> <p>2.1 Number of youth that have received training and job intermediation services through the Programa de Empleo y Empleabilidad Juvenil.</p> <p>2.2 Number of women who receive assistance to set up an undertaking and access a concessional credit scheme</p>	<p>Please provide baselines, targets, reference years and sources</p>		
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<b>Direct outputs</b>	<p>3.1. The Plan Social's monitoring system is being implemented and includes the mechanisms foreseen for civil society participation and oversight.</p> <p>3.2. The RUP (Registro Único de Participantes) geographical coverage has been extended and it allows a proper targeting of the programmes under the Plan Social.</p> <p>3.3. Institutional capacities necessary for the implementation of the Plan Social have been strengthened through the implementation of a Technical Assistance Plan.</p> <p>3.4 GoES/Development Partners dialogue and coordination results in the strengthening of social policy.</p>	<p>3.1 Status and content of the monitoring system for the Plan Social</p> <p>3.2 Status of the RUP (Registro Unico de Participantes)</p> <p>3.3 Capacity of key institutions to implement the Plan Social</p> <p>3.4 Extent to which dialogue and coordination between GoES and key partners has strengthened social policy</p>	<p>3.1 Monitoring system not completed (year)</p> <p>3.2 RUP not fit for purpose (year)</p> <p>3.3 Institutions have insufficient capacity to adequately implement the Plan (year)</p> <p>3.4 Dialogue weak and unfocused, and social policy inadequate (year)</p>	<p>3.1 Monitoring system being implemented an includes mechanisms for civil society participation and oversight (year)</p> <p>3.2 RUP coverage extended and allows proper targeting (year)</p> <p>3.3 Institutions are able to implement the Plan (year)</p> <p>3.4 Dialogue and coordination improved and social policy stronger (year)</p>	<p>3.1 Specify who will make the judgement and using what evidence</p> <p>3.2 Specify who will make the judgement and using what evidence</p> <p>3.3 Specify who will make the judgement and using what evidence</p> <p>3.4 Specify who will make the judgement and using what evidence</p>
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