OECD Development Pathways

Multi-dimensional Review of El Salvador

STRATEGIC PRIORITIES FOR ROBUST, INCLUSIVE AND SUSTAINABLE DEVELOPMENT



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Foreword

Economic growth matters, but is just one facet of development. Policy makers need to reconcile economic, social, and environmental objectives to ensure that their country's development path is sustainable and leads to durable improvements in citizens' well-being.

OECD Development Pathways is a series that looks at development from the perspective of the multiple objectives it involves, beyond an exclusive focus on growth. It recognises well-being as part and parcel of development and helps governments identify the main constraints to more equitable and sustainable development by undertaking a multi-dimensional country review (MDCR). To meet their development ambition, governments need to understand the constraints they face and develop comprehensive and well-sequenced strategies that take into account complementarities and trade-offs across policies. The MDCR methodology combines quantitative economic analysis, qualitative approaches including foresight, and participatory workshops that involve actors from the private and public sectors, civil society and academia.

MDCRs are carried out in three distinct phases: *Initial Assessment*, *In-depth Analysis and Recommendations*, and *From Analysis to Action*. This approach allows for progressively deeper interaction between the OECD and the country and a mutual learning process about the country's specific challenges and opportunities. It allows for the co-creation of policy solutions that fully respond to a country's development challenges and opportunities, and come with guidance on implementation. The Mutual Learning Group for Multi-dimensional Country Reviews gathers policy makers in development strategy from countries undertaking MDCRs and members of the OECD Development Centre to support the exchange of experience on shared development challenges.

This review is the first of its kind to be implemented in El Salvador. El Salvador became a member of the OECD Development Centre in February 2019 and this review constitutes an important step in enhancing its engagement with the OECD. The review also offers avenues for further engagement in priority areas for the country. This report seeks to support El Salvador as it emerges from the impact of the COVID-19 pandemic and strives to deeply transform its development model. The report offers concrete policy options to address some of the country's most important structural challenges.

The report is structured in two main parts. Part I evaluates the country's performance across the dimensions of Agenda 2030. Part II provides an in-depth evaluation of four critical areas for the development of El Salvador: i) enabling a productive transformation, ii) managing water resources more effectively and sustainably, iii) investing in education and skills, and iv) strengthening public governance. In each of these areas, the review provides policy recommendations and detailed action plans to move from analysis to action.

This report is the result of a joint effort: it was led by the OECD Development Centre, with the participation of the Centre on Well-being, Inclusion, Sustainability and Equal Opportunity, the Directorate for Public Governance, the Economics Department, and the Environment Directorate, and with the collaboration and support of the Secretariat for Commerce and Investment of the Presidency of El Salvador, and the financial support of the European Union and the Grand Duchy of Luxembourg.

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Multi-dimensional Country Reviews are the result of a collaborative effort of the OECD and the country under review. The MDCR of El Salvador was carried out jointly by the OECD Development Centre, the Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE), the Directorate for Public Governance, the Economics Department, and the Environment Directorate, in close co-ordination with the Secretariat for Commerce and Investment of the Presidency of El Salvador and the Ministry of Foreign Affairs of El Salvador. The review was initiated with a high-level launch event in San Salvador in July 2019.

The review was produced under the guidance and supervision of Ragnheiður Elín Árnadóttir, Director of the OECD Development Centre, and Jan Rieländer, Head of the Country Diagnostics and Strategy unit at the OECD Development Centre, with contributions from Alvaro Pereira, Director of the Economics Department and Acting Chief Economist of the OECD, Isabell Koske, Economics Department, Romina Boarini, Director of the Centre on Well-being, Inclusion, Sustainability, and Equal Opportunity, and Marco Mira d'Ercole, formerly Head of Household Statistics and Progress Measurement, Directorate for Data and Statistics.

The review was led and co-ordinated by Juan R. de Laiglesia, Senior Economist, OECD Development Centre. Part I of the review ("Initial Assessment") was drafted by Juan R. de Laiglesia, Diana Hanry-Knop, Nathalia Montoya, Alexander Pick (OECD Development Centre), Joshua Monje-Jelfs (OECD WISE), and Ricardo Arroja (external Consultant). Paz Patiño (Paris21) provided valuable inputs. Part II of the review was drafted by Juan R. de Laiglesia, Kerstin Schopohl (OECD Development Centre), Gérard Bonnis (OECD Environment Directorate), Anaïs Loizillon (external consultant), Iván Stola and Patricia Marcelino (OECD Directorate for Public Governance). Inputs were also provided by Andrea Colombo (OECD Development Centre), Martin Wermelinger and Iris Mantovani (OECD Directorate for Financial and Enterprise Affairs). Kate Chalmers (OECD Development Centre) provided superb statistical support. Luiz Hermida and Jérôme Poulain provided excellent research assistance and support, and Myriam Andrieux (OECD Development Centre) provided secretarial assistance.

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Member countries of the OECD Development Centre meet in the Mutual Learning Group to review Multi-dimensional Reviews and share insights of their own development experience. The European Union, Panama and Guatemala served as lead reviewers in the meetings of the MLG-MDCR that examined this review in December 2019 and October 2022.

The Multi-dimensional Country Review of El Salvador was made possible by the financial support of the European Union and the Grand Duchy of Luxembourg. The team is particularly grateful to the Delegation of the European Union in San Salvador for its support during the process, the insights of its staff into the development of El Salvador, and their inputs and comments on intermediary drafts of the report. The team is especially grateful towards Ambassadors Andreu Bassols and François Roudié and towards Erik Kristensen for co-ordinating the team's engagement with the Delegation. The team also wishes to thank the Embassy of Luxembourg in Managua for their engagement and valuable inputs.

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Editorial

The development history of El Salvador is rich in firsts and lessons learnt. The UN-mediated peace process that put an end to the 12-year civil war in 1992 is a global benchmark. The rapid reform drive that followed, establishing a private sector, export-oriented economic model, helped the country make great economic strides. Social policy innovations like the development of community-managed education institutions have inspired solutions across the developing world. None of these policy experiences was perfect, and some of them failed to fully deliver on expectations. But all are testament to the vision and commitment of those who sought policy solutions to improve the lives of their fellow citizens.

Despite great progress since the end of the civil war – a liberal democracy, macroeconomic stability and a long-term decline in economic inequality and poverty – significant development challenges remain: to accelerate economic growth, create more and better jobs for youth, improve the provision of education and health, and better manage fragile natural resources. In the past, political polarisation and high levels of violence hindered, and sometimes prevented, necessary reforms.

The *Multi-dimensional Review of El Salvador: Strategic Priorities for Robust, Inclusive and Sustainable Development* identifies four critical areas for policy action in El Salvador. First, enable productive transformation by improving infrastructure and providing public goods that are complementary to investment, e.g. better administration, and a more effective, modern, industrial policy. Second, invest in the education and training of its youth through sustained public expenditure, a better managed and better equipped teacher workforce, and content more relevant to students and the country's needs. Third, improve the management of water resources, building on the recently adopted General Law on Water Resources, finding solutions locally, at the water basin level, and pricing water resources appropriately to enable investment in water supply and sanitation. Fourth, modernise the state through digitalisation and the institutionalisation of key governmental functions, including support to strategic decision making, human resource management and the open government agenda.

Mobilising expertise from across the OECD, this Multi-dimensional Review combines state-of-the-art analysis with participatory processes to diagnose El Salvador's main development challenges and offer practicable policy solutions. It was prepared in close collaboration with the Government of El Salvador, with support from the European Union and the Grand Duchy of Luxembourg. It documents a process carried out in extraordinary times, interrupted by the COVID-19 pandemic and executed as the country experienced far-reaching changes. Throughout the review, policy workshops increased the relevance of recommendations and helped share the results with policy makers at decisive stages in the preparation of reforms, creating spaces for policy dialogue on critical development issues for El Salvador.

The political configuration that emerged from the 2019 presidential elections and the 2021 legislative elections has ushered in a period of intense reform and policy experimentation. It offers an opportunity to resolve long-standing issues and rebuild the foundations of the social contract. The current parliamentary majority grants much latitude for action to the administration, but broad-based support and dialogue on key reforms can ensure they lead to sustainable transformation in the country.

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Reader's guide

The process of the multi-dimensional review of El Salvador

This report presents the main findings of the multi-dimensional review of El Salvador. The review process was implemented in three phases over a period spanning several years. It was interrupted by the initial period of the COVID-19 pandemic during which country consultation and the participatory components of the review process could not be implemented:

- Phase I (*Initial assessment*) was implemented in July-December 2019. It consists of an assessment of El Salvador's development performance across five dimensions spanning Agenda 2030: People, Prosperity, Partnerships, Peace and Institutions, and Planet. Phase I concluded with the identification of priority areas covered in subsequent phases of the review.
- Phase II (*In-depth analysis and recommendations*) was implemented from October 2020 to June 2021. It covers four policy areas identified jointly by the OECD review team and the Government of El Salvador: productive transformation, water management and the supply of water and sanitation, education and skills, and public governance. The areas identified in December 2019 were reassessed and deemed relevant in the context of the COVID-19 pandemic.
- Phase III (*From analysis to action*) was implemented from June 2021 to July 2022. It consisted of a series of policy workshops with stakeholders from across the public sector, the private sector, academia, and civil society covering each of the four policy areas.

This report was discussed by the OECD's Mutual Learning Group for Multi-dimensional Country Reviews on 13 October 2022, prior to its preparation for publication.

The analysis conducted in Phases I and II relied on the most recent national and internationally comparable data available at the time. In some cases, pre-pandemic data were preferred as they were likely to be of higher quality and to better reflect structural features than data collected in 2020. Factual information and statistical data included in the report have been updated with data available as of the end of 2022 where practicable. The conclusions of the analysis conducted in the initial assessment are presented as prepared in phase I of the review process.

Structure of the report

The report consists of an overview chapter and two main parts.

- The Overview chapter (Chapter 1) contextualises the review and summarises the main results of the report. A table including all the policy recommendations presented in the report is included at the end of Chapter 1.
- Part I presents the results of the Initial assessment phase of the review. It assesses the performance of El Salvador and identifies the main constraints to development across five areas: People, Prosperity, Partnerships, Peace and Institutions, and Planet.

- Part II combines the results of Phases II and III of the review and presents analysis and policy recommendations in four key policy areas:
  - Chapters 3, 4 and 5 present analysis of performance in terms of productive transformation (Chapter 3), and policy recommendations to tackle cross-cutting challenges to productivity and competitiveness (Chapter 4) and to accelerate productive transformation (Chapter 5).
  - Chapter 6 provides an assessment and policy recommendations in the areas of integrated water resource management and the supply of water and sanitation.
  - Chapter 7 assesses and provides recommendations to build better skills for the youth in El Salvador.
  - Chapter 8 assesses key topics for public governance in El Salvador and provides policy recommendations for more robust public governance.

The chapters in Part II are divided into thematic sections, and recommendations are presented in tabular form at the end of each section. The policy recommendations presented include contributions made by participants in the various policy workshops carried out as part of Phase III of the review. A number of more specific action plans were developed as part of the policy workshops. They are presented in tabular form in the recommendation sections and clearly indicated in the text.

Benchmarking countries and groups

- A set of benchmark countries was selected jointly by the team undertaking the review and the Government of El Salvador in the initial phase of the review. It includes countries in Latin America (Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama) and beyond (Estonia, Sri Lanka, Morocco, Serbia, Viet Nam). The choice of these countries is based on factors such as income per capita, size, structural characteristics, and the degree to which experiences from these countries could be useful models for policy development in El Salvador. Whenever relevant and subject to data availability, El Salvador is compared to this group of countries. References to benchmark countries in the report refer to this group of countries.
- Data points indicated as **benchmark countries** refer to the simple average for countries in the group for which data is available.
- References to **OECD** in figures and graphs refer to the average for OECD countries if provided by the source and to the simple average for all OECD countries for which data is available if the source does not provide an average for the OECD.
- References to **LAC** in figures and graphs refer for the average for countries in Latin America and the Caribbean if provided by the source and to the simple average for all countries in Latin America and the Caribbean for which data is available if the source does not provide an average for Latin America and the Caribbean.

Facts and figures of El Salvador

2021 unless noted otherwise, numbers in parentheses refer to the OECD average or total OECD

People: Towards better lives for all					
Population (million)	6.33[h]	(1 372.74)	Life expectancy (years)*	71.1[j]	(79.0)
Under 15 (%)	23.4[h]	(17.44)	Men	66.4[j]	(76.2)
Over 65 (%)	7.3[h]	(17.69)	Women	75.4[j]	(82.0)
Urban population (% of total)	61.66[k]	(81.24)	Mean years of schooling (population 25 and over)[a]	7.15*	(12.25*)[2]
Income inequality (Gini coefficient)	38.8**	(33.25)[2]	Government expenditure on education (% of GDP)	4.22	(5.26*)
Unemployment rate (%)	6.3[k]	(6.27)	Labour force participation rate (% of total population aged 15 and over)	61.7[k]	(60.3)[c]
Youth unemployment rate (% of labour force aged 16-24)	14.0[k]	(13.75)	Men	79.8[k]	(68.6)[c]
			Women	46.9[k]	(52.4)[c]
Firms with female top manager (% of firms)	28***	(17.31)	Proportion of seats held by women in national parliaments (%)	29.7[m]	(32.4)
Prosperity: Boosting productivity					
GDP in current billion USD	29.45	(58 268.35)	Share of GDP:		
GDP growth (real, annual %)	11.18[n]	(5.59)[c]	Agriculture, forestry and fishing (%)	4.86[n]	(1.42)
GDP per capita, PPP (constant 2017 international $)	9 086	(44 827)	Industry, including construction (%)	20.71[n]	(22.28)
			Services (%)	57.85[n]	(70.96)
Trade (% GDP):			Research and development expenditure (% of GDP)	0.17**	(2.96*)
Exports of goods and services	28.28	(28.16)			
Imports of goods and services	52.49	(28.18)	Fixed broadband subscriptions (per 100 people)	9.37[o]	(33.64)
Net FDI inflows (% of GDP)	1.07[n]	(1.9)	Current account balance (% of GDP)	-4.32[n]	(1.24)
Partnerships: Sustainably financing development					
Government revenue (% of GDP)[b]	20.5[l]	(40.17)	General government total expenditure (% of GDP)	25.31[l]	(44.55)[b]
General government debt, total (% of GDP)	79.0[l]	(78.15)[b]	Domestic credit to private sector (% of GDP)	60.29[n]*	(65.31*)
Tax revenue (% of GDP)[c]	19.60[l]	(15.3*)			
Peace: Strengthening governance					
Intentional homicides (per 100 000 population)	18.1[g]	(6.16*)[d]	Corruption perceptions index[1, f]	34	(66.58)
% of population who feel safe walking alone at night[e]	62.89†	(88.67†)			
Planet: Conserving nature					
Land area (thousand sq. km)	20 720*	(35 508 602*)	Agricultural land (% of land area)	57.71*	(33.85*)
Forest area (% of land area)	28.18*	(32.76*)	Arable land (% of land area)	34.8*	(10.46*)
Total primary energy supply (TPES) per capita (toe)[c]	0.66*	(3.81)	CO_2 emissions (metric tonnes per capita)	1.24**	(8.52**)
Renewables (% of TPES)[c]	50.32*	(11.56)	PM2.5 air pollution, mean annual exposure (µg/m3)	24.47‡	(14.55‡)

Notes: FDI = Foreign Direct Investment. Data are for 2021 or latest available year: in particular, * for 2020, ** for 2019, *** for 2016, † for 2022, and ‡ for 2017.

1. Index ranges from 0 (highly corrupt) to 100 (not corrupt).
2. OECD average is calculated using last observation carried forward from 2013 to 2021.

Source: Authors' calculations based on various sources (extracted 29 March 2023): Unless otherwise noted, data are World Bank, *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators. [a] UIS, *UIS.Stat* (database), http://data.uis.unesco.org/, [b] International Monetary Fund, *IMF Data* (database), https://www.imf.org/en/Data, [c] OCDE, *OECD.Stat* (database), https://stats.oecd.org/; [d] UNODC, *dataUNODC* (database), https://dataunodc.un.org/; [e] Gallup, *Gallup World Poll*, https://www.gallup.com/analytics/; [f] Transparency International, *Corruption Perceptions Index* (database), https://www.transparency.org/en; [g] Ministerio de Justicia y Seguridad Pública de El Salvador; [h] ONEC (2021) *Estimaciones y proyecciones de población de ambos sexos, por año calendario y edad simple (Revisión 2021)*, Oficina Nacional de Estadística y Censos, Banco Central de Reserva https://www.bcr.gob.sv/; [j] ECLAC (2022) *Observatorio demográfico América Latina y el Caribe 2022. Tendencias de la población de América Latina y el Caribe*, United Nations Economic Commission for Latin America and the Caribbean, https://repositorio.cepal.org/bitstream/handle/11362/48488/1/S2200706_es.pdf. [k] DIGESTYC (2022) *Encuesta de Hogares de Propósitos Múltiples (EHPM) 2021*, Dirección General de Estadística y Censos, https://www.bcr.gob.sv/documental/Inicio/descarga/PUBLICACION_EHPM_2021.pdf; [l] Ministerio de Hacienda for data relative to expenditure, and Banco Central de Reserva for GDP in USD million; [m] Asamblea Legislativa, El Salvador; [n] Banco Central de Reserva, Base de datos económica y financiera, https://estadisticas.bcr.gob.sv/base-economica-y-financiera; [o] Superintendencia General de Electricidad y Telecomunicaciones (SIGET).

Executive summary

El Salvador has made significant headway on its development path in the past 30 years, including the peaceful resolution of its civil war and major institutional reforms. These paved the way for an open, export-led development model, and significant improvements in the well-being of Salvadorans. Poverty and inequality have declined steadily since the turn of the century, overcoming setbacks suffered with the global financial crisis of 2008/09 and more recently, the COVID-19 pandemic.

Despite these successes, neither the institutional reforms of the post-civil war period, nor the export-focused model of economic development that it has pursued, have fully delivered on expectations. High levels of violence, polarised politics, and only modest advances in reducing vulnerability led to a weakened social contract. Economic growth has been tepid, slowing to 1.5% during the 2000s, and only picking up to a modest 2.4% in 2014-18. It has been mired by low levels of both foreign and domestic investment, low investment in education, and low productivity growth. The economy has also failed to significantly expand the supply of good quality jobs, and informality has persisted over time.

The new political configuration that emerged from the presidential elections of 2019 and legislative elections of 2021 has severely disrupted the prevailing political balance. It has granted ample room for manoeuvre to the executive branch and ushered in a period of intense reform activism and policy experimentation. It has also accelerated improvements to public security, albeit at the expense of temporarily curtailed civil liberties and a growing population in detention centres. The appropriate combination of pragmatism and dialogue would contribute to the sustainability of the reform agenda.

Three inter-related constraints to sustainable development in El Salvador

To make the most of its potential, El Salvador should seize the opportunity to set in motion a real development strategy that corrects key structural constraints. This strategy should recognise that, as the country develops, certain structural challenges persist even as new opportunities and challenges arise. The diagnostic phase of this Review identified key constraints to El Salvador's development across the five P's of the 2030 Agenda: People, Prosperity, Partnerships, Peace and Institutions, and Planet. These can be subsumed into three inter-related constraints.

Firstly, inconsistencies in the country's model of economic development limit its potential to deliver robust and inclusive growth. While the model is based on growth driven by the private sector and exports, significant barriers to entry and to doing business persist, and these harm small and medium-sized enterprises (SMEs) and new entrants. They include cumbersome bureaucratic processes, inefficient markets for certain key inputs, and insufficient provision of key public goods, including infrastructure, skills formation, and efficient administration. Dollarisation also limits the scope for adjustment in the search to diversify export markets, resulting in a loss of international competitiveness. The export-led model appears in fact to be in competition with a model based on internal demand fuelled by migrant remittances.

Secondly, the capacity of the state to provide public goods and services is limited by the country's institutional features, and by a vicious circle of vulnerability, low growth and low capacity that weakens the

legitimacy of state institutions. Access to key public services has improved significantly since 1992, but large gaps remain. Enrolment in secondary education reached 77% in 2013 before falling again. Access to health services has improved, but access gaps concern a quarter of the population. Most notably, the state's ability to ensure the rule of law has been limited by the presence of criminal gangs and a culture of violence and impunity that is yet to be fully eradicated. The limitations of the state constrain growth due to the limited provision of key public goods. Conversely, the lack of state legitimacy, plus low levels of economic growth, limit the prospects of the formal economy and keep fiscal revenues low, constraining the administration's margin for manoeuvre. The unfinished reform of the pension system exemplifies this vicious circle, as a regressive system with limited coverage generates debt that undermines fiscal space.

Thirdly, the management of fragile natural resources, especially water, needs to improve in order to secure future livelihoods and economic opportunities. El Salvador has a natural environment that has potential for agriculture and tourism, but one that is also highly vulnerable to natural disasters. This vulnerability is exacerbated by climate change, and by a history of mismanagement of forest and water resources. Water stress generates trade-offs between economic development and access to drinking water that could be avoided in the future if the institutional capacity of environmental authorities is increased and the value of environmental resources is recognised by all actors in society.

Strategic recommendations for robust, inclusive and sustainable development

In order to respond to the structural constraints that continue to hinder its development, and capitalise on its assets, El Salvador needs to take policy action in four critical policy areas.

First, El Salvador needs a *productive transformation.* Productivity growth amounted to just 0.1% per year during the 2010s, which is too slow to put the country on a path to convergence with advanced economies. To accelerate economic transformation, it is necessary to address obstacles to competitiveness and productivity growth: from mitigating the impact of crime in the economy to improving infrastructure and reducing red tape. There is also ample scope for more active modern industrial policy to steer economic development, accelerate digitalisation and put innovation at the centre of productive development policy.

Second, the country needs to *invest in the education of its youth* and build relevant skills for its population. Sustaining the increase in public expenditure in education is a key ingredient. Encouraging youth to complete secondary school should be a priority, as well as increasing the quality of education though policies to better manage and equip teachers with the skills they need in the classroom. Building on public-private dialogue to ensure that students receive relevant labour market skills is necessary for education to be a gateway to the labour market.

Third, *better management of scarce water resources* is needed to ensure access to clean water and sustainable livelihood opportunities to all. The adoption of the General Law on Water Resources in 2022 was a key milestone in this regard. El Salvador should build on the new legal framework to establish basin-based water management and adopt a risk-management approach to better manage scarcity, pollution and flooding. Moving towards full cost recovery through a revision of pricing structures, overseen by an independent regulator, would help generate the necessary resources for water supply and sanitation.

Fourth, the *modernisation of the State* would strengthen the ability of the administration to perform its functions effectively. The ongoing digitalisation drive should be complemented by the institutionalisation of critical functions of government. A dedicated strategy unit with the time and capacity for medium and long-term thinking and a more robust framework to monitor and evaluate strategic priorities would strengthen the capacity to drive sustainable transformation. A specific institution in charge of leading and overseeing human resource management in the administration would help overcome capacity limitations and administrative silos. It is also necessary to renew the country's commitment to open government, to transparency and to stakeholder participation to ensure policy solutions are fit for purpose and can form the basis of a new consensus for development.

1 Overview: Obstacles, opportunities and priorities for development in El Salvador

El Salvador has made great strides in its development since the end of its civil war three decades ago, including major institutional reforms, the establishment of an open, export-led economic model, and significant reductions in poverty and inequality. Yet, progress has not been even in all areas of development and citizen well-being. The economic model has not fulfilled expectations in terms of productivity growth or the generation of good jobs, the capacity of the state to deliver key public goods and services remains insufficient, and the management of natural resources needs to be strengthened. This chapter summarises the findings of the Multi-dimensional Review of El Salvador and points to four strategic priorities for development in the country: accelerating productive transformation, improving the management of water resources and the reach of water and sanitation services, increasing the quantity and quality of education, and strengthening public governance. The chapter includes recommendations to address these critical issues and further development in El Salvador.

El Salvador has attained major achievements during the last three decades, including the peaceful resolution of its civil war, a series of significant institutional reforms, and substantial improvements to the well-being of Salvadorans. Growth in real gross domestic product (GDP) accelerated after the end of the war, bolstered by strong exports and private investment, but it has moderated since. Current measures of citizens' well-being show signs of considerable progress, especially in terms of infrastructure and employment.

However, great economic, social and environment challenges still lie ahead for the country. El Salvador needs to advance towards the consolidation of its middle class by improving the social services that are delivered to all Salvadorans. For decades, persistent high rates of violence imposed high extra costs for Salvadoran society, and also exerted a significant negative impact on all dimensions of development in the country[1]. El Salvador's high degree of vulnerability to natural hazards and extreme weather events, as well as a legacy of mismanagement of natural resources, are important constraints to the country's development path. Low levels of investment over several decades have limited growth potential, and low tax compliance is a major drain on the mobilisation of domestic resources, limiting the state's ability to respond to these challenges.

El Salvador's development model remains to a large extent in the configuration in which it was set at the end of the 20th century. Liberalising reforms paved the way for a small, open, free-market economy, albeit one in which the limited size of the domestic market and a relatively high concentration of economic clout have led to a high degree of concentration in key sectors. Democratic institutions were consolidated in the post-war years around a highly polarised two-party system. This ensured peaceful political confrontation, but in some cases it also contributed to undermining trust in key political institutions. The gradual expansion of public services and social protection have contributed to reducing inequality and improving living standards. Finally, the country's development has a strong gravitational centre in the metropolitan capital city, with limited capacity in other territories to establish a development path of their own.

Global and domestic transformations call for a reconsideration of El Salvador's development model. The country's export-led manufacturing model has failed to deliver strong growth and job-creation. This is partly a consequence of stalling reforms and of the persistence of violence and crime, which for its part is also fuelled by the economy's failure to offer a livelihood to many of its young people. Ongoing transformations in the global economy, including the emergence of new global players, digitalisation, and the increase in trade in services, offer new opportunities and challenges, but will require decisive action that transcends the political cycle if El Salvador is to attain its development objectives. This reassessment of the development model is in line with the "development in transition" approach, which recognises the need to adopt and implement national strategies that do not merely follow a linear predetermined path, but rather take into consideration country-specific development challenges and opportunities.

The Multi-dimensional Country Review (MDCR) of El Salvador has been undertaken to support the country in achieving its development objectives. The MDCR process is implemented in three phases: i) initial assessment, ii) in-depth analysis and recommendations and iii) from analysis to action[2].

The initial assessment (Part I) builds on the OECD framework for measuring well-being and progress and on the 2030 Agenda for Sustainable Development and Sustainable Development Goals (SDGs) to identify the binding constraints to achieving sustainable and equitable improvements in well-being and economic growth. Whenever relevant and subject to data availability, El Salvador is compared with a set of benchmark countries, selected jointly by the team undertaking the review and El Salvador, in Latin America (Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama) and beyond (Estonia, Sri Lanka, Morocco, Serbia, Viet Nam). The choice of these countries is based on factors such as income per capita, size, structural characteristics and the degree to which experiences from some of these countries could be useful models for policy development in El Salvador.

The second phase analyses the key constraints that were identified in order to formulate policy recommendations that can be integrated into El Salvador's development strategy. The third and final phase

of the MDCR further hones the analysis and recommendations through a participatory process in order to build support for their implementation. Part 2 of this report combines the results of the second and third phases of the review. Action plans developed during the participatory process are clearly signalled in the respective thematic chapters, while key insights drawn from the process have been incorporated into the text.

This overview chapter analyses El Salvador's performance in the key dimensions of well-being and brings together the results of the Review's three phases. Firstly, it provides a brief presentation of the historical and structural context of El Salvador's development path, as well as an overview of the impact of the COVID-19 pandemic in the country. Secondly, the chapter analyses the country's performance across a range of well-being indicators. Thirdly, it builds on the thematic sections in Chapter 2 to identify the key constraints to development in the country. Finally, it summarises the key policy recommendations from the thematic chapters of the report in order to highlight priorities for action in the areas of productive transformation, water resource management, education and skills, and public governance. A table at the end of the chapter provides an overview of the recommendations included in the Review.

A brief history of development in El Salvador

Until the 1970s, El Salvador's model of development was largely based on the development of agricultural exports, and was dominated by the coffee industry. Coffee production had been organised with state support since the end of the 19th century, and a coffee oligarchy[3] had effectively ruled El Salvador with the support of the military since the 1930s. Coffee was a key source of economic dynamism and the main source of foreign exchange, and in the early 1950s it made up 87.5% of exports (Dada, 1978[1]). Land was highly concentrated: by 1971, large agricultural properties of over 200 hectares (ha) occupied 28% of agricultural land, while small properties under 10 ha occupied 27% (Pleitez, 1986[2]). A latifundia-minifundia land regime ensured the availability of excess labour for harvest duties while depressing wages, and sustained the growth of plantation crops as the economy diversified from coffee into cotton and sugarcane.

Starting in the 1950s, and despite the centrality of agricultural production, the country forged an industrial base through import substitution policies. Rents from agricultural export sectors provided capital for the development of light manufacturing industries. Manufacturing was linked in large part to the processing of agricultural goods (textiles, coffee) and the production of agricultural inputs (fertiliser). The impetus provided by the Central American Common Market (CACM) in 1960 contributed to rapid growth in the manufacturing sector of 8.1% between 1960 and 1970. By 1969, the manufacturing sector made up 21% of value added in El Salvador. However, it employed only 11% of the labour force in 1970, and half of the manufacturing labour force was employed in the processing of key agricultural exports (Acevedo, 2003[3]).

The 1970s marked the decline of the prevailing political and economic model and the intensification of political and social strife. A process of relative openness had permitted the emergence of opposition political parties during the 1960s, alongside a process of economic modernisation. The possibility of a left-wing opposition win in presidential elections in 1972 was thwarted by electoral fraud. This episode was a turning point in Salvadoran politics. Mobilisations intensified, and so did repression from the military regime and paramilitary groups. On the economic front, war with Honduras in 1969 marked the beginning of the decline of the CACM, closing markets for the Salvadoran economy, and also shutting an escape valve for excess rural labour, fuelling social strife (Wade, 2016[4]).

From 1979 onwards the intensification of conflict in El Salvador turned into a civil war that would last until the Chapultepec Peace Accords of 1992. There is no agreement on the start of the war, but it can be dated back to the initial military offensive of the Frente Farabundo Martí para la Liberación Nacional (FMLN) in January 1981, although armed struggle started earlier than this. The war is estimated to have caused 75 000 deaths and over 5 000 disappearances. It also caused major and durable disruption to the country's economy and institutions. Losses to the country's infrastructure are estimated at over

1.5 billion US dollars (USD) (IMF, 1998[5]). The financial and export-marketing systems were nationalised, and resources were diverted to military uses. Real GDP per capita fell by a third between 1978 and 1982, and declined by 2% a year on average during the conflict. El Salvador only recovered to its pre-war level of GDP in 1995, and not until 2012 in per capita terms.

Signed in 1992, the Chapultepec Peace Accords marked the end of the armed conflict, and they constitute a turning point in El Salvador's recent history. The agreement, which was brokered by the United Nations, organised a ceasefire and a process of demobilisation, and included provisions for the retreat of the military from the political arena as well as for an in-depth reform of the security forces. The FMLN became a political party and would run in elections from 1994 onwards. The accords also set out reforms in the judicial and electoral arenas. From 1989 onwards, economic activity started picking up in a climate of reduced social and political tension. Reconstruction efforts, helped by significant external assistance (Boyce, 1995[6]) and the repatriation of capital, led to a rebound in growth, which averaged 5.6% between 1992 and 1995.

Key economic reforms took place at the beginning and the end of the conflict, partially addressing the agrarian question that was one of the roots of the war. In 1980, before the start of the military conflict, a reformist-minded Junta enacted a land-reform law that limited the size of individual landholdings and put into motion a redistributive land reform. Due to the conflict and the resistance of conservative forces, several provisions of the law would never be implemented. However, the 1983 Constitution imposed a ceiling of 245 ha on the size of landholdings. The ceiling was much higher than that established by the land-reform law, but it recognised the agrarian problem in the country. Several phases of land reform did take place, redistributing almost 300 000 ha to around 85 000 families. The land reforms of the 1980s expropriated land from the largest estates and provided sharecroppers and tenants with access to land, redistributing close to 20% of the agricultural surface in the country. Following the peace accords of 1992, a programme to provide land and security of tenure to ex-combatants and farmers resulted in over 100 000 ha being titled to demobilised combatants (Pleitez, 1986[2]; De Bremond, 2007[7]).

A wave of liberal reforms also marked the end of the conflict. Starting in 1989 following the election of a liberal government, and in the context of a structural adjustment programme, El Salvador carried out a number of reforms to dismantle part of the war economy and to reduce the weight of the state in the economy. The country eliminated a number of price controls, simplified and sharply reduced tariff levels, privatised coffee and sugar commercialisation, and restructured and privatised the financial sector. These measures were accompanied by donor-supported social programmes that aimed to deliver health, education and sanitation services throughout the country (Wade, 2016[4]; Acevedo, 2003[3]). The liberal reform programme was pursued during the second half of the 1990s, with further trade liberalisation lowering the floor of tariffs to zero for capital goods, in addition to the deregulation and privatisation of the electricity and telecommunications sectors, and a reform of the pension sector centred around private pension-fund administrators. The 1990s also saw the emergence of a maquila industry serving the United States market. This drove the increase in manufacturing exports until the mid-2000s.

Following the external shock of the Tequila crisis in 1995, economic growth slowed to 1.5% during the 2000s, picking up slightly to around 2.5% since 2010. This coincided with monetary tightening linked to the development of the financial sector. In order to reduce exposure to exchange-rate risk, the national currency (the colón) was pegged to the US dollar in 1993, and the economy became fully dollarised in 2001. From the 1990s, El Salvador has increasingly become a service economy. The share of manufacturing in value added is on a slow downward trend, accounting for 16% of GDP in 2018, with services generating 60% of GDP. The importance of services is compounded by the large flows of remittances that sustain households' consumption of final goods and non-tradable services.

Between 1992 and 2019, the country's political system was characterised by the coexistence of two strong parties with radically opposing views. The right-wing ARENA party and the left-wing FMLN made up a highly polarised and structured party system. This polarisation, along with the specificities of Salvadoran

institutions, had a tendency to generate parliamentary deadlock. Despite its diametrically opposite position on the ideological divide, the FMLN did not significantly alter the country's development model during its two consecutive presidential mandates (2009-19). While the two-party system provided Salvadoran democracy with stability (Scartsacini, Stein and Tommasi, 2010[8]) it also brought political polarisation to key institutions in the country, thereby undermining their legitimacy (Wade, 2016[4]).

The most recent electoral cycle marks a significant turning point in the political and developmental history of El Salvador. In February 2019, Nayib Bukele, a former mayor of San Salvador, was elected president, winning a majority in the first round. A former militant of the left-wing FMLN, Bukele ran under the colours of a third party, and he was the first president since the end of the civil war to be elected while not representing either of the two hegemonic parties. Bukele's newly created party (Nuevas Ideas) went on to win a supermajority in the legislative elections of February 2021, granting him great latitude to alter the balance of power in the country's institutions, and giving his administration significant leeway to carry out legislative reform.

From 2009 to 2019, the country's social policy received renewed attention, although major challenges remain with regard to its reach, financing and quality of provision. Having previously stagnated at around 3.4% of GDP, public expenditure on education received a major boost in 2009 and subsequently stabilised at just under 4%. Expenditure on public health increased by 0.5% of GDP, and a social protection system was established by law along with the expansion of a number of transfer programmes, including a social pension (ECLAC, 2019[9]). Compared to other Latin American economies, major challenges remain in reducing vulnerabilities, especially in education and health (OECD et al., 2019[10]).

The military conflict and the liberalisation of the economy have also deeply transformed the country's economic elite. The conjunction of land reform and military conflict in rural areas resulted in the dilution of the agrarian elite of the first half of the 20th century, as it diversified its activities and as new entrepreneurial actors entered manufacturing businesses. However, the first wave of privatisations, which was carried out in a context of weak institutional capacity, led to the creation of powerful private-sector groups in the financial sector, and to the establishment of dominant players in privatised sectors (Wade, 2016[4]). While family ties still link the country's private-sector elites, the diversification of business interests, and the increasing trans-nationalisation of capital holdings – notably with the entry of foreign capital, and especially in the financial sector – have transformed the shape of the country's private-sector leadership (Rivera, 2017[11]; Waxenecker, 2017[12]).

The COVID-19 pandemic has highlighted the structural obstacles that hamper development in El Salvador, but it has also contributed to an acceleration of change in certain areas. A weak social protection system stands out among the obstacles that made public action more difficult. In addition, the significant fiscal effort that was made in response to the pandemic may limit fiscal space even more in the future, constraining the government's scope to carry out counter-cyclical fiscal policy and to provide key public goods. Lastly, the institutional conflicts that undermined the response to the pandemic have been resolved by the dominance of the Executive branch and the alignment of political agendas. In the short run, this has the potential to unlock a number of pending issues. In the medium term, however, it could weaken democratic institutions in the country. Moreover, the strong fiscal stimulus, which has been channelled in part through much-needed investment in social and productive infrastructure, has the potential to help boost future growth. Accelerating digitalisation is also a great opportunity for El Salvador, if the country can boost its advantages in sectors such as digital services, and if it manages to capitalise on the creation of digital skills that are pertinent both for the productive sector and for better governance.

Almost 30 years after the end of the civil war that so deeply marked the history of development in El Salvador, the country finds itself at a crossroads. The most blatant expressions of the stark inequalities that spawned the armed conflict have been addressed, albeit imperfectly, by land reform, institutional reforms and changes in the domestic and global economy. However, while the liberal democratic order that emerged after the conflict has endured, the country's model of economic development has failed to

deliver robust inclusive growth. As El Salvador seeks to free itself from the deep polarisation that followed the end of the war, it has the opportunity to redefine its development model and to set its sights on a brighter future. In this context, the adoption and implementation of a development strategy can help to define policy priorities within a multi-dimensional framework. It can also contribute to improving legitimacy, by establishing citizens' well-being as the central policy objective (OECD et al., 2019[10]).

The COVID-19 pandemic in El Salvador: Impacts and responses

The evolution of the pandemic in El Salvador

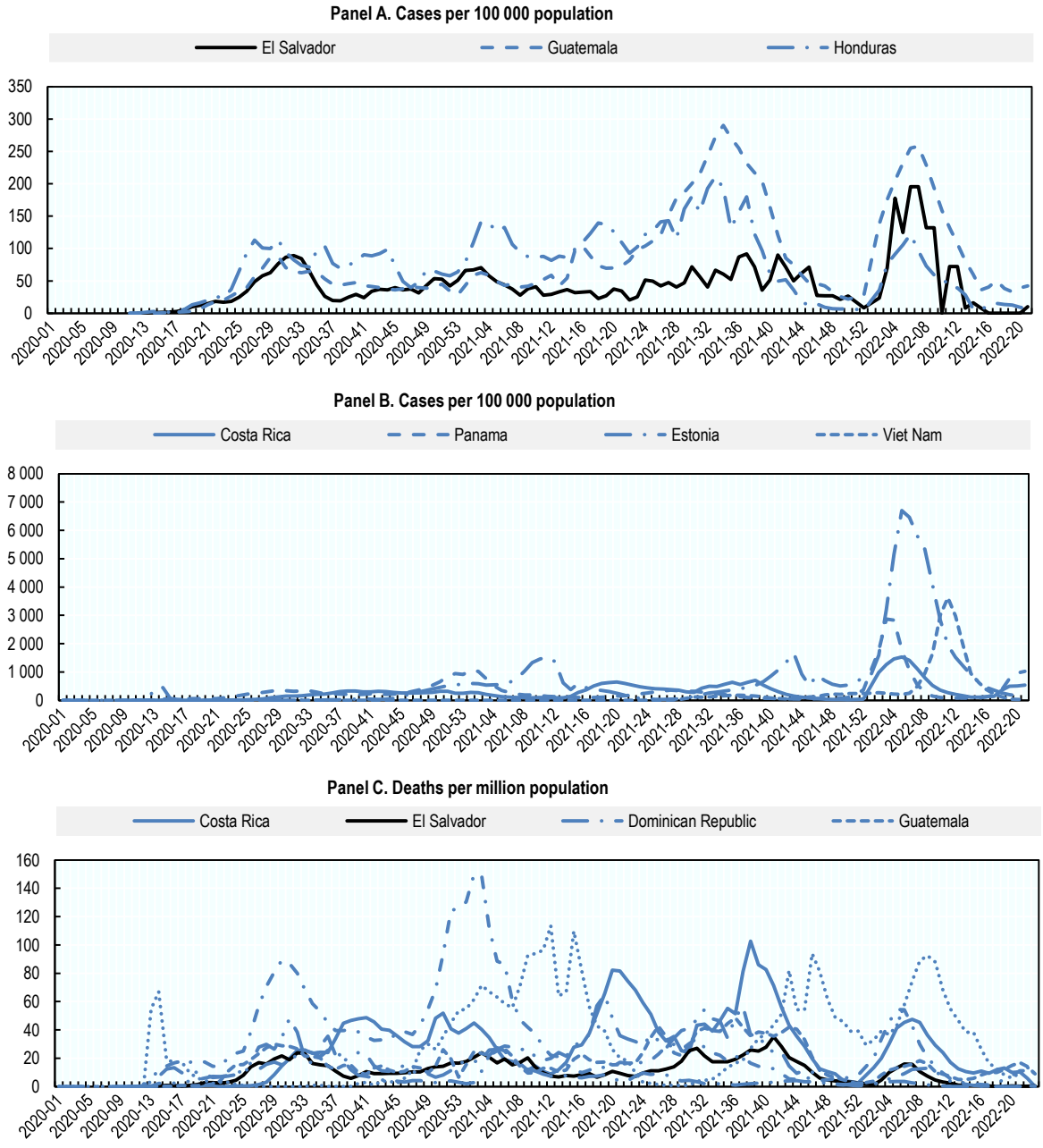
The incidence of the COVID-19 pandemic in El Salvador was relatively modest by international standards. As of 1 August 2022, 190 818 cases of COVID-19 (30 220 per million inhabitants) and 4 199 deaths (665 per million inhabitants) had been confirmed. Both figures are notably lower than the global averages for cases (73 114) and deaths (810) per million inhabitants, and they are also lower than the corresponding figures for countries in the sub-region such as Costa Rica or Panama (Ritchie et al., 2022[13]).

Vaccination against COVID-19 in El Salvador started on 17 February 2021 and progressed rapidly. By the end of 2021, 71% of the population had received at least one dose of vaccine, and 66% had received a full course. These figures are close to those of Costa Rica (77% and 68% respectively) or Panama (72% and 66%), and are significantly higher than those of neighbouring countries such as Guatemala (37% and 27%) or Honduras (48% and 42%). However, the vaccination campaign has not made much progress following this initial effort. As of 1 August 2022, the share of the population with at least one dose was 73%, yet vaccination is open to all those over six years of age, and this accounts for 90% of the population according to official projections.

El Salvador was among the last countries in Latin America to report the presence of COVID-19 in its territory. The country recorded its first case of coronavirus on 19 March 2020, and its first death on 1 April 2020. The pandemic has unfolded in five epidemic waves, with a notable increase in recorded infections in early 2022. However, due to the levels of immunity achieved, the lethality of the waves of infection in 2022 has been significantly lower than in previous waves (Figure 1.1).

Figure 1.1. Evolution of the COVID-19 pandemic in El Salvador

Weekly confirmed cases and deaths due to COVID-19 in El Salvador and benchmark countries, 14-day notification period



Note: El Salvador registered its first coronavirus case on 19 March 2020 and its first death on 1 April 2020.
Source: (ECDC, 2022[14]), *Data on 14-day notification rate of new COVID-19 cases and deaths* (database), https://www.ecdc.europa.eu/en/publications-data/data-national-14-day-notification-rate-covid-19.

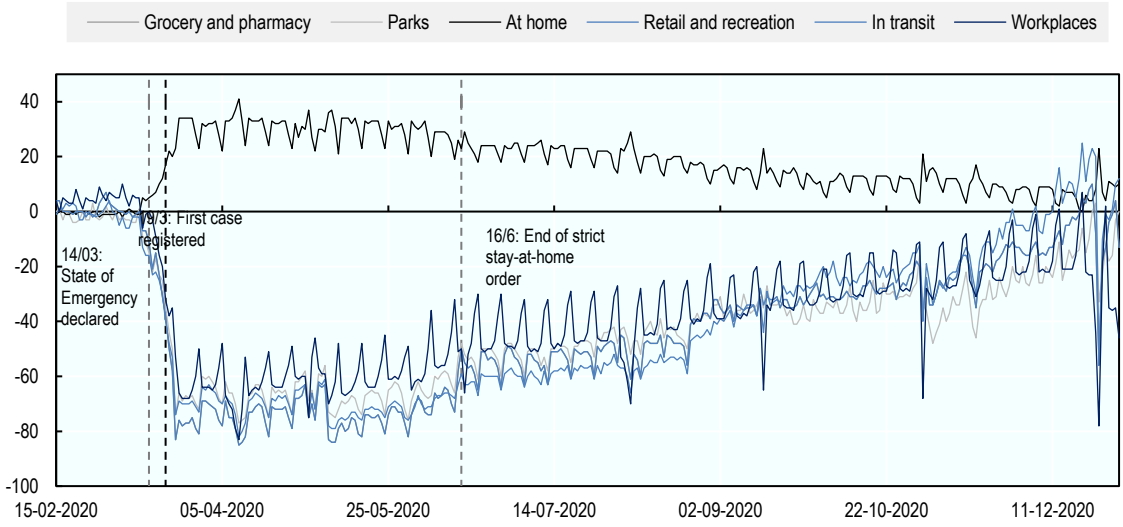
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Faced with the risk of the spread of COVID-19, El Salvador reacted quickly, adopting preventive actions. Even before the first case was confirmed in El Salvador, it was one of the first countries in Latin America to adopt urgent measures to curb the spread of coronavirus. On 23 January 2020, the government declared the country to be in an emergency with regard to the prevention of the virus (Government of El Salvador,

2020[15]). Entry into the country was restricted, and on 14 March 2020, the Legislative Assembly approved a state of national emergency, public calamity and natural disaster (Legislative Assembly, 2020[16]). In March, the government announced a series of measures to restrict mobility and gatherings with the adoption, on 21 March, of a strict mandatory stay-at-home order, with no service on public transport, and with limitations on trips to supermarkets or pharmacies determined by rotas identified by identity-card numbers (Government of El Salvador, 2020[17]). The strict stay-at-home order was in force until 16 June 2020, and a voluntary stay at home order (*cuarentena*) was introduced from 7 July 2020. The stay-at-home order had an immediate effect, and there was a sharp decrease of around 70% in mobility in the country. The reduction in mobility continued until the end of 2020, at which point activity had recovered in most sectors, except for education.

Figure 1.2. Mobility restrictions had impact on mobility

Percentage variation relative to baseline



Note: The figure depicts mobility patterns during the crisis and the percentage change from the baseline of 15 February 2020 as recorded by Google Maps. The figure follows a chronological representation from the declaration of the State of Emergency (14/03/2020) and the registration of the first case of coronavirus in the country (19/03/2020) to the lifting of the quarantine (16/06/2020).
Source: Authors' elaboration based on Google (2022), *Google Mobility Trends* (database), www.google.com/covid19/mobility/, (last updated on 1 August 2022).

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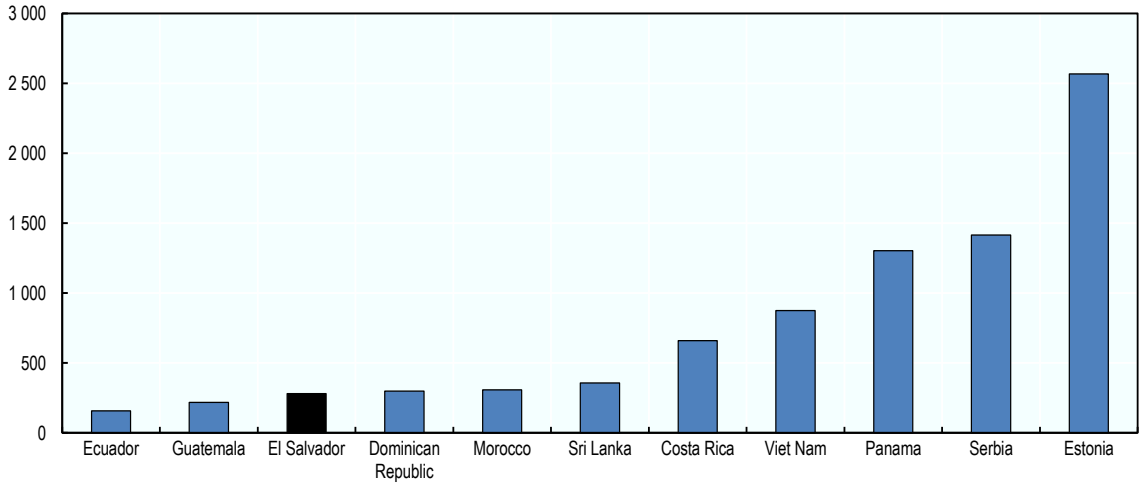
COVID-19 testing capacity in El Salvador has been a constraint for the management of the pandemic, although it stands at comparable levels to other countries in the region (Figure 1.3). Increased processing capacity for polymerase chain reaction (PCR) tests as of early 2022 may help in the management of COVID-19 in the future, and it partly explains the jump in recorded cases in 2022.

Lack of co-operation between the branches of government hampered the management of the COVID-19 pandemic. Opposition between the executive and the judiciary over exceptional mobility restrictions, and the absence of agreements between the executive and legislative bodies in El Salvador, posed major challenges during the pandemic. Following legal controversy over restrictions on personal freedoms that were approved in order to sustain the stay-at-home order, the judiciary declared the executive and legislative decrees in support of quarantine to be unconstitutional on 8 June 2020, almost three months after the start of the pandemic. By also declaring unconstitutional the decree stipulating milestones for the gradual re-opening of the economy, the organisation of the gradual opening was left to the will of the private sector, under advice from the executive. The confrontation between the president and other state entities

was identified in a survey as one of the country's main problems (24.1%). As such, it came second only to the pandemic (43.3%), displacing concerns about crime and the economic situation (Instituto Universitario de Opinión Pública, 2020[18]).

Figure 1.3. Testing capacity has been limited in El Salvador

Cumulative tests per thousand people



Source: (Ritchie et al., 2022[13]) *Coronavirus Pandemic (COVID-19)* (database), OurWorldInData, https://ourworldindata.org/coronavirus.

StatLink https://stat.link/ruvo7k

El Salvador reacted to the crisis with sizeable response measures

In order to confront the pandemic and reactivate the Salvadoran economy, the government announced two ambitious economic, social and health packages totalling USD 3.646 billion. The Legislative Assembly adopted the country's first package to mitigate the effects of the pandemic on 26 March 2020, after the government put forward a programme amounting to USD 2 billion (7.4% of GDP) (Legislative Assembly, 2020[19]). These resources financed a Fund for Emergency, Recovery and Economic Reconstruction (Fondo de emergencia, recuperación y reconstrucción económica) (Box 1.1). A second package of additional economic and health measures to support the productive sector amounting to USD 1 billion (3.7% of GDP) was approved by the Legislative Assembly on 7 May 2020 (Legislative Assembly, 2020[20]). During the state of emergency, the application of fiscal sustainability targets enshrined in the country's Fiscal Responsibility Law was also temporarily suspended (Legislative Assembly, 2020[21]). In addition, the government obtained prior authorisation to increase the 2020 budget by USD 645.8 million (MH, 2020[22]).

Financing for additional expenditure during the pandemic drew on multiple sources. The government expected that half of the resources in the context of the COVID-19 emergency (approximately 1.6 USD billion) would come mainly from multilateral organisations (MH, 2020[22]). According to data from the Ministry of Finance, around USD 700 million of multilateral funding had come in by December 2020 (MH, 2020[23]). El Salvador received loans from the International Monetary Fund, the World Bank and the Inter-American Development Bank. To finance the remainder of its pandemic spending, the country resorted to other financing mechanisms, including the issuance of USD 1 billion in Eurobonds at a rate of 9.5% (MH, 2020[22]), and the issuance of short-term treasury certificates (CETES) worth USD 645 million in September 2020. In addition to the raising of additional funds, resources were re-allocated across expenditure items, in particular through the allocation of USD 558 million in 2020, and USD 224 million in

the first half of 2021, to the Fund for civil protection and the prevention and mitigation of disasters, the Fondo de Protección Civil, Prevención y Mitigación de Desastres (FOPROMID) (MH, 2021[24]).

Difficulties in obtaining legislative approval for taking out external loans imposed liquidity constraints in financing the response to the pandemic. Prior to the inauguration of the newly elected Legislative Assembly in May 2021, more than USD 1.7 billion in agreed loans were pending approval. In practice, this situation led to a series of budget reallocations during the period between April 2020 and May 2021, in order to finance increased public spending that had been approved for the pandemic and to fill the funding gap in the 2020 budget. To date, however, no consolidated document has been published setting out the pandemic-specific expenditure of 2020 and 2021.

Box 1.1. Financing instruments approved to face up to COVID-19

First package of economic and health measures (Legislative Decree 608, 26 March 2020)

The first package of economic and health measures, which amounted to USD 2 billion, financed the Fund for Emergency, Recovery and Economic Reconstruction, which served to mitigate gaps in the health system by providing medicines, hospital equipment, and medical and hospital supplies of all kinds for preventing and fighting the virus and for the care of patients infected with it. It was also used to support economic recovery and reconstruction. Specifically, and from the details of Legislative Decree 608:

- 30% of the fund (USD 600 million) was attributed to municipal governments to support economic recovery and reconstruction.
- 70% of the fund (USD 1.4 billion) was earmarked to cover revenue shortfalls in the 2020 budget that had been caused by COVID-19, and to incorporate resources into the general budget (MH, 2020[22]). This money was also earmarked to pay out USD 300 transfers to households.

Second package of economic and health measures (Legislative Decree 640, 5 May 2020)

The second package authorised expenditure of USD 1 billion. According to Legislative Decree 640, these resources were earmarked for FIREMPRESA, the new trust fund for the economic recovery of companies, with up to USD 600 million to promote the economic recovery of Salvadoran companies affected by COVID-19, and which was channelled through several programmes:

- Subsidies for workers in Salvadoran companies, with a focus on workers in micro, small and medium-sized enterprises (MSMEs) (USD 140 million).
- A programme to grant working capital credit lines to companies registered as employers with the Salvadoran Social Security Institute (ISSS) (USD 360 million).
- A programme for creditworthy entrepreneurs in the informal sector which had at least one credit outstanding either in the national financial system or the co-operative financial system, and which had a credit risk in category A or B as of 29 February 2020, providing access to working capital to enable their economic recovery (USD 100 million).
- Payment of refunds of value-added tax (VAT) (known in El Salvador as tax on the transfer of movable goods and the provision of services) to exporters (USD 100 million).
- Payment of private-sector suppliers of the state (USD 300 million).

Sources: (Legislative Assembly, 2020[19]); (Legislative Assembly, 2020[20]); (MH, 2020[22]); (MH, 2021[25]); (MH, 2021[26]).

Funding for additional expenditure was channelled through multiple mechanisms. Much of the additional expenditure, including emergency cash benefits, was channelled through the FOPROMID fund. Some lines of funding were also channelled through municipalities. According to the Ministry of Finance,

USD 191.7 million of the USD 600 million allocated to El Salvador's 262 municipalities to address the COVID-19 emergency in 2020 was transferred directly to municipalities (MH, 2021[25]; MH, 2021[26]). Finally, a significant fraction of the response to the pandemic (USD 600 million) was processed through a trust fund for the economic recovery of Salvadoran companies (FIREMPRESA), administered by the Development Bank of El Salvador (BANDESAL). This included not only credits, but also subsidies to employees of small and medium-sized enterprises (SMEs).

The measures included in these two ambitious packages correspond to a large extent to the lending policies, guarantees, transfers to enterprises, and payroll subsidies that were implemented in OECD countries as a response to the pandemic in a bid both to secure employment and to encourage a recovery that would maintain employment. El Salvador's packages included measures to invest in the country's hospital network, to protect the vulnerable population through energy subsidies, food packages and vouchers during the stay-at-home order, and to develop policies to support liquidity, which is particularly relevant given the high number of MSMEs in El Salvador (Table 1.1).

In the education sector, face-to-face classes, workshops, and diploma courses at all levels, were suspended from March 2020 to April 2021 in the public and private sectors (Government of El Salvador, 2021[27]). The Ministry of Education (MINED) adopted an Education Continuity Plan (Plan de Continuidad Educativa) to continue teaching remotely during the COVID-19 emergency. However, MINED faced major difficulties due to the significant number of pupils and students who did not have access to the Internet. This required the mobilisation of other teaching resources such as television and radio, as well as the implementation of a programme to equip students and teachers with hardware, and to train teachers in the use of digital teaching platforms

Table 1.1. Economic, social and health measures in El Salvador in 2020

Dates of approval; amounts as announced or programmed

People	Businesses	Health and other measures
18/03: Freezing of mortgage, personal and credit card payments for three months.	14/03: Guarantee of job stability. No worker under COVID-19 quarantine can be dismissed.	14/02: Experts and workers in the health sector hold training sessions on COVID-19.
18/03: Suspension of payment of bills for drinking water, electricity and telecommunications services for 3 months.	18/03: Suspension of payment of bills for drinking water, electricity and telecommunications for 3 months.	13/03: Declaration of a state of emergency. Adoption of an ambitious package of health measures, which serves to cover the deficit of the health system, through the supply of medicines, hospital equipment, and medical and hospital supplies.
20/03: Law on the facilitation of online purchases allowing online purchases of products from the United States with a value of less than USD 200 not to be subject to compliance with non-tax customs obligations.	18/03: Moratorium on payments of loan instalments for three months.	20/03: Price control and price fixing to ensure that there would be no increase in the price of basic foodstuffs, and to protect people's income
21/03: USD 150 bonus compensation for public employees engaged in direct activities to combat COVID-19.	20/03: Modification of the Central American import tariff during the state of national emergency. The tariff was set at 0% for essential foodstuffs, as well as for medicines for respiratory diseases, and for hygiene and cleaning products.	30/03: Companies that were still allowed to operate had to send home employees who were over 60 years old, pregnant, or suffering from chronic illnesses
22/03: One-time delivery of a USD 300 voucher per household to compensate for their lack of income during the crisis. Estimated to reach 1.5 million people in households consuming fewer than 250 kilowatts (kW) of electricity (USD 450 million).	20/03: Three-month exemption from the payment of the special contribution for the promotion of tourism (limit USD 10 000), plus an extension for the payment of income tax up to a maximum of USD 25 000.	07/05: Persons who were allowed to circulate were obliged to wear a mask.

04/05: Two-month extension of the deadline for filing an income tax return and payment for the 2019 tax year, until 30/06 (medium and large taxpayers). Authorisation to pay income tax in up to a maximum of seven instalments, with the first instalment of 10% of the tax to be paid in June (medium-sized taxpayers). Authorisation to pay income tax in instalments up to a maximum of four instalments, with the first instalment of 30% paid in June (large taxpayers).	07/05: Payment of VAT (tax on the transfer of movable goods and provision of services) refund to exporters (USD 100 million).	
	07/05: Productive financing programme for creditworthy entrepreneurs in the informal sector, by means of working capital lines to foster their economic recovery (USD 100 million).	
12/07: Delivery of school food packages to 320 000 students.	07/05: Payment of dues towards private-sector suppliers to the state (USD 300 million).	Construction of a temporary hospital in San Salvador with a capacity of 300 intensive care unit (ICU) places and 1 000 beds (USD 70 million). 21/06: Inauguration of a new hospital in San Salvador (Hospital El Salvador) with 400 beds, including 105 ICU beds and 295 intermediate care beds, to care exclusively for patients with COVID-19.
	07/05: Programme to grant working capital credit lines to companies registered as employers with El Salvador's Social Security Institute (ISSS) (USD 360 million).	09/08: Delivery of home medication kits. Through the 132 call centres, medicines were to be sent to people with COVID-19 symptoms
	04/06: Reform of the Law of the financial system for the promotion of development, allowing the Development Bank of El Salvador (BANDESAL) to grant loans for productive activities and social programmes in the areas of health, education, culture, art and sport.	05/10: El Salvador's Solidarity Fund for Health, FOSALUD, trained new staff for the emergency medical system with a course on basic pre-hospital care.
		09/08: Establishment of over a thousand beds in the public health hospital network.

Note: Responses are classified depending on target groups: 1) People: income support, extending rights with transfers to households; 2) Businesses; 3) Health: concrete measures to strengthen the country's health system and health network. The table does not include assistance from the European Union (European Civil Protection and Humanitarian Aid Operations) or disbursements from other countries and co-operation organisations in support of El Salvador's COVID-19 emergencies.
Source: OECD (2020[28]), *Covid-19 Policy Tracker*, http://oecd.org/coronavirus/en/#country-policy-tracker; Legislative Decrees 598, 604, 635, 706, 602, 593, 614 of 2020; Executive Decrees 14/19, 12 of 2020; (Government of El Salvador, 2020[17]); (Legislative Assembly, 2020[29]).

Impact of the pandemic and post-pandemic situation

In aggregate terms, El Salvador has managed to make a remarkable economic recovery from the disruption of the COVID-19 pandemic. According to data from the Banco Central de Reserva (BCR), the country's central bank (BCR, 2022[30]), GDP growth reached 10.3% in 2021, offsetting the 8.6% contraction in GDP that occurred in 2020. By the end of 2021, most sectors, including ones that had suffered very large contractions, had bounced back from the large falls in activity that had resulted from the pandemic and the temporary shutdown of activities. The manufacturing sector generated value added in 2021 that was only 2% lower than in 2019, despite a 12% contraction in 2020. Retail and repair had 1% higher value

added in 2021 than in 2019, after an 8% contraction in 2020. Value added in hospitality and restauration was 1% lower in 2021 relative to 2019, after a 27% contraction in 2020. However, the economically significant sectors of transport, construction and real estate still had not recovered pre-pandemic levels of activity (with respectively 3%, 10% and 14% lower value added in 2021 than 2019).

Employment has also recovered, although gaps in the data make a full assessment more difficult. The number of workers in formal employment as registered with the Salvadoran Social Security Institute fell by 71 700 from February to June 2020, but it recovered quickly, matching its pre-pandemic peak by mid-2021, and totalling 915 0196 by the end of 2021 (a 3.8% increase relative to pre-pandemic levels, and a 13% increase relative to the lowest point) (ISSS, 2022[31]). By contrast, aggregate employment figures point to a fall in employment in 2020 of over 190 000 workers, with a very limited recovery of around 23 000 in 2021 (ILO, 2022[32]). While this can point to a significant fall in informal employment, especially through a contraction in agricultural employment, it should be noted that data collection was severely affected by the pandemic in the year 2020. Moreover, these results contrast with findings from high-frequency phone surveys by the World Bank and the United Nations Development Programme, which find a 5 percentage point increase in the employment-to-population ratio between the start of the pandemic and the end of 2021, largely led by the entry of inactive workers into informal employment (World Bank/UNDP, 2022[33]).

According to official data, the pandemic led to an increase in poverty, albeit a modest one relative to the regional average. The poverty rate increased by 3.4% in 2020, before partially recovering to reach 24.6% in 2021 (DIGESTYC, 2021[34]). The increase in extreme poverty was more pronounced and did not recover as quickly. It increased from 4.5% in 2019 to 8.6% in 2020, before falling to 7.8% in 2021. Even accounting for difficulties in measuring poverty in 2020, the 2021 figures represent a significant setback, indicating a return to levels observed over five years earlier. However, these increases in poverty remain modest compared with the Latin America and the Caribbean region. The harmonised methodology of the UN's Economic Commission for Latin America and the Caribbean (ECLAC) found that poverty in El Salvador increased only slightly even as poverty rates grew by 1% or more in 11 of the 13 countries in the region for which data were available, and with extreme poverty reaching 10% in the region on average (ECLAC, 2022[35]; OECD et al., 2021[36]). One-off transfers during the pandemic achieved very high coverage in El Salvador, reaching 89% of households according to the high-frequency phone surveys by the World Bank and the UNDP. This was highest in the region, and it certainly contributed to mitigating the impact of the pandemic on the poor.

El Salvador's large fiscal effort in reaction to the pandemic has created a difficult scenario for public finances. Central government primary expenditure rose by 33% from 2019 to 2020, the largest increase in the whole of Latin America (OECD et al., 2021[37]). As a consequence, public debt increased to 85% of GDP by the end of 2021 according to estimates from the BCR and the International Monetary Fund (IMF). To be sure, a significant part of the new debt is of multilateral origin, and therefore has favourable credit conditions (MH, 2020[22]). For example, 44% of funding for the measures covered by the country's first package of economic and health measures (as per Legislative Decree 608), and which corresponded to USD 769 million of new debt, came from multilateral institutions. Nevertheless, El Salvador's level of debt is worrying given its low capacity for tax collection.

The crisis and its response highlight some of the structural obstacles to development in El Salvador

The COVID-19 crisis highlighted the fragility of El Salvador's social protection system. Given the low reach of targeted transfer programmes, the government decided to provide a cash transfer of USD 300 to households that had lost income due to the pandemic or the quarantine measures, and that consumed less than 250 kW of electricity. It was expected that 75% of households would receive this stipend, making it a very roughly targeted form of support. According to official communications, 1.23 million households had received the transfer as of April 2020, financed through a 350 USD million transfer from the

FOPROMID fund (Office of the President of the Republic, 2020[38]; MH, 2020[23]). This choice was justified because El Salvador's single registry of beneficiaries, which targets interventions such as those of the main conditional transfer programmes, does not yet have national coverage, and its use could not have been agile or equitable. Targeting on the basis of electricity consumption allowed the government to base its initial targeting on the registry of beneficiaries of a subsidy for cooking gas, which uses electricity consumption as a means test.

Management of the COVID-19 crisis was also mired by the lack of institutionalisation of procedures in El Salvador. Conflicts between branches of government during the pandemic generated uncertainty, especially at the end of the stay-at-home order, when the country's supreme court annulled executive decrees that set out milestones for reopening. Conflicts between the executive and legislative branches also made financing the response to the pandemic more difficult, as a number of negotiated loans were not approved in due course by the legislature. Finally, in order to allow itself greater flexibility, the government channelled most of the resources for the fight against the pandemic through the FOPROMID fund, foregoing the inclusive governance structure that had been established by Legislative Decree 608, and which established an extraordinary budget to channel approved resources, along with a governing board to oversee the Fund for Emergency, Recovery and Economic Reconstruction. Ultimately, only USD 20 million transited through the Fund for Emergency, Recovery and Economic Reconstruction, making public oversight of the overall fiscal effort significantly more difficult (Comité de Seguimiento y Veeduría Ciudadana del Fondo de Emergencia, Recuperación y Reconstrucción Económica, 2021[39]).

Some of the pandemic-response measures can help fill important structural gaps

The increased level of public and private investment in El Salvador was one of the drivers of the recovery in 2021. After falling in 2020, public investment recovered to 2.6% of GDP in 2021, while private investment reached a record 18.4% of GDP in 2021. This increase in investment, which had already begun in previous years, has the potential to bridge important gaps in social, productive and transport infrastructure, and to underpin faster sustained growth (see Chapter 2).

Investment in the health system was directed partly towards the construction of a hospital designed to treat COVID-19 patients. It was also channelled into refurbishing and equipping hospitals and health centres – efforts with the potential to address, at least in part, Salvadorans' very low level of satisfaction with their health system. The construction of the El Salvador hospital in the former international conference centre during the pandemic commanded an investment of USD 75 million. Given the relatively low capacity of the hospital care system prior to the pandemic, this 1 000-bed hospital led to a 10% increase in the number of hospital beds in the country, and tripled the number of intensive care beds (from 3 per 100 000 people to 10.9) (PAHO, 2022[40]). On top of this landmark construction, and after focusing in 2020 on funding for equipment and the provision of care, investment in construction, refurbishment and equipment for hospitals and healthcare centres increased in 2021. The central government invested USD 21 million in 2021, up from USD 4 million in 2020 and USD 3 million in 2019, and the Salvadoran Social Security Institute invested a further USD 6 million in hospital infrastructure in 2021 (MH, 2021[41]; MH, 2022[42]).

Key trends shaping El Salvador's development

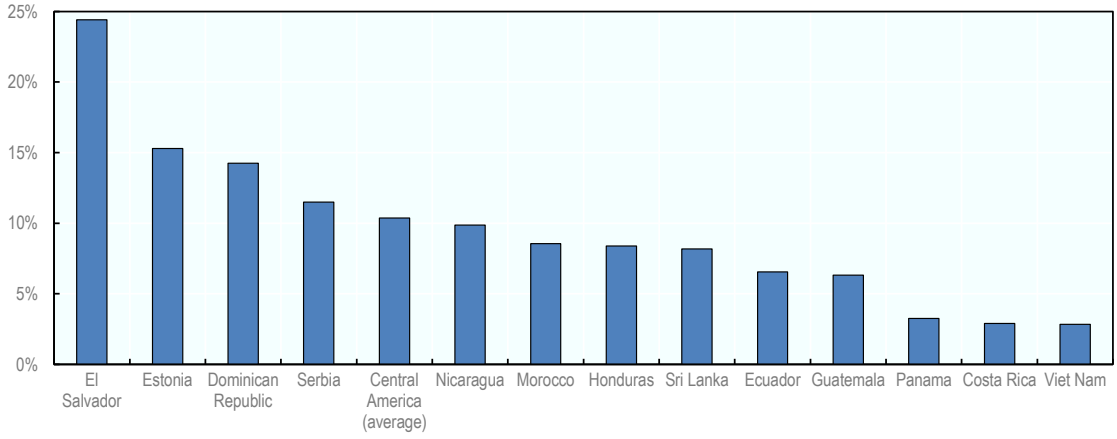
A number of framework conditions impact El Salvador's performance across a range of different areas, and are presented here. The history and legacy of migration both have an impact on people's well-being, and they also have a significant macroeconomic impact. Trends of urbanisation that are linked both to traditional rural-to-urban migration, and also to violence, have shaped the occupation of space. External trends also continue to set the stage for the country's development, especially given El Salvador's vulnerability to climate change and its reliance on foreign trade and regional integration.

The past and future of migration have profound impacts on the country's development

A very large share of Salvadorans live abroad, and this exerts a profound impact on the country's development path. According to estimates from the World Bank, almost 1.6 million Salvadoran migrants lived overseas in 2017, a figure that represents 25% of the country's population. Almost 90% of them reside in the United States of America. In addition to Salvadoran migrants who were born in El Salvador, a large population group of Salvadoran nationals who were born abroad continues to reside outside the country, including over a million people in the United States alone (Noe-Bustamante, Flores and Shah, 2019[43]). The remittances that they send to El Salvador are a fundamental source of finance for the country's economy. These remittances amounted to 24.1% of GDP in 2020,[4] higher than the average of 18.3% between 2010 and 2016. In 2021, they reached USD 7.5 billion. Migration can act as a safety valve to alleviate the lack of opportunities at home, but it can also drain the country of key human resources.

Figure 1.4. A large share of Salvadorans live abroad

Emigrant stock as a share of national population (2017)



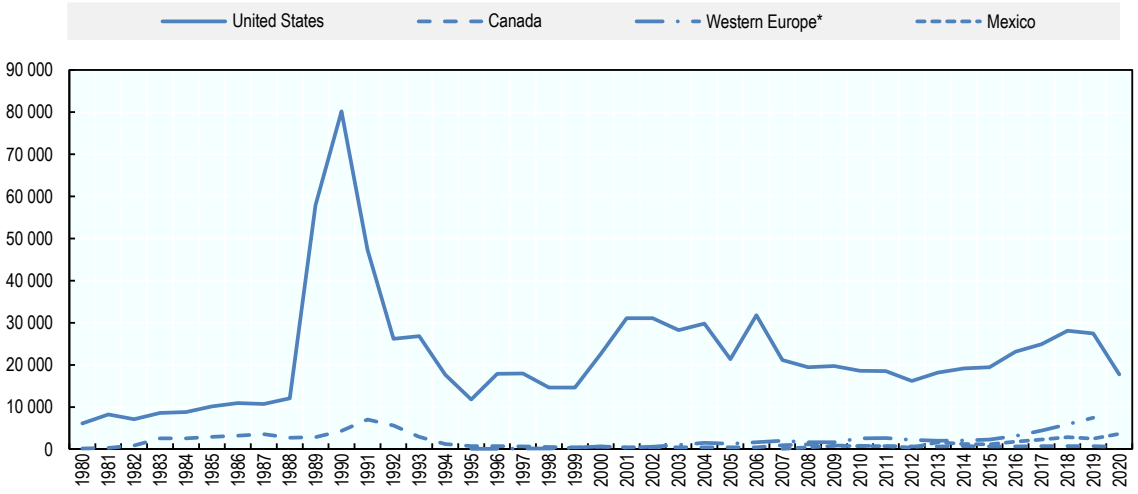
Source: (World Bank, 2018[44]), Bilateral Estimates of Migrant Stocks in 2017; (United Nations, n.d.[45]), *United Nations Population Divison Data Portal*, https://population.un.org/dataportal/home for population data.

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The history of migration in El Salvador is intimately linked to the civil war. The onset of political violence during the late 1970s and the early 1980s led to massive population movements to neighbouring countries and Mexico as people escaped the conflict. During this period, flows of migration to the United States grew steadily. Between 1970 and 1974, 45 000 Salvadorans entered the United States, and this figure grew to 334 000 between 1985 and 1990 (Gammage, 2006[46]). By the end of the 1990s, most of the 730 000 Salvadorans in other countries in Central America or Mexico had either returned to El Salvador or migrated onwards to the United States. The flow of migrants slowed down after the end of the war, but has fluctuated around 20 000 per year since until the years of the COVID-19 pandemic (Figure 1.5), driven by a number of push and pull factors, including earnings differentials, the performance of labour markets at home and abroad, family reunification, violence, and by the formation of a large Salvadoran diaspora in the United States (OIM et al., 2017[47]).

Figure 1.5. Migration flows were spurred by the civil war but have stayed high since

Annual migration flows from El Salvador to selected countries



Note: * Western Europe includes France, Germany, Italy, Spain and Sweden.
Source: OECD (2023[48]) *International migration database*, OECD, https://doi.org/10.1787/mig-data-en.

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Changes in migration policy in the United States and other countries in the region could significantly disrupt migration flows. A large share of Salvadoran migrants do not have a migration status that will allow them to stay permanently in their host country. According to El Salvador's national migration and remittances survey (OIM et al., 2017[47]), 49% of Salvadoran migrants have irregular status (excluding those under temporary protection status). Additionally, there are 193 940 Salvadorans with Temporary Protection Status in the United States (Wilson, 2022[49]), whose leave to remain in the country could be revoked if the programme were to be discontinued. United States authorities estimate that 735 000 Salvadorans resided without leave in the United States as of 2018 (DHS, 2021[50]).

El Salvador participates in the development of global and regional frameworks on migrants' rights. It is a member and a strong supporter both of the Global Compact for Safe, Orderly and Regular Migration (UN, 2019[51]), and the Global Compact on Refugees (UN, 2016[52]). The country joined the Regional Integrated Framework for Protection and Solutions (MIRPS) in July 2019, and it is implementing an action plan that includes a legal framework for the comprehensive care and protection of internally displaced persons (MIRPS, 2020[53]).

Urbanisation is an important determinant of the availability and demand for public services

El Salvador is a densely inhabited country, even though it is not highly urbanised**.** Almost half of the Salvadoran population is concentrated in three departments around the most populous cities: San Salvador, Santa Ana, and San Miguel. It is one of the most densely populated countries in Latin America, and relative to the set of benchmarking countries, with around 309.9 inhabitants per square kilometre. In contrast, Latin America and the Caribbean as a whole has only 32 inhabitants per square kilometre of land area. While only a million Salvadorans lived in urban areas in 1960, 4.6 million live in urban areas at present. Conversely, 1.79 million live in rural areas, which represents 28% of the total population. In terms of urbanisation, El Salvador is less urbanised than the Latin America and Caribbean (LAC) region. In 2018, the urban population accounted for 72% of the total population, compared to 80% on average for the LAC

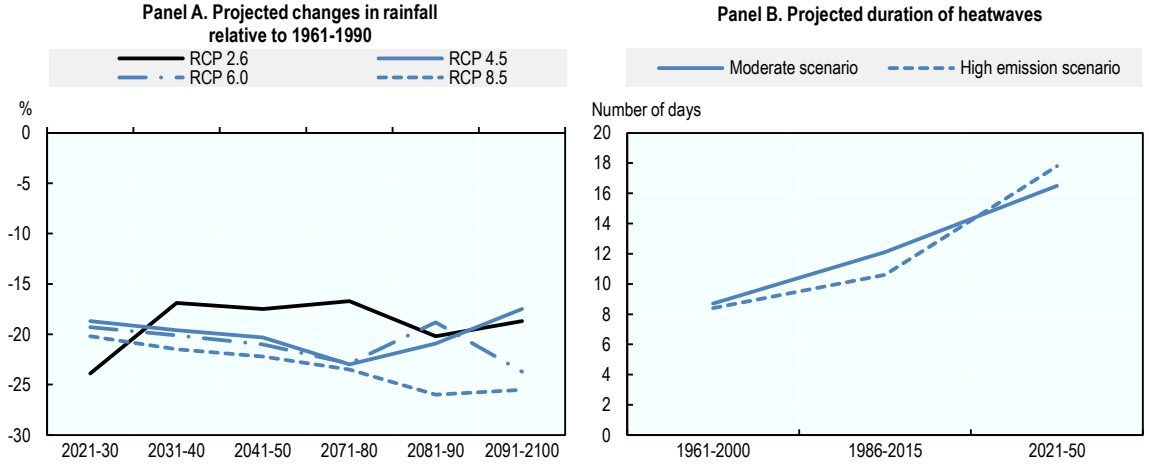
region. However, the urban population of El Salvador is growing at 1.5% annually, which is faster than the average growth in the region (World Bank, 2015[54]).

Processes of internal migration and urbanisation have been driven by the search for better economic opportunities, but also by violence**.** The economic crisis of the 1970s and the armed conflict of the 1980s had a strong impact on El Salvador's pattern of migration. In particular, the areas in which the highest percentages of inhabitants moved away were those that were more affected by the conflict of the 1980s, and those in which the highest percentage of the population depended on agriculture. Conversely, the main factor of population retention has been the level of industrialisation of each territory (Morán Mendoza, n.d.[55]). The metropolitan area of San Salvador has been the main pole of attraction for internal migrants in recent decades. The strong migratory inflows into the city have aggravated the proliferation of the informal sector, the lack of basic services, the level of ecological deterioration, and the environmental risks caused by the disorderly population of the capital and its surroundings, while also congesting transport infrastructures in urban centres (Lungo, 1993[56]).

Climate-change risks will become more pressing in El Salvador

Adaptation to climate change and the mitigation of its impact are becoming increasingly important in El Salvador and in Central America more broadly, notably given the region's vulnerability to climate risks. Future climate projections through to the 2050s include an increase in average annual temperature of 1.4 to 2 degrees Celsius, a decrease in average annual precipitation of between 2% and 21%, longer and drier periods of drought, and more notable extreme weather events, such as droughts (Figure 1.6). Projections for the sea level predict a rise of 18 centimetres by 2050, and of between 37 and 44 centimetres by 2065 (MARN, 2013[57]; MARN, 2018[58]).

Figure 1.6. Climate change will reduce water availability and increase extreme weather events in El Salvador



Note: The Moderate scenario corresponds to the RCP4.5 scenario of the Intergovernmental Panel on Climate Change (IPCC), the high emission scenario corresponds to the RCP8.5 scenario of the IPCC. Based on the same scenarios, the frequency of long dry periods affecting El Salvador will progressively increase.

Source: Panel A. MARN (2018[58]) Tercera comunicación nacional de cambio climático, Ministry of Environment and Natural Resources, El Salvador. Panel B: Mendizabal, et al. (2016[59]), "Tendencia de la temperatura del aire y los eventos extremos de olas de calor en AMSS", Climate & Development Knowledge Network and Ministry of Environment, El Salvador.

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The economic costs of climate change are estimated at around 7.2% of GDP in 2030 (DARA, 2012[60]; ECLAC, 2015[61]). The impact of climate change is expected to lead to declines in El Salvador's agricultural production, mainly for maize, beans and coffee. The "Dry Corridor", which covers most of El Salvador and

its main agricultural areas, is particularly exposed to severe floods and droughts. Maize, bean and coffee production are projected to decline: maize by 18% by 2050, and by 37% by 2100; bean production by 24% by 2050, and by 49% by 2100; and coffee by 22% by 2050%, and by 58% by 2100 (CEPALSTAT, 2021[62]; Barrios et al., 2019[63]).

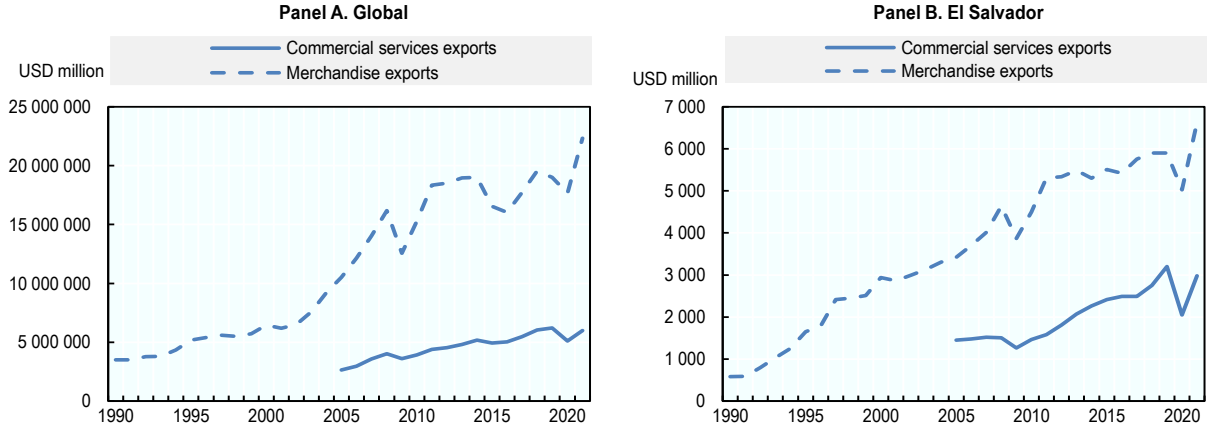
Changes in global trade can offer opportunities for El Salvador

For a small open economy like El Salvador, a healthy outlook for global trade can create significant opportunities. El Salvador benefitted little from the expansion in global trade during the first decade of this century. While global merchandise trade was accelerating at 10% per annum, it was slowing down in El Salvador, which was confronted with the expansion of manufacturing exports from China. The country was deeply affected by the global financial crisis of 2009 and the slowdown in global trade that ensued. Since 2011, global trade has been growing at a slower pace, with further slowdowns expected due to the current geopolitical situation. During this time, Salvadoran exports have grown at 1.5% per annum, almost double the pace of global trade. Moreover, services exports, although they remain relatively modest at 10% of GDP, have grown at 8.1% per annum, almost double the rate of the global trade in services (4.2%).

During the past five decades, global trade has not only grown very significantly in size, it has also been transformed in shape. Falling transport costs and tariff barriers, plus the rise of digitalisation, have contributed to the emergence of new, internationally fragmented, global production structures. This transformation has also increased the importance of services. The share of value added from services in merchandise exports increased between 2005 and 2015, with most countries recording values between 25% and 40% (Guilhoto et al., 2019[64]). In recent years, global patterns of trade and the organisation of production have shifted slightly, driven largely by changes within the Chinese economy, and leading to greater trade within the East Asian region, and of East Asia with the rest of the world.

Figure 1.7. Merchandise export growth has slowed down but trade in services is growing rapidly

USD million



Source: WTO (2023[65]), *International trade statistics* (database), World Trade Organization, https://data.wto.org.

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The Central American integration process presents challenges and opportunities for El Salvador

Regional integration is an important process for strengthening the development prospects of a small economy like El Salvador. The thrust of the regional integration process dates from the 1960s, when

El Salvador joined with Costa Rica, Guatemala, Honduras and Nicaragua in signing the General Treaty on Central American Economic Integration, with the objective of accelerating economic integration though the establishment of a Central American free trade zone, and the construction of a customs union. After promising early days, which included the development of the Central American Common Market (MCCA), the conflict between El Salvador and Honduras in 1969, and the emergence of revolutionary movements across the region, marked a pause in the integration process in the face of the different national realities that each country faced.

In recent years, the vision of regional integration has regained impetus with the creation of the Central American Integration System (SICA) in 1993, and then by the accession of Belize in 2000 and the Dominican Republic in 2013. The integration system has instances at the executive level (the Presidents' meeting), the legislative level (the Central American Parliament – PARLACEN), and the judicial level (the Central American Court of Justice). It also includes an active economic branch, with the Central American Bank for Economic Integration (BCIE) and the Secretariat for Central American Economic Integration (SIECA), as well as sector-specific instances in a broad array of areas from transport to natural resource management, to the promotion of SMEs.

Economic and trade integration have intensified with the creation of the Northern Triangle customs union. This customs union, which was created by Honduras and Guatemala, and which El Salvador joined in 2019, is part of a deep economic integration process. Inter-regional trade has brought dynamism to El Salvador's export performance in recent years (see Chapter 2). At the sub-regional level, intra-regional trade between Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama represented 31% of total exports and 14% of total imports in 2018 (SIECA, 2019[66]). Nevertheless, this trade integration process must be accompanied by an integration agenda that can respond to the challenges that El Salvador shares with other countries in the sub-region, from social and employment challenges to security, vulnerability to natural hazards and climate change, and challenges with regard to migration.

Overview of development performance in El Salvador

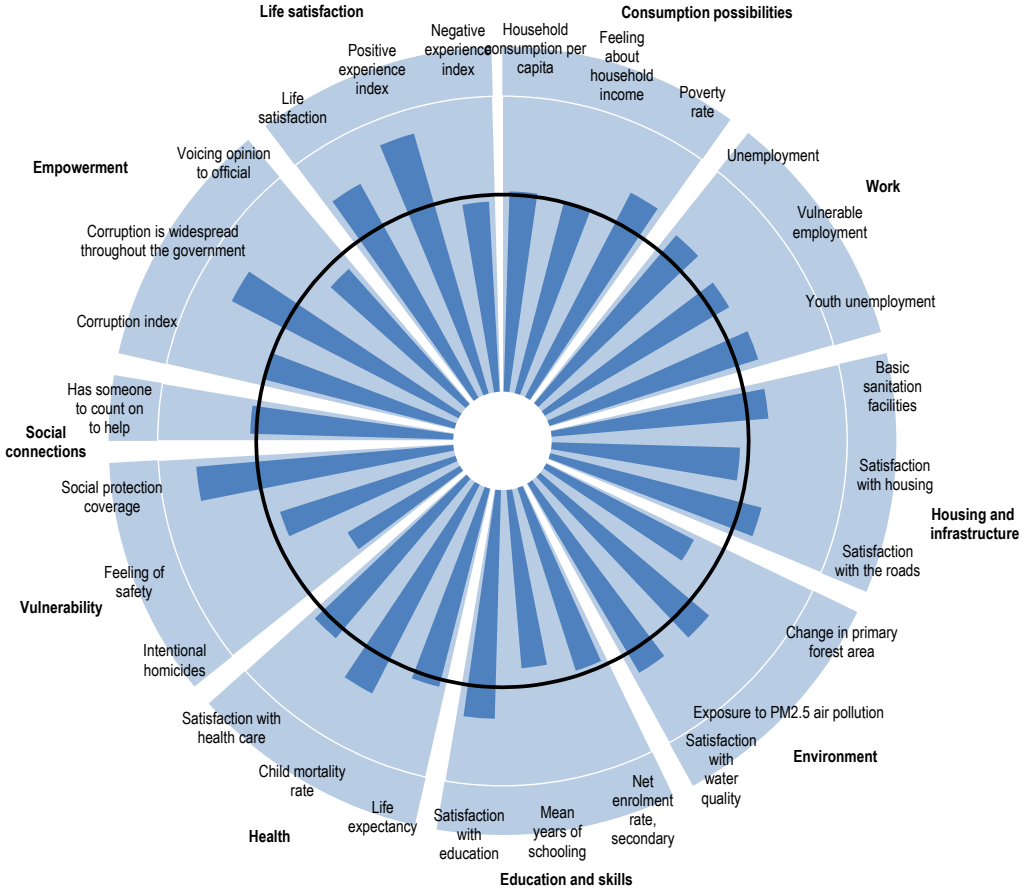
How's life in El Salvador? Performance in citizen well-being

This report takes continued and sustainable improvements in the well-being of citizens to be the ultimate gauge for measuring development success. The OECD's Framework for Measuring Well-Being and Progress uses a mix of objective and subjective indicators to account for people's well-being (OECD, 2017[67]). In a version adapted to developing economies for the Multi-dimensional Reviews, it provides well-being metrics across ten dimensions encompassing material conditions (consumption, work, housing and infrastructure), as well as quality of life (environment, education and skills, health, vulnerability, social connections, empowerment and life satisfaction). Looking at development through the lens of well-being allows a broad view of development outcomes that is based on specific areas of citizens' experience, instead of being aligned to the mandates of line ministries and agencies. In particular, looking at development outcomes beyond income is increasingly the relevant as countries such as El Salvador move up the income ladder (OECD et al., 2019[10]).

A well-being lens allows countries to identify areas where their performance is better or worse than other countries at similar levels of GDP per capita. Comparing El Salvador to countries that have similar levels of GDP per capita, Figure 1.8 displays the country's performance across outcome indicators in ten dimensions of well-being. The country's performance is compared to that of an average country with the same level of GDP per capita. Bars longer than the black circle represent a better performance, whilst bars shorter than the black circle represent a worse performance.

Figure 1.8. Current and expected well-being outcomes for El Salvador: Worldwide comparison

2021, or latest available data



Note: The observed values falling inside the black circle indicate areas where El Salvador performs poorly in terms of what might be expected from a country with a similar level of GDP per capita. Expected well-being values (the black circle) are calculated using bivariate regressions of various well-being outcomes on GDP, using a cross-country dataset of around 150 countries with a population over a million. All indicators are normalised in terms of standard deviations across the panel. PM2.5 emissions refers to the exposure of the population to particulate matter less than 2.5 microns in diameter.
Source: Calculations based on ILO (2022[68]), *ILOSTAT* (database), International Labour Organization, https://ilostat.ilo.org/; Transparency International (2021[69]), *Corruption Perceptions Index 2021* (database), https://www.transparency.org/en/cpi/2021; Gallup (2021), *Gallup World Poll* (database), https://www.gallup.com/topic/world-poll.aspx; UNESCO (2022[70]), *UIS.stat* (database), http://data.uis.unesco.org/; World Bank (2023[71]), *World Development Indicators* (database), https://data.worldbank.org/; WHO/UNICEF (2021[72]), Estimates for drinking water, sanitation and hygiene services by country (database), World Health Organization and United Nations Children's Fund http://www.washdata.org/; PNC (2023[73]) *Logros y Memorias,* National Civil Police, El Salvador.

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El Salvador performs close to the benchmark in most areas and exceeds average performance in most indicators of material conditions. The country's rate of extreme poverty (at the international line of USD 2.15 a day at purchasing power parity [PPP]) was, at 1.4 % in 2019, significantly lower than that of the benchmark, whilst unemployment was 2.7% lower.

The analysis highlights three key areas of underperformance in the country in terms of citizens' well-being. Violence appears as a key area, as the level of intentional homicides was significantly above the benchmark level (7 per 100 000) in 2021, the date for which data are presented in Figure 1.8. Despite this large gap, the differential in terms of feeling safe is relatively small (0.3 standard deviations). Moreover, it is important to underline that insecurity levels have dropped notably in the past few years. While in 2019, the homicide rate was almost four standard deviations from the reference level, in 2022, the recorded

homicide rate (7.9 per 100 000 population) was very close to the reference level. Is the reduction of crime and violence were to be durable, it would signify an major change for the country's development.

The second area of significant underperformance is the environment. Continuing deforestation harms air quality and limits citizens' access to natural spaces. There is also underperformance in the provision of clean water, although subjective indicators seem to downplay the importance of the issue relative to the findings in Chapter 2.

Empowerment indicators suggest there is little trust among citizens that voicing complaints to state officials will be useful. Perceptions of corruption, which were high in the past are now in line with the benchmark according to experts and business executives (as measured by Transparency International's Corruption perception index), and lower than the benchmark by over 20% among the population.

Moving ahead towards the UN Sustainable Development Goals (SDGs)

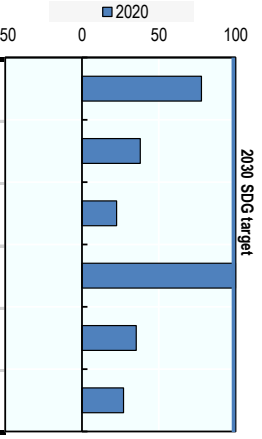
The SDGs offer a different framework of measurement for gauging progress in development. El Salvador has made a firm commitment to the SDGs, as shown in its Voluntary National Report. The 17 goals and 169 targets of the SDG framework include both outcomes and means of implementation, and can provide a dashboard of progress.

Figure 1.9. Progress towards the SDGs in El Salvador has been mixed

Progress towards 2030 SDG targets from 2010 to 2020 (or latest available)

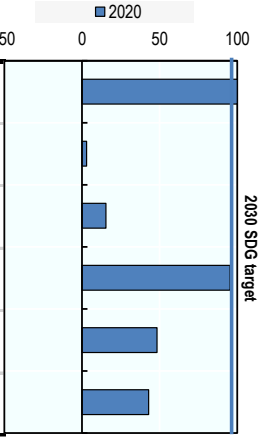
Panel A. People

	Target	2010	2020	Target 2030
1: No poverty	Poverty headcount ratio at USD 2.15 a day (2017 PPP) (% of population) *	6.3	1.4	0
2: Zero hunger	Prevalence of undernourishment (%) *	12.4	7.7	0
3: Good health and well-being	Universal health coverage (UHC) service coverage index *	69.0	76.0	100
	Under-five mortality rate (deaths per 1 000 live births) *	19.2	12.3	25
4: Quality education	Adult literacy rate, population over 15 years of age (%)	84.5	90.0	100
5: Gender equality	Proportion of seats held by women in national parliaments (%) *	19.0	27.4	50



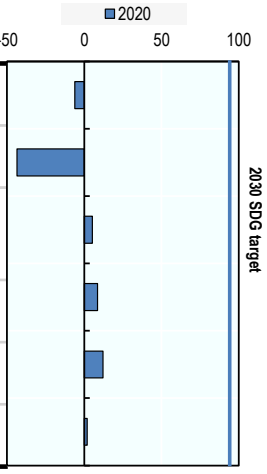
Panel B. Prosperity

	Target	2010	2020	Target 2030
7: Access to energy	Access to electricity (% of the population) *	91.6	100.0	100
8: Economic growth and decent work	Share of informal workers in non-agricultural employment (%) *	65.8	63.8	0
9: Industry and innovation	Research and development expenditure (% of GDP) * (1)	0.1	0.2	0.7
9: Infrastructure	Population covered by a mobile network (at least 2G, %) *	55.4	98.0	100
10: Reduced inequalities	Income share held by lowest 20% (2)	5.1	6.31	7.6
11: Sustainable cities	Population living in slums or inadequate housing (%) *	28.9	16.5	0



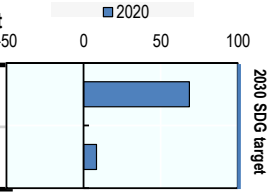
Panel C. Planet

	Target	2010	2020	Target 2030
6: Clean water and sanitation	Population using basic sanitation services (%) *	83.4	82.4	100
7: Clean energy	Renewable energy share in the total final energy consumption (%) * (3)	31.3	19.4	58.6
12: Responsible consumption and production	Domestic material consumption per unit of GDP (kg per constant 2010 USD) * (2)	1.7	1.6	0.3
13: Climate action	Production-based CO2 productivity (USD per CO2 kg) (3)	7.0	7.1	8.4
14: Life in the water	Marine Key Biodiversity Areas covered by protected areas (%) *	17.2	27.3	100
15: Life on land	Terrestrial Key Biodiversity Areas covered by protected areas (%) *	23.5	25.0	100



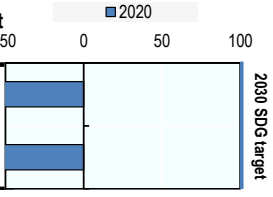
Panel D. Peace and institutions

	Target	2010	2020	Target 2030
16: Peace and justice	Intentional homicides (per 100 000 people) *	64.7	20.3	0
16: Access to justice	Unsentenced detainees as a proportion of overall prison pop. (%) *	32.19	29.5	0



Panel E. Partnerships and financing

	Target	2010	2020	Target 2030
17: Partnerships and Financing for Development	Overall level of statistical capacity (scale 0 - 100)	91.1	82.2	100
	Net lending (+) / net borrowing (-) (% of GDP) *	-3.1	-10.4	0



Note: Indicators marked with an asterisk (*) are official SDG indicators for monitoring progress. Numbers refer to the corresponding sustainable development goal. Targets are as set by the SDGs, where available (with baseline 2010). (1) 2030 target was set equal to the latest LAC average (0.66). (2) 2030 target was set equal to the latest OECD average. (3) 2030 target was set equal to the OECD 2030 target, calculated based on OECD (2019[74]).

Poverty headcount ratio is 2019 instead of 2020. Population covered by a mobile network is 2014 instead of 2010. Renewable energy share in total final energy consumption is 2019 instead of 2020. Production-based carbon dioxide (CO_2) productivity is 2019 instead of 2020.

Sources: (UN, 2022[75]), *Sustainable Development Goals Global Database* (database), United Nations, https://unstats.un.org/sdgs/dataportal; World Bank (2023[71]), *World Development Indicators* (database) https://data.worldbank.org/, plus:

Panel A: FAO (2022[76]), *FAOSTAT* (database), Food and Agriculture Organization, https://www.fao.org/faostat; WHO (2019[77]); UNICEF (2021[78]); UNESCO (2022[70]), *UIS.Stat* (database) UNESCO Institute for Statistics, http://data.uis.unesco.org/; Inter-Parliamentary Union (2022), *IPU Parline* (database), https://data.ipu.org

Panel B: World Bank (2022[79]); ILO (2022[68]), *ILOSTAT* (database), http://ilostat.ilo.org; RICYT (2022[80]), *Red de indicadores de ciencia y tecnología interamericana e iberoamericana* (database), http://www.ricyt.org/; (UN-HABITAT, 2021[81]). Panel C: WHO/UNICEF (2021[72]), "Estimates for drinking water, sanitation and hygiene services by country" (database), World Health Organization and United Nations Children's Fund, http://www.washdata.org/; IEA (2022[82]), *World Energy Balances* (database), International Energy Agency, https://www.iea.org/data-and-statistics/data-product/world-energy-balances; UNEP (2020[83]), *Global Material Flows Database* (database) https://www.resourcepanel.org/global-material-flows-database; OECD (2017[84]), *Green Growth Indicators*, https://www.oecd.org/greengrowth/green-growth-indicators/; Panel D: (MJSP, 2022[85]) and UNODC (2023[86]) *Victims of intentional homicide (database), United Nations Office on Drugs and Crime* (database), https://dataunodc.un.org/dp-intentional-homicide-victims-est; ICPR (2021[87]).

Panel E: World Bank (World Bank, 2021[88]), *Statistical Performance Indicators* (database), https://www.worldbank.org/en/programs/statistical-performance-indicators; IMF (2023[89]), *Government Finance Statistics* (database), International Monetary Fund, https://data.imf.org/.

StatLink https://stat.link/a0xwy8

Key constraints to development in El Salvador

The analysis of performance in Chapter 2 of this volume highlights a number of inter-related constraints to development. Figure 1.10 recalls the main constraints identified in the detailed analysis, organised by the five Ps of Agenda 2030: People, Prosperity, Planet, Partnerships and Finance, and Peace and Institutions. These obstacles are interlinked and addressing them requires an understanding of the mechanisms that sustain their persistence.

The model of economic development has not delivered robust inclusive growth

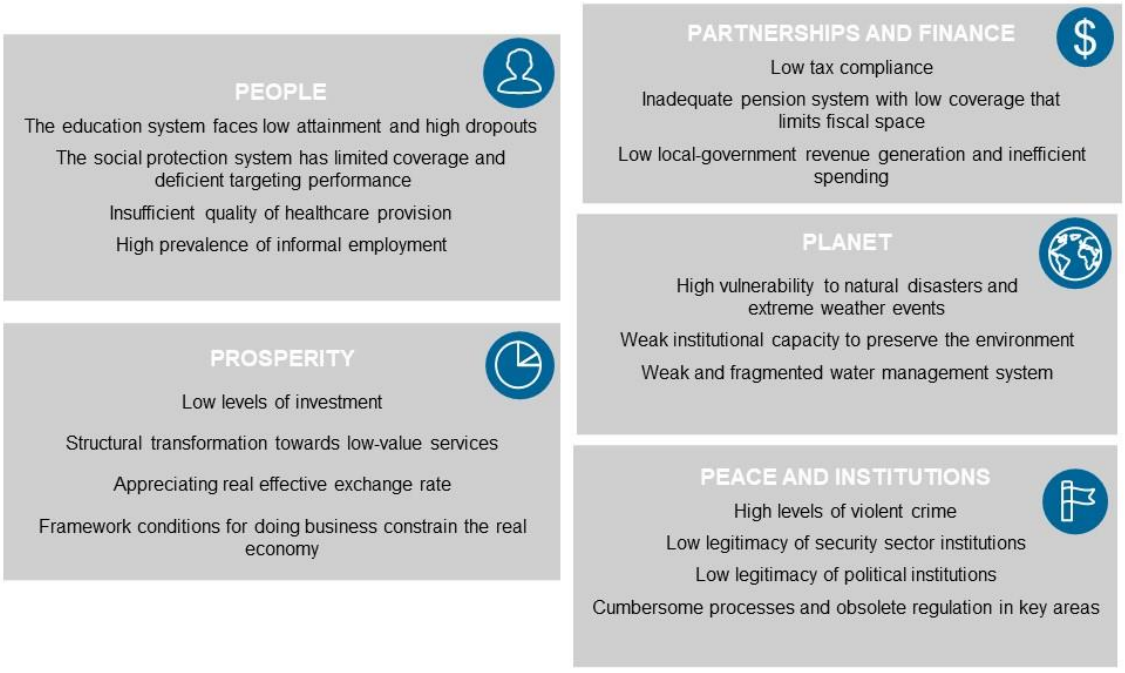
Despite strong liberalising reforms, the economy of El Salvador has not been able to generate a pattern of structural transformation capable of sustaining productivity and job growth. During the 1990s, the liberalisation and privatisation of a number of network institutions generated opportunities for foreign direct investment (FDI), and the establishment of the maquila industry was originally successful in promoting the development of exporters in light manufacturing. However, this dynamism was not maintained after the turn of the century, as international competition in key export markets such as apparel became stiffer, and as investors failed to find appropriate opportunities in the country, despite low interest rates and a solvent banking sector. The regional market, in which El Salvador can leverage its geographical proximity in addition to advantages in terms of production costs, has proven more dynamic for the country.

In its drive to encourage both international and domestic investment, El Salvador still needs to significantly reduce the cost of entry and the cost of doing business. These include high administrative costs and barriers linked to inefficient bureaucratic processes, which can also provide opportunities for corrupt practices. They also include inefficiencies and high prices in the provision of key inputs such as water and electricity, and of key public goods.

As a result of these flaws, the model of economic development has not delivered a sustained creation of good quality jobs. Although unemployment remains low, most job creation happens in the informal sector, with the share of salaried workers tending to stagnate. Barriers to entry limit the prospects of formalising the bulk of informal micro and small enterprises in the country, locking them into low productivity and low-return occupations, and sustaining a two-tier economy.

Along with institutions designed to turn it into a manufacturing export hub, El Salvador developed institutional features that favour an economy that is driven by remittance-fuelled consumption. Dollarisation succeeded in driving inflation and interest rates down. However, wage growth and increases in the prices of real estate, water, electricity and energy have increased production costs, harming the country's international competitiveness. Remittances help to sustain demand, but they also fuel increases in the prices of non-tradable goods, and shift demand towards certain non-tradable services. While these can generate jobs, they are not necessarily appropriate engines to drive the growth of the economy.

Figure 1.10. Key constraints to development in El Salvador



Source: Multi-dimensional analysis in Chapter 2 of this report.

The ability of the state to provide key public goods and services is limited by the lack of fiscal space, capacity constraints, and the low legitimacy of key institutions

The coverage of access to key public services has improved significantly since 1992, but large gaps remain. Enrolment in secondary school increased markedly to 77% in 2013, from 42% in 1992, but has fallen since. Access to healthcare has improved notably. This contributed to reducing maternal mortality by 37% between 2000 and 2017, meeting the Millennium Development Goals target. However, 25% of people who suffered health problems did not consult a health professional in 2018. Despite El Salvador being a very densely populated country, differences in access remained across the territory, and also between urban and rural areas before the COVID-19 pandemic. They are the consequence of other limitations to access, such as violence in certain areas restricting free movement, and of the limited territorialisation of public policies.

Public finances and the organisation of public services are key constraints to further developing the capacity of the state to provide public goods in El Salvador. Public expenditure in education was 3.75% of GDP in 2017, compared to the OECD average of 4.5%, and 7.4% in Costa Rica – the highest among the benchmark countries. Moreover, it was only 2.8% in the year 2000; a long-term deficit in investment in education results in a significant gap to make up today, reflected in the educational attainment of the adult population. Education expenditure increased notably in response to the COVID-19 pandemic, reaching 4.07% of GDP at the end of 2020 despite the downward revision of the budget. The 2022 budget plans to maintain the increase with expenditure close to 5% of GDP. Health expenditure from government and social-security sources was 4.6% of GDP before the pandemic, a higher level than in neighbouring countries, but well below the figure for Costa Rica (5.6%) and the OECD average of 6.8%. The response to COVID-19 also led to increases in health expenditure (reaching 5% in 2020). In practice, El Salvador has partly relied on international co-operation to sustain some of the increase in social investment that has taken place in recent years.

The limitations of local government in providing public goods also constrain local economic development. Local government's lack of accountability results in lower infrastructure spending than should be realised. The emergence of new profitable sectors requires both national and local public goods in order to sustain investment.

An insufficient presence of the state opens the door to unequal provision of services by the market, or indeed to provision by illegitimate actors. The persistence of gang violence has responded in the past decades not only to their capacity to recruit disenfranchised youths, but also to the gangs' ability to provide certain services, including protection from their own violence and that of rival gangs. Establishing the presence of the State in violence-ridden areas is the central premise of the Territorial Control Plan put in motion in July 2019 by the Bukele administration. Its first phases emphasise the presence of security personnel, but the presence of the state in these areas will eventually have to be established through public services and political representation in addition to the deployment of security forces, complementing repression with preventive measures.

Institutional reform has supported political stability, but it remains unfinished. Following the Peace Accords of 1992, reforms to political institutions and the security sector (police, military and the judiciary), as well as the transformation of the fighting force of the FMLN into a political party, contributed to establishing a durable democracy that has seen six peaceful presidential handovers. However, the limitations of the reforms that were carried out helped to sustain polarised and politicised institutions.

Salvadoran citizens' trust in their political institutions has seesawed over the past ten years. A number of high-profile corruption cases across the political spectrum of the country's leadership, and a lack of transparency in the finances of political parties may have contributed to political disengagement on the part of citizens, especially youths. By 2018, only a third of Salvadorans expressed confidence in their national government, following a long downward trend. By 2021, however, as many as 70% of the population had confidence in the national government. The perception that corruption is widespread in the public sector was held by over three quarters of Salvadorans in 2018, although that share fell to 39% by 2020. Increasing transparency in the dealings of the public sector in a sustainable manner is, therefore, a major challenge.

A weak social contract manifests itself in a number of ways that are inimical to development. Tax morale – the general willingness to pay tax – is particularly low in El Salvador, and it is partly responsible for the limited degree of fiscal space that the government has. Taxes represented only 20.8% of GDP in 2019, which is below the average levels both for the OECD (33.4%), and for Latin America and the Caribbean as a whole (22.9%) (OCDE et al., 2019[90]).Low state legitimacy, and low levels of trust in formal dispute resolution, also contribute to maintaining the cycle of violence that the country has continued to experience since the end of the war. Low legitimacy and state capacity also manifest themselves in the use of public office for clientelist motives.

The modernisation of the state can offer an entry point from which to break the vicious cycle of low legitimacy, low revenues, and low capacity. El Salvador shares this institutional trap with a number of other economies in the region (OECD et al., 2019[10]). Turning this trap into a virtuous circle of institutional development and increased capacity and legitimacy will require strategic and decisive action. El Salvador has engaged in a process of fostering the development of the digital economy. Increasing the use of electronic government can offer new avenues for citizen engagement. However, it will also be necessary to modernise the processes that govern the state and its interaction with citizens, as well as the management tools that the Salvadoran government has at its disposal, especially with regard to the management of its own human resources.

Better management of natural resources is a critical condition for development

El Salvador's natural environment offers potential for tourism and agriculture, but it is also highly vulnerable to natural hazards. This vulnerability has been exacerbated by climate change, with longer and drier dry spells. These threaten the livelihood of smallholders whose production consists largely of basic grains (maize, beans). Given its size and position, El Salvador is also dependent on external water sources, which can increase the degree of water stress, and which makes the management of the country's precious natural resources all the more critical for the well-being and economic development of its citizens.

The institutional capacity of the Salvadoran government to manage and preserve natural resources has been historically weak. Despite adequate human resources, the country's environmental authorities have not had the institutional capacity to impose fines on polluters and to enforce environmental regulation. As a result, the country has one of the highest deforestation rates in the region, and suffers from high levels of air, water and soil pollution.

The way forward: Priorities for action

Development in El Salvador appears to be caught in trap: a stalled model of economic development cannot provide the necessary growth or jobs, resulting in limited fiscal revenues on the one hand, and persistent vulnerabilities on the other, and with the situation compounded still further by the country's exposure to natural hazards. In turn, lacklustre economic and institutional performance fuels citizens' disaffection, further limiting the state's ability to provide key public goods such as security, justice, and key public services such as education and health. And yet the quality of these public goods is a key condition for attracting investment, both domestic and foreign, and for reigniting a dynamic of development in the country.

El Salvador can rely on a number of assets to overcome this trap, including its well-established electoral democracy, a relatively large and diversified manufacturing base, and a large diaspora whose remittances help to finance the economy. Setting the stage for broadly shared development will require policy action to ensure that the country can deliver on key framework conditions for economic and social progress. These include:

- **Improving the framework conditions for investment and the business climate.** The establishment of the Office for Better Regulation (the Organismo de Mejora Regulatoria, or OMR), and the adoption of a set of principles to instruct regulatory impact assessment (RIA) principles provide a basis for improving key aspects of the business environment that constrain investment and entrepreneurship.
- **Guaranteeing effective fulfilment of social rights**, in particular by ensuring appropriate delivery of social services like healthcare and basic education. First and foremost, this requires improved management of available assets and a rethink of the models of provision, but it will also require an increase in resources, especially in the case of education. Identifying appropriate modes of providing education that are commensurate with the country's ambitions will be of critical importance to attract investment and increase human development.

Beyond framework conditions, spurring a virtuous cycle of economic, social and institutional development will require coherent policies that bridge presidential and legislative terms, and that can foster a climate of trust among citizens, investors and partners. This will require the resolution of four key issues through broad-based agreements. These are:

- **Expanding fiscal space to deliver more and better**. The fiscal responsibility law has provided the administration with a series of tools to improve the management of public finances and sets out the commitment to fiscal responsibility. However, a low tax-to-GDP ratio of 20.8% and the

pressures of debt-servicing costs and the wage bill seriously limit fiscal space and public investment. In the short run, the pension reform needs to be completed to limit the fiscal incidence of a regressive pension system. In the longer term, a new fiscal pact is required to address large-scale tax evasion and informality, improve the quality of public spending, and identify the appropriate size of public resources and their sources.

- **Ensuring security and the rule of law.** Crime and violence have long imposed a high cost on citizens and firms, limiting the profitability of investment and people's access to public services, as well as their well-being. In the short run, it is necessary to establish the presence of the state in all areas of the country, including by deploying the security forces - but also by going beyond this. The similarity of the approaches that have been taken by various administrations suggests that there is already a high degree of agreement on the approach to be taken. A security pact establishing a long-term vision of the security sector and the necessary institutional reforms, and also of how to finance these changes, is needed in order to sustain this effort.
- **Building capacity to manage environmental resources, especially water**. Faced with a context of water stress, El Salvador cannot afford to mismanage its water resources. Waste and pollution limit citizens' access to clean water, and they also represent a key constraint to doing business in the country. The adoption of a landmark general law on water in 2022 constitutes an important step forward, and its implementation could pave the way for the sustainable and equitable management of water resources. In order to ensure success, the implementation of the law will require a recognition of the many models of provision and management that exist today. More broadly, El Salvador needs an agreement that sets out a basis for the recognition of the importance of natural-resource management, including adaptation to climate change.
- **Modernising the Salvadoran state.** To ensure that it provides better public goods and services, El Salvador needs to better manage its public resources, including its public human resources. Better human resource management in the public sector is critical for controlling a wage bill that continues to constrain fiscal space, for putting an end to corruption and the perception of corruption, and for providing better public goods for all of the country's citizens. El Salvador's ongoing efforts to develop e-government can go some way to alleviating the issues that the administration faces. However, they should be accompanied by a modernisation of the particularly cumbersome processes that it continues to use, through legal reform and regulatory review.

Given El Salvador's limited fiscal space, a strategic decision should be taken regarding the future of its model of economic development. In determining the priorities for the provision of public goods, the country can influence, directly or indirectly, the path that the economy will take. Its recent successes in key service industries could spur further growth, but these efforts will need to be accompanied by the further development of digital infrastructure, as well as by securing the legal and regulatory basis to foster investment.

Identifying the future drivers of economic development is a key strategic orientation that needs to be taken, with cross-cutting implications. It includes making sure that market institutions and the provision of public goods are aligned for these drivers to effectively spur development. For example – and although these should not represent an exclusive choice – consolidating recent successes in the export of services, and harnessing the digital economy will require that specific priority be given to digital infrastructure and to **the formation of relevant skills**, which differ from those that are needed for traditional exports that compete on labour costs. Indeed, the skills base in the economy is relatively low, which limits El Salvador's attractiveness for key investors.

In addition, El Salvador should **rethink the model of territorial development** as a way to bring the state closer to citizens, to overcome territorial inequalities, and to identify new productive opportunities. El Salvador is currently a very centralised state. While the drive to decentralise public spending can create

local opportunities, it seems to be at odds with the lack of accountability and capacity in local administrations, and the lack of adaptation of public policies to the specificities of each territory.

Box 1.2. El Salvador: Future and challenges

As part of the OECD's MDCR methodology, a series of workshops are organised throughout the review process. The objective of these events is to connect with people with diverse perspectives on Salvadoran society, and to join with local stakeholders and experts to identify challenges and solutions for the pursuit of inclusive, sustainable development. A first workshop entitled "El Salvador: Future, challenges and global environment" took place in San Salvador on 25 July 2019, co-hosted by the Salvadoran Presidency's trade and investment secretariat and the Ministry of Foreign Affairs foreign ministry. It brought together over 40 participants from various public sector ministries and agencies, the private sector, academia and civil society.

The workshop aimed to capture citizens' aspirations for the future of their country, and to discuss major obstacles to progress. The first session of the day focused on developing potential success stories for the El Salvador of 2030, and on capturing citizens' normative preferences for the future. Participants were divided into groups and were asked to develop narratives from citizens' perspectives for an El Salvador in 2030 in which all policies had succeeded. Participants subsequently extracted the different categories in their stories, which were then clustered into five dimensions corresponding to the five pillars (People, Prosperity, Partnerships, Planet and Peace) of the 2030 Agenda for Sustainable Development.

Participants' stories described a whole range of different citizen profiles. In the main, they were young women between 25 and 32 years of age, some with children and others without, some with a graduate education but others not having completed high school, some in highly skilled professions like engineers and computer analysts, but with others in entrepreneurship or manual labour. All fictional citizens were living outside of San Salvador: the majority were from departments located along the border with Honduras (La Unión, Morazán and Chalatenango), but others would be from the southwest of the country (La Libertad). All fictional citizens enjoyed middle-class family lives, with stable, decent work, and with workers and their children enjoying good health care and education. Citizens in the projected stories would all have houses and enjoy leisure time in secure public spaces. Emphasis was also placed on good-quality jobs and an environment in which people can start their own companies and improve their skills in order to develop their careers further. The stories also depicted an aspiration for a secure and well-connected country in terms of infrastructure, with improved access to and better quality of water and electricity, as well as public transportation and further territorial development. They highlighted how fictional citizens would not have to seek opportunities outside the country and could build and enjoy a good future in El Salvador.

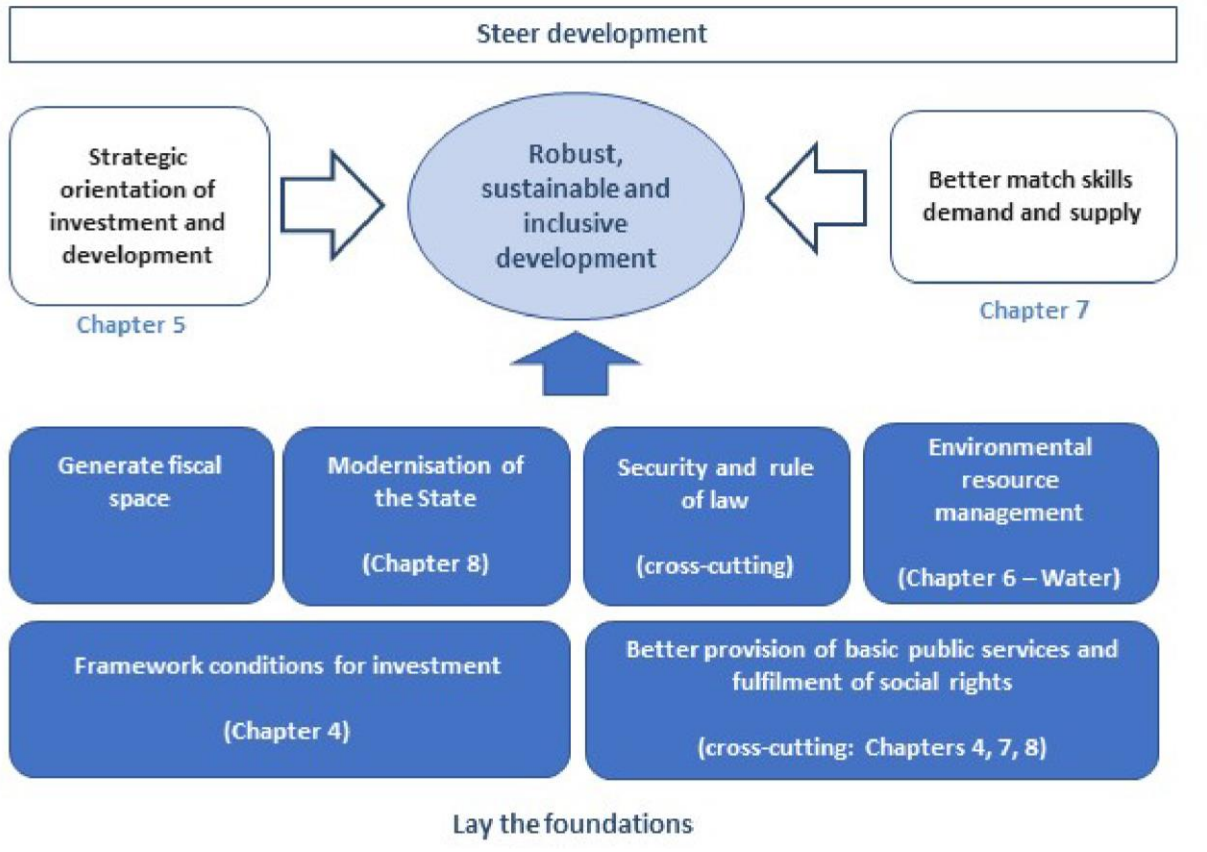
All five dimensions for the pillars of the 2030 Agenda were described in participants' stories. During the second session of the workshop, participants engaged in a rich discussion to identify the key dimensions for measuring the success of the country's development. They then ranked them in order of priority, with education and employment standing out as the priority issues for most participants, and with security, territorial development and planning, health, transparency, a fiscal pact, citizen participation, technology and the environment completing the top ten.

The last session of the workshop consisted of a horizon-scanning exercise that pointed to a number of high-impact and high-likelihood events that the country will need to prepare for, including the digital transformation, changes in migration policy, global warming, the demographic transition, regional instability, the increase in inequality, parliamentary deadlock and natural hazards.

Main policy recommendations of the Multi-dimensional Review of El Salvador

Based on the priorities identified in the diagnostic phase, this report focuses on four thematic areas, providing specific policy recommendations along with action plans to implement them. The thematic areas are productive transformation (Chapters 3, 4 and 5), water management policy (Chapter 6), education and skills policy (Chapter 7), and policies to improve public governance (Chapter 8). Chapter 4 focuses on the framework conditions for investment, while Chapter 5 analyses the strategic orientation of investment and the policy tools that El Salvador can put in motion to steer economic development. Security emerges as a key cross-cutting issue, given the negative impact that violence has on all dimensions of development. The report does not make specific recommendations on security policy, but recommendations on mitigating the impact of insecurity on development outcomes are presented in the thematic policy chapters. The thematic chapters included in this report present complementary analyses, as well as recommendations developed jointly by OECD experts and stakeholders in El Salvador through an interactive process and a series of public policy workshops conducted between July 2021 and July 2022. This section presents the main conclusions and policy recommendations in each of these areas and proposes a set of priorities for further deepening co-operation between El Salvador and the OECD.

Figure 1.11. Priorities for development in El Salvador



Source: Authors' elaboration.

Accelerating productive transformation in El Salvador

El Salvador needs a productive transformation to meet its development challenges. The government of El Salvador has set itself the goal of achieving a prosperous, dynamic and modern economy capable of

generating opportunities for personal and community development for all. However, low productivity growth of 0.1% per year during the 2010s has been too slow relative to the trend in most middle-income countries, impeding improvements in living standards and competitiveness. Moreover, El Salvador's economic growth has not been sufficiently inclusive. Since 2010, the working-age population has increased by more than 92 000 people per year, but the economy has created only slightly more than 15 000 formal jobs annually, mainly in low-value-added service sectors, in which 80% of new jobs are informal.

El Salvador's low productivity growth is explained by productivity disparities across sectors, by exports with low levels of economic complexity, by the paucity of FDI in the most innovative and technology-intensive sectors, by the small number of globally competitive firms, and by the large size of the country's informal sector. Labour productivity across sectors is very uneven, providing an opportunity for structural transformation to drive productivity growth. Moreover, only a small fraction of Salvadoran firms are globally competitive, and there are large differences within sectors. El Salvador's exports are concentrated in goods with moderate levels of economic complexity, skill and technological intensity. At the same time, FDI in El Salvador is primarily directed towards low-skilled activities, and it does not reach the most innovative, technology-intensive sectors. There is also scope for a further increase in the participation of Salvadoran firms in global value chains. Finally, the size of the informal sector in El Salvador is a drag on productivity and job quality.

Overcoming cross-cutting obstacles to competitiveness and productivity growth in El Salvador

In order to expand productive industries and increase productivity in El Salvador, it is essential to improve the provision of key public goods, and to reduce the impact of obstacles to competitiveness and to doing business. First and foremost, it is essential to combat crime, and to mitigate its impact on business. High levels of crime generate additional costs for private companies and affect investment decisions. In addition, improving the quality of El Salvador's energy and transport infrastructure would reduce operating costs for private companies, and could increase productivity and promote economic growth. Removing barriers to international trade and further deepening regional integration could stimulate El Salvador's exports. Reducing the country's lengthy bureaucratic procedures could also boost productivity and private investment. Access to finance remains an obstacle for micro and small enterprises in El Salvador. A large majority of Salvadoran businesses fall into this category and improving their access to finance could raise their productivity. Accelerating digitalisation could boost productivity, leading to significant efficiency gains. The level of digitalisation and internet access in El Salvador remains moderate. Moreover, innovation could increase the productivity of key economic sectors, and bring benefits to the Salvadoran economy through the creation and diffusion of new and emerging production technologies. The amount of innovation in El Salvador is currently at a medium level, and it is very low among micro and small enterprises.

Optimise production transformation policies, and improve their co-ordination, alignment and evaluation

There is room for improvement in the institutional and policy framework for El Salvador's productive transformation. Its productive transformation policies would benefit from a better-aligned strategic framework, and from a stronger focus on implementation. The attribution of clear leadership for productive transformation policies would support a more agile prioritisation process. The creation of an implementing agency for productive transformation policies, which would bring together existing capacities and could focus on implementation, would also be beneficial. Strategy documents on productive transformation need to be harmonised, policy implementation needs to be accelerated, and policies need to be rigorously monitored. In addition, El Salvador needs a broad, comprehensive and institutionalised public-private dialogue, and a body entrusted with the formulation and co-ordination of policies to support productive development. This body could be managed jointly by the public and private sectors.

El Salvador would benefit from rebalancing the mix of instruments for productive transformation in order to better target the companies and sectors where they are most effective. Currently, programmes for productive transformation are heavily focused on micro and small enterprises. In the future, El Salvador should allocate more policy instruments and a higher percentage of the budget to productive transformation policies for medium-sized enterprises, and to policies that help MSMEs to grow. Furthermore, and in order to increase the effectiveness of sectoral support policies and to maximise their impact, El Salvador should reduce the number of policy instruments in support of private enterprises, and concentrate financial, human and material resources on the most efficient ones, subject to rigorous evaluation. At the same time, El Salvador should reduce the importance of tax incentives while targeting them better and allocating more resources to other public goods. Tax incentives have a positive impact on job creation, but they are costly and do not promote linkages between foreign and domestic firms.

Towards integrated water resource management and water and sanitation for all

For many years, the scarcity and management of water have constituted an important conditioning factor in El Salvador's socio-economic development. Despite the availability of water resources, changes in land use that alter the permeability of the ground, plus the concentration of rainfall in relatively short bursts of time hinder the availability of water of sufficient quality in sufficient quantities. This results in low water productivity, as it is often used for low value-added activities. The management of water supply generates delays in obtaining a connection to the supply network, which is among the factors that most penalise business development in El Salvador, according to the World Bank's business surveys (World Bank, 2020[91]). The vast majority of the urban population (96%) has access to improved drinking water, but there are still significant access gaps. Among the rural population, only 41% had access to improved drinking water supply in 2019, and only 54% had access to improved sanitation, according to the state-owned water company ANDA (Administración Nacional de Acueductos y Alcantarillados). There is also a significant gap in wastewater treatment: only 8% of domestic wastewater was treated before being discharged into the environment in 2020.

A fragmented legal and institutional framework has hitherto limited progress in integrated water resource management in El Salvador, despite the development of integrated management plans such as the 2017 National Integrated Water Resource Management Plan. The fragmentation of the legal framework was compounded by the fragmentation of institutional responsibilities for the management of water resources and the provision of water and sanitation, making it difficult to act on issues related to the environmental management of water resources, the allocation of resources for different uses, or the provision of drinking water. The institutional framework is also fragmented with regard to the provision of water and sanitation services. While the state-owned company ANDA covers most of the urban population, the rural population is covered by a large number of local operators, many of which are established as water boards and community associations.

The adoption of the General Law on Water Resources in 2022 represents a milestone for water management in El Salvador. In addition to consolidating much of the regulatory framework, this legislation fills several gaps in the previous legal framework. For example, it introduces charges for water use and pollutant emissions, and creates delegated management bodies at the watershed level. It also creates a lead agency for water resource management (the Salvadorian Water Agency, ASA), although operational responsibilities for different aspects of water management remain dispersed. Progress in water resource management will depend on the proper implementation of the law. In particular, the legislation does not explicitly recognise the existing modes of water resource management and water provision that exist in the country, and which could serve as building blocks to deliver integrated water resource management and water and sanitation for all.

El Salvador should move towards basin-based water management, which, as the basic hydrological unit, constitutes the best scale of governance. The country could also move towards water financing at the basin

level, allocating water use charges to the basin organisations themselves (according to the "water pays for water" principle). It could also introduce payments for water and soil conservation services provided by upstream communities.

El Salvador should adopt a risk-management approach in order to better manage the multiple risks that are linked to water, such as scarcity, pollution and floods. This involves defining risk areas within each basin based on current impacts on water, and anticipating impacts on vulnerable areas. Within each area, specific risks would be identified, and the acceptable level of risk would be established. Implications would be derived in terms of the levels of water abstraction or emission of pollutants.

Investment needs for water supply and sanitation in El Salvador are significant. They amount to approximately USD 14 billion according to the National Drinking Water and Sanitation Plan (PLANAPS). In order to make sure that it has an up-to-date view of its investment needs, El Salvador could maintain, and regularly update, a template of infrastructure costs and needs. This can be adjusted when new information becomes available. Calculations should include operation and maintenance costs, and should also take into account the rehabilitation of existing infrastructure, and include the needs and costs of economic sectors (in addition to those of households). El Salvador should develop demand-side management instruments to complement investment and supply-side development.

In order to generate the necessary resources for water supply and sanitation, El Salvador could move towards full cost recovery in the long term (e.g. 2050), through a revision of tariffs. In the short term, it will be necessary to combine public and external financial support (official development assistance [ODA] or foreign investment), with tariff revenues to cover the financing gap. In order to realise an adjustment in tariffs, El Salvador could establish an independent water regulator to develop and enforce water pricing criteria that aim to recover costs gradually, while at the same time improving the profitability of providing water and sanitation services.

Increasing educational attainment and developing relevant skills

Increasing educational attainment, as well as the quality and relevance of education, are key challenges for the future of El Salvador. Only 59% of adults in El Salvador have completed primary education, which puts the country below the average for the region, and below the level of attainment in countries with which El Salvador competes to attract foreign investment. Although educational attainment has progressed in line with successive reforms (10.3 years of schooling for 18-29-year-olds), it remains below national targets. Progression into the last cycle of basic education (corresponding to lower secondary), and in secondary education, is a challenge. Only 62% of 16 to 18-year-olds attend school. It is even more worrying that dropouts start at ages that correspond to compulsory education: 12% of 13 to 15-year-olds do not attend school. Limited access to schooling increases inequality: there is a 20 percentage point gap between the school attendance of 15-year-olds in poor rural households and the national average.

Early childhood education and care (ECEC) provides a promising basis for strengthening the education system in El Salvador. Compulsory schooling from the age of six has allowed the country to reach pre-primary enrolment levels (67% in 2018) that exceed the regional average. Despite this, access to pre-primary education is neither universal nor equitable, with particularly low levels of access for low-income households, as well as in rural areas and for younger children.

Strengthening the governance of the education sector, ensuring financial resources for the expansion of supply, and strengthening communication in order to encourage demand are all necessary for promoting ECEC. Efforts to establish a governance system have made progress in recent years – for example with the establishment of a national strategy for integrated early childhood development in 2018 – but implementation has been insufficient. The development of the Growing Together (Crecer Juntos) policy in the current administration, and the reform of the key law on childhood protection (the LEPINA law), have also reshaped the governance framework. It will be important to strengthen implementation both at the

decision-making level and across the country. To ensure that supply expands, it will be necessary to increase resources for early childhood, both from the national budget and from other sources. The development of community-based services can also provide an important contribution to the expansion of ECEC services, provided that they are adapted to local circumstances, and that they are accompanied by established quality standards.

Mitigating and counteracting the negative effects of socio-economic inequality and violence is necessary to increase educational attainment. Salvadoran households bear a relatively high burden of education finance, which partly explains the low school attendance levels of young people in more disadvantaged households. To counteract these effects, El Salvador could strengthen targeted support programmes for vulnerable households with school-age children, complementing universal school feeding programmes and the provision of school supplies. El Salvador's main conditional cash transfer programme (formerly called *Comunidades Solidarias*) has had positive results in this respect, but its coverage remains much too limited. Violence also has multiple negative effects on the education process. The presence of gangs has been a deterrent to school attendance, and gangs can be seen as a viable alternative by young people. In addition, violent environments have negative effects on children's learning and development. Violence in schools in El Salvador goes beyond the gang phenomenon. Half of all children under the age of 14 have suffered physical punishment, and recent reports indicate an increase in gender-related sexual violence targeting girls. Combating gang violence in general, and school violence, is of utmost importance. But in addition, efforts focused on public security should be complemented by a comprehensive approach to the prevention of violence in the school environment.

In order to improve the quality of education, teacher training and human-resource management in the sector, the quality of educational environments and the evaluation framework both require improvements. Increasing the quality of education at the compulsory levels of schooling in order to improve learning outcomes is a key policy challenge for El Salvador's education system. According to international assessments, less than a third of students reach expected achievement levels in reading in the sixth grade, with even more pronounced difficulties in mathematics. Reviewing and improving teacher training is an important step towards ensuring better performance. El Salvador has an oversupply of teachers with initial teacher training, coupled with a mismatch between supply and demand for specialisations. However, many teachers in challenging environments – such as schools with only one or two teachers, or multi-grade classes – have not received specific, appropriate pedagogical or management training. The insufficient supply of in-service training limits the capacity of the education system to adapt to these situations and to encourage the implementation of educational reforms. There is a need to develop a comprehensive teacher training policy that includes in-service training, and that is coupled with a system of incentives for teachers. There is also ample scope to reduce gaps both in education infrastructure and in equipping schools, as well as in making them more inclusive. The system for evaluation in education in El Salvador is being developed. However, it requires institutional stability, which it has lacked so far, in order to build lasting capacity, and to ensure that evaluations are followed by effective action to improve education.

The COVID-19 pandemic has been an important turning point in the country's education system. On the one hand, the prolonged closure of schools may have led to a significant lag in learning, and may slow down progress in closing education gaps. On the other hand, the response of the government of El Salvador and the education community has made it possible to begin to counteract some of the structural deficiencies of the system, especially through digitalisation efforts such as the provision of equipment and the training of teachers in the use of digital tools.

For education to be a gateway to the labour market, it is necessary to develop mechanisms that will bring education closer to the productive sector. Many young Salvadorans drop out of education before they have obtained skills that are relevant in the labour market, and 28% of young people aged 15-24 are neither studying nor working. To increase the relevance of education, its attractiveness to young people, and its role as a driver of productivity, it is necessary to establish institutional mechanisms to identify the skills and profiles that the productive sector needs, and to translate them into appropriate curricula at all levels of

education. To this end, El Salvador can build on recent achievements by strengthening co-ordination structures such as sectoral committees and the Council for the Co-ordination of Technical Education and Vocational Training (the Consejo de Coordinación de la Educación Técnica y la Formación Profesional). Key tools are still to be developed, such as a national skills framework and a system of skills accreditation. The use of active pedagogies, dual training, and the development of closer links between education and training institutions can also help to generate more relevant skills.

Towards better public governance for a modern State

A lack of institutionalisation with regard to several areas of public policy, obsolete and fragmented legal frameworks, and the complexity of co-ordination mechanisms all hamper the ability of El Salvador's administration to perform its functions effectively (see Chapter 2). Moreover, the fragmentation of the centre of government (CoG) – the group of bodies that provide direct support to the president and the council of ministers – limits the government's ability to address multi-dimensional challenges.

In El Salvador, the centre of government (CoG) has evolved extensively over recent decades, but it remains fragmented and needs stronger co-ordination mechanisms. It could benefit from greater clarity in terms of roles and responsibilities. Despite the multiplication of co-ordination structures, the efficiency of existing formal mechanisms of co-ordination could be improved. With greater clarity, it would be easier to ensure greater stability in CoG institutions in El Salvador, and avoid gaps in key functions such as the co-ordination of strategic planning or the co-ordination and monitoring of public investment. The bodies or institutions that perform these key functions could be maintained by successive governments in order to retain institutional memory, guarantee continuity in processes, and develop a strategy for long-term challenges.

A more robust planning framework would help El Salvador to articulate priorities, cluster policy initiatives around a small number of priorities, steer implementation, and improve policy coherence. El Salvador currently has planning and articulation documents for certain areas, such as its Social Development Plan. However, it does not have a plan that articulates government action as a whole. The Bukele Administration's Cuscatlán Plan, which was designed as an electoral platform, does not have the characteristics of a planning and co-ordination instrument. El Salvador could strengthen its institutional planning capacity at the centre of government by creating a dedicated strategy unit with the time and capacity for medium-term thinking. El Salvador should also establish a more robust framework for monitoring strategic priorities. This includes the development of appropriate performance indicators, with baselines and targets.

Human resource management in the Salvadoran administration suffers from a lack of institutionalisation, as there is no specific institution in charge of leading and overseeing the design and implementation of a national human resource strategy. As a result, the public sector does not have an effective and functional training centre for the administration as a whole, although it does have capacity in some sectors. The limited mobility of civil servants, and the absence of a harmonised framework of competencies, tasks and functions, also prevent a better use of available skills. El Salvador should establish a body with a clear mandate and adequate resources to establish and oversee the national civil service workforce management strategy throughout the administration. The country needs to carry out a reform of its Civil Service Law in order to lay the groundwork for a reform of the civil service that allows for greater mobility, and that also establishes a system to monitor, evaluate and reward performance.

El Salvador has made great progress in regulatory policy and should capitalise on what it has achieved so far. The Law on Better Regulation and the Law on Administrative Procedures establish and articulate strategies for administrative simplification, and establish an institution (the Office for Better Regulation, or OMR), which is in charge of promoting and enforcing regulatory policy. To build on the achievements that it has made, El Salvador could extend the application of regulatory policy from the initial areas of focus, which relate to economic activity, to other areas that are of interest to citizens, such as health, education

or the labour market. It could also ensure the effective participation of stakeholders by systematically involving them in the process of regulatory development. Finally, it could support the practice of Regulatory Impact Analysis (RIA) with clear guidance, training programmes and quality control mechanisms, in order to raise awareness and to ensure that RIA is carried out homogeneously across the administration.

El Salvador should renew its commitment to open government, define clear mandates, and develop tools to increase transparency, integrity, accountability and stakeholder participation. The Law on Access to Public Information and the Institute for Access to Public Information are important tools for the development of an open government agenda. However, El Salvador is lagging behind in the creation of spaces for citizen participation and the publication of open data. In addition, activities linked to the multilateral Open Government Partnership process were paralysed after the change of government in 2019, which has contributed to closing down forums for open dialogue.

Options and priorities to deepen co-operation between the OECD and El Salvador

The relationship between El Salvador and the OECD has deepened in the past few years. El Salvador has been a member of the OECD Development Centre since 2019. It has also been a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes since 2011, and a signatory to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters since 2015. In 2021, it adhered to the Punta del Este Declaration of 2018. A programme of the Tax Inspectors Without Borders initiative – a joint initiative by the OECD and the UNDP – has been active in the country since mid-2021. El Salvador has also adhered to the 2018 Declaration on Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth, and to the 2009 Paris Declaration on Aid Effectiveness. The country also actively participates in the activities of the Global Forum on Competition Policy, and the Latin American and Caribbean Competition Forum Forum on Competition that is organised by the OECD and the Inter-American Development Bank (IDB). El Salvador is also an active participant in the activities of the OECD Regional Programme for Latin America, and it was the virtual host of this forum's 2021 high-level meeting.

El Salvador is participating in the 2022 edition of the Programme for International Student Assessment (PISA). The results of PISA, which are expected in 2023, will provide policy makers with data and evidence that can be used to determine actions to improve the education system and, ultimately, to ensure that students obtain the skills that they need in order to succeed in tomorrow's world, as outlined in the SDG framework for education. The OECD encourages El Salvador to continue its participation in PISA 2025 (the programme's next cycle), and to take the opportunity to include in its participation the option of assessing out-of-school youths. This option has recently been implemented by Guatemala, Honduras, Panama and Paraguay, and is designed for PISA countries that have significant numbers of out-of-school 15-year-olds, as is the case of El Salvador.

In order to develop the recommendations on productive transformation that are included in this report, El Salvador could mobilise its membership of the Development Centre through the activities of the OECD's Initiative for Policy Dialogue on Global Value Chains, Production Transformation and Development. Conducting a Production Transformation Policy Review would provide valuable support to the revision of the institutional framework and the harmonisation of the production transformation strategy that is recommended in this report (Chapter 5). As a complement, El Salvador could also consider conducting an Investment Policy Review to analyse the various cross-cutting and business-environment barriers that limit investment in the country (Chapter 4).

In the area of water resources management, El Salvador could draw on OECD policy documents developed for the implementation of the policy principles set out in this report (Chapter 6). In particular, these include the 2016 Council Recommendation on Water, and the accompanying Toolkit for Water Policies and Governance (OECD, 2021[92]).

The public governance recommendations in this report are based in part on OECD legal instruments. These instruments could guide El Salvador in implementing the recommendations. They include: i) the 2019 Recommendation on Public Service Leadership and Capability, ii) the 2012 Recommendation of the Council on Regulatory Policy and Governance, iii) the 2017 Recommendation of the Council on Open Government, and iv) the 2014 Recommendation of the Council on Digital Government Strategies.

Recommendations and priority actions for robust, inclusive and sustainable development in El Salvador

Table 1.2. Recommendations and priority actions for robust, inclusive and sustainable development in El Salvador

Goals	Recommendations	Detailed recommendations and actions
Accelerating productive transformation in El Salvador		
Overcoming cross-cutting obstacles to competitiveness and productivity growth in El Salvador (Chapter 4)		
Mitigate the impact of crime and violence on the development of the private sector.	Make El Salvador's police forces and justice system more effective at tackling crime, and generate trust among entrepreneurs.	• Implement more focused and sophisticated criminal investigations by using special methods of investigation, including wiretaps and the monitoring of suspects' telephone conversations. • Increasing the human, material and financial resources that are dedicated to the security forces and the justice system. • Ensure better co-ordination between the different institutions of El Salvador's security and justice system, and an effective and efficient implementation of policies. • A merit-based recruitment system for institutions in El Salvador's security and justice systems. • Tackling and deterring abusive practices and human rights violations by police services, in particular in marginalised communities.
	Adopt policies that care for victims of extortion in order to increase incentives for people to report extortion and to collaborate with police forces and the justice system.	• Anonymous crime reporting and adequate protection of victims and witnesses. • Financial support for victims of extortion to encourage them to report.
Improve and modernise transport, logistics and energy infrastructure in El Salvador.	Establish and regularly update a consolidated public investment plan that prioritises national infrastructure needs, and develop an institutional framework to ensure infrastructure planning reflects the objectives of the government.	• An independent centralised planning body should be in charge of regular updates to this plan in order to ensure that the most urgent infrastructure projects are given priority. • Involve the private sector in the design of the plan and the portfolio of infrastructure projects. • Align development co-operation activities in the area of infrastructure with the prioritisation of projects in the public investment plan.
	Increase investment in the construction and maintenance of El Salvador's road infrastructure, focusing in particular on the expansion of strategic roads and the improvement of the quality of transnational roads.	
	Improve the quality of the electricity supply through greater competition and higher standards of quality.	• Introduce greater competition in the quality and price of energy through reforms to the legal framework for electricity distribution. • Introduce higher and stricter standards for the quality of the electricity supply. • Establish special zones with a higher quality of electricity supply, and market-determined

Goals	Recommendations	Detailed recommendations and actions
		electricity prices that can finance necessary investment (in particular for private firms that require a stable electricity supply to operate). • Optimise electricity subsidies.
	Diversify the electricity mix in order to reduce dependence on energy generation from fossil fuels and on energy imports, and to lower the cost of domestically produced electricity, by increasing El Salvador's capacity in geothermal, solar and wind energy.	• Create the right conditions for the integration of la large amount of renewable energy in El Salvador's energy mix, by: o Modernising El Salvador's electricity distribution and transmission network; o Evaluating the possibility of increasing transmission from the regional electrical market (the Mercado Electrico Regional, or MER). o Designing and implementing new standards and regulations, in particular adopting appropriate regulation for distributed electricity generation. o Training an adequate amount of technicians o Enhancing long-term planning and policy co-ordination, coherence and harmonisation, and the institutional framework for renewable energy.
	Secure funding for investment in transport, logistics and energy infrastructure.	• Consider funding mechanisms that may provide an alternative to general taxation, as and when they are pertinent to each particular sector. • Develop a portfolio of public-private partnership (PPP) projects, and ensure it is in line with national priorities. • Attract more private investors through procurement processes that make use of other types of contracts with private firms (e.g. Purchasing Power Agreements [PPA], Build-Operate-Transfer contracts [BOT]).
	Improve the legal and institutional framework for PPPs.	• Clearly justify the use of non-competitive procedures for the selection of PPPs, and publicise the justification. • Simplify procurement processes for PPPs. • Ensure the compatibility of the PPP law with sectoral legal frameworks.
	Increase transparency and reduce opportunities for corruption in construction and in public procurement in infrastructure.	• Put in place a website to monitor the progress of public investments in real time. • Ensure the appropriate monitoring and evaluation of public investment projects though independent institutions.
Eliminate barriers to international trade.	Accelerate the implementation of the Action plan of the National Committee for Trade Facilitation.	• Identify priorities for the implementation of the action plan.
	Simplify and automate procedures and formalities in border crossings.	• Extend the acceptability of copies of documents that are necessary for customs procedures. • Improve the alignment of customs documents with international standards and conventions. • Reduce the amount of documents for customs procedures. • Progressively automate border and customs procedures to reduce delays at international border crossings. • Encourage pre-processing of import documentation to reduce time spent at customs. • Accelerate controls for perishable products and grant preferential treatment at customs for such

Goals	Recommendations	Detailed recommendations and actions
		products. • Extend the use of post-clearance audits. • Simplify procedures.
	Improve co-operation and dialogue with all parties involved in international trade.	• Improve co-operation with customs and border authorities in neighbouring countries. • Improve co-operation and co-ordination between the various customs and border agencies in El Salvador. • Provide appropriate and timely information to the private sector about regulatory changes. • Provide a space for private sector actors to make observations prior to changing regulations linked to international trade. • Make consultations with the private sector more inclusive.
Reduce the length and cost of administrative procedures.	Accelerate the implementation of policy initiatives to cut red tape, simplify business procedures and enhance transparency.	• Make operational a one-stop shop for construction permits, and pursue efforts to consolidate and integrate the multiple one-stop-shops that exist, with a client-based perspective. • Implement the Plan for the simplification of administrative procedures (Plan de Simplificación y Digitalización de Trámites). • Finalise the national registry of procedures (Registro Nacional de Trámites). • Ensure that the regulatory improvement process and the generation of the national registry of procedures receive appropriate resources. • Ensure the establishment of the Court for the Elimination of Bureaucratic Barriers (Tribunal para la Eliminacion de Barreras Burocráticas, or TEBB). • Accelerate the digitalisation of administrative procedures.
	Simplify procedures to obtain fiscal incentives and increase transparency.	• Shorten the amount of time that it takes to obtain fiscal incentives, and make sure that the waiting times provided for by law are respected. • Reduce the number of institutions that participate in the process to grant fiscal incentives to the tourism sector. • Improve the availability of online information on the procedures for benefitting from fiscal incentives.
Improving access to credit for micro and small enterprises.	Ensure that public programmes aimed at improving access to finance for micro and small enterprises avoid an excessive transfer of risk from the private to the public sector.	• Prioritise channelling public funds through private financial institutions whenever possible, as opposed to granting loans directly through public institutions such as BANDESAL. • Favour loan guarantee schemes such as PROGRAMYPE in preference to lending public funds directly to enterprises. • Develop co-investment tools – such as those implemented by El Salvador's Ministry of Economy, MINEC – that are financed jointly by public grants or loans, and by enterprises' own funds, or by private-sector loans.
	Make sure that resources are directed towards enterprises that are partially or completely excluded from financial markets, or that face credit constraints (additionality).	• Grant public support only to firms that lack access to private financial institutions (for example, due to lack of collateral), or that face excessive interest rates. • Rigorously evaluate the viability and profitability of enterprises that benefit from support. • Promote the evaluation of risk profiles of projects, and not only of natural or legal persons in financial institutions, so as to grant credit to more persons and to MSMEs with successful projects.

Goals	Recommendations	Detailed recommendations and actions
	Rigorously evaluate public programmes that aim to improve access to finance for micro and small enterprises, in order to discontinue policies that are no longer necessary, or are inefficient.	• Strengthen public institutions' databases on MSMEs, as well as co-ordination and data exchange between institutions, in order to generate synergies. • Strengthen monitoring in credit allocation. • Implement intermediate evaluations, outcome evaluations, and impact evaluations, with the supervision of financing entities.
	Provide capacity-building and technical support to micro and small enterprises to help them to complete loan applications at formal financial institutions.	• Strengthen institutional capacities to provide technical assistance and financial education to MSMEs: o Form a group of financial advisors for MSMEs in CONAMYPE (the country's MSME authority). o Create a council for financial advice for MSMEs in CONAMYPE. o Strengthen online financial education, and co-ordinate with the financial education efforts of public banks (state banks and development banks). • Modernise MSME attention centres.
	Ease specialised insolvency procedures (out-of-court agreements) for merchants and micro-enterprises, and extend out-of-court agreements for small firms.	• Introduce an extension of out-of-court settlements to small enterprises in the Insolvency Bill under discussion in the Legislative Assembly. • Once approved, disseminate the law with stakeholders to ensure its implementation.
	Support the financial inclusion of MSMEs.	• Reform the legal framework and regulations of the Central Bank (BCR) and the Superintendency of the Financial System for MSEs. • Develop and approve the Action Plan foreseen in the National Financial Inclusion Policy as soon as possible.
	Foster formalisation among micro and small enterprises (MSEs).	• Simplify administrative procedures for the formalisation of MSEs. • Consider the introduction of a simplified taxation regime for MSEs in El Salvador. • Improve the legal framework for Limited liability companies to better adapt them to the needs of MSMEs, or introduce a special limited liability regime for MSMEs. A new legal framework for limited liability companies or a special limited liability regime for MSMEs should in particular: o Grant legal personality to EdRLs, or o Authorise sole proprietorships for limited liability companies. • Introduce a simplified accounting regime for MSEs.
Accelerate digitalisation in El Salvador.	Improve digital infrastructure in El Salvador.	• Improve access to fibre-optic cable networks, mobile broadband, and other digital infrastructure in rural areas. • Endow El Salvador with its own Internet exchange point(s) (IXP). • Connect El Salvador to its own submarine fibre-optic cable. • Accelerate the transition from analogue to digital television to free up more spectrum for mobile broadband. • Mobilise sufficient public and private financial resources for investments in El Salvador's digital infrastructure.

Goals	Recommendations	Detailed recommendations and actions
	Enhance digital skills in the country's broader population, and among micro- and small enterprises	• Extend policies to foster the adoption of digital technologies by MSMEs.
	Continue improving e-government.	• Fully implement the electronic signature. • Improve the quality of and access to government data.
Strengthen the institutional framework for innovation.	Institutionalise the co-ordination function for the implementation of the science, technology and innovation (STI) policy, with space for consultation and broad representation of the business sector, civil society and academia,	• A supra-ministerial body would be in charge of co-ordinating the implementation of STI policy. • Give the leadership within this body to the Secretariat for Innovation, expanding its current attributions. • Ensure that the body is granted sufficient human and financial resources. • Create the planned National Agency for Innovation, Science and Technology, and then enable its operations and endow it with the necessary financial resources to be effective. This agency could be in charge of co-ordinating the implementation of innovation policy and be complemented by a consultative body for the definition of STI policy. • Establish a National Innovation Observatory to monitor innovation projects. This Observatory could be part of the co-ordinating body.
	Establish an STI ecosystem: a mechanism to articulate efforts and to bring together public, private and civil society actors in a space for dialogue and inter-institutional cross-sectoral co-ordination, to promote a culture of innovation and prioritise issues linked to STI.	• In the short run, create a committee to put this dialogue and co-ordination effort into motion. • Determine the methodology for this committee's work.
Strengthen the legal and policy framework for STI.	Align the innovation policy and its horizon with the productive transformation policy, the national education policy, and the national agricultural policy.	• Consider merging policies on innovation and productive transformation into a single innovation-driven economic development policy. • Modernise and update the Law on Scientific and Technological Development (the *Ley de Desarrollo Científico y Tecnológico*), and the Productive Development Law (*the Ley de Fomento Productivo*). • Update the entrepreneurship policy.
	Improve El Salvador's system of protection for intellectual property.	• Reform the Intellectual Property Act to create the National Institute for Intellectual Property. • Improve and simplify registration and other processes linked to patents.
	Introduce a long-term perspective in the design of policies to foster innovation, through specific foresight exercises and consultations with stakeholders.	• Build a long-term perspective for the science, technology and innovation policy. • Introduce a long-term perspective in the science, technology and innovation ecosystem.
Improve policy instruments to foster innovation.	Design active technology-diffusion policies, especially policies that are adapted to the needs of MSMEs, and to firms beyond the select group of technology pioneers (high-tech firms and start-ups).	• Design technological extension services to bring information and technological extension services to micro and small enterprises. • Promote the design and implementation of a Centre for the development of productive business projects (a project that is currently being led by the Ministry of Economy).
	Design mechanisms for direct technology transfer between the	• Create a single model of science and technology centres to foster innovation and facilitate technology transfers and harmonise existing centres (such as the CDMYPES, the Centro de

Goals	Recommendations	Detailed recommendations and actions
	private sector, researchers and the education sector.	Extensión, the CDARTE, the CITDE, the CATI, and the Oficina de Innovación Financiera). • Create innovation centres with joint public/private/academic financing and leadership, aimed at supporting businesses in their productive transformation.
Optimise production transformation policies, and improve their co-ordination, alignment and evaluation (Chapter 5)		
Strengthen the institutional framework for production development.	Establish an institutional public-private mechanism for the design and governance of policies to support productive transformation.	• Review the powers of the relevant institutions, and either assign co-ordination functions or create a body dedicated to the co-ordination of productive transformation policies. • Reform the Law for Production Development (*Ley de Fomento a la Producción*) to reinstate the Committee of the Integrated System of Production Development as a Consultative committee for production development (Comité consultivo de fomento a la producción empresarial), in line with the functions assigned to the Productivity and Competitiveness Cabinet (*Gabinete de Productividad y Competitividad*) in the Policy for Commerce and Investment. • Assign to the co-ordinating body the task of establishing a vision for modern productive transformation policy, and to co-design industrial policy.
	Establish an implementing agency for productive development policies, as considered in the Policy for Commerce and Investment, to favour cluster or problem-based approaches.	• Map out the existing productive transformation policies that are being implemented by different institutions. • Consolidate implementation capacities around cross-cutting strategies for productive transformation.
Promote public-private dialogue around productive transformation.	Promote broad, comprehensive and institutionalised public-private dialogue on a regular basis, with clear targets and areas of work.	• Determine both the scope for action and the participants in the dialogue process (capitalise on ongoing dialogue processes such as the committee on trade facilitation). • Build spaces for dialogue around a permanent institutional setting.
Align the various policies supporting productive transformation and focus efforts on implementation.	Improve the formulation, co-ordination and implementation of productive transformation policies.	• Align policies for productive transformation, investment, trade, and enterprise development to support productive transformation. • Align productive transformation policies with innovation, science and technology policies. Consider merging innovation and productive transformation policy into a policy for innovation-driven economic development. • Focus efforts on the accelerated implementation of policies, rather than on the design of new strategic documents. Make sure that strategic documents include (or are followed by) action plans with well-identified milestones, clear priorities, timelines for implementation, and costed actions linked to the budget.
Review and expand the toolbox of production development policy.	Carry out systematic evaluations of the policy instruments for production development.	• Improve the monitoring and evaluation of the implementation of policy measures that are planned in strategic documents. • Establish an inventory of policies that aim to support productive sectors and identify criteria for their evaluation. • Carry out systematic and rigorous evaluations of policy instruments for production development in order to concentrate resources (human, financial and material) on the most efficient ones, and to avoid an unnecessary proliferation of instruments to support firms.

Goals	Recommendations	Detailed recommendations and actions
	Strengthen policy instruments for productive development.	• Assign a greater share of the productive transformation budget to policy instruments that are accessible to middle-sized firms, and to policies that help MSEs to grow. • Create more incentives and sectoral support programmes for strategic sectors. • Add a forward-looking approach to the identification of priority products and sectors (analysing export values, growth trends, global demand, and potential for creating jobs). • Make the criteria for the attribution of support transparent and publicise them.
	Rebalance the relative weight of tax incentives and support programmes for productive development.	• Carry out periodic and systematic evaluations of the costs and benefits of tax incentive regimes, and reduce or eliminate those with negative net benefits. • Reduce the importance of tax incentives whilst at the same time improving the targeting of incentives, and dedicating more resources to other public goods. • Consider redirecting tax expenditures towards research, development and innovation, instead of towards broadly defined sectors.
	Design policy instruments to support productive linkages in clusters and value chains.	• Support the establishment of productive clusters with support programmes for cluster-based business associations (competitive funds for the organisation of clusters, technical assistance, market intelligence). • Support local business networks to foster productive linkages, train entrepreneurs, and promote local-level organisations. • Support the design of value-chain improvement plans for priority sectors. • Put in place an information system to link domestic buyers and suppliers of intermediate goods in order to facilitate productive linkages. • Establish dialogue with actors in the value chains that export to Central America, in order to support them in exporting further afield.
	Link more policy instruments that support MSMEs with formalisation.	• Broaden technical assistance to informal MSMEs in their process of formalisation. • Include measures to assist with formalisation processes in policies and programmes that support informal enterprises.
	Encourage linkages between free zones and services parks and the local economy.	• Gradually phase out tax exemptions on imported inputs and equipment or make them less relevant to sectors other than maquila businesses. • Create programmes to match international investors with local suppliers, and to support domestic suppliers in building the right skills and competencies.
Towards integrated water resource management and water supply and sanitation for all (Chapter 6)		
Establish basin-level governance and financing of integrated water resource management.	Establish basin-level governance through the Salvadoran Water Authority (ASA).	• Mandate basin-level organisations to collect charges (for abstraction, discharge, pollution), and to assign the proceeds to finance integrated water resources management (IWRM) measures, according to the priorities established by management plans in each basin.
	Implement a risk-management based approach in each water basin.	• Involve all relevant stakeholders in IWRM (with each seeking to minimise their risk). • Mandate basin organisations to seek agreements with stakeholders.

Goals	Recommendations	Detailed recommendations and actions
	Develop a culture of water.	• Involve stakeholders in risk management to address the lack of public acceptability of water tariffs and charges in El Salvador.
Implement a risk management approach to water scarcity and risks of floods and water pollution.	Define risk areas within each basin in order to prioritise actions.	• Drinking water catchment areas (to guarantee the supply of drinking water to the population). • Aquifers and recharge zones that are vulnerable to scarcity (to preserve the integrity of aquifers). • Rivers and lakes that are vulnerable to nitrates and phosphates (to avoid algal blooms and the development of water hyacinth). • Aquifers and recharge areas that are vulnerable to nitrates and phosphates (to preserve the integrity of aquifers). • Areas that are vulnerable to floods, as classified by the periodicity of river floods (every 10, 100 years), (to plan flow-control measures upstream). • Water bodies that are sensitive to contamination (to plan discharge-control measures that match the quality objectives for these water bodies). • Headwaters (to plan soil- and water-conservation activities, to manage the flood regime, and to prevent flooding and landslides downstream). • River sections to be rehabilitated so that they return to their natural course (to prevent flooding downstream and preserve aquatic life).
	Determine acceptable levels of risk.	• Within each risk area, reach stakeholder agreements on acceptable levels of abstraction, pollution, and increases in water level, in order to manage competing demands and to prevent conflicts over the use of water. • In parallel, organise concern-assessment evaluations with stakeholders to correct erroneous perceptions of risk.
	Manage the risk: choose policy instruments (e.g. economic instruments) in order to achieve acceptable levels of risk in a cost-effective manner.	• In addition to abstraction limits in water bodies that face risks of scarcity, establish abstraction charges at sufficient levels to incentivise water conservation. • Progressively eliminate the electricity tariff subsidy for pumping groundwater, as it goes against the incentives created by abstraction charges. • In addition to establishing permissible discharge limits for wastewater, establish pollution charges according to the pollution load and the vulnerability of receiving water bodies, based on the discharge charges established by the General Law on Water (LGRH). • Mobilise public financial support to finance the conservation of soil and water in headwaters. • Consider the introduction of payments for ecosystem services (PES) to improve soil and water conservation on slopes. • To “give water space”, and to improve the hydrological cycle, preserve aquatic life, and prevent floods, in addition to promoting regulations on ecological flows that encourage river rehabilitation efforts.
Strategic financial planning for drinking-water supply and sanitation.	Estimate financing needs according to targets (e.g. universal access to water supply and sanitation [WSS] by 2050).	• Estimate needs in terms of WSS infrastructure. • Estimate the rehabilitation needs of existing infrastructure. • Estimate efficiency gains to be realised on the demand side (for example, the expansion of water metering, the use of treated wastewater).

Goals	Recommendations	Detailed recommendations and actions
		• Estimate water needs for industry and agriculture. • Estimate needs for water storage infrastructure (dams, reservoirs).
	Estimate expected revenue, examining different tariff scenarios and financing sources.	• Estimate expected revenue from: ○ Invoicing; ○ Public financial support. • Examine different scenarios within the current legal framework: ○ Status quo; ○ Increases in the base charge (including wastewater treatment plants, and sewerage charges by volume as opposed to flat rates); ○ Increases in the tariff; ○ Changes in the tariff structure (changes in blocks, or removal of blocks in favour of volume-based charges).
	Close the financing gap.	
Set prices for water supply and sanitation services	As a transition phase, combine water tariffs, budgetary transfers and ODA.	• Estimate public-health benefits from WSS infrastructure (as a justification for budget transfers and ODA allocations). • Offer an income guarantee (through the budget or from ODA) to facilitate access to reimbursable finance (loans, bonds, stocks).
	Move gradually towards full cost recovery	• Gradually increase water tariffs to levels that are sufficient to recover the costs of building, operating and maintaining WSS infrastructure, in addition to the generation of financial reserves for investment, as required by law. • Attract foreign direct investment through tariffs that cover costs and allow for profit margins.
Education and skills for development in El Salvador (Chapter 7)		
Steer the expansion of pre-primary education and ECEC services.	Provide universal access to compulsory pre-primary education from 4 years of age, and target the expansion of public, family and community ECEC services in vulnerable areas.	• Increase the supply of pre-primary education in the context of the *Crecer Juntos* policy. • Develop a participatory approach to plan the expansion of ECEC at decentralised levels, prioritising vulnerable areas. • Community-based advocacy from providers of social services and other local actors, to encourage families to trust and to access quality early-learning programmes. • Develop national standards (infrastructure, pedagogy, teachers), the monitoring and certification of ECEC programmes, and the workforce, in order to ensure quality pre-primary education. • Promote locally adaptive solutions (e.g. flexible schedules, part-time access) in order to facilitate the combination of work and care.
	Ensure funding for the new strategic plan for early childhood (*Crecer juntos*).	• If necessary, use innovative sustainable finance mechanisms such as earmarked taxes, impact bonds or private contributions, in order to increase the range of financing options beyond an exclusive reliance on the general budget and support from multilateral and bilateral donors. • Align the contributions of international development co-operation with articulated national

Goals	Recommendations	Detailed recommendations and actions
		programmes, rather than with isolated specific programmes. • Ensure budget co-ordination across sectors through joint programming and service-delivery approaches, linked to each sector's planning processes. • Develop integrated monitoring and evaluation mechanisms across sectors.
	Design and implement a national communication strategy to support awareness of ECEC and pre-primary education at the community level.	• Reinforce messages around holistic ECEC for children, parents, caregivers and future parents. • Adapt strategies to target vulnerable populations, recognising their specificity (young mothers, indigenous communities, the poor, disabled, etc.) with the support of local authorities, community leaders, and education advocates. • Build and mobilise support for ECEC among senior policy officials and civil servants in order to maintain continuity between successive elected administrations.
Encourage enrolment and progression for all children and youths in primary and secondary education, through targeted support and incentive mechanisms.	Extend compulsory education to include the whole of secondary education.	• Consider extending compulsory education, including upper secondary education, while also guaranteeing access, especially in rural areas.
	Allocate appropriate resources to reduce disparities in access to quality education.	• Reduce the impact of social and income inequalities on enrolment and performance in school through the use of efficient transfers to vulnerable families at all levels of education. Consider including school attendance as a condition for specific transfers or stipends. • Develop conditional cash transfer programmes to ensure attendance at all levels of education. • Guarantee the right to education for all children during emergency situations (for example through communal Internet access), and in vulnerable areas. • Develop a motivation scheme to attract experienced and trained teachers to schools with difficulties, and to schools in rural areas.
	Assess the impact of programmes to prevent violence in school, and expand those that have positive results.	• Establish programmes with a holistic approach to the prevention of violence in school environments (counselling, teaching aids, training for students, teachers and families) as a complement to ongoing efforts in public safety programmes. • Assess existing programmes for the prevention of violence at school, as well as assessing the impact that other programmes (such as the inclusive full-time school model, the *Escuela Inclusiva de Tiempo Pleno*) may have on violence in school environments. • Scale-up programmes which have proven their effectiveness, in accordance with the needs of each school or municipality.
Increase the quality of compulsory education.	Strengthen the system of evaluation in education in order to better inform education policies and teaching.	• Participate regularly in periodic international and regional learning assessments. • Develop the national technical capacity to produce national learning assessments, which can be used to improve planning and policy making, and to identify strengths and weaknesses in the education system (e.g. alignment with national curriculum, alignment with international standards). • Establish a sound institutional framework for the system of evaluation in education. Consider establishing an autonomous body that would be in charge of evaluation in education. • Design and implement a differentiated strategy for the dissemination of results of evaluation processes. • Encourage the use of assessment results in order to strengthen teaching.

Goals	Recommendations	Detailed recommendations and actions
		• Consider including learning assessments in household surveys (centred on inclusion and community participation) in order to reach out-of-school children. • Consider implementing the out-of-school assessment module in future participations in the PISA programme.
	Improve the quality of pre- and in-service teacher training programmes so that they take better account of the education environment and its particular needs.	• Evaluate initial teacher training, including by using criteria such as attractiveness and entry into the teaching profession, curricula, and classroom practice. • Monitor and regulate the supply of in-service training, prioritising training for teachers in challenging environments (multi-grade classes, single and two-teacher schools, remote areas). • Develop continuous education training, making sure that its contents help teachers to meet the teaching challenges that they are likely to face. These could include approaches to early-grade reading and numeracy, classroom management techniques with an emphasis on multi-grade classrooms, socio-emotional development, and distance teaching. • Develop regular processes of teacher management (assessment inspection, training), as well as processes to foster motivation in teachers' careers. Evaluate the adequacy of teacher management policies.
	Review the processes for managing teachers' career development.	• Review mechanisms to incentivise teachers, recognise merit, and reward performance in the teaching profession. • Match the allocation of positions to schools' needs in terms of teachers' specialisations and competencies.
	Improve the quality and inclusivity of learning environments.	• Renovate or improve infrastructure in rural and remote areas. Evaluate the quality of schools' infrastructure and their access to water, sanitation and hygiene, and prioritise the schools that are most in need. • Evaluate the adequacy of current quality standards for learning environments and teaching. • Appreciate the need to provide attention that is adapted to the population and community in question, as a complement to established standards. • Ensure an adequate supply of learning and teaching materials for all learners, including outside of the classroom. • Develop pedagogical guidelines that are adapted to specific environments (such as rural areas). • Develop innovative programmes using mobile technology and mobile libraries, and include family literacy programmes.

Goals	Recommendations	Detailed recommendations and actions
Increase the pertinence of education in order to improve the perspectives of young Salvadorans in the labour market, and to reinforce their commitment to education.	Develop mechanisms to identify demand for skills in productive sectors of the economy, and incorporate these skills into modern and flexible curricula.	• Develop a skills strategy based on the country's needs in order to improve the supply of education and to adapt it to the skills requirements that have been identified. • Develop mechanisms to identify demand for skills in productive sectors, and adjust vocational education and training curricula, through sectoral skills councils and other means of public-private co-ordination. • Strengthen the co-ordination bodies that act as a bridge between the private sector, educational institutions, and public institutions. • Establish and strengthen more sectoral committees for technical and vocation education and training. • Support the interface between the systems of technical and vocational training, strengthening existing co-ordination bodies and the capacity of participating institutions. • Develop and adopt a national qualifications framework and sets of competency profiles for priority sectors. • Establish a skills-recognition mechanism that will allow entry to higher education through non-traditional trajectories.
	Improve the supply of technical and vocational education and training, and adapt it to the skills needs identified.	• Strengthen the supply of technical and vocational training, devoting resources to the creation of training courses that match demand, and to the institutional reinforcement of training institutions. • Promote a process to update machinery and equipment in educational institutions in order to enable the development of skills that facilitate students' insertion into the labour market. • Develop scholarships, transfers and other financial incentives for learners to complete their education and training. • Promote linkages between training and education institutions, public institutions, business and industry, and civil society. • Encourage the development of formal internships, apprenticeships, traineeships and training programmes between schools and employers, especially at the local level.
	Revise the national curriculum so that it takes a student-centric, competency-based approach.	• Design a competency-based curricular reform to respond to current and future needs. • Design a participatory process for building curricula. • Include student-centric pedagogical guidelines that take account of different educational environments (e.g. rural areas).
Towards sound public governance in El Salvador (Chapter 8)		
A more strategic Centre of Government (CoG).	Continue clarifying the mandates of CoG institutions.	• Establish periodic reviews of the mandate and composition of the institutions of the Presidency of the Republic in order to identify gaps and overlaps, and to determine units or attributions that can be placed outside the CoG, or eliminated outright. • Ensure that institutions in the CoG receive appropriate human and financial resources to grant them the capacity to carry out essential functions of the CoG, such as supporting decision making by the President, strategic planning, co-ordination of whole-of-government policies, performance monitoring, and strategic communication.

Goals	Recommendations	Detailed recommendations and actions
	Review and continue improving mechanisms and tools for whole-of-government coordination led by the CoG.	• Review and update the mandates and the composition of co-ordination mechanisms to ensure that the units of the Presidency that are involved in whole-of-government co-ordination, the relevant ministries, and also instances of sub-national government, public institutions, and civil society, take an active part in planning, co-ordinating and monitoring public policy priorities. This should include reviewing and updating the composition of sectoral cabinets. • Develop co-ordination mechanisms in policy areas where whole-of-government co-operation is not broadly implemented and could be strengthened, such as open government. • Codify and communicate widely to line ministries and other public institutions the criteria and standards that policy proposals must meet when submitted to the CoG for review. El Salvador could consider developing clear guidelines using tools such as manuals or templates. • Foster the use of formal channels for conflict resolution between institutions of the Presidency, line ministries, and other public institutions.
Strengthen strategic planning.	Institutionalise strategic planning and develop associated tools.	• Establish a strategy body that is dedicated to strengthening and co-ordinating medium- and long-term strategic planning. • Ensure the availability of appropriate human and financial resources in the CoG to dedicate to strategic planning. • Establish clear guidelines for the prioritisation and implementation of whole-of-government initiatives and sectoral plans, including tighter linkages between strategic plans and the budget, the development of more detailed timelines for implementation, and the definition of monitoring indicators. • Assess the quality and internal coherence of multi-sectoral strategies and plans, including appropriate identification of the resources (human, financial and material) that are necessary for implementation. • Identify possible synergies between initiatives, especially by aligning sectoral plans with whole-of-government plans, in order to optimise the use of resources and avoid overlaps.
	Develop a robust monitoring framework.	• Elaborate detailed action plans for whole-of-government initiatives and sectoral plans, including baselines, targets, indicators and criteria to monitor and evaluate performance in their implementation. For instance, El Salvador could consider developing multiple indicators (each of which would include a baseline and a target value, and should be assessed against the RACER – Relevant, Accepted, Credible, Easy, Robust model), associated to each axis or objective within the components of Plan Cuscatlán. • Enhance institutional capacity to plan and carry out data collection, processing and analysis across the country's administration. Perform these functions systematically. • Harmonise existing systems for data collection across the Salvadoran administration in line with the information requirements of the future national monitoring system, and develop mechanisms to use this data in the decision-making process.
Towards a more modern state.	Harmonise the civil service workforce management strategy.	• Adopt a new Civil Service Law to provide the legal framework required for the effective design and implementation of a civil service reform, along with a reform of the Labour Code. • Establish an institutional authority with a clear mandate and the appropriate resources to set and

Goals	Recommendations	Detailed recommendations and actions
		oversee a management strategy for the national civil service workforce right across the Salvadoran administration. • Harmonise job profiles, functions, terms and employment conditions (for example compensation, contract duration, job security, rights and obligations) across the country's administration. • Periodically review and update required competencies and skills based on inputs from civil servants and citizens, in order to keep pace with changing technologies and the needs of the society that they serve. • Rely on the recently created ESIAP school to develop training programmes that will provide civil servants with the skills that they need to perform functions across the different institutions of the public administration. • Develop tools and systems for the management of human resources that make it possible to monitor and evaluate performance. Assess, reward and recognise performance by developing indicators and criteria for each standardised position. • Strengthen the role and systematic use of the public employment portal (http://www.empleospublicos.gob.sv/) to ensure that all recruitment processes are transparent, open and based on merit.
	Enhance the use of best practices in regulatory policy.	• Broaden the scope of regulatory policy in El Salvador to cover other key areas that encompass day-to-day formalities and procedures that relate to people's life events, and which are, for instance, vital for accessing the health and education systems (birth certificate, identity card, etc.) or for participating in the labour market (e.g. social security/fiscal numbers). • Ensure effective stakeholder engagement through the implementation of the Consultative Council (Consejo Consultivo) of the Organism for Better Regulation (OMR), and by systematically involving stakeholders in earlier stages of the development of subordinate regulations. • Support Regulatory Impact Assessment (RIA) practice with clear guidance, training programmes, and quality-control mechanisms, in order to raise awareness and ensure that RIA is performed homogenously throughout the administration. • Give early consideration in the policy cycle to the performance criteria for ex-post evaluation, including whether the objectives of a regulation are clear, what data will be used to measure performance, and the allocation of institutional resources.
	Pursue efforts towards digital transformation.	• Continue efforts towards the design and implementation of projects that aim to reduce digital divides and to ensure connectivity access across all of El Salvador's territory, including by developing clear business cases for sustaining the funding and the focused implementation of the various digital technology projects in El Salvador. • Strengthen the role of the National Cybersecurity Committee (the Comité Nacional de Ciberseguridad), in order to promote inter-ministerial co-ordination and collaboration, and pursue efforts in the implementation of El Salvador's national cybersecurity policy. • Pursue efforts in the unification and integration of all existing platforms (one-stop shops) across the Salvadoran administration into the *ventanilla única ciudadana* – a unified one-stop shop.

Goals	Recommendations	Detailed recommendations and actions
		• Develop and put in place systems that support change management within the public administration. El Salvador could start by working with specific ministries on pilot projects in order to make digital transformation processes more visible, and to demonstrate the advantages of digital transformation for the public administration and for civil servants.
	Define clear mandates and develop tools to increase transparency, integrity, accountability and stakeholder participation.	• Develop a national open government strategy that would provide an umbrella for all open-government initiatives, while also ensuring that they follow similar methodological guidelines and contribute to a shared vision of transparency, integrity, accountability and stakeholder participation. • Identify and assign a unit with a clear mandate to take the lead in steering and guiding the design and implementation of a national open government strategy, and as well as promoting the development of a culture of open government across the Salvadoran administration. • Develop co-ordination mechanisms for open government (e.g. an inter-ministerial group, or working groups). • Perform regular independent assessments of the standard and state of advancement with regard to the implementation of the Law of Access to Public Information, and also of the effectiveness of the current institutional arrangements to oversee implementation. Involve civil society in these evaluations. • Take measures to ensure that citizens and stakeholders are actively involved in all phases of the policy cycle (design, implementation, monitoring, evaluation, etc.), by establishing or strengthening effective mechanisms of information, consultation, and engagement.

Notes

[1] Violence rates fell substantially in 2021 and, especially, in 2022. As of the end of 2022, detailed and comprehensive analysis of the impact of this fall in the development of the country and the wellbeing of the population is not available.

[2] Phase 1 was implemented in July-December 2019; Phase 2 from October 2020 to June 2021; Phase 3 from June 2021 to July 2022.

[3] The coffee oligarchy is often referred to as the "fourteen families" given the high degree of concentration of land and power. In practice they were closer to sixty (Wade, 2016[4]).

[4] Remittances reached 26.2% of GDP in 2021 (according to BCR estimates).

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Part I Initial Assessment

2 Multi-dimensional analysis of development in El Salvador

Development is inherently multi-dimensional. This chapter analyses the development performance of El Salvador across the five pillars of the Sustainable Development Goals: People, Prosperity, Partnerships, Peace and Institutions, and Planet. In each dimension, it compares the country's performance against that of a group of benchmark countries, and it identifies the main constraints to sustainable and equitable development.

This chapter delivers an overarching assessment of development in El Salvador, benchmarking the country's development outcomes and identifying the main constraints to sustainable and equitable development. The chapter is organised around the five pillars of the United Nations Sustainable Development Goals (SDGs): People, Prosperity, Partnerships, Peace and Institutions, and Planet. This reflects the ongoing effort to align OECD tools to the SDGs. It is also a reflection of the relevance of the SDGs for El Salvador.

People

The "People" pillar of the 2030 Agenda for Sustainable Development places quality of life in centre stage, focusing on the international community's commitment to guaranteeing the fulfilment of all human beings' potential in terms of equality, dignity, and good health.

Even today, the backdrop to El Salvador's development is a civil war that lasted over a decade (1979-92). The country incurred both direct and indirect economic and social costs from the conflict, leaving it behind the rest of the region in key areas of quality of life such as health and education, and also in the fight against poverty and deprivation. After almost three decades of post-conflict reconstruction, measures of current well-being show signs of considerable progress in terms of infrastructure and employment.

However, important hurdles remain on El Salvador's path to sustainable, inclusive development. This is the case in multiple areas including multi-dimensional poverty[1], social protection, dropout rates in education, and the quality of healthcare. The prevalence of informal employment also continues to have a cross-cutting impact on people's well-being in El Salvador.

Table 2.1. People – Four major constraints

1.	The social protection system calls for higher coverage and improved targeting.
2.	The education system faces low attainment levels and dropout high dropout rates.
3.	Reforms have contributed to improvements in healthcare coverage, yet the system lacks quality in the face of new challenges.
4.	Positive labour market outcomes are tarnished by informality and sub-employment.

Despite falling income poverty and inequality, deprivations in areas such as education, social protection and employment compromise the capabilities of future generations

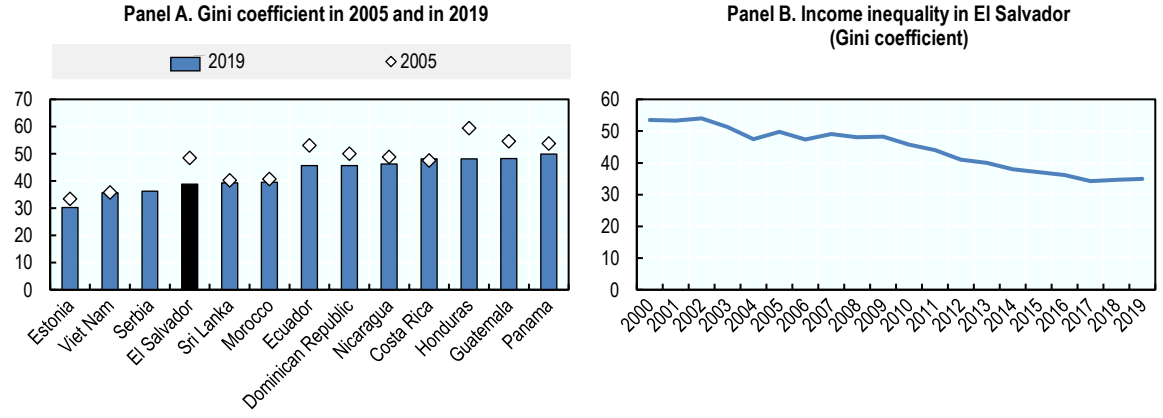
Largely due to an increase in real income, the percentage of the Salvadoran population living in income poverty fell steadily between 2008 and 2019 (Figure 2.3). According to national data, income poverty affected 26.8% of households in 2019 – the lowest rate recorded since the household survey began in 2000 – and the poverty headcount ratio has fallen over the past decade[2] (Figure 2.1). Moreover, household expenditure has risen since 2009, and the Gini coefficient has improved considerably, falling from 0.50 in 2005 to 0.35 in 2018 according to El Salvador's national statistics office, DIGESTYC.

The reduction of inequality in El Salvador since the end of the 2000s stands out among comparator countries. The Gini coefficient fell by 5.3 points between 2000 and 2009, and then by 13 points between 2009 and 2018, according to DIGESTYC. This is one of the largest falls in inequality in Latin America, even though El Salvador already had a more equal distribution of income than that of the region (Figure 2.1). The decrease was driven by falls in inequality among both urban and rural dwellers, with urban/rural differences accounting for about 10% of inequality. Labour incomes were the main driver of falling inequality, growing by 7.1% for the poorest quintile (in nominal terms), compared to 2.2% for the richest. Remittances also played a role in compressing the income distribution, although more households receive remittances among the near-poor than the poor (World Bank, 2015[1]).

The COVID-19 pandemic led to a setback in the fight against poverty and inequality, albeit to a lesser degree than in most countries in the region. According to official data, poverty increased in 2020, rising to 29.7% of households, which is to say back to 2017 levels. According to estimates from the Economic

Commission for Latin America (ECLAC), extreme poverty increased from 5.6% in 2019 to 8.3% in 2020, while total poverty increased by only 0.3% (from 30.4% to 30.7%). This contrasts with increases of more than 7% in some countries in the region (Argentina, Colombia or Peru) (ECLAC, 2022[2]). Simulations conducted by the World Bank suggest that the pandemic also generated significant increases in inequality, having led to significant falls in income (more than 10%), and to larger falls in income among the poorest quintiles of the population, despite mitigation measures (World Bank, 2022[3]).

Figure 2.1. Inequality has fallen sharply in El Salvador since the late 2000s

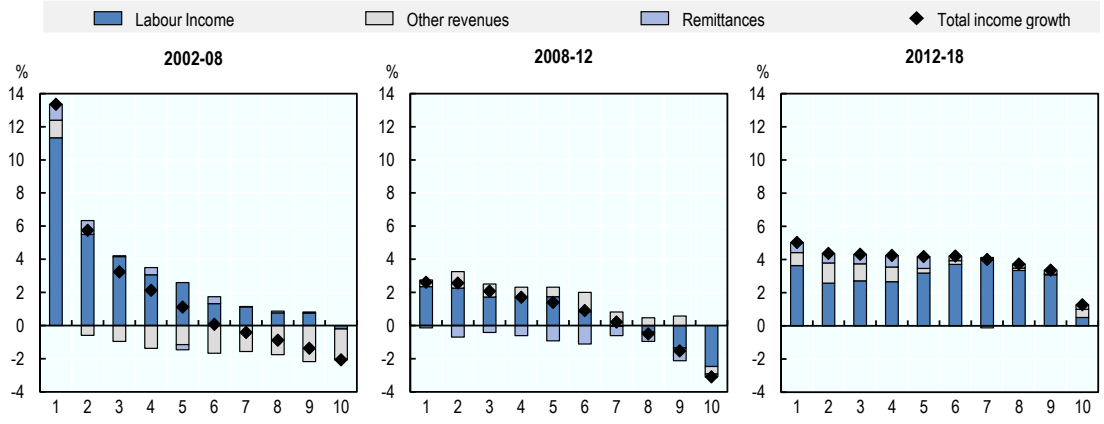


Note: Data corresponding to 2005 are from 2006 for Guatemala, Sri Lanka, Morocco and Viet Nam; data corresponding to 2018 are from 2018 for Viet Nam and Estonia, 2016 for Sri Lanka, 2014 for Guatemala and Nicaragua, and from 2013 for Morocco.
Source: Panel A. World Development Indicators (World Bank, 2019[4]). Panel B. DIGESTYC.

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Figure 2.2. The reduction in inequality followed different patterns over time

Contribution by income source to total per capita household income growth in real annualised terms, by income decile



Note: Total income growth is the compound annualised growth rate of household per capita income by decile. Contributions by source are prorated on the basis of the real monetary contribution to growth.
Source: Authors' calculations on the basis of data from the Encuesta de Hogares de Propósitos Multiples (EHPM), (DIGESTYC, 2019[5]).

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The decline in income inequality has followed different patterns over time. While inequality fell between 2000 and the early 2010s, this was due in part to a compression of the income distribution. The incomes

of the poor rose more quickly than the average, while better-off groups in the middle class saw their real incomes fall as a consequence of tepid growth and wage moderation (Figure 2.2). Since the recovery of the economy from the global financial crisis of 2007-08, however, incomes have grown across the income distribution, but with inequality still falling. In the most recent period up to the COVID-19 crisis, labour incomes have benefitted the poor and the middle classes, and the growth in targeted public transfers and other incomes has also contributed to a progressive reduction in inequality.

While remittances do play an important role in containing income inequality, they have not driven the fall in income inequality. Most remittances concentrate in households at the bottom of the distribution of labour income. In 2018, the bottom 20% received 40% of remittances, compared to 3% of total labour income. This is partly due to the emigration of the main breadwinners in the household. Individuals in households with no labour income generated inside El Salvador are much more likely than other households to receive remittances (45% compared to 19%), and to receive higher levels of remittances per capita (USD 123 per month per person, compared to USD 53). As a result, the Gini coefficient of income inequality is about 6% lower when remittances are taken into account, compared to when only labour income is considered. This figure has remained stable over time.

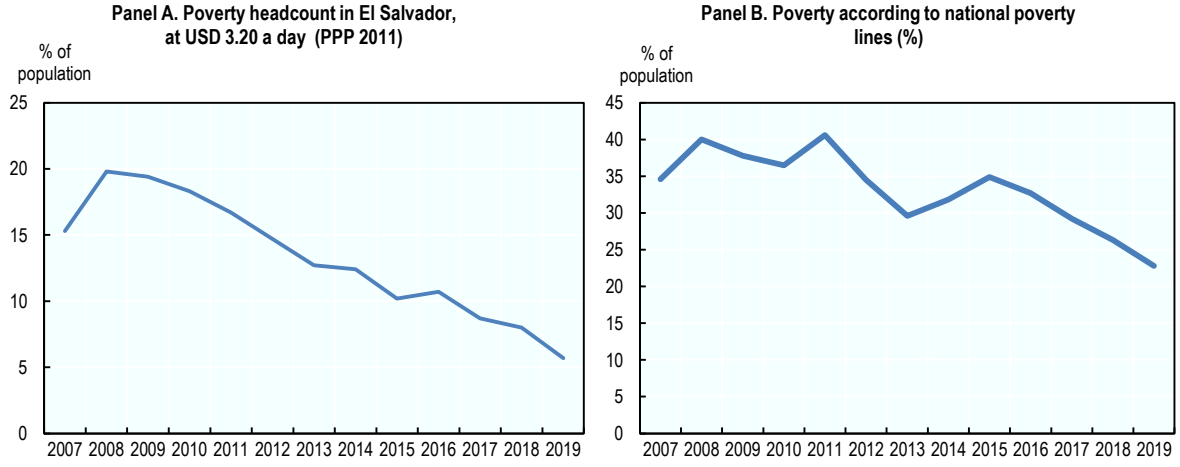
In 2017, however, 48% of Salvadorans were still economically vulnerable to external shocks, which is higher than in any other Latin American country (for which the average is 37%), and 15 percentage points greater than in 2000. This means that despite a gradual decrease over the past two decades in the share of the population that is considered to be poor, and a slight expansion of the middle class since 2012, almost half of El Salvador's population is still considered vulnerable and can still easily fall under the poverty line in the event of a shock. At an individual level, those belonging to this socio-economic group are often locked into it: they tend to have informal jobs of low quality, a condition that in turn is associated with low social protection and income, preventing them from investing in their own human capital.[3] In 2017, for instance, a large majority of adult women (58%) had low income and no social security, which is just over 10 percentage points higher than the proportion of men who were in the same situation (46%) (PNUD, 2018[6]). Among the poor sectors of the population, the supply of housing doesn't meet demand. According to the Inter-American Development Bank, 60% of the population receiving levels of income that fall below the four sectoral minimum wages has opted for self-built housing in illegal settlements and marginalised communities (Barrios et al., 2019[7]). These areas are highly vulnerable to natural hazards, and social housing is no longer attractive for investment due, on the demand side, to difficulties in obtaining mortgages, and also to the difficulties that investors face in obtaining construction permits. Such difficulties may stem from environmental or municipal hurdles, or regulations on health and safety.

The multi-dimensional poverty rate decreased from 35% to 29% over the first four years during which it was measured. This rate is calculated as part of the Multidimensional Poverty Index (MPI), which El Salvador's government officially adopted in 2014. It takes into account household deprivations across 20 indicators of education, housing, work and social protection, food security, health, basic services, and environmental security (DIGESTYC, 2020[8]). Nevertheless, according to the government's technical secretariat, 28% of households were considered to be "multi-dimensionally poor" in 2019, meaning that they suffered from at least seven of the deprivations that feature in the index. Findings from the EHPM survey revealed that the domains in which the largest number of Salvadorans experience deprivation are education (77.5% of households), social security (69.1%), and employment (61.3% of households suffer from sub-employment and instability) (DIGESTYC, 2020[8]). In 2020, the incidence of multi-dimensional poverty fell to 27%. Low education among adults became more severe (affecting 78.2% of households), but there was a reduction in deprivations due to improvements with regard to social security (for which the rate of deprivation fell to 68%), and underemployment (for which it registered a small decline to 61%) (DIGESTYC, 2021[9]).

These figures not only highlight key areas of need that concern a large portion of the population, but also the fact that they may be coinciding to create a deeper, more complex kind of poverty in the country that goes beyond current income levels and limits the prospects of future generations. Tackling multi-

dimensional poverty involves investment in citizens' capabilities at all stages of their life cycle, as well creating a favourable environment for individuals to live a life in which they feel fulfilled. For instance, almost half (47.4%) of Salvadoran households were restricted due to insecurity, while over one in three lacked access to public areas of leisure (37.5%) in 2019. There are signs of improvement, however. According to the Gallup World Poll, 48% of Salvadorans felt safe when walking home alone at night in 2008, compared to just 28% in 2016. In the last two years, the rate has improved still further, reaching 64% in 2020. This improvement is in line with national strategies implemented by the government and the national civil police force (PNC, 2019[10]).

Figure 2.3. Both the percentage of the population living below USD 3.20 a day, and the poverty headcount ratio at the national poverty lines, have decreased over the past decade



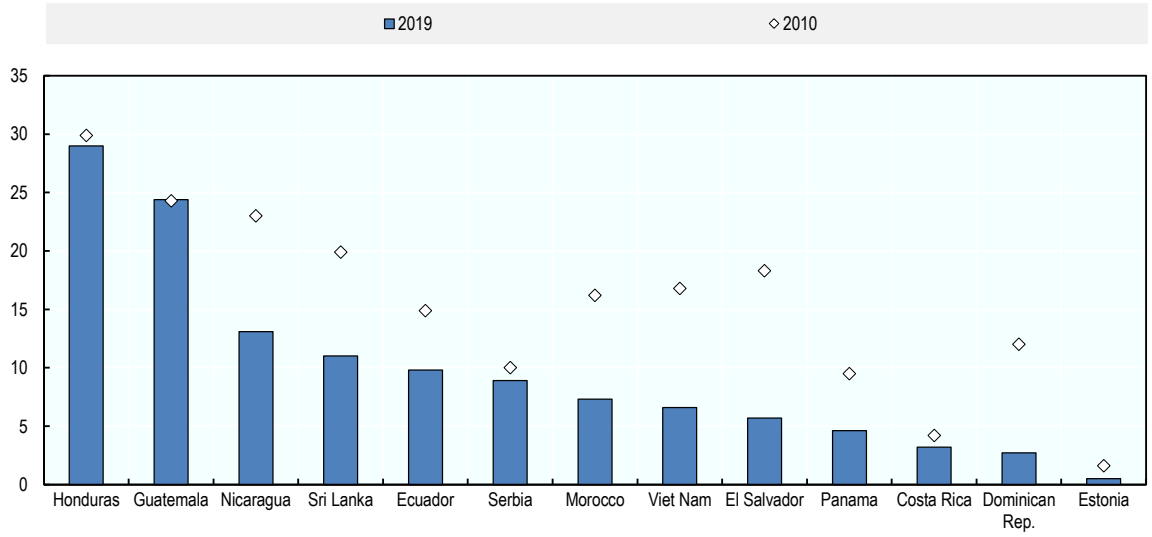
Source: World Bank, World Development Indicators, available at https://databank.worldbank.org/source/world-development-indicators, and MINEC – DIGESTYC (EHPM).

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When analysing the geographical distribution of the multi-dimensional poverty rate, there are three departments in El Salvador where over 40% of households are poor from a multi-dimensional perspective. This is to say that they are deprived in seven or more of the dimensions. The three departments are Ahuachapán, where 50.1% of households are poor from a multi-dimensional perspective, La Unión (42.8%), and Morazán (42.1%). Conversely, San Salvador (14.1%), Chalatenango (21.2%), and Santa Ana (27%) are the departments with the country's lowest rates. Furthermore, the multi-dimensional poverty rate is almost three times higher in rural areas (48.9%) than it is in urban areas (17.1%). The gap between urban and rural areas is also visible in levels of household income. According to the 2018 edition of the EHPM survey, household income stands at USD 683.98 per month in urban areas, whereas in rural areas it only reached USD 411.24, reflecting stark differences in living conditions.

Figure 2.4. The percentage of the population living on less than USD 3.20 a day is relatively low in El Salvador

Poverty headcount index at USD 3.20 per day (2011 purchasing power parity, percentage of the population)



Note: The data is from 2019 or the latest available year: 2018 for the Viet Nam, 2017 for Serbia, 2016 for Sri Lanka, 2015 for Estonia and Serbia, 2014 for Guatemala and Nicaragua, and 2013 for Honduras. Data for Nicaragua is from 2009 instead of 2010. Data of Serbia is from 2012 instead of 2010. Data for Sri Lanka is from 2009 instead of 2010.
Source: World Bank, World Development Indicators, available at https://databank.worldbank.org/source/world-development-indicators.

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The demographic distribution of the MPI reveals that certain groups of the population, such as children, are more affected by multi-dimensional poverty than others. According to data from 2018, children are affected disproportionately by multi-dimensional poverty, with 46% of 0-5 year olds and 40% of 6-15 year olds living in poor households from a multi-dimensional perspective. What is more, in 2017, four out of every ten young people aged 0-17 lived without one or both parents, and in 14% of cases this was due to parental abandonment (78% by the father, 8% by the mother). When analysing the potential causes for this, such as migration and deaths, the incidence of these factors is higher among fathers than among mothers (DIGESTYC, 2017[11]). Such great levels of deprivation and vulnerability at an early age represent high risks for the inter-generational transmission of poverty and inequality.

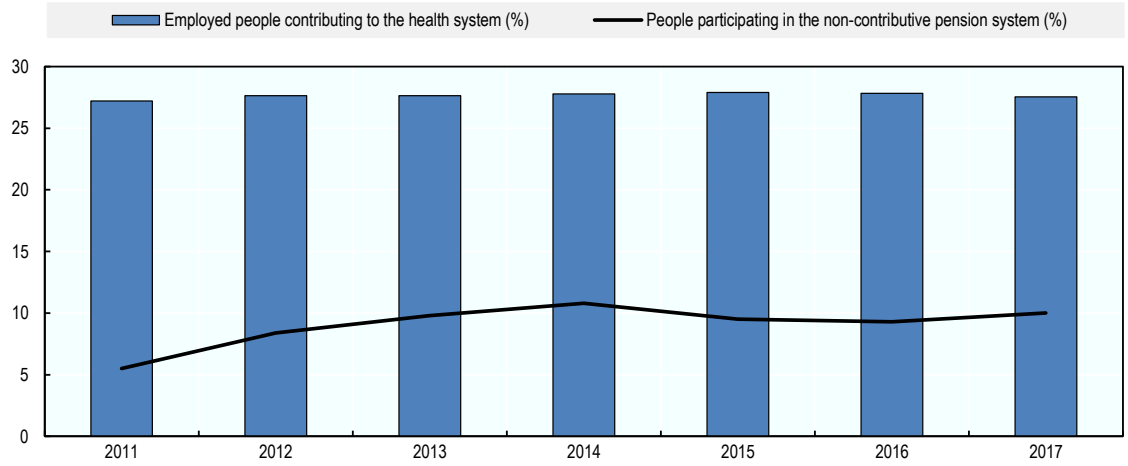
The social protection system needs to achieve higher coverage and better targeting

El Salvador took the first steps in establishing a universal system of social protection (the Sistema de Protección Social Universal, or SPSU) in 2009, focusing mainly on areas such as health, food and income security. The system includes non-contributory mechanisms, destined to ensure minimal cover for the whole population, but also contributory components organised through social insurance via the country's social security organisation, the Instituto Salvadoreño del Seguro Social (ISSS), and a private pension scheme. The SPSU has three main management tools: the Single Registry of Participants (Registro Único de Paricipantes, or RUP), the Social Programmes Information System, and the Social Policy Monitoring and Evaluation System. A further step was taken in 2014, when Congress adopted the Development and Social Protection Act (the *Ley de desarollo y protección social*) in order to enhance the operation of the SPSU and to develop a legal framework to ensure its continuity.

Since 2011, the amount of employed contributors to the healthcare system has remained relatively stable, at approximately 28% of the employed population. The percentage of people participating in the non-

contributory pension system has doubled over the same period, but at 10% it nevertheless remains relatively low (Figure 2.5).

Figure 2.5. Contributors and beneficiaries of El Salvador's Social Protection System have remained stable over time



Source: Informe de Coyuntura (ISSS), Fondo de Inversión Social para el Desarrollo Local (FISDL).

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The 2017 household survey shows that households in the two poorest quintiles receive a lower percentage of subsidies compared to the rest of the population. The first quintile receives 13.8% of subsidies, while the second quintile receives 18.7%. This indicates that, when considering the total amount of economic subsidies, the largest portion does not reach the most deprived households (Barrios et al., 2019[7]).

Furthermore, emblematic social programmes such as Ciudad Mujer, Comunidades Solidarias and the Programa de Apoyo Temporal al Ingreso (PATI) have all seen a decrease in their total amount of beneficiaries and participants since 2009 (FUSADES, 2019[12]). In addition to their success in reducing poverty, these programmes have also had a positive impact in other challenging areas for the country. For example, although the focus of PATI was to guarantee minimum levels of income for extremely poor people over 6-month periods, there is evidence that it also contributed to reducing crime in municipalities (Acosta and Monsalve Montiel, 2018[13]).

Increasing the coverage of conditional transfers is key, in light of the overall stagnation or decrease in the beneficiaries of major programmes over the past five years. This has been the case for programmes such as the Bono Educación/Salud Rural, the Pensión Básica Urbana, and the Bono Educación Urbano (FUSADES, 2019[12]). When it comes to ensuring that the beneficiaries are those who need such programmes the most, upgrading information databases could help to target certain sections of the population, making use of management tools such as the RUP. Consolidating the RUP could also contribute to a more efficient use of resources, as well as helping to realign the focus of certain programmes with the country's evolving human geography. Finally, the informal economy should remain a priority with regard to extending the coverage of social protection and spending to more vulnerable groups of the population. In effect, according to the EHPM survey, 99.5% of workers (aged 15-64) from the lowest income quintile were informally employed in 2017 (Barrios et al., 2019[7]).

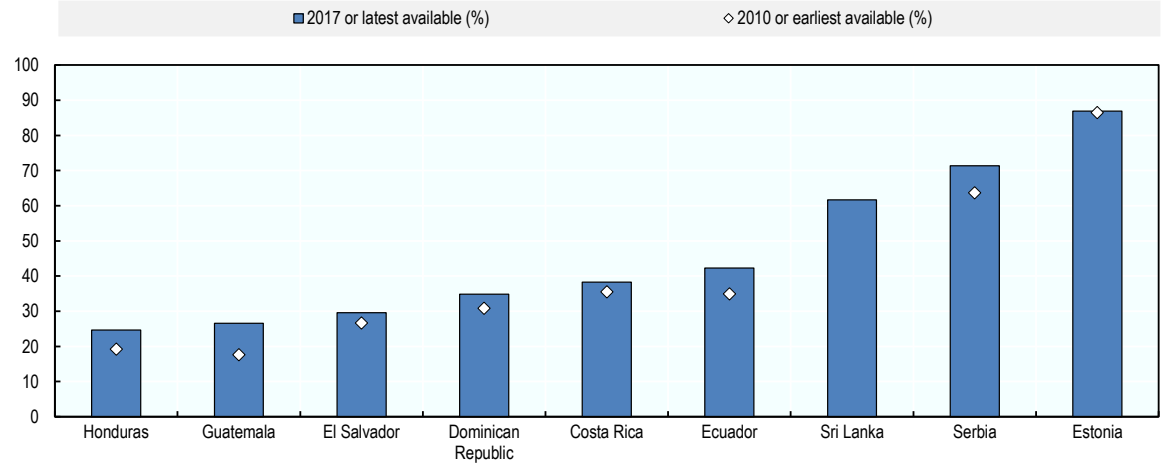
The education system faces low attainment levels and high dropout rates

Compared to international standards, the share of the population that completes at least upper-secondary education is relatively low in El Salvador (Figure 2.6). This is the case despite a consistent improvement

in the average number of years of schooling of the Salvadoran population over the past decade, both for men and women, and for both urban and rural areas. For instance, in 2005, an individual aged 15-24 living in a rural area would have had 6.5 years of schooling on average, as opposed to 8.2 in 2017 (DIGESTYC, 2019[5]). However, compulsory education in El Salvador lasts for 12 years (Asamblea Legislativa, 1996[14]), and school life expectancy[4] for primary and secondary education has gradually decreased, falling from 11.2 years in 2013 to 10 years in 2017. Official data on the percentage of the population that remains outside of the education system show that enrolment in school improves from ages 4 to 10, but that it then worsens progressively until the age of 17 (Figure 2.7). Moreover, the mean number of years of schooling of the population over the age of 25 is still relatively low (7.15 in 2020) compared to regional peers such as Costa Rica, which has the highest score in the region (8.80), and also to the OECD average (12.14).[5] Since the probability of working in the formal sector is closely related to educational attainment, such low levels can lead to a lack of qualified human capital for the economy. In addition, public expenditure on education has been low, averaging 3.7% of GDP between 2000 and 2018. However, it increased to 4% of GDP in 2020, and to almost 5% in 2021. If sustained, increased funding in education can help to narrow the gaps that have been caused by a history of under-funding.

Figure 2.6. Educational attainment is relatively low in El Salvador, despite a slight improvement since 2010

Proportion of the population having at least completed upper-secondary education (%)

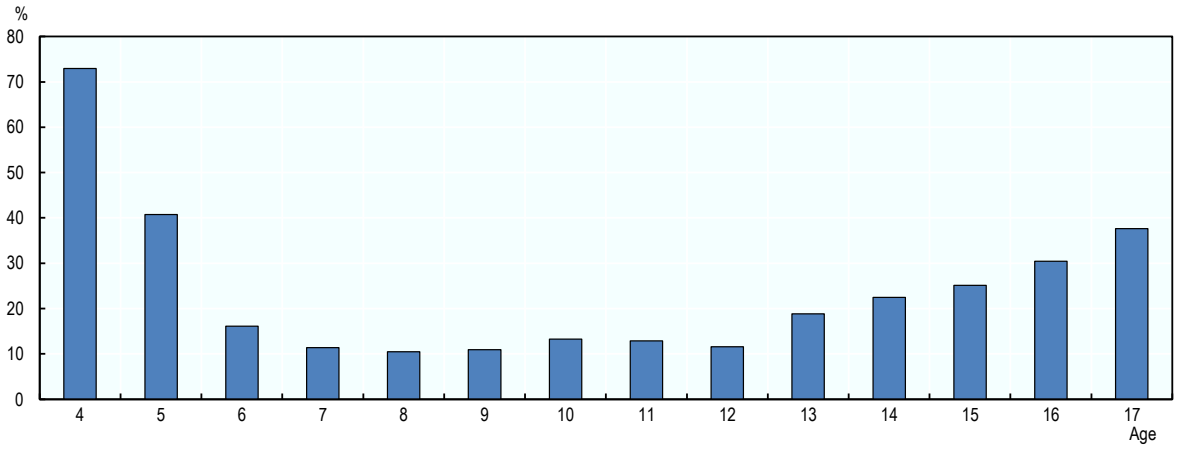


Note: The latest available year is 2016 for Costa Rica, Ecuador, Estonia, Honduras and Serbia, and this is the only year available for Sri Lanka. The latest available year for Dominican Republic is 2015, and 2014 for Guatemala. The earliest available year is 2011 for Honduras, and 2012 for Guatemala.
Source: World Bank, World Development Indicators, available at: https://databank.worldbank.org/source/world-development-indicators.

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Figure 2.7. The percentage of the population left out of the education system increases considerably between the ages of 10 and 17

Percentage of the population aged 4-16 remaining outside of the education system, 2020



Source: Ministry of Education (2020), available at: https://www.mined.gob.sv/EstadisticaWeb/indicadores/2020/trayectoria/1.2%20Porcentaje%20de%20poblaci%C3%B3n%20no%20escolarizada%20por%20edad.pdf.

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In terms of academic performance, results from the PAES (Prueba de Aprendizaje y Aptitudes para Egresados de Educación Media) evaluation, carried out at the end of secondary school show that the strength of the Salvadoran educational system lies in social studies. In this field, the national average score was 6.25 out of 10 in 2018, but students performed less well in mathematics, scoring 5.22 on average (a pass in El Salvador is 6.0). Across all five subjects in the PAES, private schools outperformed those of the public sector by roughly 10% (MINED, n.d.[15]).

The first challenge for the government is to address dropout rates. In 2018, approximately 11 500 students dropped out of school in El Salvador, representing roughly 0.9% of the student population, according to the country's education ministry (MINED, n.d.[15]). The main reasons for dropouts included changes of residence (38% of all reported dropouts), changes of school (11%), migration (12%), and parents who are no longer supportive of school attendance (6%) (MINED, 2019[16]). Tackling this issue involves supporting the role of communities and families in encouraging children to want to enrol in school.

In 2016, crime represented 32% of the reported reasons for which people dropped out of school, whereas in 2017 and 2018 it had fallen to 4%. However, violence linked to crime is still particularly high in El Salvador, and when it occurs in or around a school, attendance for youths can become untenable. Illicit activity may also offer youths attractive alternatives to staying in school (Adelman and Széleky, 2016[17]). Currently, one in every five students enrolled in basic education attends a non-state school, which are primarily concentrated in urban, areas that are affected by violence. Government schools are seen by many as unsafe, and wealthy households turn to private schools to provide education for their children (USAID/R4D/ECCN, 2018[18]). Nevertheless, according to the school census led by the Ministry of Education, between 2017 and 2018 the declared presence of gangs in both public and private schools fell by a third (from 720 to 507), as did the amount of students who had been threatened by gang members (from 718 to 571) (MINED, n.d.[15]).

Teenage pregnancy is another risk indicator that can affect the financial cost and the opportunity cost of staying in school. Despite recent institutional efforts to prevent unwanted pregnancies in girls and adolescents (e.g. the national policy on sexual and reproductive health in 2012), between 2013 and 2015 one in three pregnancies in El Salvador were adolescent (UNFPA, 2016[19]).[6] In the 2018 school census,

702 cases of pregnancy were reported within schools (down from 869 the previous year) (MINED, n.d.[15]). The reality that girls and adolescents face in El Salvador is symptomatic of an overall lack of opportunities. It is also closely linked to a variety of social, economic and cultural pressures, as well as to sexual violence and minimal empowerment. El Salvador is one of only five countries in the world that still prohibits abortion in all circumstances, subjecting both women and their doctors to criminal penalties for undergoing an abortion (Zureick et al., 2018[20]).

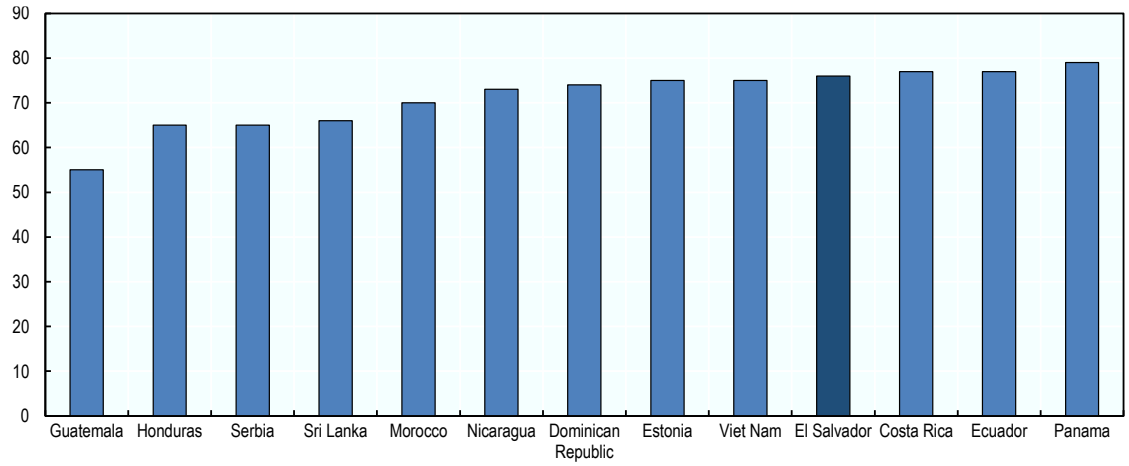
Further challenges for the education system in El Salvador include teaching capacity and infrastructure. According to 2019 data, 499 public schools in El Salvador have only one teacher (these are known locally as *escuelas unidocentes*). Only 28 such schools in El Salvador are in urban areas, meaning that this is mainly a handicap for students in rural areas of the country (MINED, 2019[21]). Beyond increasing the quantity of teachers, improving teacher performance via recruitment, training, and incentive policies could have a positive impact not just on student learning, but also, under the right circumstances, it could reduce dropouts (Adelman and Széleky, 2016[17]). Education in El Salvador also suffers from a lack of the kind of infrastructure that would guarantee optimal conditions for learning. For instance, although access to the Internet was available in 2 167 schools in 2018, up from 1 451 in 2010 (MINED, n.d.[15]), only two in ten schools have a library (Paz, 2018[22]).

Reforms have contributed to improvements in healthcare coverage, yet the system lacks quality in certain areas

Standing at 74 years in 2018, life expectancy at birth in El Salvador is relatively low, particularly among men (69.3). On average, life expectancy in Central America was 75.2 years in general, and 72.1 for men prior to the COVID-19 pandemic (PAHO, 2018[23]). Across El Salvador, the adult survival rate – i.e. the percentage of 15-year olds who live to be 60 – is 83%, which situates the country within the second quartile of a total of 157 countries. Moreover, 14 out of 100 children are stunted, meaning that they are at risk of cognitive and physical limitations that can last a lifetime (World Bank, 2018[24]). According to the EHPM, however, access to healthcare isn't among the main deprivations of multi-dimensional poverty in El Salvador. In 2014, 16.5% of households living in poverty were affected by this deprivation, compared to the 97.7% of poor households in which adults had suffered from educational deprivation, or the 90.8% that lacked access to social security (MINEC-DIGESTYC/SETEPLAN, 2015[25]). To a certain extent, this situation is reflected in the UHC (Universal Health Coverage) Service Coverage Index (SCI) reported in Figure 2.8, and where El Salvador does perform relatively well compared to other countries. However, the threshold that is used to define deprivation in this area of the MPI index is relatively low[7], and the rate of exclusion from healthcare services still provides cause for significant concern. According to the 2019 EHPM survey, one household in four does not have access to healthcare services (29% in rural areas, and 23% in urban areas) (DIGESTYC, 2019[5]). The same survey reveals that only 2.2% of people belonging to the lowest income quintile have access to medical insurance, compared to 45.7% in the highest quintile, indicating that efforts still need to be made to bridge these gaps within the population (DIGESTYC, 2019[5]).

Figure 2.8. El Salvador performs relatively well on the UHC SCI, a measure of SDG Indicator 3.8.1. (Health service coverage)

Universal Health Coverage Service Coverage Index, 2017



Note: Coverage of essential health services is defined as the average coverage of essential services based on tracer interventions that include reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases, and service capacity and access, among the general and the most disadvantaged population (WHO, 2019[26]). Data availability is considered "high" for Costa Rica, the Dominican Republic, El Salvador, Estonia, Honduras and Serbia, and "medium" for Guatemala, Nicaragua, Morocco, Panama, Sri Lanka and Viet Nam.
Source: Global Health Observatory data repository, available at: http://apps.who.int/gho/data/node.home.

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Various healthcare reforms were put in place from 2009 to 2014 with the objective of achieving universal healthcare. The main tool for this was the Red Integral e Integrada de Servicios de Salud (RIIIS) network of health services. Specialised teams known as Equipos Comunitarios de Salud (ECOS) were assigned at a primary level of attention within communities, contributing to improvements in healthcare access and costs for the most vulnerable sections of the population (FUSADES, 2019[12]). However, health services in El Salvador are currently still fragmented. Originally designed to manage funds, the Fondo Solidario para la Salud (FOSALUD) has acquired the capacity to provide certain services, in addition to the responsibility of providing care during non-working hours, weekends, and national holidays, which was previously the responsibility of the Ministry of Health. This type of dual role and overlap has caused a certain level of cost-inefficiency within the public healthcare system, as well as inequalities amongst its workers (MINSAL, 2019[27]).

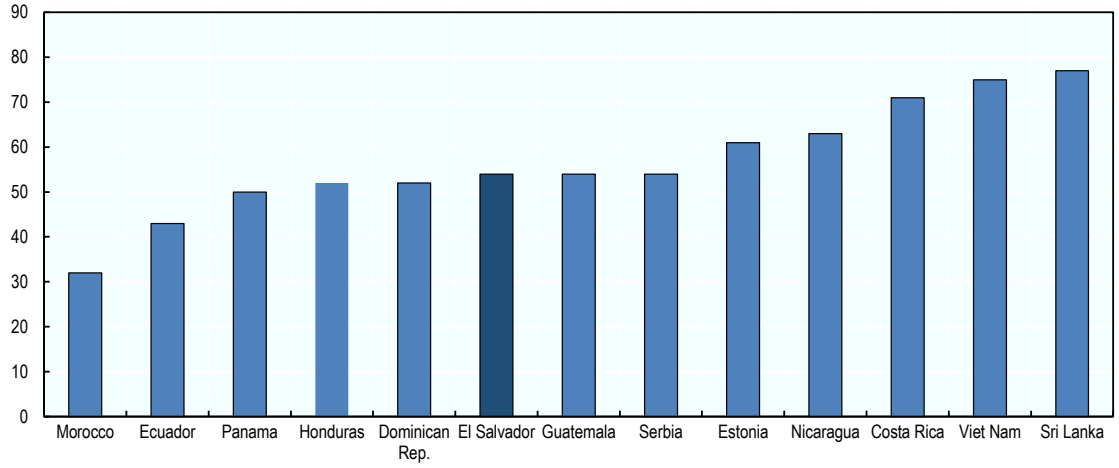
Between 2014 and 2019, projects such as the ECOS stagnated, and new problems have became apparent. These include severe shortages of medicine (which highlight the need for an adjustment of purchasing processes to the fluctuation of national demand), and long waiting lists at medical centres (PNUD, 2014[28]). A review of this period by the Salvadoran Foundation for Economic and Social Development (FUSADES) has also highlighted a lack of investment in hospital infrastructure. Of the four hospitals due to be built as part of El Salvador's five-year national development plan, only one was approaching completion in 2019, and the other three have yet to see construction plans begin (FUSADES, 2019[12]). Furthermore, the rapid expansion of urban areas of the country must be taken into account in order to adapt the healthcare system in a sustainable way. According to the United Nations Population Division (UNPD), El Salvador's urban population grew from 50% in 1992 to 72% in 2018. People's lifestyles are changing, as are the complex risks that they are facing in an urban context, particularly those linked to housing. Hence, urban planning could also have an impact on public health, both in terms of its design and its implementation (MINSAL, 2019[27]).

Further pressures such as the prevalence of chronic diseases weigh on El Salvador's healthcare system. Obesity is above the regional average for both men and women (57% and 62% respectively), despite high

rates of low birth weight in infants. According to the Center for Disease Control and Prevention, this is mainly due to nutritional habits and increasingly sedentary lifestyles (CDC, 2019[29]). There is also a high incidence of a chronic kidney disease of unknown aetiology, which is shared with neighbouring countries such as Nicaragua, a phenomenon known as Mesoamerican nephropathy (Perez-Gomez et al., 2018[30]). The ways in which the healthcare system deals with these challenges are reflected in subjective measures of its quality, in which El Salvador fares poorly in comparison to international standards (Figure 2.9). Government health schemes prior to the COVID-19 pandemic represented 2.6% of GDP in El Salvador (compared to 3.4% in OECD countries on average), and the compulsory contributory health insurance scheme stands at 2% of GDP (again compared to an OECD average of 3.4%) (WHO, 2019[26]). Both of these levels are significantly below OECD standards, which points to a lack of financial resources, but also to a lack of adequate infrastructure, tools, or trained health workers.

Figure 2.9. Salvadorans were relatively dissatisfied with the healthcare system

Respondents satisfied with the healthcare system in their city (%), 2020



Source: Gallup World Poll, available at: https://ga.gallup.com.

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Finally, in light of the extreme violence and crime that continues to occur in El Salvador, mental health is of particular concern. The country has witnessed alarming rates of suicide. In 2016, for example, they exceeded the average for Central America, accounting for 13% of deaths among men and 4% for women (age-adjusted per 100 000 population) (PAHO, 2018[23]). Moreover, when analysing specific demographic groups, suicide represents 57% of the cause of deaths among women and girls aged 10-19. This can be linked to various factors, such as sexual and gang violence, as well as a lack of access to safe abortion and support from the healthcare system, which further increase vulnerability in poor and rural areas (Pulitzer Center, 2018[31]). Fear, vulnerability, and insecurity can all have a negative effect on life satisfaction, as highlighted in Chapter 1.

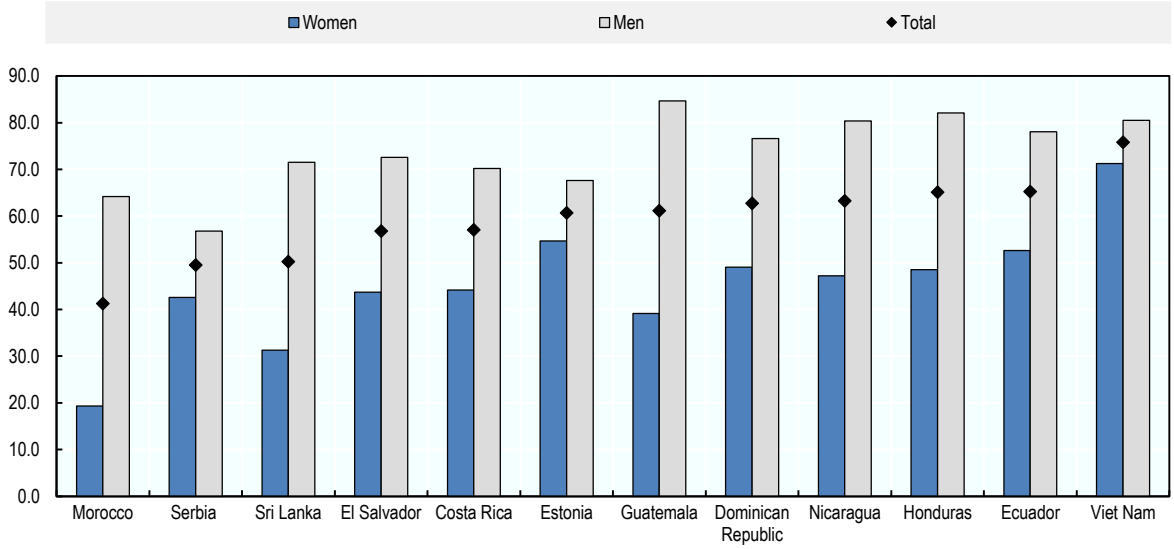
Labour market outcomes are tarnished by informality and under-employment

El Salvador's employment-to-population ratio is average compared to peer countries, and there is an underlying gender gap that has not yet improved (Figure 2.10). According to the EHPM survey, almost six out of 10 Salvadorans of working age are employed. Still, this overall figure masks a non-negligible gender gap, with 73% of men in employment in 2020, but only 44% of women. The unemployment rate, at 6.9%, is among the lowest in Latin America and the Caribbean. The increase in unemployment in 2020 was only 0.6%, despite the crisis that resulted from the COVID-19 pandemic. There is virtually no difference between

rural and urban areas, but unemployment is lower among women in El Salvador than among men (7.1% unemployment among men, against 6.6% for women). The median age of the employed population has increased, and people aged 16-24 are almost three times more likely to be unemployed than those aged 25 to 59, with the rate standing at 14.4% for the former group compared to 5.1% for the latter.

Figure 2.10. El Salvador's employment-to-population ratio is in line with that of peer countries, but the gender gap remains substantial

Employment to population ratio, ages 15+, total (%), 2019



Note: The employment to population ratio is the proportion of a country's population that is employed. Employment is defined as people of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period (i.e. who worked in a job for at least one hour), or not at work due to temporary absence from a job, or to working-time arrangements. Ages 15 and older are generally considered the working-age population (ILO, 2019[32]).
Source: International Labour Organization, ILOSTAT database, available at: https://www.ilo.org/ilostat.

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The low level of unemployment in El Salvador hides the economy's difficulties in generating good jobs. The share of salaried workers has stagnated around 54% since the year 2000, with only a small shift towards wage work in 2018. Given the prevalence of informality among the self-employed, this results in the persistence of informal employment. In 2017, for instance, the share of Salvadorans who were looking for a job and who successfully found formal employment stood at only 15%. Moreover, in the same year over 2 million members of the active population failed to find formal employment (FUSADES, 2018[33]). This lack of formal employment opportunities is particularly worrisome for the county's youth. Just over a quarter of young people (27.2%) are not in employment, education or training, making them highly vulnerable to crime, and tempting them to migrate. According to FUSADES, 50 000 people join the labour force every year, which is more than the total number of formal jobs created in the period 2014-19 (49 972). The relatively low dynamism of the Salvadoran labour market can be attributed to the timid pace of economic growth in the country, and to low levels of education in the labour force. (FUSADES, 2018[34]).

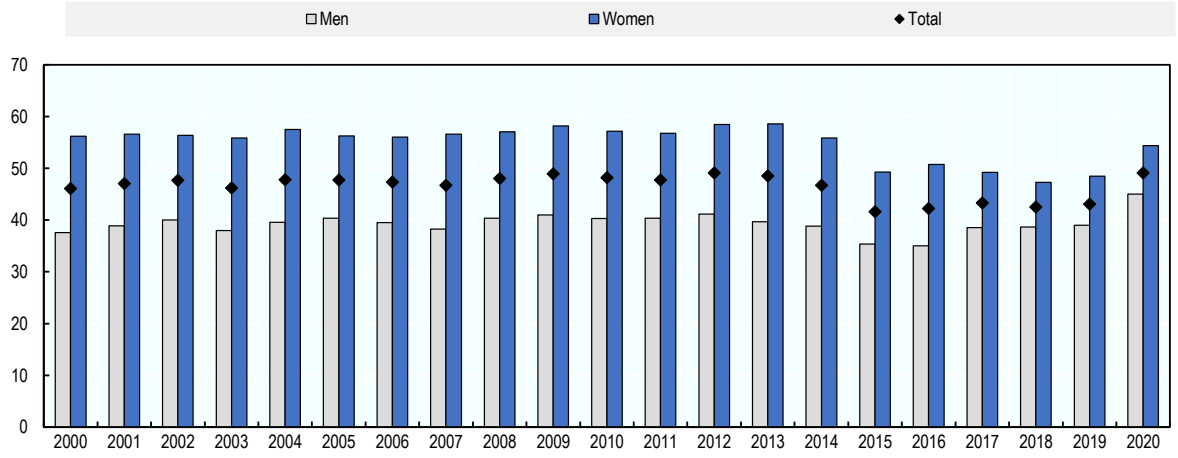
Although the unemployment rate is relatively low, under-employment is widespread across the Salvadoran population, and has risen in recent years (from 55% of all households in 2016, to 66% in 2017). Results from the 2015 MPI index had already revealed that underemployment was a major constraint for El Salvador's labour market, affecting 84% of the most deprived households (MINEC-DIGESTYC/SETEPLAN, 2015[25]). Two years later, it touched approximately 1.21 million families, and was

the indicator of the MPI that saw the largest increase (DIGESTYC, 2017[11]). Underemployment includes workers who are prepared to work 40 hours a week, but who are restricted to working fewer hours against their will, as well as those who do not receive a salary of at least the minimum wage. This phenomenon represents a major risk not only for the labour market, but for society and the economy as a whole. As seen above, if young people entering the labour force are confronted with such poor working conditions, they are more likely to resort to an informal economy that offers low levels of social protection, to illegal activities including gangs, or to migration.

As a direct corollary of the lack of job creation in the formal sector, El Salvador has a large informal sector, entailing low social protection coverage. According to the EHPM, 99% of workers falling within the first income quintile are informal. In urban areas, women have consistently been more affected by informality in their jobs over the past two decades, and although the gender gap has narrowed, almost 50% are still working informally (Figure 2.11). As a result, 57% of the population has no social protection coverage in urban areas (DIGESTYC, 2021[9]). According to ILO data, almost 70% of employment is informal in the Salvadoran economy. This includes 11% of workers working without protection in formal firms, as well as 10% of female workers working informally as domestic workers, factors which explain a large share of the gender gap in informality (ILO, 2018[35]).

Figure 2.11. The rate of workers in the informal sector in urban areas has decreased over time, and remains higher among women

Workers in the informal sector in urban areas, by gender (%)



Note: The informal sector refers to the segment of the labour market which includes: family employees and workers in establishments with fewer than five workers, independent workers, and employers with firms with fewer than five workers in roles that are neither professional, technical, administrative nor managerial.
Source: EHPM, DIGESTYC.

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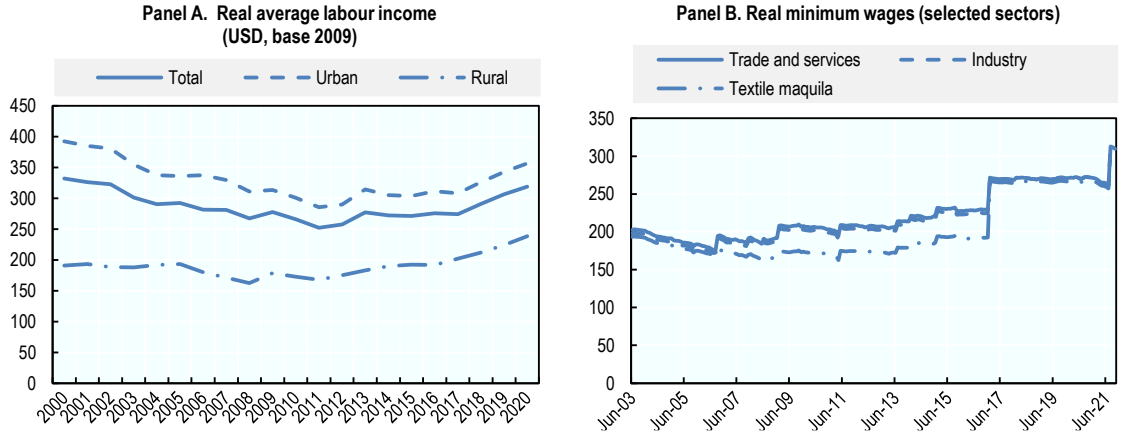
Low investment and job creation, rather than institutional constraints, seem to be the primary cause of the lack of dynamism in the labour market. As measured by the OECD Employment Protection Legislation (EPL) indicators, Salvadoran legislation protects workers less than the average levels for Latin America and the Caribbean (LAC) and for the average OECD country. Specifically, the protection of permanent workers against individual dismissal is less restrictive in El Salvador (1.42) than both the LAC average (1.95) and the OECD average (2.03). Moreover, El Salvador does not have specific requirements or legislation regarding collective dismissals. When it comes to flexible forms of employment, El Salvador's regulation is more stringent (2.25) than the OECD average (2.07), but less so than the LAC average (2.58).

In practice, this reflects restrictions on the use of temporary contracts, while the use of temporary agency work is not confronted with major barriers (OECD/IDB, 2013[36]).

Although average monthly labour income stands at USD 620 in El Salvador, and feelings about household income are generally positive, important disparities persist. In effect, the average number masks considerable differences, hiding disparities in terms of living conditions for Salvadorans. In rural areas, for instance, the average is USD 435, compared to USD 728 in urban areas in general, and USD 820 in the metropolitan area of San Salvador. Two phenomena reflect these disparities in income between different areas. On the one hand, income poverty as defined by the national reference basket of goods is 3% higher in rural areas than it is in urban areas (22% and 25% respectively). On the other hand, despite an overall increase in the average number of years of education across the Salvadoran population over the past decade (from 7.4 in 2008 to 8.7 in 2020), people living in rural areas tend to leave school three years earlier than those living in urban areas (6.6 years compared to 9.9, respectively) (DIGESTYC, 2021[9]).

Figure 2.12. Real labour earnings have picked up, following the revalorisation of minimum wages

Values deflated to 2009 USD



Note: Consumer price index (CPI) data were spliced between the 1992 and the 2009 base series. Panel A shows average labour earnings excluding workers with zero labour income.
Source: Panel A: DIGESTYC, Panel B: (BCR, 2022[37]), (Barrera, 2016[38]) and Legislative Decrees setting out minimum wages.

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After a period of moderation, labour incomes have picked up. Real labour incomes fell until 2012, and did so more markedly in urban areas. Until 2012, over 30% of employed workers were in poverty, despite having a job. This fall in real average labour earnings is linked to the importance of low value-added sectors in job creation. The decline in average income contributed to a narrowing of the urban-rural gap in labour earnings, although sizeable gaps persist. In 2020, average labour income was USD 286 in rural areas, compared to USD 400 in urban areas. On top of price differentials, urban/rural gaps are linked to the fact that, despite an overall increase in the average number years of education across the Salvadoran population in recent times (from 7.4 in 2008 to 8.1 in 2017), people living in rural areas tend to leave school three years earlier than those living in urban areas (six years compared to nine, respectively (DIGESTYC, 2017[11])). After depreciating for years, minimum wages increased gradually, with several of the increases distributed gradually over the period. In 2017, they received a sizeable push (close to 20% in nominal terms for services, commerce and manufacturing, and larger increases for agricultural and maquila workers), followed by a 20% increase in August 2021. Although minimum wages are only relevant for part of the labour market, their increase has coincided with the increase in labour incomes. This is despite the slack in the labour market that is evidenced by under-employment, suggesting that minimum wages may be playing a signalling function.

Prosperity

El Salvador's economy is characterised by low growth rates and a large informal sector. Over the past 30 years, the economy has been shaped by three important political events. These are the signing of the 1992 peace agreements that supported economic reforms in the 1990s, the adoption of the US dollar as the country's official currency in 2001 (after a currency peg that began in 1993), and El Salvador's adherence to international trade agreements, notably the Dominican Republic-Central America-U.S. Free Trade Agreement (CAFTA-DR) in late 2004.

Table 2.2. Prosperity – Three major constraints

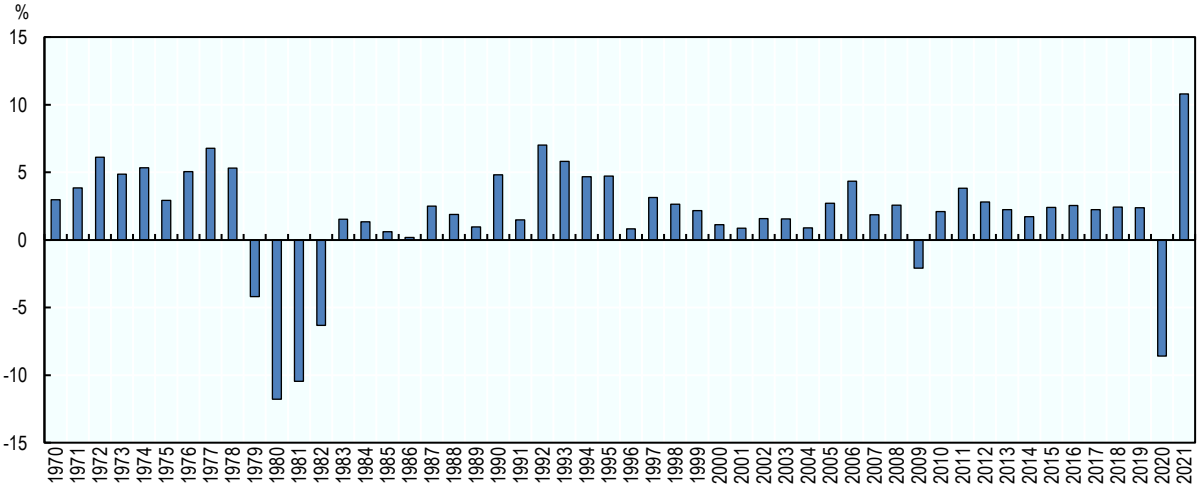
1.	Low investment has constrained potential growth.
2.	Growth in commerce and services has contributed little to overall productivity.
3.	Real effective exchange rates have increased in comparison to the region, reducing external competitiveness.

Growth has underperformed vis-à-vis peer countries

Rates of economic growth have varied considerably across the decades in El Salvador (Figure 2.13). Following strong growth rates during most of the 1970s, economic activity collapsed in the 1980s due to the civil war. Real GDP then accelerated in the 1990s with the signing of the peace agreements. It grew at an average annual rate of 3.6% between 1990 and 1999, bolstered by strong exports and private investment. Growth slowed to 1.5% during the 2000s, before picking up again to around 2.5% on average between 2010 and 2019, with exports and investment once again sustaining growth. Real income per capita has grown by 1.6% since the peace agreements.

The economy suffered a sizeable shock with the COVID-19 crisis but has recovered in aggregate terms. GDP contracted by 8.6% in real terms in 2020 but recovered by growing at a rate of 10.8% in 2021 (World Bank, 2022[39]). According to data form El Salvador's central bank, the economy had recovered fully in 2021, surpassing the pre-pandemic level of GDP (BCR, 2022[40]).

Figure 2.13. Real GDP growth rates in El Salvador (1970-2021)



Source: (World Bank, 2022[39]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

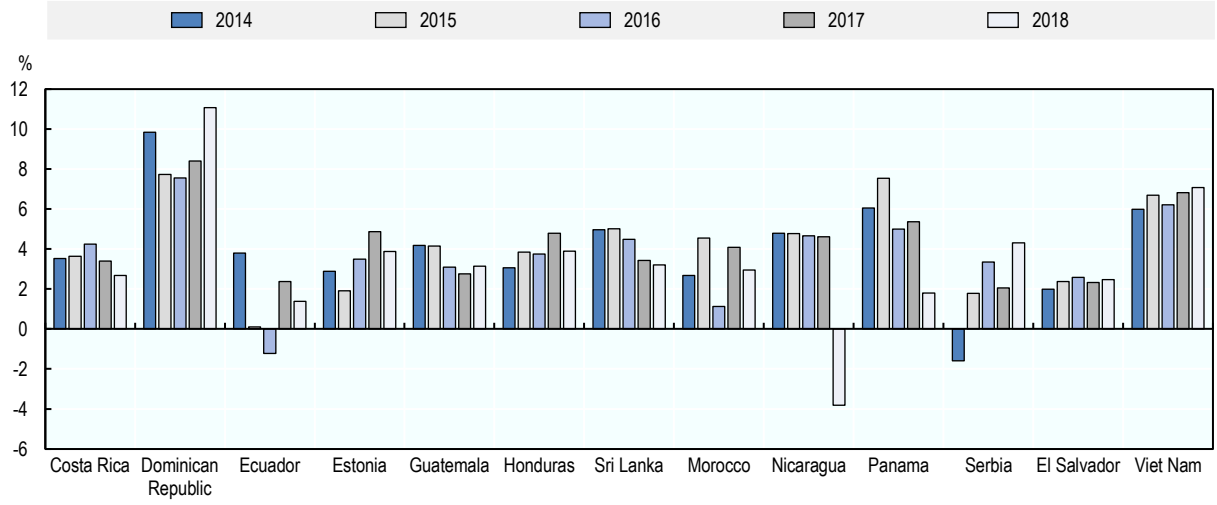
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Natural hazards have added to El Salvador's economic challenges. Events such as Hurricane Mitch in 1998, major earthquakes in 2001, and Tropical Storm Ida in 2009, have led over the years to significant damage in the country's infrastructure and capital stock. By some estimates, the cost of the geological events and extreme weather events that affected El Salvador between 1998 and 2011 was equivalent to 22.9% of GDP (Catalán and Cardona, 2013[41]). In coming decades, the country is expected to remain vulnerable to climate change, leading to potential damage in land use and potential losses in key food crops such as corn and rice (Barrios et al., 2019[7]) (See Planet section).

The global financial crisis of 2008-09 reduced both exports and remittances. This resulted in a current account deficit of 8.5% of GDP in 2008, a decline in remittances equivalent to more than 3 percentage points of GDP between 2007 and 2011, an economic recession, and an increase in non-performing loans in the domestic banking sector. To shield against these macroeconomic vulnerabilities, El Salvador requested a precautionary stand-by arrangement of USD 800 million with the International Monetary Fund (IMF) in early 2009. However, no amounts were drawn from that credit line. Nonetheless, growth rates have declined and public debt has increased, and El Salvador's credit status is currently rated as speculative by all three major credit rating agencies.

El Salvador's economy has underperformed on a peer comparison. In the past, this had been attributed to a combination of low returns to capital and to education (Hausmann, Rodrik and Velasco, 2008[42]). Still, many years have passed since this analysis was made, and economic growth remains disappointing. In 2015-18, average annual real GDP growth was equal to 2.4%, which, although above the potential growth rate of 2.2% (IMF, 2019[43]), was low in comparison to peer countries, and was below the economic growth objective of 3% adopted for 2014-19 (Government of El Salvador, 2015[44]). The government recently adopted a medium-term growth target of 3.5% a year, which is consistent with trendline and median growth rates in the region. Neighbouring countries with comparable GDP per capita have exhibited average annual growth rates between 3.5% and 4.0% (see Figure 2.14).

Figure 2.14. Real GDP growth has been low in the pre-pandemic period compared to peer countries



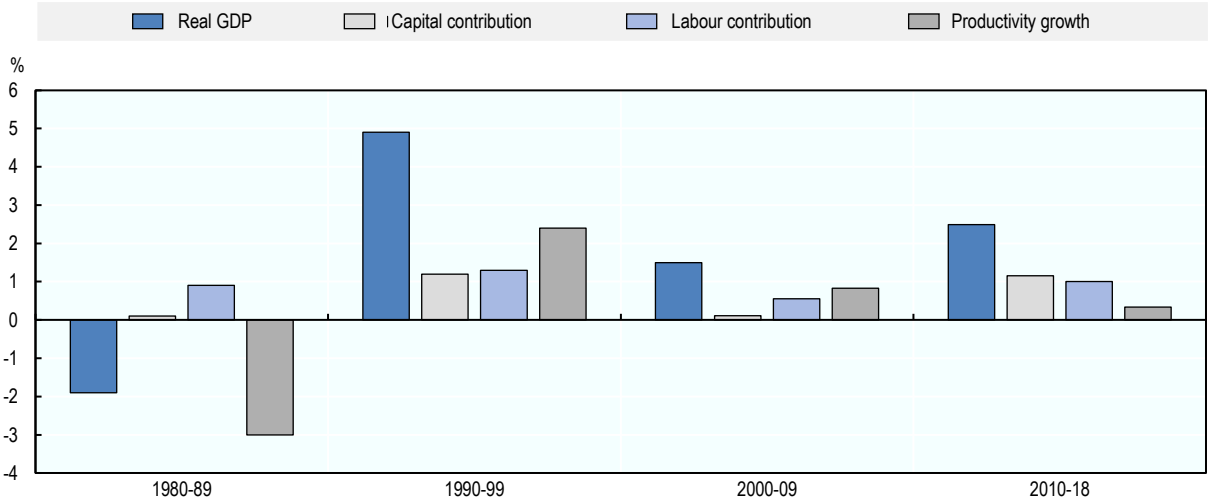
Source: World Bank.

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Multi-factor productivity has declined steadily. Following the market-oriented reforms of the 1990s, El Salvador ought to have exhibited stronger growth rates (Catalán and Cardona, 2013[41]). The country has been singled out as a star reformer, but not a star performer (Hausman et al., 2005[45]), highlighting the difficulties of reform management. Market-oriented reforms in the 1990s included re-privatising the

banking sector, opening up the telecommunication and energy sectors to private investors, overhauling the tax and pension reform systems, and ratifying several multilateral free trade agreements after the country's accession to the World Trade Organization in 1995. But growth rates, after peaking in the mid-1990s, have since declined. Little has been accomplished in terms of capturing technological progress (Figure 2.15).

Figure 2.15. Total factor productivity (average growth rates per decade)



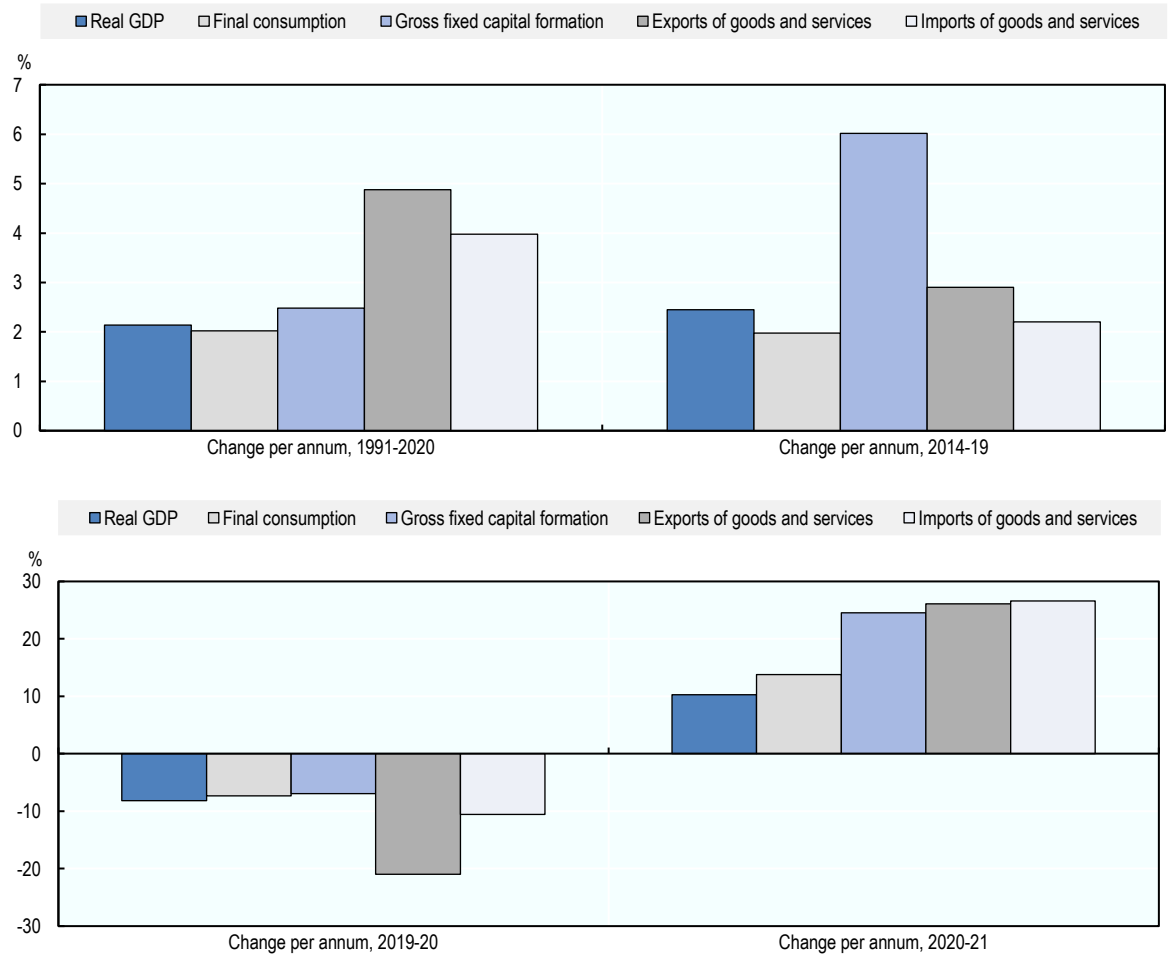
Source: Melgar (2012[46]) for, 2012, for 1980-99; authors' calculations for 2000-18 based on Banco Central de Reserva, DIGESTYC and (Feenstra, Inklaar and Timmer, 2015[47]), World Penn table version 9.1, https://www.rug.nl/ggdc/productivity/pwt.

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In the pre-pandemic period, export growth and investment supported economic activity. Still, export growth – which has grown at 2.9% per year since 2014 – remains significantly below the long-term annual export growth of 5.3% that El Salvador has achieved since the end of 1991. This reflects the country's declining external competitiveness, which has also not allowed for a smaller trade deficit. Investment, on the other hand, has improved, and has recently grown faster than overall GDP (Figure 2.16). Nonetheless, the government estimates that aggregate investment will have to increase by USD 900 million a year over the next five years if it is to achieve its medium-term annual GDP growth target of 3.5%. As a result of the pandemic, all components of GDP contracted in 2020. However, the contribution of investment provided a strong push for recovery in 2021.

Figure 2.16. Real growth rates for components of GDP

Compound annualised growth rates (%)



Note: All growth rates are compound annualised growth rates between the years stated. Data for 2021 are estimates by the Banco Central de Reserva.

Source: BCR (2022[37]), Base de datos económica-financiera, Banco Central de Reserva, https://estadisticas.bcr.gob.sv/base-economica-y-financiera.

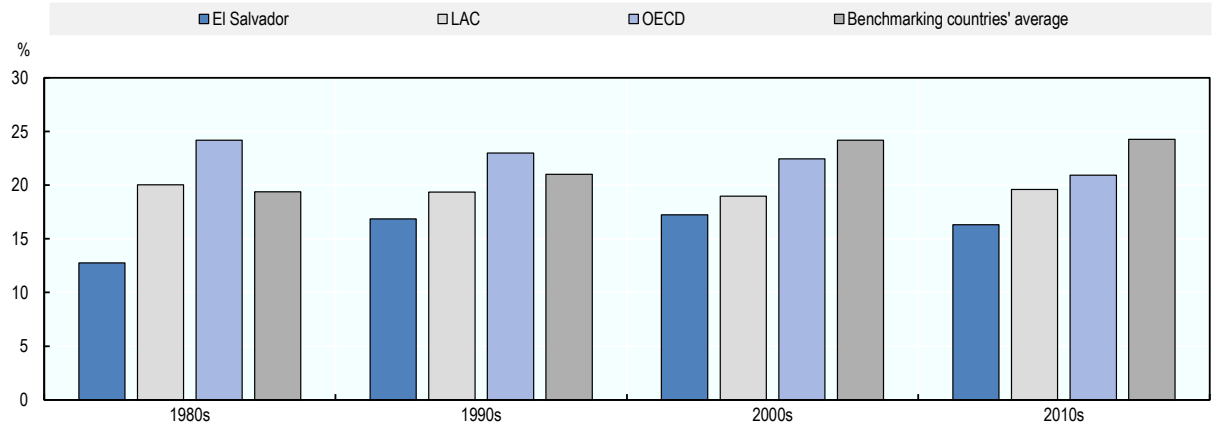
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Investment remains sub-trend, despite recent strength

Real gross fixed capital formation has intensified, albeit from a low base (Figure 2.17). Investment has been historically low in El Salvador compared both to OECD countries and to Latin America as a whole. Investment has grown at a compound annual rate of 5.5% in real terms since the end of 2014, supported by both private and public sources. Public investment has risen the fastest, increasing at a clip of 7.6% a year since the end of 2014. However, overall gross fixed capital formation represented only 16.5% of GDP in 2018. It was split between private and public investment, which represented 14.1% and 2.3% of GDP respectively. This falls short of the trendline investment levels exhibited among El Salvador's regional peers. In a country where disasters caused by natural hazards have also contributed to a depreciation in the existing stock of capital, insufficient gross fixed capital formation will hamper potential growth.

Figure 2.17. Investment has been historically low in El Salvador

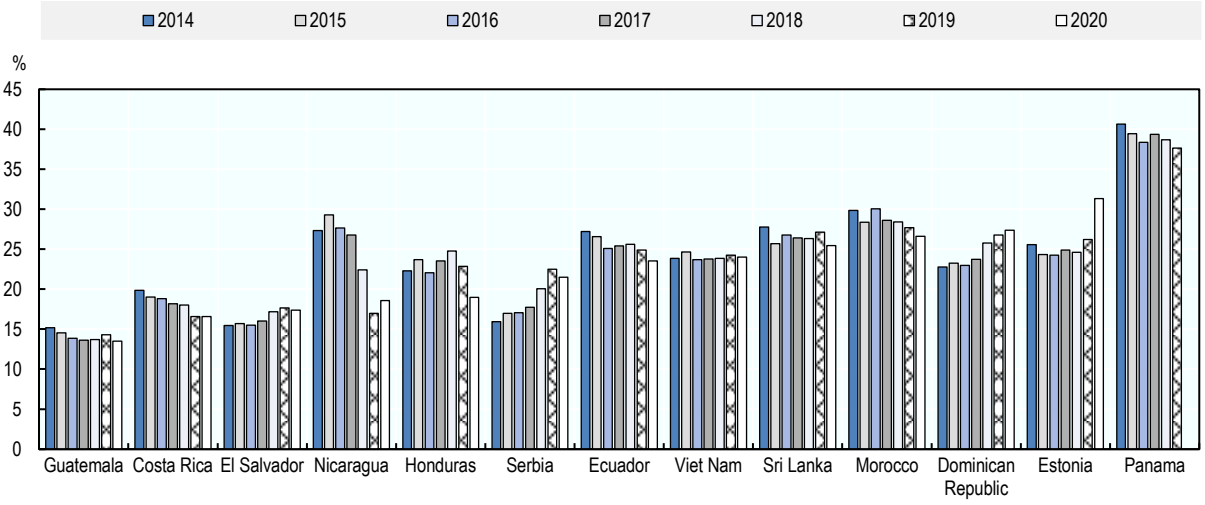
Gross fixed capital formation-to-GDP ratio



Source: Authors' calculations based on (World Bank, 2019[4]), *Word Development Indicators*, https://databank.worldbank.org/source/world-development-indicators; (OECD, 2019[48]), *OECD Economic Outlook 106 Database* and Banco Central de Reserva data.

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Figure 2.18. Investment is still very low despite a recent increase



Source: (World Bank, 2019[4]), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators.

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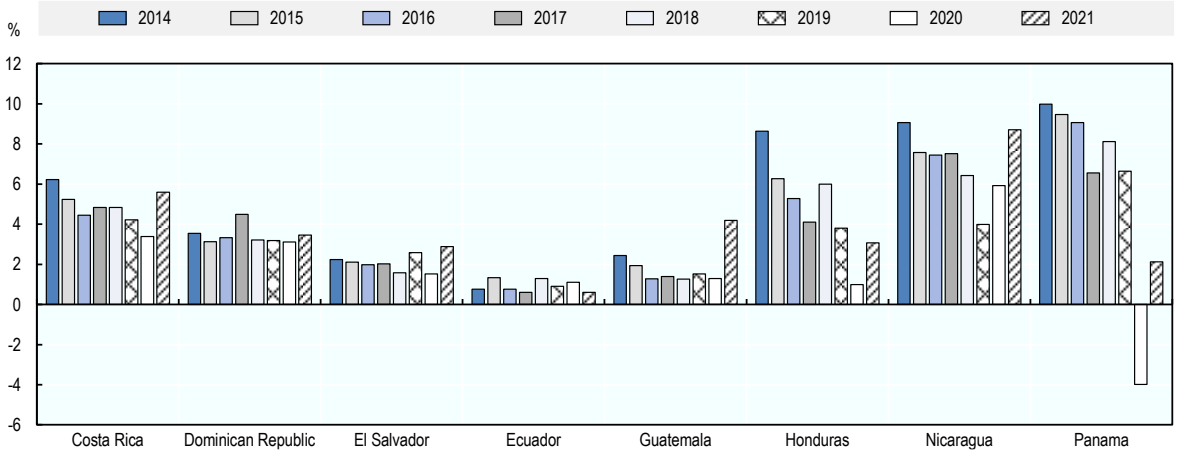
Public infrastructure remains a key bottleneck. El Salvador ranks number 90 out of 140 countries in infrastructure quality (WEF, 2019[49]). Recently, however, there has been an increased focus on improving logistics and transport infrastructure (IDB, 2019[50]; MOPTVDU, 2017[51]). Large-scale priority investments include the upgrading of the San Salvador metropolitan area's logistics system and the Comalapa International Airport, as well as improvements at the ports of Acajutla and La Unión. Immediate improvements in existing municipal road infrastructure and in household access to electricity are also required, for which the government estimates a relatively minor cost, of around USD 170 million (Bukele, 2019[52]). The government has also promoted the idea of a transnational train line along the Pacific coast.

Public investment in El Salvador continues to exhibit a pattern of under-execution. Multilateral financial organisations have supported public investment in El Salvador for many years, both through the provision of finance and technical assistance (see Partnerships section in this chapter). However, a persistent lack of funding, as well as a preference in budgetary execution for current over capital spending, have led to a 40-50% under-execution of the budgetary resources that have been allocated to public investment since 2016 (FUSADES, 2019[53]). Budgetary execution of investment projects was 53% in 2020, which was understandably low as funds were diverted to the pandemic. However, execution was also very low in 2021 (55.2%), given the very high increase in the investment budget (MH, n.d.[54]). Moreover, there is evidence that capital expenditure multipliers in El Salvador have been disappointingly low (IMF, 2019[43]), which suggests inefficient spending. This calls for improvements in the prioritisation of public investment projects, as well as in capital budgeting, and in the externality cost-benefit analysis of both small and large-scale projects. While the budget execution of the investment in fixed assets was 36.2% of the accrued budget in 2018, budget execution was 97.1% with regard to that year's current expenses (MH, 2019[55]).

Foreign direct investment (FDI) has been lacklustre. FDI has not made up for the much-needed increase in private gross capital formation. Net inflows have averaged 2.1% of GDP since 2014, with the largest amounts arriving from Panama, the United States and Spain. These three countries are among El Salvador's top trading partners. El Salvador has attracted less FDI than other countries in the region due to a challenging business climate, security concerns, and a deficit of skilled workers (see Figure 2.19; Seelke (2017[56])). Moreover, roughly 60% of the current stock of net FDI is still concentrated in sectors that were privatised in the 1990s (i.e. energy, telecommunications and banking), reflecting a lack of profitable business opportunities for foreign investors.

Figure 2.19. El Salvador has lagged in regional FDI attraction

Net FDI inflows (% of GDP)



Source: (World Bank, 2019[4]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

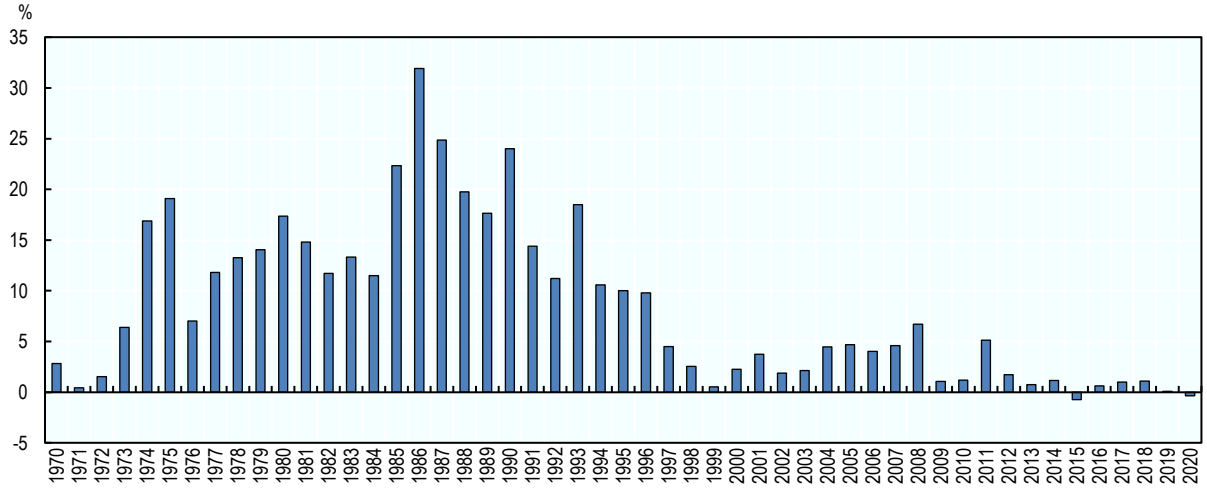
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Dollarisation has helped to keep inflation and interest rates low, but credit has not fuelled growth

Consumer price inflation has declined with dollarisation. After seven years of a currency peg between 1993 and 2000, El Salvador adopted the US dollar as its official currency in January 2001. This was meant to protect earners and savers from the risk of currency devaluation (Quispe-Agnoli and Whisler, 2006[57]), after very high inflation rates in the 1980s (Figure 2.20). Over subsequent decades, consumer price

inflation has steadily declined. Prices have grown by 2.4% a year since 2001 following the full adoption of the US dollar, and inflation has recently stabilised at around 1%.

Figure 2.20. Inflation rates



Source: (World Bank, 2019[4]), *World Development indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

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Dollarisation has been less successful when it comes to economic integration. Between 2001 and 2009, monetary policy in the United States proved countercyclical with respect to economic activity in El Salvador, contributing to cyclical stability. However, over the past decade the economies of El Salvador and the U.S. have become less correlated. This raises concerns about the suitability of U.S.-led monetary policy in El Salvador. It also raises questions about the effectiveness of dollarisation in promoting closer economic integration between the United States and dollarised countries (de Lourdes Rodríguez-Espinosa and Castillo-Ponce, 2017[58]). Indeed, trade between El Salvador and the United States has weakened in recent years.

Dollarisation contributed to a decline in commercial banking interest rates. Having started at above 15% during the currency peg, interest rates for medium-term business loans (over one year) have remained around 10% since 2001, with little change. Mortgage interest rates have fared better for debtors, averaging 7.5% in 2018. Short-term loans have declined further, levelling at 6.5% in 2018. It has been estimated that between 2001 and 2009, dollarisation reduced overall annual interest expenses for private and public debtors by 0.75 percentage points, after taking into account lost seigniorage revenues (Swiston, 2011[59]).

Bank loans are below the median level in the region. Loans have grown at a rate of 5.7% a year since 2001, having increased from 42.6% of GDP in 2001 to 51.5% in 2018, but they are still below the median 54% credit-to-GDP ratio in the region. Nonetheless, banking leverage has increased. The overall loan-to-deposit ratio increased from 79.4% in 2001 to 103.1% in 2018, indicating slower growth in deposits vis-à-vis loans, but exhibiting still-reasonable levels of leverage. Statutory liquidity reserves were consistently above 20% of deposits in the pre-pandemic period. Reserve requirements were lowered to 9% in 2020 to facilitate access to credit during the COVID-19 pandemic and remain around half of pre-pandemic levels, although deposit institutions have maintained liquidity reserves above the statutory requirement by around 2 percentage points on average during the period. Non-performing loans have remained below 2.5% of all outstanding loans since 2014, resulting in a stable domestic financial sector.

Credit has been directed mostly to non-tradable sectors. Almost 60% of bank lending has gone into construction, consumption and mortgage lending. Consumer credit jumped from 19.0% of total loans in 2005 to 34.8% in 2018. Loans to manufacturing industries, however, have remained around 10% of total,

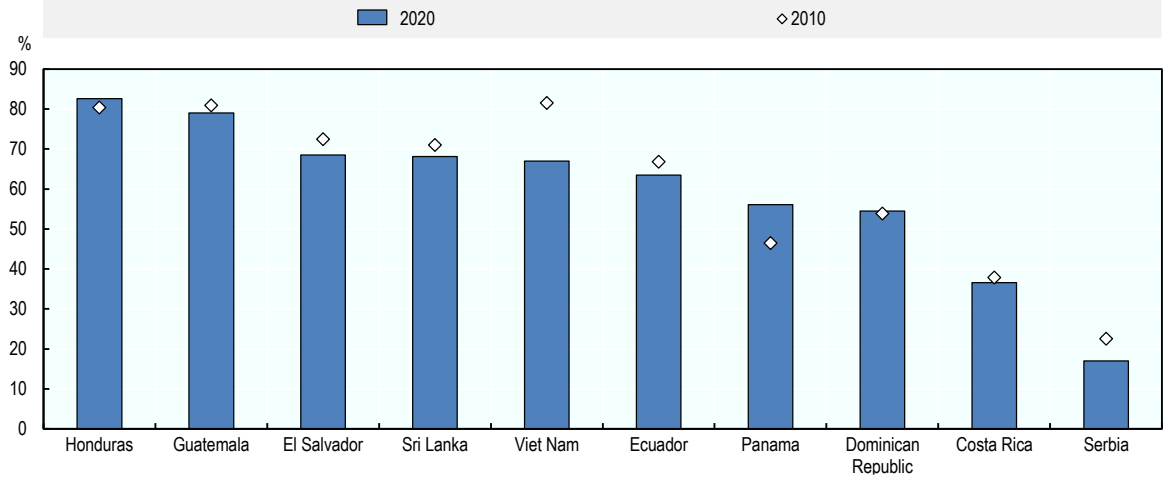
far below these industries' share of gross value added. This reflects the fact that loans to households have outpaced loans to non-financial private companies, and that economic informality has impeded many businesses from accessing bank credit.

In September 2021, El Salvador became the first country in the world to adopt Bitcoin as legal tender. The legal framework (the "Bitcoin law") mandates the acceptance of Bitcoin by economic agents for payments for goods and services, and allows payments to the state be made in Bitcoin. It establishes that Bitcoin is to be used alongside the US dollar, with the latter remaining the reference currency for accounting purposes. Simultaneously, a state-sponsored electronic wallet called the Chivo wallet was launched, providing a one-time USD 30 endowment for Salvadoran users. This led to widespread adoption of the wallet (3.8 million clients) in the first few months of operation. After the initial launch, the use of Bitcoin has been moderate. According to data from the Central Reserve Bank, 1.7% of remittance flows have been received in cryptocurrency wallets on average since November 2021. Available evidence also suggests that adoption beyond the initial push has been muted: only 20% of firms accept Bitcoin as a means of payment, and only 11% of firms make sales in Bitcoin. Similarly, only about 20% of users continued to use the wallet after spending the initial grant. Moreover, despite the potential of digital currencies for financial inclusion, users tend to be banked, educated, young and male (Alvarez, Argente and Patten, 2022[60]). On the flipside, the adoption of Bitcoin as legal tender, and the specifics of the legislative framework, generate a number of fiscal and financial risks for El Salvador, leading the IMF to call on the country to repeal Bitcoin's legal-tender status (IMF, 2022[61]).

Economic informality is a critical area of concern

El Salvador needs to prioritise formal employment. Informal labour represented 68.5% of total employment in 2018. Although large, El Salvador's informal sector is not significantly greater than elsewhere in the region (Figure 2.21). Under a reformist scenario, research suggests that the country could envision a significant increase in the rates of incorporation of informal activity into formal employment (Loayza, 2016[62]). Other studies have concluded that most countries in Latin America are able to increase formal employment by 1-2 percentage points a year (Salazar-Xirinachs and Chacaltana, 2018[63]). This would represent a 10-20 percentage points increase over ten years.

Figure 2.21. Informal employment as a percentage of total employment



Note : The latest data available correspond to 2017 for Honduras, 2018 for Sri Lanka and 2019 for Guatemala and Ecuador. Data for Viet Nam are from 2009 instead of 2010 and data for Panama are for 2011 instead of 2010.
Source: ILO (2019[32]), *ILOSTAT* database, International Labour Organisation, https://ilostat.ilo.org/data/.

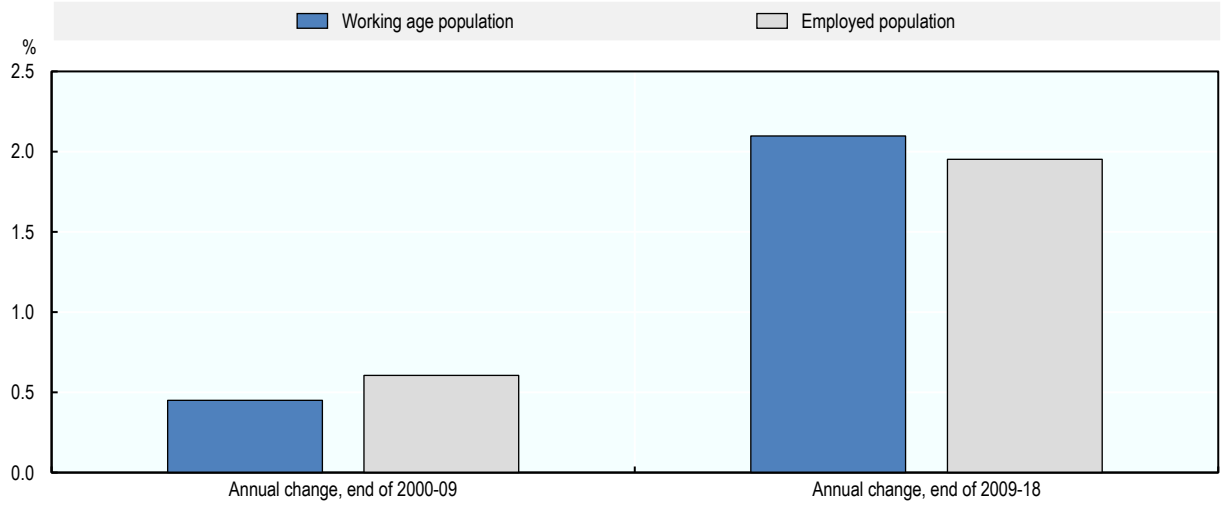
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Evasion of obligations in terms of social security and contract registration perpetuates informality. Evasion is practiced by micro and small businesses, but also by larger companies in the formal sector. The share of permanent salaried workers has risen from 39.8% to 43.2% of all employed people since 2014, representing a growth rate of 3.6% a year. In comparison, self-employed workers have grown by 1.9% a year, representing 28.4% of all workers in 2018. However – and herein lies the biggest challenge – only 35.3% of micro and small businesses comply with contributory obligations (CONAMYPE, 2018[64]). Thus, workers are subject to protracted informality, without social protection, even if working in the formal sector.

Labour participation is low. Only 57.4% of the working-age population in El Salvador was employed in 2018, which was below the average Latin American participation rate of 62.1% (ECLAC, 2019[65]). Participation has been declining over the past decade due to an undersupply of new jobs relative to new working-age workers (Figure 2.22). This mismatch risks leading new working-age workers into informality, crime, or migration (see People, and Peace and Institutions sections). Furthermore, the median age of the employed population has increased. Workers aged 30 to 59, who had accounted for just over 50% of the workforce two decades ago, now account for 58.1%.

Figure 2.22. The working age population and the employed population

Growth in compound annual growth rates (CGAR)



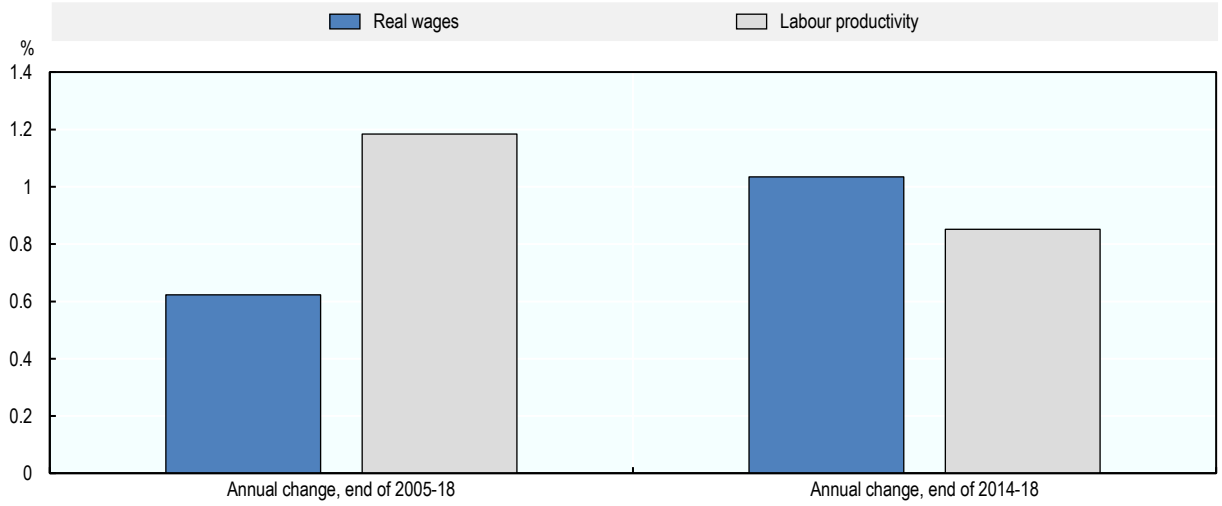
Source: DIGESTYC.

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Wages are growing faster than productivity. Both labour compensation and gross mixed income (i.e. earnings from unincorporated enterprises that are owned by households) have grown faster than nominal GDP since 2014. Although indicating a stable-to-higher wage share of GDP, this also implies that wages are growing faster than productivity (Figure 2.23). In El Salvador, minimum wages are updated at least every three years by law. The latest revision resulted in minimum wage growth of 20% to 70% depending on the sector, which is far above inflation and the growth of labour productivity. While this could undermine job creation, it has helped to reduce inequality (see People section).

Figure 2.23. Real wages and labour productivity

Growth in CGAR (compound annual growth rates)



Note: Real wage growth is total compensation of employees divided by the number of waged workers in the economy, as per the EHPM.
Source: Banco Central de Reserva, DIGESTYC, and author's calculations (real wages adjusted for change in CPI).

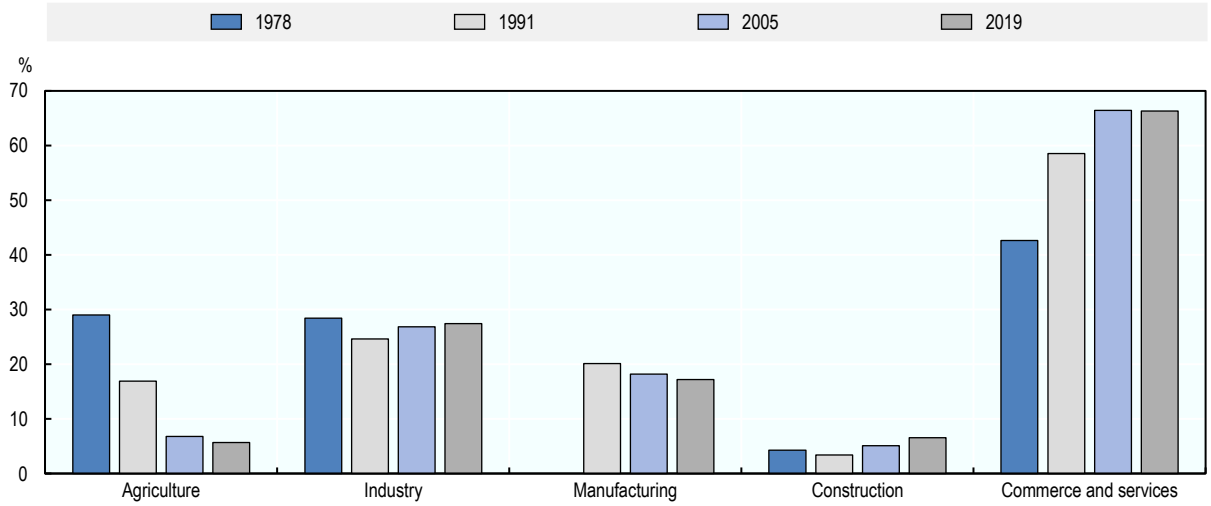
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Unincorporated household earnings are growing faster than overall GDP. The (small) uptick in gross mixed income growth since 2014 relative to nominal GDP should be followed closely to keep track of the informal sector. A higher level of gross mixed income may reflect higher levels of informality. Previously, and notably between 2005 and 2015, nominal GDP growth had surpassed growth in unincorporated household earnings. This broader macroeconomic picture was consistent with the long-term transformation of El Salvador's economy, from one in which agriculture – largely informal – once played a strong role, to one in which it has become residual.

Value added and productivity have risen, albeit slowly

Agriculture has lost economic significance in favour of services. A shift to services started in the late 1970s. Losses in agriculture were also the result of declining prices for commodities, especially coffee, in which El Salvador had long specialised. Reinforcing the shift to services, the civil war in the 1980s caused a collapse in investment, leading to difficulties in the industrial sector. Following the peace agreements of 1992, renewed economic impetus ensued, mostly in industry and services. During that period, and especially up to 2005, agriculture's relevance dipped further (Figure 2.24). By contrast, the gross value added of construction has grown, albeit from a low base, reflecting accompanying trends in investment and bank lending.

Figure 2.24. Gross value added as a percentage of GDP



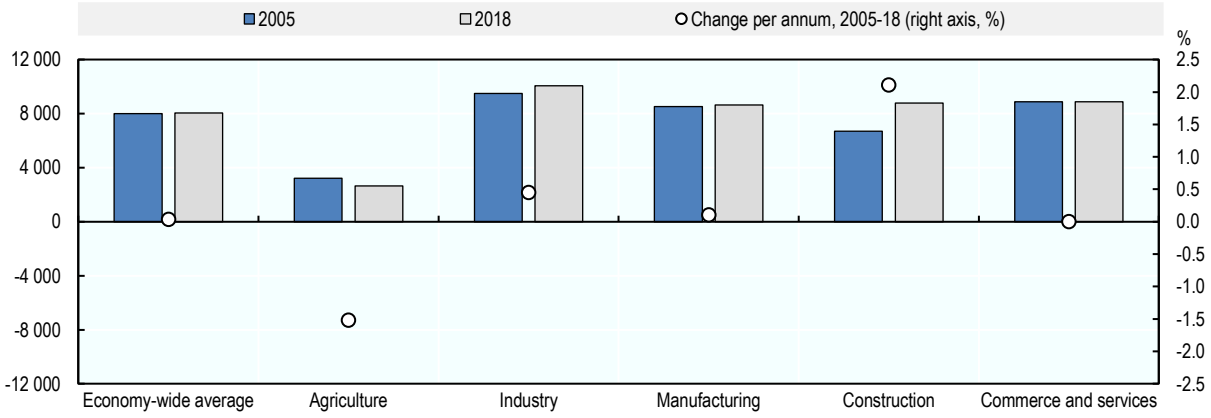
Note: Manufacturing data for 1978 not available.
Source: Melgar (2012[46]), for 1978 data, and (BCR, 2022[37]) for 1991-2019 data.

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The maquila industry has suffered. El Salvador's maquila is mostly concentrated in garments. Starting in the mid-1970s, the sector had originally been driven by low salaries and tax incentives. Exports and gross value added grew exponentially during the 1990s, at annual rates of close to 40%, led by U.S.-owned companies (Quintana, Robles and Torres, 2002[66]). Eventually though, dollarisation and China's accession to the World Trade Organization (WTO) weakened local competitiveness (Martínez, 2017[67]). Today, maquila exports still represent a large share of total exported value in merchandise goods (about 20% of the total as of 2019, and 18.8% in 2021). However, that share is less than half what it was in 2005. Industry's share in overall gross value added has grown, but not in manufacturing.

Productivity has fallen in agriculture and grown in industrial sectors. Nominal gross value added per employed worker in agriculture, at constant 2014 prices, fell 1.5% a year between 2005 and 2018 (Figure 2.25). Productivity levels in agriculture remained significantly below the average national level, at only 35.1% of the overall level. In the industrial sector, which as a sector exhibits the largest level of value added per worker, productivity increased sharply in construction, by 2.1% a year. This is hardly surprising, given that half of all gross fixed capital formation over the period has been related to construction. Manufacturing and services activities, on the other hand, while enjoying greater than average levels of productivity, have not shown significant productivity gains over the years.

Figure 2.25. Gross value added per employed worker (USD, 2014 prices)



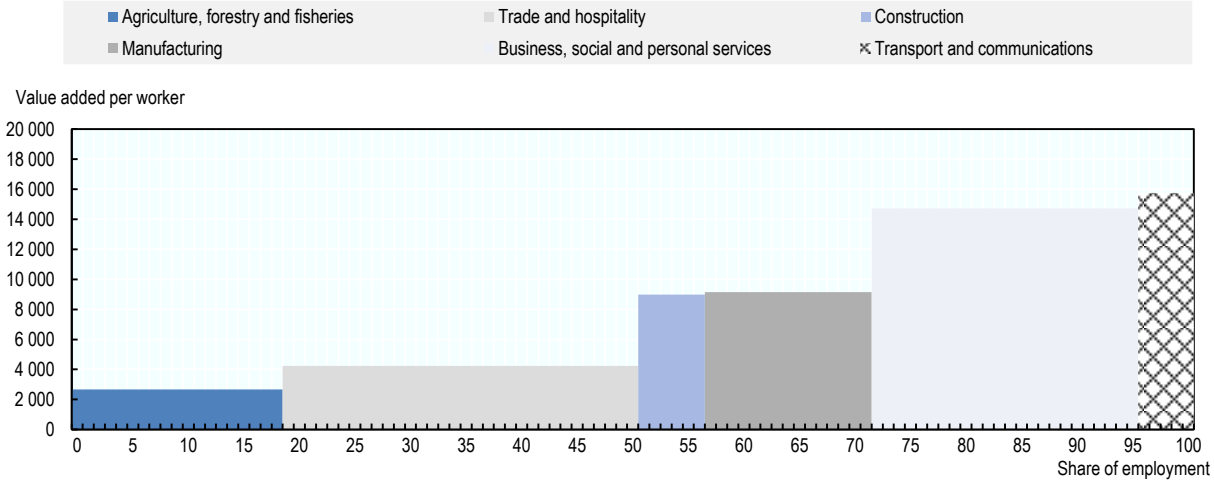
Note: Industry data includes manufacturing and construction.
Source: (LAKLEMS, 2021[68]), *LAKLEMS: Crecimiento Económico y Productividad en América Latina* (database), http://www.laklems.net/.

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Services can contribute more to overall productivity. The economy would gain from the reallocation of labour into sectors with higher productivity. In the services sector, those services that relate to business, social and personal services have exhibited greater gross value added per worker compared to trade and hospitality activities (Figure 2.26). The same applies to transport, communications and utilities. There is evidence that sectors with higher productivity are also sectors in which FDI is present. Financial and insurance services, which concentrate one third of the entire stock of FDI in El Salvador, exhibit productivity levels that are six times greater than the overall average. Utilities provide another example of higher productivity and concentration of FDI. By contrast, workers in accommodation and food services are less than half as productive compared to the general economy.

Figure 2.26. Productivity and distribution of labour in El Salvador

Value added per worker, 2018 (in USD per worker)

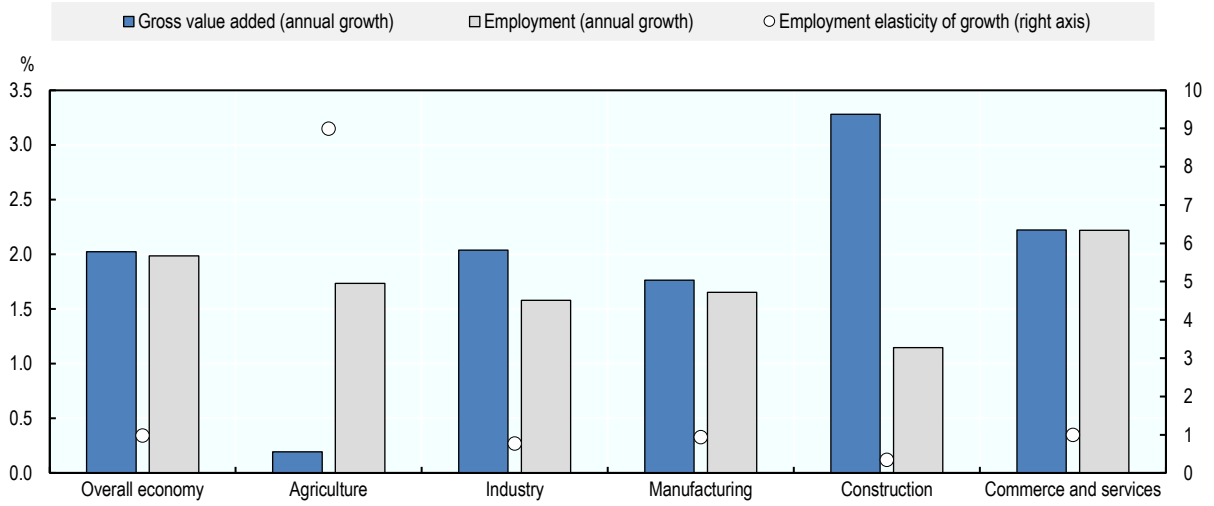


Note: Utilities, which exhibit productivity levels equal to seven times average levels, have been excluded from the graph for the sake of comparability between sectors.
Source: (LAKLEMS, 2021[68]), *LAKLEMS: Crecimiento Económico y Productividad en América Latina* (database), http://www.laklems.net/ and authors' calculations.

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Beware high employment elasticity of growth in services. In general, employment elasticity of growth should be positive, and lower than one. This would mean that both employment and productivity would be rising, with productivity rising faster than employment. Such has been the case in El Salvador across the economy, where both elements of elasticity rose in the pre-pandemic period between 2005 and 2016 (Figure 2.27). A shift of labour into services has taken place, confirming the long-term trend of a transition to tertiary activities. However, granular analysis indicates that a large part of this transition since 2005 has occurred towards accommodation and food services. Dislocations of labour into activities with higher productivity should be emphasised by policy makers.

Figure 2.27. Employment elasticity of growth across the economy (based on 2014 prices)



Note: Average growth values for 2005-18 (at 2014 constant prices).
Source: (LAKLEMS, 2021[68]), *LAKLEMS: Crecimiento Económico y Productividad en América Latina (database)*, http://www.laklems.net/.

StatLink https://stat.link/zlmf7p

The real economy is constrained by framework conditions

The economic cost of violence is significant, but other problems lurk in the background. Crime and violence have often been cited as significant limitations to growth in El Salvador (see Peace and Institutions section). A 2014 official report estimated those specific costs at 16.0% of GDP, including direct costs equivalent to 11.2% of GDP, and opportunity costs of 4.8% (Guerra et al., 2014[69]). Rather surprisingly, however, companies do not indicate the cost of violence as the main constraint to doing business. The most problematic factors for small businesses are the lack of financial resources (specifically, working capital), low returns to capital, and the small size of the domestic market (CONAMYPE, 2018[64]). Crime does feature as the main obstacle, or at least one of the main obstacles, to doing business in the 2016 Enterprise Survey, and also in more recent business sentiment surveys (World Bank, 2016[70]; ILO, 2019[71]; FECAMCO, 2021[72]).

Digital inclusion, especially among micro and small businesses, is very low. This stems from poor education skills and a lack of infrastructure. The case for digital infrastructure in developing nations is said to be strong (Cirera and Maloney, 2017[73]). However, in 2016, a large majority (78%) of small businesses in El Salvador did not use any kind of internet connection, and an even larger segment (93%) did not innovate (CONAMYPE, 2018[64]). As El Salvador's government works to set the stage for a legal framework for e-commerce in the near term, low digital inclusion of small businesses is an impediment to development. A new legal framework for e-commerce is in force since February 2021. Electronic

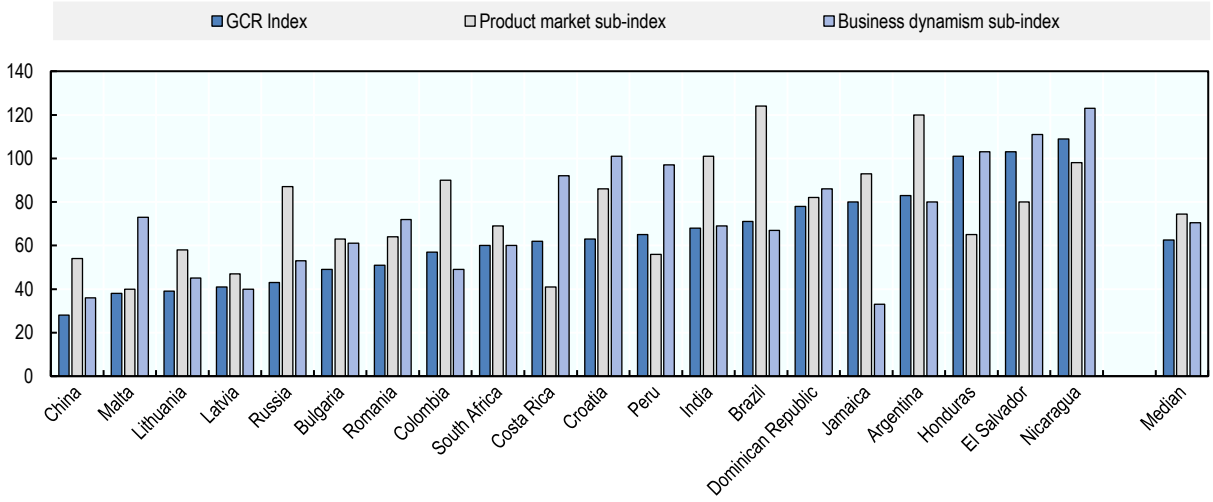
signatures are already available in El Salvador, and the legal framework for e-invoicing was approved in August 2022, with implementation being piloted as of mid-2022. Still, legislative reforms alone will not solve infrastructural or educational constraints.

There are not enough medium-sized companies in El Salvador. Micro and small firms represented 91.4% of all businesses in 2016. Interestingly, the share of large companies (4.7%) was greater than that of medium-sized firms (3.9%). The missing middle suggests that local entrepreneurship is skewed towards either very small or very large businesses – either subsistence activities or subsidiaries of large foreign companies. A divide of this nature constitutes a significant hurdle in El Salvador's incorporation into global value chains. A lack of medium-sized businesses limits the benefits that are conferred by foreign direct investment, while also holding back domestic savings that could be channelled into investment through capital markets.

Product-market competitiveness in El Salvador lags behind levels in other non-OECD countries. 2013 PMR (Product Market Regulation) assessment in El Salvador rated the country close to average levels for the non-OECD countries that were analysed (Koske et al., 2015[74]). he economy-wide indicator scored slightly below average, although scores for barriers to entrepreneurship, as well as for trade and investment, were slightly above average. Applying the methodology of the World Economic Forum's Global Competitiveness Report (WEF, 2019[49]) to the same set of countries that were used previously in the OECD's PMR assessment, it seems that El Salvador's relative competitiveness may have deteriorated since 2013. Although the methodologies are different, El Salvador appears as per the measurements in the Global Competitiveness Report's framework to be significantly behind median rankings in the overall index, as well as in the sub-indexes for product markets and business dynamism[8] (Figure 2.28).

Figure 2.28. El Salvador in the Global Competitiveness Report (2019)

Rank by index and sub-index



Source: World Economic Forum (2019[49]), *The Global Competitiveness Report.*

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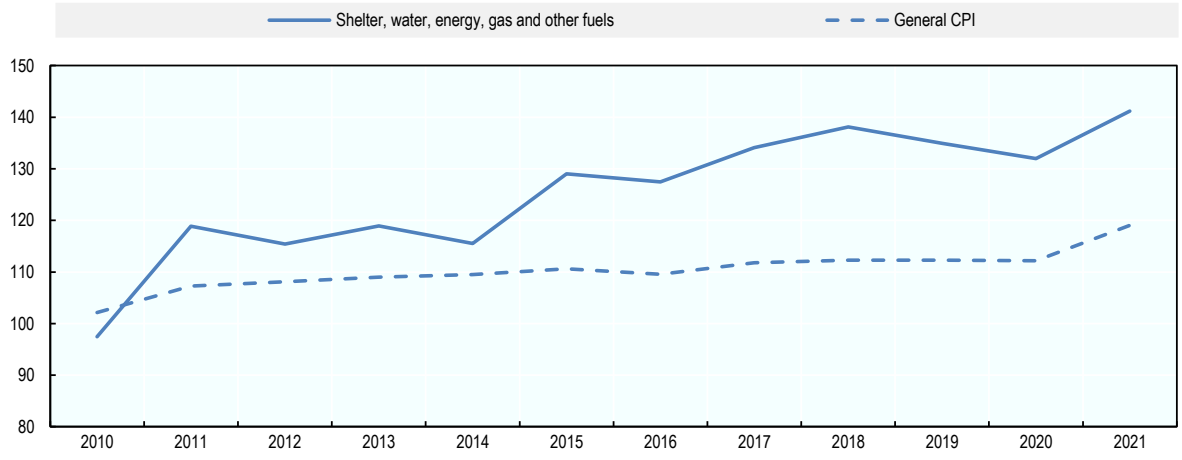
The cost of starting up a business amounts to about 40% of annual per capita income in El Salvador. This hampers micro and small businesses, imposing a high opportunity cost to formalisation. A vicious cycle of evasion, informality, and growth constraints ensues. In 2016, 74% of all micro and small businesses in El Salvador were not registered for value-added tax (VAT), while only 22.3% had access to bank credit, and a mere 0.8% had obtained mandatory, formal certification attesting to their status as a micro or small

business (CONAMYPE, 2018[64]). El Salvador ranked 85th out of 190 countries in the World Bank's overall ranking for doing business, 147th for starting a business, and 168th for dealing with permit constructions in 2019 (World Bank, 2019[75]). The low ranking in the latter category is largely driven by lengthy delays in obtaining feasibility decisions on connections to drinking water and sewage networks. These scores are consistent with those of the 2019 Global Competitiveness Report, in which El Salvador ranked 103rd out of 141 countries.

Increased market oversight of utilities is needed. Policy makers could consider ways to improve access to utilities (Pisani, 2019[76]). This should involve market oversight with a view to achieving efficient provisioning of electricity and water supplies. Data from the energy regulator indicate a particularly adverse situation in electricity supply. Whilst per capita electricity consumption has risen in recent years, albeit at a lower rate than real GDP growth (contrary to what could be expected from a country with a large informal sector), per capita production has declined. Furthermore, the prices that households pay for shelter, water, energy, gas and other fuels grew by 3.7% a year since the end of 2010 until 2020, compared to annual average consumer price inflation of 1.3% (Figure 2.29).

Figure 2.29. Prices for shelter, water and energy have grown rapidly in the recent past

Index (December 2009 = 100)



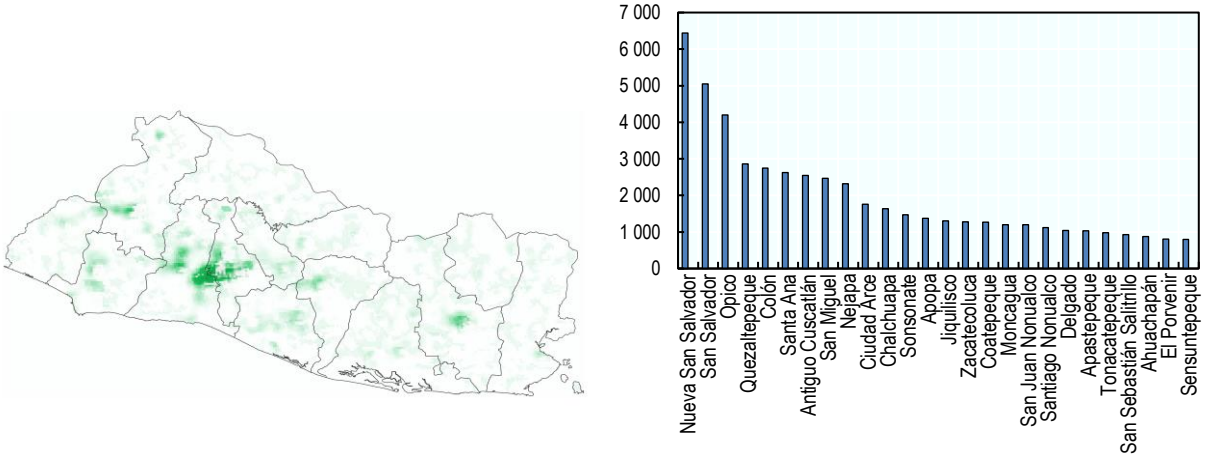
Source: (BCR, 2022[37]), *Base de datos Económica-Financiera*, Banco Central de Reserva de El Salvador, https://www.bcr.gob.sv/bcrsite/?cat=1000&lang=es.

StatLink https://stat.link/pe8aw4

The concentration of economic growth in the greater San Salvador area and a few other urban centres points to unmet needs in the provision of local public goods. Data captured by satellite on the intensity of lights at night can be used to examine economic development at a more granular level than national accounts allow, and there is typically a constant elasticity between nightlight intensity and economic activity (Henderson, Storeygard and Weil, 2012[77]; Elvidge et al., 1997[78]). Using the global calibrated data on night-light radiance produced by the United States National Oceanic and Atmospheric Administration, it is possible to examine growth over a decade in El Salvador at the local level. The results show a strong concentration of growth around metropolitan San Salvador. Secondary poles of growth appear in the east (San Miguel) and west (Santa Ana) of the country (Figure 2.30). Conversely, the north and far east of El Salvador lack any major growth poles. These areas are also the most deprived from a multi-dimensional perspective (see People section).

Figure 2.30. Growth is concentrated in a few areas

Increase in night-light radiance (2000-10)



Note: The map depicts differences between annual night-light radiance in 2000 and 2010, with darker shades indicating greater growth. Data are inter-year calibrated, following (Hsu et al., 2015[79]). As the calibration leads to offsetting the zero-radiance observation, negative growth values are censored. The bar chart depicts increases in the unitless radiance measure that is provided as part of the calibrated Nighttime Lights Time Series for the 10% municipalities with the highest increase.
Source: NOAA (2014), *Global Radiance Calibrated Nighttime Lights database*, available at https://ngdc.noaa.gov/eog/dmsp/download_radcal.html.

StatLink https://stat.link/7lxcv2

External competitiveness is under pressure

El Salvador has a persistent current account deficit. Over the past thirty years, deficits have intensified between dollarisation and the onset of the 2008-09 financial crisis. Between 2003 and 2008, the current account deficit averaged 5.8% of GDP, peaking at 8.5% in 2008. Following the financial crisis, deficits widened once again, leading to an average deficit of 5.9% between 2011 and 2014. Strikingly, there has been a very strong negative correlation between the current account balance and crude oil prices since the early 1990s. This cautions against reliance on foreign oil and calls for a diversification of El Salvador's energy production matrix (see Planet section).

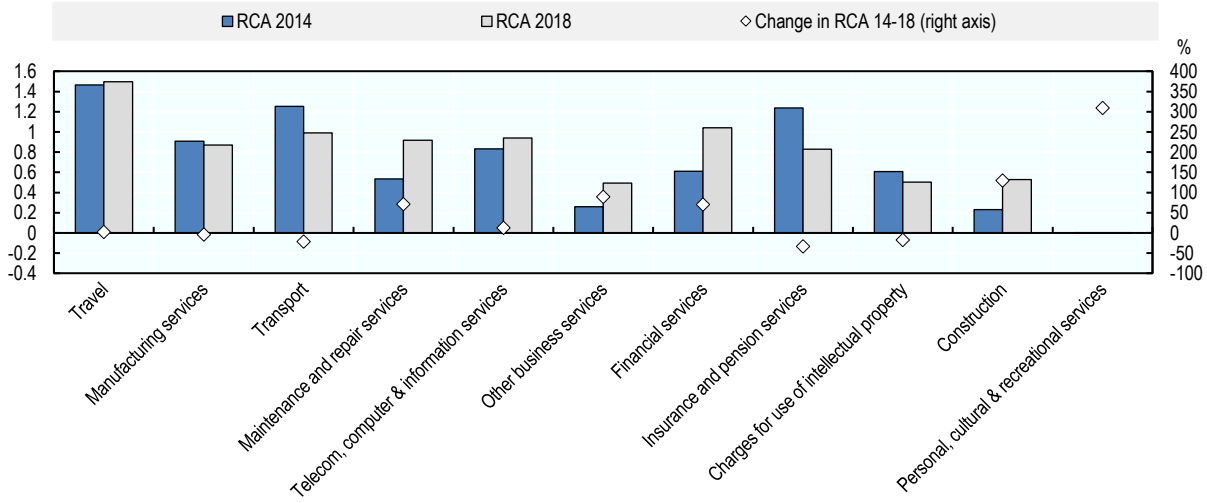
Foreign investors have repatriated increasing amounts of investment income. A particularly distinctive feature of El Salvador's economy is that its gross national product is smaller than its gross domestic product. This is due to a persistent deficit in the country's primary income, which increased from 4.6% of GDP in 2014 to 5.6% in 2018. This increased deficit in primary income indicates that foreign investors have repatriated a large share of direct investment income from El Salvador back to their home countries, instead of keeping and reinvesting proceeds entirely in the country. In part, this may reflect a lack of profitable investment opportunities in the Salvadoran economy.

New areas of international specialisation are required. El Salvador's most recent governmental assessment of revealed comparative advantages (RCAs) dates back a few years. In a 2014 strategy document, the government identified 16 areas of interest (República de El Salvador, 2014[80]). These were: agroindustry, food and beverages, textiles, chemicals, plastics, electronics, shoemaking, export crafts, paper products, corporate services, logistics, research and development, medical services, creative industries, aeronautics, and tourism. While the country enjoys RCAs in some of those sectors, it is unclear if and how industrial policy has been successful. A policy reappraisal of revealed comparative advantages is currently under government review.

It is important for El Salvador to focus on sectors where both its exports and world imports have both grown. In merchandise trade, El Salvador ranked number 114 in the world in 2018 (ITC, 2019[81]). The country should focus on areas in which its export performance has been better than average, and in which world imports have also grown above average. Given the size of the economy, policy makers should emphasise niches in markets with those favourable conditions. An obvious choice would be to expand the country's know-how in textiles into higher value-added niches. Beverages could also fit the criteria, depending on the economies of scale that would be required and the amount of investment that would be available. The pharmaceutical sector, in which Salvadoran exports have grown and international market conditions are favourable, could also be a good fit.

El Salvador should also focus on services with higher value added and whose exports have expanded. The transition to tertiary activities has been under way for some time. Productivity levels in the sector are higher than average, but productivity gains have been uneven. Moreover, labour dislocations have trended towards accommodation and food services, which are only half as productive as the general economy. Business services, including areas as diverse as financial services, maintenance and repair activities, and information technologies, in which there is already significant activity in the country, offer new areas of international specialisation (Figure 2.31). These activities would also contribute significantly to elevating overall gross value added in El Salvador's economy.

Figure 2.31. Potential comparative advantages in services

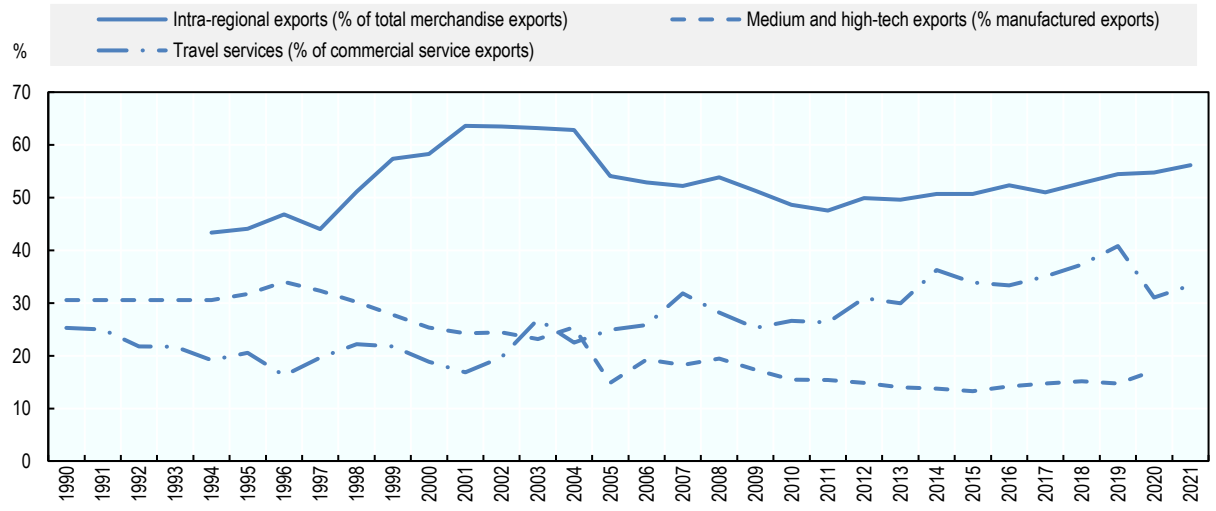


Source: International Trade Centre, http://www.intracen.org/itc/market-info-tools/trade-statistics/.

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Trade dynamics have nevertheless favoured low value-added activities. El Salvador's medium and high-tech exports have declined steadily since the 1990s, whereas exports to low and middle-income economies in the region have increased (Figure 2.32). The resilience of intra-regional trade reflects larger volumes of trade with neighbouring countries. In fact, some high-tech exports to Latin America and the Caribbean have increased in recent years. However, these trends also suggest the country has become less competitive in global markets for higher value-added products. If they persist, such trends will compete between themselves, netting out productivity gains or, even worse, positioning the country in areas of specialisation in which levels of value added are low. In addition, relying excessively on exports of travel services would accentuate the risks that stem from tourism's characteristic cyclicality.

Figure 2.32. Technological content of Salvadoran exports



Note: Intra-regional exports are exports to Central America and the Dominican Republic as a share of total merchandise exports
Source: World Bank, https://data.worldbank.org, and (SIECA, 2023[82]), *Sistema de Estadísticas de Comercio de Centroamérica*.

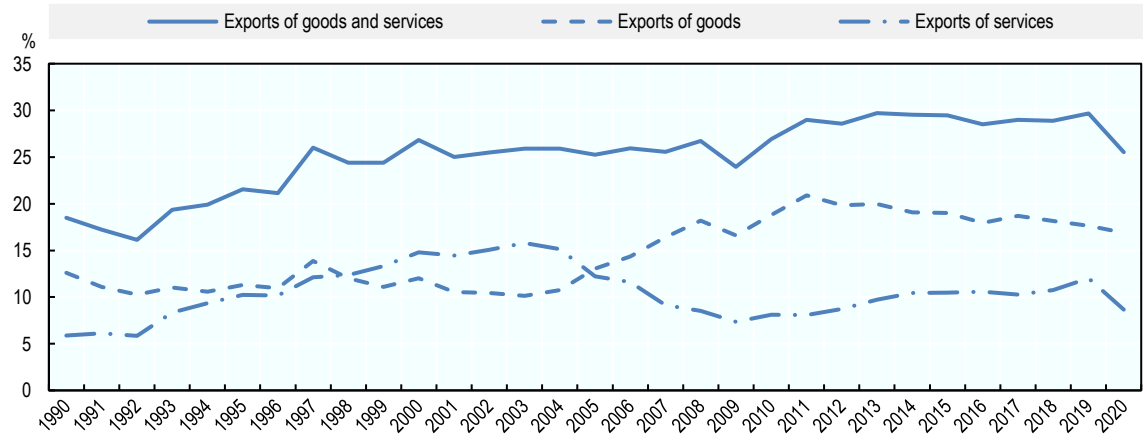
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Trade is sensitive to petroleum imports and manufacturing exports. In 2018, fuels and mining products represented roughly 15% of El Salvador's merchandise imports. Agricultural products and manufactures represented 19% and 66% of the total respectively (WTO, n.d.[83]). Manufactured goods made by far the largest contribution to total exports of merchandise, accounting for 76% of the total. El Salvador's apparel sector exhibits revealed large comparative advantages, but competition in the region is high, and margins are low. In agricultural products, the country used to be a major player in international coffee markets, but this is no longer the case, as other countries in the region now have higher revealed comparative advantages in that specific trade.

Trade openness has widened significantly. El Salvador is a small, but very open, market-oriented economy. The country participates in a host of bilateral and multilateral trade agreements, including the Central American Common Market, CAFT-DR, and the Colombia-Northern Triangle free trade agreement. Cumulative imports and exports of goods and services increased from 47.8% of GDP in 1991 to 77.5% in 2018. Nonetheless, El Salvador has a very large trade deficit, which has averaged 21.2% of GDP since 2014. This is entirely due to the trade deficit in goods. Nominal exports as a percentage of GDP have remained stagnant in recent years, although exports of services have increased significantly (Figure 2.33).

Figure 2.33. Exports of goods and services (1991-2020)

As a percentage of GDP

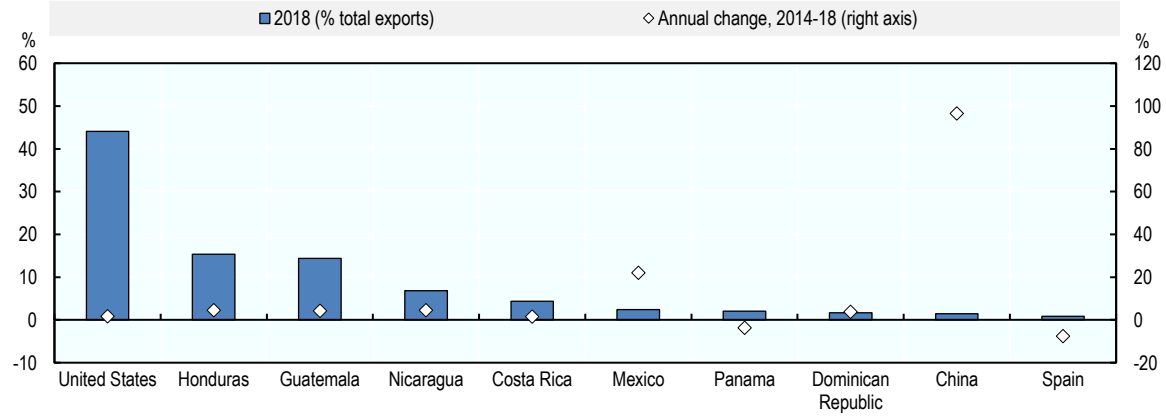


Source: (BCR, 2022[37]), *Base de datos Económica-Financiera*, Banco Central de Reserva de El Salvador, https://www.bcr.gob.sv/bcrsite/?cat=1000&lang=es.

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El Salvador's largest trading partner is the United States. Trade with the United States accounted for 44.1% of exported value of goods in 2018. However, the United States also accounted for 20.1% of El Salvador's deficit in merchandise trade in 2018. Strikingly, exported value to the United States has grown significantly below nominal GDP growth in recent years, at only 1.7% a year since 2014. El Salvador's exports to the United States cover a rather smaller number of exportable goods, than is the case in its trade with Central American countries (Vázquez López and Morales López, 2018[84]). Indeed, the growth of exports to Guatemala, Honduras and Nicaragua, which together accounted for 36.6% of goods exports in 2018, has been stellar, growing at more than 4% a year since 2014. Mexico is also becoming a top export destination, and exports to China are expected to increase significantly as well, following the recent establishment of diplomatic ties (Figure 2.34).

Figure 2.34. Top destination markets and export value (annual growth rates)



Source: (BCR, 2020[85]), *Indicadores económicos de comercio exterior*, Banco Central de Reserva de El Salvador, San Salvador, https://www.bcr.gob.sv/comex/.

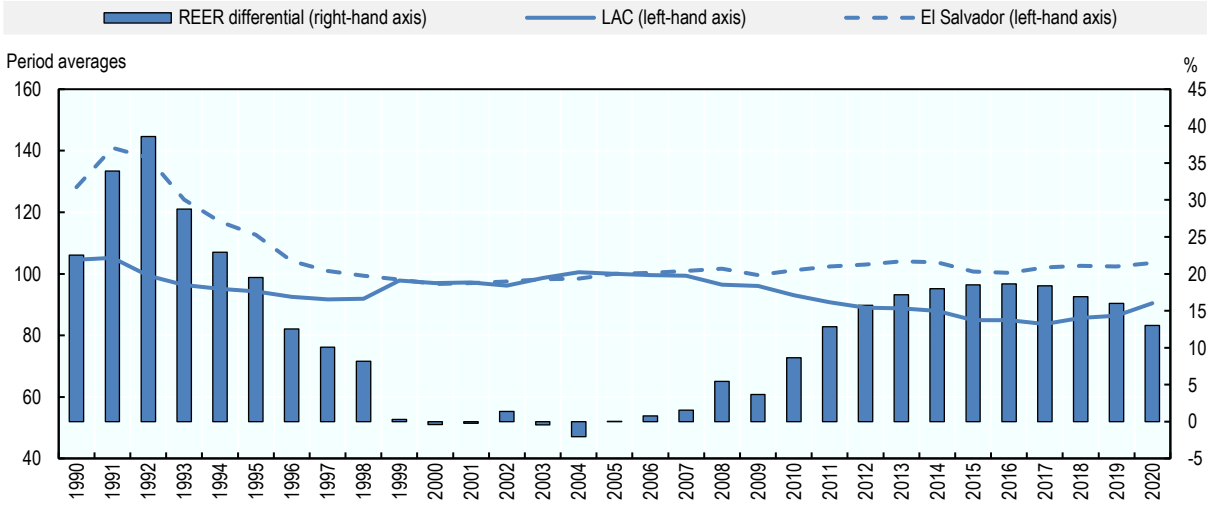
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The terms of trade are sensitive to petroleum prices. While export prices have increased steadily since 2005, import prices, and therefore terms of trade, have followed oil and energy prices, improving sharply along with international dips in oil prices in 2009 and 2016, and deteriorating when oil prices have increased. Since 2016, El Salvador's terms of trade have worsened due to a sharp increase in import prices and a deterioration in trade with the United States. This is attributable to rising prices for crude oil, underscoring the economy's sensitivity to prices of petroleum-related imports. These arrive mostly from the United States, which has accounted for 75% of El Salvador's petroleum-related imports since 2014. The correlation between the general import price index and the import price index of petroleum products from the United States has been equal to 80% since then.

El Salvador's real effective exchange rate (REER) has diverged from the Latin American average. Although the country's real effective exchange rate has remained unchanged since 2005, the median level in Latin America and the Caribbean has fallen by 15% since then (ECLAC, 2019[65]). Such a trend in real effective exchange rates implies a depreciation in El Salvador's relative external competitiveness on a regional comparison, and a rise in domestic non-tradable prices relative to externally tradable prices (Figure 2.35). By some estimates, the real effective exchange rate is overvalued by 4% to 6% relative to fundamentals (IMF, 2019[43]). Without a currency of its own, internal devaluation and export growth are the policy tools that are available to El Salvador for external realignment.

Figure 2.35. Real effective exchange rates

Index (2005=100)



Source: ECLAC (2019[65]), Preliminary *Overview of the Economies of Latin America and the Caribbean 2018*.

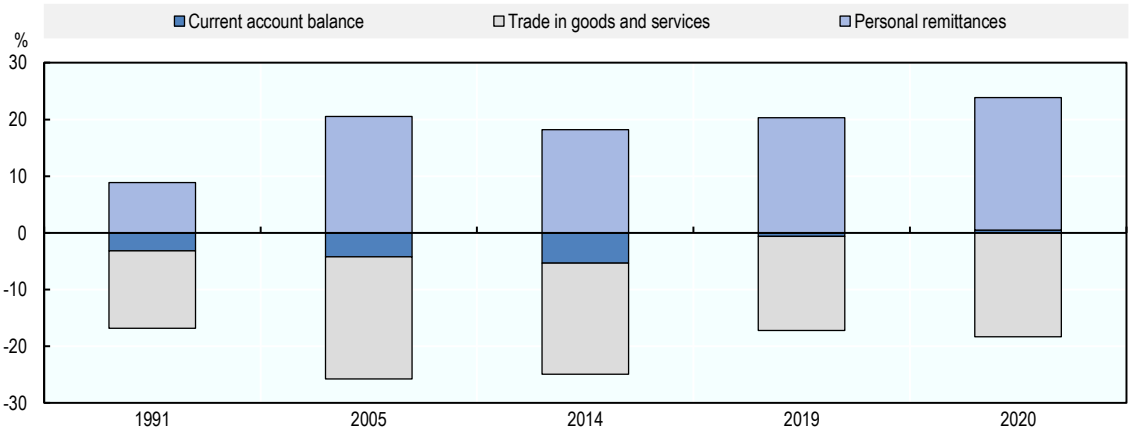
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The role of remittances

Remittances have financed El Salvador's trade deficit. Since 2014, the country's net borrowing needs have averaged 3.1% of GDP. Within the current account, a very large deficit in trade of goods and services, of 17.8% of GDP on average, has been counterbalanced by an even larger surplus in secondary income, of 19.4% of GDP. This massive surplus in secondary income is due to remittances. Salvadorans outside the country, mostly located in the United States, have consistently increased their personal transfers back to the country. These transfers rose from 18.2% of El Salvador's GDP in 2014 to 23.4% in 2020, reversing the long-term negative current account deficit in 2020 (Figure 2.36).

Figure 2.36. Remittances have been significant, but not enough

Current account components, % of GDP



Source: (BCR, 2022[37]), *Base de datos Económica-Financiera*, Banco Central de Reserva de El Salvador, https://www.bcr.gob.sv/bcrsite/?cat=1000&lang=es.

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Termination of the temporary protected status that many Salvadorans have had in the United States would be both an opportunity and a risk. In the US alone, there are 1.4 million Salvadoran immigrants, equivalent to a fifth of El Salvador's resident population. Among these 1.4 million people, 195 000 have temporary protected status (TPS), and their employment authorisation is therefore subject to time limits (set to expire in June 2024 as of early 2023), raising the spectre of a significant population inflow into El Salvador in the near term, as well as the implications that this could have for remittances. However, termination of TPS would also represent a significant opportunity for a rise in domestic investment if national savings outside El Salvador were to be repatriated.

One in every five Salvadoran households benefit directly from remittances. In 2015, about 20% of Salvadoran households received remittances. However, 86% of these were spent on current consumption such as food and clothing, with 6% being spent on education, 4% on miscellaneous expenses, and 2% on medical bills. Only 2% of average monthly remittances represented effective savings. The median monthly remittance per household at the time was in the bracket of USD 114-170 (Defensoría del Consumidor, 2017[86]). By comparison, the minimum wage in agriculture at the time was USD 118. Such large inflows may cause Dutch-disease effects in an economy in which poverty is large, and opportunities are not abundant.

Partnerships

The Partnerships pillar of the UN's 2030 Agenda for Sustainable Development cuts across all of its goals, focusing on the mobilisation of the resources that are needed for its implementation. It is underpinned by the Addis Ababa Action Agenda, which provides a global framework for aligning all financing flows and policies with economic, social and environmental priorities. It also contemplates the enhancement of co-operation in areas such as technology, capacity-building and trade, which may need to take on different forms as countries transition to higher levels of development.

El Salvador lacks sufficient financing for development. The country's development confronts three inter-related constraints: weak revenue generation, declining fiscal space, and low public investment. These reflect, or are compounded by, structural factors such as low tax compliance, high (and rising) debt levels, a large (and growing) wage bill, an unsustainable pension system, and the weakness of financial management at local government level. High rates of informality and poverty constrain revenues, while the costs of insecurity absorb a growing proportion of expenditure.

Rapid increases in financing are possible. The inter-related nature of El Salvador's fiscal challenges means that progress with regard to one of them yields gains with regard to another. The country's Fiscal Responsibility Law (the *Ley de la Responsabilidad Fiscal para la Sostenibilidad de las Finanzas Públicas y el Desarrollo Social*) requires the government to bring debt under control[9], and to tackle imbalances in the pension system. Meanwhile, the administration's commitment to increasing investment will necessarily involve a broader restructuring of public spending. Reducing tax evasion, aligning the tax system to recent international trends in tax reform, and introducing a recurrent tax on immovable property would unlock significant revenue flows at a national and local level.

Table 2.3. Partnerships – Three major constraints

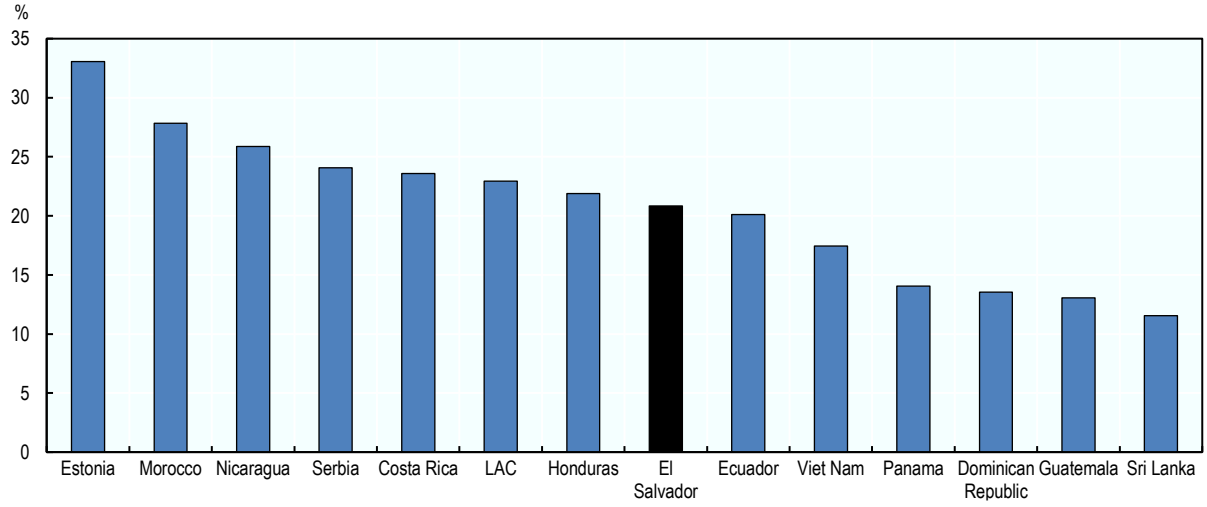
1.	Low tax compliance is a major drain on domestic resource mobilisation.
2.	Local government is unable to promote development due to low revenue generation and ineffective spending.
3.	The pension system achieves low coverage and low benefits, but generates higher debts.

A step change in revenue generation needs a revolution in tax culture

El Salvador needs to generate higher tax revenues. Government revenues were equivalent to 23.0% of GDP in 2017, up from 20.6% in 2009 (MH, n.d.[87]). Tax revenues accounted for 79% of government revenues on average over this period, with non-tax revenues accounting for 16% on average. According to the OECD's *Revenue Statistics in Latin America and the Caribbean 2020*, which provides harmonised tax data for the region, El Salvador's tax-to-GDP ratio was 20.8% before the COVID-19 pandemic in 2019, which is lower than the regional average of 22.9% (OECD et al., 2021[88]). This puts El Salvador near the middle of the reference group, above Ecuador, Panama, Dominican Republic and Guatemala (Figure 2.37). Unlike in the rest of the region, the tax-to-GDP ratio increased in El Salvador in 2020, reaching 21.9% (OECD et al., 2022[89]). This was due to the significant fall in GDP that year (tax income fell 4.2%) and does not necessarily reflect structural change.

Figure 2.37. El Salvador's tax-to-GDP ratio versus benchmark countries and regional average

Tax-to-GDP ratio as % of GDP, 2019



Note: The average for Latin America and the Caribbean is an unweighted average for 24 countries. Social security contributions to private arrangements are not considered tax revenues by the OECD Revenue Statistics classification. Data are from 2018 for Morocco.
Source: OECD (2019[90]), *Global Revenue Statistics Database*, https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL and IMF (2019[91]), *World Economic Outlook Database April 2019*, https://www.imf.org/en/Publications/WEO/weo-database/2019/April.

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The structure of tax revenues is changing. El Salvador relies on consumption taxes for the bulk of its revenues, but direct taxes account for a higher proportion of the total than a decade ago. Taxes on goods and services accounted for 50.6% of tax revenues in 2019, while 33.5% came from taxes on income and profits, and 12.8% came from social security contributions. In 2008, 56.5% of total tax revenues were from taxes on goods and services, 30.4% from direct taxes, and 10.8% from social security contributions (OECD et al., 2021[88]).

New tax measures are under discussion. A number of tax reforms have been implemented in recent years, and further changes to the tax system are currently under consideration. These new measures include the establishment of a so-called *monotributo* – a tax designed to increase tax and social security coverage in the informal sector – as well as a tax on wealth. In addition, plans to introduce electronic invoicing to facilitate tax payments and enhance compliance are at an advanced stage. As discussed below, reintroducing a recurrent tax on immovable property would be an important source of revenue for municipal governments.

Tax expenditure is high and rising in El Salvador. As part of its commitment to fiscal transparency, the country's treasury department tracks tax expenditure – revenue lost to tax exemptions and incentives – on both value-added taxes and income taxes. Between 2009 and 2016, tax expenditure rose from 2.7% to 3.8% of GDP, averaging 3.4% of GDP against an average tax take of 17.3% of GDP (MH, 2018[92]). In 2016, tax expenditure through VAT was equivalent to 1.9% of GDP, 73% of which related to consumption of local goods and services. Tax expenditure through income taxes was equivalent to 1.8% of GDP, with incentives for free trade and inward processing accounting for just over a quarter of this amount. El Salvador's tax expenditure is above the regional average of 3.5% of GDP calculated by Peláez Longinotti (2018[93]), a study which also finds that, unlike in El Salvador, tax expenditure is declining in most countries in Latin America.

A reduction in tax evasion would herald the prospect of major revenue gains for the Salvadoran state. Tax evasion is widespread in El Salvador. In the absence of official figures on tax evasion, independent estimates show that significant revenue is foregone (although these should be treated with a degree of caution[10]). For example, the FESPAD foundation calculates that 35% of potential tax revenue is lost (FESPAD, 2013[94]). Tax evasion reduces revenues from corporate income tax by some 50%, while 33.5% of potential revenue from VAT was lost in 2015 (Iniciativa Social para la Democracia, 2016[95]). Low compliance with tax requirements is not confined to the informal sector. Rather, it is considered to be widespread amongst those with the greatest capacity to pay (Iniciativa Social para la Democracia, 2016[95]). Nonetheless, Salvadorans have been shown to be more likely to pay taxes than citizens across Latin America on average (OECD, 2019[96]).

A new fiscal pact is required. Addressing tax evasion on this scale requires co-ordinated action across government, as well as a revision of the tax code and other legislation that is relevant to the tax system, and also improvements to the administration. It also requires policies to inform and engage citizens. The practice of tax evasion has an important international dimension, and it is an area in which El Salvador can benefit from ongoing international initiatives. In 2015, El Salvador signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, but it has not yet joined the Inclusive Framework on Base Erosion and Profit Shifting, nor has it started automatically exchanging information on financial accounts between tax administrations.

Fiscal space is constrained by debt-servicing costs and the wage bill

Public spending in El Salvador has a limited developmental impact. The country's low level of revenue generation means that public spending is lower than its level of development would suggest (IDB, 2018[97]). Moreover, the composition of spending constrains the government's ability to promote development. In 2018, debt payments and the public-sector wage bill accounted for a combined 57.4% of public spending, with only 13.2% allocated to public investment (gross investment and capital transfers

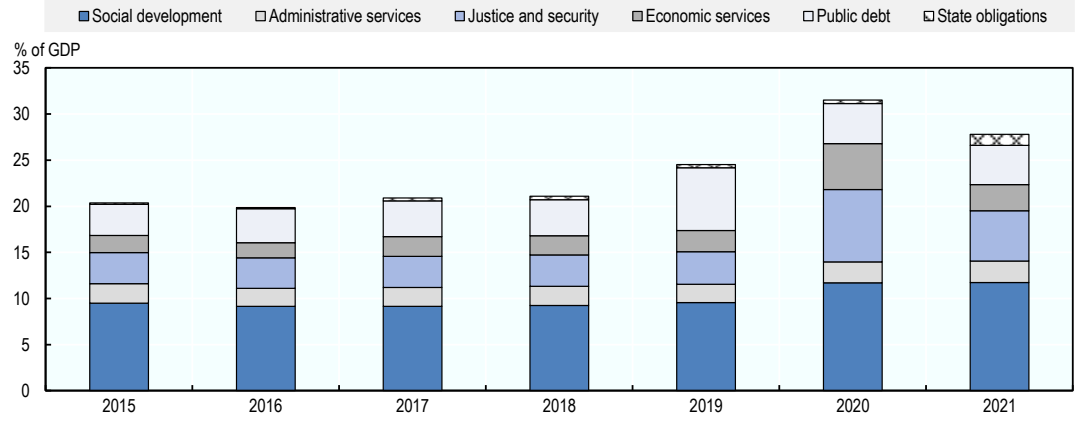
combined). Goods and services accounted for 17.5% of total spending in 2018, and transfers represented 11.9% (MH, n.d.[87]).

Debt-servicing costs and the wage bill are eroding fiscal space. Between 2008 and 2018, spending on the wage bill and interest payments increased at an average annual rate of 5.4% and 6.7% respectively in nominal terms. This growth was much faster than that of public investment, which increased by 2.9% per year on average. The proportion of the consolidated budget that was allocated to debt-servicing costs (excluding those related to public enterprises) increased from 13.0% in 2015 to 14.5% in 2018, with the 2019 budget allocating 23.1% of spending to these costs (MH, n.d.[87]).

Rising debt costs are changing the structure of spending. In 2018, debt-servicing costs became the second largest category of spending by function after social development. The proportion of spending allocated to administrative services, social development and economic services declined between 2015 and 2018, while the allocation to justice and security increased (Figure 2.38). In 2019, 12.7% of the budget was allocated to justice and security, while economic development received 8.6%, and administrative services got 7.2%.

Figure 2.38. Functional classification of public spending, 2015-21

Central government budget execution by function, % of GDP



Source: Calculations based on (MH, n.d.[54]), Fiscal transparency portal, https://www.transparenciafiscal.gob.sv/ptf/es/PTF2-Datos_Abiertos.html and (BCR, 2022[37]), *Base de datos Económica-Financiera*, Banco Central de Reserva de El Salvador, https://www.bcr.gob.sv/bcrsite/?cat=1000&lang=es.

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In the years before the COVID-19 pandemic, social spending's share of the budget dropped sharply. By 2020, the allocation to social development (which includes health, education and pensions) stood at 43% of total spending in the consolidated non-financial public sector (excluding public enterprises), 8 percentage points below its level of 51% in 2015 (MH, n.d.[87]). At 9.1% of GDP in 2016, social spending by El Salvador's central government (which excludes pensions) was in line with that of the Latin American countries within a benchmark sample, for which social spending averaged 9.4% of GDP (ECLAC, 2019[98]).

The cost of insecurity is rising. Between 2015 and 2020, justice and security registered the strongest spending growth among the main function groups, reaching 7.8% of GDP in 2020. Between 2015 and 2019, economic development expenditures in the non-financial public sector increased by 0.8% per year on average, social development by 1.8% and administrative services by 2.7%. (MH, n.d.[87]).

There was a large increase in public expenditure in 2020, both in nominal terms and as a share of GDP. Central government expenditure as a share of GDP increased by seven percentage points, with large

increases in the areas of justice and security (whose allocation doubled with respect to 2019), economic development (an increase of 98%), and social development (12%). In terms of expenditure in the broader non-financial public sector, expenditure grew to 37.2% (excluding production by public enterprises).

The Salvadoran state's wage bill is high by regional standards. El Salvador's expenditure on the public-sector wage bill exceeds average levels both for Latin America and the Caribbean (29% of total public spending), and the OECD (24% of public spending) (IDB, 2018[97]). Between 2008 and 2018, spending on public sector wages increased from 8.8% of GDP to 10.5% of GDP (Alas de Franco and Serpas de Portillo, 2019[99]). Bringing the wage bill under control will be an important means of shoring up public finances. A proposed public service law (*Ley de Servicio Público*) would provide a legal framework for public sector recruitment, retention, remuneration, and training, and it would standardise salaries across the public sector. However, this legislation is proving politically contentious (see Chapter 8).

El Salvador's public sector is growing fast. According to the Inter-American Development Bank , public employment as a percentage of total employment is low by regional standards, but this situation is changing (IDB, 2018[97]). Using data from the Instituto Salvadoreño del Seguro Social, Alas de Franco and Serpas de Portillo (2019[99]) find that the number of public-sector workers increased by 50 039 to 167 000 between 2007 and 2018, with central government posting the strongest growth. The establishment of new public institutions was an important factor in this phenomenon. The IDB (2018[97]) notes that El Salvador's public-sector wage premium is one of the highest in the region, and is particularly prominent amongst low-skilled workers.

Government salaries are outpacing inflation. On average, salaries in central government increased by 40.2% in nominal terms between 2007 and 2018, more than twice the rate of inflation over this period (Alas de Franco and Serpas de Portillo, 2019[99]). Although decentralised institutions and municipalities followed a similar trend overall, there is significant variation between different types of workers in the three different spheres of government. Workers in public education and health, which are the two largest employers in the public sector, benefit from a step system, whereby salaries grow by 8% per year. Between 2008 and 2017, the wage bill in many ministries more than doubled in nominal terms due to the combination of headcount growth and salary costs (Alas de Franco and Serpas de Portillo, 2019[99]).

Fiscal policy appears to have little impact on inequality. According to an analysis based on data from 2011, El Salvador's taxes and transfers were progressive, but they either had a neutral effect on poverty on a yearly basis or even served to increase it (Beneke, Lustig and Oliva, 2017[100]). This suggests that the decline in inequality since the early 2000s identified in the People section is driven either by the incidence of economic growth or by the longer-term impact of education or health spending amongst lower income groups. Although Beneke, Lustig and Oliva (2017[100]) found that direct transfers were reasonably well targeted at low-income households, they also found that they did not operate at sufficient scale to have a significant impact either on the Gini inequality coefficient, or on the poverty rate. Basic education was found to be the most progressive item of social spending. The same methodology has been applied for 2017, and results indicate that the redistributive impact of taxes and transfers remains small (Oliva, 2020[101]).

Higher and better infrastructure spending is needed. Combined infrastructure investment by the public and private sectors in El Salvador was low in years preceding the COVID-19 pandemic by regional standards, averaging around 2% of GDP per year between 2008 and 2015, most of which went towards transport and telecommunications (Lardé, 2016[102]). According to the IDB (2018[97]), El Salvador performs poorly by regional standards in the planning, selection and management of infrastructure projects, although its procurement processes are more favourably regarded.

Public-private partnerships (PPPs) are poised for take-off in El Salvador. Notwithstanding the implications for debt levels, PPPs are perceived as a critical means of scaling up infrastructure investment. El Salvador launched its first PPP in September 2019 to expand the cargo terminal at the International Airport, using a legal framework – the *Ley Especial de Asocios Público Privados* – that took effect in 2013. The terminal began operating under a PPP concession in May 2022.

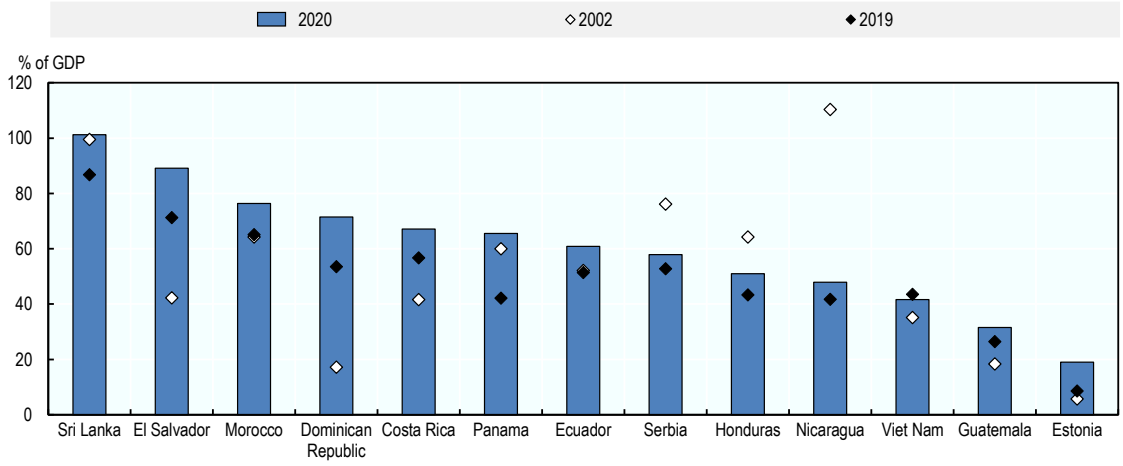
Debt reduction needs to be carefully managed

Public debt rose rapidly even before the COVID-19 pandemic. By the end of 2019, it stood at 97.3% of GDP, up from 58.7% in 2009 (BCR, 2022[37]). The pension system has been an important factor in this increase: between 2009 and 2018, non-pension debt declined from 52.7% to 50.5% of GDP. Over the same period, pension debt increased from 6% to 18.9% of GDP. El Salvador has the second-highest debt level amongst the benchmark countries exhibiting the second-fastest rate of growth in this respect since 2001, after the Dominican Republic (Figure 2.39).

The particular composition of El Salvador's debt partly mitigates its high level. At the end of 2018, the implicit interest rate on public debt was 4.9%, running higher than the nominal GDP growth rate of 3.5% since 2014 (BCR, 2022[37]). Close to 50% (43% as of December 2022) of El Salvador's debt has an interest rate below 6%, and more than 50% (58% as of December 2022) has a maturity beyond 11 years. This partly reflects the important role of official flows in financing El Salvador's development: multilateral debt accounted for around 30% of total debt in 2018 and 36% in 2022 (MH, 2022[103]). Domestic pension funds represent an important proportion of the investors who hold around 60% of debt (BCR, 2022[37]) (BCR, 2022[37]).

Figure 2.39. General government gross debt, El Salvador and benchmark countries, 2002, 2019 and 2020

As % of GDP



Source: (IMF, 2022[104]), *World Economic Outlook Database, April 2022*, https://www.imf.org/en/Publications/WEO/weo-database/2022/April.

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The fiscal effort that El Salvador made due to the COVID-19 pandemic resulted in a significant increase in its public debt. Debt increased by almost 18 percentage points to reach 89% of GDP. According to estimates from the IMF and the Banco Central de Reserva (BCR), El Salvador's central bank, the 2021 recovery helped to situate debt at 85% of GDP by the end of 2021. The share of debt that corresponds to the pension system has continued to grow. Public debt excluding pension debt had stabilised prior to the pandemic, but it increased by 10 percentage points between 2019 and 2021.

El Salvador is committed to fiscal discipline. In 2016, El Salvador passed the Fiscal Responsibility Law. Not only did this law establish thresholds for debt and other fiscal indicators, but it also established mechanisms to increase the transparency of the government's fiscal policy over the medium term, such as the annual publication of a medium-term expenditure framework for the subsequent four years. In the context of the declaration of a national emergency due to the COVID-19 pandemic, El Salvador's legislative

assembly suspended the law. The suspension decree stipulated that the finance ministry would prepare a regularisation plan once the effects of the pandemic had passed. By the end of 2022, no such plan had been presented for approval.

Prior to the COVID-19 pandemic, fiscal consolidation was under way. The Fiscal Responsibility Law mandated a five-year period of fiscal consolidation between 2017 and 2022. In 2018, El Salvador posted a primary fiscal surplus equivalent to 0.9% of GDP. This performance maintained a trend of fiscal discipline, thanks to which the overall fiscal deficit fell steadily, from 4.5% of GDP in 2013 to 2.7% of GDP in 2018. Further fiscal consolidation will be necessary for El Salvador to reduce its non-pension debt to below 50% of GDP, as required by the Fiscal Responsibility Law. Prior to the COVID-19 pandemic and the suspension of the Fiscal Responsibility Law, the government was planning to reduce the fiscal deficit to 1.6% of GDP by 2024 (MH, 2019[105]).

The pension system is an obstacle to fiscal consolidation. The Fiscal Responsibility Law requires total public debt, including pensions, to fall below 60% of GDP by 2030 (Asamblea Legislativa, 2016[106]). El Salvador's rapidly growing pension debt is a legacy of the major reform in 1998, under which the unfunded defined-benefit system was closed to new entrants, and a system of individual accounts was established. The current level of pension debt attests to the prolonged, complex and costly transition between these two systems. It reflects not only the long-term liabilities generated by moving from an unfunded to a funded system, but also additional reforms implemented in 2003 and 2006 to protect benefit levels for individuals who moved from the old to the new system (World Bank, 2010[107]).

A solidarity fund has been introduced to protect minimum benefits. A financing crisis in 2017 prompted a wide-ranging package of reforms to the pension system (SSF, 2018[108]). The most notable feature was the creation of a new solidarity fund to finance minimum benefits for members of the new system, which operates on an unfunded defined-benefit basis, and whose deficits will be covered by general government, up to a maximum of 2.5% of spending per year from 2020 onwards. To finance the solidarity fund, the contribution rate was increased from 13% to 15% of salary, with 5% of salary allocated to the solidarity fund. The reform also reduced benefit levels across the system.

The reform was partly a reversion to a defined benefit system. The financing arrangements of the solidarity fund mean that the contributions of present workers are financing the benefits of retirees, as was the case in the unfunded defined-benefit system. The vestiges of the old system were already evident in the use of contributions from present workers to purchase special bonds to capitalise the accounts of workers who switched from the old arrangement to ensure that they would receive the same level of benefits in retirement as they would have done if they had stayed in the old system.

The 2017 reforms did not make the system sustainable. An actuarial report by the Superintendencia del Sistema Financiero found that the solidarity fund had an actuarial deficit of USD 8.9.8 billion at the end of 2018, while the actuarial deficit on the government's side of the system was USD 8.6 billion. This equated to a total deficit of USD 17.5 billion, or 67.3% of GDP in that year. Payments by the solidarity fund will exceed income from 2026 onwards, requiring the government to contribute (SSF, 2019[109]).

Low levels of benefits threaten the system's political viability. The pension system has not been generating the expected level of investment returns since the 1998 reform, resulting in pensioners receiving one of the lowest replacement rates in the region (World Bank, 2010[107]). Moreover, a significant proportion of the workforce does not contribute for long enough to meet the 25-year mandatory contribution period due to time spent out of work or in informal employment. Increasing El Salvador's retirement age, which at 60 for men and 55 for women is very low by regional standards, would reduce pressure on minimum pensions by allowing individuals to contribute for longer and thus to build up larger accumulations.

A reform of the pension system was enacted in December 2022, capping maximum pensions and increasing minimum pensions. The reform includes a number of parametric changes: it will lead to a 30% increase in the benefits of current pensioners, including minimum pensions, a 1 percentage point increase

in the employer contribution rate, the removal of the ceiling on contribution bases and the imposition of a pension ceiling. The possibility of advance withdrawals of 25% of their pension account, deemed a source of unsustainability, was also removed. The reform also leads to changes in the institutional framework, with the creation of a Salvadoran Pension Institute to oversee the operations of pension administrators. The reformed system remains a mixed system with the use of the solidarity fund and a public guarantee for pension-related claims. The reform also maintains the use of debt emissions by the newly created pension institute which pension administrators will be obliged to purchase, as well as a debt exchange between pension bonds issued in the previous and the new system.

The pension system covers just over half the population. As El Salvador's demographics become less favourable, financial pressure on the pension system will increase (although the legacy costs related to individuals who remained in the old system will mostly disappear by the end of the next decade). According to the Superintendencia del Sistema Financiero (2022[110]), 62% of the population in December 2022 was inside the pension system, of which only 21.6% were contributing and 5% were pensioners. This report reveals that 3.4% of those covered were in the old defined-benefit pension system, and 58.4% in the new defined-contribution scheme. Only 9% of members in the new scheme were aged 60 or over in December 2022, while 33% were aged 35 or younger. Increased coverage is not addressed directly in the recent pension reform and is nevertheless a key ingredient to ensure the sustainability of the pension system.

Measures are needed to close the gap in social protection coverage among the elderly. El Salvador currently provides a very limited basic pension, the Pensión Básica Universal. It does not operate nationwide, and it is only available for individuals aged 70 or over without alternative sources of income, although it is proving effective at reducing poverty (Martínez, Pérez and Tejerina, 2015[111]). Although it is expected to scale up, the programme is currently unable to cover the coverage gap in the social insurance system. Closing this gap will require reforms to contributory and non-contributory arrangements alike, as well as calling for policies to promote formalisation.

Local government has a larger role to play in El Salvador's development

El Salvador has the most fragmented municipal system in Central America. Of El Salvador's 262 municipalities, almost half have fewer than 10 000 residents, and there are 25 000 individuals per municipality on average (Porto, Equino and Rosales, 2017[112]). Consequently, economies of scale are absent in many municipalities, and fixed costs are extremely high for the smaller ones. Although there has been a gradual decentralisation since 2005, revenues generated at a local level (mostly from user fees for local amenities) were modest in 2017, equating to about 1.2% of GDP.

Municipalities are over-reliant on transfers from the central government. Low capacity for revenue generation renders municipalities highly dependent on the Fondo para el Desarrollo Económico y Social de los Municipios (FODES), a transfer from central government. Nationally, the FODES was responsible for 43.1% of municipal income in 2016, down from 47.5% in 2012. However, in municipalities outside the departments of San Salvador and Libertad, the transfer accounted for a much higher proportion of income in 2016, exceeding 90% in Cuscatlán and Chalatenango, for example.

Municipalities are not investing sufficiently in infrastructure. In 2016, capital spending accounted for 20.9% of municipal spending, continuing a steady decline from 29.8% in 2012 (Pérez Trejo, 2019[113]). Over the same period, spending on salaries as a proportion of municipal spending increased from 29.9% to 37.8%, while expenditure on goods and services declined from 30.7% to 29.6%. Debt costs increased from 5.1% to 8.6%. Overall, capital spending by municipalities fell from 0.9% to 0.5% of GDP between 2012 and 2016, while current spending remained steady at 1.9% of GDP. The low level of capital spending is notable given that, by law, 75% of the FODES transfer must be used to invest in local infrastructure. The situation is further exacerbated by significant (and worsening) under-spending on capital budgets (Pérez Trejo, 2019[113]).

Reforms to FODES seek to increase local investment, but they run the risk of weakening municipal finances. Two key reforms were approved at the end of 2021. On the one hand, the reform of FODES (Legislative Decree 204, 2021) reduces the transfer to municipalities through FODES to 1.5% of the budget. On the other hand, a national directorate of municipal works, the Dirección de Obras Municipales (DOM), was created to manage resources dedicated to physical investment in municipalities, and its budget allocation was set at no less than 3% of total budgetary expenditure (Legislative Decree 210, 2021). A reform in March 2019 had increased the share of FODES resources to 10%. These reforms imply a significant cut in the funds allocated to municipalities. On the other hand, it is expected that the centralisation of resources and their management may boost both real investment in municipal infrastructure and the quality of projects. However, it is not clear that this will improve the quality of spending. The formula for the allocation of transfers was not substantively modified and would need to be revised. The transfer is allocated according to a formula that takes into account municipalities' size, population and poverty, as well as an equity component. The formula tends to strongly favour small municipalities, which are where financial capacity tends to be weakest (IDB, 2019[114]).

Restoring the property tax is critical for generating municipal revenues. For municipalities to be an engine for development, they need to generate higher revenues. This will require the re-introduction of a property tax. This tax was eliminated in 1994, making El Salvador one of the few countries in the region not to levy one. While this is not a measure that can be introduced overnight – it will require a new legal framework as well as mechanisms for the creation and maintenance of a cadastre for property values – it would alleviate concerns regarding municipal debt levels, which have increased significantly in recent years and now exceed 2% of GDP (IDB, 2019[114]).

Migrant workers and official flows are key sources of finance

Remittances drive the economy and offset low public spending. Remittances from El Salvador's emigrants are a critical source of income for the country and keep many households out of poverty. Around 24% of households received remittances in 2019 (DIGESTYC, 2020[8]).[11] Of these, 17% were considered poor (compared to 22.8% of the overall population), and 48% were headed by women. Recipient households tend to be rural, with female heads of households who have low levels of education and relatively low levels of labour force participation (Keller and Rouse, 2016[115]). While remittances overwhelmingly finance consumption rather than investment, they have also been found to promote financial inclusion (Anzoategui, Demirgüç-Kunt and Martínez Pería, 2014[116]).

The increase in remittances has continued and even accelerated, although it might not be sustained. Remittances increased from 18% of GDP in 2015 to 21% of GDP in 2018, and to 24.1% in 2020, despite a temporary fall during the confinement period[12] (BCR, 2022[37]). However, this increase has been attributed to migrant workers in the United States (who provide the majority of remittances) increasing remittances in anticipation of a return to El Salvador. If changes to the residency status of Salvadorans proposed by the United States administration result in repatriation, the composition and flow of remittances could change.

Donor support is mostly in the form of concessional loans. El Salvador is eligible for official development assistance (ODA), but has not been eligible for highly concessional International Development Association (IDA) finance since 1977. As a result, official flows of support come predominantly from three development banks: the International Bank of Reconstruction and Development (IBRD), the IDB, and the Central American Bank for Economic Integration. Nowadays, lending from the IBRD takes place on highly concessional terms: since 2000, its loans have carried an interest rate of less than 1% (World Bank, 2019[117]). In 2022, El Salvador also became a member of CAF – Development Bank of Latin America.

Inflows of ODA fell over the decade before the COVID-19 pandemic. According to the OECD Development Assistance Committee, ODA to El Salvador fell from 1.9% of GDP in 2008 to 0.8% in 2017, albeit with ups and downs over this period. It also declined overall in absolute terms. The priority sector for ODA over this

period was social infrastructure and services, which accounted for 65.5% of the allocation in 2017, up from 44% in 2008 (OECD, 2019[118]).

Peace and institutions

The Peace and Institutions pillar of the 2030 Agenda for Sustainable Development encompasses peace, stability and trust, as well as effective governance and the performance of the public sector more broadly.

El Salvador has a complex institutional and cultural legacy that is the product of decades of military regimes in the 20th century, more than a decade of civil war, and a remarkable peace agreement that set out to tackle the institutional roots of violence in the country. Indeed, the peace agreements signed in 1992 triggered a series of reforms that considerably strengthened the country's institutional framework, allowing a peaceful transition towards the full consolidation of a liberal democracy. However, most of the conflict's socio-economic roots remained virtually intact. Today, the road ahead to achieve the primacy of the rule of law in El Salvador is still long and demanding. Peace building in post-conflict countries requires a series of institutional, personnel-related and cultural changes that El Salvador has not yet concluded.

Citizens' lack of confidence in the institutions of the Salvadoran state weakens the social contract and limits the state's ability to operate effectively and efficiently. Weak application of justice due to institutional flaws has resulted in unresolved conflicts between citizens that trigger new cycles and types of violence. Past efforts have not been sufficient to re-establish a peaceful environment by breaking the old cycles of violence and impunity. Peace will ultimately enable the consolidation of sound and sustainable social development. Strengthening the country's institutions also calls for improvements to practices of governance and the state's ability to comply with citizens' expectations of public service delivery, both of which leave room for improvement. Establishing better governance practices would make possible a more efficient use of El Salvador's limited public resources.

Table 2.4. Peace and institutions: Four major constraints

	Peace and institutions
1	Violence imposes high costs for Salvadoran society and has a significant negative impact on all dimensions of development.
2	The security sector's lack of legitimacy and limited capacity lead to a lesser willingness to resolve disputes through formal means, which has contributed to maintaining cycles of violence over time.
3	Government's lack of legitimacy leads citizens to disengage from their civic duties, such as paying taxes or participating in the country's democratic institutions.
4	The Salvadoran state operates under obsolete laws and cumbersome mechanisms that negatively impact a more efficient use of public resources for development.

The peace accords triggered a series of unprecedented reforms, but achieving the primacy of the rule of law requires further efforts

After years of confrontation, El Salvador restored peace with an exemplary three-year negotiation process. El Salvador's military held the power of state administration and government for almost five decades during the twentieth century. In the 1970s, protests and mobilisations against the political and military elite intensified until the outbreak of war in the early 1980s. Leftist guerrilla groups forming the Farabundo Martí National Liberation Front, the FMLN, clashed with the state and paramilitary groups for almost 12 years. The signature of the Chapultepec Peace Accords enabled a ceasefire, and finally brought peace to the country in 1992. The peace process, which was carried out between 1989 and 1992, was one of the earliest to involve the UN at critical stages of the negotiations, and to create a monitoring agency, the United Nations Observer Mission in El Salvador (ONUSAL), to ensure compliance with the peace accords.

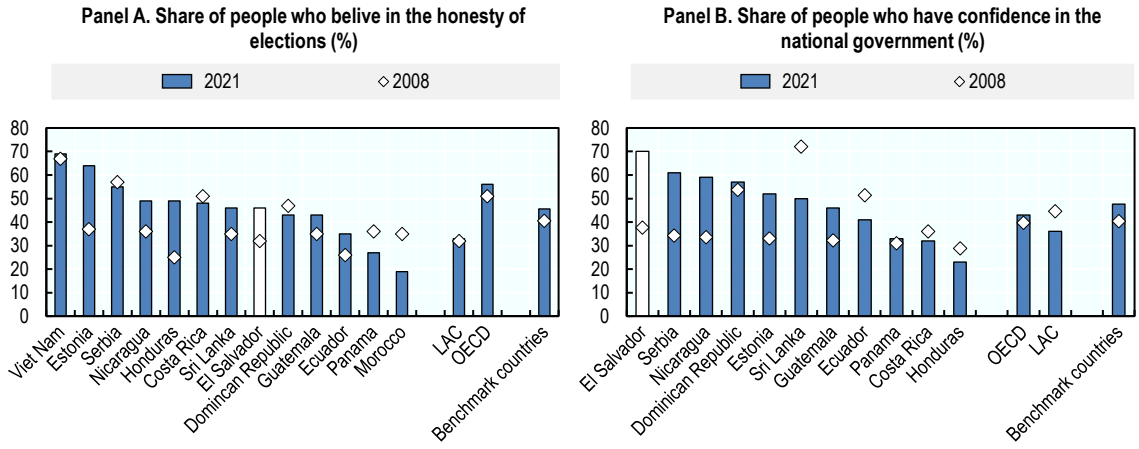
After the war, two opposite parties consolidated through electoral mechanisms as the two main political forces and went on to control the Salvadoran political system for decades. In early 1981, a coalition of conservative civilians created a right-wing party, the Alianza Republicana Nacionalista (ARENA). The rise of ARENA through electoral mechanisms made it possible to break the military's dominion over the political system for the first time since the 1930s. The party controlled the presidency from 1989 until 2009. After the end of the civil war, the organisation of demobilised guerrilla combatants became a legal left-wing political party. The FMLN party was created as a result of the Chapultepec Peace Accords in 1992, and rapidly consolidated as the second most influential political force in the country. The FMLN party controlled the presidency from 2009 to 2019. Strong political polarisation has limited many attempts at institutional reform since the end of El Salvador's civil war (Stanley, 2006[119]). Although these two parties maintained a strong degree of leadership among citizens in recent decades, legislative elections operate under a largest remainder method that rewards plurality. This mechanism has made it possible to maintain a more politically diverse legislature.

The electoral cycle of 2019 and 2021 upset the balance of power in the country. In presidential elections in 2019, Nayib Bukele, a candidate detached from the two major traditional parties, was elected with an absolute majority in the first round. Then, in the legislative elections of February 2021, a new party linked to President Bukele won a qualified majority in the Legislative Assembly, the country's unicameral legislature. These changes have brought an end to parliamentary deadlocks that had limited legislative activity. They have also heralded a renewal of judicial-branch bodies driven through the Legislative Assembly, generating a new balance of power in Salvadoran institutions.

El Salvador has succeeded in maintaining universal suffrage, but has failed to restore confidence in democratic institutions. Since 1994, all elections and handovers in El Salvador have been peaceful and uncontested. Pacific and democratic transitions are in marked contrast with the country's authoritarian past, and with the political instability of the region. However, confidence in political parties is very low. In 2018, around 93% of Salvadorans had little or no confidence in political parties (Latinobarómetro, 2018[120]). Participation in the presidential election of 2019 was average (51.88%) compared to the region,[13] but participation among young people remains very low. Confidence of citizens in the honesty of elections remains relatively low (46%), but has increased recently after deteriorating significantly over the past decade (falling by 7 percentage points). In this regard, El Salvador ranked below the OECD average of 56% in 2021 (see Figure 2.40, Panel A).

The Salvadoran social contract has remained weak, driven by declining trust in public institutions, although trust in government has increased in recent years. The social contract is understood as a tacit pact between the state and citizens.[14] When citizens perceive that public institutions are unable to respond to their demands, they have lower incentives to fulfil their obligations. Following a regional trend, there are significant levels of disenchantment with the operation of government institutions in El Salvador. Over the last decade, Latin America and the Caribbean have been experiencing a growing disconnect between citizens and public institutions (OECD/CAF/ECLAC, 2018[121]). Similar to other Latin American countries, El Salvador needs to implement policies to overcome the "institutional trap" by which failing to respond to citizens' increasing demands leads to lower degree of institutional legitimacy, undermining the ability of the state to respond to social demands in the first place (OECD et al., 2019[122]). In 2018, only a third of the Salvadoran population (32.4%) expressed confidence in the national government, ranking below the OECD (39.1%) and the benchmark (45.4%) averages, but above the LAC average (25.8%). By 2021, a much higher proportion of respondents put confidence in the national government (70%), well above the OECD (43%) and LAC (36%) averages (see Figure 2.40 Panel B). This regained trust is key as without trust, citizens disengage from their civic duties and find few incentives to participate in politics or to fulfil civic duties such as paying taxes.

Figure 2.40. Strengthening the legitimacy of institutions remains a challenge in El Salvador



Notes: Panel A: Data for Morocco 2010 instead of 2008 and 2014 instead of 2021. Data for Serbia is 2006 instead of 2008. Data for Viet Nam are for 2006 instead of 2008 and 2012 instead of 2021. Panel B: Data for Serbia are from 2006 instead of 2008.
Source: Gallup World Poll.

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Beyond universal suffrage, the consolidation of liberal democracy requires the primacy of the rule of law. The consolidation of liberal democracy has two fundamental dimensions. The first of these is the principle of majority rule operating in a political system that guarantees universal suffrage. The second, which is perhaps more complex and less widely acknowledged, is the primacy of the rule of law (Dodson and Jackson, 1997[123]). Strengthening the rule of law after a civil war involves a series of inter-connected institutional, personnel-related, and cultural changes that are necessary to achieve genuine peacebuilding (Bowen, 2019[124]).

The peace accords triggered a series of significant yet insufficient institutional changes

The Chapultepec Peace Accords envisioned a comprehensive reform of the security sector. Breaking the cycles of violence after a civil war requires a comprehensive approach that goes beyond security concerns such as increasing the security workforce in order to reduce crime rates. The main objectives of institutional reforms in post-conflict settings are to change institutional practices within the security sector and, in the long term, to increase judicial independence (Bowen, 2019[124]). A security sector reform (SSR)[15] includes a coherent set of reforms in the military, police and judiciary to promote sustainable peace and security (OECD, 2008[125]). The peace accords envisioned a comprehensive SSR that included: i) creating a new police force to replace the old police forces controlled by the military; ii) reducing the size of the armed forces and implementing a new mandate to limit their role to securing external borders; and iii) strengthening the independence and professionalisation of the judiciary.

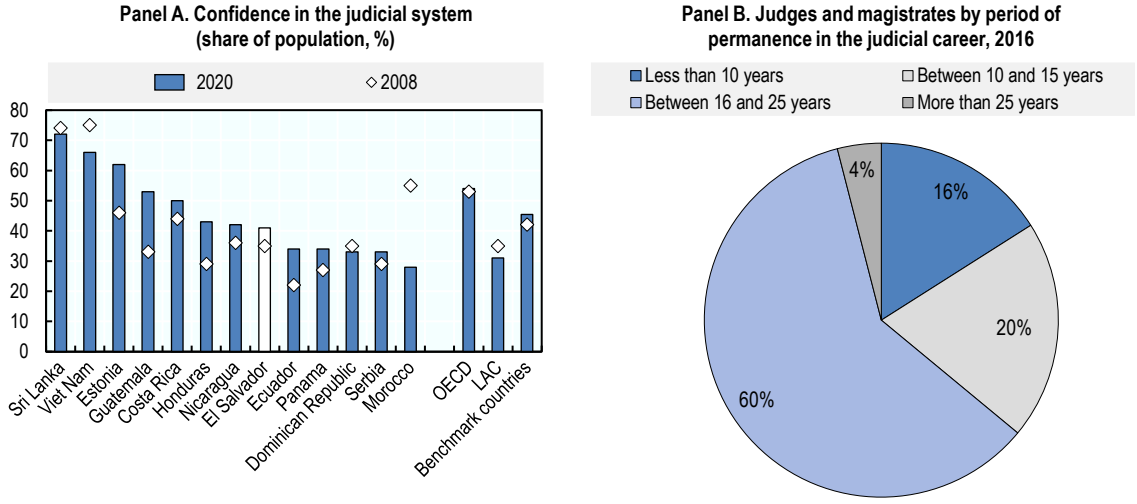
The reforms that were triggered by the peace accords had an unprecedented positive impact on the functioning of El Salvador's institutions, and on the construction of the rule of law. The peace agreements managed to break much of the control that the legislative branch had over the Supreme Court of Justice (SCJ), and consequently also over lower courts, through new mechanisms for appointments to the judiciary. The reforms created an independent National Council of the Judiciary (NCJ) to generate nominations for judicial office.[16] In line with these reforms, a majority of two-thirds in the Legislative Assembly must approve nominations by the NCJ. This change made courts more ideologically diverse and professionally competent. In addition, the length of appointments to the SCJ was extended to nine years, so that one legislative assembly would not be able to elect all of its members. In order to decentralise decisions in the judiciary, the reforms transferred the power to select and discipline the lower courts from the SCJ to the NCJ. Finally, the peace accords secured an allocation of 6% of the national budget for the

judicial branch in order to strengthen its independence from the executive and legislative branches (Stanley, 2006[119]).

The judicial branch gained some independence following the civil war, but its limited resources and capacity are insufficient to respond to the country's demands for justice. In terms of judiciary personnel, the country has a relatively limited capacity, with only 10.7 judges or magistrates per 100 000 people in 2017. This figure has remained stagnant over the past decade (10.67 per 100 000 in 2007). Benchmark countries such as Serbia or Estonia had 38.3 and 17.4 judges or magistrates per 100 000 people in 2017 respectively (UNODC, 2019[126]). Additionally, access to judicial services in rural areas, the distribution of courts in the territory, and the allocation of workload by court, remain among the greatest challenges that the system faces. Thanks to the reforms of the judiciary that were triggered by the peace accords, it gained some independence from the political cycles in the executive and the legislative branches. Although past reforms raised the requirements for the appointment of judges, they did not necessarily improve judges' qualifications (Bertelsmann Stiftung, 2018[127]). Until 2021, the majority of judges and magistrates (85.2%) had been in a judicial career for more than ten years (see Figure 2.41 Panel B). The reform of the legal framework of the judicial career, approved in August 2021, established ceilings of 60 years of age or 30 years seniority in the judicial career for judges in magistrates, which potentially affected 220 judges (about a third of judgeships). It also increased the latitude of the SCJ to reallocate judges. The reform has resulted in significant turnover among judges and magistrates – 96 judges resigned whilst a further 121 were put on an availability regime allowing them to continue serving without security of tenure.

Despite having achieved significant reforms, implementation of the peace accords failed to change many institutional practices or to consolidate full independence of the judiciary. Almost three decades after the peace accords, and despite the profound changes that were contemplated initially, only technical and procedural aspects have changed regarding the operation of the institutions of security and justice. Currently, the entities that are responsible for horizontal responsibility (i.e. the courts or the Human Rights Ombudsman[17]) are not involved in the definition of the government's security policies. This has allowed repressive security strategies for addressing public safety to continue, leading to new abuses of force, the recurrent use of the military for internal security purposes, and new extra-judicial executions (Kurtenbach, 2019[128]). The judicial system still needs to be strengthened sufficiently by protecting judges, prosecutors and other actors from political and social interference (Bowen, 2019[124]). Over the past decade, there have been public denouncements of strong political interference in the judiciary, and of how this has affected the role of judges and magistrates in the fight against impunity and human-rights violations. The current mechanism for appointing magistrates to the SCJ has demonstrated that it does not effectively guarantee the independence of the judiciary from other branches of power, in particular from the legislature, or the non-interference of political parties and economic interests in its decisions (UN, 2013[129]).

Figure 2.41. Despite having significantly improved operational aspects of the judiciary, achieving greater independence and legitimacy remains a challenge



Note: Panel A: Data for Morocco are from 2010 instead of 2008 and from 2014 instead of 2018. Data for Serbia are from 2006 instead of 2008. Data for Viet Nam are from 2013 instead of 2018. Data for Guatemala, and Honduras are from 2019 instead of 2020.
Source: Panel A: (Gallup, 2020[130]), *Gallup World Poll (database)*, https://www.gallup.com/topic/world-poll.aspx; Panel B: (FUSADES, 2016[131]), *Estadísticas sobre funcionarios judiciales*.

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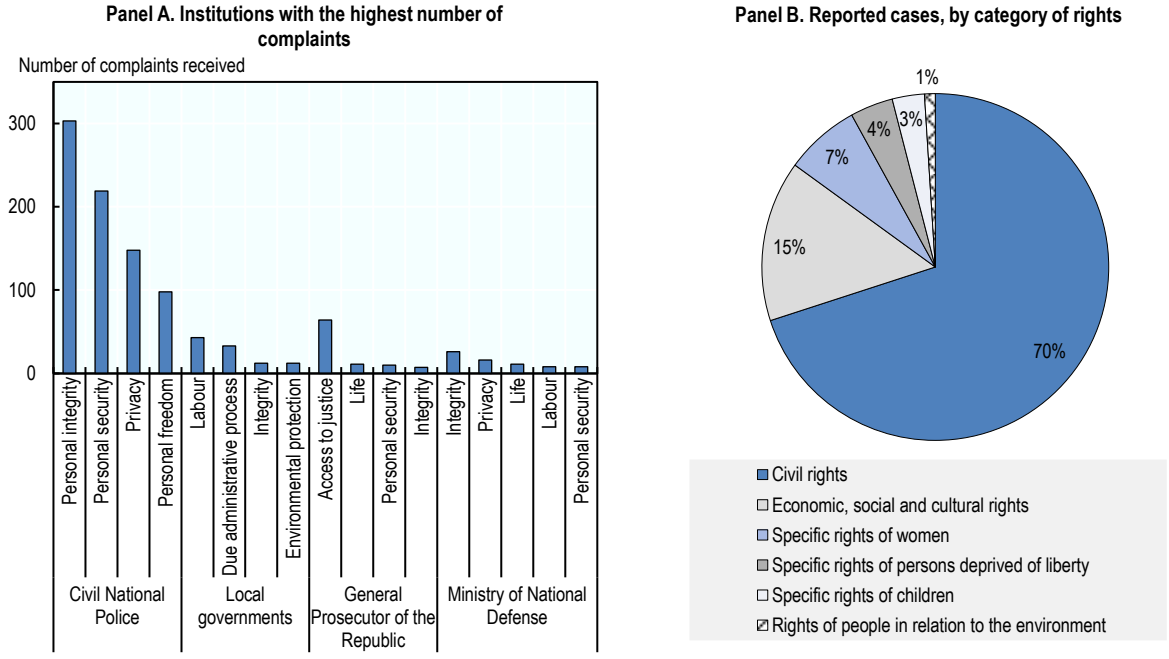
The peace accords created a specialised body to look after the protection of human rights, although it does not have any enforcing power to punish human rights violations. In order to address low levels of confidence in the judicial branch's capacity to protect human rights, the peace accords included the creation of a procurator's office for human rights law, the Procuraduría para la Defensa de los Derechos Humanos (PDDH). Although the PDDH is not formally part of the judicial system, its function includes addressing, investigating and reporting complaints about human rights related to the inefficiency of the judiciary (Jackson, Dodson and Nuzzi O'Shaughnessy, 1999[132]). However, the PDDH only has the legal authority to make recommendations, and it lacks any enforcing power as a punishing authority. For this reason, the effectiveness of its role depends on the moral authority that it is able to generate among political actors and civil society (Dodson and Jackson, 1997[123]).

The creation of the PDDH has helped to increase the visibility of human rights violations, but its restricted resources hinder its ability to operate. The creation of the PDDH has had a positive impact on reducing impunity by increasing the visibility and legitimacy of denouncements of human rights violations. However, the PDDH has expressed the significant limitations that are caused by its constrained budget assignations (PDDH, 2018[133]). A budget that is insufficient for the PDDH to operate prevents it from complying in full with the responsibilities that are assigned to it by law. Still, the PDDH plays an important role with regard to denouncements of public institutions for violating human rights. According to the PDDH, the National Civil Police (NCP) continues to be the institution receiving the most complaints due to alleged human rights violations. Most of the complaints are related to personal integrity, personal safety and privacy. After the NCP, it is local governments, the General Prosecutor of the Republic, and the Ministry of Defence that receive the most such complaints (see Figure 2.42 Panel A, PDDH (2018[133])).

Although most human rights are constitutionally protected, vulnerable groups have few guarantees for the protection of their rights. Numerous cases of extra-judicial executions and excessive use of force by the police and the military have been documented, investigated and reported, with few resulting legal proceedings in recent years. Complaints have been linked primarily to the application of anti-gang measures, with abuses in this regard frequently taking place in areas with high prevalence of poverty and amongst young people

(OHCHR, 2018[134]; Aguilar, 2019[135]). Gender and sexual violence remains an endemic problem in the country: in 2018, every 19 hours a woman was killed, and every three hours someone was sexually assaulted. In more than 70% of cases, victims were minors (OHCHR, 2018[134]). While feminicides have fallen along with the general fall in the homicide rate, instances of sexual violence against women have remained high, with 6 421 instances in 2019, 5 995 in 2021 and 3 299 in the first semester of 2022 (MJSP, 2021[136]; MJSP, 2022[137]). The total ban on abortion has given rise to the imprisonment of women and girls who are accused of homicide after a miscarriage. Overall, women, children, the LGBTI community and convicts are among the most vulnerable groups when it comes to human rights violations (see Figure 2.42 Panel B) (Human Rights Watch, 2019[138]; Amnesty International, 2018[139]; PDDH, 2018[133]).

Figure 2.42. Human rights violations are strongly associated with the excessive use of force, and are more common among certain vulnerable groups



Note: Complaints reported between 1 May 2017 and 30 April 2018.
Source: PDDH (2018[133]), *Informe de Labores de la Procuradora para la Defensa de los Derechos Humanos 2017-2018*.

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Personnel-related changes have been limited in scope

The peace accords established a series of transitional justice measures and envisioned a lustration process to improve legitimacy. All parties commit human rights violations in a civil war, including the state itself. After reaching a peace accord, personnel changes in state institutions aim to improve the legitimacy of the reformed institutions by removing offending state officials and dismantling criminal networks that had infiltrated in public institutions (Bowen, 2019[124]). El Salvador's peace accords included the creation of a Truth Commission to investigate extra-judicial crimes, and a vetting process (commonly known as lustration) to expel offending officials from state institutions. The creation of a new national civilian police force, the NCP, was perhaps the most significant lustration effort in El Salvador. The NCP was formed with quotas from the former members of the civilian police (20%), former members of the FMLN (20%), and civilians who had not participated in the confrontation (60%).

Changes to personnel in the judiciary focused on removing negligence, incompetence or incapacity, rather than on corruption or inappropriate political influence. The partial lustration process in the Salvadoran judiciary was conducted under the aegis of the National Council of the Judiciary (NCJ). The NCJ was responsible for recommending to the Supreme Court of Justice the removal or suspension of personnel in the judicial branch. Magistrates, judges of the first instance, and judges of the peace were individually evaluated by the NCJ according to a list of criteria to determine their aptitude to continue in post after the peace accords. However, out of the seven criteria that were evaluated, only two points assessed potential for corruption or for political influence being exercised over the judges or magistrates. The evaluating criteria centred on assessing competency and capacity. Although the NCJ managed to remove incompetent judges, personnel change scarcely contributed to increasing the independence of the judiciary (Dodson, Jackson and O'Shaughnessy, 1997[140]). In order to strengthen the independence of the judiciary, the system must ensure judges' detachment with regard to litigants, their individual autonomy, and their political insularity[18] (Fiss, 1993[141]).

The limited reach of the lustration process, plus an amnesty law, weakened the state's power for accountability, therefore also undermining its legitimacy.[19] The lustration process that was initially contemplated in the peace accords had a limited reach in practice, for two main reasons. First, effective vetting measures to filter out offending personnel left aside several institutions of the justice sector, such as the courts, the prosecution service, and the prison system. Second, two subsequent amnesty laws passed in 1992 and 1993 limited the scope for removing offending personnel from state institutions (Bowen, 2019[124]). Therefore, several institutions in the security sector remained intact, and even in those where there was a lustration process, such as the police, some offending agents were able to keep their positions thanks to the amnesties. Recent changes have yet to interrupt the long-time patterns of impunity. In July 2016, El Salvador's supreme court overturned the 1993 amnesty law, and several cases have been reopened since then (Bowen, 2019[124]).

Citizens' trust in El Salvador's security system (i.e. police, military and judiciary) is low, especially with regard to the judiciary and its effectiveness. To be sure, nearly half of Salvadorans expressed confidence in the military (48%) and the local police (58%) in 2018. In particular, however, confidence in the local police has been declining over the last decade. Complaints about the excessive use of force, the use of the army for internal security purposes, and repeated allegations of extra-judicial executions, all serve to undermine citizens' confidence in security-sector institutions. Citizens' trust in the judicial system is very low (36%) and has remained stagnant over the past decade. In this regard, El Salvador ranks below the averages for the OECD (52%) and the set of benchmark countries (45%) (see Figure 2.41 Panel A).

The momentum of the process was not sufficient to consolidate the cultural changes required to build peace

El Salvador has not managed to consolidate the cultural changes among citizens that are necessary to break cycles of violence. In a peace-building process, cultural changes are preceded by an increased perception of legitimacy and, therefore, by an increased willingness to resolve disputes through formal means, which in turn contributes to breaking cycles of violence over time (Bowen, 2019[124]). So far, El Salvador has failed to consolidate enough legitimacy and to build trust among citizens in order to break long-lasting cycles of violence. Evidence has shown that being a former combatant increased the probability of committing a homicide after the civil war was over, and that this probability increased with the availability of weapons and the consumption of alcohol (Richani, 2010[142]).

Just at the time that crime was beginning to rise, a failure to make changes to personnel in some public bodies frustrated efforts to control corruption in the security sector. In the 1990s, and as reforms failed to purge corruption networks in the judicial and prison system, the emerging gangs encountered an environment in El Salvador that was conducive to them consolidating and operating with impunity. The same old networks of corruption in the judicial branch allowed the wealthy and the violent to negotiate their freedom through bribery or brutality after the end of the civil war (Bowen, 2019[124]). Evidence has shown that high homicide rates in post-civil war El Salvador are attributed to the formation and subsequent

consolidation of a system of violence, which was a result of the interplay among weak state capacities, the low opportunity costs of crime, and agency (Richani, 2010[142]).

The weakened institutional framework failed to prevent the spread of new forms of violence after the civil war

Since the end of the civil war, El Salvador has gone through a combined series of social and economic trends that have enabled the transformation and continuation of past cycles of violence. The massive migration flows, initially of people emigrating but then of people flowing in due to mass deportations from the United States, have marked the country's development path. The emergence of gangs in Central America, and their rapid consolidation as powerful criminal networks, has played a decisive role in the transformation of violence. In the meantime, Salvadoran security sector institutions were not strong enough to prevent the gangs from escalating their activities (see Box 2.3). Common crime, and the emergence of drug trafficking, have also been key determinants of El Salvador's high levels of violence.

Box 2.3. Street gangs and their role in the persistent violence in El Salvador

El Salvador's gangs have their origins in impoverished immigrant neighbourhoods in Los Angeles. Large communities of Central Americans who had fled the violence and harsh economic conditions of their home countries settled in these areas. Gangs of young Central Americans gained strength there, and adopted the United States model of street gangs, which is characterised by strict memberships, loyalty tests, disputes for territory, and extortions targeting businesses and people.

Mass deportations from the United States led to the appearance of gangs in Central America. Between 1993 and 2015, the United States deported nearly 95 000 Salvadorans, which is equivalent to almost 1.5% of the population in El Salvador (United States Department of Homeland Security, 2015[143]). Many of the deported Salvadorans were former convicts and gang members. This massive migratory inflow led to gangs appearing in Central America (OHCHR, 2018[134]) along with the *modus operandi* that they had developed abroad. The intensification of gang violence in some areas of El Salvador was proved to be driven by the influx of convicts from regions with high levels of crime in the US (Ambrosius, 2018[144]; Kalsi, 2018[145]). Currently, the two most prominent gangs, or *maras*, as they are commonly known, are Mara Salvatrucha (MS-13) and Calle Dieciocho (18th Street).

Deported Salvadorans found few opportunities to thrive in their home country, and an environment that has been conducive to consolidating criminal networks. The emergence of street gangs must be understood within a broader political and economic context. Broadly speaking, the emergence and strengthening of gangs are associated with social contradictions and problems, as well as with power gaps at the local level (Stephenson, 2011[146]). On the one hand, the lack of adequate education and employment opportunities for youths contributed to the formation of gangs. In the past ten years, the rate of young people who do not study or work (NEET) has remained high, affecting more than a quarter of the young population. El Salvador's NEET rate is one of the highest in LAC and exceeds the regional average (OECD/CAF/ECLAC, 2016[147]; OECD, 2017[148]). On the other hand, deficiencies in the security sector, and incomplete reforms after the civil war, were critical factors that favoured the rapid expansion of gangs (Borgh, 2019[149]). The weakened state capacities in the post-conflict period also contributed to creating dynamics between agents of the state and criminal organisations that perpetuated violence (Richani, 2010[142]).

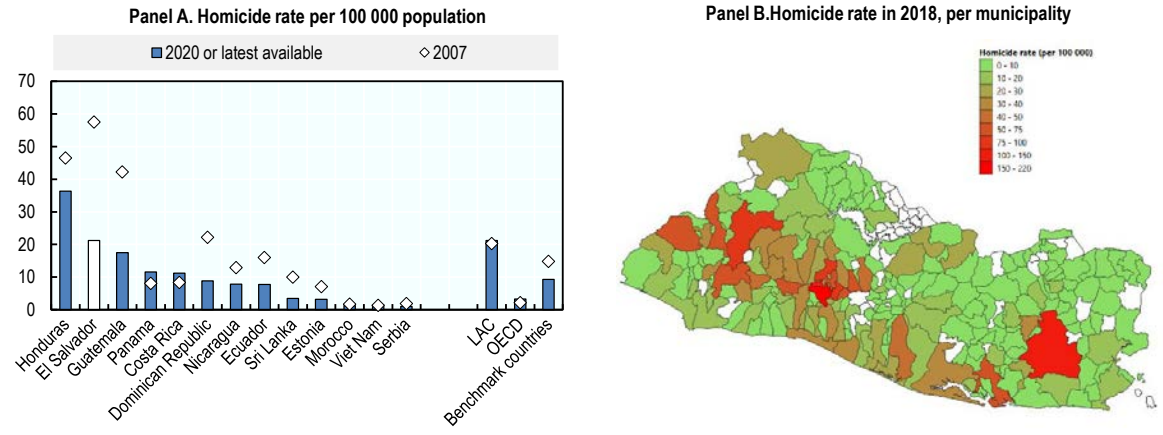
The gangs managed to consolidate powerful criminal networks that operate across borders, and inside El Salvador's prisons. Over time, the *maras* gained strength by extorting residents and local businesses in specific areas of San Salvador and other large cities. However, the gang phenomenon also spread in several rural areas of the country. Recent estimates suggest that there are about 60 000 gang members, of which 10 000 were in prison by 2019 (Borgh, 2019[149]). Currently, gangs have a presence

in several countries in Central America, and they carry out increasingly sophisticated criminal actions (Sullivan, 2006[150]). Although the gangs do not make political demands, they play an increasingly decisive role in Salvadoran politics. Security policy, and the attitude of governments towards gangs, have been strongly influenced by punitive populism, which favours purely repressive approaches to pursue electoral advantages (Martinez Barahona and Linares Lejarraga, 2011[151]).

A temporary truce between the government and the gangs showed a large share of homicides in El Salvador to be associated with the operation of the street gangs. In March 2012, the government managed to negotiate the conditions for a truce between the *maras* and the state, which led to a significant reduction in the homicide rate. Homicides fell from 70.6 per 100 000 inhabitants in 2011 to 40.2 in 2013 (UNODC, 2019[152]). Although the homicide rate fell, various sectors strongly criticised the truce by questioning its effectiveness, and by claiming that it would allow gangs to strengthen themselves. As a result of intense social and political pressure, the truce ended in 2014, giving rise to new waves of repressive policies by the government (Borgh, 2019[149]). After the end of the truce, the homicide rate increased again to 62.4 per 100 000 inhabitants in 2014, hitting a soaring peak in 2015 when it reached 105.4 homicides per 100 000 inhabitants (UNODC, 2019[152]).

Although the control of violence has been a central policy issue since the civil war, El Salvador has failed to move towards sound peace building. Since 2003, security policies have been among the central themes of election campaigns in El Salvador (Aguilar, 2019[135]). However, high violence rates have been one of the most significant obstacles to the country's development. In a 2018 survey, more than half of Salvadorans (55.4%) considered that crime and delinquency were the most severe problems in the country, followed by unemployment (11.6%), inequality (6.4%), and gangs (6.3%) (MJSP, 2018[153]). Between 2016 and 2018, El Salvador ranked in consecutive years as having the highest homicide rate in the world (UNODC, 2019[152]). The homicide rate has maintained a declining trend since 2016, reaching a rate of 51 per 100 000 people in 2018. Despite this progress, the homicide rate was still relatively high by 2018 compared to the rates of ten years ago (57.5 [2007] versus 61.7 [2017] homicides per 100 000 people), or to rates in the benchmark countries (see Figure 2.43 Panel A). Although violence concentrates around El Salvador's main urban hubs (i.e. San Salvador, San Miguel, and Santa Ana), some rural areas are also vulnerable to high rates of violence (Figure 2.43 Panel B).

Figure 2.43. High levels of violence in El Salvador have different roots, and concentrate in specific areas



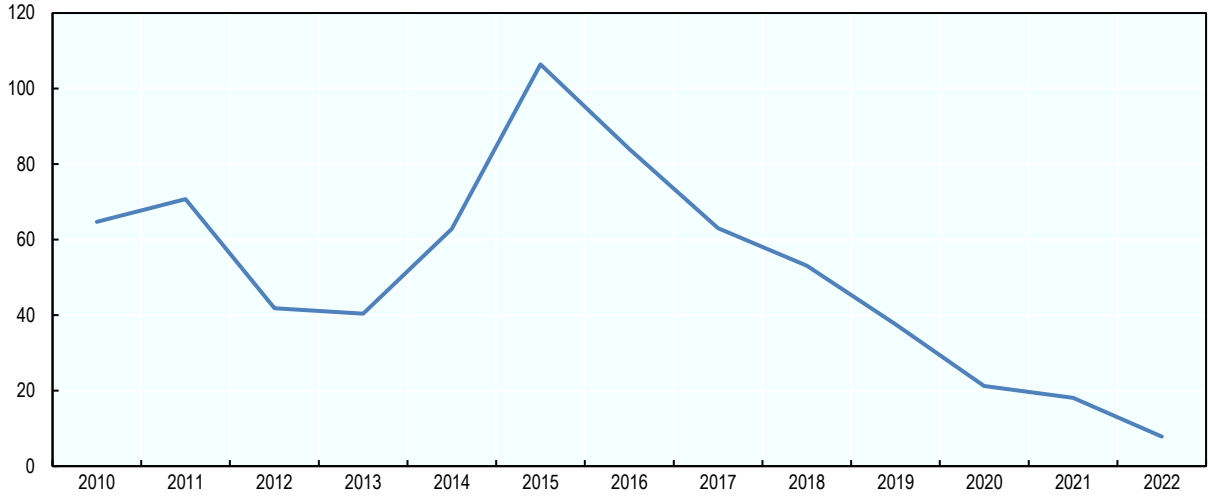
Notes: Viet Nam data is 2011 instead of 2020, data for Nicaragua and Sri Lanka are for 2019 instead of 2020, Sri Lanka 2008 instead of 2007,
Source: Panel A: Calculations based on (MJSP, 2022[154]) for El Salvador, (UNODC, 2023[155]) for other countries. Panel B (MJSP, 2019[156]).

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Violence has decreased dramatically in the past few years, which could herald an important change for the country. Although internationally comparable data are not available, homicide rates in El Salvador fell in 2020 and 2021 to historically low levels (18.1 per 100 000 inhabitants in 2021), which are comparable with the Latin American average (21.20 in 2020) (UNODC, 2023[155]). These rates are even lower than in the 2012-13 period, when a truce was reached between the main gangs. In March 2022 a spike in homicides led to a strong reaction from the Salvadoran government, which declared a state of emergency and, by early 2023, had made more than 62 000 arrests (PNC, 2023[157]). Homicide rates for 2022 were even lower, reaching 7.8 per 100 000 population, putting the country on the bottom 20% in Latin America by this metric. The fall in the homicide rate has been accompanied by the reduction in other crimes, like extortion (reports of extortion fell by 22% when comparing the period June 2020 to May 2021 with the previous year). However, no recent victimisation data are available that would allow an assessment of the significance of the reduction in other crimes over the past two years.

Figure 2.44. The homicide rate has fallen to historically low levels in the past few years

Homicides per 100 000 population, El Salvador



Source: (MJSP, 2022[154]), Actas homologadas de homicidios y feminicidios, Presidencia de la República (2023), "El Salvador registra el promedio de homicidios más bajo de Centroamérica", press reléase, https://www.presidencia.gob.sv/el-salvador-registra-el-promedio-de-homicidios-mas-bajo-de-centroamerica/, Annual reports of the Ministry of Security, Population estimates from DIGESTYC (2021[158]).

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Security policy, and efforts to reduce violence, have sought to go beyond repression, but they have failed to incorporate sufficient actions on prevention and re-integration. Although leaders have proposed a comprehensive and more humane approach to violence, measures have in practice continued to be repressive (Wolf, 2017[159]). Preventive actions have been marginal over recent decades, and governments have systematically prioritised effective short-term strategies with a recurrent urgency and emergency nature in their formulation. The participation of the army in the fight against crime and gangs has been another common characteristic in the strategies that different governments have pursued. The incidental and short-term nature of security policies are related to the lack of a long-term state security policy (which is defined only by the government). Some of the consequences that this approach has brought are the overflow of judicial capacity (Aguilar, 2019[135]), as well as human rights violations on account of abuses of the use of force (Human Rights Watch, 2019[138]). Recently, the security policy of the administration of President Bukele (namely the Territorial Control Plan) introduced a territorial approach both for targeting its actions, and for co-ordinating at the local level. By introducing a territorial approach, the administration

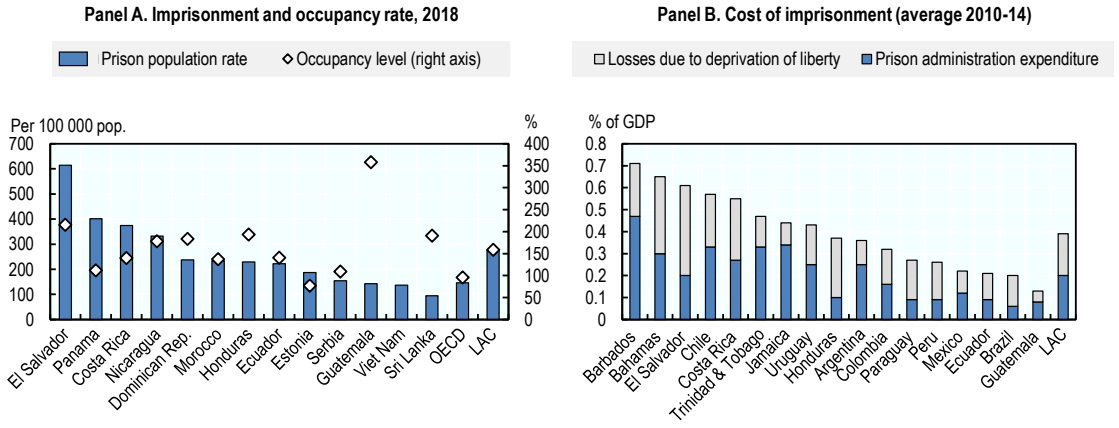
expects to respond better to the needs of each area, and to achieve more results than past strategies, which have been applied in a uniform manner across the country, and have been co-ordinated centrally.

The cost of violence

Violence imposes high additional costs on the functioning of Salvadoran society. First, violence generates additional costs for governments through the operational costs of the judicial system, the police, the army, and the administration of prisons. Second, there are additional costs for the private sector, which are paid mainly by households and businesses, and which relate to the acquisition of private security to protect them against crime. In El Salvador, costs of this kind incurred by the private sector are estimated to range between 1.6% and 2.7% of GDP[20] (Jaitman and Torre, 2017[160]). Third, the social costs of crime include costs suffered by victims (i.e. the loss of the quality of life due to violence), and the non-generation of income by the prison population. Losses due to the incarceration of a significant proportion of Salvadorans of productive age are estimated to be around 0.41% of GDP (see Figure 2.45 Panel A).

High incarceration rates lead to substantial costs, both socially and in terms of public expenditure. Even before the arrests that were made in 2022 in the context of a state of exception, El Salvador already had the world's second-highest population rate in prison, with 615 inmates per 100 000 people. Attempts to combat gangs through a predominantly repressive approach have led to high levels of imprisonment of young gang members. Salvadoran prisons were occupied at 215% of their official capacity in 2018 according to the Institute for Criminal Policy Research (2019[161]) (see Figure 2.45 Panel A). Public spending on prison administration in El Salvador was approximately 0.2% of GDP on average between 2010 and 2014 (see Figure 2.45 Panel B) and (Jaitman and Torre, 2017[160]). Moreover, people who have been deprived of their liberty constitute one of the groups that are most susceptible to human rights violations (PDDH, 2018[133]).

Figure 2.45. High incarceration rates generate high social and economic costs



Note Panel B: Average for 2010-14 as a percentage of GDP.
Source: Panel A: Institute for Criminal Policy Research (2019[161]), *World Prison Brief database*, https://www.prisonstudies.org/world-prison-brief-data. Panel B: Estimations made by Jaitman and Torre (2017[160]), "Estimación de los costos directos del crimen y de la violencia", in Jaitman, L. (ed.), *Los costos del crimen y de la violencia. Nueva evidencia y hallazgos en América Latina y el Caribe*, based on the Annual Statistical Reports of the General Directorate of Criminal Centres.

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Obsolete legal frameworks in certain key areas, and cumbersome mechanisms, limit the efficiency of the Salvadoran state

El Salvador's political leaders have faced tough structural problems that make policy making exceptionally challenging. In El Salvador, the government collects around a fifth of GDP in tax revenues (21.9% in 2020), at par with the LAC average in this regard (21.9%) (OECD et al., 2022[89]). In terms of general government expenditure as a percentage of GDP, in 2019 El Salvador (27.2%) ranked below the averages for LAC (31.1%) and the OECD (42.45%) (IMF, 2022[104]). Institutional capacities aside, El Salvador's leadership has faced extremely adverse structural trends and challenging political and social conditions that limit the capacity and effectiveness of its governance. Among other factors, high rates of violence, internal displacement, massive migratory flows, the aftermath of a civil war, and some adverse natural conditions have amplified the challenges that political leaders have faced.

Political polarisation and constant electoral confrontation have hindered El Salvador's capacity and effectiveness in making policy and law. The country has a presidential system of executive power, with a term limit of five years. In the legislative branch, it has a unicameral legislature, whose 84 seats come up for election every three years. Municipal elections take place simultaneously with the legislative elections. From 2009 to 2019, the left-leaning FMLN obtained the control of the executive branch but did not have a majority in the legislature. During this period, the FMLN resorted to seeking the support of other parties, since right-leaning parties kept a combined majority of seats in the Legislative Assembly.[21] As a result, political gridlock was recurrent in the past decade, and has considerably hindered policy making on the part of the executive, and the capacity of the legislature to make law. The lack of more harmonised electoral periods between the executive, the legislature and the municipalities have contributed to this blockage, plunging the country into constant pre-electoral and electoral seasons that discourage policy makers from undertaking crucial reforms with high political costs, such as raising the pension age. The presidency of Salvador Sánchez vetoed a total of 18 legislative decrees,[22] and during the first part of the mandate of Nayib Bukele, prior to legislative elections, 66 legislative decrees had been vetoed by the presidency by July 2021 (Presidencia de la República, 2021[162]; 2019[163]).

El Salvador lacks effective legislation on the management of human resources in the public sector

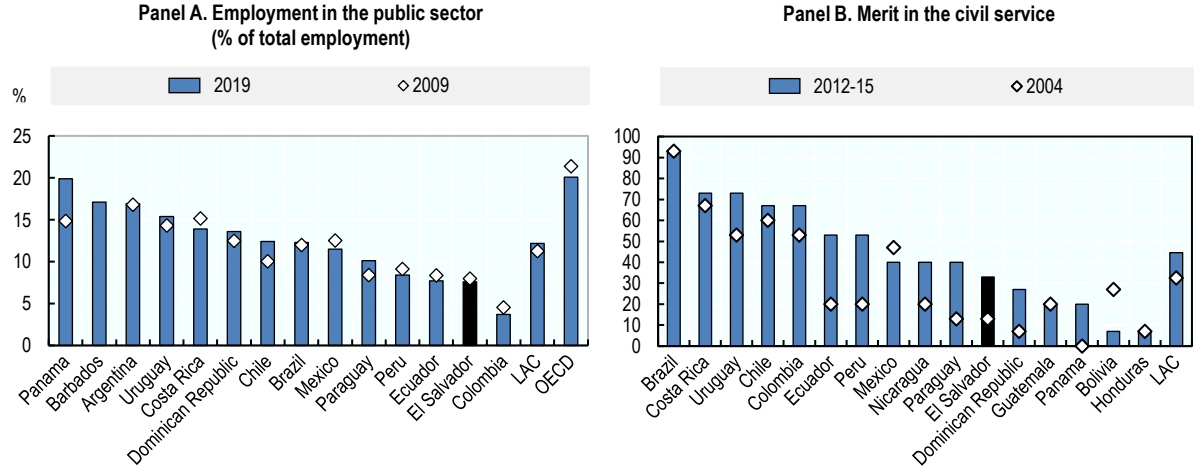
Past governments of El Salvador have implemented programmes to improve practices of human resources management, but their scope has been very limited. The previous administration undertook some efforts to improve systems of human resources management through the Sistema Technical and Planning Secretariat (SETEPLAN). However, the regulations that were implemented were not to be enforced in all public institutions, nor were they mandatory. As part of changes to the administration of the executive branch in 2019, SETEPLAN was eliminated, thwarting continuity of implementation with regard to these efforts (Morales Carbonell, 2019[164]). Still, El Salvador has made some progress in its score in the HR Planning Index,[23] improving from 7/100 to 40/100 between 2004 and 2012, but it remains under the LAC average. The public sector still has to ensure real strategic thinking in human resources planning by focusing on forecasting the right mix of employee skills that will be needed to respond to citizens' demands (OECD/IDB, 2016[165]). In 2018, employment in El Salvador's public sector represented around 6% of total employment in the country,[24] which is lower than the averages for the OECD and LAC (see Figure 2.46 Panel A).

Discretionary decisions and political patronage continue to influence the selection of public servants in El Salvador. During the past decade, El Salvador has shown progress in some indexes that measure aspects of human resources management such as guarantees of professionalism in the civil service system and the role of merit (see Figure 2.46 Panel B). Such improvements were driven by some concrete actions, such as building a co-ordination unit, standardising job descriptions, gradually implementing hiring competitions, designing a new pay scale, and strengthening leadership (Iacoviello and Strazza, 2014[166]). However, some of these initiatives did not continue after the last change of administration. Currently, the

Salvadoran civil service operates under outdated legislation that falls short of guaranteeing adequacy and neutrality in the selection of personnel. The country's Civil Service Law (the *Ley de Servicio Civil*) is the general regulatory framework that regulates the administrative career in El Salvador. The Civil Service Law that is in force does not cover the entire set of public servants across all state institutions. It also lacks mechanisms for evaluating performance and is not mandatory. In practice, few hiring processes in the public administration follow a transparent process of public tender and operate according to pure merit.

There has not been enough political will to undertake a structural reform of El Salvador's civil service. Currently, a draft public service bill has been under discussion. The initiative for a new law of this kind came from civil society,[25] and it provides a good basis for discussion and for gaining relevance in the future political agenda. Still, the current draft has substantial room for improvement. Advancing this agenda will require a true political commitment leading to the approval of a new legal framework. This has to create the right incentives to trigger a cultural change within the public administration (Equipo Impulsor de la Reforma a la Función Pública, 2018[167]).

Figure 2.46. The efficiency and effectiveness of governance are significantly influenced by the capacity and quality of the state's human resources



Note: Panel A: Figures of public sector employment are based on household surveys and they do not necessarily coincide with administrative data from the Social Security Institute. Panel B: The civil service merit index measures guarantees of professionalism in the way that the civil service system operates. Specifically, it measures the degree of effective protection against arbitrariness, political capture or clientelism, and the different ways that interested groups or sectors engage in rent-seeking.
Source: Panel A: (ILO, 2019[32]), *ILOSTAT (database)*, http://www.ilostat.ilo.org. Panel B: (IDB, 2014[168]), *Índice de desarrollo del servicio civil*.

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El Salvador has implemented initiatives to improve integrity, prevent and combat corruption, and increase transparency, but these efforts lack co-ordination

El Salvador has several institutions that promote integrity and prevent and combat corruption. Integrity is essential for building strong institutions, and it assures citizens that the government is working in their interest, not just for the select few. In El Salvador, a government ethics tribunal, the Tribunal de Ética Gubernamental (TEG), is responsible for regulating and promoting ethical conduct in the public sector, as well as preventing, detecting and punishing corrupt practices. However, the TEG has not had sufficient independence to fulfil its role of ensuring public ethics, and consequently its operation has been quite ineffective, with few referred cases resulting in penalties (Consorcio por la Transparencia y Lucha contra la Corrupción, 2016[169]). The supreme audit institution, the Corte de Cuentas de la República (CCR) is responsible for ensuring the proper use of public funds. Its operation and effectiveness, like that of the

TEG, has been quite limited in practice. A lack of independence from political power has significantly hindered its effectiveness. In 2019, the government subscribed to a co-operation agreement with the Organization of American States (OAS) to create the International Commission against Impunity in El Salvador (CICIES). The purpose of CICIES was to prevent, investigate and punish acts of corruption and other related crimes[26] (OAS/Republic of El Salvador, 2019[170]). However, the CICIES was short-lived, as its framework agreement was repealed less than two years after it began its work.

El Salvador has made significant progress over the past decade on improving the state's mechanisms for transparency and access to information. Strengthening open government initiatives is an essential part of rebuilding the weakened social contract. A special institute for access to public information, the Instituto de Acceso a la Información Pública (IAIP), started its operations in 2013 to ensure compliance with a new Law on Access to Public Information (Decree 534/2010). Currently, there is a growing number of people exercising the right of access to public information, with significant levels of women and young people participating by petitioning information. El Salvador's open government portal,[27] the Portal de Transparencia, is a useful technological platform that contributes to the exercise of the right of access to information. However, it is fed mostly with information from the institutions of the executive branch, as well as others that have voluntarily adhered. In terms of operating efficiency, the IAIP has shown some difficulties in guaranteeing a timely response to citizens (FUNDE, 2018[171]). Other initiatives include El Salvador's incorporation of Transparency International's integrity pacts into an action plan for an open government partnership (OGP) in 2012. This plan has served as a foundation for increased collaboration between government, civil society, and the private sector in this regard (Gainer, 2015[172]). However, given the lack of implementation of the fifth OGP plan for 2018-20, the country is, since March 2022, an inactive member of the OGP.

El Salvador lacks a national strategy for integrity, transparency and the fight against corruption, which would be essential to co-ordinate actions in this regard, and to ensure their effectiveness. The scope of the different initiatives on integrity, transparency, and the prevention and fight against corruption has been limited due to the lack of co-ordination at the national level. Many of the institutions have very similar and/or complementary powers, which in some cases overlap and enable duplicated penalties for the same actions. Nevertheless, in other cases there are power gaps. Current legislation has not created any mechanism or body to co-ordinate the institutions that are involved in the fight against corruption (FUSADES, 2017[173]). The United Nations Convention Against Corruption recommends a comprehensive, multi-disciplinary and co-ordinated approach to prevent and combat corruption effectively, given the complexity of the problem (UNODC, 2004[174]).

Despite efforts to achieve improvements in this regard, high-level corruption scandals have continued to affect the government's legitimacy. Recent investigations have provided evidence of the misuse of public resources in recent administrations through the reserved expenses of the Presidency. Reports on these cases indicate that the Court of Accounts carried out vitiated and negligent examinations into such expenses. This has resulted in formal investigations of former presidents of El Salvador (López, Rodríguez Trejo and Estada, 2018[175]). The lack of transparency in the funding sources of political parties has also shown itself to be a key enabler of the misuse of public resources. Despite numerous strategies in recent years to improve the situation, 77% of Salvadorans perceived corruption as widespread in the government in 2018 (Gallup, 2020[130]), although that number fell to 51% in 2019, and to 39% in 2020. Also in 2020, however, El Salvador ranked 104th out of 180 countries assessed according to their perceived levels of public sector-corruption according to experts and businesspeople, with the evaluation of the country's performance remaining stagnant since 2012 (Transparency International, 2020[176]).

The Salvadoran State faces great challenges in modernising and streamlining the administrative processes

El Salvador has implemented several e-government initiatives, which despite making some progress, have failed to modernise the obsolete foundations of the state. Electronic government is a means of bringing citizens closer to the state, of improving the efficiency of the government's operations, and of creating a competitive environment in which citizens and businesses can manage their relationship with the public sector in the most convenient way (OECD, 2016[177]). Furthermore, a more digitalised government can boost the quality of public services and tailor their provision. Past Salvadoran governments have advanced numerous digitalisation initiatives[28] over the past two decades, and these have achieved some important results. The current government has prioritised technology and innovation, and made progress on several e-government initiatives, including the implementation of the e-signature and e-invoicing. In spite of past efforts, however, El Salvador ranks 117th out of 193 countries in the development of e-government (UN, 2022[178]). Regarding the modernisation and streamlining of mechanisms and processes, the Legislative Assembly approved a law on administrative procedures in 2018 (Decree 856), which promotes the streamlining of the procedures of public institutions. A key obstacle to modernisation ambitions is that the Salvadoran government still lacks an operational data centre.

Digitalisation policies have lacked a long-term strategy and strong political leadership to promote a stable agenda for the country. Although governments have implemented plenty of initiatives over the past two decades, each of them has started from zero, creating its own agenda for a five-year period. In El Salvador, there has been no long-term digitalisation strategy. Furthermore, the lack of leadership to co-ordinate efforts has enabled the coexistence of several public institutions working on different projects with very similar purposes[29]. El Salvador's e-government strategy in the past has lacked a long-term national digitalisation framework, with a legislative roadmap, connectivity platforms, training for public employees, and a sufficient budget. A long-term national strategy has to be preceded by a process of dialogue that includes all relevant actors, and in which the participation of the private sector is particularly crucial (FUSADES, 2019[179]). The recently created Secretariat of Technology and Innovation of the Presidency opens an opportunity to effectively co-ordinate diverse efforts from across government, and to design a roadmap for the digitalisation of the country. The current administration is implementing a National Digital Agenda 2020-30, with a strong focus on the digitalisation of administrative processes.

El Salvador has taken important steps in consolidating a better regulatory policy. In 2015, the country's agency for regulatory improvement, the Organismo de Mejora Regulatoria (OMR) was set up to be in charge of developing a system of regulatory improvement for the executive branch. It was created with the objective of helping to improve the country's investment climate. The OMR has implemented a first package of recommendations for regulatory improvement in terms of business opening and construction permits, and has also initiated a project for the simplification and registration of executive procedures. Since 2018, the OECD has provided technical support and advice to the OMR. At the beginning of 2019, the Regulatory Improvement Law (Decree 202/2019) was approved. It creates three tools for regulatory improvement: the regulatory agenda, the evaluation of regulatory impact, and the national registration of procedures. In particular, the Regulatory Impact Assessment (RIA)[30] is a key policy tool that provides detailed information on the possible effects of regulatory measures on the economy, the environment, and social agreements. However, although the objective of the OMR is to contribute to the improvement of the investment climate, bureaucracy continues to be one of the biggest obstacles to doing business and to formalisation.

El Salvador's policy making needs to become more internally coherent and respond better to the particular needs of citizens across the country

The lack of policy co-ordination leads to the duplication of social programmes and policies, and to an inefficient use of resources. In El Salvador, the misuse of resources, and the multiplication of policies due

to a lack of co-ordination mechanisms, are significant obstacles to effective and efficient governance. Currently, the main mechanism[31] for horizontal co-ordination is the council of ministers, which meets under the leadership of the president, and decides on policy matters (Bertelsmann Stiftung, 2018[127]). This is completed by thematic high-level co-ordination teams. Strategic and effective policy co-ordination is one of the essential functions of the Centre of Government – the group of bodies that provide direct support to the president and the council of ministers. This kind of co-ordination is critical to ensure whole-of-government responses to cross-cutting issues, and to minimise unintended duplications or contradictions in government policy (OECD, 2016[177]). Likewise, it is important to come up with vertical co-ordination mechanisms between the central and municipal administrations.

The design and implementation of a national development strategy is an opportunity to specify El Salvador's policy priorities, and to enhance strategic co-ordination. The country does not have a strong planning tradition. A national planning system was established during the two preceding administrations as of 2009, but the key planning document was in effect a strategic government document covering the duration of each individual administration. The planning system was abandoned with the reshaping of the Presidency in 2019, with policy co-ordination attributed to secretariats within the Presidency. Development planning has experienced a significant evolution in the developing world in recent years. National development strategies have been adopted in as many as 18 countries in Latin America, in some cases with long-term horizons (Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Paraguay, Peru). Although they differ in form and scope, they provide a platform for co-ordinating policy responses to cross-cutting policy issues. They are also a key tool to engage with the Sustainable Development Goals, and to facilitate co-ordination between government and international co-operation (OECD et al., 2019[122]).

Excessively centralised planning and policy making have hindered the delivery of adequate responses to the particular needs of each region of El Salvador. Currently, most planning and policy design occurs at the central level of government. In El Salvador, differentiated policy responses are rarely designed and implemented according to the particularities of each territory. A differentiated approach is essential in order to alleviate different needs effectively, and to enhance the opportunities that each territory offers in a strategic manner. El Salvador does have in its toolkit a comprehensive public policies territorialisation guide (SETEPLAN, n.d.[180]) that can set the foundations to outline future territorialisation strategies. Furthermore, the recently created Ministry of Local Development (MDL) aims to ensure progress towards the territorialisation of public policies in the country, and to make the state more responsive to the local needs of the regions. The MDL is the only ministry that has a presence and personnel in every department of El Salvador's administration, which opens up new opportunities for this purpose.

El Salvador has defined a comprehensive territorial planning strategy, but it now needs to implement it. In 2004, the Ministry of Housing and the Ministry of Environment and Natural Resources prepared a comprehensive national land management and development plan (MV/MMARN, 2004[181]). However, subsequent governments have not used the existing plan for decision making. This plan is a key tool to advancing the territorialisation agenda of public policies. The Ministry of Local Development is now trying to strengthen El Salvador's territorial planning, resuming work based on the existing plan and promoting its effective implementation.

The statistical system of El Salvador has improved, but it faces institutional and capacity challenges

El Salvador's production of statistics has improved substantially. The quality and accessibility of reliable and timely statistics is a key prerequisite for evidence-based policy making. El Salvador's national statistics office until 2022 was the Dirección General de Estadísticas y Censos (DIGESTYC). This office, which was officially the responsibility of the country's Minister of the Economy was dissolved and its functions taken on by the Central Reserve Bank's Oficina Nacional de Estadística y Censos as of August 2022. With a rating of 82.22 out of 100, the World Bank assessed El Salvador's statistical capacity to be above the Latin

American average, and even above that of most comparator countries (World Bank, 2022[182]). The country's score for statistical capacity has fallen since 2018, due to delays between key source-data exercises, in particular the census, last implemented in 2007. Improvements in statistical capacity are grounded in a national strategy for the development of statistics, the Estrategia Nacional de Desarrollo Estadístico, (ENDE), which delineated statistical processes in the country. However, the ENDE, which was typically updated every presidential term, lapsed in 2015. El Salvador is one of the few countries in the region whose national statistics office uses a data dissemination policy to promote the use of official statistics.

Data provision in El Salvador is comprehensive in economic statistics, but social and environmental statistics need improvement. The reporting system for national accounts is adequate. El Salvador's central bank has followed the System of National Accounts 2008 (EU et al., 2009[183]) since 2018, when the last update and publication were completed. Price statistics and the consumer price index (CPI) are reported on a monthly basis, with CPI weights based on the 2005-06 Household Income and Expenditure Survey (IMF, 2022[184]) The coverage and periodicity of government finance statistics is adequate. However, one area of improvement is the omission of local government debt in the definition of public debt, as reported by the Ministry of Finance. The coverage of statistics on the financial sector is adequate, while detailed data on household and corporate balance sheets, or real estate, are not currently available. External sector statistics are reported regularly, the availability of detailed information on international trade and remittances has improved considerably, and the country recently completed the requirements for participating in the IMF's Co-ordinated Portfolio Investment Survey.[32] Further work is needed on improving the coverage of non-financial external transactions by the private sector, especially in the service account of the current account, as well as coverage of direct investment abroad. Since 1998, El Salvador has subscribed to the IMF's Special Data Dissemination Standard.

While the quality of El Salvador's economic statistics is comparable to other countries in the region, other statistical operations are less developed. There is a significant gap regarding censuses, since no population or agriculture census has been conducted over the past ten years.[33] Given the patterns of migration in El Salvador, the 2007 National Census resulted in significant revisions to key economic indicators. Long delays between census rounds can, therefore, have important consequences, for example in the attribution of parliamentary seats to districts, or in the design of targeting methods for social policy. Poverty is estimated on the basis of annual surveys, and a Multiple Indicator Cluster Survey (MICS) was completed in 2014. The last health and labour surveys were conducted in 2021 and 2022 respectively. The construction of longer statistical series in these areas, extending back before the turn of the millennium, has proven to be difficult when it comes to social and demographic statistics. Moreover, there is scope to include the environmental dimension in future statistical operations.

There are increasing demands in El Salvador to develop new indicators, in particular to build sub-national and municipal statistics for targeted policies and relevant labour market indicators, and for monitoring the SDGs. Incorporating data production for the SDG agenda will constitute a major statistical challenge over the next decade, as well as an opportunity. El Salvador is already making efforts to assess existing national priorities and SDG reporting. The national information and statistics system, the Sistema Nacional de Información y Estadísticas (SNIE), through the national statistical system and the spatial data system, the Sistema Nacional de Datos Espaciales (SINADE), will provide statistical and geo-spatial information to measure progress towards the SDGs (Government of El Salvador, 2017[185]).

El Salvador's statistics office, DIGESTYC, has recently been transferred to the central bank, a move that may not resolve long-standing issues related to the institutional framework. The legislative assembly approved the dissolution of DIGESTYC and the transfer of all its operations, obligations and assets to the central bank, the BCR (Asamblea Legislativa, 2022[186]). The BCR is due also to assume co-ordination functions with respect to the production of economic statistics. The dissolution law repealed the outdated Statistical Act of 1955 (*Ley Orgánica del Servicio Estadístico Nacional*), creating a void in the legal framework for the governance of statistics in the country. A historical lack of political support has

undermined El Salvador's ability to strengthen its national statistics system. Under the responsibility of the economy ministry, DIGESTYC faced challenges with regard to its level of independence, a limited budget, constraints in terms of professional development, and insufficient co-ordination, and previous administrations failed adequately to address these (IDB, 2018[187]). The law providing for DIGESTYC's dissolution earmarks a fixed annual budget of USD 4 million for statistical operations. Subordination of the national statistics office to the central bank may not resolve independence issues, as it removes clear reporting lines to the executive. The legal framework therefore requires a new statistics law, as well as a reform of the Organic Law of the Central Bank in view of its added responsibilities.

Lack of staff capacity in the national statistics system impedes further progress. The national statistics office (NSO) has faced challenges in terms of staff capacity and capability management.[34] As of 2019, out of 290 staff members, only 40% had graduate qualifications (PARIS21, 2019[188]). There is no explicit policy for retaining staff, and as a result, staff turnover is high. The NSO has core staff specialised in established statistical areas (e.g. census, survey design, social and demographic statistics), but it lacks staff support on emerging key areas (e.g. environmental statistics, evaluation). While the NSO has staff trained in geographic information systems, no datasets are disseminated in this area. A small training centre provides limited support to other line ministries in statistical training. Staff capacity at the central bank is more adequate, with a team receiving technical support from the IMF, the World Bank, and other international agencies.

The co-ordination of the national statistical system, and the need for a user-oriented focus, still present challenges. As part of its mandate, the NSO works with other statistical agencies to develop, review, promote and develop statistical standards. Co-ordination between the NSO and line ministries differs by sector. National information systems have been established in the areas of agriculture, health, education, labour, gender and justice, allowing for closer collaboration with the NSO. In addition to making progress in co-ordination, El Salvador's national statistical system could further emphasise its relevance to end users. While users' requests are registered, there are currently no surveys to monitor user satisfaction. The NSO could also benefit from dialogues between users and producers in order to better understand emerging needs (PARIS21, 2019[188]). This is particularly important since data from the *Statistical Capacity Monitor*[35] of the Partnership in Statistics for Development in the 21st Century (PARIS21) show a high level of statistical literacy in the country.

Financial support to El Salvador for its work in the area of statistics is relatively small. According to the PARIS21's *Partner Report on Support to Statistics* in 2019 (PARIS21, 2019[189]), El Salvador received just USD 3 million for statistical development in 2015-17, ranking it fifth among the nine countries in Central America in terms of external statistical support. El Salvador also received the least support among all of the lower-middle-income countries in the region. Financial support to El Salvador for its statistical work became even more relevant with the upcoming 2020 census round. In December 2021, the Inter-American Development Bank approved a USD 44 million loan to support the modernisation of the statistics system in the country including carrying out census operations (IDB, 2022[190]).

Planet

The Planet pillar of the 2030 Agenda for Sustainable Development reflects the need to find the right balance between socio-economic progress and the capacity to sustain the planet's resources and ecosystems, and to combat climate change.

With a surface area of 21 041 square kilometres, El Salvador is the smallest country in Central America, and one of the most densely populated in Latin America. Due to its geography, El Salvador is also one of the countries in the world that is most affected by natural hazards. The country's high degree of vulnerability in this regard has contributed to numerous human and material losses, resulting in serious social, economic and environmental impacts (e.g. in social investments and sources of employment, etc.), and limiting

El Salvador's sustainable development. The average annual losses from disasters since 2001 represent almost 60% of the annual average for public investment during the same period (MARN, 2017[191]). In 2001, two earthquakes seriously affected El Salvador within just one month. It is estimated that around 1 259 people died, and the economic losses represented more than 12% of GDP (MARN, 2017[191]). Moreover, the economic cost of climate change is estimated at around 3.6% of GDP (DARA, 2012[192]). As the impact of climate change is expected to increase the severity of natural hazards, El Salvador urgently needs to put environmental concerns at the forefront of its development agenda, defining these issues adequately for the long term.

The Planet section identifies the three major environmental constraints that the country is facing in its development path. Firstly, El Salvador is highly vulnerable to natural hazards. Secondly, the institutional capacities that El Salvador has to fight efficiently against pollution are weak. The country is exposed to the continuous degradation of its natural forests, as well to the pollution of soil, air and water. Strengthening the environment ministry's incentivising and sanctioning capacities will be essential to the operationalisation of El Salvador's environmental legislation. Thirdly, the management of water resources hinders the country's development path. Scarcity and insecurity are the main threats, and the lack of regulation and political consensus in the water sector aggravate the situation. Overall, El Salvador needs to better connect its environmental objectives to its economic and social ones as it defines its development path. The following table summarises the main constraints for El Salvador that concern the Planet section (see Table 2.5).

Table 2.5. Planet: Three major constraints

	Planet
1	Vulnerability to natural hazards and increased exposure to extreme hydro-meteorological phenomena.
2	Weak institutional capacities to fight efficiently against pollution and the degradation of forests.
3	The management of water resources is the main brake to economic and social development.

El Salvador is highly vulnerable to natural hazards

El Salvador is one of the countries in the world that is most affected by natural hazards. Demographic pressure and the unplanned nature of territorial organisation in the country exacerbate the severity of these events. The structures that it has in place for disaster response and risk management do seem to be improving and strengthening at the national level. However, they remain weak at the local level. Moreover, El Salvador needs to operationalise the incorporation of elements of disaster and risk management into its strategies and plans.

The country is threatened by the severity of natural hazards

Located with Guatemala, Nicaragua and Honduras in the Central American Dry Corridor (corredor seco) that runs along the Pacific,[36] El Salvador has an erratic rainfall pattern, and is regularly subject to pronounced dry periods. In 2018, for example, San Miguel, La Unión and Cuscatlán went between 21 and 40 days without rainfall (MARN, 2019[193]). Rural communities are particularly affected. Due to irregular rainfall in 2015, 60% of the maize crop, for a total of 85 858 hectares, was destroyed (MAG, n.d.[194]). The impact of drought on the economy was estimated at USD 100 million in 2015, and around 192 000 people are considered to be moderately to severely at risk of food insecurity (FAO, 2016[195]). The impact of climate change is expected to increase El Salvador's potential losses in key food crops such as corn (a loss of around 18% in 2050), beans (around 24% in 2050), and rice (around 24% in 2050) (Barrios et al., 2019[7]).

El Salvador ranks among the top 20 countries in the world that are most affected by extreme weather events (Germanwatch, 2019[196]). According to the EU's Index for Risk Management (INFORM), El Salvador ranks as the 12th most at-risk country out of the 191 nations that feature in the classification (EC,

2020[197]). The country also has a history of destructive tropical storms and droughts (Table 2.6). By some estimates, the cost of natural hazards affecting El Salvador between 2000 and 2012 was equivalent to 22.9% of GDP (in terms of GDP for 2012) (Catalán and Cardona, 2013[41]) (IMF, 2013[198]). El Salvador is exposed to a large number of disasters, and it faces considerable economic losses each time that one strikes. This also undermines the resilience of the country's communities as they face multiple risks (MARN, 2017[191]). However, the progressively declining number of deaths caused by natural hazards reflects the country's gradual integration of better standards and practices in construction.

Table 2.6. Losses and damages caused by natural hazards in El Salvador

Selection of meteorological natural hazards that have affected El Salvador in the past decade

Losses and damages	Hurricane Mitch (1998)	Storm Ida (2009)	Tropical cyclone Tropical Depression Twelve-E (2011)
Number of deaths	475	275	35
Number of people directly affected	84 000	90 000	300 000
Economic losses and damages (USD million)	388.1	314.8	840.4
Economic losses (% of GDP)	2.30%	1.44%	4%

Source: ECLAC – CEPALSTAT (2017) Databases and Statistical Publications: https://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i.

El Salvador has established capacity at the national level for disaster prevention and response, and for early recovery. The country's legal framework regarding its system for disaster prevention, mitigation and response, the Sistema Nacional de Protección Civil, Prevención y Mitigación de Desastres (SNPCPMD), was established in 2005 with the *Ley de Protección Civil, Prevención y Mitigación de Desastres* (Asamblea Legislativa, 2005[199]). El Salvador made various improvements in the monitoring of natural hazards by consolidating its monitoring centre, the Centro de Monitoreo Integrado de Amenazas, which is directly linked to the SNPCPMD. This centre is in charge of analysing the information that is provided by more than 350 stations (98 in 2009), in close collaboration with a network of more than 600 local observers across the country (MARN, 2017[191]). This monitoring system allows the ministry to provide residents, farmers and key sectors with real-time and regularly updated information via the observatory's website, bulletin, text messages and social network, in order to reduce the risks associated with natural hazards. The civic protection authority, the Dirección general de protección civil, prevención y mitigación de desastres, co-ordinates disaster-relief efforts. Since 2001, in the wake of two major earthquakes, which had a high cost in terms of human life, it has tried to raise public awareness, and to make operational the emergency and evacuation plans that exist at the national level. However, many municipalities still lack adequate local emergency plans (especially those that are situated in rural areas), and do not have the corresponding financial resources. Only a few municipalities have elaborated viable disaster plans, even though it is a legal prerequisite. Only larger cities have planning capacities in place. Moreover, the last territorial development plan was elaborated in 2001 and it is outdated.

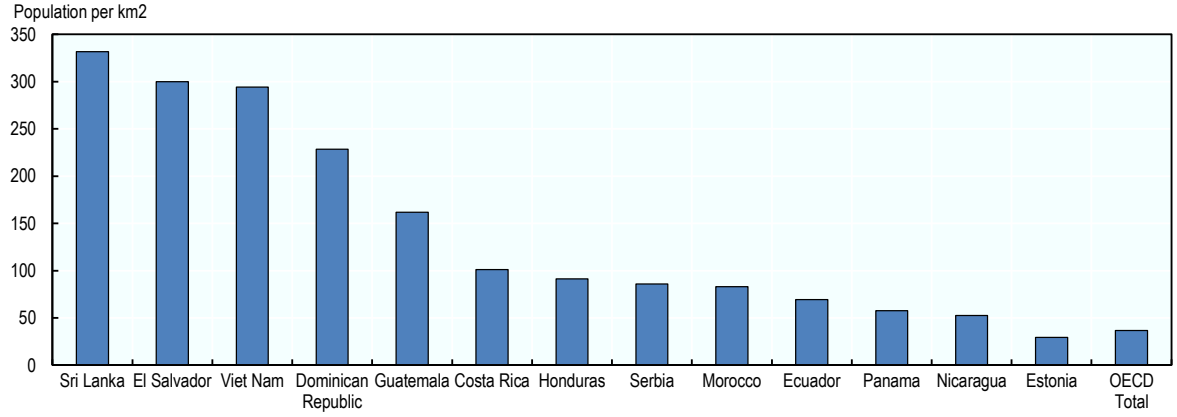
El Salvador needs to operationalise its disaster-risk management strategy, and adopt a financial strategy to manage climate-related risks. The country has reinforced its capacity to react by improving monitoring capacities, and by developing sectoral emergency plans. However, it needs to incorporate this information into an integrated strategy. Moreover, the country does not possess a financial strategy[37] to manage natural-hazard risks, and it consequently lacks the adequate tools to evaluate damages and losses, as well as the fiscal impact that natural hazards may exert, and other effects that these may have on its economy and planning (OECD/The World Bank, 2019[200]). Moreover, the Ministry of Finance has only a small fund of around USD 4 million to manage natural hazards.[38]

Demographic pressure and unplanned land use exacerbate the country's fragility with regard to natural hazards

Demographic pressure and unplanned land use exacerbate El Salvador's vulnerability to natural hazards. With 300 inhabitants per square kilometre, El Salvador is highly densified, and is one of the most densely populated countries both in Latin America as a whole, and also among the benchmark countries (Figure 2.47). The exposure of a country with a high population density to natural hazards contributes to a number of acute environmental challenges. Today, 4.6 million Salvadorans live in urban areas, with 1.79 million living in rural areas. In 1960, only a million Salvadorans were living in urban areas (Figure 2.48). The degree of urbanisation is below the Latin America average (79%), but the urban population has been growing at an annual rate of 1.4% (World Bank, 2015[1]). Almost half of the Salvadoran population is concentrated in three departments around the most populous cities: San Salvador, Santa Ana and San Miguel.

Figure 2.47. High population density of El Salvador

Population density in 2021 per km^2



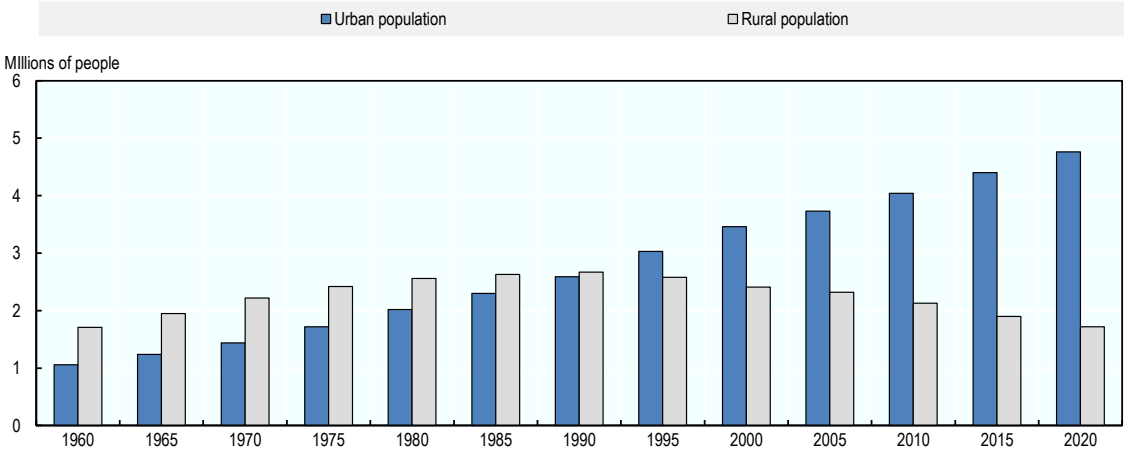
Source: (OECD, 2017[201]), *OECD Green Growth Indicators (database)*, https://www.oecd.org/greengrowth/green-growth-indicators/.

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Due to the lack of land use planning, the housing of Salvadorans is highly vulnerable, and is exposed to natural hazards. It is estimated that 84% of all constructions in urban areas in El Salvador are highly vulnerable to natural hazards (Barrios et al., 2019[7]). Moreover, 80% of the country's population lives in areas that are exposed to the risk of at least three different types of natural hazards (World Bank, 2015[202]). Municipalities do not have adequate instruments, and they possess outdated information regarding land management. The enforcement of the territorial law, the *Ley de Ordenamiento y Desarrollo Territorial de El Salvador,* and the operationalisation by the municipalities of the urban development plans known as the *Planes de Desarrollo Urbano* and *Esquemas de Desarrollo Urbano*, will be crucial for improving land planning and management (*see* Peace and Institutions section), and for reducing the economic losses and damage that occur due natural hazards. The enforcement of construction and building codes should be a priority to limit the proliferation of vulnerable constructions.

Figure 2.48. Rapid urbanisation in El Salvador

Evolution of the urban and rural populations in El Salvador (in millions of people)



Source: World Bank (2019[4]), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators and United Nations Population Division (2018[203]), *World Population Prospects*, https://population.un.org/wpp/.

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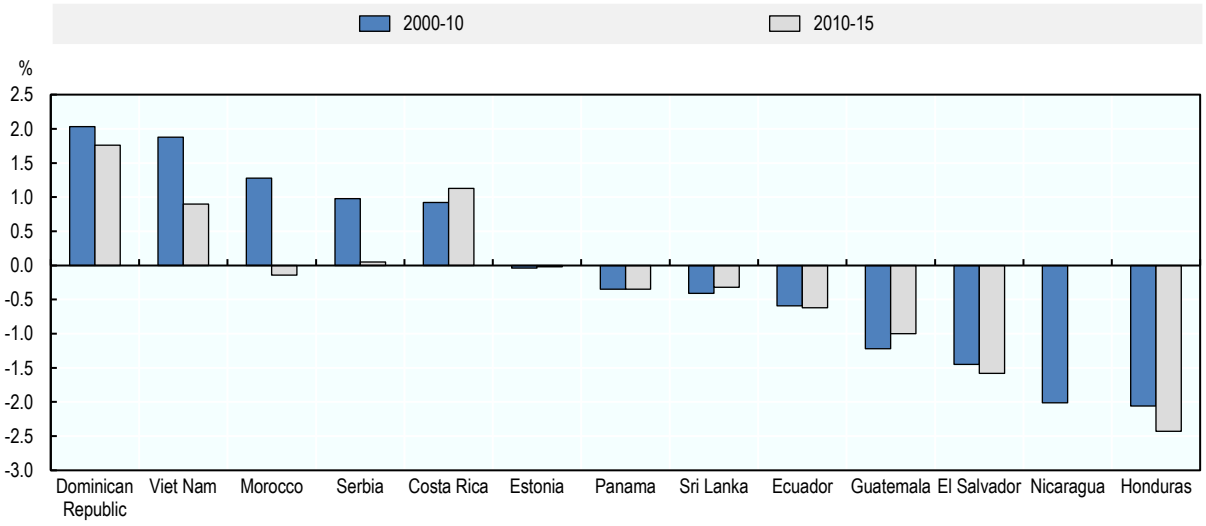
El Salvador possesses weak institutional capacities to fight efficiently against pollution and the degradation of forests

El Salvador is affected by the continuous degradation of its natural forests

El Salvador is one of the most deforested countries in Latin America. Almost 85% of the country's forest cover has disappeared since the 1960s (FAO, 2015[204]). The country's total forest cover is estimated by the Food and Agriculture Organisation of the United Nations (FAO) to be 14.2% of its total land area (FAO, 2015[204]). However, trees in agricultural production systems and agro-forestry systems in which crops are grown under tree cover (e.g. shade-grown coffee) are not included in the FAO's assessment (FAO, 2015[205]). That is why there is a difference between the FAO's data and the estimation provided by El Salvador's national forest inventory, which was established in 2018. Based on this inventory, the country's total forest cover represents around 37.05% of total land area (MARN, 2018[206]) On average, forest area in El Salvador declined by 1.45% per year between 2000 and 2010, and by 1.58% per year between 2010 and 2015. For the same period, this compared to 0.4% and 0.24% for South America, and 1.09% and 0.73% for Central America (Figure 2.49). Only about 2% of El Salvador's remaining forests (approximately 6 000 hectares) are classified as primary forests (FAO, 2015[204]). This percentage does not include around 39 000 hectares of mangrove (MARN, 2018[206]), which are classified separately.

Figure 2.49. Forest loss remains high in El Salvador compared to benchmark countries

Annual percentage change in forest areas in selected benchmark countries in 2000-10 and 2010-15



Note: "Forest" is defined as a land spanning more than 0.5 hectares with trees higher than 5 metres and a canopy cover of more than 10%, or trees able to reach these thresholds *in situ*. It does not include land that is predominantly under agricultural or urban land use. It excludes trees that stand in agricultural production systems, such as fruit tree plantations, palm oil plantations, olive orchards, and agroforestry systems in which crops are grown under tree cover in (FAO, 2015[205]). That is why shade-grown coffee cultivated in El Salvador is not included in the FAO's 2015 Global Forest Resource Assessment.
Source: (FAO, 2015[204]), *Global Forest Resource Assessment 2015*, www.fao.org/forest-resources-assessment/en/.

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El Salvador is exposed to a high degree of soil and air pollution

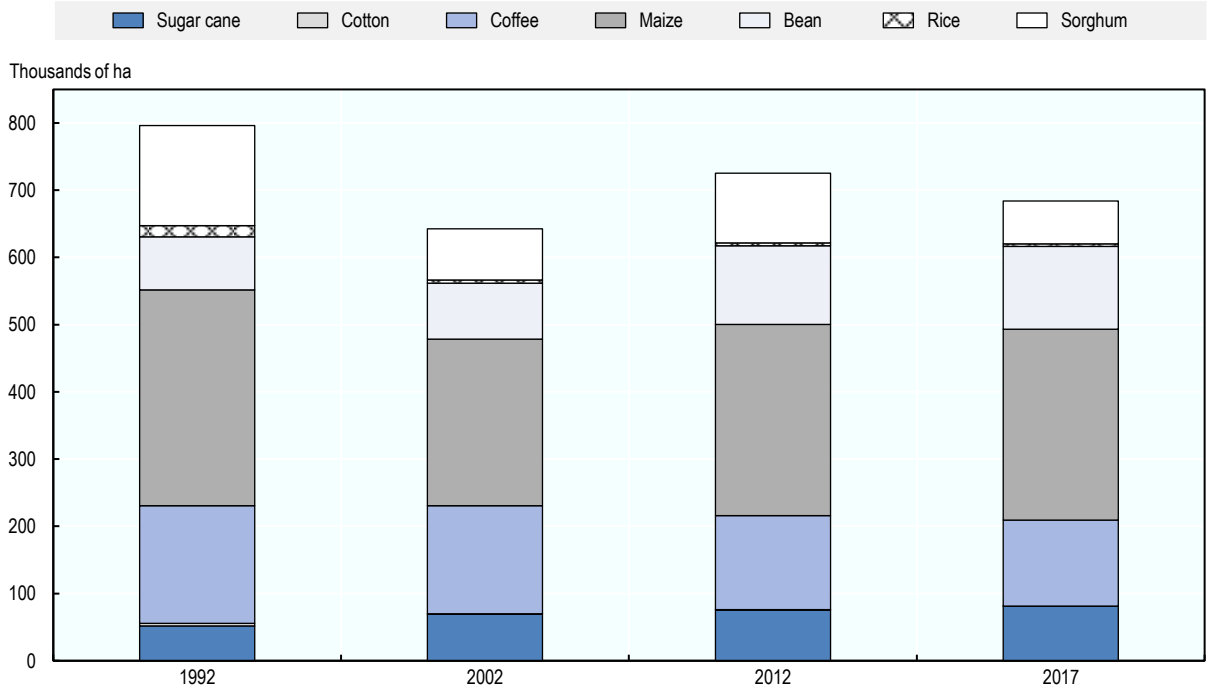
Land degradation remains a challenge in El Salvador, and current agricultural activities continue to accelerate the process. Soil erosion constitutes one of the main agro-environmental constraints that the country faces. More than a quarter of El Salvador's land is affected by degradation, and 16% of the country's population is concerned by this (World Bank, 2015[202]). The expansion of sugar cane comes at the expense of previously agro-export oriented crops like cotton and coffee. In some cases, it also comes at the expense of subsistence farming: maize, rice, beans and sorghum (Figure 2.50). The use of pesticides was quite high in El Salvador (World Bank, 2015[1]) until 2014. In 2013, a bill as passed that would have banned 53 products, but was never enacted by the president, and has stayed dormant ever since (PDDH, 2016[207]). In 2012, 109 different types of insecticides and 68 various types of herbicides were sold in the country (MAG, 2012[208]), including some that are banned by the Rotterdam Convention (Mejia, 2014[209]), which El Salvador signed in 2004.

The definition of concrete goals for reducing carbon dioxide (CO_2) emissions is beneficial for El Salvador's future climate policies. Growth in greenhouse gas (GHGs) emissions has been particularly high compared to the country's economic performance (OECD et al., 2019[122]). Agriculture, forestry and other land-use sectors are the biggest producers of GHGs (kilotonnes (kt) of CO_2 equivalent), accounting for 57.8%, followed by the energy sector, with 30.7%, the waste sector, with 9.2%, and the industrial processes and product-use sector, with 2.3% in 2014 (MARN, 2018[210]). In 2016, 58.1% of El Salvador's total production of electricity came from renewable energy, which is slightly higher than the average for Latin America and Caribbean, which stood at 56.3%. The share of renewable electricity has remained unchanged over the last decade (OECD, 2017[201]). In its Nationally Determined Contribution (NDC), which it submitted in 2015, El Salvador committed to contribute to the mitigation of climate change (MARN, 2015[211]). In agriculture, the country's NDC refers to the restoration of a million hectares of agricultural land by 2030. In its

declaration at the 22nd Conference of the Parties (COP) in Marrakech in 2016, El Salvador also committed to reducing its energy emissions by 42% by 2025 from 2015 levels (MARN, 2016[212]). In its updated NDC, El Salvador maintained its target in terms of land restoration, but also added land-use changes for 800 00 hectares of agricultural land with the potential to mitigate 50.9 kt of CO_2-equivalent emissions. The country has also committed to reducing GHG emissions from energy production by 39% to 61% relative to the business-as-usual scenario, and by 39% to 5% by 2025 (MARN, 2021[213]). In 2013, 95 % of El Salvador's households had access to electricity: 98% in urban areas, and 90% in rural areas (World Bank, 2019[4]).

Figure 2.50. Evolution of the main agricultural products in El Salvador between 1992 and 2017

Areas harvested in El Salvador (in thousands of hectares)



Note: Elaboration based on the classification of the main agricultural crops of El Salvador.
Source: Data provided for cotton and coffee are from (FAO, 2020[214]), *FAOSTAT*. Data provided for sugar cane, maize, bean, rice and sorghum are from (ECLAC, 2019[98]), *CEPALSTAT: Databases and Statistical Publications*, https://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i.

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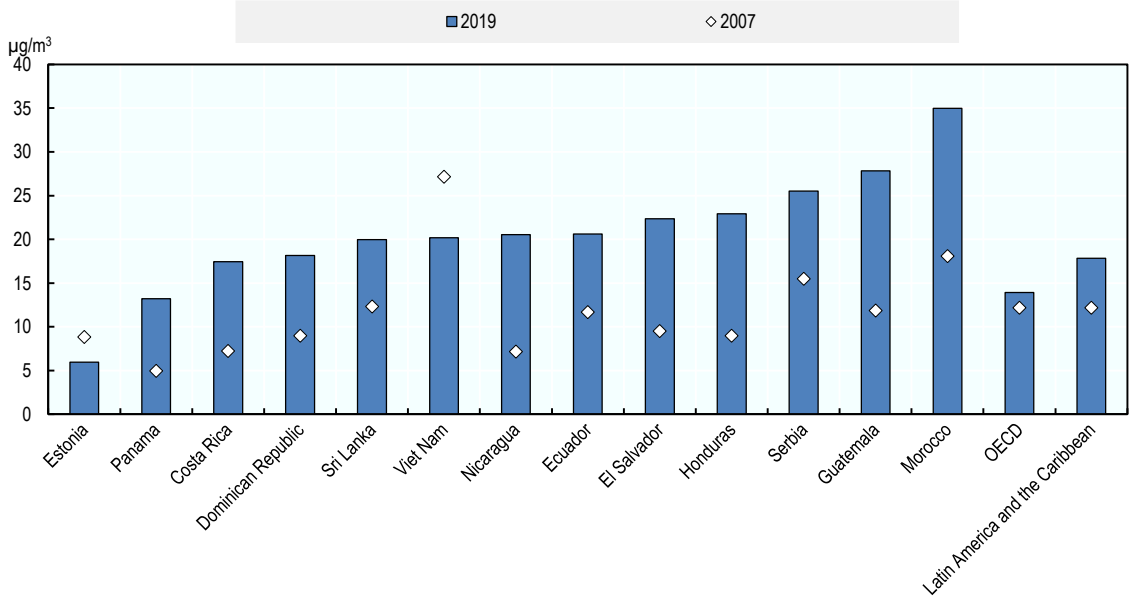
Air pollution in El Salvador is becoming an issue, and the pressure on air quality is growing rapidly, especially in urban areas. The country's annual exposure to PM2.5 air pollution is 24.9 microgrammes per cubic metre (µg/m^3), more than twice the level of 2007 and the OECD average, and higher than the LAC average (Figure 2.51). The health costs of air pollution were estimated at 0.9% of GDP (ECLAC, 2018[215]). The exposure of the Salvadoran population to levels of pollution that exceed the standard level of air quality of 10 µg/m^3 also increased significantly in recent years, rising from 34.92% in 2007 to 99.7% in 2017 (see Chapter 1) (OECD, 2017[201]).

The management of MHsolid waste remains limited in El Salvador, and the coverage of municipal waste collection, especially in rural areas, will be key for reducing people's exposure to pollution. Each person in the country produces an average of 1.1 kilogrammes of waste per day (Purpose+, 2015[216]), which is relatively low to benchmarking countries.[39] Only half of Salvadorans are served by municipal waste

collection, which is much lower than other countries in Latin America. Municipal waste collection is low, especially in rural areas. Consequently, many Salvadorans in rural villages burn their garbage. The share of waste that is recycled remains very low. According to estimations provided by non-governmental organisations (NGOs), it is is around 5% (no official data are available). Untreated human waste has an impact not only on air pollution and the pollution of soils, but also on the degradation of El Salvador's scarce water resources. The country recently adopted a legal framework for waste management, which also seeks to promote recycling (the *Ley de gestión integral de residuos y fomento al reciclaje*). It was approved by the legislative assembly in February 2020.

Figure 2.51. El Salvador's exposure to PM 2.5 air pollution is higher than the averages for the OECD and Latin America

Mean exposure to PM 2.5



Note: Mean exposure of the population to fine particulate matter is calculated as the mean annual outdoor PM2.5 concentration weighted by population living in the area. It is the concentration level, expressed in µg/m3, to which a typical resident is exposed throughout a year.
Source: (OECD, 2017[201]), *OECD Green Growth Indicators (database)*, https://www.oecd.org/greengrowth/green-growth-indicators/.

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El Salvador faces various institutional weaknesses in reducing pollution

The promulgation of the Environmental Law (the Ley de Medio Ambiente of 1998), and the establishment of the Ministry of the Environment and Natural Resources[40] in 1997, paved the way for the development of a body of legislation on environmental protection in El Salvador. The country's institutional framework contains some more specific complementary laws that are linked to the environment, including a forestry law (the *Ley Forestal* of 2002), a law on protected areas (the *Ley de Areas Naturales Protegidas* of 2005), a law on conservation (the *Ley de Conservación de Vida Silvestre*), and also a law on mining (the *Ley de Mineria* of 1995 and 2017). The Environmental Law also created a system of co-ordination of public policies (the Sistema Nacional de Gestión de Medio Ambiental, or SINAMA).

The restoration of the system's capacities to sanction infractions, and the reduction of incompatibilities between existing pieces of environmental legislation, will be crucial for creating a comprehensive environmental framework in El Salvador. The Forest Law, and the Environmental Law of 1998 have some

incompatibilities, in particular when it comes to fighting against illegal logging and accelerating reforestation. The country's environmental legislation also needs to be more specific in its control measures in cases of non-compliance. Moreover, the Ministry of Environment and Natural Resources – El Salvador's sole environmental regulatory institution – has, since 2015, not been allowed to impose administrative penalties.[41] Consequently, individuals and companies that are operating in El Salvador without environmental permits (e.g. in the construction sector) cannot be efficiently penalised.[42] El Salvador's environment ministry currently remains "un-armed" in front of any environmental infractions in the country.

Finally, a lack of adequate financial resources, and low political priority in the national agenda, undermines the country's institutional environmental framework. Academics and actors from civil society have noted that the Ministry of Environment and Natural Resources is a well-established institution in El Salvador, praising the quality of its staff and its openness to dialogue.[43] However, the secondary role that environmental policies continue to play in the political agenda, and the low allocation of financial resources (of which international donors provide almost half), make the development of a sustainable path for El Salvador complex. For example, the environment ministry's general budget in 2016 was around USD 22.1 million, consisting of a state budget allocation of USD 11.4 million, plus USD 10.7 million of loans and donations from the international community. Between 2014 and 2016, the state budget allocation from the general budget was slowly decreasing. This tendency seems to be continuing, with a state budget allocation in 2020 of around USD 12.4 million, a level that is very low compared to other Latin American countries (OECD/ECLAC, 2017[217]).

The management of water resources hinders the economic and social development of El Salvador

Scarcity, pollution and insecure access constitute the major threats to water resources

El Salvador has made progress in expanding access to water and sanitation, but coverage is still not universal. As of 2015, 93.8% of Salvadorans had access to safe drinking water, much more than in 2005 (87.7%). The unequal access between rural (86.5%) and urban areas (97.5%) remains relevant (FAO, n.d.[218]). However, statistics from different sources paint a different picture, and representatives from the Administración nacional de acueductos y alcantarillados (ANDA), El Salvador's dominant water service provider, have expressed some scepticism regarding the country's water statistics (see Chapter 6 for a more in-depth analysis of water and sanitation coverage). Measures of the population that did not have access to improved sanitation services decreased from 25% in 1990, to 13% in 2010, but increased again to 19% in 2017 (WHO/UNICEF, 2017[219]).

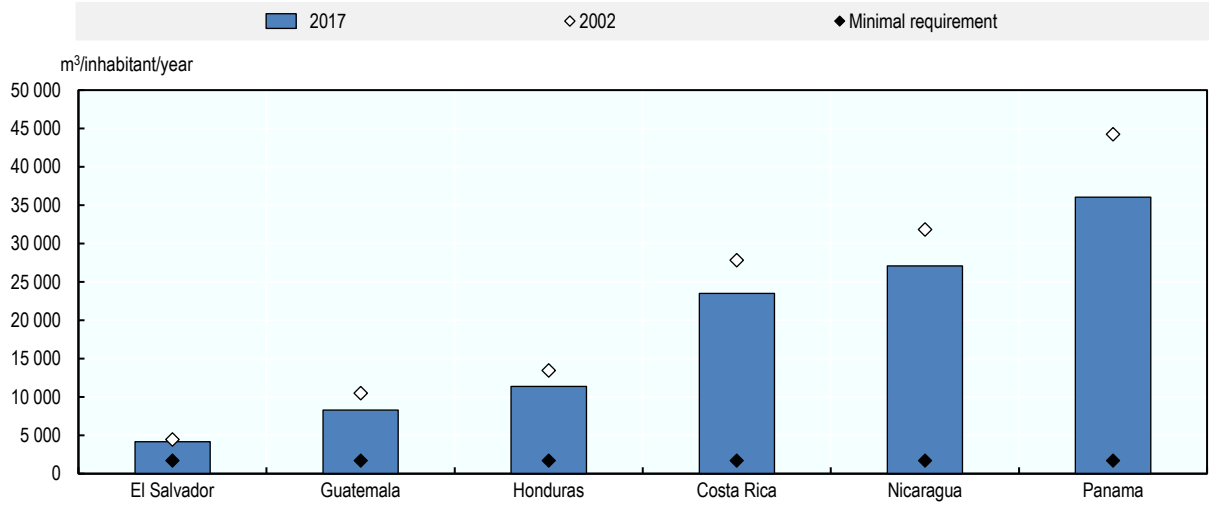
El Salvador needs more investment in water infrastructure and better water services for all Salvadorans. Financial investments in infrastructure remain low and insufficient compared to the country's demographic situation. Moreover, Salvadorans are unsatisfied with the current quality of water services that they receive. Half of the population reports deficiencies in the provision of drinking water. Moreover, waste is significant in the country's current system of water infrastructure, standing at around 55.6% in 2017.[44] This generates substantial losses for the main provider, ANDA, and adds to the complexity of any potential investments in the country's water infrastructure. Additionally, even where a supply of drinking water exists, almost half of it is qualified as intermittent (World Bank, 2015[1]). The level of efficiency is also questionable. Water services are subsidised, with 90% of consumers served by ANDA benefiting from subsidies (Oliva, 2018[220]; World Bank, 2010[107]) . It is estimated that the consumption of almost a third of users is not metered.

In contrast with other countries in Central America, El Salvador runs the risk of being more affected by the scarcity of water resources if the country's authorities do not address the water issue sufficiently. El Salvador is affected by water scarcity. With 4 144 cubic metres (m^3) of water per person per year in

2017, the country is closer than other countries in the region to stress levels (Figure 2.52), which are when annual water supplies drop below 1 700 m3 per person per year (WWAP, 2012[221]). Additionally, El Salvador has a high dependency ratio on extra-territorial water resources, which, at 41% (FAO, n.d.[218]), is much higher than in other Central American countries (Figure 2.53). The situation of El Salvador contrasts with the rest of Central America, which is considered a water-rich region, with 723 billion m^3 per year of fresh surface water, and an average of water availability per capita of approximately 28 000 m^3 per year (FAO, n.d.[218]). Based on projections for 2022 in the context of the 2017 National Plan for Integrated Water Resource Management, agriculture will account for the main increase in water demand in El Salvador, rising from 1.15 billion m^3 a year in 2012 to 1.32 billion m^3 a year in 2022 (MARN, 2017[222]). However, and although it accounts for a low share of the country's overall needs, demand for water from hotel services will increase more rapidly still, rising from 2.34 million m^3 a year in 2012, to 4.54 million m^3 a year in 2022), (MARN, 2017[222]). Moreover, the situation is aggravated by the continuous deterioration in water quality that results mainly from an institutional framework of water-sector regulation that has historically not been sufficiently adapted to the challenges that El Salvador faces (FUSADES, 2011[223]; Dimas, 2010[224]).

Figure 2.52. El Salvador is closer to water stress than other countries in Central America

Total renewable water resources per capita (m^3/inhabitant/year)



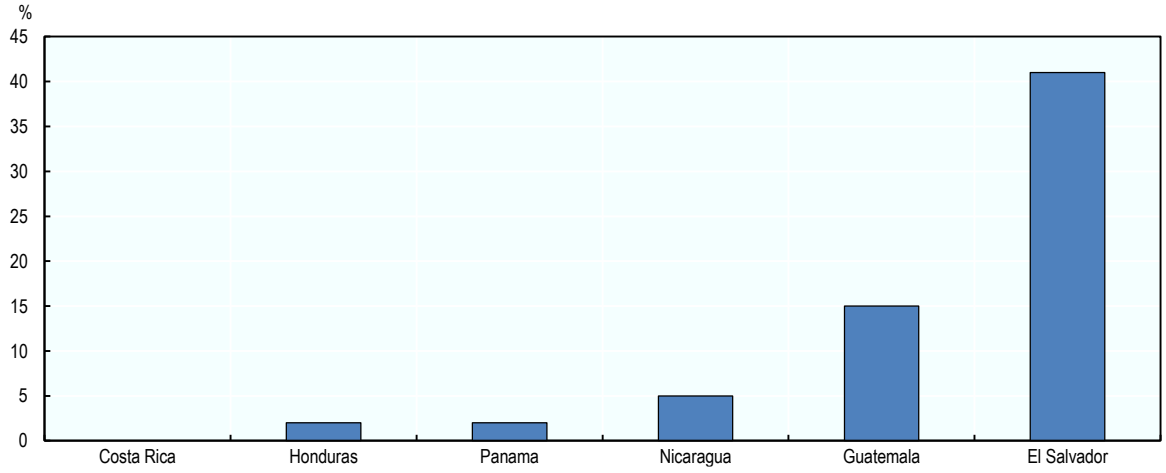
Note: The minimal requirement according to the United Nations Education, Scientific and Cultural Organization (UNESCO) is 1 700 m^3/inhabitant/year, as per (WWAP, 2012[221]), *Managing Water under Uncertainty and Risk*, http://www.unesco.org (accessed in August 2019).
Source: (FAO, n.d.[218]), *Aquastat*, http://www.fao.org/nr/water/aquastat/data/query/results.html.

StatLink https://stat.link/qgunoh

There is a high level of water contamination in El Salvador due to lack of water treatment and the historical absence of a comprehensive framework of regulation for water resources. According to the Salvadoran authorities, at least 90% of the country's surface water is contaminated by agricultural and industrial waste, as well as by untreated sewage (MARN, 2017[225]). The low coverage of municipal waste-collection services contributes to the contamination of water resources in El Salvador. At the national level, weak institutional capacities thwart the establishment of an adequate level of control of waste management in the country's departments. At the local level, municipalities do not possess well-adapted local plans for waste management. Moreover, the country's monitoring mechanisms for water resources are not sufficient.

Figure 2.53. El Salvador has a high dependency ratio on extra-territorial water resources compared to other countries in Central America

Dependency ratio on extra-territorial water resources in 2017 (%)



Note: This indicator compares the extent to which countries depend on water resources that are produced domestically and on those generated in neighbouring countries. This extent also has to do with the sharing of key rivers with other Central American countries: the Lempa, the Goascorán, and the Paz.
Source: (FAO, n.d.[218]), *Aquastat*, http://www.fao.org/nr/water/aquastat/data/query/results.html.

StatLink https://stat.link/481l6r

The lack of regulation and consensus in the management of water has long been a severe development constraint that is also affecting El Salvador's economy and productivity

Until 2022, El Salvador did not have comprehensive legislation on water. Compared to neighbouring countries, it suffered from this absence. At this stage, El Salvador's water framework consisted mainly of specific national plans elaborated by the Ministry of the Environment and Natural Resources.[45] The adoption of a General Law on Water Resources, in January 2022, and its implementation, will help to conciliate different uses of water, and to reduce water pollution by defining roles and responsibilities in water management.

The absence of a regulatory institution in the management of water resources has produced administrative overlaps between institutions at the national and sub-national levels. In the normative framework prior the adoption of the General Law on Water Resources, no institution was identified as being responsible for guaranteeing the sustainable management of water resources, or for controlling its distribution to users and consumers in El Salvador. Depending on the purpose for which water is being used, various institutions that are involved in the water sector are in competition at the national level. These include ANDA, the environment and agriculture ministries, and El Salvador's Consejo Nacional de Energía. The definition and clarification of responsibilities in the water sector is essential. The creation of a national water authority (the Autoridad Salvadoreña del Agua) in the General Law on Water Resources seeks to resolve this issue.

The lack of management and institutional regulation of water constitutes a severe development constraint that is also affecting the Salvadoran economy and the level of productivity in the country. Access to water, and the quality of service with regard to its provision, constitute one of the main constraints to investment. It takes 210 days to request and obtain analysis on the feasibility of connecting to potable water and sewage services in El Salvador (World Bank, 2019[75]). By comparison, this takes ten days in Costa Rica. The considerable impact of mining activities on water (notably the demand for large quantities of water, and the threat to water quality) was not sufficiently anticipated by the Salvadoran authorities. Examples of

this impact include the contamination with cyanide and iron of the San Sebastian river, and the impact of activities by the Pacific Rim Mining Corporation on the Lempa river basin. Mining's environmental impact led to the imposition of a nationwide ban on metal mining in 2017, after strong public pressure. Moreover, the lack of water in the country could slow down the development of current and new economic activities, such as tourism. Unreliable water infrastructure could also affect the country's firms and their potential development. Frequent disruptions to water infrastructure often mean that firms are unable to utilise their full production capacity. El Salvador is in the top 15 low and middle-income economies with the greatest losses in capacity utilisation rates for firms due to water disruptions (Reutschler, 2019[226]).

Notes

[1] Evidence that the government recognises how poverty affects various dimensions of people's lives beyond the monetary aspect can be seen in legislation. In 2014, El Salvador's government introduced a law on social development and protection (Ley de Desarrollo y Protección Social de El Salvador – LDPS), which redefined the measurement of poverty in the country to include various dimensions of human development in the national household survey (Encuesta de Hogares de Propósitos Mulitples – EHPM).

[2] The national poverty line is sensitive to the composition of the reference basket of goods (*Canasta Alimentaria Básica* – CBA). According to El Salvador's statistics office, DIGESTYC, it has increased by USD 29.57 over the past decade (DIGESTYC, 2019[5]).

[3] Socio-economic classes are defined using the world classification: "Poor" = individuals with a daily per capita income of USD 5.50 or lower. "Vulnerable" = individuals with a daily per capita income of between USD 5.50 and USD 13. "Middle class" = individuals with a daily per capita income of between USD 13 and USD 70. Poverty lines and incomes are expressed in 2011 USD PPP per day (PPP = purchasing power parity). Calculations are based on the LAC Equity Lab tabulations of the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) (CEDLAS/World Bank, 2019[227]).

[4] School life expectancy refers to the number of years of schooling that a person can expect to receive assuming that the probability of their being enrolled at a particular age is equal to current enrolment rates.

[5] This is a simple average of the latest available data across 34 OECD countries, accessed at: http://data.uis.unesco.org/.

[6] According to the 2015 EHPM, women and girls aged 10-19 represented approximately 19% of the female population in El Salvador in 2015 (DIGESTYC, 2015[228]).

[7] According to (MINEC-DIGESTYC/SETEPLAN, 2015[25]), in the case of healthcare: "a household is deprived if at least one person who required medical care did not have access to care in the public system; or if the household, having not required medical attention in case of need, did not make use of the public system under the assumption that they did not have access to it".

[8] The Global Competitiveness Report Index is a composite of 12 sub-indices, including the two that are presented in Figure 2.28.

[9] The Fiscal Responsibility Law was suspended at the start of the COVID-19 pandemic, and no path to consolidation has been set by the Government as of mid-2022.

[10] Available studies quantifying tax evasion predate the revision of nominal GDP brought about by the change in base year and System of National Accounts (SNA) manual, which resulted in a downward revision of almost 10% in nominal GDP for 2014.

[11] EHPM data for 2020 could be biased given that data was collected during the confinement period, corresponding to a temporary fall in remittances.

[12] Remittances reached 26.2% of GDP in 2021 (according to GDP estimates from the BCR).

[13] Considering that the highest participation in elections is in countries where there are laws making the vote mandatory (e.g. Uruguay or Ecuador). Participation is significantly lower in countries where the vote is voluntary (e.g. Chile or Colombia).

[14] Social contracts are generally characterised by explicit and implicit agreements that determine what each socio-economic group gives to the state and receives in return. Citizens engage firmly in these agreements with three conditions. First, they must believe the agreements are reliable (i.e. they trust state institutions). Second, they must see these agreements as beneficial (i.e. their satisfaction with what they receive leads to social engagement). Third, they must perceive the pact as fair (no one is favoured over others or benefits at their expense). The decline of trust in public institutions and the rising dissatisfaction with public services suggest these foundations of the social contract are weakening. As incentives are lacking to engage in the social contract, citizens find it increasingly justifiable, for instance, to avoid paying taxes and to opt out of public services (OECD/CAF/ECLAC, 2018[121]).

[15] Security sector reform has three major overarching objectives: i) the improvement of basic security and justice service delivery; ii) the establishment of an effective system of governance, oversight and accountability; and iii) the development of local leadership and ownership of a reform process to review the capacity and technical needs of the security system (OECD, 2008[125]).

[16] The lawyers' union also generates nominations to be considered.

[17] Procuraduría para la Defensa de Derechos Humanos (PDDH).

[18]Detachment with regard to litigants means that judges are not vulnerable to influence or control on the part of litigants who come before the courts. Bribery is perhaps one of the most common mechanisms used by litigants to change judges' decisions in court. Individual autonomy is related to the inappropriate influence that some judges exercise over other judges. Political insularity refers to the power of judges to make decisions that are free of undue influence or control by other branches of the state (i.e. executive and legislative) (Dodson, Jackson and O'Shaughnessy (1997[140]).

[19] In the historical context of the Salvadoran armed conflict and subsequent peace process.

[20] "The direct and indirect costs of crime for companies resulting from criminal activities are not taken into account for two reasons. First, the value of stolen goods are not included in the analysis. Secondly, there is no satisfactory way to estimate the loss of productivity or efficiency, for private companies caused by robberies, extortion and other crimes. This estimation would require accurate information about the activities of each company" (Jaitman and Torre, 2017[160]).

[21] However, during the first presidency of the FMLN, and even the second, the Gran Alianza por la Unidad Nacional party (GANA) was an ally of the FMLN, forming a legislative majority.

[22] The legislative assembly assigns the correlatives of legislative decrees, and the president does not necessarily receive (or observe or veto) all of them. Therefore, this figure encompasses only those legislative decrees that were vetoed.

[23] Among other things, the index measures an organisation's priorities and strategic orientation as a way to determine staffing needs, personnel information systems, the degree of over/understaffing per institution, personnel technical skills, etc.

[24] According to administrative data from the Social Security Institute on the total number of public sector employees, and population data from DIGESTYC on the total number employees.

[25] Promotion team for the reform of public service (Equipo Impulsor de la Reforma a la Función Pública).

[26] Including crimes related to public finances, illicit enrichment, money laundering, and national and transnational organised crime.

[27] The IAIP recently incorporated the operation of this portal, which used to be run by the government itself.

[28] Some of these initiatives included *Connecting to the Future of El Salvador* (1999); the creation of the National Commission for the Information Society (2003) and its comprehensive *Plan ePaís* (2005); the *El Salvador Efficient Presidential Program* (2006); the *Strategic and Action Plan for Electronic Government* (2011); and the *Agenda of Good Digital Living* (2016). Furthermore, there have even been efforts at the regional level, such as the *Regional Strategy for the Development of the Information and Knowledge Society* (SG-SICA, 2014).

[29] Prior to the current government, there were more than ten institutions with some initiative on digitalisation, each of which were, in a certain way, isolated. In this sense, the creation of an innovation secretariat to lead the process of digitalisation in the country is key.

[30] The RIA is a systematic process of identification and quantification of benefits and costs that may derive from regulatory or non-regulatory options for a policy that is under consideration.

[31] Until 2018, El Salvador had a Technical Planning Secretariat designated for such a purpose.

[32] With the fulfilment of this requirement, the country met all the standards of the external sector to enter the IMF's Special Data Dissemination Standard (SDDS) Plus.

[33] The last National Population (6th) and Housing (5th) Census were conducted simultaneously in 2007, while the last Agricultural Census (the 4th) was conducted between 2007-08.

[34] A Statistical Evaluation and Progress Questionnaire (STEP) for El Salvador was carried out as part of this review in 2019. Despite changes to the institutional framework, and given that all resources of DIGESTYC are to be absorbed by the BCR, the results are presented and expected to remain relevant.

[35] http://statisticalcapacitymonitor.org/indicator/115/.

[36] The "Dry Corridor" stretches from Southern Mexico to western parts of Costa Rica and to the so-called "Dry Arch" in Panama. However, the countries that are more prone to drought or extreme precipitation are Guatemala, El Salvador, Honduras and Nicaragua (http://www.fao.org/in-action/agronoticias/detail/en/c/1024539/).

[37] El Salvador's Ministry of Finance (Ministerio de Hacienda) is currently working with the World Bank to materialise the country's financial strategy to manage natural hazards .

[38] Based on information collected in an interview with the Ministry of Finance in September 2019.

[39] It is an estimation of municipal waste collection (86% in urban areas), based on reports from 2017.

[40] The creation of the Ministry of Environment and Natural Resources resulted from the transformation of the Executive Secretary for Environment (the Secretaria Ejecutiva del Medio Ambiente, or SEMA) created in 1994, and hosted by the Ministry of Planning and Co-ordination for Economic and Social Development (the Ministerio de Planificación y Coordinación del Desarrollo Económico y Social, or MIPLAN).

[41] Based on the Environment Law (the *Ley de Medio Ambiente*), and in particular on Article 89 thereof, the Ministry of Environment and Natural Resources is allowed to impose economic sanctions for violations of environment legislation established as multiples of the prevailing urban minimum wages for the city of San Salvador ("salario mínimo diario urbano, vigente para la ciudad de San Salvador"). In August 2015, the *Sala de lo Constitucional* of the country's supreme court, the Corte Suprema de Justicia (CSJ), decided to declare unconstitutional the above-mentioned article. According to the CSJ, "economic penalties were calculated based on an inexistent category of minimum wage". See: http://www.csj.gob.sv/constitu/consult.htm. However, the country's penal code (*código penal*) allows the imposition of penalties decided by the environmental tribunals (la Cámara y Juzgados Ambientales).

[42] The only exception in terms of administrative sanctions is based on El Salvador's law on protected areas (*Ley de Áreas Naturales Protegidas)*.

[43] Based on interviews with representatives from academia and civil society. The interviews were organised in July 2019, in San Salvador.

[44] Measuring the difference between the water produced and the water consumed within the sub-system of drinking water provided by ANDA.

[45] These are: the national strategy on water resources, the *Estrategia Nacional de Recursos Hidricos* of 2013 (MARN, 2013[229]); a national plan for the integrated management of water resources – the *Plan Nacional de Gestion Integrada del Recurso Hídrico de El Salvador* (PNGIRH) – of 2017, with an emphasis on priority zones (MARN, 2017[222]),; and also a water information system, the *Sistema de Información Hídrica* (SIHI) (MARN, n.d.[230]).

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Part II Strategic recommendations

3 El Salvador needs a productive transformation to overcome its development challenges

To accelerate development, El Salvador needs a productive transformation. This chapter examines productivity growth and the potential of structural transformation to accelerate development in El Salvador. It examines productivity differentials across firms and sectors and analyses key factors that can drive productivity growth at the sector level and at the firm level, including international trade, foreign direct investment, participation in global and regional value chains, and informality. The analysis also identifies opportunities to increase value added in key sectors in the economy. While a number of high value-added sectors are thriving, El Salvador's exports remain concentrated in goods with moderate levels of economic complexity and of skill and technological intensity, and FDI is not primarily directed to the most innovative technology-intensive sectors, suggesting that there remains unexploited potential to increase productivity growth in the economy.

The Government of El Salvador has set out a vision for a prosperous, dynamic and modern economy, which is able to create opportunities for personal and community development for all. As well as being at the core of the country's economic development strategy, the creation of economic opportunities also has a critical role to play as El Salvador seeks to tackle other key challenges, most notably with regard to insecurity and social inclusion.

To accelerate development in El Salvador, it is necessary to increase economic growth and to make the pattern of economic growth more inclusive. Even before the COVID-19 crisis, economic growth in El Salvador stood at 2.4% between 2015 and 2018, while neighbouring countries with comparable levels of GDP per capita were growing at rates between 3.5% and 4%.[1] One feature of growth over the past decade has been a decline in total factor productivity growth, and this highlights the importance of going beyond the necessary increases in investment in order to accelerate growth.

In order to make growth more inclusive, it is also necessary to create good quality jobs in productive sectors. Since 2010, the working-age population increased by over 92 000 a year, but the economy created only just over 15 000 formal jobs per year. Manufacturing sectors have played an important role in sustaining quality employment since 2010, recovering jobs lost during the global financial crisis. However, most new jobs created between 2010 and 2018 were in low value-added service sectors such as hospitality and restauration, in which 80% of new jobs are informal. On the other hand, service sectors with a high amount of value added have generated an important number of formal jobs and offer great prospects for future growth if they can find the space and resources to grow sustainably.

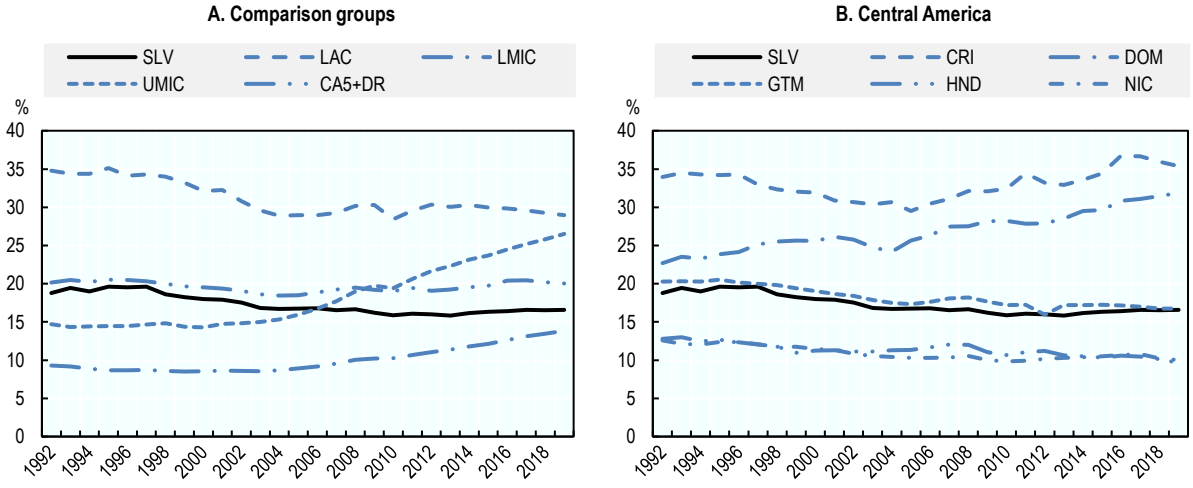
This chapter explains why El Salvador needs to foster a structural transformation of its productive sector. It analyses aggregate and sectoral performance, highlighting the scope that there is for increasing productivity through a structural transformation. El Salvador can build on the strength of a diversified economy and industrial base. These strengths should be a platform for fostering the emergence and growth of sectors that can generate domestic value chains and integrate regional and global value chains, generating productivity increasing dynamism. The chapter includes an analysis of productivity growth in El Salvador, of structural transformation in the Salvadoran economy, of export performance and foreign direct investment (FDI) in El Salvador, of the country's participation in regional and global value chains, and of productivity levels in Salvadoran firms.

Low productivity growth in El Salvador limits improvements in living standards and competitiveness

When compared with the trend in most middle-income countries, productivity growth in El Salvador since 1990 has been too slow. Growth in labour productivity in El Salvador was relatively high (1%) from 1992 to 1995, following the signature of the Chapultepec Peace Accords. It slowed down to 0.1% between 1995 and 2000, and then accelerated again to an average of 1.1% between 2000 and 2008. However, as a consequence of the 2008-09 economic and financial crisis, which hit El Salvador hard, labour productivity declined by 1% on average between 2008 and 2010. The growth in labour productivity has been slow since then, amounting to only 0.1% between 2010 and 2019. This latter period coincided with a slowdown in global productivity growth, which fell from close to 2% in OECD countries to below 1% after 2010 (see Chapter 1). El Salvador's performance in terms of labour productivity has not put the country on a convergence path with advanced economies, instead mirroring the average rate for Latin American countries (Figure 3.1, Panel A), and indeed underperforming relative to the average for Central American countries. Within the Central American region, Costa Rica and the Dominican Republic have seen their labour productivity converge towards levels in the United States. Meanwhile, Guatemala and El Salvador's relative labour productivity fell during most of the 1990s and 2000s, but started increasing slightly in the past few years. The relative labour productivity of Honduras and Nicaragua has been declining steadily since the 1990s (Figure 3.1, Panel B).

Figure 3.1. Labour productivity is not on a convergence path with developed economies

Gross domestic product (GDP) per employed person as a share of GDP per employed person in the United States (%)



Note: GDP per employed person measured at purchasing power parity (PPP) (in constant international 2017 US dollars [USD]) terms for all countries. LAC: Latin America and the Caribbean; LMIC: Lower Middle-Income Countries; UMIC: Upper Middle-Income Countries; CA5+DR: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic.
Source: World Bank (2022[1]), *World Development Indicators*, World Bank, Washington D.C., https://databank.worldbank.org/source/world-development-indicators#.

StatLink https://stat.link/7oweba

El Salvador has room to expand capital formation and employment. Gross fixed capital formation amounted to 17.8% of El Salvador's GDP in 2019. This was in line with the Latin American average (17.8% in 2019). However, it was considerably lower than in OECD member countries, for which the average level was 21.4% of GDP in 2019. This is also too low a level to raise El Salvador's annual GDP growth to 3.5%, which is the government's objective. El Salvador's employment-to-population ratio (for the population aged 15 and over) was 58.2% in 2019. This was in line with the average level for Latin American countries, which was also 58.2% in 2019, but El Salvador's employment-to-population ratio was much lower for women (44.3% in 2019) (ILO, 2022[2]; World Bank, 2022[1]). Thus, there is scope to increase labour input significantly by increasing women's labour force participation and employment. Furthermore, even though employment growth has kept pace with the expansion in the working-age population, the absolute number of people aged 16 and over who are not in employment increased from 1.66 million in 2000 to 2.09 million in 2019 (DIGESTYC/MINEC, 2020[3]). In addition, the apparent similarity of El Salvador's employment-to-population ratio and that of the Latin American region as a whole does not account for underemployment, which affected 32% of the urban active labour force, and as much as 53% of the rural active labour force, in 2019[2] (DIGESTYC/MINEC, 2020[3]). There is thus scope to increase labour input on the intensive margin, thereby increasing output per worker.

El Salvador's economy has experienced low average total factor productivity (TFP) growth over the last decade. Total factor productivity growth in El Salvador averaged 2.4% in the 1990s following reforms that liberalised the country's economy and its participation in international trade after the 1992 Chapultepec Peace Accords. These reforms led to the development of a maquila industry in El Salvador (export-oriented, light manufacturing).[3] However, total factor productivity growth started to decline in the 2000s, when El Salvador's economy became less competitive and investment opportunities declined. This was due to increased international competition in light manufacturing sectors such as apparel and textiles, and

to high business costs. Productivity growth declined even further as a consequence of the economic and financial crisis of 2008-09, averaging only 0.3% between 2010 and 2018 (see Chapter 1).

The fall in productivity growth at the aggregate level calls for action in terms of public policy. Slowdowns in growth led by falls in TFP growth are symptomatic of the so-called "middle income trap", especially in Latin America (Agénor, 2017[4]; Eichengreen and Shin, 2012[5]; Aiyar et al., 2018[6]). While economic growth in El Salvador recovered somewhat after 2010, this trend was largely led by a recovery in factor accumulation. Investment added 1 percentage point to GDP growth in 2010-18 compared to the previous decade, while employment added 0.45 percentage points. However, the contribution of TFP fell even further, from 0.8% to 0.3%. At the aggregate level, TFP growth captures not only technological sophistication, but also institutional factors that allow firms and industries to use factors of production more efficiently, and to make the most of existing opportunities, including FDI. FDI, regulatory quality, stable macroeconomic environments, and a skilled workforce are among the factors that have correlated with TFP convergence differentials across countries in Latin America (Daude, 2010[7]).

Structural transformation can help to accelerate productivity growth

Labour productivity exhibits large disparities across sectors in El Salvador, highlighting the potential for structural transformation to increase productivity growth (Figure 3.2). Employment in the country is concentrated in sectors with low levels of value added per worker. Almost 60% of El Salvador's labour force works in sectors in which value added per worker is less than 60% of the country's average level (USD 7 948 in 2018). Most importantly, these sectors include wholesale and retail trade and vehicle repair (which together account for 23.7% of total employment), and agriculture (17% of total employment). Labour productivity in trade and vehicle repair is only 54.3% of the average for the whole economy, and labour productivity in agriculture is only 33.3% of the economy-wide average (BCR, 2020[8]). In some of these sectors, labour utilisation is a significant issue. Visible or time-related underemployment (which occurs when a worker involuntarily works fewer than 40 hours a week) concern 12% of workers in agriculture, forestry, and fisheries, compared to 8% in the economy as a whole.

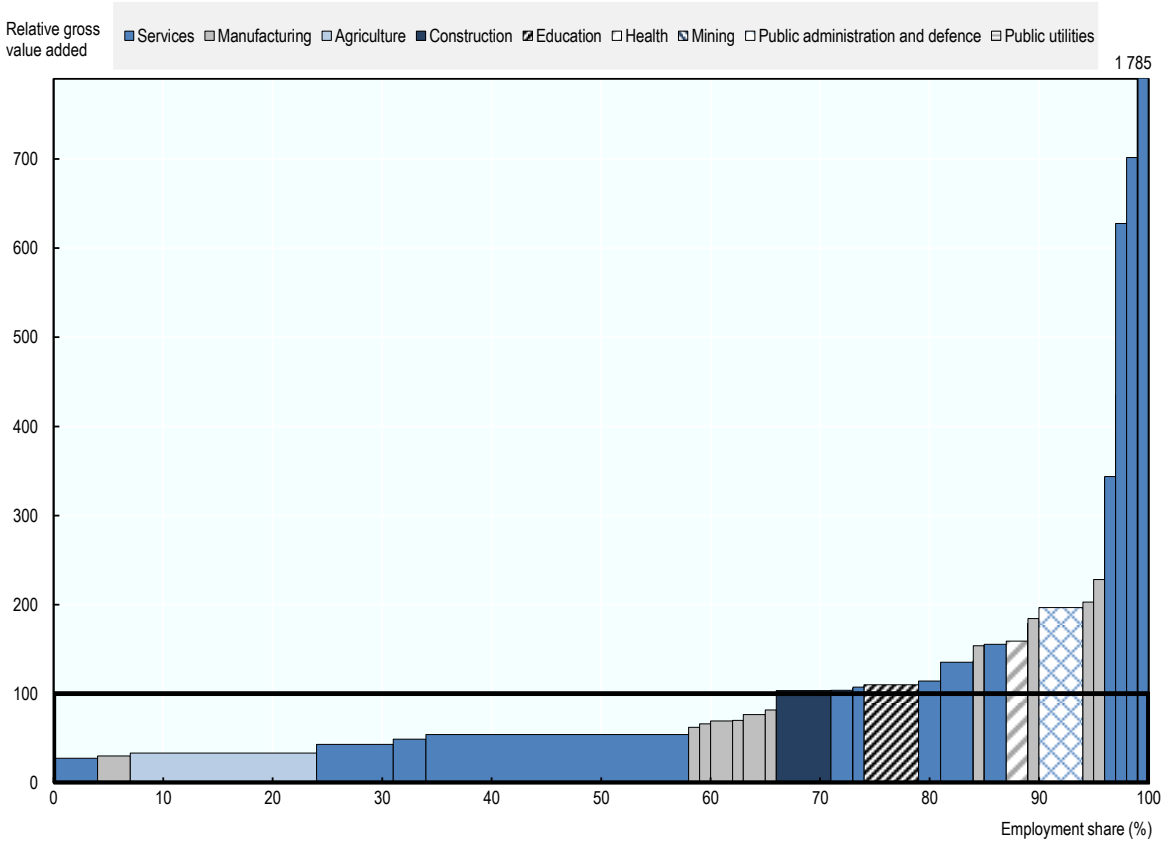
El Salvador's services sector operates at two speeds. On the one hand, there are highly productive international services industries (largely export-oriented services). More than 40% of employment in services is in industries with a level of value added per worker that exceeds the average for the whole economy (BCR, 2020[8]). Service industries that have a high level of value added per worker include real estate, financial and insurance services, telecommunication and information services, business, personal and social services, utilities, transport, and aircraft maintenance. Some of these highly productive, mainly international, service industries concentrate large amounts of FDI. Financial and insurance services account for 33.8% of El Salvador's FDI stock, and the sector's labour productivity as measured by value added per worker is six times the economy's average. Information and communication services concentrate 13% of El Salvador's FDI stock, and value added per worker in this sector is more than seven times the average for the whole economy (BCR, 2020[8]; Sierra, 2019[9]) (see Chapter 1). On the other hand, however, El Salvador also has a large non-tradable services industry with low levels of labour productivity. Over half of employment in services remains concentrated in services with a value added per worker of less than 60% of the economy's average. Most importantly, this is in wholesale and retail trade and vehicle repair, food and beverages, and domestic personnel (BCR, 2020[8]).

El Salvador's manufacturing sector is largely composed of industries with relatively low levels of productivity – mainly export-oriented light manufacturing. In some of El Salvador's manufacturing industries, such as beverages, chemicals, rubber and plastics, textiles, and pharmaceuticals, labour productivity as measured by value added per worker is high relative to the country-wide average. Labour productivity in the beverages sector is 4.8 times the average for the economy as a whole. In chemicals and textiles, it is 2.3 times the economy-wide average. In the plastics and rubber sector, it is double the

average for the whole of the economy. In pharmaceuticals, it is 1.9 times the economy-wide average. However, close to 70% of El Salvador's employment in the manufacturing sector remains concentrated in industries with value added per worker that is below the economy's average. This is the case most importantly in the largest subsectors of the food industry (which, as a whole, represents 40.7% of manufacturing employment in El Salvador), and in the clothing subsector (19.8% of manufacturing employment in El Salvador) (BCR, 2020[8]). Both sectors consist mainly of export-oriented, low-tech, light manufacturing. They largely employ low-skilled workers, and they account for a large share of El Salvador's exports.

Figure 3.2. Employment in El Salvador is concentrated in sectors with low value added per worker

Employment (% of total employment) and relative value-added (% of average value added) by sector, 2018



Notes: Labour productivity is measured as annual value added (the value of output minus the value of intermediate consumption) per employee. Weighted average productivity (on the y-axis) is normalised to 100; a sector with a relative gross value added that is larger than 100 is more productive than the average. Share of total employment is represented on the x-axis. Bars depict individual sectors according to the available detail in the source.

Source: BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx.

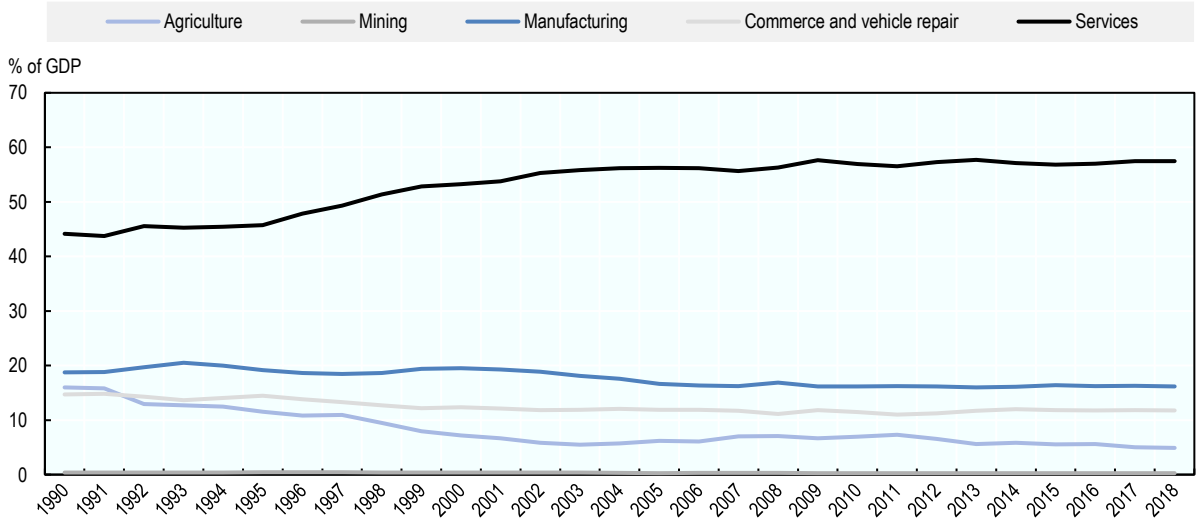
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El Salvador has experienced a structural transformation away from agriculture and towards services. Since the 1990s, the share of El Salvador's services sector in GDP (excluding commerce and vehicle repair) has expanded, rising from 44.2% in 1990 to 57.5% in 2018 (Figure 3.3) (BCR, 2020[10]). At the same time, the shares that agriculture and commerce and vehicle repair represent of El Salvador's overall GDP have fallen. The decline of El Salvador's coffee industry since the 1980s has contributed to the decrease of agriculture's share in the country's GDP.

The expansion of El Salvador's services sector has been fuelled by two trends. The first of these has been the large inflows of remittances that sustain the consumption of final goods and non-tradable services by households in El Salvador. Between 2005 and 2016, this resulted in the expansion of several low-productivity sectors such as accommodation and food and drink (Figure 3.4). Given these sectors' larger size, they represent a sizeable proportion of net employment creation in absolute terms. However, while these largely non-tradable services generate jobs, they tend to employ low-skilled workers, and both wages and labour productivity tend to be low. Secondly, global trends such as falling international transport costs, declining tariff barriers, and digitalisation, have led to an increase in the share of services in international trade worldwide, and have contributed to the development of an international services industry in El Salvador (see Chapter 1). Globally, trade in services increased more rapidly (5.4% per annum) than trade in goods (4.6% per annum) between 2005 and 2017, and the share of developing countries in global services exports increased from 14.7% in 2005 to 25.2% in 2017. Distribution services (19.9% of global trade in services), financial services (18.6%), telecommunications, ICT and audio-visual services (13.2%), and transport (11.8%), make up the bulk of the global trade in services (WTO, 2019[11]). As a consequence, high-productivity international services such as telecommunications, information services, and financial services have seen rapid employment growth (of 1% and 2.3% per annum respectively, compared with aggregate employment growth of 1.5% per annum between 2005 and 2018) (Figure 3.4).

Figure 3.3. El Salvador has experienced a structural transformation from agriculture to services since the 1990s

Value added by sector (% of GDP)



Note: The category entitled "services" does not include commerce and vehicle repair.
Source: BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx.

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El Salvador has managed to preserve a significant manufacturing base despite a decline in international competitiveness and liberalising reforms. Following the peace accords, and in combination with low wages and tax incentives, export-oriented light manufacturing industries – which constitute a large part of El Salvador's manufacturing base – experienced significant growth in the 1990s. After reaching 20.5% of GDP in 1993, manufacturing's share of GDP declined gradually to 16.6% in 2005, and it has remained stable over the past 15 years (Figure 3.3). Due to increased international competition, El Salvador's light

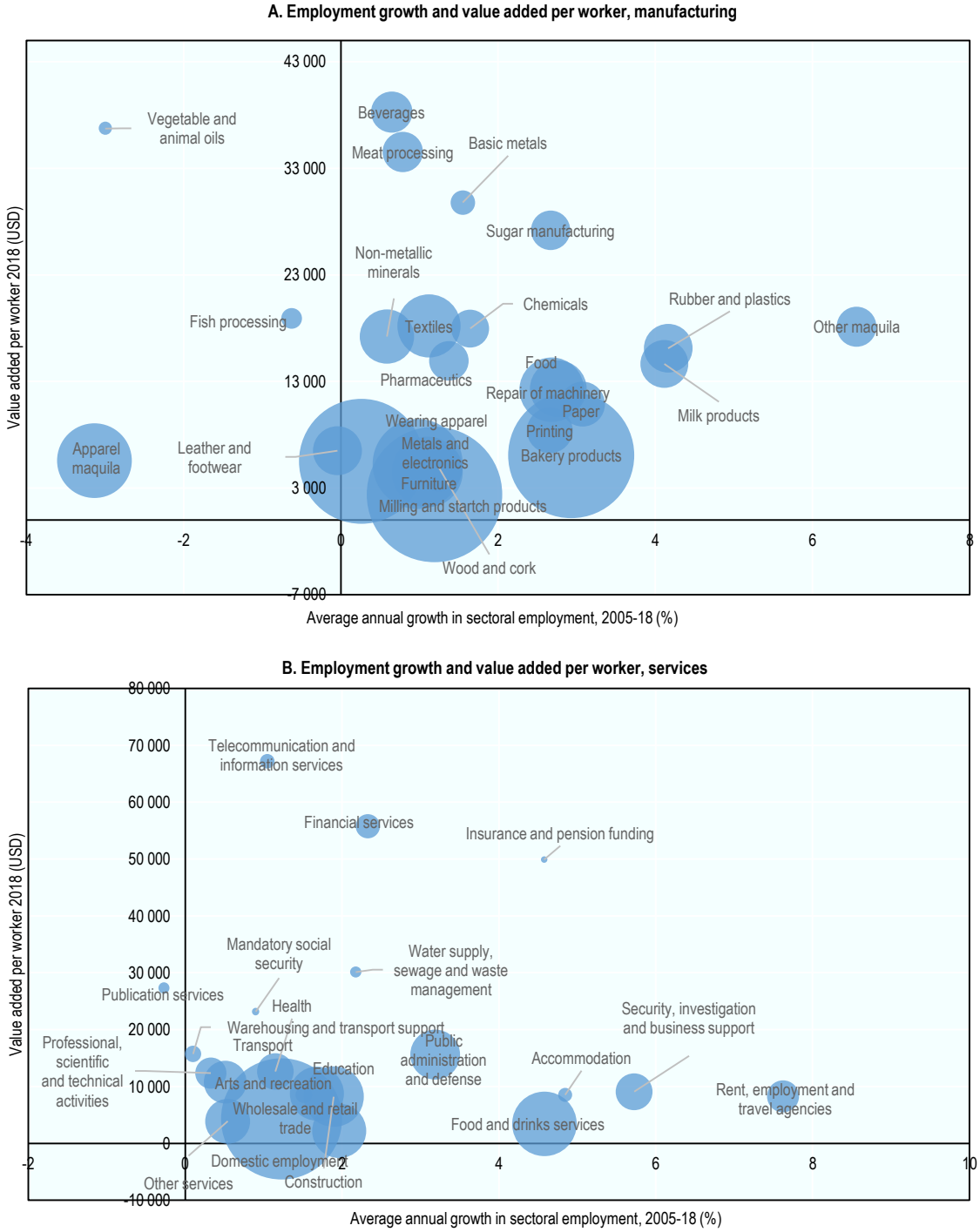
manufacturing sector started to become less competitive in the early 2000s. The most important reasons for this decline in competitiveness were China's accession to the World Trade Organization (WTO) in 2001, and high business costs in El Salvador itself. The country's competitiveness in light manufacturing has declined even more in the light of increasing real wages. Since 2014, nominal wages in El Salvador have been growing faster than GDP and labour productivity, in large part due to significant increases in minimum wages. In the 1990s and 2000s, furthermore, El Salvador underwent a set of liberal reforms to open up the economy to trade by lowering tariff barriers, and by signing several trade agreements, most importantly the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) in 2006 (see Chapter 1). That the manufacturing sector has maintained its share of GDP despite El Salvador's openness and declining international competitiveness is a testament to the opportunities that it offers for the country. According to the United Nations Industrial Development Organization's (UNIDO) Competitive Industrial Performance (CPI) database, El Salvador ranks as the tenth-placed country with regard to the share of manufacturing products in its export basket, and in 38th place when it comes to manufacturing's share of value added (out of 152 countries covered) (UNIDO, 2021[12]).

Within El Salvador's manufacturing sector, a shift has occurred from garments and apparel towards the more productive textile sector. Value added in wearable apparel fell between 2005 and 2018 in both absolute and relative terms (from 12% of total value added in manufacturing in 2005, to 3.3% in 2018), while the share of overall value added in manufacturing that comes from the more productive textile industry expanded (from 3.5% of total value added in manufacturing in 2005, to 7.6% in 2018) (BCR, 2020[8]).

Aside from the shift towards textiles, however, the composition of El Salvador's manufacturing sector has not generally shifted to more productive sub-sectors of manufacturing since 2005. Other manufacturing industries that expanded by more than 1% annually in terms of value added as a share of GDP between 2005 and 2018 include sugar processing, beverages, the maintenance and repair of machinery, rubber and plastics, the manufacturing of clothing, oils, vegetable and animal fats, and meat processing. The performance of these sectors in terms of labour productivity is mixed (BCR, 2020[8]). Figure 3.4 shows that both dynamic manufacturing industries and sectors with low value added per worker experienced significant employment growth between 2005 and 2018.

Since the mid-1990s, structural transformation through labour reallocation has not contributed significantly to the growth of labour productivity in El Salvador. Figure 3.5 breaks down growth in labour productivity into growth within individual sectors, on the one hand, and the contribution of shifts in the composition of employment on the other. It shows that the reallocation of labour from less productive to more productive sectors made a sizeable contribution to productivity growth during the 1990s. The shift from very low-productivity agricultural employment (which went from 36% of total employment in 1992 to 27% in 1995, and to 22% by 2000) to manufacturing and services sustained relatively rapid productivity growth. However, the contribution that labour reallocation made to productivity growth was very low (0.2%) prior to the 2008-09 economic and financial crisis, and was negative (-1%) during the crisis, mainly due to the destruction of jobs in manufacturing industries. The contribution of labour reallocation to productivity growth has increased somewhat to 0.5% over the last decade, most importantly due to a positive labour reallocation effect towards higher-value service industries.

Figure 3.4. Employment in El Salvador has been expanding in some sectors with high value added



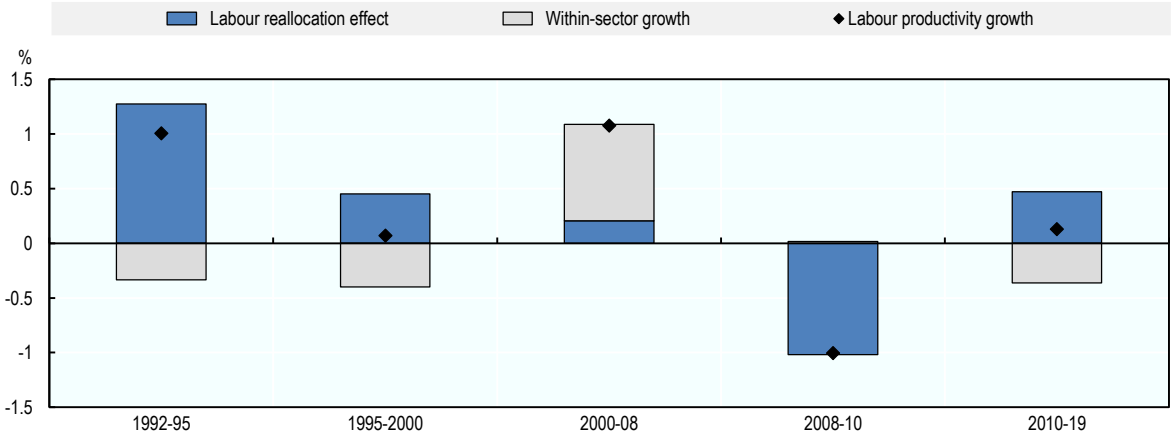
Source: BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx.

Notes: Panel B. Real Estate and Electricity and Gas Supply are not included in the figure since they are outliers in terms of value added per worker in 2018 in USD. The size of the bubbles represents the size of the sector in terms of employment in 2018.

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Figure 3.5. Labour reallocation has not contributed significantly to productivity growth in El Salvador since 2000

El Salvador's labour productivity growth – average annual growth per employee



Notes: "Within-sector growth" refers to the contribution to total labour productivity growth from productivity growth within sectors. The "labour reallocation effect" refers to the contribution of the movement of labour from lower to higher-productivity sectors. All growth rates are in Compound Annual Growth Rate (CAGR) terms.
Sources: OECD calculations based on BCR (2021[13]), *Cuentas de Producción por Actividad Económica. A Precios Corrientes*, Banco Central de Reserva, San Salvador, https://estadisticas.bcr.gob.sv/clasificacion/sector-real and ILO (2022[2]), *ILOSTAT*, International Labour Organisation, Geneva, https://ilostat.ilo.org/.

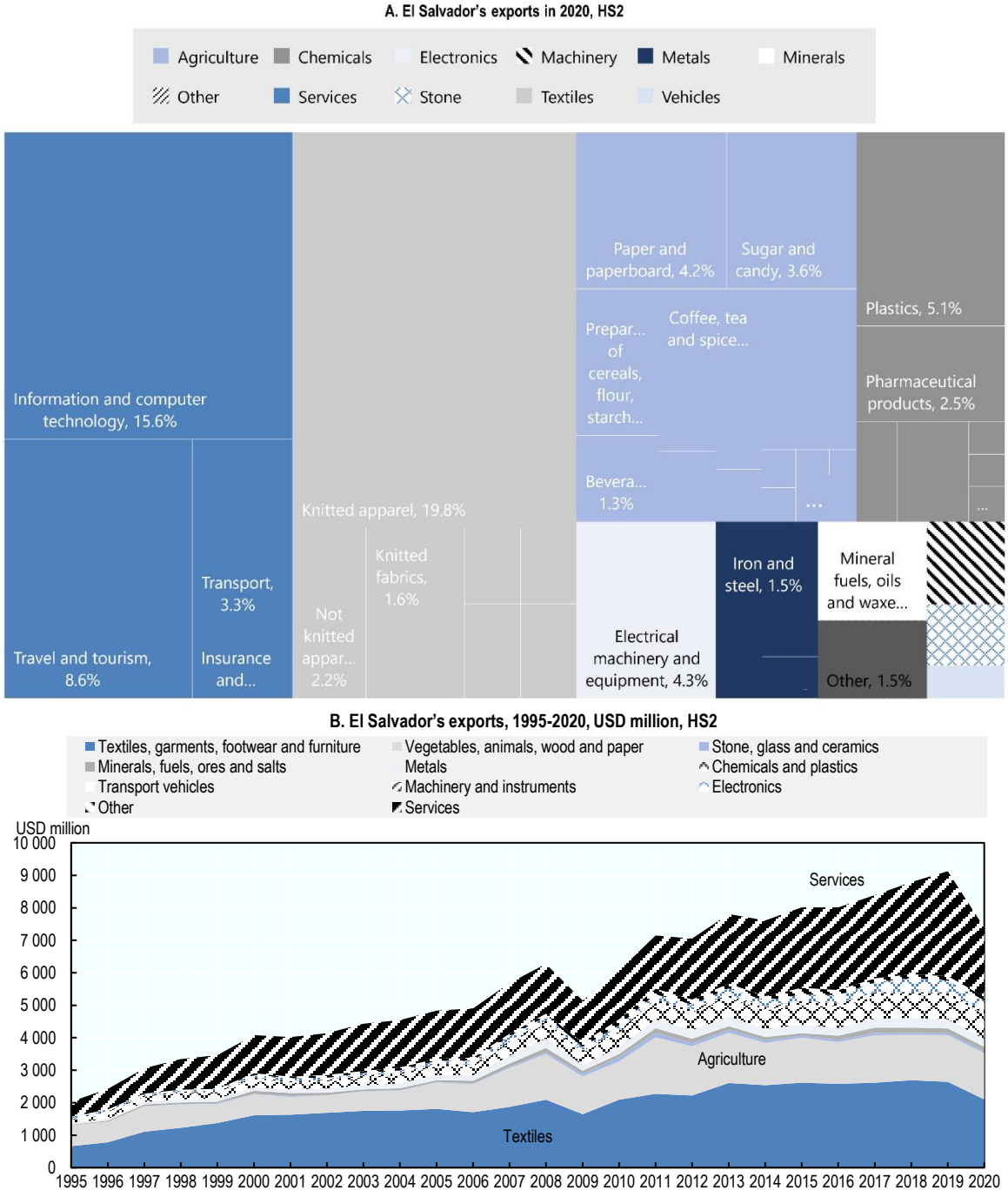
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El Salvador's exports are concentrated in goods with moderate levels of economic complexity, skills and technology intensities

El Salvador is already a rather open economy. In the context of the reforms that opened up El Salvador's economy in the 1990s and 2000s, average tariffs applied (weighted by trade flows) fell from 9.15% in 1995 to 3.93% in 2006, and to 1.94% in 2018 (World Bank, 2022[14]). Trade amounted to 77.2 % of El Salvador's GDP in 2019, which is above the Latin American and Caribbean average (45.8% of GDP in 2019), but less than in highly open economies in Asia (210.2 % of GDP in Viet Nam) and Europe (141.2% of GDP in Estonia) (World Bank, 2022[1]). It was estimated that the export sector created 19% of employment in El Salvador in 2014, and that this sector accounted for 32.2% of newly created jobs between 2005 and 2014 (Aquino Cardona, 2019[15]).

Figure 3.6. El Salvador's exports are dominated by textiles, services and agricultural products

El Salvador's exports in 2020, Harmonised System (HS) 2



Source: Harvard University Growth Lab (2020[16]), Atlas of Economic Complexity, https://atlas.cid.harvard.edu/.

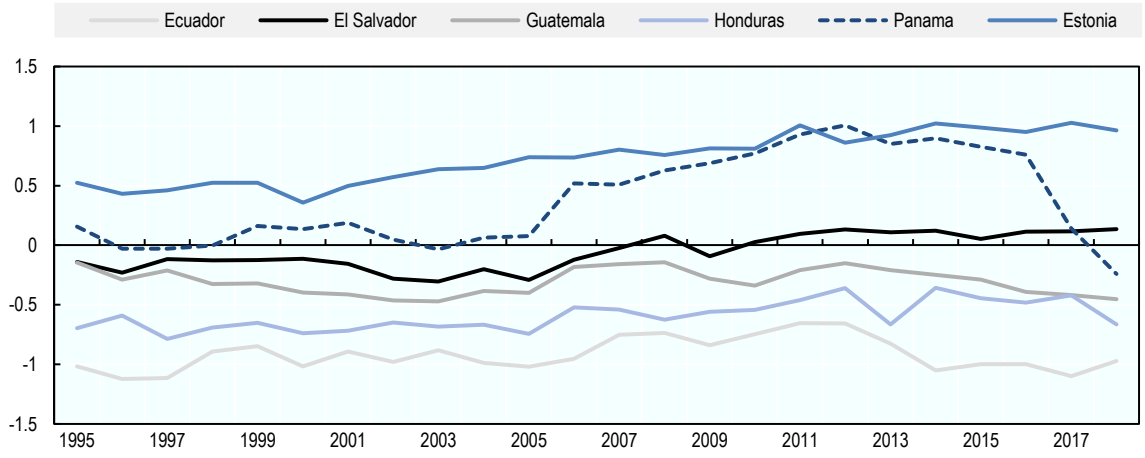
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El Salvador's exports are diversified, and are composed largely of services, textiles and agricultural and food products (Figure 3.6). In 2020, textiles (including apparel) represented 28.4% of El Salvador's total exports, whereas services represented 28.8% of exports and agricultural products 19.3% (Harvard

University Growth Lab, 2020[16]). Manufactured goods accounted for 75.6% of El Salvador's merchandise exports in 2019, prior to the COVID-19 pandemic (World Bank, 2022[1]). Since the 1990s, El Salvador has transitioned from exporting mainly agricultural goods to exporting services and light manufacturing, mainly textiles (Figure 3.6, Panel B). Coffee was El Salvador's main export good for much of the 20th century, but the country's coffee exports fell from 87.5% of total exports in the early 1950s (see Chapter 1) to 32.5% in 1994, and to less than 2% in 2019 (UN, 2022[17]).[4] El Salvador's services and textile exports have expanded since the 1990s, but have grown only slowly since 2013 (Figure 3.6).

Figure 3.7. El Salvador's level of economic complexity has grown slowly

Economic Complexity Index, 1995-2018



Note: In 2018, the country with the best performance was Japan (score: 2.43), and the country with the worst performance Nigeria (score: -1.9).
Source: Harvard University Growth Lab (2020[16]), Atlas of Economic Complexity, https://atlas.cid.harvard.edu/.

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El Salvador's exports are characterised by moderate levels of economic complexity. The complexity of an economy depends on the amount of productive knowledge embedded in it, and can be measured by the composition of a country's productive output (as approximated by the country's exports) (Hausmann et al., 2011[18]). The Economic Complexity Index (ECI) measures the degree of complexity of a country's export basket on the basis of how many other countries are competitive exporters of the same product. Therefore, improvements in the ECI are secured by adding more complex products to the export basket. El Salvador's level of economic complexity as measured by the ECI has stagnated since 2011, and it progressed only at a very slow pace prior to that (Figure 3.7). El Salvador ranked 53th out of 133 countries in the Atlas of Economic Complexity in 2018, as compared to 56th in 2011 (Harvard University Growth Lab, 2020[16]). The country performs better than other Latin American countries such as Honduras, Guatemala or Ecuador, but its level of economic complexity is still much lower than in more developed countries such as Estonia. El Salvador's main export goods have rather low levels of economic complexity. Textiles have an average level of economic complexity of -0.93, and agricultural products have an average level of -0.48 (2018)[5] (Harvard University Growth Lab, 2020[16]). The export products from El Salvador that have the highest levels of economic complexity are complex measuring instruments, flat-rolled alloy steel and electrical capacitors, and a number of paper and plastic products (OEC, 2020[19]).

Raising the sophistication of El Salvador's exports could stimulate economic growth. There is a clear and strong positive relationship between income per capita and the level of economic complexity of a country's exports. Furthermore, countries with a level of economic complexity greater than the one predicted by their level of income tend to experience higher economic growth rates (Hausmann et al., 2011[18]). Using 2017

data, the economic growth rate projected for El Salvador through to 2027 based on its economic complexity score and income per capita would be only 2.07% (without accounting for the COVID-19 pandemic) (Harvard University Growth Lab, 2020[16]). Shifting to the production of more sophisticated goods could improve El Salvador's economic growth performance (Alvarado and Amaya, 2015[20]).

El Salvador's exports are concentrated in goods with low technology and skill intensities. Even though El Salvador has diversified its exports over time, low-tech goods that require little human capital still account for a large share of the country's exports. In 2019, 55.9% of El Salvador's exports were low-tech manufacturing goods, 23.9% were natural resource manufacturing goods, and only 8.4% and 6% of exports respectively were medium- and high-tech manufacturing goods. El Salvador's medium-tech exports represented 11% of the country's export volume prior to the economic and financial crisis of 2008-09, falling to 6.3% of exports in 2011 following the crisis. Even in 2019, medium-tech exports as a share of El Salvador's total export volume had recovered only partially from this shock (ECLAC, n.d.[21]).

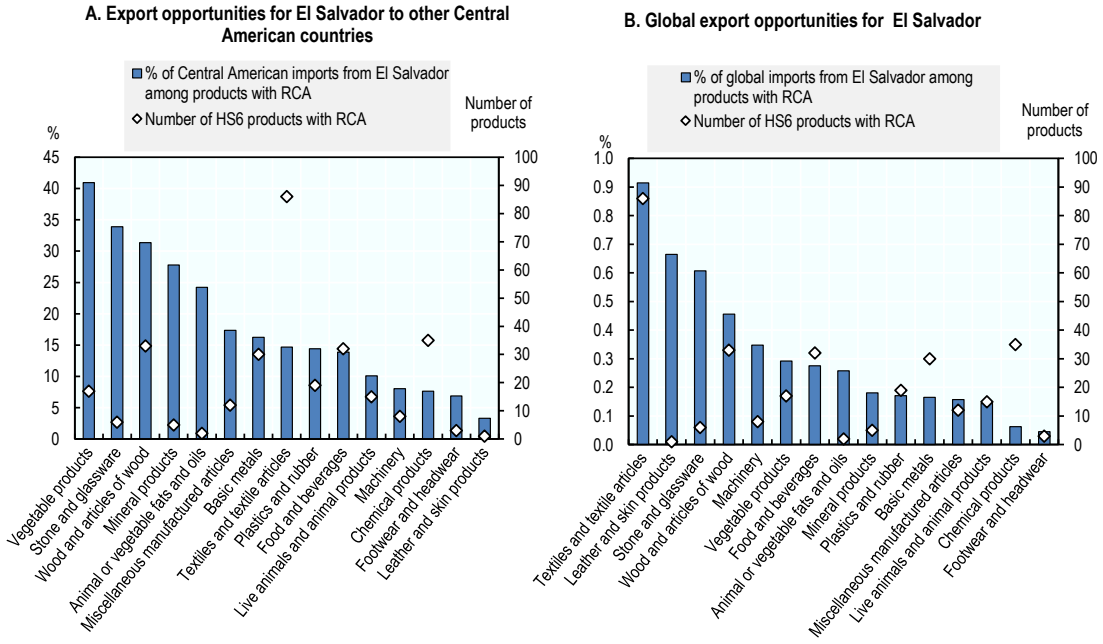
Exports to the Central American region represent an opportunity for El Salvador to decrease the share of low-tech manufacturing goods in its manufacturing exports. While El Salvador's exports to the United States are dominated by low-tech goods (77.7% of exports to the United States in 2019), only 43.8% of its exports to Central America (Costa Rica, Guatemala, Honduras, Nicaragua and Panama) and the Dominican Republic are low-tech goods, and 32.4% of its exports to Central American countries and the Dominican Republic are natural-resource manufacturing goods. El Salvador's exports to Central America and the Dominican Republic include more medium-tech goods (12% in 2019) than those to the United States (2.8%) (ECLAC, n.d.[21]). In 2018, El Salvador's main exports to countries in the Central American region were agricultural goods (32.6% of El Salvador's exports to Central America and the Dominican Republic), textiles (26.1%), chemicals (22.4%), metals (9.6%), and minerals (5.2%) (Harvard University Growth Lab, 2020[16]). Exports to Central America are also more diversified within categories of technological sophistication than exports to the United States, which points to potential for a greater integration of regional value chains (Vázquez López and Morales López, 2018[22]).

El Salvador's integration with the rest of the Central American region is deepening. El Salvador is part of the Central American Integration System (the *Sistema de la Integración Centroamericana,* or SICA). It is also part of CAFTA-DR, a trade agreement between the United States, Central American countries and the Dominican Republic. In 2018, El Salvador also joined a customs union with the so-called Northern Triangle (*Triangulo Norte*) countries, Honduras and Guatemala, as part of the so-called in-depth integration process (proceso de integración profunda) (Secretaría de Comercio e Inversiones, 2020[23]). The Central American integration process has also opened up other avenues. For example, Central America negotiated a bi-regional Association Agreement with the European Union, with political, co-operation and trade pillars (although only the latter is being implemented, as has been the case since 2013) (Caldentey del Pozo, 2022[24]). El Salvador has a National Committee for Trade Facilitation (*Comité Nacional de Facilitación del Comercio*), led by the Ministry of the Economy, and has adopted a number of measures for facilitating trade, including measures for greater regional integration with Central America. El Salvador's exports to the Central American region have increased in recent years, representing 45% of its total exports in 2019 (UN, 2022[17]). Many companies in El Salvador rely on imports and exports passing through neighbouring countries' ports, most importantly in Guatemala and Honduras.

There is scope to further deepen El Salvador's regional trade integration with Central and Latin American countries. The adherence of El Salvador to the customs union of Guatemala and Honduras is not yet operational as of mid-2022, but an action plan is in place to implement it by the end of 2022. Insufficient regional integration is a significant obstacle for private investors, in particular those that rely on imported inputs for production in El Salvador. Cross-border planning for infrastructure, the operationalisation of the customs union with Guatemala and Honduras, and the inclusion of more Central American countries in the customs union would all serve to increase the size of the market, whilst at the same time considerably reducing costs and transport delays for investors. A larger market would facilitate the integration of the region's countries into global value chains (Secretaría de Comercio e Inversiones, 2020[23]).

There are opportunities to increase the volume of trade between El Salvador and Central America. Among the set of products for which El Salvador has a revealed comparative advantage (RCA) greater than one, and for which world imports have experienced positive growth over the past five years (2015 to 2019), El Salvador represents less than 50% of Central American countries' imports in several sectors such as leather, footwear, chemicals, electronics, food, plastics, textiles and others (Figure 3.8, Panel A). In particular, there are opportunities to expand El Salvador's exports of textiles and chemicals to Central American countries. El Salvador has a large number of products with a revealed comparative advantage in both of these sectors (86 and 35 products respectively), but the country currently satisfies only a fraction of Central American countries' import demand for this set of textile and chemical products (14.7% and 7.6% respectively).

Figure 3.8. There are opportunities in multiple sectors to increase El Salvador's exports to Central America and the world



Note: The number of 6-digit HS products with revealed comparative advantage represents the number of products for which El Salvador has a revealed comparative advantage greater than one, and for which imports worldwide grew over the period 2015-19. The share of El Salvador's Central American exports represents the share of its Central American exports of products for which it has a revealed comparative advantage greater than one, and for which global imports grew in 2015-19, by sector. The share of El Salvador's world exports represents the share of its world exports of products for which it has a revealed comparative advantage greater than one, and for which global imports grew in 2015-19, by sector.

Source: UN (2022[17]), *UN Comtrade Database*, United Nations, New York, https://comtrade.un.org/.

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There are opportunities to increase El Salvador's exports not only to Central America, but also to the world. The country's share in world imports of the products for which it has an RCA greater than one, and which have seen international trade increase in 2015-19, is currently less than 1% in all sectors (Figure 3.8, Panel B). In particular, opportunities exist in the chemical sector and in base metals, as El Salvador has a relatively large number of products with a revealed comparative advantage in these sectors, but a small share of the global market (BCR, 2021[25]; UN, 2022[17]).

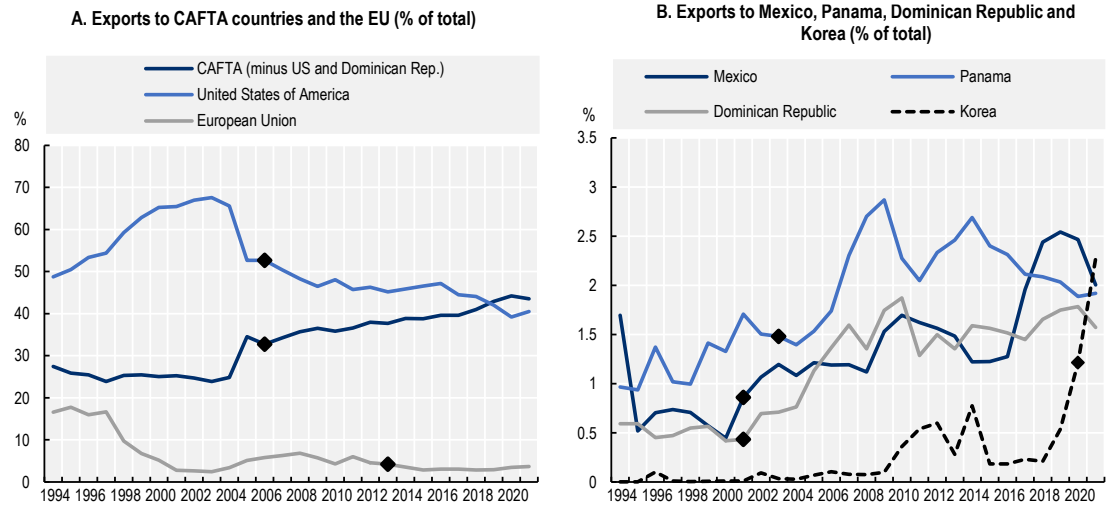
In order to promote and facilitate international exchanges, and exports in particular, El Salvador has been negotiating a range of trade agreements. A new trade agreement between Korea and several Central

American countries, including El Salvador, came into force in January 2020 (MINEC, 2020[26]). Korea is the ninth biggest importer in the world and one of El Salvador's main Asian trading partners, and the stock of Korean investment in El Salvador is more than USD 40 million (MINEC, 2021[27]; MINEC, 2020[26]). In order to take full advantage of this new trade agreement, El Salvador launched an action plan, which includes the identification of potential export products to Korea, and support for private companies in meeting Korea's import requirements. A similar action plan to make the most of the trade agreement with the United Kingdom is also in place. El Salvador is implementing similar action plans to support Salvadoran companies in taking advantage of existing trade agreements, including the ones with the EU and the United States. These actions include communication and promotion activities, as well as the implementation of measures linked to the administration of agreements. Furthermore, El Salvador is currently negotiating several new trade agreements. These include an investment protection agreement with Qatar, a limited-scope trade agreement with Bolivia (which was signed in 2018 but whose ratification is still pending), and amendments to improve existing trade agreements (MINEC, 2020[26]).

There is scope for El Salvador to benefit more from existing trade agreements. The average growth rate of El Salvador's exports to the countries with which it has concluded trade agreements has in all cases been positive following their entry into force, except for the trade agreement with the European Union (EU). In the case of the recent trade agreement that El Salvador concluded with Korea, its exports increased significantly. The absolute value of El Salvador's exports to Korea increased fivefold, and the share of exports to Korea in El Salvador's total exports increased six-fold between 2018 and 2020. El Salvador's sugar exports to Korea more than tripled between 2019 and 2020 (increasing from USD 14.7 million in 2019 to USD 48 million in 2020) (UN, 2022[17]). Exports to Panama, Mexico and the Dominican Republic also increased considerably, both in absolute value, and as a percentage of El Salvador's total exports, following the conclusion of trade agreements with these countries (Figure 3.9). However, the share of total exports to other countries with which El Salvador has concluded trade agreements, such as Cuba, Colombia, Chile, and Chinese Taipei, has increased at a more moderate pace, and has even declined in the case of the United States and the EU. El Salvador's exports to the EU fell both in absolute value and as a share of its total exports after the entry into force of its agreement with the bloc in 2013 (BCR, 2021[25]). This has partly been due to a fall in coffee production linked to an outbreak of coffee rust, and the fall in the price of coffee, which is an important export good to EU countries. In addition, and as part of its economic diplomacy efforts, El Salvador started posting economic counsellors to its diplomatic missions in 2022, with 15 of these officials already in place as of 2022. Their mission is to support the promotion of exports, the attraction of investment, and the promotion of tourism.

Figure 3.9. Some trade agreements have boosted exports from El Salvador, but not all have had the desired impact

Exports as a share of total, and date of entry into force of trade agreements



Note: The black diamonds represent the years of entry into force of the trade agreements. The CAFTA-DR agreement entered into force in 2006 in El Salvador. The trade agreement between Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) and the European Union entered into force in 2013 in El Salvador. The trade agreement between Guatemala, Honduras, El Salvador and Mexico entered into force in 2001 in El Salvador, while the trade agreement between Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and Mexico entered into force in 2012. The trade agreement between Central America (Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua) and Panama entered into force in 2003 in El Salvador. The trade agreement between Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the Dominican Republic entered into force in 2001 in El Salvador. The trade agreement between Central America and Korea entered into force in 2020 in El Salvador.

Source: BCR (2021[25]), *Comercio Exterior*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/bcrsite/?cat=1012&title=Base%20de%20Datos%20Comercio-Exterior&lang=es.

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FDI in El Salvador is directed towards low-skilled activities, and does not flow to the most innovative and technology-intensive sectors

FDI can make significant contributions to raising productivity in El Salvador. Through FDI, foreign technology and cutting-edge technical know-how can be transferred to host economies. Most significantly, this can happen via linkages between foreign firms and local suppliers or partners. Through such linkages, local firms can get access to, and adopt, new technologies, practices and managerial and technical skills, boosting their productivity. Foreign firms' quality standards and technical requirements can provide further incentives for local suppliers to upgrade their technology. Technology transfers can also happen through imitation. Thus, local firms can imitate foreign firms' technologies and practices through observation, or by hiring workers who have been trained by foreign firms. In addition to knowledge transfers, FDI can also improve local suppliers' and partners' access to international markets, eventually deepening the economy's integration into international trade. FDI can further contribute to productivity gains by increasing competition in the local market, forcing less productive firms to close down, and resulting in a re-allocation of resources to more productive firms (OECD, 2015[28]; World Bank, 2017[29]).

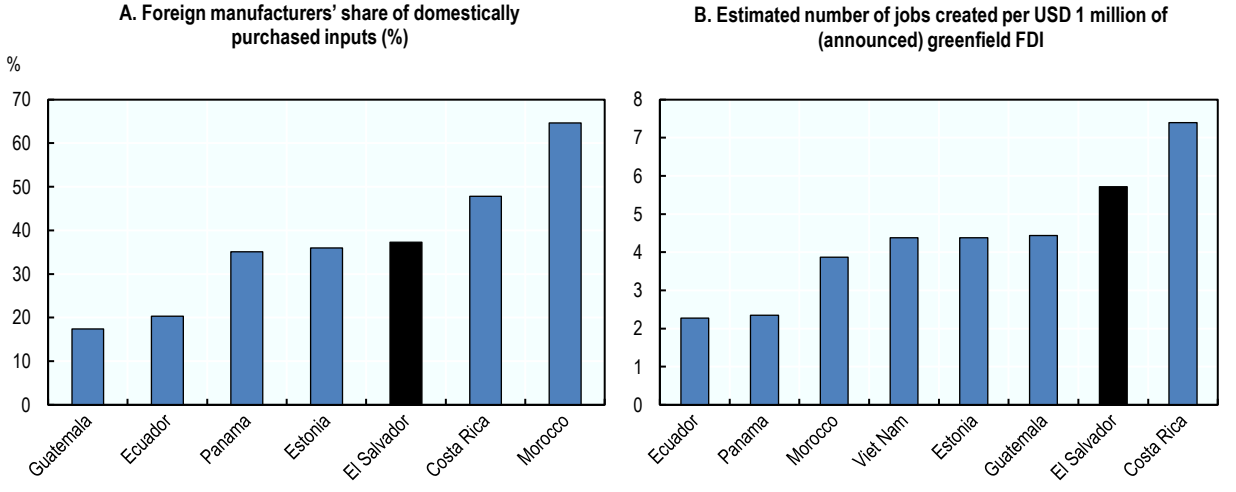
FDI inflows in El Salvador are moderate. Net inflows of FDI averaged 2.1% of GDP between 2015 and 2019, as compared to 3.7% of GDP in Latin America and the Caribbean on average (World Bank, 2022[1]). Between 2012 and 2017, 51.3% of FDI net inflows in El Salvador were directed to the industrial sector,

and 48.3% to the services sector. Net inflows of FDI in services were mainly directed to financial and insurance activities (27.7% of FDI), commerce (12.4%), and information and communication (4.1%) (Sierra, 2019[9]). Between 2014 and 2018, the main countries of origin of FDI inflows in El Salvador were Panama (32.7% of FDI inflows) and the United States (27.8% of FDI inflows) (ECLAC, 2019[30]).

El Salvador performs relatively well in terms of domestic supply-chain linkages between foreign and domestic firms. In El Salvador, foreign manufacturers purchase 37% of their inputs domestically (Figure 3.10, Panel A). El Salvador performs better than other Latin American countries, including Guatemala, Panama and Ecuador, also outperforming developed countries such as Estonia, but it still lags behind Costa Rica (48%) and Morocco (65%). El Salvador ranks 23rd in terms of foreign manufacturers' share of domestic purchases amongst the 61 countries for which data are available. However, foreign manufacturers' average share of inputs purchased domestically remains less than half of that of top-performers such as Colombia (93%) (OECD, 2019[31]).

FDI in El Salvador tends to be labour intensive. Foreign firms in El Salvador perform well in job creation by comparison with international levels. On average, 5.7 new jobs are created in El Salvador per million US dollars of (announced) greenfield FDI (Figure 3.10, Panel B). This is fewer jobs than in Costa Rica (7.4 jobs created), but more than in other Latin American countries, and indeed in a set of comparator countries in Asia, Africa and Europe (OECD, 2019[31]). This is evidence that FDI in El Salvador is directed towards relatively labour-intensive sectors. Indeed, both, the textile and apparel sector, and the food industry – two important sectors in El Salvador's economy – figure amongst the ten top performing sectors worldwide in terms of job creation per million US dollars of (announced) greenfield FDI (OECD, 2019[31]), because these sectors tend to be very labour intensive.

Figure 3.10. El Salvador performs relatively well in terms of FDI-induced job creation and local linkages



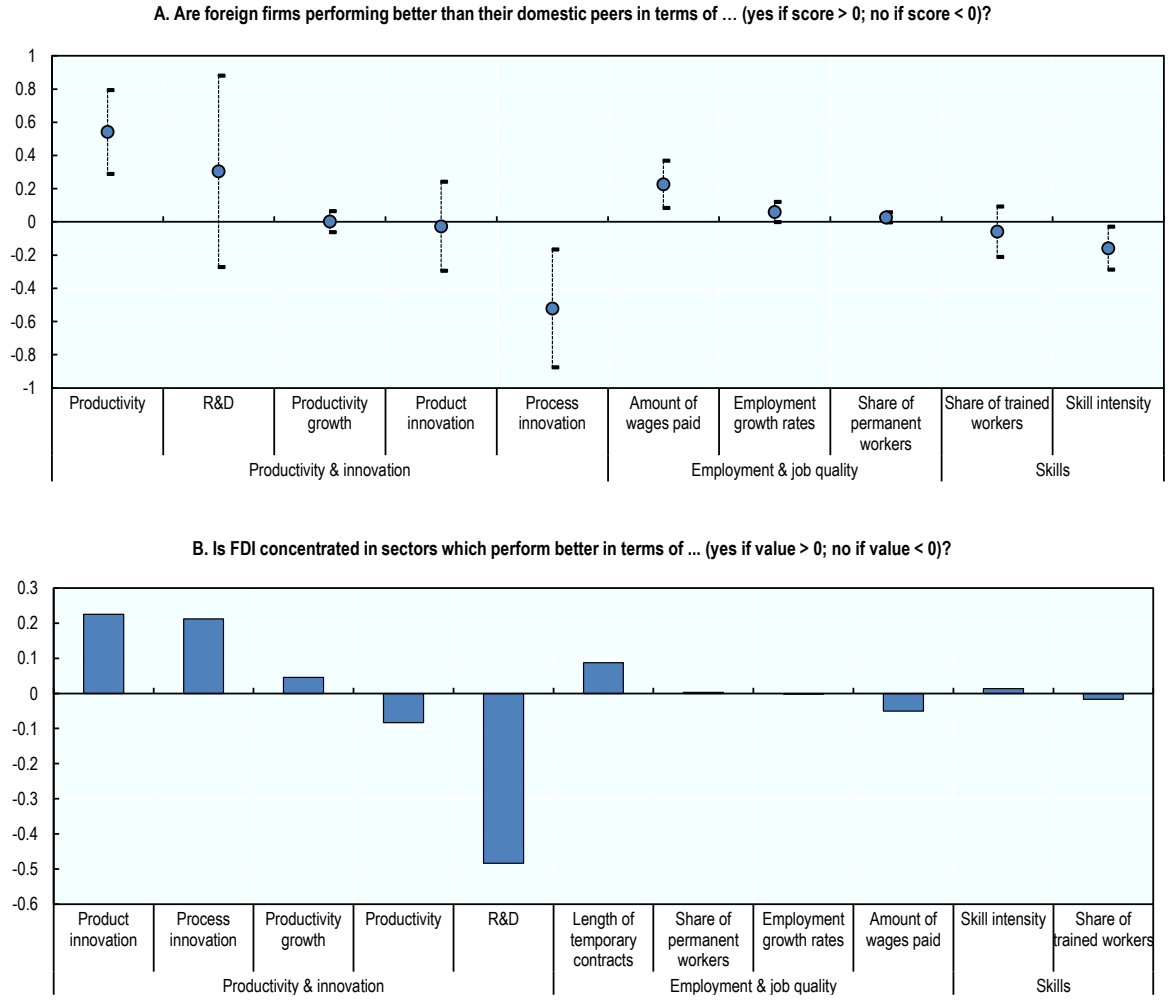
Source: OECD (2019[31]), *FDI Qualities Indicators: Measuring the sustainable development impacts of investment*, OECD Publishing, Paris, http://www.oecd.org/fr/investissement/fdi-qualities-indicators.htm.

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Foreign firms in El Salvador outperform their domestic peers in terms of productivity, wages, and the degree of technological sophistication of the sectors in which they invest. Foreign firms in El Salvador perform better than their domestic peers in terms of productivity, and they pay higher wages on average (Figure 3.11, Panel A). Thus, foreign firms in El Salvador seem to be cost-competitive, and more productive and efficient than their domestic counterparts. Furthermore, FDI in El Salvador is concentrated in sectors that perform better in terms of process and product innovation (Figure 3.11, Panel B).

However, foreign firms in El Salvador perform worse than domestic firms in terms of process innovation and skills intensity (Figure 3.11, Panel A). Furthermore, FDI in El Salvador is not concentrated in sectors that are particularly skills-intensive. What is more, it is concentrated in sectors with low research and development (R&D) intensities (Figure 3.12, Panels A and B). Across OECD countries, FDI is concentrated in sectors with higher labour productivity and higher R&D intensity.

Figure 3.11. Foreign firms in El Salvador are more productive and pay higher wages, but FDI is not directed towards El Salvador's most productive and R&D-intensive sectors



Notes: Panel A: This figure shows Type 1 indicators. Type 1 indicators measure how foreign firms perform relative to domestic firms for a given outcome. The indicator registers a positive value if foreign firms have higher outcomes than domestic firms, and a negative value if foreign firms have lower outcomes, on average. Confidence intervals are reported at the 95% confidence level. If the confidence interval crosses the zero line, the difference of average outcomes of foreign and domestic firms is not statistically significant. Panel B: This figure shows Type 2 indicators. Type 2 indicators show whether FDI is concentrated in sectors with higher or lower sustainable development outcomes, while also controlling for the economic size of each sector. Panels A and B: See Annexes B and C of OECD (2019[31]) for a detailed description of the methodology and data.

Source: OECD (2019[31]), *FDI Qualities Indicators: Measuring the sustainable development impacts of investment*, OECD Publishing, Paris, http://www.oecd.org/fr/investissement/fdi-qualities-indicators.htm.

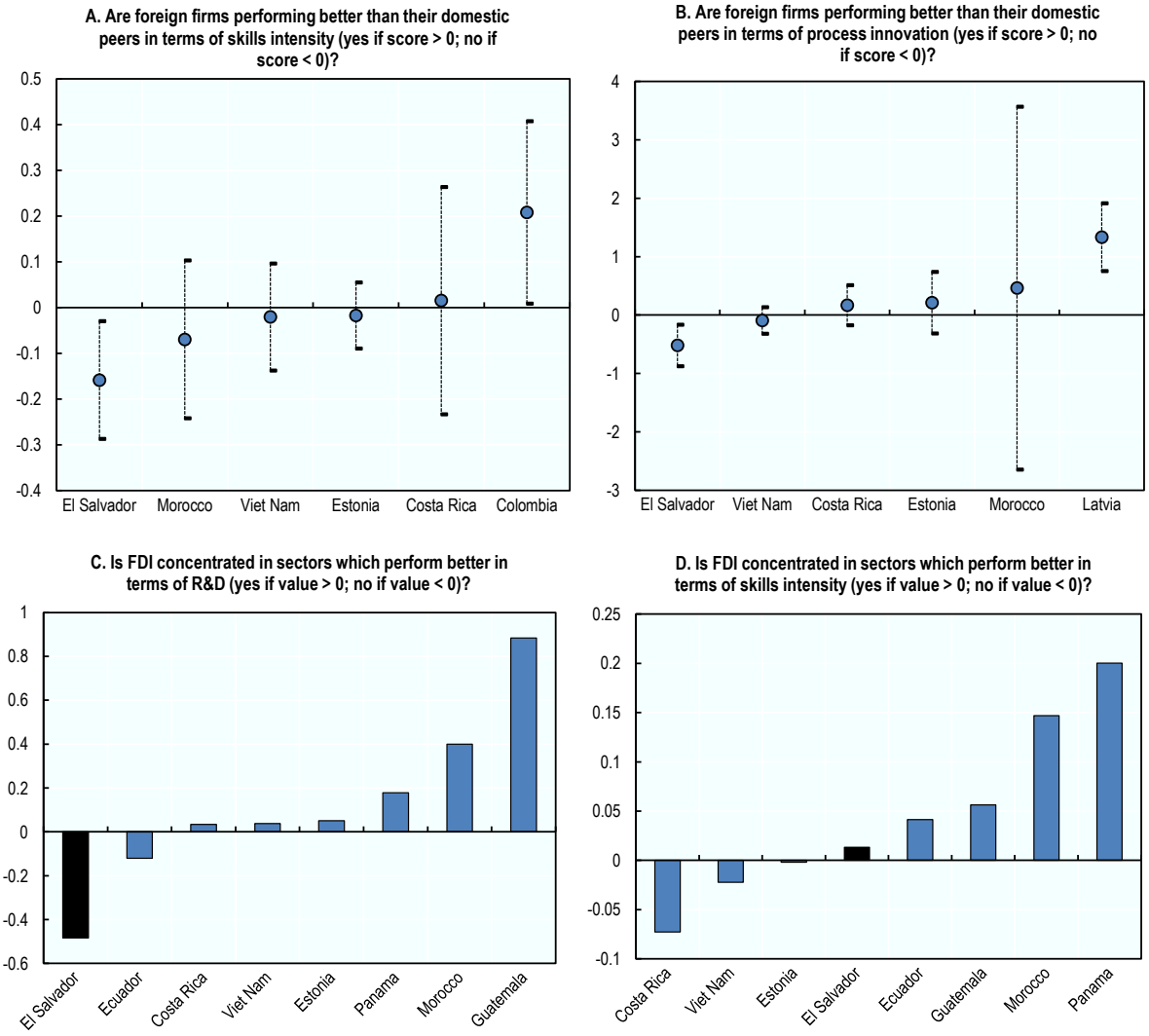
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El Salvador could leverage FDI to make a larger contribution both to improvements in productivity and to moving the country's businesses up the value chain. In future, attracting more innovation and skills-intensive FDI into the economy's most productive sectors could help El Salvador to move up the value chain and to

increase productivity. Attracting FDI into lower value-added sectors can also contribute to improvements, for example in tradable light manufacturing. An international comparison with other developing economies shows great variation in the degree to which different countries attract FDI to R&D and skills-intensive sectors (Figure 3.12, Panels C and D). To leverage the potentially transformational effect of FDI, it is necessary, therefore, to align investment promotion policies with economic transformation policies.

Figure 3.12. In international comparison, El Salvador performs poorly in terms of FDI's skills and innovation and R&D intensities

Data for 2020 or from the latest available enterprise survey as of 2020



Notes: Panels A and B: This figure shows Type 1 indicators. Type 1 indicators measure how foreign firms perform relative to domestic firms for a given outcome. The indicator registers a positive value if foreign firms have higher outcomes than domestic firms, and a negative value if foreign firms have lower outcomes, on average. Confidence intervals are reported at the 95% confidence level. If the confidence interval crosses the zero line, the difference of average outcomes of foreign and domestic firms is not statistically significant. Panels C and D: This figure shows Type 2 indicators. Type 2 indicators show whether FDI is concentrated in sectors with higher or lower sustainable development outcomes, while controlling for the economic size of each sector. Panels A, B, C and D: See Annexes B and C of OECD (2019[31]) for a detailed description of the methodology and data. Data correspond to the latest survey available in each country at the time of writing.
Source: OECD (2019[31]), *FDI Qualities Indicators: Measuring the sustainable development impacts of investment*, OECD Publishing, Paris, http://www.oecd.org/fr/investissement/fdi-qualities-indicators.htm.

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El Salvador's participation in Global and Regional Value Chains (GVCs) has untapped potential to increase productivity

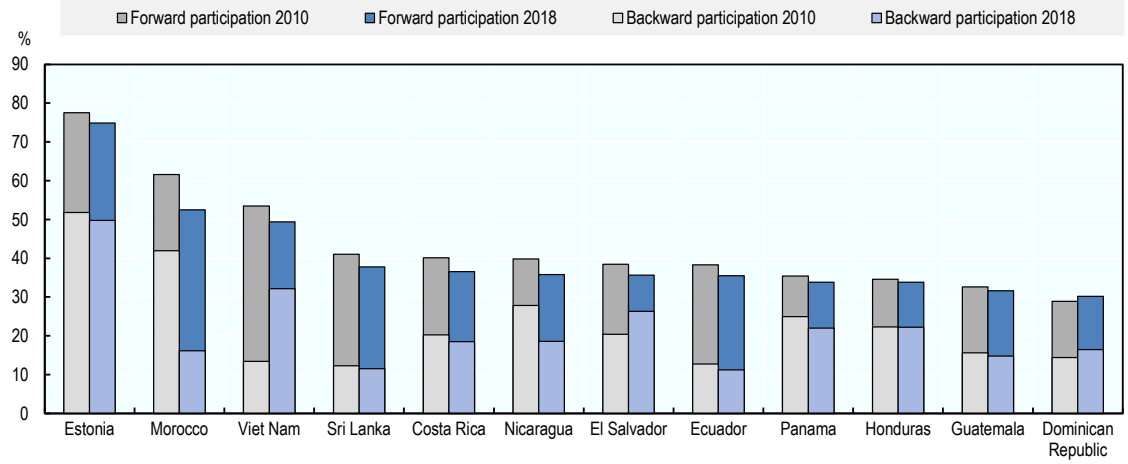
Emerging analysis suggests that participation in GVCs can bring multiple benefits to countries. In particular, it can bring about increases in productivity, along with higher degrees of diversification and sophistication in production (Cadestin, Gourdon and Kowalski, 2016[32]). Participation in GVCs can take multiple forms, and it is often measured through the use of foreign inputs in production (backward participation), and the supply of intermediate goods to value chains (forward participation). Evidence suggests that participation in GVCs leads to increased productivity through multiple channels: it allows for greater vertical specialisation, generates competition in domestic markets for inputs, allows firms to access technology and knowledge embodied in new varieties of inputs, and is a vehicle for FDI-driven knowledge spill-overs (Criscuolo and Timmis, 2017[33]).

There is scope to increase the Salvadoran firms' participation in GVCs. The experience of major export sectors in El Salvador that are embedded in GVCs shows that their internationalisation can boost productivity. On the other hand, performance among sectors providing commodities and raw-material-based intermediate goods to regional and global value chains is mixed. There is, therefore, also potential to increase the contribution of internationalisation to productivity by improving firms' prospects and capacities within GVCs. Finally, regional value chains can potentially sustain productive transformation by generating greater value added in the region (as in the case of textiles), and by generating productive capacity in products that may not yet be competitive globally.

El Salvador's participation in GVCs is in line with that of its regional peers, but lower than comparator countries that play a larger role in their regional production networks (Figure 3.13). The expansion of GVCs slowed down significantly following the global financial crisis (WTO, 2019[34]). While complex GVCs have subsequently grown faster than less complex ones, this has resulted in a reduction in measured participation in GVCs in El Salvador, and indeed across most countries in the comparison group.

Figure 3.13. The participation of El Salvador in Global Value Chains is in line with regional peers, but has fallen marginally in the past decade

Backward and forward participation in GVCs, 2010 and 2018



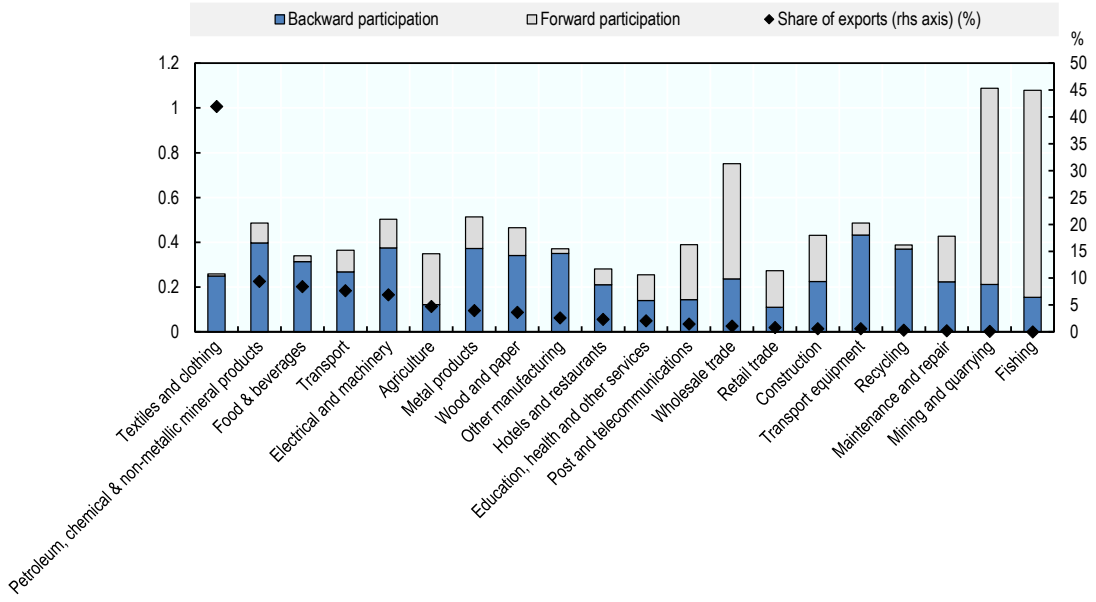
Note: Backward participation refers to foreign value added as a share of exports. Forward participation refers to domestic value added embedded in foreign exports, as a share of total exports.
Source: Authors' calculations based on UNCTAD/Eora (2020[35]), *UNCTAD-Eora Global Value Chain Database*, United National Conference on Trade and Development, Geneva, https://www.worldmrio.com/unctadgvc/.

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The participation of El Salvador in Global Value Chains takes place largely through backward channels in key export sectors. The largest export sector, textiles and apparel, used just under 25% of imported inputs in its export production, according to data from the UNCTAD-Eora Global Value Chain Database (UNCTAD/Eora, 2020[35]). The same pattern is found in other important export sectors, both in manufacturing (petroleum, chemicals and non-metallic mineral products, electrical and machinery), and in certain services such as transport (Figure 3.14). Certain primary-sector exports are more integrated into GVCs, especially fishing and mining, but they represent a much smaller fraction of exports. They are also placed very much upstream in their respective value chains, while most manufacturing sectors are placed downstream in their respective value chains. In other words, sectors with high forward participation in El Salvador use relatively few imported inputs to produce exported intermediate goods, in large part because the products that they export do not require complex transformation. In contrast, sectors like textiles and apparel export final goods, and are therefore at the end of the production value chain.

Figure 3.14. El Salvador participates in GVCs largely through backward channels in key export sectors

El Salvador's backward and forward participation in GVCs by sector (2017), and share of exports in value added



Note: Backward participation refers to foreign value added as a share of exports. Forward participation refers to domestic value added embedded in foreign exports, as a share of total exports.
Source: Authors' calculations based on UNCTAD/Eora (2020[35]), *UNCTAD-Eora Global Value Chain Database*, United National Conference on Trade and Development, Geneva, https://www.worldmrio.com/unctadgvc/.

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Regional value chains play a major role in the insertion of El Salvador into GVCs. As much as 8% of value added embedded in Salvadoran exports is generated elsewhere in Central America (including the Dominican Republic), while 6% is generated in the United States. Conversely, of the 4.7% of Salvadoran exports that is embedded in third-country exports, 1.5% is exported to the Central American region. The nature of regional and global value chains sometimes differs. For example, although there is a regional value chain in the production of textiles and apparel, it is largely directed at exports to the United States of America, which imports 71% of El Salvador's textile and apparel exports, mostly in finished goods. The importance of regional value chains reflects the growing importance of regional trade for El Salvador. Trade

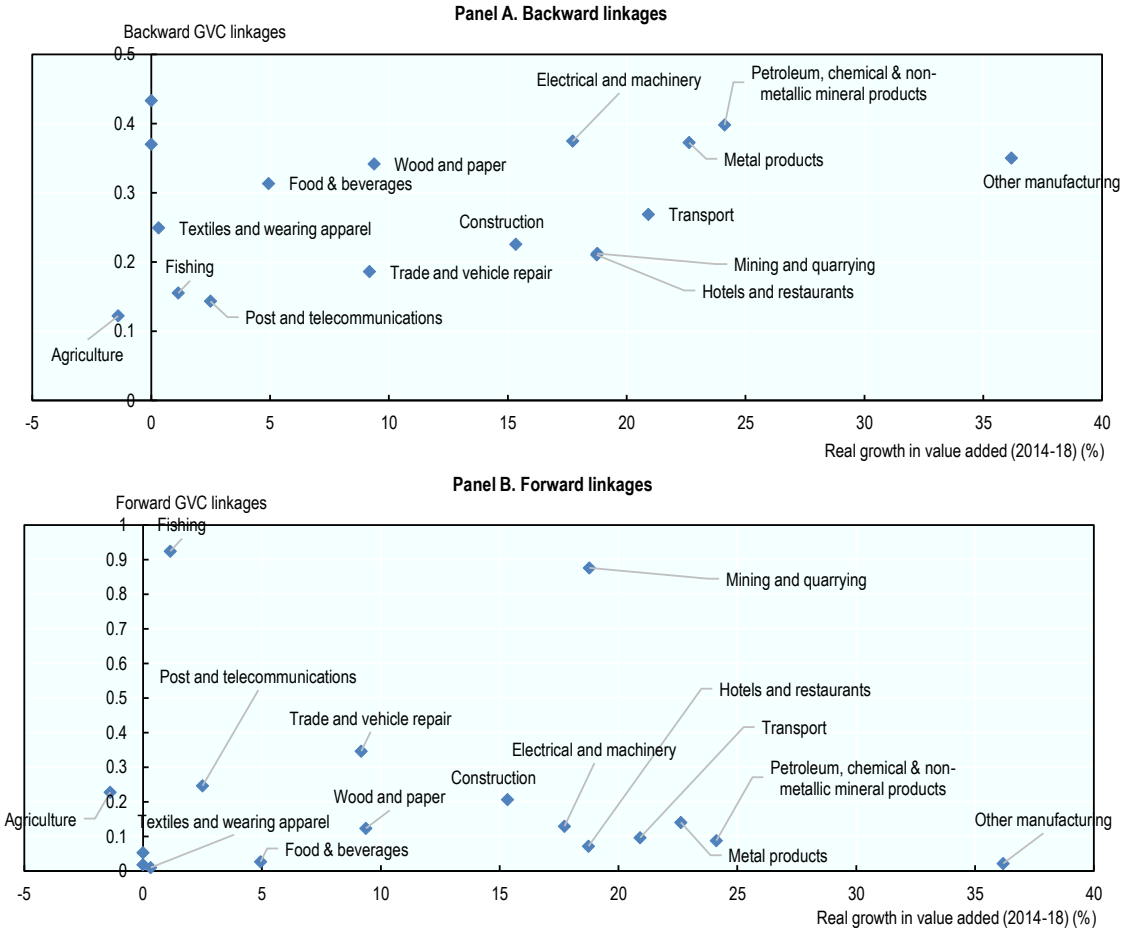
with Central America grew from 28% to 55% of the country's exports between 2000 and 2018 (BCIE, 2020[36]).

Sectors with backward linkages have grown in size and productivity in the past few years. Figure 3.15 shows growth in value added by aggregate sector linked to each sector's backward and forward GVC linkages, while Figure 3.16 shows the relationship between GVC linkages and growth in value added per worker. Sector selection was determined by matching supply-use tables and the UNCTAD-Eora Global Value Chain Database, and excluding professional and business services, which are classified differently in the two databases. Forward linkages can sustain demand through derived demand for global export products. However, the sectors with the largest forward participation in GVCs did not perform particularly well during the period. While mining and quarrying saw significant growth in value added, it was with very modest productivity growth. On the other hand, most sectors with significant backward linkages not only saw growth in value added, but this growth was driven – at least in part – by growing labour productivity.

Despite the good performance of manufacturing sectors with deeper GVC links, GVC integration still has untapped potential in El Salvador. Indeed, overall GVC participation remains relatively low in the country. In addition, the sub-region as a whole, plus certain sectors with GVC integration, have not seen increased productivity. Making the most of GVC integration begins with trade policy, as multiple border crossings lead to a compound application of tariffs on final products. Moreover, evidence suggests that, in the framework of GVCs, small improvements in trade facilitation can significantly increase the potential trade in value added. Analysis of the key determinants of GVC participation by the OECD finds that trade facilitation and customs performance, the quality of infrastructure and institutions, the protection of intellectual property, and the quality of electricity supply, are particularly important (Kowalski et al., 2015[37]).

Figure 3.15. Backward GVC linkages have sustained growth in a range of sectors

El Salvador, 2017



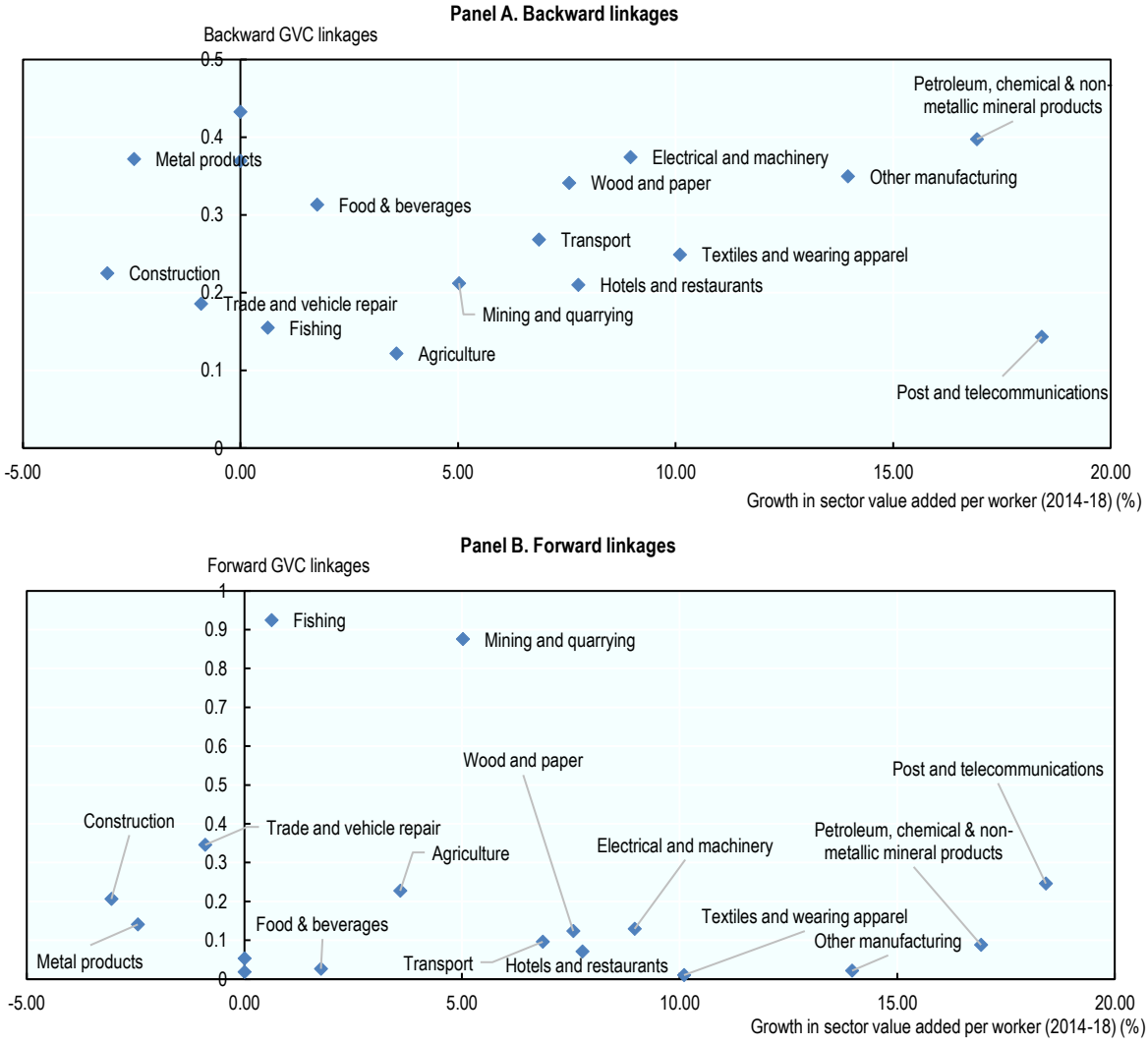
Note: Backward participation refers to foreign value added as a share of exports. Forward participation refers to domestic value added embedded in foreign exports, as a share of total exports.

Source: Authors' calculations based on UNCTAD/Eora (2020[35]), *UNCTAD-Eora Global Value Chain Database*, United National Conference on Trade and Development, Geneva, https://www.worldmrio.com/unctadgvc/. Productivity derived from supply-use tables: BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx.

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Figure 3.16. Sectors with deeper backward GVC linkages saw higher productivity growth

GVC participation and growth in value added per worker, by sector, El Salvador, 2017



Note: Backward participation refers to the foreign value added as a share of exports. Forward participation refers to domestic value added embedded in foreign exports, as a share of total exports.

Source: Authors' calculations based on UNCTAD/Eora (2020[35]), *UNCTAD-Eora Global Value Chain Database*, United National Conference on Trade and Development, Geneva, https://www.worldmrio.com/unctadgvc/. Productivity derived from supply-use tables: BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx.

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Only a small fraction of Salvadoran firms are globally competitive, and there are wide differences within sectors

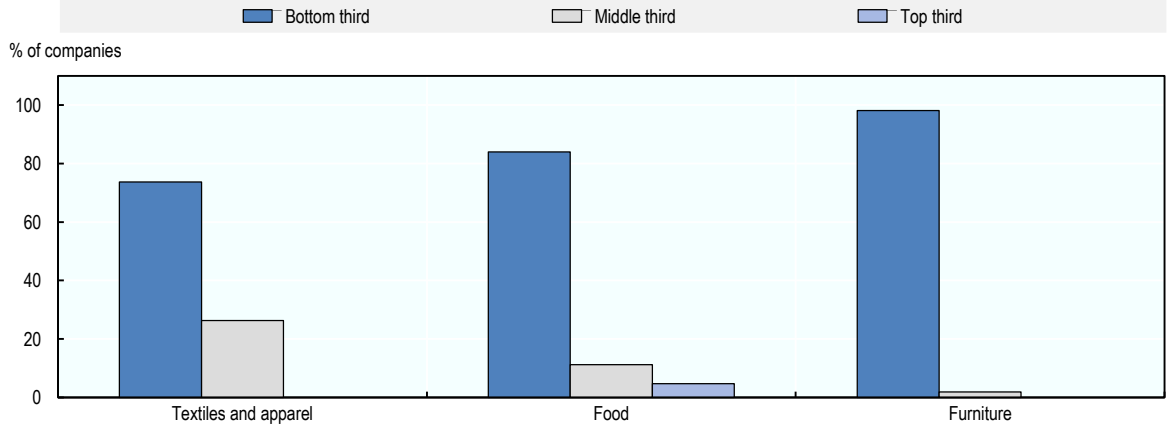
Total factor productivity is a key measure of performance at the level of individual firms. It captures the efficiency with which factors of production are used. At the aggregate level, it captures not only the technology of production, but also institutional factors, which can play a major role in the efficiency of production, both in terms of the organisation of production (such as managerial practices), and in terms of

the profitability of an enterprise (through the quality of factors of production, which is usually not well measured, and through the appropriability of returns or other costs of doing business that limit value added at the firm level). This section uses TFP estimates calculated on the basis of the World Bank's Enterprise Surveys to show the distribution of productivity of Salvadoran firms compared to the global distribution of productivity in the same sector (Francis et al., 2020[38]).[6]

The total factor productivity (TFP) performance of firms in El Salvador's main manufacturing industries remains poor by comparison to international levels. Figure 3.17 shows the distribution of firms' TFP relative to global distribution within the same sector. If a given sector in El Salvador had the same distribution of productivity as world distribution, then it would have 33% of firms in each of the global quantiles. In El Salvador's main manufacturing industries – textiles and apparel, and food manufacturing – the large majority of firms (73.7% and 84% respectively) are in the world's bottom third of companies in terms of TFP performance. Almost all companies (98.1%) in furniture manufacturing – another important manufacturing industry in El Salvador – are in the world's 33% least productive firms. Both in textiles and apparel, and in furniture manufacturing, El Salvador has no firms that are in the world's top third of most productive companies. In food manufacturing, meanwhile, the share of Salvadoran companies that are in the world's top third of companies in terms of TFP performance is small (4.7%). If all manufacturing firms are assigned to their group in the global distribution of productivity, only 17% of Salvadoran firms appear in the top third (Figure 3.18). This is largely due to the country's small share of globally competitive firms in key manufacturing sectors (such as textiles and apparel, and agri-food). On the other hand, when all firms are compared to the global distribution of TFP, 31% of Salvadoran firms are in the top third. This is explained by the presence of highly productive firms in other sectors (such as publishing).[7]

Figure 3.17. Differences in TFP exist not only between manufacturing sub-sectors, but also within sub-sectors

Companies in El Salvador by their position in world TFP distribution

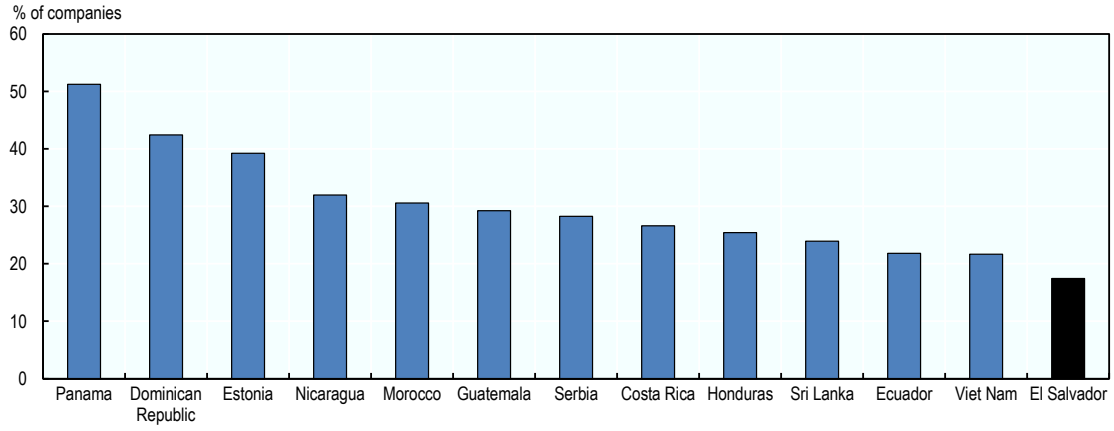


Source: Authors' calculation based on World Bank (2016[39]), *Enterprise Surveys - El Salvador*, World Bank, Washington D.C., https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador.

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Figure 3.18. A relatively small share of Salvadoran manufacturing firms are globally competitive in terms of TFP

Share of firms in the top third of the global TFP distribution of their sector (all manufacturing, latest survey by country)



Source: Authors' calculations based on World Bank (2016[39]), *Enterprise Surveys - El Salvador*, World Bank, Washington D.C., https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador.

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Highly productive firms in El Salvador are the ones that innovate. The distribution of productivity is skewed to the left for almost all sectors: in most sectors, there are few firms that are highly productive, and many that have low productivity. It is, therefore, particularly important to determine their characteristics. Innovation stands out among the predictors of high productivity. Indeed, 29% of firms that introduced a new product, service, or process in the past three years enjoy levels of productivity that are in the upper third, compared to just 3% of those that did not. The result is similar whether innovation is measured by the introduction of new products, services or processes. However, when comparing internationally, only 42% of Salvadoran firms are in this group. This is similar to some sub-regional peers like Dominican Republic (42%), but significantly behind others like Costa Rica (68%). Export orientation also helps to identify more productive firms, although to a lesser degree. In this vein, 22% of exporters are highly productive, compared to 17% of non-exporters. Other factors do not seem to play a major role. Foreign-owned firms are less likely to be highly productive, even though they perform better on average. Firms with international certifications are also less likely to be highly productive, which indicates that certification serves to capitalise on existing advantages (including cost advantages), rather than necessarily to generate new ones.

The size of the informal sector is a drag on productivity and job quality in El Salvador

The informal sector in El Salvador is sizeable. According to a micro and small enterprise survey carried out in 2017 by El Salvador's National Commission for Micro and Small Businesses, the *Comisión Nacional de la Micro y Pequeña Empresa* (CONAMYPE), 75% of micro and small enterprises in El Salvador are informal (i.e. they are not registered for value added tax [VAT]) (CONAMYPE, 2018[40]). In addition, 69.1% of employment was informal in 2019, a rate that has not changed significantly in the past decade (ILO, 2022[2]).

Informal firms generate lower value added and pay lower wages to their employees. Among micro and small enterprises in El Salvador, labour productivity is strongly associated with average wages, both among informal firms, and among those that are registered. Formal small and medium-sized enterprises (SMEs) in the most productive quintile pay wages that are eight times higher than those of the least productive firms (Banegas and Winkler, 2020[41]). In turn, informal workers receive hourly wages that are 5.8 times lower than those of formal workers. This is one of the highest ratios among the 40 countries that are covered by the OECD database of Key Indicators of Informality based on Individuals and their Households (KIIbIH) (OECD, 2021[42]). According to El Salvador's 2019 Multi-purpose Household Survey, the average wage of formal workers was USD 492.64 per month, while the average wage of informal workers was only USD 208.10 per month (DIGESTYC/MINEC, 2020[3]).

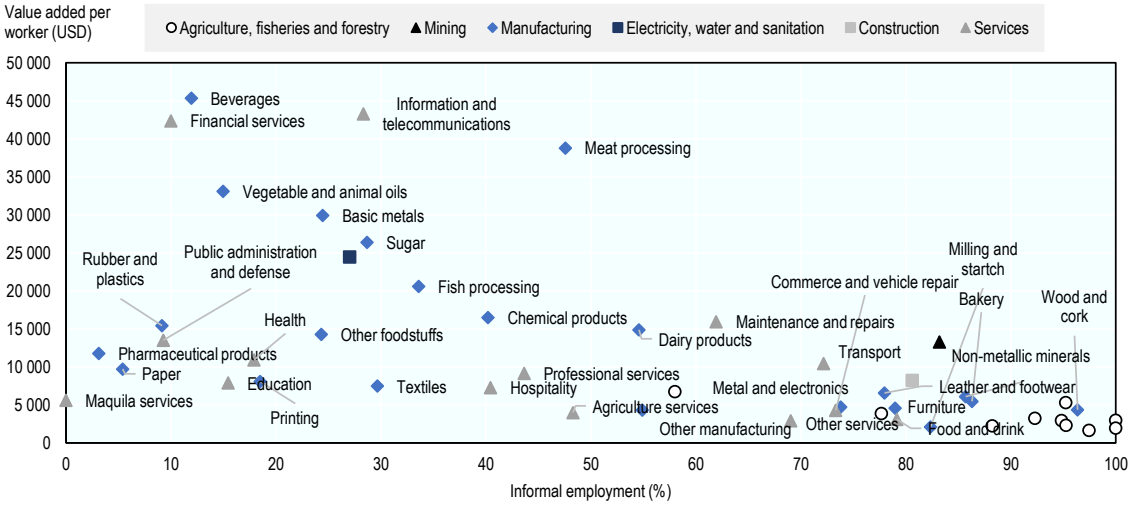
Informal jobs are of a lower quality than formal-sector jobs in other dimensions too. In emerging countries, informal workers do not only earn less, but they are also more likely to work very long hours than formal workers (OECD, 2016[43]). In El Salvador, a higher proportion of informal workers work more than 49 hours per week (29%, compared to 27% among formal employees). Furthermore, a higher proportion of informal workers work fewer than 20 hours per week (14%, compared to 5% of formal workers). This reflects the difficulty of generating gainful employment, even in the formal sector. Informality is also strongly associated with vulnerability and lower wages in El Salvador. In 2014, 71.4% of the poor were employed in the informal sector[8], and 56.3% of the vulnerable, compared to 36.1% of the middle class (OECD et al., 2019[44]).

The informal sector is also less productive than the formal sector in El Salvador. Informal firms are, on average, smaller and less productive than formal firms in developing countries. In El Salvador, there is a clear and strong negative relationship between the level of informality of an economic sector, and the average value added per worker by sector (Figure 3.19). All sectors with high levels of informality exhibit low labour productivity, while highly productive sectors have relatively low informality (this notwithstanding, the meat processing sector, for example, has high value added per worker despite having over 40% informal employment). Indeed, formality is not a sufficient condition to ensure high productivity. Sectors in El Salvador with a relatively low degree of informality (less than 35% informal employment) are sub-divided into sectors with low value added per worker, and sectors with high value added per worker. In the services sector, the sectors with both a relatively low share of informal employment and a relatively low level of value added per worker are public administration, as well as sectors with a high degree of public-sector participation (education and health). In manufacturing, the distribution of sectors with low informality in terms of their value added per worker reflects the two-speed nature of the Salvadoran economy. Some manufacturing industries with modest productivity levels, mainly light manufacturing, including apparel, coexist with highly productive manufacturing and especially service sectors.

Low levels of education among informal entrepreneurs, as well as low levels of innovation in informal enterprises, contribute to low levels of productivity in the informal sector in El Salvador. Among managers of informal enterprises in El Salvador, 14% have no formal education, and 46.4% have completed primary education only. Only 8.3% of informal enterprise managers have a university education. The innovation levels and growth prospects of informal enterprises in El Salvador are quite limited. Only 1% of informal enterprises have links with universities on innovation and development issues, and only 3% have links with the government when it comes to innovation issues (ILO, 2019[45]).

Figure 3.19. High informality is associated with low productivity in El Salvador

Informal employment (as % of total employment), and value added per worker (USD), by sector



Note: Informality is measured by workers without pension rights, health insurance, social protection, employment contracts and other rights and benefits of formal employment.

Source: Authors' calculations based on DIGESTYC/MINEC (2020[3]), *Encuesta de Hogares de Propósitos Múltiples (EHPM), 2000 – 2018*, Dirección General de Estadística y Censos, San Salvador and BCR (2020[8]), *Cuadros oferta utilización*, Banco Central de Reserva, San Salvador, https://www.bcr.gob.sv/documental/Inicio/descarga/e3f984bb935cd0df8e97a88f88651412.xlsx and methodology from OECD/ILO (2019[46]), *Tackling Vulnerability in the Informal Economy, Development Centre Studies*, OECD Publishing, Paris, https://doi.org/10.1787/939b7bcd-en.

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Notes

[1] Costa Rica, Dominican Republic, Guatemala, Honduras, Nicaragua and Panama.

[2] El Salvador does not publish official data on underemployment in rural areas. For this analysis, the official method used for urban areas was replicated and applied to the employed population over 15.

[3] Light manufacturing produces consumer goods for final consumers and, in some cases, intermediate products, generally from partially processed materials. It requires less capital and technology than heavy industry. It includes sectors such as textiles and shoes, food and drink products, pharmaceutical products, electronic products, cosmetics, books, magazines and newspapers.

[4] The main reasons for the decline of the coffee sector were the civil war and government control of coffee sales and exports in the 1980s, land reforms in the 1980s and early 1990s, reforms liberalising El Salvador's economy at the end of the civil war in the 1990s, and increased competition from other countries in the 1990s and early 2000s.

[5] On a scale of 2.56 (for the product with the highest level of economic complexity in 2018) to -3.33 (for the product with the lowest level of economic complexity in 2018) (Harvard University Growth Lab, 2020[16]).

[6] This data also has a number of limitations. Importantly for El Salvador, it does not include services sectors, which were partly surveyed, but which do not reply to questions on capital inputs. Additionally, the sample is built to ensure the representativeness of a small number of manufacturing sectors, but it cannot be construed as representative of all sub-sectors (given the relatively small size of the sample).

[7] However, the Enterprise Survey for El Salvador is not built to be representative at the level of individual manufacturing sub-sectors, which prevents sector-by-sector comparisons.

[8] Informality is measured by workers without pension rights, health insurance, social protection, employment contracts, and other rights and benefits of formal employment.

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4 Overcoming cross-cutting obstacles to competitiveness and productivity growth in El Salvador

This chapter focuses on selected key issues that constrain productivity and profitability in El Salvador and provides analysis and policy recommendations to address them. First and foremost, it is essential to combat crime, and to mitigate its impact on business. Improving the quality of El Salvador's energy and transport infrastructure would reduce operating costs for private companies. Removing barriers to international trade and further deepening regional integration could stimulate El Salvador's exports. Reducing the country's lengthy bureaucratic procedures could also boost productivity and private investment. Access to finance remains an obstacle for micro and small enterprises in El Salvador, which constitute the large majority of Salvadoran businesses. Accelerating digitalisation could lead to significant efficiency gains. Finally, innovation could bring benefits to the Salvadoran economy through the creation and diffusion of new and emerging production technologies.

In order to expand productive industries and raise the level of productivity, and to attract more foreign direct investment (FDI), El Salvador must improve the provision of key public goods and reduce the impact of existing obstacles to doing business that affect all enterprises. Chief among these obstacles is crime, high levels of which generate additional costs for private companies in the country. Among the other important obstacles that businesses in El Salvador face are delays at the borders, the limited quality of transport and energy infrastructure, relatively low levels of digitalisation, heavy bureaucracy, and difficulties in access to finance. Removing these obstacles to private investment and business growth could reduce the cost of doing business in El Salvador, and, in turn, could increase productivity levels. At the same time, an improved business climate could stimulate private investment, including FDI.

This chapter focuses on selected key issues that constrain productivity and profitability in El Salvador. It begins by highlighting key cross-cutting issues for businesses in the country. Then, it analyses the specific impact on business of a broader socio-economic issue for the country: high levels of crime and insecurity. Education and skills also stand out among the key issues that businesses face in El Salvador, but discussion of that theme is found in Chapter 7 of this publication. The current chapter goes on to analyse infrastructure spending priorities, before reviewing key institutional issues such as trade, regulation and finance. Finally, the chapter looks at the development capacity offered by digitalisation and innovation to overcome some of these obstacles, and to harness the country's development potential.

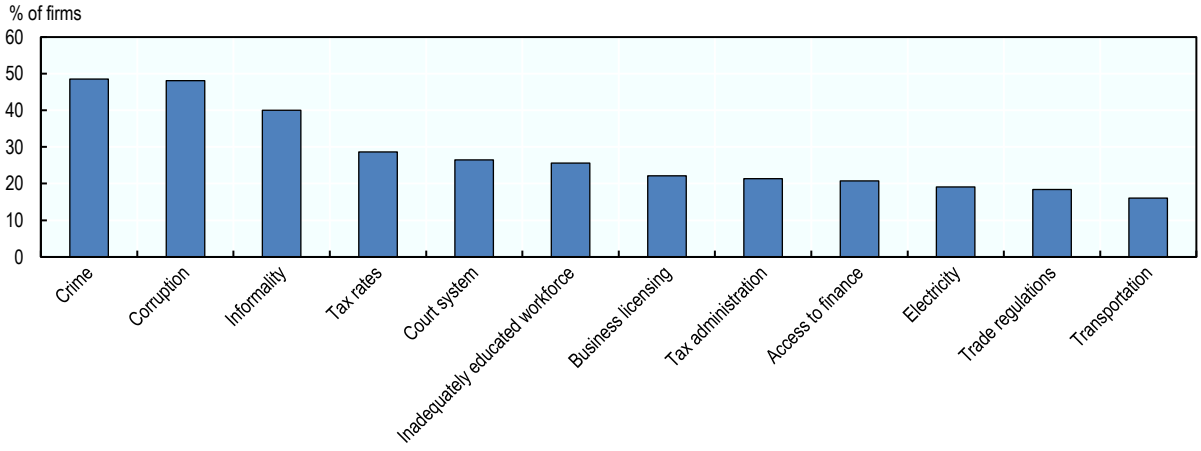
El Salvador should address key barriers to competitiveness and productivity growth, and target strategic sectors

El Salvador needs to improve its productivity performance. For this purpose, it needs to expand some highly productive services and manufacturing industries, whilst simultaneously further raising their levels of productivity and those of other less productive sectors. El Salvador must also shift to the production and export of more sophisticated technology- and skills-intensive goods and services. Attracting more FDI that is rich in technology, skills and innovation into the Salvadoran economy’s most productive and innovative sectors could help the country to raise the level of sophistication of the goods and services that it produces, whilst at the same time enhancing the productivity of individual industries through innovation and transfers of technology.

In order to expand productive industries, raise their levels of productivity further, and attract more FDI, El Salvador will need to address key obstacles to the development of the private sector, most importantly crime and a shortage of technical skills. High levels of crime and a shortage of skilled labour generate additional business costs for private companies in the country. Crime has long been the main obstacle to doing business for firms in El Salvador, with 48.5% of companies in the country identifying it as a major constraint in 2016, when the latest globally comparable enterprise survey was carried out in the country (Figure 4.1). An inadequately educated workforce also figures among the most important constraints to doing business for firms in El Salvador, with 25.6% of companies identifying it as major constraint (World Bank, 2016[1]). Delays at El Salvador’s borders, the insufficient quality of transport and energy infrastructure, moderate levels of digitalisation, too much red tape, and difficulties in accessing finance, are other important obstacles for firms in El Salvador. Delays at the borders and a lack of regional integration remain important obstacles for exporters and companies that rely on imported inputs. El Salvador’s transport, logistics and energy infrastructure requires upgrades. Business procedures are often lengthy, complicated and costly. Micro- and small enterprises (MSEs) in El Salvador face difficulties in accessing financing and lack digital skills, and these challenges have been further exacerbated by the COVID-19 pandemic. Removing these obstacles to private investment and company growth could reduce business costs for firms in El Salvador, thereby raising private firms’ levels of productivity. At the same time, a better business environment could stimulate more private investment, including FDI.

Figure 4.1. Crime and corruption have long been the most important constraints for firms in El Salvador

Share of firms in El Salvador identifying selected issues as a major constraint (2016)



Source: World Bank (2016[1]), *Enterprise Surveys - El Salvador,* World Bank, Washington D.C., https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador.

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While changes in the circumstances that El Salvador now faces have altered the degree of significance that these constraints may represent, the list remains the same. The impact of COVID-19 has raised the significance of constraints in logistics and transport, which stem from disruption in value chains. At the same time, the gradual fall in homicides that has taken place may have mitigated the impact of crime and insecurity. In practice, the key obstacles to doing business that were identified in surveys by the International Labour Organization (ILO) in 2019, and by the grouping of Central American chambers of commerce, the *Federación de la Cámaras de Comercio del Istmo Centroamericano* (FECAMCO), in 2021, point to the same issues as were noted in 2016 in the World Bank's Enterprise Survey. Both the ILO's survey and the one by FECAMCO find common ground among the top six constraints to doing business. They include insecurity, administrative inefficiency and red tape, and a lack of demand linked to market size and, in the case of the FECAMCO survey, to the impact of the pandemic (ILO, 2019[2]; CAMARASAL, 2021[3]). The ILO survey also points to input costs, corruption, and the education of the workforce as key constraints. The results of the FECAMCO survey give more importance to constraints in financing, and to competition from informal firms.

El Salvador should focus on enhancing the productivity of strategic sectors, and on expanding them. An analysis of the country's position in the products space shows that opportunities for diversification towards more sophisticated products, and for the expansion of El Salvador's current production basket, exist mainly in chemical products – including the pharmaceutical sector – and textiles, as well as, to a lesser degree, in metal products, machinery, and electrical parts. Chemical products (including pharmaceuticals), plus textiles and some metal products, electrical parts, and machinery, are identified as constituting the main opportunities. This is based on factors such as revealed comparative advantage (RCA), having a central position in the product space, and the number of close links with other products and whether a product is currently being exported by El Salvador (Alvarado and Amaya, 2015[4]). Agricultural production, mining and services including information services, and telecommunications, are identified as opportunities for El Salvador, based on an input-output matrix (Aquino Cardona, 2019[5]).[1]

The Government of El Salvador has identified several key sectors to increase competitiveness and improve export performance. El Salvador's Policy for Trade and Investment 2020-50, which was adopted in

January 2021, defines textiles and apparel, chemicals, rubber, plastics, metal products, wood and paper industries, machinery, the glass industry, the energy sector, tourism, information and communication services, business services, and financial services, as key sectors with potential for export growth (Secretaría de Comercio e Inversiones, 2020[6]). These sectors were defined based on the product space methodology (Hausmann et al., 2011[7]), as well as El Salvador's current production and exports. To better guide policy, El Salvador could consider identifying sub-sectors or specific niches, in addition to the broad strategic sectors that could be further developed in the country going forward, and in which El Salvador has comparative advantages.

In addition to tackling horizontal constraints to the development of the private sector, El Salvador should create the right conditions for attracting more investment into selected strategic sectors. First and foremost, this entails identifying the obstacles that have the greatest bearing on key sectors. El Salvador can also increase its attractiveness by generating the technical and other skills that are most in demand by companies in highly productive sectors that produce sophisticated goods (see Chapter 7). Furthermore, El Salvador could build the infrastructure that these sectors require. For example, it could roll out digital infrastructure for affordable high-speed Internet access for telecommunication, information, and business services. El Salvador also needs to improve policy making and co-ordination for productive transformation (Chapter 5).

Box 4.1. From Analysis to Action: A Policy Workshop on Productive Transformation in El Salvador

Phase three of the Multi-dimensional Country Review (entitled *From Analysis to Action*) was implemented mainly through a series of policy workshops. These were conducted in line with a version of government learning methodology (Blindenbacher and Nashat, 2010[8]) that is adapted to the multi-dimensional country reviews (MDCR). The methodology applies a range of facilitation techniques in order to foster knowledge-sharing and a reform-oriented mind set in complex contexts. Due to the COVID-19 pandemic, several of the workshops were conducted on line.

The workshop *From Analysis to Action: Accelerating Productive Transformation in El Salvador* was held online on 18 and 19 January 2022. It brought together 56 participants from the public and private sectors, academia, and civil society. Among these were the Secretariat for Commerce and Investment, the Ministry of Economy, the Salvadoran Institute for Vocational Training (INSAFORP), and the Development Bank of El Salvador (BANDESAL). They also included the National Council for Science and Technology (CONACYT), the Central Bank of El Salvador (BCR), and the *Empresa Transmisora de El Salvador* (ETESAL). The participants also included the Ministry of Education, Science and Technology, the National Energy Council (CNE), the Corporation of Tourism of El Salvador (CORSATYR), the Ministry of Finance, and the National Commission for MSEs (CONAMYPE). Other participants included the Superintendency for Electricity and Telecommunications (SIGET), the Competition Superintendency, and the Ministry of Foreign Affairs. The Don Bosco University, the engineering school ITCA Fepade, the National School of Agriculture (ENA), and the National Centre for Agricultural Technology (CENTA) were also among the participants. Also present were the Foundation for Development in Central America (FUDECEN), the Salvadoran Foundation for Economic and Social Development (FUSADES), the Catholic University of El Salvador (UNICAES), Francisco Gavidia El Salvador University, and the Latin American Social Sciences Faculty (FLASCO). Other participants included the Chamber of Commerce and Industry of El Salvador (CAMARASAL), Ventus (a wind farm), AES El Salvador, Indiva SA de CV, and two other companies: Chapis Pickles and Agroindustria Cultivar.

Participants carried out a prioritisation exercise to rank the different issues addressed in this chapter. They then developed action plans for priority areas identified jointly by the OECD, the Secretariat for

Commerce and Investment of the Presidency of the Republic, and the Ministry of Economy of El Salvador. These were: human-capital formation, infrastructure and energy, the financing and the development of small and medium-sized enterprises (SMEs), innovation, and policy instruments for productive transformation.

The action plans at the end of the corresponding sections of this chapter, and of Chapter 5, are built on the contributions of the participants. Many other inputs generated during the workshop are included in the body of the report.

Source: Blindenbacher and Nashat (2010[8]), *The Black Box of Governmental Learning: The Learning Spiral - A Concept to Organize Learning in Governments*, World Bank, Washington D.C., https://doi.org/10.1596/978-0-8213-8453-4.

El Salvador's high rates of crime are a constraint for the private sector

Levels of crime were very high in El Salvador for decades.[2] The country's homicide rate fell by four fifths between 2015 and 2020, falling from 105.2 per 100 000 inhabitants in 2015, to 20.67 per 100 000 inhabitants in 2020 (UNODC, 2020[9]; Ministerio de Justicia y Seguridad Pública, 2021[10]; World Bank, n.d.[11]). Nevertheless, it remained very high. The homicide rate fell dramatically in 2022, reaching 7.8 homicides per 100 000 inhabitants in 2022, with the application of extraordinary measures. Furthermore, and notwithstanding this decrease in homicides, extortion has continued to pose a problem in the past few years. This has been a particular problem for micro, small and medium-sized enterprises (MSMEs) being forced to make payments to criminal gangs. Whilst homicides decreased in 2019, extortion increased by 17.2% (Asmann and O'Reilly, 2020[12]). In 2020, the number of extortion cases that were reported declined (Ministerio de Justicia y Seguridad Pública, 2020[13]). However, it is probable that this fall was also a consequence of mobility restrictions implemented in response to the COVID-19 pandemic. In 2020, there were 254 crimes per 100 000 inhabitants in El Salvador (including robberies, extortion and other crimes) (Barrios and Ábrego, 2021[14]).

The cost of crime for El Salvador is high and estimates of its precise extent vary. Even at the lower end of the range, an estimate that includes social costs, private-sector costs incurred in security services, and the cost to the public purse through the justice system, police services, and the prison system puts the cost of crime at 6.2% of gross domestic product (GDP) (Jaitman et al., 2017[15]). At the higher end of the range, an estimate that combines direct costs from material losses (6.7% of annual GDP) with the indirect costs that stem from crime's negative repercussions on employment and production puts the cost of crime at 19.5% of GDP (Plotnikov, 2020[16]). Furthermore, estimates indicate that a 1% increase in output per capita results in a fall in crime in El Salvador of 0.67%, and that a 1% decrease in output per capita leads, on average, to a 0.75% increase in crime. A 5.25% fall in crime would lead to a 1% increase in production per capita (Plotnikov, 2020[16]). Furthermore, high levels of crime in El Salvador result not only in economic losses, but also in a loss of intangible assets.

El Salvador's high levels of crime are an important challenge for private companies in El Salvador, and they affect investment decisions. According to the 2019 Entrepreneurial Competitiveness Survey collected by the Salvadoran Foundation for Economic and Social Development (FUSADES), 15% of companies experienced a criminal act in 2019, while 37.2% were negatively affected by crime in that year (a reduction compared to previous years). Most of these companies (72%) reported that crime had reduced their sales, with 31% reporting that crime had damaged their investment prospects (Figure 4.2) (FUSADES, 2021[17]). MSEs reported similar levels of crime in a 2017 survey, with 10% reporting that they had suffered from criminal activity. In the 2016 World Bank Enterprise Survey, which covers about 700 formal companies in El Salvador, 28.6% of companies listed crime and disorder as the biggest obstacle in El Salvador, and crime was identified as the top obstacle for the average firm across sectors. Furthermore, 48.5% of

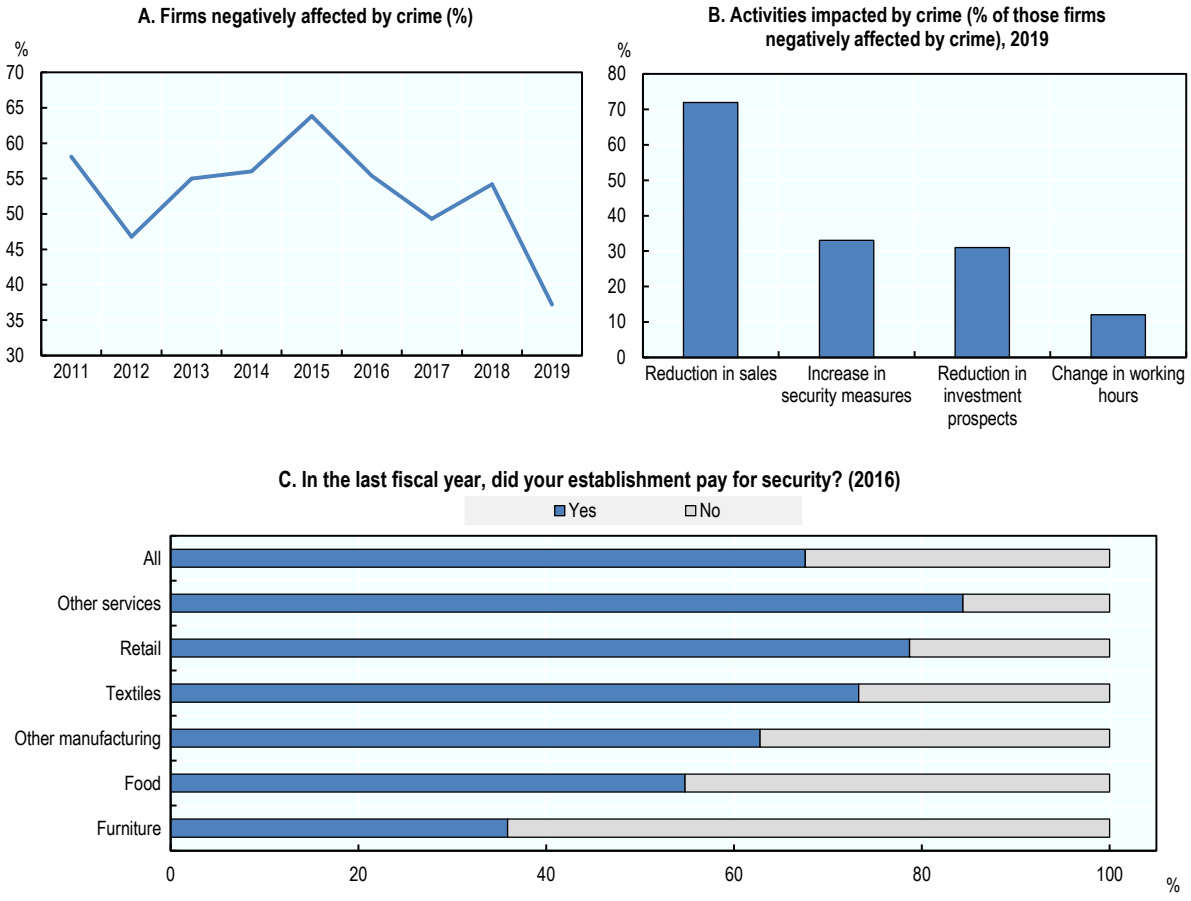
companies (both foreign [49.7%] and local firms [48.%]) that were surveyed identified crime, theft and disorder as major constraints. Crime and disorder were identified as somewhat less important constraints by textile companies, but they seem to be a particularly severe constraint for the food industry (World Bank, 2016[1]). High levels of crime are also a particularly significant constraint for the tourism sector, since crime generates a negative image of El Salvador.

Extortion is the most common criminal activity suffered by firms in El Salvador. According to the 2019 Entrepreneurial Competitiveness Survey, 8% of companies in El Salvador were victims of extortion that year, and extortion was the most common type of crime affecting companies in the country. In 2019, 53% of companies affected by crime in El Salvador suffered from extortion (FUSADES, 2021[17]). The frequency of reported extortion is similar among micro and small firms, with 8.2% (out of which 75% are informal enterprises) reporting having been victims of extortion in the 2017 National Survey of MSEs (CONAMYPE, 2018[18]). Smaller companies are more affected by extortion, although patterns and estimates differ significantly between the different surveys. At the same time, smaller companies are less likely to report extortion to the police than larger firms (Ponce et al., 2016[19]). Foreign firms are less affected by extortion than domestic firms (World Bank, 2016[1]).

High levels of crime create additional business costs for private companies in El Salvador. It is estimated that security costs due to crime amount to 1.6-2.7% of the country's annual GDP (Jaitman et al., 2017[15]). Part of these costs stem from firms contracting private security services in order to protect not just their premises, but also staff and merchandise, particularly at night. In 2016, 80.2% of the firms covered by the World Bank Enterprise Survey paid for security (Figure 4.2), with security expenses amounting to 4.1% of these firms' annual sales. A greater share of foreign firms (92.2%) paid for security services than domestic firms (78.7%). Companies in retail and other services were the most likely to pay for security services (World Bank, 2016[1]). The average annual cost of crime for micro and small companies in El Salvador was USD 325 in 2016. The share of this total amount resulting from losses due to crime was 58%. The rest was the result of higher security costs. While this total cost of crime corresponds to less than 1% of average annual sales, the reality that it represents is much harsher than this. Enterprises with fewer than 50 employees are much less likely than larger firms to invest in security. As a consequence, the losses for firms that fall victim to crime are very large, representing 26% of these companies' operating costs on average (Barrios and Ábrego, 2021[14]).

The security environment also harms investment prospects and limits the scope for doing business. Due to El Salvador's high levels of insecurity, public transport is not available at night, and companies functioning 24 hours a day therefore face additional costs for organising transport for their workers at night. In 2019, 12.3% of companies covered by the FUSADES Entrepreneurial Competitiveness Survey reported having to increase security measures as a consequence of crime, and 4.5% of companies reported that they had to adapt their working hours. In turn, this affects investment prospects. In 2019, crime affected the investment decisions of 28% of companies, with 29% of these companies reporting higher security costs as the main reason (FUSADES, 2021[17]). Extortion has a particularly negative impact on economic activity and lowers investment. In 2016, 79% of companies experiencing extortion reported that it was an obstacle to their development, while 70% reported that it affected their activities, and 61% reported that it affected their investment decisions (Ponce et al., 2016[19]).

Figure 4.2. Crime has a negative impact on private firms in El Salvador



Source: Panels A and B FUSADES (2021[17]), *Encuesta de Competitividad Empresarial*, Fundación Salvadoreña para el Desarrollo Económico y Social, https://fusades.org/publicaciones/DEC_ECE0121.pdf. Panel C World Bank (2016[1]), *Enterprise Surveys - El Salvador,* World Bank, Washington D.C., https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador.

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The government of El Salvador has stepped up the fight against crime through its Territorial Control Plan (*Plan de Control Territorial,* PCT). With a budget of USD 575 million over three years (2019-21), the PCT, which is a phased initiative, has been enforced since June 2019. Its first phase included deploying a focused presence of security forces in 22 high-priority municipalities, as well as strengthening and equipping security forces, and tightening control measures in penitentiaries. In the second phase, the plan also aims to prevent crime by fostering economic and social opportunities, community development measures, and support for disadvantaged youths (Ministerio de Hacienda, 2019[20]; Forbes, 2019[21]; Presidencia de la Republica, 2021[22]).

Taking into account past trends, and the strict mobility restrictions that were put in place in response to COVID-19 in the first half of 2020, it is difficult to measure the PCT's specific contribution to the fall in criminal activity (homicides and extortion) (International Crisis Group, 2020[23]). In March 2022, El Salvador decreed a state of emergency, restricting several constitutional freedoms in order to fight gangs. As of September 2022, the state of emergency had been extended, and remained in force. Over 50 000 people had been apprehended and accused of taking part in gang activity. The number of recorded homicides has fallen since the beginning of the state of emergency.

Addressing security issues in El Salvador will require tackling the root of the problem. Notably, this includes offering youths better education and employment opportunities, as well as rebuilding social cohesion at both the local and national level. In El Salvador's case, youths in many impoverished communities do not encounter alternative options to joining criminal gangs. In these communities, there is a lack of employment opportunities for youths, and drop-out rates from school are high due to poverty and the (opportunity) costs of attending school, as well as a lack of support for impoverished youths, and the presence of gangs in schools (OECD, 2017[24]). Moving the education agenda forward is also critical in this respect, given the country's high drop-out rates in secondary school levels (see Chapter 7). At the same time, creating more quality jobs for youths requires improvements to the employment and re-integration programmes that target young people. This can be achieved through more private-sector participation, through the inclusion of communities in the programmes, and by lowering the minimum age (currently 18 years for most programmes) (OECD, 2017[24]). In Togo, for example, professional integration programmes benefit from the financial support of various stakeholders, including the private sector, line ministries, civil-society organisations, and development partners (OECD, 2017[25]). In order to tackle the underlying conditions that incite young people to join gangs, including social exclusion and scarce opportunities, the Salvadoran government established a Directorate for the Reconstruction of the Social Fabric as part of the PCT. As a violence-prevention strategy, and in order to create opportunities for Salvadorans, the directorate aims to achieve a sustainable recovery of the social fabric. Its work will focus mainly on 60 selected communities that are particularly exposed to gang violence. Programmes implemented by the unit include state-financed football camps, vocational training, scholarships, and the construction of 50 community centres (*Centros Urbanos de Bienestar y Oportunidades*, or CUBOs).

Specific attention should be devoted to mitigating the impact of security concerns on businesses. Policing and justice in El Salvador need to be more effective at tackling crime and corruption, and at generating trust among entrepreneurs and citizens. In 2019, only 6% of extortion cases reported by companies were resolved (FUSADES, 2021[17]). In 2018, only 36% of El Salvador's population said that they trusted the judiciary, while 58% said that they trusted the police forces (Gallup, 2022[26]). In order to resolve more extortion cases, and to strengthen trust in the police and the judiciary, criminal investigations need to become more focused and sophisticated. For example, they could employ special methods of investigation, including wiretaps and the monitoring of telephone conversations of suspects. At the same time, the human, material and financial resources that are dedicated to security forces and to justice need to be increased. Co-ordination between the different institutions of El Salvador's security and justice system needs to be improved, and the focus needs to shift to the effective and efficient implementation of policies. Furthermore, the recruitment of these institutions should shift to a merit-based system in order to strengthen their human resources (Crisis Group, 2017[27]; Dudley and Avalos, 2018[28]). In addition, abusive practices and human rights violations by police services need to be tackled and deterred in order to enhance citizens' trust in, and respect for, El Salvador's police forces, in particular in marginalised communities (International Crisis Group, 2020[23]).

Recent reforms have strengthened the administration's scope to take action against extortion. The Anti-Extortion Law (*Ley Especial contra el delito de extorsión*), which was adopted in March 2015, defined extortion in a broad manner that includes extortion attempts. It set a minimum prison term of 10 to 15 years, with five additional years in aggravated cases, including those carried out by organised crime. The law also forbids and sanctions the delivery of telecommunication services in prisons and detention centres, which can be used for extortion. Finally, the law allows the authorities to pursue extortion cases *ex officio* (Asamblea Legislativa, 2015[29]). However, the law will be effective in tackling and reducing extortion only when combined with improvements in the reporting and investigation of extortion cases, and a higher probability of conviction for offenders.

Policies that take care of the victims of extortion can help to increase the incentives to report cases, and to collaborate with police and the justice system. In 2019, only 31% of companies that suffered from extortion in El Salvador filed a complaint. The main reasons for not denouncing extortion were fear of

retaliation (38%), and a lack of trust in the authorities (29%) (FUSADES, 2021[17]). These figures do not differ much from the situation in southern Italy in the mid-2010s, where it is estimated that roughly 30% of entrepreneurs were victims of extortion, and over 70% of cases were not reported to the police (Center for the Study of Democracy, 2017[30]). In order to increase the number of cases that gets reported in El Salvador, the protection of victims and witnesses against retaliation could be improved. This could be done, for example, through anonymous crime reporting, and by the provision of adequate protection. Furthermore, financial support could be provided to victims of extortion, in particular to businesses, thereby increasing their incentives to report extortion. Businesses often pay criminal gangs because they offer both protection and control over economic markets. When they stop paying gangs and report extortion, businesses may lose access to economic markets. Financial support from the government could reduce financial losses for these firms, thus encouraging them to report crimes. In addition to a dedicated legal and institutional framework, two measures that have been implemented to combat extortion in Italy include protective measures for victims, including the creation of a solidarity fund to support them financially, and the involvement of civil society in the fight against extortion. The solidarity fund was designed to reimburse part of the damage sustained by the people and firms that suffer from extortion and decide to report it to the authorities. Starting in the 1990s, moreover, small firms in Italy created associations and foundations against organised crime, and in 1996 these merged into a national federation against theft and extortion, the *Federazione Antiracket Antiusura Italiana* (Transcrime, 2008[31]).

Recommendations to mitigate the impact of crime and violence on the development of the private sector

Recommendations	Detailed recommendations
Make El Salvador's police forces and justice more effective at tackling crime, and generate trust among entrepreneurs.	• Implement more focused and sophisticated criminal investigations by using special methods of investigation, including wiretaps and the monitoring of suspects' telephone conversations. • Increasing the human, material and financial resources that are dedicated to the security forces and the justice system. • Ensure better co-ordination between the different institutions of El Salvador's security and justice system, and an effective and efficient implementation of policies. • A merit-based recruitment system for institutions in El Salvador's security and justice systems. • Tackling and deterring abusive practices and human rights violations by police services, in particular in marginalised communities.
Adopt policies that take care of victims of extortion in order to increase incentives both to report extortion and to collaborate with police forces and the justice system.	• Anonymous crime reporting and adequate protection of victims and witnesses. • Financial support for victims of extortion to encourage them to report.

Improving the quality of El Salvador's transport and energy infrastructure would reduce business costs for private companies

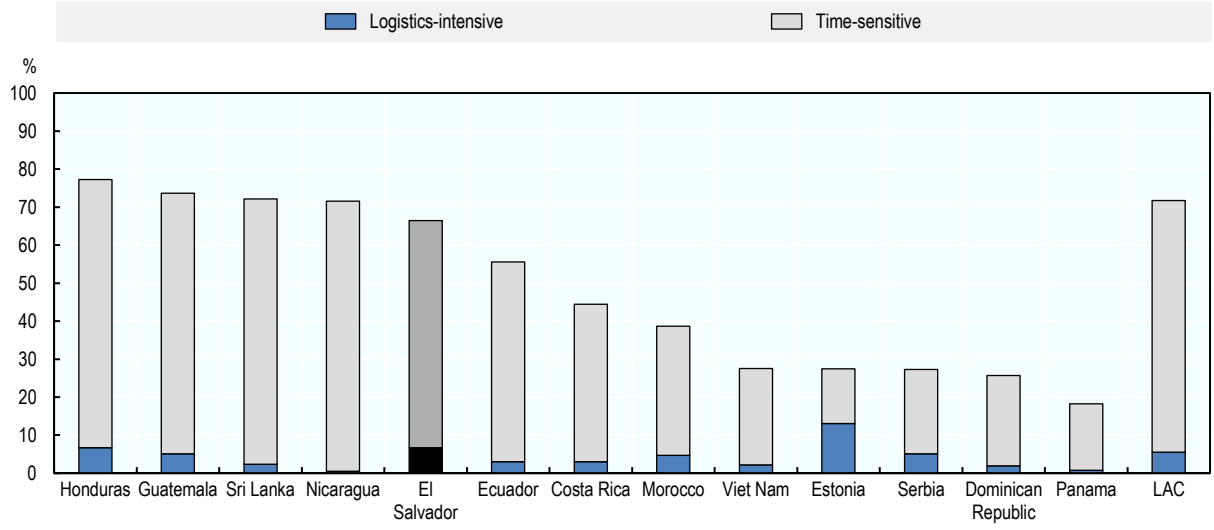
Improving El Salvador's transport, logistics, energy and digital infrastructure has the potential to increase productivity and to foster economic growth. Infrastructure is a key ingredient for economic growth and productivity. Economic infrastructure (electricity, water and sanitation, transport, logistics, and digital infrastructure) that is poor in quality, or inadequate in its scope, raises business costs. It also restricts the flow of goods, services, people and market information, both within the economy and abroad. This has implications for a country's integration into global value chains, as well as for productivity growth and for broader economic development. By segregating markets, infrastructural weaknesses also limit competition, thereby reducing incentives to innovate and to improve productivity. Problems with infrastructure usually affect smaller firms the most (OECD, 2015[32]).

The quality of transport infrastructure and logistics is especially important for El Salvador, as the share of time-sensitive or logistics-intensive exports is relatively high. To a large extent, the competitiveness of logistics-intensive or time-sensitive sectors depends on a country's performance with regard to logistics. Logistics-intensive sectors include mining, forestry, wood products manufacturing, publishing and printing, and other sectors with a high share of expenditure on transport and logistics. Time-sensitive sectors include perishable products, but also those for which time has an important impact due to the structure of value chains, such as pharmaceuticals or clothing. In addition, manufactured products that are part of value chains also tend to be more time-sensitive (OECD/CAF/ECLAC, 2013[33]). Poor transport and logistics infrastructure can lead to lost business opportunities in time-sensitive or logistics-intensive sectors. In El Salvador, 60% of exports are time-sensitive, and 7% are logistics-intensive (Figure 4.3). El Salvador's three main export items – textiles and clothing, agricultural products, and foodstuffs – fall into these categories. Several sectors identified as priorities such as textiles and clothing, pharmaceuticals, and wood and paper, also fall into these categories.

El Salvador needs to invest in its transport, logistics and energy infrastructure. According to the country's recently competed infrastructure master plan, the *Plan Maestro de Infraestructura de El Salvador 2019-30* (PMI) (IDB, 2020[34]), infrastructure investments of USD 8.5 billion are required in El Salvador over the next ten years in order to modernise its transport, energy and water and sanitation infrastructure. This level of investment would mean a substantial increase, and the budget would have to be 2.5 times larger than the USD 3.4 billion invested in infrastructure in 2009-19. Just to implement the road infrastructure projects with the highest benefit/cost ratios (above 1.75) would require a 30% increase in spending on road infrastructure compared to the past decade. It is further estimated that improving El Salvador's digital infrastructure, as well as its port and airport infrastructure, could raise the number of foreign companies established in El Salvador by 15% (Blyde, Martincus and Molina, 2014[35]).

Figure 4.3. A high proportion of El Salvador's exports are time-sensitive or logistics-intensive

Time-sensitive and logistics intensive exports (% of total exports), 2020 or most recent year available



Notes: Logistics-intensive sectors include mining, forestry and logging, wood manufacturing, paper publishing and printing. Time-sensitive sectors include agriculture, fisheries, food and drink manufacturing, clothing, and horticulture. Latin America and the Caribbean (LAC) consists of 39 countries and territories. Most-recent years available range from 2017 to 2020.

Sources: World Bank (2022[36]), *World Integrated Trade Solution (WITS)*, World Bank, Washington D.C., https://wits.worldbank.org/; UN (2022[37]) *UN Comtrade Database*, United Nations, New York City, https://comtrade.un.org/.

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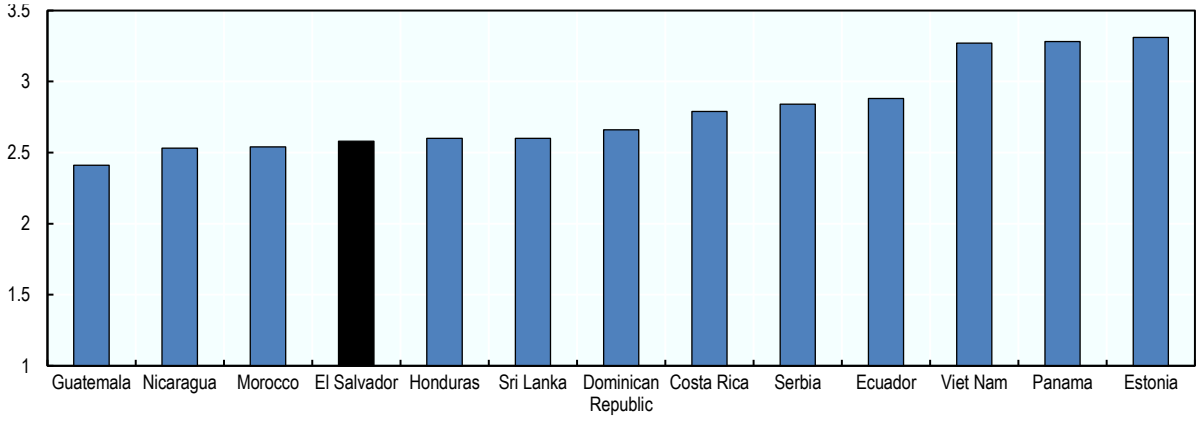
Road and transport infrastructure

El Salvador's transport and road infrastructure requires further improvements. The country's score in the World Bank's Logistics Performance Index in 2018 puts it above some regional competitors (Guatemala, Nicaragua), but below the performance of most comparator countries (World Bank, n.d.[11]) (Figure 4.4). Compared to the LAC region, El Salvador performs worse in assessments of the quality of infrastructure, but better than average for delivery times and the ease of arranging international shipments.

Although the density of El Salvador's road network and connectivity is appropriate, 51.4% of the road network was in a bad condition as of 2018. The quality of El Salvador's road network has been deteriorating, and there has not been sufficient investment in road maintenance and new roads (IDB, 2020[34]).

Figure 4.4. El Salvador's performance in terms of logistics is worse than in most comparator countries

Logistics performance Index, 2018 (1 = low, 5 = high)



Notes: Data for Nicaragua are for 2016. The Logistics Performance Index reflects perceptions of a country's logistics based on the efficiency of the customs clearance process, the quality of infrastructure related to trade and transport, the ease of arranging competitively priced shipments, the quality of logistics services, the ability to track and trace consignments, and the frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing better performance.
Source: World Bank (n.d.[11]), *World Development Indicators*, World Bank, Washington D.C., https://databank.worldbank.org/source/world-development-indicators#.

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The poor quality of El Salvador's roads, plus its rapidly increasing vehicle stock, result in high volumes of traffic in cities. The stock of vehicles in the country increased by 12.7% a year on average between 2013 and 2018 (amounting to 1.4 million vehicles in 2018, and 140 vehicles per 1 000 inhabitants in 2018). This has resulted in an increasing volume of traffic and frequent traffic jams, particularly in urban areas. It has also put pressure on El Salvador's road infrastructure, and has highlighted the need to expand strategic roads (Bukele, 2019[38]; IDB, 2020[34]).

Transport costs are high in El Salvador. In Central America, transport costs are 70% higher than the world average (IDB, 2020[34]). Long transport times in El Salvador are the result of factors including the poor quality of the road infrastructure. They also include delays at the borders in the Central American region due to long customs procedures, with long waiting times combining with the high frequency of border crossings to create considerable delays. Other causes include insufficient regional integration, congestion in urban areas, and the impossibility of travelling at night due to security considerations. Time spent waiting at the international border amounted to 14% of travel time for truck transport from San Salvador to Guatemala City, and border time accounted for an additional 13% of total travel time in 2012. Imbalances

of cargo flows between origins and destinations, which result in a large volume of empty containers on return trips, further contribute to high land-transport costs in El Salvador. In addition, fuel costs are high, and transport companies need to pay for security services. Security represents 3-4% of total transport costs in Central America (World Bank, 2012[39]; World Bank, 2013[40]; IDB, 2020[34]). The existing limitations to international investment in the road transport sector constitute another possible cause of high freight costs. Central American companies can engage in cross-border transport, but they cannot provide service on domestic routes, which limits opportunities for cabotage, and for reducing high levels of empty returns (World Bank, 2012[39]; World Bank, 2013[40]; IDB, 2020[34]). Although comparable information on costs dates back to a survey conducted in 2012 by the World Bank, it was identified then that prices and margins were distinctly higher on domestic routes (USD 0.26 per tonne-kilometre) than on international routes (USD 0.14 per tonne-kilometre). The collection of data, and the analysis of transport costs on a regular basis via a logistics observatory, would be useful for the formulation of transport and logistics infrastructure policies in El Salvador.

Poor liner shipping connectivity results in high maritime transport costs, with El Salvador scoring just 9.3/100 in the Global Competitiveness Index in terms of liner-shipping connectivity (WEF, 2019[41]). Therefore, merchandise in El Salvador often needs to be shipped to neighbouring countries' ports, resulting in higher transport costs.

The poor quality of road infrastructure is a significant challenge for private companies in El Salvador, in particular for importers and exporters. In the 2016 World Bank Enterprise Survey, 16% of companies in El Salvador identified transport as a major constraint, and transport was a more significant constraint for the manufacturing sector, and for the textile and apparel industry in particular (World Bank, 2016[1]). In the 2019 Entrepreneurial Competitiveness Survey conducted by FUSADES, 18% of companies identified the bad state of streets and roads as a major obstacle to exporting (FUSADES, 2021[17]). High-quality road infrastructure is particularly important for exporters and importers, since two-thirds of El Salvador's exports and imports transit over land to neighbouring countries' ports (IDB, 2020[34]).

The quality of El Salvador's road and logistics infrastructure poses a particular challenge for the agricultural sector and agribusiness. This is the case most notably in regions beyond the capital in which poverty is a more serious issue, and in which agricultural production is concentrated. Logistics are very important for ensuring that agricultural and food products are still fresh when they arrive on the North American market. In order to support the development of agricultural exports and organic agriculture in El Salvador, therefore, it is vital to improve the quality of El Salvador's road infrastructure. At the same time, improving regulations and phyto-sanitary standards for food and agricultural products is also a key consideration, as this has an impact on the food and drink sector beyond agriculture and agribusiness. Improving the quality of El Salvador's logistics infrastructure and road network has the potential to foster economic development, and to improve quality of life in remote regions outside of the capital.

El Salvador is already taking steps to improve road infrastructure. The government is currently implementing road projects that contribute to economic and social development, such as the *Camino a Surf City* bypass in La Libertad, which has reduced transport times and costs (Gobierno de El Salvador, 2021[42]).

The expansion of passenger and cargo capacities of the existing international airport, and also of the cargo capacity at the port of Acajutla, are very important for promoting agricultural exports and international tourism. El Salvador's international airport is the third biggest in Central America in terms of traffic, after those of Panama and Costa Rica. Transit passengers make up 37% of the traffic, and the volume of transit passengers grew by 9.7% a year between 2008 and 2017. Air cargo traffic remained stable over the same period. The capacity of the airport's passenger terminal is currently being expanded from 2.1 million passengers a year to 3.6 million. The port of Acajutla is a Public Service Port managed by the Salvadoran state. It handles 99.7% of the country's seaborne exports and imports, and 28.9% of the country's total exports and imports (IDB, 2020[34]; Portal de Transparencia Fiscal, 2021[43]). The port would benefit from the construction of a specialised container terminal and an agricultural bulk terminal. Finalising the expansion

of the international airport's passenger terminal and cargo capacity, and expanding the cargo capacity at the port of Acajutla, should be prioritised in future in order to improve logistics for agricultural and food exports, and also to boost El Salvador's connectivity as a tourist location (IDB, 2020[34]).

Improving road connectivity within El Salvador can also help to spur economic growth in a more geographically diversified way. El Salvador's recent master plan for infrastructure, the *Plan Maestro de Infraestructura (PMI)* prioritises infrastructure projects on the basis of aggregate cost-benefit analysis (IDB, 2020[34]). Given the importance of road transport for trade logistics in the country, the improvement of connections with key border crossings is a high priority. This includes the connection between the municipality of La Unión, and the border with Honduras to the east, at El Amatillo. Improving connectivity with major economic hubs in El Salvador and neighbouring countries could also contribute to making the port of La Unión economically viable. This port in the east of the country has been empty since its construction was finalised in 2009. The government has not been able to find a private concessionaire for the port. Since it is not being used, it lacks equipment and maintenance, and has been losing depth (IDB, 2020[34]). As policy makers weigh up priorities, there is a strong case for fostering growth at the local level, including in the east of the country, which could further benefit from a functioning port at La Unión.

The government of El Salvador is planning major projects to foster growth beyond the San Salvador area. It is planning to build a train line linking the ports of Acajutla and La Unión with the capital city. The train would carry merchandise and passengers. Plans are also underway for the construction of an airport at La Unión. Both projects have received initial funding allocations, and special regimes have been approved for their implementation by the Legislative Assembly.

El Salvador could consider establishing an institutional framework to support long-term infrastructure planning. Responsibility for planning and project management is distributed by sectors between the government and the country's autonomous entities. This provides the necessary technical expertise at different stages of the infrastructure project cycle. However, it makes it difficult for the administration as a whole to prioritise economically viable projects. Moreover, as the PMI demonstrates, social rates of return can vary substantially by area, and prioritisation criteria may not, therefore, reflect the government's over-arching objectives.

Sufficient financing for investment in transport and logistics infrastructure needs to be secured. It is estimated that El Salvador's transport infrastructure requires more than USD 5.1 billion of investment over the next ten years. Of this, 90% should be directed to road infrastructure (IDB, 2020[34]). Granting access to all municipal capitals via paved roads would require investments of USD 103.3 million (Bukele, 2019[38]). The private sector can be part of the solution to mobilise sufficient funding for infrastructure investment. Reaching out to the private sector to finance infrastructure projects can not only secure new sources of funding, but can also lead to gains in terms of cost and efficiency, and to improved infrastructure services. Private-sector involvement can open up a wider array of options for infrastructure delivery, including the bundling of different stages of infrastructure projects. Other factors that highlight the value that the private sector can bring to bear include the prospect of a more efficient allocation of risk, and increased competition. The private sector's managerial and technological skills can also make an important contribution (OECD, 2015[32]). Transport infrastructure could be financed through public-private partnerships (PPPs), and by the implementation of tolls on roads that have been newly built with private funding.

Since 2013, a Special Law on PPPs has been in place in El Salvador. The first PPP project to be implemented was the extension of the cargo terminal of San Salvador's international airport. It was awarded in October 2020, approved by the Legislative Assembly in 2021, and began operating in May 2022. In a context of limited fiscal space, PPPs have the potential to increase financing for infrastructure investment in El Salvador.

However, there is still scope to improve the framework for selecting, managing and monitoring PPPs. Among other issues, regulation does not require the alignment of PPP projects with a medium- or long-term plan for infrastructure development. A consolidated and prioritised investment plan, as has been

suggested, would also create a benchmark for assessing PPP projects. Given that the Special Law on PPPs enables the consideration of unsolicited projects, this is all the more important (Asamblea Legislativa, 2013[44]). Considering unsolicited projects may create opportunities for inefficient investments, or for insufficiently transparent allocations of PPP projects. It is also important to ensure that the PPP law is compatible with sectoral legal frameworks (EIU, 2019[45]). Bidding processes for PPP projects are rather complicated and could be simplified further.[3] A reform of the Special Law on PPPs is under preparation, with the main objective of broadening the scope of application of PPPs (e.g. to health services or education). However, it does not address the points mentioned above (PROESA, 2021[46]).

Corruption, inefficiency, management shortcomings, and a lack of transparency all constitute challenges when it comes to building public infrastructure in El Salvador. For example, a road project linking San Salvador to the nearby municipality of Santa Tecla, which started in 2005, was completed five and a half years late, at a cost of almost four times the original budget of USD 25.6 million (CoST, n.d.[47]; Centre for Public Impact, 2016[48]). In 2020, the average number of participants per public infrastructure tender was only four. The cost of completed public infrastructure projects was, on average, 2.2% higher than the original budget, and the cost of projects under implementation was 7.6% higher than their initial budgets. Time to completion was also longer. The construction timelines of public infrastructure projects grew by 15.1% on average in 2019, and between 90.7% (completed projects) and 125% (ongoing projects) on average in 2020. The increase in 2020 was a consequence of the COVID-19 pandemic. In 2020, only 49% of relevant information on public infrastructure projects was published online. Some 38% of information could be obtained through information requests, and 13% of information was not disclosed, in particular information on procurement and contracting phases (CoST, 2021[49]; CoST, 2020[50]).

El Salvador has taken a number of steps to combat corruption and improve transparency in the construction and contracting of public infrastructure projects. El Salvador has been a member of the Open Government Partnership since 2011, and a member of the Construction Sector Transparency Initiative (CoST) since 2013. CoST regularly publishes reports on transparency with regard to the construction of public infrastructure in El Salvador (CoST, n.d.[47]). Since 2018, El Salvador's Single System of Information on Public Infrastructure the *Sistema Único de Información sobre Infraestructura Pública* (SUIP) has published information on public infrastructure projects (CoST, 2018[51]). Adopted in 2010, El Salvador's Law on Access to Public Information (*Ley de Acceso a la Información Pública*), is also a key tool for citizens to participate in procurement and contracting, and for the improvement of transparency with regard to the construction of public infrastructure. In order to contribute to transparency in the actions of state institutions, the law aims to guarantee citizens' rights to access public information. The law obliges public institutions to make available to the public, disclose, and update information on their activities, expenditures, budget, structure and contacts, and it also created an Institute for Access to Public Information (Asamblea Legislativa, 2010[52]).

In order to continue fighting corruption, El Salvador should improve transparency, and should reduce the incentives for corruption by officials in the construction and contracting of public infrastructure. It is important to ensure that the SUIP system includes information on all public infrastructure projects, and that it is regularly updated. Transparency can also help to avoid delays and cost increases in public infrastructure projects resulting from corrupt practices. It can do this, for example, through a website that monitors the progress of public investment projects in real time, comparing them with the original cost and time estimates. In order to make sure that the most urgent infrastructure projects are prioritised, El Salvador should establish a national infrastructure development plan that prioritises the country's needs. An independent body should develop and update this plan periodically. In addition, it is important for the legal requirements for the use of non-competitive procedures for the selection of PPPs, in particular the consideration of unsolicited projects, to be clearly defined and publicised. Likewise, it is also important for the use of non-competitive procedures to be clearly justified, and for these justifications to be made public. It is also important to ensure the adequate monitoring and evaluation of public infrastructure projects in El Salvador, through independent institutions (OECD, 2016[53]).

Electricity supply

The quality of El Salvador's electricity supply poses a challenge for the private sector. In 2016, almost half of all companies in El Salvador (47.6%) experienced electrical outages. On average, companies experienced 1.2 outages a month, with 19.1% of firms identifying electricity as a major constraint. Electricity was a more significant constraint for companies in the textile sector (World Bank, 2016[1]). In the manufacturing sector, an unstable electricity supply risks damaging machinery. In 2016, 15% of firms in El Salvador shared or owned a generator, and this share was higher (19.4%) in the food manufacturing sector (World Bank, 2016[1]).

The relatively high cost of electricity in El Salvador presents a further challenge for private companies. Indeed, the cost of electricity remains relatively high in the Central American region as a whole (IFC, 2016[54]; OECD, 2017[55]; IDB, 2013[56]). Industrial electricity tariffs in El Salvador are lower or similar to those of other countries in the region. They amount to 15.4-15.5 US cents per kilowatt-hour (kWh) in El Salvador, compared to 21.4-30.5 cents/kWh in Nicaragua, 19.7-20 cents/kWh in Panama, 15.7-15.9 cents/kWh in Costa Rica, 13.4-15.4 cents/kWh in Honduras, and 9.4-16 cents/kWh in Guatemala (CNE, 2021[57]). However, the price of electricity for private companies in El Salvador is considerably higher than the tariffs in potential comparator countries in other regions of the world, such as in Estonia (0.103 US cents per kWh). It is also higher than in potential international competitors for attracting investment, such as Viet Nam (12.5 US cents per kWh)[4] (World Bank, 2020[58]). Furthermore, the cost of a standard electricity connection remains very high in El Salvador. It stands at 517.9% of per capita income, compared to 407.2% of per capita income on average in Latin America and the Caribbean, and 61% of per capita income on average in the OECD high-income countries (World Bank, 2020[59]).

El Salvador's legal and regulatory framework favours price stability and electricity generation over competition in prices and quality of service for the end user. There are 20 companies in El Salvador that generate electricity, two of which are state-owned enterprises. These are the *Comisión Ejecutiva Hidroeléctrica del Río Lempa* (CEL), and LaGeo S.A. de CV., which is a subsidiary of CEL (SIGET, 2019[60]). El Salvador's transmission system is operated by the Transactions Unit (*Unidad de Transacciones*), which is a private company. A state-owned enterprise, ETESAL S.A. de CV., which is another subsidiary of CEL, is in charge of the expansion, maintenance and administration of the transmission network (IDB, 2020[34]; PROESA/CNE, 2015[61]). Although eight companies are active in electricity distribution in El Salvador, 88% of final demand is served by just five of these companies. These five companies were created from the privatisation of the state monopoly (SIGET, 2019[60]; SIGET, 2020[62]). Since 2010, electricity distribution companies have had to contract at least 80% of electricity demand through a competitive process.[5] The introduction of long-term contracts for the supply of electricity has helped to stabilise prices compared to the previous system, in which spot-market fluctuations were passed on to consumers. In 2019, 79% of electricity demand was supplied under long-term contracts. In 2020, the spot market played an even smaller role (11% of demand), with total demand falling by 7% (SIGET, 2020[62]). El Salvador's legal framework for the electricity sector allows for competition in distribution and retail supply not just between regional markets, but also within each market. In practice, a large fraction of demand in the retail market is supplied by vertically integrated distributors. New entrants to the distribution market are geared towards large clients, and they have very small market shares among El Salvador's "low demand" clients. This approach results in inefficient and redundant distribution lines (bypasses) (Superintendencia de Competencia, 2016[63]). Since regulated consumer prices are based on real historic costs, this can ultimately lead to higher costs for consumers. The cost-based price-regulation mechanism seems to contradict the idea of a contestable distribution market. El Salvador could evaluate a reform that establishes competition for the market and could consider introducing pricing elements that reward productivity in the distribution and supply of electricity. Furthermore, the electricity distribution network is in need of modernisation (IDB, 2020[34]).

In order to improve the quality of electricity supply by the private sector, El Salvador could establish special zones with better-quality electricity supply. Higher electricity prices in these zones could finance the necessary investments. These zones could be targeted in particular at private companies that need a stable electricity supply in order to operate. They could be established, for example, in industrial parks and free trade zones. The Indonesian model provides an interesting case study in this regard. In Indonesia, companies are now able to generate electricity themselves. Companies that generate electricity for their own use are called private power utilities (PPU). These PPUs can generate electricity for on-site consumption, including use by tenants of an industrial estate. This may include the direct sale of electricity to end customers. In this case, however, PPUs with a capacity above 200 kW must have an operating licence, as well as various other permits, and they must also obtain approval from the relevant minister, governor, or mayor. The PPUs can also establish back-up connections to Indonesia's national grid, and can generate electricity for consumption in other areas under certain conditions. However, there is a need to further improve the regulation of private utilities in Indonesia. This is especially the case with regard to regulations on connections to the national grid, and their use by private utilities (OECD, 2021[64]).

El Salvador already generates a significant and growing amount of electricity from renewable sources. In 2019, these accounted for 3 561 gigawatt-hours (GWh), or 71% of the total electricity generated in the country that year. This was a significant increase on 2015, when 4 335 GWh, or 58.5% of the total electricity generated, came from renewables. This increase was mainly due to investments in solar energy and biofuels (IRENA, 2022[65]). However, there is scope to further increase the share of renewables in El Salvador's energy mix. In particular, there is a lot of potential for geothermal energy, and also for increasing self-production from renewables, especially from solar energy.

Stepping up El Salvador’s capacity in geothermal, solar and wind energy could reduce the country’s dependence on energy imports, and could bring down the cost of locally produced electricity. In 2018, El Salvador imported 25.7% of the electricity to power its national electricity grid from neighbouring countries. El Salvador is the largest electricity importer in Central America, and its electricity imports increased from close to 400 GWh in 2014 to more than 1 900 GWh in 2018. The high cost of producing electricity locally from liquid fuels such as diesel is the main reason for El Salvador’s high levels of overall energy imports (IDB, 2020[34]). Generating more electricity from renewable sources such as solar, wind, and geothermal would be less costly, and could boost domestic electricity supply.

El Salvador’s government has been supporting the expansion of electricity generation from renewable sources of energy. As of 1996, El Salvador’s General Electricity Law liberalised the power sector, paving the way for greater private-sector participation (IRENA, 2020[66]). In 2020, El Salvador’s National Energy Council (the *Consejo Nacional de Energía*, or CNE) finalised a new National Energy Policy 2020-50 for the country. One of the objectives of this strategic document is to integrate more renewable energy into the energy system, and thus to reduce the cost of electricity and the country’s dependence on oil. The policy is articulated along five strategic axes. These are: regulatory modernisation; research, development and innovation; sustainable energy supply; energy security and integration; and efficient energy consumption. The policy presents a vision of a modern system of energy supply and consumption, and of universal and equitable access to energy. It also paves the way for an innovative energy sector that can attract investment, and for a carbon-neutral, safe, reliable, and high-quality energy supply (CNE, 2022[84]) (CNE, 2022[67]; CNE, n.d.[68]; IRENA, 2020[66]). There is also an investment plan for El Salvador's electricity sector, and at the time of writing an energy transition law bill is in preparation.[6]

The introduction of higher shares of electricity from renewable sources, which represent a movement away from the more fossil-fuel driven energy matrices of the past, will require an evolution of the electricity sector, and above all it will mean increasing the baseload. Some electricity sources, in particular solar, may serve to accentuate the problem of intermittency, as may other distributed sources. Solar panels, for example, generate electricity for between 10% and 30% of the day, which generates large daytime lags between demand and generation, despite the extra capacity. In turn, this requires storage capacity, a high level of regional integration of the grid and energy markets, and the availability of capacity from a large number of

other flexible sources of power that can serve as a baseload (e.g. natural gas, fuel oil, hydroelectric, and geothermal energy). A number of mechanisms are being developed worldwide in order to manage this situation. They include a combination of: demand-response mechanisms (which introduce real-time, location-based pricing), battery storage, and the extension of trading mechanisms (OECD, 2018[69]).

El Salvador is already investing in baseload capacity, and more opportunities exist. A natural gas plant is currently under construction in Acajutla. Once it is operational, it will be able to guarantee baseload. This plant will have a capacity of 378 megawatts (MW), and it will satisfy 30% of El Salvador's energy demand. In addition to serving as baseload, this natural gas plant would contribute to diversifying El Salvador's energy matrix, and to reducing the country's dependence on heavy fuel oil and bunker fuel. However, the construction of the was slow. The plant started operations in May 2022 even though the company in charge of construction, Energía del Pacífico (EDP), was awarded the tender ten years earlier (Forbes, 2021[70]). Another, cleaner, possible source of baseload power for El Salvador is geothermal energy. This has a lot of potential in a country whose geothermal potential equates to 791 MW. El Salvador already has two geothermal power generation plants, with a total capacity of 204.4 MW (8.6% of total installed generation capacity, as of 2021). In 2019, El Salvador generated 1 474 GWh of power from geothermal sources. This equated to 24% of the total electricity generated in the country (IRENA, 2022[65]; Asunción Alas and Pabón Chavez, 2019[71]).

In order to incorporate a large share of renewables into El Salvador’s energy mix, substantial investments in infrastructure are required. On top of the investment that is necessary to increase baseload capacity, it is also necessary to modernise El Salvador’s network of electricity distribution and transmission in order to make it possible to connect large renewable energy facilities to the national grid. It is estimated that El Salvador requires USD 2.8 billion of investments to modernise its energy infrastructure over the next ten years. More than 80% of these investments would be in electricity generation capacity, most importantly renewable energies (IDB, 2020[34]). In order to facilitate these investments, the legal and institutional framework for renewables and long-term planning and policy co-ordination in the energy sector need to be improved, in addition to training sufficient numbers of technicians in renewable energies (IRENA, 2020[66]).

El Salvador also needs to design and implement new rules and regulations in order to incorporate a large amount of renewable energy into its energy mix. This is especially the case for handling distributed electricity generation from grid actors that are not traditional producers of electricity, such as households with photovoltaic panels. Better regulation on distributed electricity generation could stimulate more auto-production of renewable energy from people and businesses in El Salvador. The country already has regulation for net metering, which allows eligible auto-producers of renewable energy to inject surplus production into the local distribution grid.[7] Auto-producers are compensated in energy (i.e. kWh credit), and this credit can be applied to offset electricity consumption within the current billing period (e.g. one month). There are also established rules for auctions of power from distributed renewable sources.[8] Power-distribution companies can purchase up to 20 MW of distributed renewable energy from an auto-producer for the distribution grid. However, current levels of distributed generation are not yet quantified, and there is no centralised metering of established auto-producers in El Salvador. Without this information, distribution companies cannot account for the impact of distributed generation on the demand profile of their customers. In addition, uncapped and uncontrolled increases in distributed generation could affect the reliability of El Salvador's electricity system. There is, moreover, an uneven playing field, as subsidiaries of distribution companies also compete in the market for the development of distributed generation projects. These companies may have access to customer information that is not available to other project developers (IRENA, 2020[66]). Also, net billing would be preferable to net metering. Distributors in El Salvador have already submitted a proposal to complete and improve the regulations for distributed generation to SIGET, but at the time of writing, this had not been adopted.

Recommendations to improve and modernise transport, logistics and energy infrastructure in El Salvador

Recommendations	Actions for implementation	Main actors
Establish and regularly update a consolidated public investment plan that prioritises national infrastructure needs, and develop an institutional framework to ensure infrastructure planning reflects the objectives of the government.	• An independent centralised planning body should be in charge of regular updates to this plan in order to ensure that the most urgent infrastructure projects are given priority. • Involve the private sector in the design of the plan and the portfolio of infrastructure projects. • Align development co-operation activities in the area of infrastructure with the prioritisation of projects in the public investment plan.	**Public institutions:** The National Directorate for Energy, Hydrocarbons and Mines, the National Energy Council (CNE), the Electricity and Telecommunications Superintendency (SIGET), the Ministry of Finance, the Ministry of Agriculture, the Ministry of Economy, the Ministry of Public Works and Transport, the Vice-ministry of Transport, the Secretariat for Innovation, the Secretariat for Commerce and Investment, the National Administration for Aqueducts and Sewerage (ANDA), the Transmission Enterprise of El Salvador (ETESAL), the River Lempa Hydroelectric Executive Commission (CEL). **Private sector:** Electricity distribution firms, private enterprises and private-sector associations. **Pubilc and private financing institutions:** The Development Bank of El Salvador (BANDESAL), commercial banks, multilateral co-operation institutions (Inter-American Development Bank, World Bank, etc.).
Increase investment in the construction and maintenance of El Salvador's road infrastructure, focusing in particular on the expansion of strategic roads and the improvement of the quality of transnational roads.		
Improve the quality of the electricity supply through greater competition and higher standards of quality.	• Introduce greater competition in the quality and price of energy through reforms to the legal framework for electricity distribution. • Introduce higher and stricter standards for the quality of the electricity supply. • Establish special zones with a higher quality of electricity supply, and market-determined electricity prices that can finance necessary investment (in particular for private firms that require a stable electricity supply to operate). • Optimise electricity subsidies.	
Diversify the electricity mix in order to reduce dependence on energy generation from fossil fuels and on energy imports, and to lower the cost of domestically produced electricity, by increasing El Salvador's capacity in geothermal, solar and wind energy.	• Create the right conditions for the integration of la large amount of renewable energy in El Salvador's energy mix, by: ○ Modernising El Salvador's electricity distribution and transmission network; ○ Evaluating the possibility of increasing transmission from the regional electrical market (the Mercado Electrico Regional, or MER). ○ Designing and implementing new standards and regulations, in particular adopting appropriate regulation for distributed electricity generation. ○ Training an adequate amount of technicians ○ Enhancing long-term planning and policy co-ordination, coherence and harmonisation, and the institutional framework for renewable energy.	
Secure funding for investment in transport, logistics and energy infrastructure.	• Consider funding mechanisms that may provide an alternative to general taxation, as and when they are pertinent to each particular sector. • Develop a portfolio of public-private partnership (PPP) projects, and ensure it is in line with national priorities. • Attract more private investors through procurement processes that make use of other types of contracts with private firms (e.g. Purchasing Power Agreements [PPA], Build-Operate-Transfer contracts [BOT]).	
Improve the legal and institutional framework for PPPs.	• Clearly justify the use of non-competitive procedures for the selection of PPPs, and publicise the justification. • Simplify procurement processes for PPPs. • Ensure the compatibility of the PPP law with sectoral legal frameworks.	
Increase transparency, and reduce opportunities for corruption in construction and in public procurement in infrastructure.	• Put in place a website to monitor the progress of public investments in real time. • Ensure the appropriate monitoring and evaluation of public investment projects though independent institutions.	

Removing obstacles to international trade, and to a further deepening of regional integration, is important to stimulate El Salvador's exports

Delays at international borders can result in higher costs for companies and lost business opportunities in time-sensitive or logistics-intensive sectors. Long waiting and transit times at international borders, plus burdensome customs and other border procedures, raise costs for companies that import and export goods, thereby reducing their productivity levels (ESEN/FES, 2019[72]). In addition, delays at international borders prevent just-in-time deliveries of time-sensitive products, resulting in lost business opportunities. Higher logistics costs due to delays at international borders can make the export of logistics-intensive products unprofitable.

Lengthy and time-consuming customs procedures and delays at El Salvador's borders continue to constitute important obstacles for companies in El Salvador that rely on imported inputs. In the World Bank's Logistics Performance Index, El Salvador registered a low performance in the categories of "Quality of trade and transport-related infrastructure", in which its score was 2.25/5, and "Efficiency of customs clearance process", for which it scored 2.3/5 (World Bank, n.d.[11]). In the Global Competitiveness Index, El Salvador ranks 115th out of 141 countries in terms of border-clearing efficiency, with a score of only 32.5/100 (WEF, 2019[41]). In 2016, 18.4% of companies in El Salvador identified customs and trade regulations as major constraints. Trade regulations were a more important constraint for manufacturing industries, most importantly for the textile sector (World Bank, 2016[1]). Although the clearing of exports through customs is fast in El Salvador (taking 2.9 days on average, as compared to 8.3 days on average in Latin America), clearing imports through customs takes 18 days, as compared to a Latin American average of only 15.4 days. Given that 67.9 % of companies in El Salvador rely on imported inputs, lengthy customs procedures are a major constraint for an important number of companies in the country (World Bank, 2016[1]).

The main obstacles in customs clearance are cumbersome and ineffective processes and the deficiency of computer systems. According to the 2019 Entrepreneurial Competitiveness Survey by FUSADES, the main problems that exporting and importing firms identified in terms of customs administration were cumbersome processes (identified by 25% of exporting and importing firms), and the ineffectiveness and inefficiency of procedures and the deficiency of computer systems (which was identified by 14% of firms) (FUSADES, 2021[17]). In the OECD's Trade Facilitation Indicators, El Salvador scored only 1.13/2 in the category "Harmonisation and simplification of documents", which measures the level of acceptance of copies of documents, the level of simplification of trade documents, and the level of harmonisation of trade documents with international standards. The country also only scored 1.11/2 in the category "Appeal procedures", which is an indicator for the possibility and modalities of appealing administrative decisions taken by border agencies (OECD, 2019[73]; OECD, 2018[74]). Customs authorities do not invest enough in maximising efficiency, reducing time at borders, technical upgrades, institutional modernisation, or in raising more tax revenues through a greater turnover at border crossings (IDB, 2020[34]).

There is not sufficient co-operation between customs authorities and the different actors that are involved in international trade in El Salvador. In the 2019 OECD Trade Facilitation Indicators, the country scored only 0.91/2 in the category of "Co-operation between external border agencies", which measures co-operation with neighbouring and third countries. El Salvador also only scored 1/2 in the category of "internal border agency co-operation", which measures the level of delegation of control to customs authorities, and the level of co-operation between the different border agencies in the country. Compared to best practices, data requirements for different border agencies in El Salvador are not harmonised or linked to interconnected systems. In addition, El Salvador scored only 1.25/2 in the category of "Involvement of trade community", an indicator that measures the existence of structures and guidelines for consultations, the publication of drafts, and the existence of a framework for reporting and commenting (OECD, 2019[73]; OECD, 2018[74]).

El Salvador's government has started a process to identify and remove obstacles to international trade. The country has a Trade Facilitation Action Plan that is updated annually by the National Trade Facilitation Committee (*Comité Nacional de Facilitación del Comercio de El Salvador,* or CNFC). The action plan aims to reduce delays at international borders, and to facilitate international trade. It includes measures to simplify processes for the inspection of merchandise, including compliance with health and phyto-sanitary standards. It also includes the management of air and maritime freight, and the simplification of different inspection procedures. The plan also contains measures to improve port, airport and road infrastructure, and to reform and improve the legal framework for trade, including customs and sanitary standards. Also in the action plan are measures to further advance the digitalisation and use of modern technologies for customs and border procedures, for example by improving the inter-connection of different institutions, databases, and information systems. There are also measures to strengthen institutional capacities, and to improve transparency and communication between the public and the private sectors, most importantly by informing the private sector on a regular basis about international trade policies and strategic projects. The 2021 Trade Facilitation Plan also aims to develop a national strategy to facilitate PPPs for the period 2020-25, and to reduce the technical barriers to trade in Central America and with third countries outside of the region. The plan includes specific timelines for the implementation of each measure and mentions the institutions that are responsible for the implementation and financing of each measure (CNFC, 2021[75]).

The implementation of the Trade Facilitation Plan has progressed well. By early 2021, 70% of the measures from the 2020 plan had been implemented. Various sanitary and phyto-sanitary (SPS) procedures and standards had been improved and simplified, and there had been good progress in the digitalisation of the customs and foreign trade system. Investments were made in the rehabilitation of different strategic roads, and in the expansion of the container storage yard at the port of Acajutla. In addition, preliminary work was completed to operate a ferry between El Salvador and Costa Rica, and a PPP contract for the cargo terminal at the international airport was awarded. Training was provided to the public and private sectors, and online reports on progress in strategic issues of the Central American Customs Union were published, improving transparency (CNFC, 2021[76]). As of July 2021, progress had been made on the 2021 action plan. The procedure for exporting and importing samples without commercial value had been improved, and there had also been progress in the implementation of the Hague Apostille Convention. Further progress included the publication of information on trade negotiations, and also the implementation of the contingency plan for the Los Chorros road and the maintenance of border roads. There were also improvements in customs management and sanitary and phyto-sanitary standards, procedures and controls, as well as in the simplification of controls at the cargo terminal of the international airport (CNFC, 2021[76]).

It is appropriate for El Salvador to establish priorities for the elimination of obstacles to international trade. In this spirit, the Trade Facilitation Plan includes a long list of measures to remove obstacles to international trade, which is updated annually. In order to achieve results in the short run, it is important to establish priorities for the implementation of these measures. The Trade Facilitation Plan 2021 already includes concrete deadlines for the implementation of each measure, which was not the case in previous versions of the plan. This is a positive development.

El Salvador should prioritise the simplification and automation of border formalities and procedures. The country could more readily accept copies of the documents that are required for border formalities, as well as improving the alignment of trade documents with international conventions and standards, and reducing the number of documents that are required for imports and exports. In addition, it is important to progressively automate border and customs procedures in order to reduce delays at international borders. El Salvador should also favour the pre-arrival processing of import documentation in order to reduce time at customs, speed up controls for perishable goods, and provide preferential treatment with regard to customs clearance for these goods. Also appropriate in this regard would be an expansion in the use of post-clearance audits, and a further simplification of procedures (OECD, 2019[73]). The Trade Facilitation Plan already includes measures for the adoption of a General Customs Law, for the digitalisation of

customs, for the implementation of the National and Regional Contingency Plan in customs management, and for the implementation of a strengthening plan for border posts (CNFC, 2021[75]).

El Salvador can also improve co-operation and dialogue between the whole range of stakeholders in international trade. It should improve co-operation with the customs authorities and border agencies of neighbouring countries, as well as co-operation and co-ordination between the different border agencies and stakeholders in border controls inside El Salvador. In addition, it is important to improve the provision of adequate and timely information on regulatory changes to the private sector, to give the private sector the opportunity to comment before the introduction or modification of regulations related to international trade, and to make consultations with the private sector even more inclusive (OECD, 2019[73]). The Trade Facilitation Plan includes measures to improve communication between the public and private sectors on trade policy, and El Salvador has already taken several steps to improve transparency (CNFC, 2021[75]) (CNFC, 2021[77]; CNFC, 2021[76]).

Recommendations to eliminate barriers to international trade

Recommendations	Detailed recommendations
Accelerate the implementation of the action plan of the National Committee for Trade Facilitation.	• Identify priorities for the implementation of the action plan.
Simplify and automate procedures and formalities in border crossings.	• Extend the acceptability of copies of documents that are necessary for customs procedures. • Improve the alignment of customs documents with international standards and conventions. • Reduce the number of documents for customs procedures. • Progressively automate border and customs procedures to reduce delays at international border crossings. • Encourage pre-processing of import documentation to reduce time spent at customs. • Accelerate controls for perishable products and grant preferential treatment at customs for such products. • Extend the use of post-clearance audits. • Simplify procedures.
Improve co-operation and dialogue with all parties involved in international trade.	• Improve co-operation with customs and border authorities in neighbouring countries. • Improve co-operation and co-ordination between the various customs and border agencies in El Salvador. • Provide appropriate and timely information to the private sector about regulatory changes. • Provide a space for private sector actors to make observations prior to changing regulations linked to international trade. • Make consultations with the private sector more inclusive.

Reducing the length and costs of administrative procedures

Reducing red tape in El Salvador has the potential to boost productivity and private investment. Both the quality of regulation and the scale of the administrative burden have a significant impact on the climate for business and investment, and on firms' productivity. An excessive administrative burden – so-called red tape – adds to business costs, can impede market entry, lowers competitive pressures, and reduces the incentive to innovate. It also creates uncertainty that can disrupt business planning and can hinder the ability of businesses to respond quickly to new market opportunities. Ultimately, this discourages new domestic and foreign investment, and weakens firms' productivity and overall economic performance (OECD, 2015[32]).

Red tape is extensive in El Salvador. In the Global Competitiveness Index, it came 131th out of 141 countries in terms of the burden of government regulation (WEF, 2019[41]). According to the 2019

Entrepreneurial Competitiveness Survey by FUSADES, the main problem with public institutions for 21% of companies in El Salvador was that of cumbersome procedures and bureaucracy (FUSADES, 2021[17]). El Salvador ranked 168th out of 190 countries in the World Bank's Doing Business ranking 2020 for dealing with construction permits. The process for getting a construction permit is complicated and time-consuming, involving several procedures such as getting a water connection permit from the national water utility company, ANDA, and getting an environmental permit. It takes 210 days to request and obtain the feasibility analysis for connecting a warehouse to potable water and sewage services in El Salvador (World Bank, 2020[59]) The process for creating a business also remains long and cumbersome (Secretaría de Comercio e Inversiones, 2020[6]). El Salvador was ranked 148th out of 190 countries in the category of opening a business in the World Bank's Doing Business Report for 2020 (World Bank, 2020[59]).

Procedures to obtain tax incentives for tourism projects are complicated and time-consuming. They lack transparency, and they often involve multiple institutions. According to market players, the granting of fiscal incentives to the tourism sector is subject to delays, and standard requirements for feasibility studies of tourism projects are not well defined (MINEC/PROESA, 2020[78]). Information on the procedures and requirements for benefiting from tourism tax incentives is, moreover, hard to obtain for investors (Asesores y consultores internacionales S.A. de C.V., 2017[79]). The involvement of multiple institutions in granting tourism incentives renders the process lengthy and time-consuming (MINEC/PROESA, 2020[78]). The granting of fiscal incentives needs to be approved by El Salvador's Treasury (*Ministerio de Hacienda*), the Ministry of Environment and Natural Resources (*Ministerio de Medioambiente y Recursos Naturales*) abd the Secretariat for Culture of the Presidency (*Secretaría de Cultura de la Presidencia de la República*) for projects above USD 50 000. Projects below USD 50 000 need approval from the Ministry of Environment and Natural Resources, the Secretariat for Culture, and the Tourism Ministry (Asamblea Legislativa, 2005[80]). There is a lack of communication among these different actors, in particular between the Ministry of Tourism and the Treasury (Asesores y consultores internacionales S.A. de C.V., 2017[79]). Delays for the Treasury to approve tax incentives for renewable energy are also excessive. Furthermore, procedures for the management of waste (e.g. obsolete equipment and machinery) are very complex and difficult for companies benefiting from the tax incentives that are provided for by the country's law on free zones (MINEC/PROESA, 2020[78]).

In the light of these challenges, El Salvador's government has already taken a number of steps to reduce red tape and delays in business procedures. The implementation of the electronic signature (MINEC, 2020[81]; MINEC/PROESA, 2020[78]) will reduce business costs and delays in doing business in El Salvador. The Ministry of Housing (*Ministerio de Vivienda*), and the *Secretaría de Comercio e Inversiones*, are currently working on a one-stop-shop (*ventanilla única*) for construction permits that is based on the Mexican example. The idea is to simplify the process and to reduce the time it takes to deal with construction permits, including for water connections. Since 2013, El Salvador has had a one-stop shop for firm creation and formalisation. In August 2022, the government launched an online platform (simple.sv). It is meant to be a one-stop shop for multiple procedures, of which a subset can be carried on entirely online. The platform aims to unite a multiplicity of platforms that were mushrooming across the administration (see Chapter 8). A working group on the "Dealing with Construction Permits" sub-index in the World Bank's Doing Business Ranking has also been organised for this purpose. It encompasses the Ministry of Economy, the Ministry of Housing, the San Salvador Urban Planning Office, the OPAMSS, and the public water utility company, ANDA (MINEC, 2020[81]). The delay for benefiting from fiscal incentives in the context of the country's Free Zones Law, (the *Ley de Zonas Francas Industriales y de Comercialización*) has been reduced from 91 to 25 days. The Ministry of Economy is currently working on the digitalisation of the procedures included in the Free Zones Law, the International Services Law, and the Investment Law. The *Organismo de Mejora Regulatoria* (OMR) adopted a Plan for the simplification of procedures (*Plan de Simplificación de Trámites Institucional 2018 – 2019)*, which aims to simplify a set of ten administrative procedures (MINEC, 2020[81]).

El Salvador's government has taken further steps to reduce the regulatory burden and improve transparency. The adoption of three cornerstone laws provides the foundation for future improvements in regulatory quality. Adopted in 2017, the Law on Administrative Procedures (*Ley de procedimientos administrativos)* regulates all administrative procedures, requiring that all existing procedures conform to its stipulations by 2020. Adopted in 2018, the Law on Better Regulation (*Ley de Mejora Regulatoria*) establishes the principles of the Regulatory Impact Assessment, underpinning the body that is responsible for regulatory improvement (the Organism for Better Regulation). Meanwhile, the Law on the Elimination of Bureaucratic Barriers (*Ley de Eliminacion de Barreras Burocráticas)*, which was also adopted in 2018, establishes an administrative ex-post recourse against specific procedures or their implementation (see chapter on Governance). El Salvador's *Organismo de Mejora Regulatoria* is working on a national registry of procedures (the *Registro Nacional de Trámites*), which will include all procedures of public institutions, in order to improve transparency. The finalisation and publication of the registry was originally planned for mid-2021, and it is now operational, although its coverage should still be increased.

Digitalisation can also help to reduce the costs of administrative procedures. El Salvador's digital agenda 2020 – 2030 *(*the *Agenda Digital El Salvador 2020 – 2030*) aims, amongst other lines of action, to digitalise and simplify public services and administrative procedures, and to improve transparency through digitalisation and open data services (Secretaría de Innovación de la Presidencia, 2020[82]). However, technical issues with online public services remain frequent, as is the case with online requests for environmental permits (MINEC/PROESA, 2020[78]).

Public-private dialogue can help to accelerate regulatory improvement initiatives. The reactivation of the National Committee for Trade Facilitation (the *Comité Nacional de Facilitación de Comercio*), in 2019, is a case in point. Created in the context of the implementation of the WTO Agreement on Trade Facilitation (WTO, 2014[83]), it includes members of the private sector organised through an inter-professional committee (*Comité Intergremial para la Facilitación del Comercio en el Salvador*, CIFACIL), and representatives of the country's administration. In 2019, it adopted a plan of 60 concrete actions, many of which have to do with easing the regulatory burden in international trade. Despite its well-defined scope, the experience of the Committee on Trade Facilitation exemplifies the role that public-private dialogue can play in regulatory improvement, as it allows for a prioritisation of the multiple items in the agenda. Similar experiences form other countries have also been successful. In 2010, for example, Morocco established a public-private National Committee for the Business Environment (*Comité National de l'Environnement des Affaires, CNEA*), with the aim of improving the country's business environment and its classification in the World Bank's Doing Business rankings. It succeeded in the latter goal, climbing form position 128 to 53 between 2010 and 2020. More importantly, it grew into a real public-private dialogue platform beyond the narrow scope of its initial mandate. It has recently taken on the formulation of a national business environment policy.

In future, El Salvador should further accelerate the implementation of different policy initiatives to simplify and enhance the transparency of business procedures, and the country should also give more weight to regulatory improvement. It should deliver on the promise to establish a Court for the Elimination of Bureaucratic Barriers (*Tribunal para la Eliminacion de Barreras Burocraticas*). It should also ensure that the process of regulatory adaptation to the Law on Administrative Procedures, and the development of the mandated national registry of procedures, receive appropriate resources. The implementation of the institutional plan of 2018-19 for the simplification of procedures should become a policy priority.

El Salvador should pursue its efforts to ease the regulatory burden through better co-ordination throughout the administration. The progress that has been made in digitising and automating procedures in the one-stop shop for international trade (the *Centro de Trámites de Importaciones y Exportaciones*, or *CIEX El Salvador*) is a step in the right direction. It is important to finalise the one-stop shop for obtaining a construction permit in order to accelerate a process that continues to constitute an important obstacle to private investment. To avoid the proliferation of "one-stop shops", the process of co-ordination should be

analysed from a user's perspective, to ensure that users are informed of the available tools and can carry out as many procedures as possible through the same interface with the administration.

Furthermore, procedures for applying for fiscal incentives should be simplified, and transparency should be enhanced. Most importantly, the number of institutions that are involved in granting fiscal incentives in the context of the tourism law should be reduced. It is not necessary to involve both the Ministry of Tourism and the Secretariat of Culture of the Presidency in this process. Furthermore, the timelines that are fixed by law for benefiting from fiscal incentives need to be respected. The availability of detailed information on the procedures and requirements that are necessary to benefit from fiscal incentives should also be improved, for example by publishing it in detail online.

Recommendations to reduce the length and cost of administrative procedures

Recommendations	Detailed recommendations
Accelerate the implementation of policy initiatives to cut red tape, simplify business procedures and enhance transparency.	• Make operational a one-stop shop for construction permits and pursue efforts to consolidate and integrate the multiple one-stop-shops that exist, with a client-based perspective. • Implement the Plan for the simplification of administrative procedures (Plan de Simplificación y Digitalización de Trámites). • Finalise the national registry of procedures (Registro Nacional de Trámites). • Ensure that the regulatory improvement process and the generation of the national registry of procedures receive appropriate resources. • Ensure the establishment of the Court for the Elimination of Bureaucratic Barriers (Tribunal para la Eliminacion de Barreras Burocráticas, or TEBB). • Accelerate the digitalisation of administrative procedures.
Simplify procedures to obtain fiscal incentives and increase transparency.	• Shorten the amount of time that it takes to obtain fiscal incentives, and make sure that the waiting times provided for by law are respected. • Reduce the number of institutions that participate in the process to grant fiscal incentives to the tourism sector. • Improve the availability of online information on the procedures for benefitting from fiscal incentives, especially: ○ The detailed, standardised requirements that need to be met to benefit from incentives. ○ The process to obtain Reduced Emissions Certificates for projects that can apply for incentives under the Law on Renewable Energy. ○ A public registry of service providers for feasibility studies, especially for tourism projects.

Access to finance remains an obstacle for micro and small enterprises in El Salvador

Improving access to finance for micro and small enterprises (MSEs) in El Salvador has the potential to raise productivity. Access to finance enables growing firms to seize promising investment opportunities, and this is especially the case for small and innovative enterprises that need external funding to expand and develop their businesses. By facilitating new entrants into product markets, the provision of access to finance can spur competition and boost efficiency and productivity, both directly and indirectly. It does this by helping better performers to grow, and by forcing weaker performers to improve, merge with or be acquired by a stronger firm, or exit the market (OECD, 2015[32]).

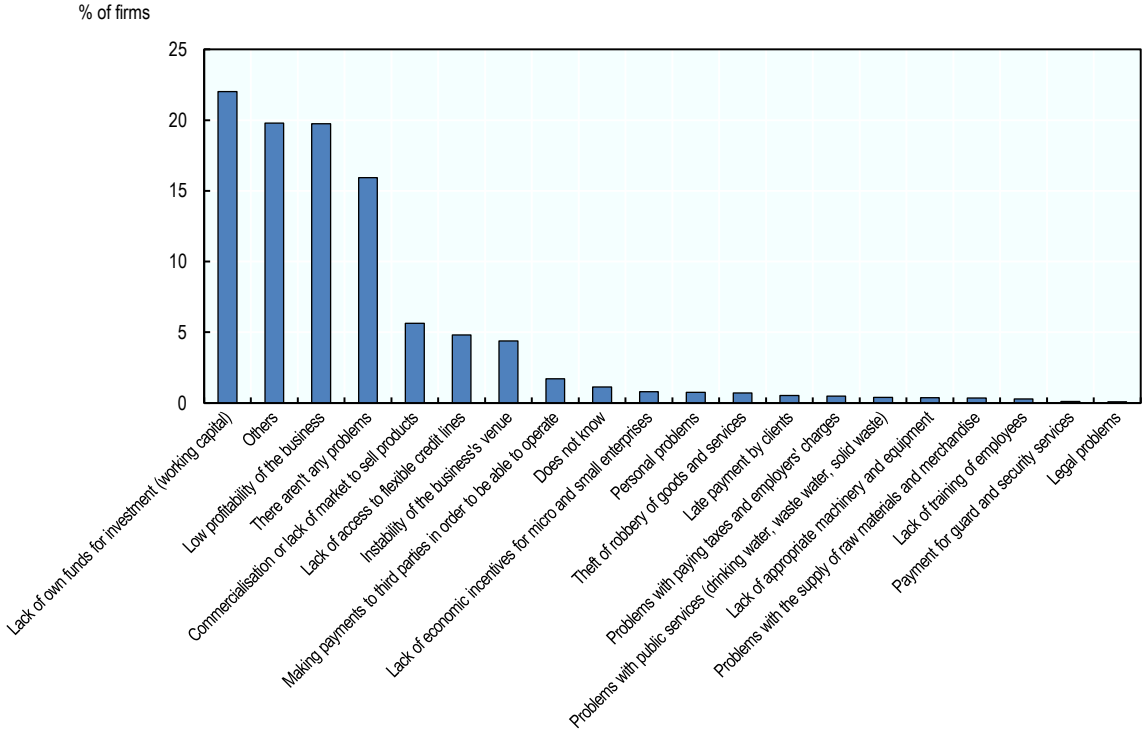
Access to finance is mainly an obstacle in El Salvador for MSEs, and for informal firms. Access to finance is a major constraint for 23.3% of micro enterprises in El Salvador, and for 15.9% of small companies, but only for 8.7% of medium-sized companies and 8.5% of large companies (World Bank, 2016[1]). Investment in fixed assets financed by banks is considerably higher for medium and large enterprises (37.8% and 33.2% of investment respectively) than for MSEs (23.9% and 27.5% of investment respectively). While 33.3% of medium and large firms received a bank loan to finance investment, only 22.2% of micro firms,

and 23% of small firms, received a bank loan to finance investment as of 2016 (World Bank, 2016[1]). This is evidence that smaller firms face greater credit constraints. According to a survey of MSEs in 2017 by El Salvador's National Commission for MSEs (the *Comisión Nacional de la Micro y Pequeña Empresa*, or CONAMYPE), a lack of own funds for investment was the main obstacle limiting company growth for 22% of the companies surveyed (Figure 4.5). Furthermore, for 67.5% of the MSEs surveyed, the main source of financing was their own savings and resources, with only 22% of companies having made a request for a loan in the past. Moreover, 80% of loans were directed towards working capital. Companies operating in commerce were most likely to request loans, with 53% of these firms reporting having done so. In second place were services companies, 32% of which had requested loans. Only 14% of industrial companies had requested a loan (CONAMYPE, 2018[18]).

MSEs constitute the large majority of companies in El Salvador, and informality is widespread. Close to 99% of firms in the country are MSEs (REDIBACEN, 2016[84]), and they account for 31% of employment (CONAMYPE, 2019[85]) and generate about 35% of El Salvador's GDP (REDIBACEN, 2016[84]). According to CONAMYPE's 2017 survey, 75% of MSEs in El Salvador are informal, which is to say that they are not registered payers of value added tax [VAT]) (CONAMYPE, 2018[18]). Given the weight of MSEs and the informal sector in El Salvador's economy, improving their competitiveness and productivity is important for the country's productive transformation.

Figure 4.5. Lack of funds for investment and low levels of profitability are the main obstacles for MSEs in El Salvador

Main obstacles limiting company growth, 2017



Source: CONAMYPE (2018[18]), *Encuesta Nacional de la Micro y Pequeña Empresa 2017*, Comisión Nacional de la Micro y Pequeña Empresa, San Salvador, https://www.conamype.gob.sv/download/encuesta-nacional-de-la-mype-2017/.

StatLink https://stat.link/9qsk2j

Formal micro, small and medium-sized enterprises (MSMEs) are less affected by credit constraints than those in the informal sector, but access to finance is still a challenge for them. According to a survey by El Salvador's Reserve Central Bank (the *Banco Central de Reserva*, or BCR) of MSMEs in urban areas, of which 81% were formal (registered for VAT), accessing credit was difficult for 36% of companies. For 73% of them, the most important source of financing was their own funds. On the positive side, 59% of the businesses surveyed had already applied for a loan from a financial institution, and for 85% of them the loan request had been approved. This shows that accessing credit is easier for formal than for informal companies. Only 7% of the companies surveyed had already contracted a loan from a moneylender (BCR, 2019[86]).

The relatively low levels of financial inclusion in El Salvador offer a partial explanation of the difficulties in accessing finance. In 2021, only 36% of El Salvador's population aged 15 and older had a bank account or an account with a provider of mobile money services, compared to 74% on average in Latin America and the Caribbean (World Bank, 2022[87]). The financial-inclusion performance with regard to MSEs (MSEs) is better than the performance of the Salvadoran adult population on average. According to the BCR's survey, at least 82% of formal MSEs in El Salvador have a bank account (BCR, 2019[86]).

High interest rates and lack of collateral represent significant challenges for MSEs that wish to access loans. According to CONAMYPE's survey in 2017, 60% of MSEs paid an annual interest rate on their loans of above 10%, with 14.2% of companies paying over 16% (CONAMYPE, 2018[18]). Average interest rates for loans to firms in 2017 ranged from 6.37% (for loans with a maturity of up to one year), to 8.67% (for loans with maturities of over a year) (BCR, 2020[88]). The lack of collateral or a guarantor was the main reason for the rejection of loan requests by MSEs (53.6%) (CONAMYPE, 2018[18]). In the survey of MSMEs in urban areas by El Salvador's Central Bank, 27% of companies identified high interest rates on loans as the main obstacle to accessing credit, with 17% of companies identifying the requirement of a high amount of collateral as the main obstacle. These were the two main obstacles that companies identified in the survey. For the 69% of companies that had to provide collateral or guarantees for their loans, the main types of guarantees used were pledge mortgages (*hipotecaria prendaría*) (67%), machinery, equipment or vehicles (12%), and a guarantor (11%) (BCR, 2019[86]). All enterprises with loans surveyed in the World Bank's enterprise survey in 2016 had to post collateral or guarantees (World Bank, 2016[1]).

Difficulties in gaining access to financing, plus limited levels of liquidity and own financial resources, make it harder for MSEs to succeed in exporting. There is a large lag between the production of goods by an exporter, and the receipt of payment from clients. Therefore, only firms with access to credit, or sufficient own financial resources, are able to export. Consequently, only 3% of the MSEs surveyed by CONAMYPE in 2017 were exporters (CONAMYPE, 2018[18]). El Salvador's exports are concentrated in the hands of a few large companies. In 2017, large companies accounted for 93.9% of El Salvador's export volume, while MSMEs accounted for only 6.1%. In 2013, 49.1% of El Salvador's exports were concentrated in the hands of 1% of the country's companies. This is less than in Latin American countries on average (73.5% in 2013), but it nevertheless represents a high degree of export concentration, which has been increasing over time (in 2018, 53.7% of El Salvador's exports were concentrated among 1% of companies) (BCR, 2019[89]). Improved access to financing could increase the number of exporting MSMEs in El Salvador and reduce the concentration of export activities in the hands a few large companies. It is also important to try to include more domestic MSMEs in the value chains of exporting firms.

The COVID-19 pandemic further exacerbated liquidity shortages and difficulties in accessing financing in El Salvador. Due to the strict lockdowns and restrictions on movements and businesses from March to July 2020, a large number of MSEs in El Salvador experienced liquidity shortages. Informal MSEs are particularly exposed to the impact of the pandemic. Therefore, their need for better access to credit has become even more urgent. Almost all of the micro enterprises (98%) that were covered by a survey of 400 such companies by the Ministry for Local Development (*Ministerio de Desarrollo Local*) reported having been completely paralysed by the pandemic. According to a survey of about 2 700 MSEs in June 2020 by CONAMYPE, in which 57% of the firms surveyed were informal companies that were not registered for VAT, 50% stopped operating due to the lockdown imposed between March and June 2020,

while 33% reduced their operations, and 4% had to close down. Only 13% of companies continued operating normally (CONAMYPE, 2020[90]). In addition, 71.3% of the MSEs surveyed expressed a need for loans for working capital in light of the pandemic (CONAMYPE, 2020[90]).

El Salvador's government has already implemented measures to improve access to finance for MSEs. As the country's official national body for MSEs, CONAMYPE aims to support them, and to strengthen their competitiveness and productive capacities. In order to improve access to financing for informal companies, the *Banco Hipotecario de El Salvador*, a state-owned bank whose objective is to support El Salvador's productive sector, and MSEs in particular, recently launched a programme in collaboration with CONAMYPE to provide informal MSEs with micro-loans of up to USD 100. Administered by CONAMYPE, the Fund for Entrepreneurship and Working Capital (*Fondo para el Emprendimiento y Capital de Trabajo*) finances new projects by existing MSEs in all sectors. Furthermore, MSEs can also obtain public loan guarantees for loans from financial intermediaries through the Guarantee Programme for MSEs (PROGRAMYPE) (CONAMYPE, 2014[91]). They can also obtain public co-investments through the Ministry of Economy for productive projects that would increase their productivity in national and international markets (MINEC, 2020[81]).

Since 2014, El Salvador has had a collateral registry, which allows for the registration of movable assets as collateral. The lack of collateral is one of the main obstacles for El Salvador's MSEs in accessing finance. Collateral registries that make it possible to record movable property can improve access to credit for MSEs since movable assets are the main type of collateral that MSEs can offer to secure financing in developing countries like El Salvador (World Bank, 2018[92]). The country's Law on Secured Transactions (*Ley de Garantías Mobiliarias*), which has been in force since April 2014, aims to improve access to credit for MSEs. The law establishes an electronic Secured Transactions Registry (*Registro de Garantías Mobiliarias*), and defines a wide range of assets that can serve as collateral, including tangible, intangible, and fungible assets, plus rights over future assets, intellectual property rights, bank accounts, stocks and stakes in private companies, and others (Asamblea Legislativa, 2013[93]; Solano and Tulipano, 2019[94]). Despite the creation of this registry, access to finance remains an obstacle for MSEs (CONAMYPE, 2018[18]; World Bank, 2016[1]), and the use of the *Registro de Garantías Mobiliarias* by businesses appears to be limited. In 2019-20 there were only 4 995 new collateral registrations (CNR, 2020[95]), even though there are more than 300 000 MSEs in El Salvador (CONAMYPE, 2018[18]).

A reform of El Salvador's Usury Law (Ley de usura) could reduce the interest rates that are charged to micro and small enterprises that cannot access financing from formal financial institutions. A reform of the Usury Law was adopted by the county's Legislative Assembly in February 2022. It aims to reduce the interest rates that are paid by the unbanked population. This includes MSEs that are excluded from the banking system, and that turn to moneylenders, pawnshops, and other non-bank providers of financial services. The reform establishes penalties for moneylenders who do not comply with the law, frames the calculation of interest (banning the practice of charging interest on interest), and reduces the maximum effective interest rates that are allowed (Asamblea Legislativa, 2022[96]).

El Salvador has rolled out a number of measures to improve the financial inclusion of MSEs. Since 2015, the Law to Facilitate Financial Inclusion (*Ley para facilitar la inclusión financiera)* has regulated e-money providers and savings accounts with simplified requirements (SSF, 2015[97]). In March 2021, El Salvador launched a National Financial Inclusion Policy. One of the four priority policy areas of this strategic document is financing for MSEs (BCR, 2021[98]). However, the action plan that is envisaged in the National Financial Inclusion Policy needs to be developed and approved as soon as possible to ensure the rapid implementation of the policy.

In light of the COVID-19 pandemic, El Salvador's government adopted measures to improve micro and small enterprises' access to finance, and to help these firms to survive. The government put in place a package of life-support measures for households and businesses that were affected by the pandemic, including subsidies for the informal sector, and loans directed to micro and small companies. In May 2020,

a USD 600 million trust fund was constituted to support companies that had been affected by the pandemic (the *Fideicomiso para la Recuperación Económica de las Empresas Salvadoreñas*, or FIREMPRESA), under the management of the national development bank, BANDESAL. In July 2021, this trust fund received an additional USD 100 million, and as of the end of July 2022, USD 641.4 million of the fund's total of USD 700 million had already been disbursed. In March 2021, it was reformed through Legislative Decree No. 840. New subsidy and sector-support programmes were created for the arts sector, artisanal fishermen, school transport, and public schools, as well as for shopkeepers who were affected by the Santa Ana fire on 10 March 2021 (Gobierno de El Salvador, 2022[99]).

In the context of the COVID-19 pandemic, the Law for the Promotion, Protection and Development of MSEs was also reformed in June 2021. This reform allows CONAMYPE to use more freely the USD 10 million allocated to it in the general budget to benefit traders and MSEs that experience difficulties in obtaining finance from private financial institutions. To this end, two trust funds were created to support the Guarantee Programme for MSEs (PROGRAMYPE), as well as the Investment, Quality and Productivity Fund (FECAMYPE). In addition, USD 1 million was assigned to carry out a nationwide census of micro and small enterprises, with the aim or registering them in view of formalisation (Asamblea Legislativa, 2021[100]).

The reform of the national development bank, BANDESAL, opens up new avenues for providing support to MSEs. During the COVID-19 pandemic, BANDESAL's mandate was changed through a reform of its organic law (the *Ley del Sistema Financiero para el Fomento al Desarrollo* [BANDESAL]), and the institution can now make direct loans to companies. In the past, BANDESAL supported access to credit for the private sector – and most importantly to MSEs only through financial intermediaries. The reform of its organic law aims to improve access to finance for the productive sector through loans that have more favorable conditions, such as lower interest rates, longer maturities, and longer grace periods (Asamblea Legislativa, 2020[101]).

Box 4.2. The BNDES Card (Cartão *BNDES*) of Brazil's National Bank for Economic and Social Development

Brazil's *Banco Nacional de Desenvolvimento Econômico e Social* (National Bank for Economic and Social Development, or BNDES) is a federal public company that is associated with the country's Ministry of Economy. Its objective is to provide long-term financing to companies that contribute to the country's development. The BNDES is one of the largest development banks in the world, with assets in the vicinity of 835 billion Brazilian reals (BRL).

The BNDES finances investment to expand, modernise and recover the productive capacity and competitiveness of national companies, including MSMEs. It offers various financing products to meet the financial needs of MSMEs (which are defined as companies with annual gross revenues of up to BRL 300 million). MSMEs have access to credit lines and financing from the BNDES through the Banco do Brasil, the Caixa Econômica Federal, and other state-controlled banks, as well as through a number of privately owned banks with broad outreach. In the first half of 2018, MSMEs accounted for 48.6% of total disbursements by the BNDES.

Among the BNDES's initiatives to facilitate access to credit for MSMEs is the "BNDES Card". It was launched in 2003 and is a type of pre-approved credit card aimed at financing investment on the part of MSMEs. The credit limit of the BNDES Card (up to BRL 2 million) is set by the issuers of the product, which are Brazilian financial institutions authorised by BNDES to issue the card. These financial institutions are in charge of selecting the companies that apply for a BNDES Card, so they are also responsible for analysing credit risk. The financial institutions that can issue BNDES Cards include state and private banks, as well as credit co-operatives. BNDES Card financing is for up to 48 months, with fixed instalment payments. Interest rates are preferential, and below market rates.

Business owners who hold a BNDES Card can only purchase products from suppliers that are willing to sell to holders of the BNDES credit card. All products that are available to such cardholders are published on the BNDES website.

The BNDES Card stands out for its easy accessibility, affordability, and operational simplicity. It makes it possible to finance MSME investments in a simplified manner, and at a lower price than the market offers. It also reduces the fixed costs that are associated with granting credit. In addition to reducing transaction costs, the card stands out because it does not require collateral and it offers the possibility of financing 100% of the investment. In this way, it facilitates easier and more agile access to credit, thus contributing to the growth of MSMEs. In 2017, there were more than 650 000 companies with an active BNDES Card. It has been in increasing demand since its creation in 2003, suggesting that it is a well-designed public policy for MSMEs.

Source: OECD (2020[102]), *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard*, OECD Publishing, Paris, https://dx.doi.org/10.1787/061fe03d-en.

It is important to make sure that public programmes to improve access to credit for MSEs in El Salvador are aimed at making markets work efficiently and sustainably. The government should focus its intervention in areas where there have been market failures, for example due to asymmetries of information between lenders and borrowers.

Public programmes to improve access to finance for MSEs should prevent an excessive transfer of risk from the private to the public sector and should respect the principle of risk-sharing. This means that official contributions should encourage partnerships with the private sector. This implies that priority should be given, wherever possible, to channelling public funds towards firms that are facing credit constraints through private financial institutions, rather than lending to them directly through public institutions such as BANDESAL, the national development bank (OECD, 2015[32]). Loan guarantee schemes such as PROGRAMYPE should be privileged over the direct lending of public funds to firms. Co-investments such as those implemented by the Ministry of Economy, in which investments are financed partly through public loans or grants, and partly through firms' own funds or private-sector loans, are another option for risk sharing. In the short term, and in particular in the context of the COVID-19 pandemic, more direct public interventions by public financial institutions such as BANDESAL may be necessary as a counter-cyclical credit-policy instrument. Key conditions for their success include regulation and supervision – as is the case for loans from private banks – as well as an assurance that public lending will not crowd out private credit (Blancher et al., 2019[103]; IFC, 2011[104]).

Furthermore, efficient government support schemes should guarantee "additionality", and should include rigorous evaluations. Additionality refers to the allocation of resources exclusively to viable firms that are nevertheless partially or completely excluded from financial markets. This implies that enterprises that lack access to private financial institutions (e.g. due to lack of collateral), or that face excessively high interest rates, should benefit from government support schemes, and that the viability and profitability of enterprises benefiting from public support should be rigorously assessed. Public programmes to improve access to finance for MSEs should also be assessed and evaluated rigorously in order to phase out policies that have become ineffective, or that are no longer necessary because market activities are maturing and are able to take over (OECD, 2015[32]). Currently, the institutions that implement public programmes to improve access to finance for MSMEs carry out evaluations. However, evaluations differ across institutions in terms of methodology and rigour, and public policies for MSMEs are not yet evaluated at the national level. Evaluation is not yet a consolidated and systematic practice in all public institutions when it comes to MSME programmes, and it needs to be consolidated and become mandatory.

The BNDES card of the Brazilian National Bank for Economic and Social Development (BNDES) is an example of a successful and innovative financing product for MSMEs from a national development bank

(Box 4.2). It facilitates fast, affordable, and easy access to credit for MSMEs. The BNDES Card respects the principles of risk sharing and "additionality": It is not the BNDES, but financial institutions, that are responsible for analysing credit risk and selecting businesses that apply for a BNDES Card. In addition, business owners with a BNDES Card can only buy products from specific suppliers, which discourages firms with access to other types of credit from applying (OECD, 2020[102]). The number of businesses with a BNDES Card has increased rapidly since its introduction in 2003 (OECD, 2020[102]), and there is evidence that it has been successful in easing credit constraints for these businesses (IDB, 2017[105]).

Access to credit among micro and small firms is closely linked to formalisation. Informal businesses in El Salvador face more difficulties in accessing loans than do formal ones. Only 22% of the MSEs covered by CONAMYPE's survey, 75% of which were informal, had requested a loan, and 10% of loan requests were rejected due to the company's lack of formalisation (CONAMYPE, 2018[18]). Conversely, access to financing does not appear to be a sufficient incentive for MSMEs to pursue formalisation. The degree of formalisation – as defined in this case by registration and the payment of social security contributions – of firms that requested credit is very similar to those that did not (Banegas and Winkler, 2020[106]).

Measures that encourage the formalisation of MSEs could facilitate both access to finance and the financial inclusion of MSEs. Simplifying the administrative procedures for formalising MSEs could encourage more of them to formalise (BCR, 2021[98]). In addition, the introduction of a simplified tax regime for MSEs in El Salvador, similar to the regimes that already exist in other Latin American countries such as Argentina, Brazil, Paraguay and Uruguay, could facilitate the formalisation of more MSEs. For example, in the context of the Argentine Monotax (*Monotributo)* System, which was introduced in 1998, small taxpayers (those with up to a maximum amount of gross annual income) can fulfil their main tax and social security obligations with a lump sum payment. The number of taxpayers enrolled in the *Monotributo* has grown steadily since its introduction in 1998, and more than half of these so-called *monotributistas* are in the lowest income category (ILO, 2014[107]).

A special limited-liability form of incorporation for MSEs can also facilitate their formalisation. In most countries, a minimum number of partners or employees, and a minimum amount of capital, are required to open a limited liability company. However, many countries have established special limited-liability company regimes for MSEs (such as Panama, see Box 4.3). Limited liability companies allow the separation of personal and business assets. In this way, they protect personal assets from business debts and lawsuits against the company, and in case of insolvency of the company. One disadvantage of limited liability companies can be credit restrictions, as personal assets cannot serve as collateral. In Salvadoran law, one such form is the Individual Limited Liability Company (the *Empresa Individual de Responsabilidad Limitada*, or EdRL). The minimum amount of share capital that is required for standard limited liability companies is USD 2 000, and they can have between two and 25 partners (Asamblea Legislativa, 1970[108]). However, the use of the EdRL legal form by MSEs is not common. This lack of use can be attributed in part to a lack of awareness of its availability. There are also limitations to the regulation that have been noted in comparative law studies (Díaz Martinez, 2017[109]). Firstly, the EdRL does not grant a legal personality to the company, but rather a separation of assets with a number of exceptions, including the possibility of guaranteeing operations with personal assets. The benefits in terms of access to risk-limited credit are therefore reduced. Secondly, the regulation limits the use of company law to companies with at least two partners. This implies the dissolution of companies, and a change of legal form, when a company becomes a sole proprietorship. This is contrary to the option pursued, for example, in Panama.

Other initiatives that are under way in El Salvador seek to facilitate the formalisation of MSEs through the simplification of accounting and tax requirements, and the provision of credit on more favourable terms. The work that has already been done on the draft bill on Transition towards Integration into the Economy, prepared by CONAMYPE and announced in 2020, set out to facilitate the transition of enterprises from informality to formality. It includes a simplified accounting regime during the transition of informal enterprises to formality (Gobierno de El Salvador, 2020[110]). Currently, only 15.6% of MSEs keep formal accounts (CONAMYPE, 2018[18]). The 2014 Law for the Protection, Promotion and Development of MSEs

(the *Ley de Protección, Fomento y Desarrollo de la MYPE*) already contains provisions that allow for the introduction of simplified accounting principles for MSEs (CONAMYPE, 2014[91]). However, a simplified accounting regime for MSEs has not yet been approved by the Supervisory Council of the Public Accounting and Auditing Profession of El Salvador.

Capacity building in financial literacy for MSEs, along with the provision of technical assistance, could improve their access to finance. The main reasons why MSMEs report going to moneylenders for loans is that the procedures are easier and faster (88% of respondents), and that there is less paperwork (27% of respondents) (BCR, 2019[86]). Assistance in completing loan applications at formal financial institutions, and capacity building in the form of training sessions on how to apply for formal loans, as well as on financial management and business development in general, could encourage more MSEs to apply for loans at banks and other formal financial institutions rather than borrowing from moneylenders (OECD, 2015[32]). Financial education programmes for MSEs are carried out by CONAMYPE and the *Superintendencia del Sistema Financiero* (SSF), and CONAMYPE also provides capacity-building and technical assistance. However, the number of MSEs benefiting from these programmes seems to be modest (500 such firms participated in financial education workshops organised by CONAMYPE and SSF) (SSF, 2019[111]; BCR, 2021[98]).

Box 4.3. Limited liability entrepreneurial companies in Panama

Limited-liability entrepreneurial companies known locally as *Sociedades de Emprendimiento de Responsabilidad Limitada* (SERLs) were established in Panama in 2020 via a law that regulated entrepreneurial companies as part of the government's plan to reactivate the economy after the COVID-19 crisis. SERLs aim to encourage small entrepreneurs to formalise their businesses by granting them access to various benefits.

SERLs differ from Panama's ordinary limited liability companies, which are called *Sociedades de Responsabilidad Limitada* (SRLs), in that they can be created by a single person, while SRLs must have at least two partners. Only micro enterprises (those whose gross revenues or annual turnover do not exceed 150 000 Panamanian balboas [PAB]), and small enterprises (with gross revenues or annual turnover from PAB 150 000.01 to PAB 1 000 000) are eligible. The minimum capital required is PAB 500.

The key benefits offered to SERLs include lower costs to open a business than for other forms of enterprise, four-year exemptions both from the annual flat tax and from having to use fiscal printers, and a two-year exemption from income tax. They also include rebates of up to 50% on import tariffs for the inputs and raw materials that are required for the creation of innovative products, services or processes, plus a digitalised process for opening a SERL through a one-stop shop. In addition, the inclusion of SERLs in submissions to public tender proposals for best value, grants the bidder, whether they are a natural or a legal person, an additional score of 5%. After being contracted by the state or by a private company, payments that are due to a SERL must be made within a period of no more than thirty calendar days.

The Panamanian SERL regime has several limitations. For a start, SERLs cannot carry out all types of economic activities. In addition, the same natural person cannot be part of more than one SERL, and a SERL cannot be constituted by more than five natural persons.

Source: Asamblea Nacional (2020[112]), Ley N° 186 que regula las sociedades de emprendimiento en la República de Panamá, https://www.gacetaoficial.gob.pa/pdfTemp/29167_B/GacetaNo_29167b_20201202.pdf; IPAL (2020[113]), Sociedades de Emprendimiento de Responsabilidad Limitada, https://www.ipal.com.pa/post/sociedades-de-emprendimiento-de-responsabilidad-limitada; IFLR (2020[114]), Panama: New regime for limited liability companies, https://www.iflr.com/article/b1nf34fmm7b6v9/panama-new-regime-for-limited-liability-entrepreneurship-companies; Kraemer & Kraemer (2020[115]), Entrepreneurship companies in Panama, https://kraemerlaw.com/en/articles/entrepreneurship-companies-in-panama/.

Evidence from different countries shows that insolvency frameworks that are tailored to the needs of MSEs can improve their access to credit and lower the collateral requirements that apply to them. Most traditional insolvency frameworks rely on complex rules, and firms require the specialised knowledge of experienced legal professionals, plus significant time commitments and financial resources, to deal with these insolvency proceedings. However, MSEs often lack the resources and know-how for dealing with such complex insolvency proceedings. In addition, creditors tend to lack interest in investing resources in restructuring MSEs. A study of distressed SMEs in Germany, France and the UK revealed that creditor recovery rates can vary widely depending on the insolvency framework, and that banks adjust their lending practices to reflect the strength of an economy's insolvency framework. Banks in France, where insolvency law provides limited protection to secured creditors, require higher levels (and different types) of collateral than banks in Germany and the UK. Insolvency reforms in Brazil and Italy reduced the cost of credit while expanding the availability of it (World Bank, 2018[92]).

Out-of-court workouts, pre-insolvency proceedings, and specialised insolvency proceedings can facilitate questions of insolvency for MSEs. Out-of-court workouts are informal debt-restructuring procedures that rely on a voluntary multi-lateral contractual agreement (compromise) between the debtor and creditors to restructure the debtor's assets and liabilities without judicial intervention. The advantages of out-of-court restructuring procedures include shorter timeframes and lower costs than formal insolvency proceedings. Advantages also include confidentiality and the protection of debtors' reputations, plus the prospect of businesses being able to continue, and the possibility of tailoring the agreements to the specific needs of debtors. Out-of-court settlements were first promoted in the United Kingdom by the Bank of England in the 1970s, in order to minimise banks' financial losses from corporate failures through co-ordinated and well-prepared settlements, and to use restructuring to avoid unnecessary liquidations of viable companies. Many other countries were inspired by this successful strategy and went on to implement out-of-court settlement frameworks of their own. These include Indonesia, Malaysia, Korea and Thailand. Pre-insolvency proceedings aim to restructure firms before they become formally insolvent, and they tend to be less expensive and time-consuming than formal insolvency proceedings. They also ensure business continuation. A third option is the pursuit of specialised insolvency proceedings for MSEs, which are less costly and time-consuming. Such proceedings can go ahead either through a separate insolvency regime for MSEs, or through exceptions in the insolvency framework (World Bank, 2018[92]).

El Salvador's legislative assembly has been discussing a draft insolvency bill that would establish out-of-court workouts for micro-enterprises. The draft bill allows for out-of-court settlements for natural and legal persons, including micro and small merchants, for debt up to USD 90 000. The new law aims to improve the management of the increased number of insolvencies that have come as a consequence of the COVID-19 pandemic, via the restructuring and consolidation of debt in favourable conditions for small debtors. Among the other benefits that the draft law provides for debtors are grace periods for small debtors, the exemption of the payment of certain administrative charges, fees, and penalties, extended terms of payment of debt, the application of an interest rate of 6% on outstanding liabilities, and special credit lines for small debtors through the state bank (Asamblea Legislativa, 2020[116]). El Salvador should also consider extending some of the benefits of this bill to somewhat larger companies, since not only merchants and micro-enterprises but also small companies face difficulties in dealing with the complexity of traditional insolvency procedures.

Recommendations to improve access to credit for MSEs

Recommendations	Actions for implementation	Key actors
Ensure that public programmes aimed at improving access to finance for micro and small enterprises avoid an excessive transfer of risk from the private to the public sector.	• Prioritise channelling public funds through private financial institutions whenever possible, as opposed to granting loans directly through public institutions such as BANDESAL. • Favour loan guarantee schemes such as PROGRAMYPE in preference to lending public funds directly to enterprises. • Develop co-investment tools – such as those implemented by El Salvador's Ministry of Economy, MINEC – that are financed jointly by public grants or loans, and by enterprises' own funds, or by private-sector loans.	Ministry of Finance, CONAMYPE, Ministry of Economy, public-sector banks (Banco Hipotecario, Banco de Fomento Agropecuario, BANDESAL), MSME Business associations, multilateral development co-operation.
Make sure that resources are directed towards enterprises that are partially or completely excluded from financial markets, or that face credit constraints (additionality).	• Grant public support only to firms that lack access to private financial institutions (for example, due to lack of collateral), or that face excessive interest rates. • Rigorously evaluate the viability and profitability of enterprises that benefit from support. • Promote the evaluation of risk profiles of projects, and not only of natural or legal persons in financial institutions, so as to grant credit to more persons and to MSMEs with successful projects.	
Rigorously evaluate public programmes that aim to improve access to finance for micro and small enterprises, in order to discontinue policies that are no longer necessary, or are inefficient.	• Strengthen public institutions' databases on MSMEs, as well as co-ordination and data exchange between institutions, in order to generate synergies. • Strengthen monitoring in credit allocation. • Implement intermediate evaluations, outcome evaluations, and impact evaluations, with the supervision of financing entities.	CONAMYPE, Ministry of Economy, Secretariat for Innovation, Secretariat for Commerce and Investment, National Council for Financial Inclusion, multilateral development co-operation.
Provide capacity-building and technical support to micro and small enterprises to help them to complete loan applications at formal financial institutions.	• Strengthen institutional capacities to provide technical assistance and financial education to MSMEs: ○ Form a group of financial advisors for MSMEs in CONAMYPE (the country's MSME authority). ○ Create a council for financial advice for MSMEs in CONAMYPE. ○ Strengthen online financial education, and co-ordinate with the financial education efforts of public banks (state banks and development banks). • Modernise MSME attention centres.	CONAMYPE, public-sector banks, Central Reserve Bank (BCR), National Council for Financial Inclusion, (CNIF), commercial banks.
Ease specialised insolvency procedures (out-of-court agreements) for merchants and micro-enterprises and extend out-of-court agreements for small firms.	• Introduce an extension of out-of-court settlements to small enterprises in the Insolvency Bill under discussion in the Legislative Assembly. • Once approved, disseminate the law with stakeholders to ensure its implementation.	Ministry of Finance, Ministry of Economy, Legislative Assembly, business associations, associations of public accountants.
Support the financial inclusion MSEs.	• Reform the legal framework and regulations of the Central Bank (BCR) and the Superintendency of the Financial System for MSEs. • Develop and approve the Action Plan foreseen in the National Financial Inclusion Policy as soon as possible.	CONAMYPE, CNIF, BCR, public and commercial banks.
Foster formalisation among micro and small enterprises (MSEs).	• Simplify administrative procedures for the formalisation of MSEs. • Consider the introduction of a simplified taxation regime for MSEs in El Salvador. • Improve the legal framework for Limited liability companies to better adapt them to the needs of MSMEs, or introduce a special limited liability regime for MSMEs. A new legal framework for limited liability companies or a special limited liability regime for MSMEs should in particular: ○ Grant legal personality to EdRLs, or ○ Authorise sole proprietorships for limited liability companies. • Introduce a simplified accounting regime for MSEs.	Ministry of Finance, Ministry of Economy, CONAMYPE, Legislative Assembly, associations of public accountants, oversight board of the public accounting and auditing professions in El Salvador, Salvadoran Social Security Institute.

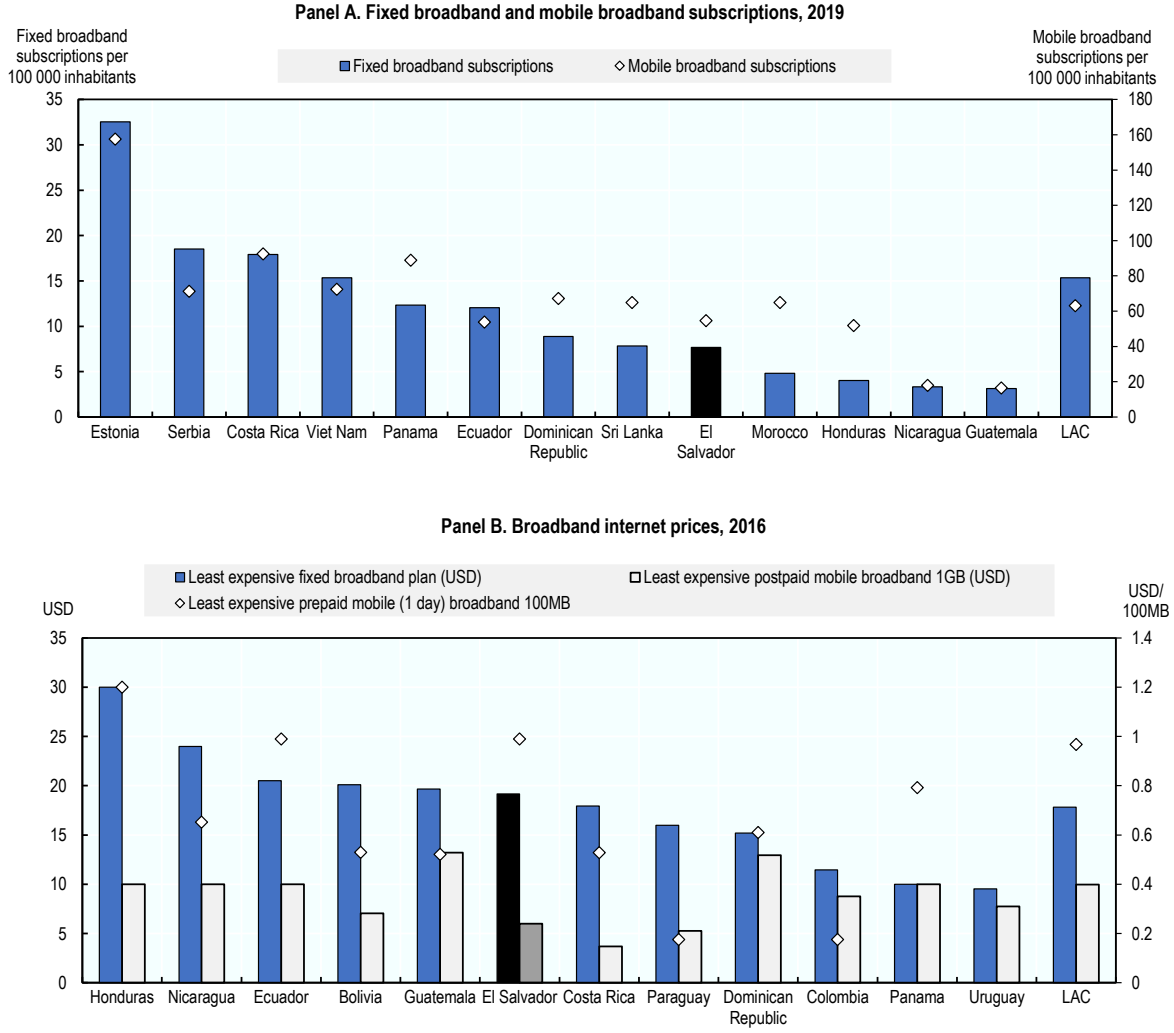
Accelerating digitalisation can contribute to productivity growth and make El Salvador more attractive to private investment

Accelerating digitalisation could boost productivity in El Salvador and produce significant efficiency gains. Digitalisation can lead to innovations in business models and production systems. It can also lead to a re-organisation of economic sectors, new dynamics in the world of work, and new conditions of competitiveness. In addition, it can boost financial integration and the supply of smart goods and services. Digital technologies also promote integration in productive chains by facilitating interaction in supply and distribution. Furthermore, they can reduce information asymmetries and transport costs (OECD et al., 2020[117]).

However, the magnitude of the positive effect of digitalisation on productivity depends on complementary factors. Proper access to and diffusion of digital technologies, a favourable business climate, the engagement of SMEs in digital transformation, adequate transport connectivity and skills, and sufficient competition in the digital economy are all important complementary factors. Furthermore, the efficient use of digital technologies is related to the capabilities of firms, technological sophistication, managerial competences, and workers' skills. Due to significant complementarities between new technologies and other investments that raise productivity, firms that are more productive are more likely to adopt new digital technologies (OECD et al., 2020[117]).

Digitalisation is an important success factor for several of the Salvadoran government's priority sectors (as identified in the country's Trade and Investment Policy 2020-2050, and in its Digital Agenda 2020-2030). The competitiveness of international service industries, such as information and communication services, business services, and financial services, depends to a large extent on the availability of quality digital infrastructure, especially high-speed Internet access, as well as a sufficient supply of human capital with digital skills.

Figure 4.6. The amount of fixed and mobile broadband subscriptions in El Salvador is still low, and prices are still high



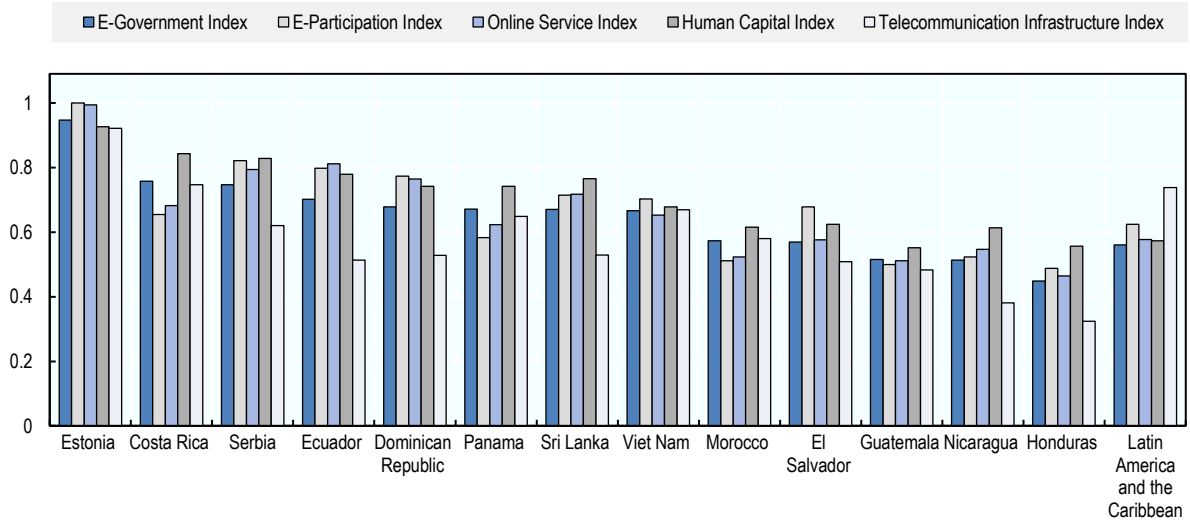
Note: Panel A. Data for El Salvador are for 2018 instead of 2019, and those for Guatemala are for 2017 instead of 2019.
Source: Panel A. ITU (2021[118]), *ITU Statistics*, International Telecommunication Union, Geneva, https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx. Panel B. DIRSI (n.d.[119]), Indicators, http://dirsi.net/indicators/about.php.

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El Salvador's level of digitalisation and Internet access is moderate. In 2017, only 33.8% of the country's population was using the Internet. This was a notable increase compared to 15.9% in 2010, but it was still much less than the Latin American and the Caribbean average of 65.9% (World Bank, n.d.[11]). In 2018, there were only 7.7 fixed broadband Internet subscriptions per 100 inhabitants in El Salvador, and 54.5 active mobile broadband subscriptions per 100 inhabitants. This compared to Latin American averages of 17.9 fixed broadband subscriptions per 100 inhabitants, and 97.4 active mobile broadband subscriptions per 100 inhabitants (ITU, 2021[118]). In rural areas, Internet access is even more limited. More than 90% of rural households in El Salvador do not have an Internet connection, most importantly due to the low degree of accessibility of the Internet in rural areas, and the low availability of broadband (IICA, 2020[120]). Furthermore, only 16.7% of households in El Salvador had a computer in 2019, compared to a Latin American average of 47% (ITU, 2021[118]). In addition, El Salvador's population lacks digital skills. El Salvador scored 0.62 (out of 1) in the human capital category of the E-government Development Index (UN, n.d.[121]).

Figure 4.7. El Salvador has gaps in human capital, online services, and telecommunication infrastructure for e-governance

E-Governance Development Index (EGDI), 2020



Note: The EGDI is a composite measure of three important dimensions of e-government, namely: the provision of online services, telecommunications connectivity, and human capacity.
Source: UN (n.d.[121]), *E-Government Development Index (EGDI)*, United Nations, New York City, https://publicadministration.un.org/egovkb/en-us/About/Overview/-E-Government-Development-Index.

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There is scope to improve El Salvador's digital infrastructure. In 2020, the country scored 0.51 out of 1 in the telecommunications infrastructure category of the E-Government Development Index, compared to a Latin American average of 0.56 (UN, n.d.[121]). El Salvador is the only country in Latin American and the Caribbean that has access to the ocean but that does not have its own submarine fibre-optic cable. Furthermore, it lacks its own Internet Exchange Point (IPX), and there are only a few of these in Central America (OECD/IDB, 2016[122]; SVNet and SOCIUM, 2020[123]; TeleGeography, 2021[124]). There have been attempts to establish an IPX in El Salvador since the early 2000s (by SVNet, a non-governmental organisation). However, these attempts failed due to the reluctance of Internet providers to make financial contributions to the project, and their lack of confidence to join a project with other companies that would be competing for the same customers. In December 2020, SVNet finally signed a formal agreement with the commercial data centre DataGuard to host the equipment of the IXSal Internet Exchange Point. So far, there are five Internet providers that want to join the project. Most of these are very small Internet service providers (Rosas, 2021[125]; Rosas, 2021[126]; DataGuard, 2021[127]). The amount of radio spectrum that is allocated to mobile broadband remains low in El Salvador. In 2017, the allocation was still under than 200 megahertz, which is less than 10% of the amount of spectrum that the International Telecommunication Union recommended should be allocated to mobile communications by 2020). El Salvador's incomplete analogue switch-off (the transition from analogue to digital television) explains the low amount of spectrum that is available for mobile broadband in El Salvador (IDB, 2017[128]). The transition started in 2018, but it is progressing slowly (Orellana, 2020[129]; Alemán, 2020[130]).

Given the gaps that persist with regard to digital infrastructure in El Salvador, there is room to improve high-speed Internet access and broadband speeds. Only 86% of the country's population was covered by at least one third generation (3G) cellular network in 2018, compared to 94.6% of the population on average in Latin America (OECD et al., 2020[117]). Internet connectivity and digital infrastructure, especially the fibre-optic network and mobile broadband, need to be improved throughout the country, and especially in rural

areas. The digital infrastructure deficit also translates into low broadband speeds. In 2016, El Salvador's average fixed broadband speed was only 23.6% of the Latin American average[9], and only 7.4% of the average fixed broadband speed in Trinidad and Tobago, the region's top performer. El Salvador's maximum fixed broadband speed was only 12.9% of the Latin American average[10], and only 2.5% of the maximum fixed broadband speed in Peru, which was the region's best performer in this regard (DIRSI, n.d.[119]).

Although mobile Internet is relatively affordable in El Salvador, fixed-line broadband remains expensive. This notwithstanding, post-paid mobile broadband in El Salvador was one of the cheapest in Latin America in 2016, retailing at USD 5.99 for one gigabyte (GB), the equivalent of 1.3% of GDP per capita. This compared to a Latin American average of USD 9.94 for 1 GB, or the equivalent of 2.4% of GDP per capita. The least expensive pre-paid mobile Internet plan in El Salvador (100 megabytes for one day) cost USD 0.99 in 2016, which was in line with the Latin American and Caribbean average (USD 0.97). However, it was more than five times as high as in Paraguay (USD 0.18), which was the top performer in the region for pre-paid mobile internet. Fixed-line broadband Internet, meanwhile, is expensive. In 2016, the cost of the least expensive fixed broadband plan in El Salvador amounted to USD 19.16, or the equivalent of 5.4% of GDP per capita. This was above the Latin American average of USD 17.81 (or the equivalent of 4.4% of GDP per capita), and twice as high as in in the countries with the lowest prices in the region such as Panama (USD 9.99, or the equivalent of 0.9% of GDP per capita) (DIRSI, n.d.[119]). Prices in El Salvador are high because of the digital infrastructure deficit, plus the limited degree of competition in the broadband market (IDB, 2017[128]). Even though five companies supply mobile Internet in El Salvador (Claro, Tigo, Digicel, Movistar and RED), only two firms offer fixed-line broadband (Claro and Tigo) (GSMA, 2018[131]) (TeleSemana, 2017[132]).

There is also room for El Salvador to improve its performance with regard to e-government. In the E-Government Development Index in 2020, the country scored 0.57 (out of 1) compared to a Latin American average of 0.62. This index measures the delivery of online services, telecommunications connectivity, and human capacity (UN, n.d.[121]). Furthermore, El Salvador scored only 0.12 (out of 1) in the Global Cybersecurity Index in 2018, a deterioration from 0.21 in 2016, and a score that came in well below the Latin American average (0.43). The proportion of the population assessing e-commerce as secure in El Salvador (61.5% in 2019) is in line with other Latin American countries (on average 63.1% in 2019), but it has been declining (it was 66.7% in 2018). Trust in online privacy is falling (39.2% in 2018, compared to 44% in 2016), and it is lower than the average in Latin America (54.9% in 2018) (OECD et al., 2020[117]). El Salvador scored 0.28 (out of 1) on the OECD's Open, Useful and Re-usable Data Index (OURdata Index) in 2019, compared to 0.43 on average in Latin America. The OURdata Index assesses the openness, usability and reusability of government data (OECD, 2020[133]).

Levels of digitalisation and the use of new information technologies remain particularly low amongst MSMEs in El Salvador. According to CONAMYPE's 2017 survey of MSEs, 76.1% of firms did not use the Internet at all, and 54.9% did not make use of electronic devices – not even a basic mobile phone (CONAMYPE, 2018[18]). In a survey by El Salvador's Central Reserve Bank of mainly formal MSMEs in urban areas, 96% said that they only accept cash payments (BCR, 2019[86]). According to the Entrepreneurial Competitiveness Survey by FUSADES in 2019, 88.3% of companies in El Salvador had access to the Internet, but only 56.7% of micro-enterprises and 84.8% of small enterprises did. Furthermore, 58.9% of companies in El Salvador had a website, but only 39.2% of small enterprises and 11.9% of micro enterprises did. Online payments could only be made on only 14.9% of those company websites, and online orders or reservations were possible on only 24.9% of websites (FUSADES, 2021[17]). High transport costs in El Salvador (see section on infrastructure) hamper the expansion of e-commerce (OECD et al., 2020[117]).

E-commerce is not very well developed in El Salvador. In 2017, only 9% of Salvadorans made online purchases, compared to 14.8% of the population on average in Latin America (OECD et al., 2020[117]). El Salvador ranked 106th out of 152 and scored 37 (out of 100) in the United Nations Conference on Trade

and Development's (UNCTAD) Business-to-Consumer E-Commerce Index in 2020. This compared to a Latin American average of 51.5 in 2019. UNCTAD's index measures Internet access, financial inclusion, secure Internet servers, and the quality of postal services. The low proportion of people with an account either at a financial institution or with a provider of mobile money services stands out among the barriers to financial inclusion in El Salvador. Only 30.4% of the population over 15 years old had such an account in 2017, compared to 55.1% on average in Latin America and the Caribbean (World Bank, n.d.[11]). The lack of secure Internet servers (131.1 secure internet servers per million people in 2020, versus 1964.1 per million on average in Latin America and the Caribbean) (World Bank, n.d.[11]), plus the low quality of postal services (which scored 29/100 in the Business-to-Consumer E-commerce Index in 2020) (UNCTAD, 2021[134]), also constitute notable barriers to the development of e-commerce in El Salvador. In addition, high transport costs in the country hinder the expansion of e-commerce (OECD et al., 2020[117]).

The COVID-19 pandemic has accelerated digitalisation in El Salvador. COVID-19 forced the country's companies to accelerate their digital transformation, most importantly in terms of teleworking, online sales, the digitalisation of value chains, and improvements to companies' websites and their presence on social media. According to a survey by El Salvador's Chamber of Commerce and Industry (CAMARASAL) in October 2020, 10% of companies had developed new online platforms for sales during the COVID-19 pandemic, and 14% had developed new digital platforms for sales. This share remains relatively low, since many firms in El Salvador lacked the necessary capital and liquidity to invest in digital-transformation measures during the pandemic, due to the fall in sales and the closure of businesses during the strict lockdown that was implemented in the country (FUSADES, 2021[17]). However, many changes in consumer behaviour can be expected to continue after the pandemic. Therefore, the acceleration of digitalisation will continue to be important for private companies in El Salvador in the near future (OECD et al., 2020[117]).

Digitalisation, including the promotion of digital services, is a priority for the Salvadoran government. In this connection, it set up a special secretariat for innovation (the *Secretaría de Innovación*) in June 2019, in order to define and execute strategies and policies for modernisation and innovation, and focusing most importantly on the digital transformation of El Salvador. Since January 2020, the country has also had a national digital agenda for 2020-30 (the *Agenda Digital El Salvador 2020 – 2030*). Its main objectives are to set up a unique digital identity for all citizens, to promote digital governance and the modernisation of the state, and to promote innovation, competitiveness, and education about new technologies. One of the key lines of action in El Salvador's digital agenda is to close the digital gap through improved physical coverage of, and access to, telecommunications services. Other key actions include improving digital inclusion, incorporating modern technologies into school curricula, and ensuring a better offer of technical curricula at educational institutions. There are also plans to connect El Salvador to a submarine fibre-optic cable, to accelerate the deployment of 4G and 5G across the country, and to reduce the costs of telecommunication services (Secretaría de Innovación de la Presidencia, 2020[82]).

The government of El Salvador has rolled out a number of measures to develop both e-government and the soft infrastructure for digitalisation. The electronic signature is currently being operationalised in El Salvador and could accelerate the country's progress with regard to digitalisation. The law on the electronic signature came into force in April 2016, and its implementation is currently ongoing. A special unit for the electronic signature (the *Unidad de Firma Electrónica*) has been set up at El Salvador's Ministry of Economy. The construction of the physical infrastructure and data centres for the electronic signature is ongoing, and technical assistance is being provided to public institutions in the implementation of the electronic signature for public services (MINEC, 2020[81]). The unit for the electronic signature has been established as the root certificate authority for the project and, since May 2021, Salvadorans have been able to obtain their electronic signature (MINEC, 2021[135]). The electronic signature could contribute to reducing business costs and delays in doing business in El Salvador. Other complementary initiatives that could accelerate digitalisation and e-government are the Law on Teleworking, which was approved in the context of the COVID-19 pandemic, plus the Law on Electronic Commerce which came into force in 2021,

and the Law on Personal Data Protection, which was adopted in April 2021. The Legislative Assembly has also been discussing a bill on Universal Digital Inclusion (FUSADES, 2021[17]).

In order to accelerate digitalisation, El Salvador should improve its digital infrastructure. In this connection, it should improve access to fibre-optic cables, digital broadband, and other digital infrastructure in rural areas. It should also invest in the development of its own IXP and submarine fibre-optic cable connection. El Salvador should also accelerate the transition from analogue to digital television in order to free up radio spectrum for mobile broadband. Improvements to digital infrastructure can improve Internet access and quality, and can contribute to lowering the cost of fixed broadband Internet, which remains high in El Salvador.

El Salvador should enhance the digital skills of its population and foster the digitalisation of MSMEs – two of the priorities in the country's digital agenda for 2020-30. Endowing the population with better digital capacities would improve Internet use and boost the availability of human capital with sufficient digital skills. Given MSMEs' low levels of digitalisation, it is also important to invest in capacity-building in digital skills for MSMEs, and to expand industrial policies in order to encourage them to adopt digital technologies. Increasing the digitalisation of MSMEs can raise their productivity (OECD et al., 2020[117]).

Reducing transport and energy costs, and improving transport and energy infrastructure, could both accelerate El Salvador's digitisation. Transport costs are high in the country, and in order to support the expansion of e-commerce it is necessary to reduce transport costs, as well as to improve the country's transport and logistics infrastructure (OECD et al., 2020[117]). The quality of electricity supply, and the relatively high cost of electricity, also pose challenges for the private sector. A more stable electricity supply, and lower electricity costs, could promote more digital investments – for example in data centres.

El Salvador should continue to improve e-governance. The country should finalise its implementation of existing initiatives, in particular the electronic signature. In addition, the Law for Universal Digital Inclusion should be approved as soon as possible. It is also important to improve the quality of, and online access to, government data. Better e-governance and online access to government information and data can also improve the impact of transparency initiatives, such as the Law on Access to Public Information.

Sufficient financial resources for investments in El Salvador's digital infrastructure need to be raised. Significant financial resources will be required in order to modernise and upgrade El Salvador's digital infrastructure. This includes expanding the fibre-optic network and connecting El Salvador to its on submarine fibre-optic cable. It is estimated that the monthly cost of granting access to the Internet to all of the households in El Salvador that are without access is 2% of the country's monthly GDP (ECLAC, 2020[136]).

Recommendations to accelerate digitalisation in El Salvador

Recommendations	Detailed recommendations
Improve digital infrastructure in El Salvador.	• Improve access to fibre-optic cable networks, mobile broadband, and other digital infrastructure in rural areas. • Endow El Salvador with its own Internet exchange point(s) (IXP). • Connect El Salvador to its own submarine fibre-optic cable. • Accelerate the transition from analogue to digital television to free up more spectrum for mobile broadband. • Mobilise sufficient public and private financial resources for investments in El Salvador's digital infrastructure.
Enhance digital skills in the country's broader population, and among micro- and small enterprises.	• Extend policies to foster the adoption of digital technologies by MSMEs.
Continue improving e-government.	• Fully implement the electronic signature. • Improve the quality of and access to government data

Enabling productive transformation through innovation and research and development (R&D)

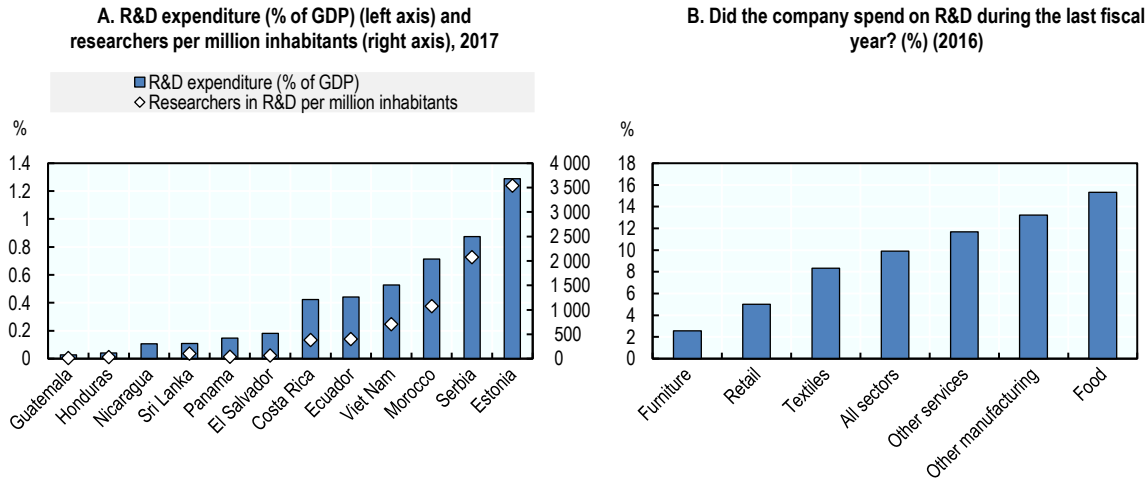
Innovation can increase productivity across sectors and bring further benefits to the Salvadoran economy through the creation and diffusion of new and emerging technologies of production. For example, intelligent systems can almost completely eliminate errors in production processes. Robots can dramatically increase productivity in assembly lines, because they are faster, stronger, and they perform more consistently than workers. By printing mechanisms that are already assembled, three-dimensional (3D) printing can eliminate certain assembly steps in production processes. Emerging production technologies include digital technologies, new materials, and new processes (OECD, 2017[137]).

For most enterprises in most countries, and especially in developing countries such as El Salvador, efforts should focus on the dissemination and adoption of technology rather than on the creation of new technologies. On the one hand, disseminating technology implies an increase in the entry of new firms, and the growth of firms, that can be vehicles for new technologies. New or young firms often play a key role in net job creation and cutting-edge innovation. On the other hand, the spread of technology can occur when entrenched firms implement productivity-enhancing technologies. Small firms use novel technologies less frequently than large firms, and they may need more government support for the adoption of new technologies (OECD, 2017[137]).

The level of innovation remains moderate in El Salvador

The amount of innovation is at a medium level in El Salvador and is very low among MSEs. In 2019, there was only one patent application per 100 000 inhabitants of El Salvador (World Bank, n.d.[11]). The country received a score of 27.9 (out of 100) for its innovation capabilities in the Global Competitiveness Index, ranking 121th out of 141 countries. For entrepreneurial culture, El Salvador received a score of 42.2, ranking 118th out of 141 countries. The country lags especially behind when it comes to the growth of innovative firms, and of firms adopting disruptive ideas. It also performs poorly in indicators of international joint inventions, and in multi-sector collaboration and cluster development (WEF, 2019[41]). In the Global Innovation Index, El Salvador's worst performances were in: knowledge linkage (with a score of 10.8/100, and ranking 125th out of 141 countries), knowledge creation (score of 1.1/100, 131st out of 141 countries), and knowledge impact (score of 5/100, 124th out of 141 countries) (Cornell University, INSEAD, and WIPO, 2020[138]). Conversely, broader innovation indicators do show higher levels of innovation at the firm level, with 52% of firms covered by the FUSADES Enterprise Competitiveness Survey indicating that they had innovated during 2019. Still, this was lower than the 62% of firms that had done so in 2011. The main reasons for innovating were to increase the quality of goods and services (69% of innovating firms), to position themselves better in the market (67%), to increase the supply of goods and services (51%), to improve security (51%), and to reduce production costs (46%). The types of innovation that were carried out were: offering new goods and services (22%), improving processes (22%), substantially improving the goods and services offered (20%), developing new processes (18%), safeguarding company security (17%), and design activities (13%) (FUSADES, 2021[17]). However, innovation levels are much lower for MSEs in El Salvador, with 92.7% of the country's MSEs reporting not having carried out any innovation in 2017 (CONAMYPE, 2018[18]).

Figure 4.8. Expenditure on R&D is low in El Salvador



Note: Panel A: R&D Expenditure is for 2014 for Ecuador, 2010 for Morocco, and 2015 for Nicaragua and Sri Lanka. The number of researchers is for 2014 for Ecuador, 2016 for Morocco, 2013 for Panama, and 2015 for Sri Lanka.
Source: Panel A. World Bank (n.d.[11]), *World Development Indicators*, World Bank, Washington D.C., https://databank.worldbank.org/source/world-development-indicators#. Panel B. World Bank (2016[1]), *Enterprise Surveys - El Salvador,* World Bank, Washington D.C.., *https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador*.

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Low levels of investment in R&D, and a lack of funding, put innovation at risk in El Salvador. In 2017, the country had only 63.7 researchers per million inhabitants, and R&D expenditure was 0.18% of GDP (Figure 4.8, Panel A). El Salvador invests more than some other countries in the region such as Guatemala, Honduras and Nicaragua, but less than Costa Rica, Ecuador, or countries in Europe and Asia. El Salvador's comparative performance in the Global Competitiveness Index in terms of R&D is poor, including in scientific publications (WEF, 2019[41]). In 2016, less than 10% of Salvadoran companies surveyed in the World Bank Enterprise Survey had invested in R&D. By sector, investment was highest in firms in food processing, trade and textiles, and apparel (Figure 4.8, Panel B). According to the FUSADES Business Competitiveness Survey, 92% of the innovation projects of companies were financed with their own funds, while 14% of firms had access to external private funds for their innovation projects, and 6% to other sources of financing (FUSADES, 2021[17]). These results show the potential of public funding for innovation. Innovation is difficult for firms that lack sufficient own resources and that face credit constraints, especially MSEs (FUSADES, 2021[17]).

El Salvador has put in place a number of policy instruments in order to foster innovation in private enterprises. Many of these are implemented by the Ministry of Economy through its General Directorate for Innovation and Competitiveness. The non-reimbursable co-financing funds of the Fund for the Promotion of Innovation and Competitiveness, which is managed by the General Directorate for Innovation and Competitiveness, include a funding line for innovation. In addition, CONAMYPE programmes aimed at MSEs also finance innovation investments. Among other financing instruments, there are also competitions and calls for proposals to stimulate early stages of the innovation cycle. As part of El Salvador's strategy for industrial innovation and technological development, in 2019-20, the "*Innvestiga*" programme was designed to support medium-sized and large companies in strategic sectors in the field of applied research for the development of new products, services, materials and industrial processes, as well as to promote a culture of R&D in these companies. The government also continues to work on the creation of Innovation and Technological and Business Development Centres (CIDTES) for key sectors. The goals of these centres are to support the development of new products, foster access to new markets,

incorporate new technologies and materials into production processes, and to increase the sustainability of production processes, thus increasing the international competitiveness of these sectors. By mid-2020, only the CIDTE for footwear was operational. All of the others were still in the planning and feasibility-study phase (MINEC, 2020[81]). The Law on International Services also allows for fiscal incentives for R&D activities, although to date, this provision has not been utilised. Other ministries and agencies play an important role in supporting business innovation at the sectoral level. Of these, the *Parque Tecnológico Agroindustrial* (PTA), which was established in 2013, can be highlighted. The PTA is a joint effort on the part of the Ministry of Agriculture and Livestock, the main agricultural research and extension agency (the *Centro Nacional de Tecnología Agropecuaria*, or CENTA), the National School of Agriculture (ENA), and the Ministry of Education – through its Vice-Ministry of Science and Technology. The PTA provides research and development services to enterprises, and it has been instrumental in the development of marketable research results.

It is necessary to create appropriate framework conditions for innovation in El Salvador

Overcoming horizontal barriers in skills, access to credit, digital infrastructure, and electricity supply, among others, would increase the effectiveness of innovation policies in El Salvador. Generating the skills that are needed for the future, and closing El Salvador's skills gap, can facilitate the dissemination and upgrading of technology. El Salvador performs poorly in terms of the diversity of its workforce, which is one of the components of innovation capacity in the Global Competitiveness Index 2019 (WEF, 2019[41]). The country also faces skills gaps and shortages. In addition to training scientific personnel, digital and machine-complementary skills are also key to facilitating technological change in the future. Strengthening general skills (literacy, numeracy and problem solving) across the population as a whole is also essential for facilitating technological improvements. This is because they facilitate the acquisition of specific skills that change rapidly. A system of lifelong learning and on-the-job training, plus co-ordination with universities and other educational institutions, is essential to upgrade skills where necessary (OECD, 2017[137]).

Improving access for MSEs both to credit and to digitalisation is key to supporting technological upgrading in El Salvador. However, MSEs may need support with their modernisation, in improving their access to finance, and with regard to their digitalisation. Access to finance and the lack of digitalisation both constitute challenges for MSEs in El Salvador. Policies to accelerate the digital transformation of MSEs are also important for supporting the dissemination of technology. Technology extension services can play an important role in this process, by providing information and outreach to MSEs, (OECD, 2017[137]).

Improving digital infrastructure and the supply of power will be key to taking advantage of emerging production technologies. These technologies generally need a stable and uninterruptible power supply, and a reliable broadband telecommunications network. Success factors in this regard include covering rural areas and ensuring connectivity to facilitate the rapid exchange of data (OECD, 2017[137]).

Strengthening and modernising the institutional framework for innovation in El Salvador

The institutional framework for the development of science, technology and innovation (STI) in El Salvador, which has been built up over the past decade, remains fragmented. Adopted in 2013, the Law on Scientific and Technological Development provides the legal basis for El Salvador’s STI system. It established a Vice-Ministry of Science and Technology in the Ministry of Education as the lead agency for science and technology. It also set out a strategic framework, with a Policy for Innovation, Science and Technology, plus a National Science and Technology Plan. In practice, however, the implementation of support activities for business and commercial innovation within the framework of the Innovation, Science and Technology Policy remains the responsibility of the Ministry of Economy. A National Council for Science and Technology (CONACYT) was re-established in 2013 under the Vice-Ministry of Science and Technology, but it has relatively limited functions, which are essentially linked to the formation of human capital for research and observatory functions. In practice, the El Salvador’s STI policy established an

inter-ministerial committee for STI, as well as a parallel consultative body. This governance structure is common in OECD countries, although there is great diversity in the role of the councils, which can range from being mere platforms for exchange with non-governmental actors, to engaging in joint planning of innovation strategy (OECD, 2017[139]). If they remain in place, the institutions that have been established by the STI policy can act as co-ordinators of public-sector action. However, they are institutionally weak – in part because they have their legal basis in a policy document, rather than in laws or regulations.

El Salvador should consider institutionalising the co-ordination of STI policy. A supra-ministerial body in charge of implementing STI policy can gather together the relevant ministries and agencies with competencies in the field. The Secretariat for Innovation within the Presidency of the Republic plays an important role in co-ordinating innovation policy. However, its role is focused on key objectives of the current administration, especially its digital agenda and its goals with regard to the modernisation of the administration. Consideration should be given to revising the normative framework and expanding the functions of the Secretariat for Innovation in order for it to take on the role of a co-ordinator of public action in STI, which El Salvador's STI policy had attributed to the now extinct Technical Secretariat of the Presidency. Beyond clearly identifying leadership in the implementation of El Salvador's STI policy in the Presidency of the Republic, a co-ordinating body is needed that includes the key ministries and agencies that have a role to play in defining and implementing innovation policy. This body needs to have sufficient resources for its secretariat and monitoring activities. The National Agency for Innovation, Science and Technology, which is currently in the process of being created, could play this role. It will be created by law and will have the function of a policy-implementing agency.

There is scope to strengthen the legal and policy frameworks for innovation in El Salvador

Innovation and productive transformation policies should converge. It is also important to align innovation policy with policy for higher education and agriculture. At the very least, the review processes of the productive transformation policy and the Innovation, Science and Technology Policy should ensure their compatibility and complementarity. It is relatively common in Latin American countries to treat these two cross-cutting policies as separate areas (even in countries with well-established planning systems, such as Colombia) (OECD/UN/UNIDO, 2019[140]). In practice, however, the existence of two policy documents with their own processes and governance structures can make complementarity too cumbersome, and can lead to co-ordination failures. By contrast, a unified policy document that provides a clear definition of innovation in the Salvadoran context, and puts it at the centre of the productive transformation of the economy, would enable greater synergies around cluster- and problem-based approaches. It is important to include a clear vision of business innovation policies in this unified policy document. El Salvador could draw inspiration from a draft plan for business innovation that was drawn up in 2015 but was never adopted.

Active technology-diffusion policies can foster technological change and upgrading. Such policies can help firms to adjust their business approaches, and to adopt new technologies, products and strategies. In El Salvador, both the Ministry of Economy and CONAMYPE implement technology-diffusion policies and programmes, as do sectoral ministries, especially the Ministry of Agriculture. Technology-diffusion bodies must be effective and able to adapt quickly to change. It is also essential to ensure that the policies and institutions that are tasked with disseminating technology are adequately resourced. Experimentation, and the testing of new approaches and policies, are also of the utmost importance. Instruments for disseminating technology can include the provision of mentoring, collaborative projects, and benchmarking services to support firms in adopting and absorbing new technologies and methods. Policies such as tax credits or vouchers for R&D or innovation, regulations and standards to encourage R&D and the adoption of new technologies, and feasibility studies and grants for entrepreneurs to access training, can also support the dissemination of technology. It is important not only to focus actions on early adopters of technology, such as high-tech start-ups or large companies, through programmes such as *Innvestiga*, but

also to design policies that are tailored to the needs of MSMEs. This is especially important in the case of El Salvador, given the large number of MSEs in the country (OECD, 2017[137]).

A long-term perspective is essential for the formulation of policies and strategies to foster innovation. Policy makers and politicians, the business community, and education and trade-union leaders should also establish long-term strategies beyond electoral cycles, in order to create appropriate conditions for technological upgrading and innovation. A reflection is necessary on the range of risks and challenges that emerging technologies pose, notably with relation to intellectual property systems, trade and competition policies, and distributional effects, and also on the policy priorities for the future. Moreover, policies for innovation and the dissemination of technology should be designed for the long term (OECD, 2017[137]).

There is room for improvement in El Salvador's system of protection for intellectual property (IP), but it already has many of the necessary building blocks. Adopted in 1993, the country's Intellectual Property Law has been amended several times (Asamblea Legislativa, 1993[141]). The national IP policy of 2014 establishes a National Intellectual Property Council composed of representatives from the Ministry of Education, the National Registry Centre (CNR), and the Ministry of Economy. It also establishes a technical committee composed of representatives of the institutions that make up the national IP system (MINEC/CNR, 2014[142]). Finally, an IP Registry is administered by the National Registry Centre. However, El Salvador needs a dedicated intellectual property institution that can be in charge of managing IP, including taking responsibility for the Registry, and that can also take the lead in implementing the country's IP policies. Many OECD countries have dedicated IP offices. For example, the United Kingdom has the Intellectual Property Office, and other examples include the Swiss Federal Institute of Intellectual Property, the Korean Intellectual Property Office, and the German Patent and Trademark Office (WIPO, 2021[143]). A dedicated IP institution could contribute to improving and simplifying registration and other patent-related processes, and to facilitating access to the IP Registry.

Recommendations to foster innovation in Salvadoran businesses

Recommendations	Actions for implementation	Key actors
Strengthen the institutional framework for innovation.		
Consider the creation by law of a supra-ministerial body in charge of co-ordinating the implementation of science, technology and innovation (STI) policy, with broad representation of the business sector, civil society and academia.	• This institution would be in charge of co-ordinating the implementation of STI policy. • Give the leadership within this body to the Secretariat for Innovation, expanding its current attributions. • Ensure that the body is granted sufficient human and financial resources. • Create the planned National Agency for Innovation, Science and Technology, and then enable its operations and endow it with the necessary financial resources to be effective. This agency could actually be the body in charge of co-ordinating the implementation of innovation policy and be complemented by a consultative body for the definition of STI policy. • Establish a National Innovation Observatory to monitor innovation projects. This Observatory could be part of the co-ordinating body.	**Public institutions:** Ministry of Education, Science and Technology, Ministry of Economy, Ministry of Agriculture and Livestock, CONAMYPE, Ministry of Finance, Secretariat for Innovation, National Centre for Registries, National Council for Science and Technology (CONACYT), Directorate General for Statistics and Censuses (DIGESTYC). **Education and research institutions:** secondary schools, *Modelos Educativos Graduales de Aprendizaje Técnico y Tecnológico* (MEGATECs), National Agriculture School (ENA), National Centre for Agricultural and Forestry Technology (CENTA), *Instituto El Salvador*, and
Establish an STI ecosystem: a mechanism to articulate efforts and to bring together public, private and civil society actors in a space for dialogue and inter-institutional cross-sectoral co-ordination, to promote a culture of innovation and prioritise issues linked to STI.	• In the short run, create a committee to put this dialogue and co-ordination effort into motion. • Determine the methodology for this committee's work.	

Strengthen the legal and policy framework for STI.		the specialised engineering school, ITCA-FEPADE. **Private sector**: Business associations, private firms.
Align the innovation policy and its horizon with the productive transformation policy, the national education policy, and the national agricultural policy.	• Consider merging policies on innovation and productive transformation into a single innovation-driven economic development policy. • Modernise and update the Law on Scientific and Technological Development (the *Ley de Desarrollo Científico y Tecnológico*), and the Productive Development Law (*the Ley de Fomento Productivo*). • Update the entrepreneurship policy.	
Improve El Salvador's system of protection for intellectual property.	• Reform the Intellectual Property Act to create the National Institute for Intellectual Property. • Improve and simplify registration and other processes linked to patents.	
Introduce a long-term perspective in the design of policies to foster innovation, through specific foresight exercises and consultations with stakeholders.	• Build a long-term perspective for the science, technology and innovation policy. • Introduce a long-term perspective in the science, technology and innovation ecosystem.	
Improve policy instruments to foster innovation.		
Design active technology-diffusion policies, especially policies that are adapted to the needs of MSMEs, and to firms beyond the select group of technology pioneers (high-tech firms and start-ups).	• Design technological extension services to bring information and technological extension services to micro and small enterprises. • Promote the design and implementation of a Centre for the development of productive business projects (a project that is currently being led by the Ministry of Economy).	
Design mechanisms for direct technology transfer between the private sector, researchers and the education sector.	• Create a single model of science and technology centres to foster innovation and facilitate technology transfers and harmonise existing centres (such as the CDMYPES, the Centro de Extensión, the CDARTE, the CITDE, the CATI, and the Oficina de Innovación Financiera). • Create innovation centres with joint public/private/academic financing and leadership, aimed at supporting businesses in their productive transformation.	

Notes

[1] Based on an input-output matrix, eight key sectors with many backward and forward linkages are identified in the economy of El Salvador, using 2014 data. These are: livestock farming, poultry farming, the production of oils and fat from animals and vegetables, milling and starch production, wood and cork, the production of paper, the production of coke, the production of non-metal mining products, the production of base metals, and information services and telecommunications. The following key sectors are identified for their job creation potential: coffee growing, sugar-cane growing, the cultivation of cereals and vegetables, other cultivations, bovine livestock breeding and the production of raw milk, livestock breeding of other animals and products of animal origin, forestry, fishing and agriculture, milling and starch production, wood and cork, commerce and vehicle repairs, agriculture supporting activities, and other services (Aquino Cardona, 2019[5]).

[2] This section was drafted with information available as of early 2022, predating the most recent wave of actions against gangs and the fall in crime rates. At the date of approval of this report for publication (October 2022), no enterprise surveys are available accounting for the impact of such measures on Salvadoran enterprises.

[3] Information received during the policy workshop on accelerating productive transformation in El Salvador, 18-19 January 2022.

[4] The cost of electricity for private companies is 20.1 US cents per kWh in Guatemala, 20.8 US cents per kWh in Honduras, and 20.1 US cents per kWh in the Dominican Republic (World Bank, 2020[58]).

[5] Decreto Ejecutivo N°88 del 2 de julio de 2010 (Executive Decree No. 88, 2 July 2010).

[6] Information received during the policy workshop on accelerating productive transformation in El Salvador, 18-19 January 2022.

[7] Norms for final users producing electrical energy from renewable sources (*Norma para Usuarios Finales Productores de Energía Eléctrica con Recursos Renovables*), agreement number 120-E-2013 of the *Superintendencia General de Electricidad* (SIGET).

[8] Norms for free-competition processes for long-term contracts underpinned by renewable distributed generation, (*Norma de Procesos de Libre Concurrencia para Contratos de Largo Plazo Respaldados con Generación Distribuida Renovable*), agreement number 120-E-2013 of SIGET.

[9] Average based on the following sample of Latin American and Caribbean countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

[10] Average based on the following sample of Latin American and Caribbean countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

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5 Policies to accelerate El Salvador's productive transformation

This chapter presents an analysis of sectoral support policies and their institutional set-up in El Salvador and provides analysis and policy recommendations on how to improve them. The chapter examines the institutional and policy framework for productive transformation in El Salvador and goes on to examine the toolbox of policy instruments for productive transformation, and the mechanisms for co-ordination between the public and private sectors. El Salvador's productive transformation policies would benefit from a better-aligned strategic framework, and from a stronger focus on implementation. In addition, El Salvador requires a broad, comprehensive and institutionalised public-private dialogue, and a body entrusted with the formulation and co-ordination of policies to support productive development. El Salvador would further benefit from rebalancing the mix of instruments for productive transformation in order to better target the companies and sectors where they are most effective.

Industrial policies can support El Salvador's productive transformation. Well-designed sectoral policies can support the expansion in the country of strategic manufacturing and services industries that have a high level of value added per worker. Sectoral policies can further support capacity building, innovation, and the adoption of new technologies, and can raise productivity within individual manufacturing and services industries. The effectiveness of policies depends on the availability of sufficient resources to implement them, as well as on long-term commitment, implementation capabilities, and a process of monitoring and evaluation to improve the implementation and design of policy, and to reorient policies when goals are not achieved. Dialogue with the private sector is also key for the success of sector-support policies, as is the capacity of co-ordination that is required to align actions across different levels of government. The empowerment of individual institutions, plus performance-based incentives, can help to reduce the risks of capture and decentralisation, thus making industrial policies more successful. Industrial policies are most effective when they are tailor-made for a country and its specific context (OECD, 2013[1]).

El Salvador's government is equipping itself with public policy instruments in order to achieve rapid and inclusive growth. The adoption of a Trade and Investment Policy (*Política de Comercio e Inversiones*, or PCI) with a horizon of 2050 (Secretaría de Comercio e Inversiones, 2020[2]) is testament to a willingness to co-ordinate, and to join together different efforts in order to achieve a shared vision for the future. The PCI's lines of action focus on foreign trade and foreign direct investment (FDI) as drivers of productive transformation. These should be completed by strategies and actions to increase the productivity of the economy, some of which are already foreseen in policy documents with more limited horizons, such as the Business Development Plan (*Plan de Desarrollo Empresarial*, or PLADE), as well as in some sectoral policies that have recently been adopted or are currently still in the formulation phase.

This chapter presents an analysis of sectoral support policies and their institutional set-up in El Salvador. It analyses the institutional and policy framework for productive transformation, and goes on to examine the toolbox of policy instruments for productive transformation, and the mechanisms for co-ordination between the public and private sectors.

Productive transformation policies in El Salvador would benefit from a better-aligned strategic framework, and greater emphasis on implementation

The institutional framework for productive transformation

The key institutions in charge of policy making for productive transformation in El Salvador are the Ministry of Economy (MINEC*)*, the National Commission for Micro and Small Enterprises (the *Comisión Nacional de la Micro y Pequeña Empresa,* or CONAMYPE), El Salvador's Export and Investment Promotion Agency (the *Organismo Promotor de Exportaciones e Inversiones de El Salvador*, or PROESA), and the Secretariat for Trade and Investment (*Secretaría de Comercio e Inversiones*) of the Presidency of the Republic. The Law for the Promotion of Production (*Ley de Fomento a la Producción)* establishes the Ministry of Economy as the governing and co-ordinating body for the design of programmes for productive transformation (Asamblea Legislativa, 2011[3]). The Ministry of Economy is co-ordinating the implementation of the Ecosystem for Economic and Inclusive Growth – a set of strategic documents for productive transformation. Its portfolio of sectoral policies includes measures to foster productive innovation, to strengthen domestic firms' business competitiveness, and to enhance the competitiveness of exporters. Policies are mainly directed at domestic companies – of different sizes – in strategic manufacturing and services industries. The Ministry of Economy also implements a number of programmes, notably through the Fund for the Promotion of Innovation and Competitiveness, which is managed by one of its directorates. The mission of the Fund for the Promotion of Innovation and Competitiveness is to increase the competitiveness of El Salvador's micro, small and medium-sized enterprises (MSMEs) through co-financing grants for strategic projects for the production or commercialisation of Salvadoran goods and services (MINEC, n.d.[4]). The Ministry also implements

projects that target productive innovation through the General Directorate for Innovation and Competitiveness. These include specific support for the Information and Communication Technologies (ICT) sector.

The mission of CONAMYPE is to strengthen the competitiveness and productive capacities of micro and small enterprises (MSEs) in El Salvador. It is an autonomous body, but it reports to the Ministry of Economy. It implements a range of programmes that offer technical assistance and capacity building to MSEs in order to render them more productive and competitive, and to improve their access to finance (MINEC, 2020[5]).

The Secretariat for Commerce and Investment is part of the Presidency of El Salvador, and it is in charge of setting the orientations and priorities of the country's trade and investment policies. It has a leading role in defining policy for international economic relations, and also in negotiating treaties for international trade and investment. As part of its investment-promotion support functions, it is also responsible for identifying obstacles to trade and investment, and for proposing solutions to them. It is also responsible for co-ordinating relationships with associations of exporters and importers, and for co-ordinating and promoting Public-Private Partnerships (PPPs). As El Salvador's investment-promotion agency, meanwhile, PROESA's mission is to promote investment, exports and public-private partnerships, as well as the national brand of El Salvador (PROESA, n.d.[6]). It reports to the President's Office. As part of its investment-promotion activities, PROESA can prepare policy proposals regarding PPPs. It also approves and supervises the implementation of PPP projects.

The Secretariat for Innovation (*Secretaría de Innovación*) of the Presidency of the Republic plays an important role in productive transformation through its work with regard to El Salvador's digital and innovation agendas. It leads the implementation of the country's digital agenda (the *Agenda Digital El Salvador 2020-2030*). The main objectives of this agenda are the creation of digital identities for all citizens, e-governance, the modernisation of the state, and the promotion of innovation, education in new technologies, and competitiveness. The Secretariat for Innovation also has a leading role in reforming El Salvador's legal and institutional framework for innovation (see Chapter 4).

The Ministry of Tourism and the Salvadoran Tourism Corporation (the *Corporación Salvadoreña de Turismo*) support the development of the tourism sector in El Salvador. The Ministry of Tourism manages a programme to develop tourism in the country's coastal areas (the *Programa de Desarrollo Turístico de la Franja Costero-Marina*). This is funded by the Inter-American Development Bank (IDB). The Salvadoran Tourism Corporation promotes tourism – and investment in tourism – at the national, regional and international levels.

The Ministry of Agriculture (*Ministerio de Agricultura y Ganadería*), and the National Institute for Agriculture and Forest Technology (*Centro Nacional de Tecnología Agropecuaria y Forestal*), support the development of El Salvador's agricultural sector. The Ministry of Agriculture implements different programmes that aim to increase agricultural productivity. These include rural-development programmes, programmes to support the development of the fishing industry and aquaculture, and a programme to support innovation in El Salvador's agricultural sector. The National Institute for Agriculture and Forest Technology promotes the development of the agricultural sector through technical assistance and technology transfers, in order to enhance agricultural productivity.

El Salvador's development bank (the *Banco de Desarrollo de El Salvador,* or BANDESAL) aims to improve private firms' access to finance for investment projects, in line with the goal of productive transformation. In addition, BANDESAL seeks to endow sectoral public policies with the financial resources they need in order to promote the development of MSMEs, exports, and employment. It also provides credit to the private sector – mainly MSMEs – for projects of productive investment. In mid-2020, BANDESAL's governing law was reformed, allowing it to grant loans directly, as well as through credit lines to private financial institutions. It also manages the Economic Development Fund (*Fondo de Desarollo Económico*), and the Salvadoran Guarantee Fund (*Fondo Salvadoreño de Garantías*). These two programmes aim to

improve access to credit for MSMEs in El Salvador, through loans and loan guarantees respectively (BANDESAL, n.d.[7]).

The harmonisation of strategic documents, an acceleration with regard to implementation, and rigorous monitoring are needed for productive transformation in El Salvador

El Salvador has a number of strategic documents that set out to foster productive transformation. Notably, these include the Trade and Investment Policy for 2020-50 (the *Política de Comercio e Inversiones 2020-50*), in addition to the Plan for Business Development (the *Plan de Desarrollo Empresarial, 2020-2024*, or PLADE). Other strategic documents that either remain under development, or were adopted in 2020-21, include the Trade Facilitation Plan (the *Plan de Facilitación de Comercio*), the Investment Facilitation Plan (the *Plan de Facilitación de Inversiones*), different sectoral plans, and the National Energy Policy 2020-2050 (the *Política Energética Nacional 2020-2050*). Together, these strategic documents – which collectively form El Salvador's Ecosystem for Inclusive Economic Growth – aim to create a suitable environment for the generation of more and better jobs for Salvadorans, and to turn El Salvador into a prosperous economy that generates quality jobs and well-being for all its citizens through sustained and inclusive economic growth. The Ecosystem for Inclusive Economic Growth is characterised by a plan-based governance structure. Each strategic document has its own governance structure. Until 2020, the strategic framework was based on the National Policy for Development, Diversification and Productive Transformation (*Política Nacional de Fomento, Diversificación y Transformación Productiva*, or PNFDTP) of 2014, which itself was based on the 2011 Law on the Promotion of Production (the *Ley de Fomento de la Producción*).

Rather than focusing on the design of strategic documents, however, the institutions that are responsible for economic policy making should concentrate their efforts on implementation. Although the PNFDTP dates back to 2014, El Salvador still faces similar difficulties to those that it was seeking to address at the time. Even so, the PNFDTP has recently been replaced by a different set of strategic documents, including a new selection of priority sectors. A systematic evaluation of its achievements would have helped to instruct the changes made in the new strategic framework. In future, policy makers should aim for a more rapid implementation of the policies and initiatives that are outlined in the strategy documents (strategies and plans), and avoid switching policy priorities too frequently, as some policies will take time to bear fruit, and will require continued support. The long-term horizon in the Trade and Investment Policy can support the achievement of transformative objectives, as long as it is accompanied by regular evidence-based reviews. In order to better align policies and accelerate implementation, co-ordination between the institutions that define productive transformation strategies, plans and policies should be improved.

El Salvador's Trade and Investment Policy for 2020-50 seeks to increase the country's exports and levels of investment, and lays out trade and investment policies for this period. El Salvador adopted the policy in January 2021. It aims to improve the integration of the country's companies in global value chains, to promote a productive transformation and diversification of the economy, to raise levels of FDI in the country, and to improve the fiscal, digital and legal infrastructure that facilitates trade and investment. The government aims to increase the share of exports in gross domestic product (GDP) to 38% by 2050. At the same time, it also aims to limit the share of imports in GDP to 45%. Furthermore, the Trade and Investment Policy sets as targets an FDI stock of 60% of GDP in 2050, and annual FDI flows equivalent to 4% of El Salvador's GDP. The government wants to achieve these objectives through a more export-oriented economy, and through a productive transformation of the economy. The Trade and Investment Policy lays out 13 priority sectors[1], as well as a plan to achieve these targets. The Secretariat for Trade and Investment co-ordinates the implementation of the policy, which also proposes to establish a Productivity and Competitiveness Cabinet - a committee of public and private sector representatives[2] that would play a co-ordinating and advisory role in the implementation of the policy. The governance structure for El Salvador's Trade and Investment Policy also includes PROESA. Furthermore, it envisions the

creation of a Business Development and Competitiveness Agency (*Agencia de Desarrollo y Competitividad Empresarial*) in order to develop and implement initiatives and programmes to enhance domestic companies' productivity and competitiveness (Secretaría de Comercio e Inversiones, 2020[2]).

Despite its broad and long-term perspective, the scope of the Trade and Investment Policy 2020-50 does not include detailed policies for specific sectors. Even though the policy does identify a number of priority sectors, it does not put forward detailed policies for the development of each individual sector, and nor does it include a detailed framework for monitoring and evaluating sectoral policies.

Although the Secretariat for Commerce and Investment co-ordinates and monitors implementation, the Trade and Investment Policy lacks a comprehensive evaluation and monitoring framework. It does include a set of proposed indicators that are designed to be included in a scorecard in order to monitor progress in policy implementation. However, the policy document does not specify the frequency of the intervals at which evaluation and monitoring should take place. It also does not set out detailed evaluation and monitoring processes or stipulate the institutional setup for evaluation and monitoring. In practice, the Secretariat for Commerce and Investment drives implementation of the policy's objectives through annual action plans that set out a list of priority projects (45 projects for the year 2022, for example), along with the bodies that will implement them. It also sets observable monitoring indicators in order to track their progress.

The Entrepreneurial Development Plan for 2020-24 (the *Plan de Desarrollo Empresarial 2020-2024*, or PLADE) aims to promote entrepreneurial activity, and to increase productivity and competitiveness in El Salvador. Dating from 2020, the PLADE is part of El Salvador's Ecosystem for Inclusive Economic Growth. It includes six priority axes. These are: the formalisation of informal enterprises; industrial innovation and technological development; value-chain development and sectoral specialisation; the improvement of capacities for production and quality; developing entrepreneurship throughout the country's territory; and the growth and diversification of exports (MINEC, 2020[5]).

Several other strategic documents for the promotion of trade, investment and entrepreneurship in the country have been adopted since 2020 or are currently being designed. A plan by the Ministry of Economy to facilitate strategic investment (the *Plan Estratégico de Facilitación de Inversiones*) seeks to improve the business environment in El Salvador by easing the process of establishing, operating and expanding private investment in the country. The plan aims to provide investors with information on the processes and regulations for doing business in El Salvador, to accompany investors, to reduce technical barriers to private investment, and to promote the use of new technologies to boost private investment (MINEC, 2020[5]). In 2022, in co-operation with the association of exporters (the *Corporación de Exportadores de El Salvador*, or COEXPORT), and with the support of the United States Agency for International Development (USAID), the Ministry of Economy designed an export strategy (MINEC, 2020[5]). The export-promoting agency PROESA is in charge of implementing the export strategy. In addition, and in collaboration with the Secretariat for Commerce and Investment, PROESA established a Strategy for Investment Promotion (InvestSV). The first two pillars of the government's Economic Take-off Plan (*Plan de Despegue Económico*) aim to stimulate investment and trade through an improved business climate, and to support the productive sector - most importantly MSMEs and strategic sectors[3] (Secretaría de Comercio e Inversiones, 2020[8]).

The objective of the National Policy for Productive Development, Diversification and Transformation (the *Política Nacional de Fomento, Diversificación y Transformación Productiva de El Salvador,* or PNFDTP), which was adopted in 2014, was to create the necessary conditions to improve El Salvador's economic growth performance, to generate quality jobs, and to transform the country into a diversified economy with high levels of value added. The policy identified 16 strategic sectors in manufacturing and services[4] through an analysis of the product space, and by pinpointing sectors in El Salvador's present economic structure that were performing well in terms of employment, the generation of value added, exports, and productive linkages. The policy catalogued the main horizontal and sector-specific obstacles, as well as the policies

to tackle these obstacles, through a detailed action plan consisting of 151 policy actions. It clustered these actions around three main axes: national productive development, the diversification of exports, and productive transformation. The Ministry of Economy had a co-ordinating role in the implementation of the policy document. El Salvador's Committee of the Integrated System for the Development of Entrepreneurial Production (the *Comité del Sistema Integral de Fomento de la Producción Empresarial*) had an advisory function, and eight technical commissions were in charge of implementation. The Committee includes representatives from 14 institutions,[5] including the public sector, business associations, co-operative associations, and academia, and it is presided by the Ministry of Economy. The Production Promotion Law from 2011 (the *Ley de Fomento de la Producción*) is the legal basis both of the national policy and of its governance structure, including the Committee of the Integrated System for the Development of Entrepreneurial Production, and the technical commissions (MINEC, 2014[9]).

The PNFDTP launched a number of processes and practices that survived the change in administrations in 2019. Among the innovations of the policy programme were the identification of priority sectors, plus a proposal in the policy's productive-transformation axis to implement a "vertical" industrial policy as a complement to the "horizontal" interventions also included in the policy. This sectoral approach has led to the creation of technological extension centres for priority sectors. For example, El Salvador's current Policy for Trade and Investment picks up on the identification of priority sectors. However, and as will be analysed in the next section, it is also necessary to modernise and widen the scope of vertical policy instruments.

The previous PNFDTP did not prioritise between policy actions, nor create a comprehensive framework of monitoring and evaluation, or a governance structure that would have enabled quick results. Only a short section of the policy document is dedicated to monitoring and evaluation, and it lacks an institutional setup for monitoring and evaluation. It also lacks instructions stipulating either the frequency of evaluations or the process of monitoring and evaluation. Although the PNFDTP also includes a long list of 151 policy actions, it lacks a prioritisation of these actions, which would be key for an effective implementation of the large number of policy actions that are laid out in the document. The governance structure proposed in the PNFDTP was not very successful in driving implementation, as can be inferred from the fact that the activities of the Ministry of Economy, or indeed its responsibilities vis-à-vis the Committee of the Integrated System for the Development of Entrepreneurial Production, are barely mentioned in the internal organisation of the Ministry of Economy, or in its annual report (MINEC, 2020[10]; MINEC, 2020[5]). The sectoral committees that were created in the framework of the PNFDTP are no longer active, as their work was based on the policy document, rather than on legislation.

Going forward, it is important to align policies on productive transformation, trade, investment, and entrepreneurial activity with each other, and to complement strategic documents with a comprehensive framework for evaluation and monitoring. The policies that are laid out in the different strategic documents, and that seek to promote productive transformation, trade, investment and entrepreneurship, will be more effective when they are harmonised and aligned with each other, and when they combine long-term vision with concrete actions for the short and medium term. At present, there is a lack of alignment between policy documents, and new documents are not aligned with older ones. For example, the strategic sectors in the PNFDTP and the Trade and Investment Policy 2020-50 are not aligned with each other. Furthermore, neither the PNFDTP, nor the Trade and Investment Policy 2020-50, includes a comprehensive monitoring and evaluation framework. The institutional strategic plans of key institutions for productive transformation should also be better aligned with strategic documents such as the Trade and Investment Policy, and the PLADE. For example, neither the Ministry of Economy's institutional strategic plan, nor that of CONAMYPE, refer to the strategic sectors identified in the Trade and Investment Policy 2020-50. In addition, the objectives and the strategic axis of the institutional plan are not well aligned with either the Trade and Investment Policy 2020-50 or the PLADE, especially in the case of CONAMYPE (CONAMYPE, 2019[11]; MINEC, 2019[12]). Institutional plans are a key channel for the operationalisation of broad strategic orientations, as they then translate into operational targets for organisational units. In this sense, the lack

of alignment is a missed opportunity to translate cross-cutting objectives into concrete action in a co-ordinated manner.

Establishing institutional support for policies of productive transformation remains an important challenge for El Salvador. The institutional framework, which was created by the strategic framework that was used in 2014-20, is no longer active. The Committee of the Integrated System for the Development of Entrepreneurial Production has not been convened for several years, despite having been created by law. The mandate of sectoral sub-committees is deemed to have expired at the end of the PNFDTP's implementation period. The new strategic framework proposes a fragmented institutional setup. On the one hand, the Trade and Investment Policy proposes the establishment of a Productivity and Competitiveness Council, and of an Agency for Competitiveness and Business Development. Meanwhile, PLADE puts forward a strategy-level governance structure, with a PLADE Committee located in the Ministry of Economy, plus decentralised leadership inside implementing institutions. These two different approaches originate in part from the different horizons of the PLADE (2024) and the Trade and Investment Policy (2050). Nevertheless, they can lead to overlaps in functions, and a lack of coherence in implementation.

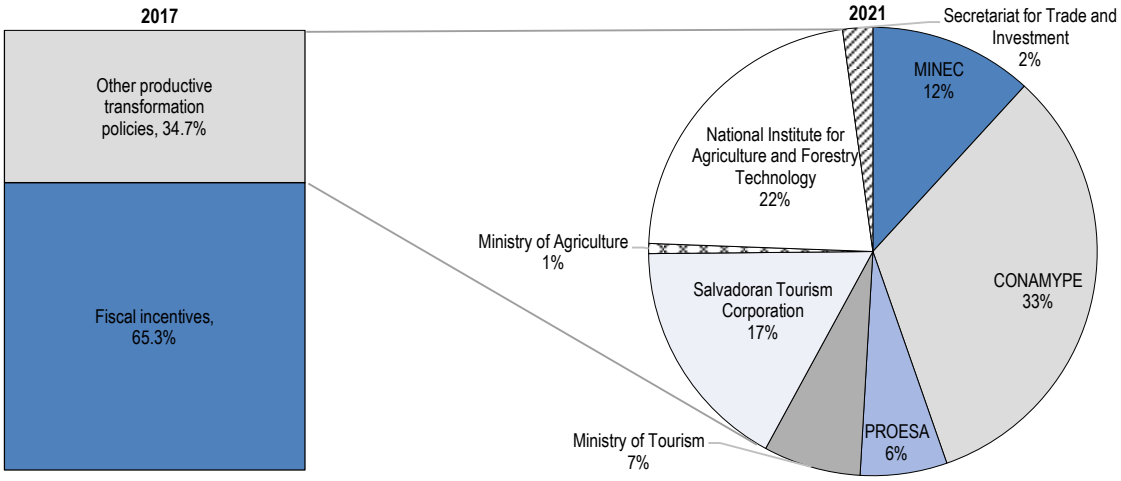
Rebalancing the toolbox for productive transformation to focus efforts where they are most effective

Programmes for productive development focus heavily on micro and small enterprises (MSEs)

A large share of the budget for the implementation of productive transformation policies in El Salvador is directed at fiscal incentives, MSEs and the agricultural and tourism sectors. 65.3% of El Salvador's productive transformation budget is allocated to fiscal incentives and only 34.7% to other productive transformation policies (2017). CONAMYPE, which is in charge of supporting MSEs, receives 33% of the budget for other productive transformation policies (2021) (Figure 5.1). CONAMYPE's budget increased from USD 6.5 million in 2020 to USD 16.6 million in 2021. A significant amount of resources is also dedicated to policies to support the agricultural sector through the Ministry of Agriculture and the National Institute for Agriculture and Forest Technology (USD 11.6 million), and to supporting the development of the tourism sector through the Ministry of Tourism and the Salvadoran Tourism Corporation (USD 12.1 million). The Ministry of Economy's budget for innovation, competitiveness and export support, which includes many components that are directed at manufacturing companies, and some that are directed at international services companies, amounts to only USD 5.9 million.

Figure 5.1. The budget for productive transformation policies is concentrated in fiscal incentives and policies that are directed towards MSEs, the tourism sector, and agriculture

Breakdown of El Salvador's productive transformation budget



Note: The budget allocated to fiscal incentives corresponds to tax expenditure as a result of fiscal incentives. The productive transformation budget of the Ministry of Economy (MINEC) includes funding for productive innovation and business competitiveness policies, exporter competitiveness policies, and the Productive Corridors Programme. The Ministry of Tourism's productive transformation budget consists of the budget for the Tourism Development Programme in Coastal Areas. The Ministry of Agriculture's productive transformation budget comprises funding for agricultural production and agricultural innovation policies.

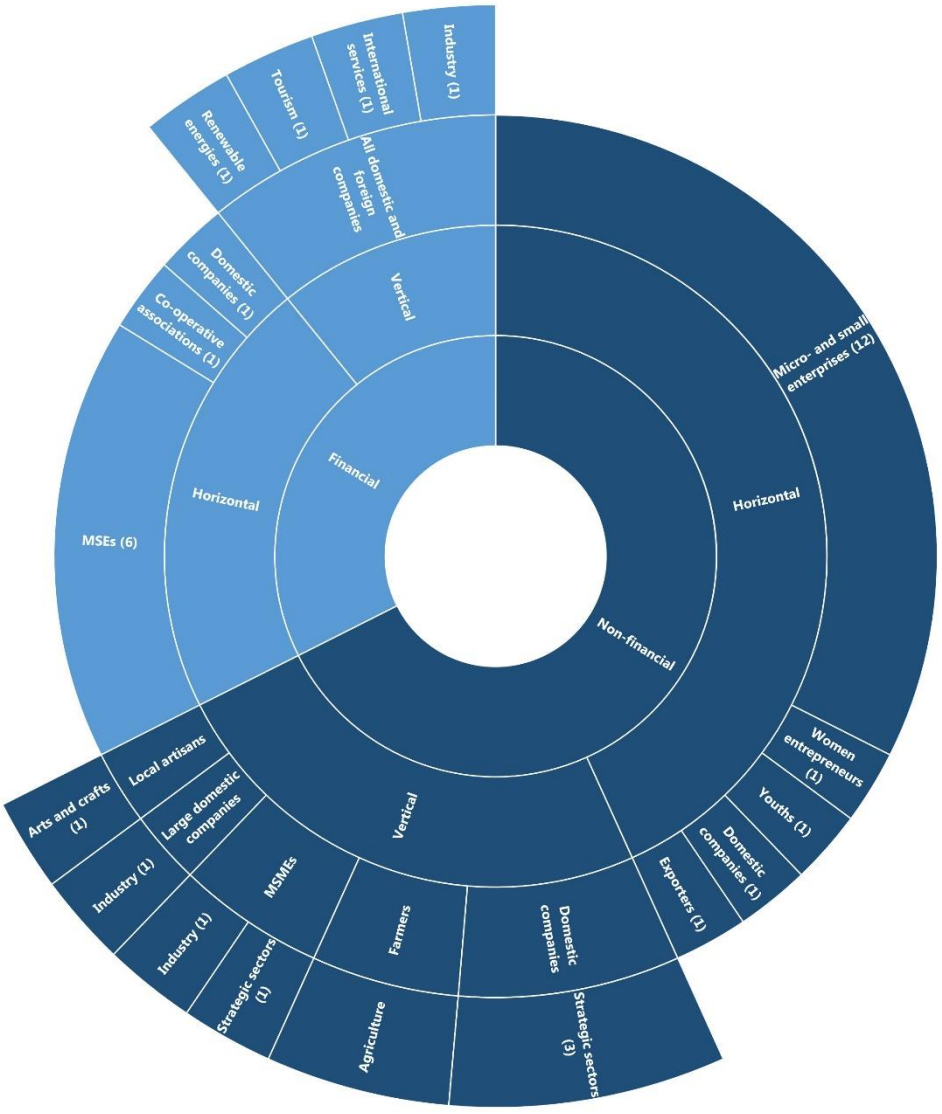
Source: Authors' compilation, based on Portal de Transparencia Fiscal (2021[13]), *Ley del Presupuesto*, Gobierno de El Salvador, San Salvador, https://www.transparenciafiscal.gob.sv/ptf/es/PTF2-Gastos.html#spy_PTFPG3 and on Ministerio de Hacienda (2018[14]), *Marco Fiscal de Mediano y Largo Plazo 2019 – 2029*, Ministerio de Hacienda, San Salvador, https://www.mh.gob.sv/downloads/pdf/700-DPEF-IF-2019-21641.pdf.

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Policy instruments to support private companies in El Salvador are mainly targeted at domestic MSEs. About a third of the programmes that provide support to private companies offer financial incentives to firms, and the other two-thirds offer non-financial, intellectual support (Figure 5.2). Half of the policy instruments are targeted at MSEs, and 90% of programmes are targeted at domestic companies. There are also programmes that target large companies, exporters, female entrepreneurs, farmers, youths, and artisans. El Salvador also has four laws that offer fiscal incentives to private investors in specific sectors.

Figure 5.2. The majority of El Salvador's productive policy instruments are targeted at MSEs

Productive transformation policy mix by type, El Salvador (number of instruments)



Source: Authors' elaboration based on Asamblea Legislativa (1998[15]), "Ley de zonas francas industriales y de comercialización", *Decreto No. 405*, 3 September 1998, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/5721963E-FA7D-447E-AD92-E11E848FF024.pdf; Asamblea Legislativa (2007[16]), "Ley de Servicios Internacionales", *Decreto No. 431*, 11 October 2007, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/EA2E067D-F3C5-4206-BFA7-F2ECF544FADD.pdf; Asamblea Legislativa (2013[17]),"Refórmase la ley de servicios internacionales", *Decreto No. 277*, 24 January 2013, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073316132_archivo_documento_legislativo.pdf; Asamblea Legislativa (2005[18]), "Ley de Turismo", *Decreto No. 899*, 10 December 2005, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/F9AD0D04-096E-4342-8E7B-397B9D8BD12A.pdf; Asamblea Legislativa (2007[19]), "Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 462*, 8 November 2007, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_072950093_archivo_documento_legislativo.pdf; Asamblea Legislativa (2015[20]), "Reformas a la ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 148*, 15 October 2015, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073628316_archivo_documento_legislativo.pdf; Asamblea Legislativa (2014[21]), "Ley de fomento, protección y desarrollo para la micro y pequeña empresa", *Decreto No. 667*, 25 April 2014, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/B913BF6D-5023-4AE6-A028-

B9C1789D2127.pdf; Asamblea Legislativa (1986[22]), "Ley general de asociaciones cooperativas", *Decreto No. 339,* 6 May 1986, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/1ED7EC07-1729-436E-8D08-24E5ED21BAF5.pdf; Asamblea Legislativa (Asamblea Legislativa, 2016[23]), "Ley de fomento, protección y desarrollo del sector artesanal", Decreto No. 509, 12 October 2016, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073716549_archivo_documento_legislativo.pdf; MINEC (2020[5]), *Memoria de Labores Junio 2019 – Mayo 2020*, Ministerio de Economia, San Salvador, https://www.economia.gob.sv/logros-y-memorias/#; ; CONAMYPE (2020[24]), *Memoria de Labores 2019 – 2020*, Comisión Nacional de la Micro y Pequeña Empresa, San Salvador; https://www.conamype.gob.sv/download/memoria-de-labores-conamype-2019-2020/; CONAMYPE (2019[11]), *Plan Estratégico Institucional 2020 – 2024*, Comisión Nacional de la Micro y Pequeña Empresa, San Salvador; https://www.conamype.gob.sv/consulta_ciudadana/web/consulta/descargar-adjunto?id=23.

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Rather than focusing so strongly on MSEs, El Salvador should, in future, focus more policy instruments and a larger share of the budget for productive-transformation policies on medium-sized companies, and also on policies that help MSMEs to grow larger. Large productivity gaps exist between companies of different sizes in El Salvador. According to the latest economic census data, which is from 2005, larger medium-sized companies (with between 100 and 249 employees) in El Salvador were 180% more productive than small companies (with 10 to 19 employees). Smaller medium-sized companies (with 20 to 99 employees) were 100-130% more productive than small companies. Furthermore, the marginal product of labour and capital in El Salvador tends to be larger for medium-sized and large companies than for small companies. Larger medium-sized companies (100 to 249 employees) have the largest marginal product of labour and capital (Agosin et al., 2010[25]). Thus, it is important to ensure that policy instruments directed at MSMEs support these companies' growth, and that policy support is focused not only on MSEs, but also considers medium-sized firms.

El Salvador could increase support to medium-sized firms in several ways. The legal framework allows CONAMYPE to continue supporting enterprises for two years after have they have outgrown the official definition of a small firm (a maximum of 50 employees, or USD 1.2 million in gross sales). Moreover, medium-sized enterprises have access to other programmes and funding instruments, such as those granted by the Ministry of Economy through the Fund for Innovation and Competitiveness. In future, El Salvador could modify the mandate of CONAMYPE so that it could provide much more support to medium-sized firms, in addition to working with MSEs. It is also possible to ensure continuity of support through an implementation body with broader scope. Moreover, to support the growth of MSMEs it is necessary to implement mutually reinforcing policies in a co-ordinated manner. The importance of each obstacle to growth can be sector-specific. For this reason, several governments around the world have put in place initiatives that bring together the services that are available to support robust growth. For example, Denmark started the "Scale up Denmark" programme in 2016, creating 12 hubs for company expansion, specialised by sector (OECD, 2019[26]).

To provide more support to strategic sectors for its productive transformation, El Salvador could establish more sector-specific support programmes and incentives, and could better balance the distribution of resources across strategic sectors. Only 35% of policy instruments that support private firms are sector-specific. In addition to the four laws that offer fiscal incentives to specific sectors (industry, international services, tourism, renewable energy), there are policy instruments that target industry, agriculture, arts and crafts and strategic sectors. Furthermore, large shares of the productive-transformation budget are targeted at agriculture and tourism, but few resources are directed at policies that support other strategic sectors.

Going forward, El Salvador could also find ways to better link policy instruments that support MSMEs with the goal of formalisation. In so doing, it should make sure that they are accompanied by measures to reduce the cost of formalisation, especially for MSMEs. Technical support with formalisation processes could be extended to informal MSMEs. In addition, public policies and programmes that support informal enterprises should include measures to support the formalisation process. CONAMYPE already has a

number of programmes that offer technical assistance to MSMEs that are seeking formalisation. At the same time, participation in certain support programmes for MSMEs could be conditioned on the level of formalisation. This could be achieved through specific measures, for example, by requiring commercial registration, tax registration, up-to-date tax payments, or the payment of social security contributions for employees, where appropriate (e.g. in the case of financial support, or when a firm hires employees), in order to encourage firms to formalise (World Bank, 2007[27]; OECD, 2007[28]). Any such conditionality should be accompanied by reductions in the cost of formalisation, which is particularly high in El Salvador. Some key elements that contribute to this objective, such as a review of legislation and the creation of a special tax regime for MSEs, are already included in PLADE.

To increase efficiency and maximise the impact of sector-specific policies, El Salvador should reduce the number of policy instruments that support private companies, and should concentrate financial, human and material resources on the most effective ones, as identified by a rigorous evaluation. Currently, there are at least 37 sector-specific policy instruments, 18 of which are targeted at micro- and small enterprises (see Annex 5.A). Most of these policy instruments are relatively small in scale, and many of them are similar, consisting either of guidance and technical assistance, training, or financial support for companies, and in the most part for MSMEs. These policy instruments should be rigorously evaluated in order to determine which ones are most effective in supporting El Salvador's productive transformation. The most effective policy instruments could then be scaled up, while the least effective ones would be phased out.

Fiscal incentives have a positive impact on job creation, but are expensive and do not encourage linkages between foreign and domestic firms

Generous tax incentives exist in El Salvador for export-oriented manufacturing industries through a number of free zones, for international services exporters through services parks, for the tourism sector and for electricity generation from renewable energies (Table 5.1). Since 1998, El Salvador has had a law on free zones (the *Ley de Zonas Francas Industriales y de Comercialización*), which promotes export-oriented manufacturing industries (Asamblea Legislativa, 1998[15]). Since 2007, the country has also had a law on international services (the *Ley de Servicios Internacionales*), to support international exporters of services (Asamblea Legislativa, 2013[17]). There are currently 17 free zones in El Salvador (AZFA, 2017[29]). Companies that operate inside the free zones and service parks benefit from a number of services, and from generous tax incentives, which include exemptions from municipal and income taxes, as well as duty-free imports of machinery, equipment, and raw materials (Asamblea Legislativa, 1998[15]; Asamblea Legislativa, 2007[16]; Asamblea Legislativa, 2013[17]). Since 2005, in the context of El Salvador's tourism law (the *Ley de Turismo*), investment projects in the tourism sector of over USD 25 000 benefit from exemptions from income tax, municipal taxes, real-estate transfer taxes, and import duties (Asamblea Legislativa, 2005[18]). Dating from 2007, the Law on tax incentives for the promotion of renewable energy in the generation of electricity (the *Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad*) stipulates tax exemptions for electricity generation from renewable sources of energy, in order to reduce El Salvador's dependency on the purchase of fossil fuels, and to reduce the country's emissions of greenhouse gases (Asamblea Legislativa, 2007[19]).

An evaluation of El Salvador's sector-specific tax incentives from 2017 found that the incentives had a positive impact on job creation, but that they also contributed to higher levels of tax expenditure. The evaluation found a net positive impact of the Free Zones Law, the International Services Law, and the Tourism Law on El Salvador's economy.[6] It was found that the Free Zones Law had a net positive impact of USD 547.2 million on El Salvador's economy, that the International Services Law had a net positive impact of USD 24.9 million in 2016, and that the Tourism Law had a net positive impact of USD 7.1 million. The tax incentives in free zones were found to have had the most significant positive impact on employment (creating 152 692 additional jobs as compared to the business-as-usual scenario between 2004 and 2016), while the tax incentives for international services and tourism had only a relatively small impact on job creation. At the same time, however, tax incentives were found to reduce taxable income, and to increase

tax expenditure. In 2016, the government had to pay USD 88 in lost tax revenues for each job created by the Free Zones Law, and USD 49 for each job created through the International Services Law (Asesores y consultores internacionales S.A. de C.V., 2017[30]).

Table 5.1. Fiscal incentives targeted at foreign and domestic companies in specific sectors in El Salvador

Sector	Legislation	Incentive package	Conditions
• Industrial and manufacturing activities, and connected activities. • Sea fishing for industrial transformation. • Cultivation of flowers in greenhouses and laboratories. • Breeding of amphibians and reptiles.	Law on Industrial Free Zones (*Ley de Zonas Francas Industriales y de Comercialización, 1998*).	Free Zones: • 10 to 20-year exemptions from municipal and income taxes, followed by partial exemptions from municipal and income taxes, with longer periods of exemption outside the metropolitan area of San Salvador. • Duty-free imports of machinery, equipment, raw materials, and other goods that investors require in order to pursue their economic activities. • Exemption from the tax on the transfer of real estate used for authorised activities. • Services such as customs offices, security services, fire-protection systems, wastewater treatment, and telecommunications infrastructure are offered to investors in free zones. Warehouses for inward processing (located outside Free Zones) • 10 to 15 year municipal and income tax exemptions • Temporary admission for inward processing of machinery, equipment and inputs	Free Zones: • Initial investment (during the first two years of operations) of at least USD 500 000. • Creation of at least 50 permanent positions in the first year of operations. • The investment must be made in one of El Salvador's free zones. • If goods are not exported, but instead are sold on the local market, import duties must be paid on all imported components. • Some conditions differ for investors in laboratories and greenhouses. Warehouses for inward processing: • Investments outside of free zones can benefit from similar tax exemptions for a shorter period of time, upon request and approval from MINEC. • They must be located in industrial areas. • The initial investment must be at least USD 800 000. • At least 75 permanent jobs must be created.
International services.	International Services Law (*Ley de Servicios Internacionales, 2007*).	• Exemptions from municipal and income taxes (limited in time for the promoters and administrators service parks, open-ended for users). • Duty-free import of machinery, equipment, raw materials, and other goods that investors require to pursue their economic activities. • Services such as customs offices, post offices, and others, are offered to investors in service parks.	• A new investment of at least USD 150 000 must be made during the first year of operations. • At least 10 permanent jobs must be created. • The investment must be made in one of El Salvador's service parks. • Investments outside of service parks can benefit from similar incentives if they are classified as service centres by MINEC. • Services must be exported. Services sold on the national market are subject to the payment of taxes. • There are other special requirements for international distribution and logistics operators, and for medical and hospital services.
Tourism	Tourism Law (*Ley de Turismo, 2005*).	• Exemption from the tax on the transfer of real estate. • Duty-free import of equipment and accessories, including vehicles, aircraft and ships. • 10-year exemption from income tax. • Five-year partial exemption from municipal taxes.	Tourism investment projects must be above USD 25 000.
Renewable energy	Law on fiscal incentives for the promotion of renewable energy in electricity generation	• Five to 10-year exemption from income tax. • Duty-free imports of machinery, equipment and materials for the	• Incentives apply only to projects up to 20 megawatts (MW). • Projects up to 10 MW are exempted from income tax for ten years.

	(*Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad, 2007*).	construction of power plants, for a period of 10 years. • Exemption from paying taxes on income from the sale of emissions-reduction certificates in the context of the Clean Development Mechanism, or similar emissions-trading systems.	• Projects above 20 MW are exempted from income tax five years. • Projects above 20 MW can deduct research, exploration and project-preparation expenses from income tax payments.

Source: Asamblea Legislativa (1998[15]), "Ley de zonas francas industriales y de comercialización", *Decreto No. 405*, 3 September 1998, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/5721963E-FA7D-447E-AD92-E11E848FF024.pdf; Asamblea Legislativa (2007[16]), "Ley de Servicios Internacionales", *Decreto No. 431*, 11 October 2007, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/EA2E067D-F3C5-4206-BFA7-F2ECF544FADD.pdf; Asamblea Legislativa (2013[17]),"Refórmase la ley de servicios internacionales", *Decreto No. 277*, 24 January 2013, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073316132_archivo_documento_legislativo.pdf; Asamblea Legislativa (2005[18]), "Ley de Turismo", *Decreto No. 899*, 10 December 2005, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/F9AD0D04-096E-4342-8E7B-397B9D8BD12A.pdf; Asamblea Legislativa (2007[19]), "Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 462*, 8 November 2007, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_072950093_archivo_documento_legislativo.pdf; Asamblea Legislativa (2015[20]), "Reformas a la ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 148*, 15 October 2015, Asamblea Legislativa de El Salvador, San Salvador, . https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073628316_archivo_documento_legislativo.pdf.

Tax expenditure due to fiscal incentives is moderate as compared to total tax expenditure, but it is significant when compared to other uses of public funds, and is increasing. In 2017, tax expenditure due to fiscal incentives in the context of the four sector-specific laws (free zones, international services, tourism, and renewable energies) amounted to USD 132.5 million. This represents only 15.5% of El Salvador's total tax expenditure, but 0.53% of the country's GDP (Ministerio de Hacienda, 2018[14]). This is much more than government expenditure on other productive-transformation policies, which came to USD 50.4 million in 2021, and USD 70.3 million in 2017[7] (Portal de Transparencia Fiscal, 2021[13]). It is also more than government spending on upper-secondary education (0.4% of GDP in 2018), tertiary education (0.3% of GDP in 2018), or pre-primary education (0.4% of GDP in 2018) (World Bank, 2022[31]). Tax expenditure for value added tax (VAT) due to sector-specific fiscal incentives remains moderate, but income-tax expenditure is large, most significantly for free-zone tax incentives. Free Zones, and companies outside of Free Zones benefiting from free-zone tax incentives, accounted for 74% of income-tax expenditure in the category of fiscal incentives (0.42% of GDP). VAT tax expenditure due to all fiscal incentives (including tax incentives in the context of the four sector-specific laws, and tax incentives for co-operative associations) increased from 0.19% of GDP in 2014 to 0.22% of GDP in 2017. Income-tax expenditure due to all fiscal incentives increased from 0.48% of GDP in 2014 to 0.57% of GDP in 2017 (Ministerio de Hacienda, 2018[14]).

El Salvador should reduce the overall burden of tax incentives whilst at the same time targeting incentives better and spending more resources on other public goods. There is evidence that a good investment climate, and the provision of sufficient levels of public goods such as infrastructure, education, and security, are more important for attracting foreign investment than tax incentives. Tax incentives can even have an indirect negative effect on the attraction of foreign investment, by reducing countries' revenue bases, thereby limiting the resources that are available for investment in other public goods (OECD, 2015[32]). Furthermore, evidence shows that tax incentives are only effective at increasing levels of FDI in sectors where investors waver between similar locations, and that FDI is mainly efficiency-seeking rather than motivated by access to domestic markets or natural resources. Examples of sectors where FDI is mainly efficiency-seeking are the manufacturing of sophisticated goods such as information technology and electronics, machinery and equipment, automotive, air and spacecraft, biotechnology and pharmaceuticals, and tradable services, including business services. Thus, tax incentives should be used strategically, and should be targeted at sectors with high shares of efficiency-seeking FDI, for which

locational competition is intense. In order to minimise unnecessary tax expenditure, tax incentives targeted at firms that would have invested anyway should be avoided (World Bank, 2017[33]).

Systematically, and on a regular basis, El Salvador should evaluate the costs and benefits of its different tax incentive schemes. Where the cost of tax incentives exceeds their benefits, they should be reduced or removed. The evaluation of the economic benefits of tax incentives should take into account their direct impact in terms of the amount of investment that they encourage, their indirect and induced impact due to inter-industry transactions and changes in income and consumption, positive externalities such as transfers of technology and know-how by incentives-induced FDI, and the environmental benefits of tax incentives for renewable energy. A range of costs should be considered when conducting a cost-benefit analysis of tax incentives. These include the tax revenue that is forgone due to tax incentives. They also include revenue leakages due to unintended and unforeseen tax-planning opportunities, and the costs incurred by taxpayers in order to comply with a given regime of tax incentives. The costs that should be taken into account also include administrative costs from running the tax-incentive programmes (OECD, 2015[34]). When evaluating the costs and benefits of tax incentives, it is important only to take into consideration investments that have been motivated by tax incentives, and that would not have been made without these incentives.

El Salvador should also consider reducing exemptions to import taxes in order to encourage more linkages between free zones and international service parks, and the local economy. The current approach to free zones and international services parks, which includes tax exemptions on imported inputs and equipment, does not encourage firms to source inputs locally. Sourcing inputs locally could result in technology transfers, innovation, and the increased competitiveness of local firms (OECD, 2015[34]). Exemptions to import duties remain important for the business model of the maquila sector, which relies on duty-free imports and exports. However, in order to attract more investment projects that do not rely on the maquila business model, and to build stronger linkages with the local economy, the government should consider gradually phasing out import-duty exemptions, or slimming them down for sectors other than maquila.

At the same time, El Salvador should develop policies to foster linkages between international firms and domestic suppliers. It could create programmes to match international investors with local suppliers, and to support local suppliers in building the right skills and competencies, as has been done in Costa Rica and Malaysia. These countries not only have programmes to match domestic suppliers with foreign companies in order to create FDI linkages with the domestic economy, but they also reach out proactively to potential domestic suppliers and support domestic firms in building up the capacities that they need in order to become suppliers to foreign firms. The process of linking foreign firms with domestic suppliers in Costa Rica has further been improved through reforms to its investment-promotion and trade-promotion agencies, which have significantly improved the institutions' performance (OECD, 2020[35]; Cornick and Trejos, 2018[36]) (Box 5.1 and Box 5.2). A similar approach could help El Salvador to create more linkages between foreign firms and the local economy. It could also help the country to close its skills gap, attract more quality FDI, and raise the productivity of domestic MSEs.

Box 5.1. Leveraging FDI to build firm-level capabilities in Costa Rica

The *Promotora de Comercio Exterior de Costa Rica* (PROCOMER), and the development of the tradable services sector in Costa Rica

The evolution of Costa Rica's investment-promotion strategy: From quantity to quality

In the 1980s, Costa Rica switched from an inward-looking economic strategy to an outward-looking one, in order to address the consequences of a severe debt crisis and to boost growth. Costa Rica's main priority was to attract FDI that would create as many jobs as possible. For most of the 1990s and the 2000s, low value-added linkages between local companies and multinational companies developed

spontaneously, and irrespective of policy effort. To this day, multinational companies still purchase local non-tradable services such as cleaning services, food, security, and some logistics services, as well as the supplies that are required to provide such services.

For 20 years, there was no spontaneous development of significant quality linkages in sectors such as tradable goods and services. These emerged gradually as a state priority, alongside Costa Rica's growing ambition to play a more significant role in Global Value Chains (GVCs). Between 2001 and 2010, PROCOMER – the country's trade promotion agency – launched programmes aimed at matching foreign investors with local providers of increasingly complex, knowledge-intensive inputs, parts, finished products, and services. However, such providers were scarce, and the agency focused on the volume of linkages, not on their types or on the value of the ensuing transactions. Moreover, there was no investment-promotion framework or related goals.

In 2010, the strategy, methods and organisation of PROCOMER started to change. The newly elected government appointed a businessman, Jorge Sequeira, from the private sector, as CEO. Unlike his predecessors, he had no previous experience of policy making, politics, or policy studies. Shortly after his appointment, PROCOMER produced its first strategic plan to attract public investments, with updates planned for every two years. The institution was re-organised, with a strong emphasis on monitoring and accountability, and on the development of key performance indicators for every department, programme and person within the institution. There was also a strong emphasis on the extensive use of information technology to modernise management, including a management system for customer relationships, enterprise resource planning for management and financial purposes, and web-based training tools for PROCOMER's personnel and customers.

PROCOMER's mission shifted from a generic promotion of linkages to a focused one, and from matchmaking to business development. Prior to 2010, the number of linkages that the agency achieved each year was the only indicator of success. The new strategy was explicitly demand-driven. Previously, PROCOMER had simply identified local capabilities and then tried to match them to the demands of multinationals. Under the new strategy, PROCOMER would first identify multinationals' needs, and then survey local capabilities. If such capabilities were lacking but their development was feasible, PROCOMER worked with potential suppliers and other public agencies to make it happen.

Conditions for PROCOMER's success

Three conditions were necessary to facilitate PROCOMER's transition from matchmaking to business development.

First, the agency had to gain enough administrative, political and financial independence to employ staff with the right skills. In particular, mastery of English and formal training in project management were established as requirements.

Second, the metric for the evaluation of job performance changed. A set of nine different indicators are now used to evaluate the success of a project and the performance of the staff involved. These include customer satisfaction, the volume of transactions, the development of suppliers, and fundraising for new projects.

Third, the capacity for co-operation with a large set of public institutions has been enhanced. As the tasks that are involved in the development of suppliers extend beyond PROCOMER's capabilities, universities and technical colleges have been mobilised to develop specific technical skills for domestic suppliers, as required by their potential foreign clients. Similarly, reaching out to other agencies, and to public or private stakeholders, is essential to completing business development. A major step towards better inter-institutional co-ordination consisted of the creation of an Inter-Ministerial Linkages Commission, with the participation of PROCOMER, the Ministry of Foreign Trade, the Ministry of

Science, Technology and Communication, the Chamber of Commerce, and numerous tertiary-education institutions and scientific councils.

Results and limitations

PROCOMER remains small, but it is part of a system that aims to attract more quality FDI and to create better linkages. In 2017, PROCOMER reportedly managed 44 projects that created linkages worth around USD 17 million, and that involved 70 exporting industries, 114 local suppliers, and 166 supply chains. These figures are encouraging but are still on the small side. However, PROCOMER has provided Costa Rica with a clear map of multinationals' needs and local suppliers' capabilities. Moreover, the agency is part of a broader system that relies on an efficient network of agencies and universities that addresses both the demand and supply sides of local tradable goods and services. Because of this system, the value added of domestic services that are embodied in manufacturing exports increased significantly between 2005 and 2015, second only to China.

Source: OECD (2020[35]), *Multi-dimensional Review of Viet Nam: Towards an Integrated, Transparent and Sustainable Economy*, OECD Development Pathways, https://dx.doi.org/10.1787/367b585c-en based on Cornick et al. (2018[36]), *Costa Rica: Building on Successes to Address New Productive Development Policy Challenges*.

Box 5.2. Leveraging FDI to build firm-level capabilities in Malaysia

The Global Supplier Programme and the development of SMEs in Malaysia

Since the 1980s, Malaysia has developed policies to support the development of small and medium enterprises (SMEs), including the capacities of firms to supply multi-national enterprises (MNEs), and SME-MNE linkages. In the context of the Vendor Development Programme (VDP) in the 1980s, Malaysian SMEs were provided with incentives and support to become suppliers of industrial components, machinery, and equipment. However, the success of the programme was limited due to weaknesses of the selected local SMEs in terms of their capacity.

Since 1996, the Industrial Linkages Programme (ILP) has built on the VDP to create better linkages, and to improve capacity. The ILP involves MNEs in the selection of suitable SMEs and helps local suppliers to develop the skills that MNEs need. Selected SMEs and MNEs benefit from reductions in income and investment taxes. In addition, SMEs benefit from access to financing schemes.

The Global Supplier Programme (GSP) was created in 2000 and trains employees of domestic suppliers, in collaboration with MNEs. In order to avoid skills mismatches, the MNEs define the selection criteria for SMEs, and take part in the development of training curricula at different regional training centres and institutes. In order to pay for the training programmes, SMEs receive subsidies.

Source: OECD (2020[35]), *Multi-dimensional Review of Viet Nam: Towards an Integrated, Transparent and Sustainable Economy*, OECD Development Pathways, https://dx.doi.org/10.1787/367b585c-en based on OECD/UNIDO (2019[37]), *Integrating Southeast Asian SMEs in Global Value Chains: Enabling Linkages with Foreign Investors*, https://www.oecd.org/investment/Integrating-Southeast-Asian-SMEs-in-global-value-chains.pdf.

Completing the toolbox for production-development policies: clusters and value chains

So-called "New industrial policy" involves the use for productive development of policy instruments or sector-specific policies[8] that differ from the traditional ones. In OECD countries, the fundamentals for the renewal of sector-specific policy rest on the recognition of the market failures and failures of co-ordination,

that state intervention can help to address. They also build on an awareness that firms do not operate solely in the market, but weave multiple relationships with their economic environment, including agglomeration economies – the benefits of clustering (Warwick, 2013[38]; Criscuolo et al., 2022[39]). This shift in thinking has led, on the one hand, to a rehabilitation in developed countries of sector-specific policies (also often referred to as industrial policies), including selective policies (targeting specific firms or sectors). In addition, it has led to a broadening of the scope of industrial policy (Warwick, 2013[38]). The framework proposed by the OECD (Criscuolo et al., 2022[39]) classifies industrial policy instruments into: i) supply-side instruments, which affect production decisions; ii) demand-side instruments, which affect consumption decisions; and iii) governance instruments, which enhance co-ordination between public, private, and academic actors.

Cluster-development strategies are an important element of new industrial policy. They focus on the exploitation of agglomeration economies, and the provision of public goods that improve the productivity and competitiveness of a set of firms in a specific sector or geographical area. Within this class of policies, a distinction can be made between: i) policies to articulate clusters and cluster development, which tend to focus on specific territories in sub-national areas; and ii) policies for productive linkages or value chains, which focus on companies that are linked by horizontal and vertical relationships of production, which are often marked by significant asymmetries of governance and power (Crespi, Fernández-Arias and Stein, 2014[40]). Cluster-development strategies based on the exploitation of local comparative advantages in innovative sectors are a key element of productive-development policies in countries such as Canada (Innovation Superclusters Initiative), the United States (Manufacturing USA), Germany (*Spitezencluster*, and *Zukunftcluster*) and France (*Pôles de compétitivité*) (Criscuolo et al., 2022[39]).

El Salvador could expand its industrial policy toolbox with interventions that specifically target the creation and support of productive clusters. Most of the policy instruments for productive development that are currently implemented in El Salvador are centred on individual firms that produce goods or services (see Annex 5.A). However, governance tools are a central element in the implementation of successful strategies of productive development (Criscuolo et al., 2022[39]). They include interventions to support the formation, organisation and operation of bodies that can facilitate clusters of firms. For example, this can take place through non-refundable competitive funds directed at collective groups of businesses, through the provision of financing for technological development or for adaptation studies, or via preparatory studies for investment in local public goods (such as infrastructure, or the development of structures of vocational training). They also include the governance structures of the cluster-development strategies themselves, which should ensure their inclusiveness, as well as their monitoring and evaluation. Establishing mechanisms for the withdrawal of targeted support when it is inefficient, or when it has served the purpose that it set out to achieve, is important, as this can be politically challenging.

The development of instruments of public policy that focus on the governance of productive linkages can also help to improve local-development policies, and to support value chains. Local business networks are a tool to develop productive capacities and linkages at the local level. The PLATO initiative is an example of such networks. Created in the Belgian region of Flanders in 1988, it brings together SMEs and large local companies in a defined territory to carry out business-management support, exchanges of information, and networking activities, and it has yielded positive results for the productivity of the companies that participate in it (Cauwenberge, Bauwhede and Schoonjans, 2013[41]). El Salvador already has a number of valuable, well-documented experiences in implementing measures to support and accompany value chains, especially in value chains that are based on primary products such as shrimp, tomato, chilli peppers, or dried fruits (ECLAC, 2017[42]; Padilla Pérez, 2014[43]).

The cluster approach can also support new productive linkages through digital supplier linkage instruments. Advances in digitalisation during the COVID-19 pandemic have led many countries to build up digital trading platforms. A cluster-oriented approach can add value to such platforms, for example by qualifying or categorising suppliers in a given sector. The participation of organised groups of businesses

allows for the identification of relevant information in order to generate linkages between potential suppliers and value chains or exporting companies in free trade zones.

El Salvador should establish a broad public-private dialogue, and a co-ordinating framework for industrial policies

Several forums for public-private dialogue already exist in El Salvador. The Ministry of Economy has organised round tables with investors in order to identify the main obstacles to private investment in the country, and how to tackle them (MINEC, 2020[5]). Furthermore, both the Committee of the Integrated System for the Development of Entrepreneurial Production, and the Productivity and Competitiveness Cabinet (proposed by the Trade and Investment Policy), include representatives from the public and private sectors. However, the Committee of the Integrated System for the Development of Entrepreneurial Production does not have a good track record of decision making and implementation, and there is no record of recent meetings. In 2019, the Ministry of Economy reactivated the National Trade Facilitation Committee (the *Comité Nacional de Facilitación del Comercio de El Salvador*). This forum for public-private dialogue to facilitate trade had been inactive since 2017. It deals with trade-related issues such as customs, health, and agriculture. In 2020, it approved the first Public-Private Action Plan to remove obstacles to trade, and to improve the business climate.[9] This plan is updated every year. One of its achievements has been the production of a draft National Public-Private Trade Facilitation Strategy (*Estrategia Nacional de Facilitación del Comercio Público Privada*) for the next five years. In addition, the Productive Innovation System (*Sistema de Innovación Productiva*) project aims to create a shared vision for innovation in El Salvador, through dialogue between the public and private sectors, academia, and civil society (MINEC, 2020[5]). The Trade and Investment Policy foresees the creation of a consultative Productivity and Competitiveness Cabinet. It will be composed of public and private entities, with the aim of promoting and co-ordinating their participation in the development of El Salvador (Secretaría de Comercio e Inversiones, 2020[2]). As of 2022, however, the Productivity and Competitiveness Cabinet does not yet appear to be active (Secretaria de Comercio e Inversiones, 2022[44]).

The design of the aforementioned PNFDTP had also built on a broad public-private dialogue, and an inclusive process. In 2013, during the policy's drafting phase, co-ordination round-table meetings were organised to facilitate dialogue between private and public bodies in order to instruct the design of the PNFDTP, and to establish a common vision for implementing the policy. A high-level political working group was created, along with technical working groups in six strategic sectors: chemicals and pharmaceuticals, remote business services, aeronautics, electronics, textiles and apparel, and plastics. These working groups included company managers representing each sector, plus representatives from the public sector. In 2014, with the support of the International Labour Organization (ILO), dialogues were initiated with workers' unions in the six sectors to inform them about the consultation and dissemination process, and to identify lines of action that could contribute to overcoming underemployment and unemployment in El Salvador. In addition, consultations were organised with academics and business associations, in which the sectors of agro-industry, footwear, handicrafts, and paper and cardboard all participated. The detailed action plan of the PNFDTP was established in this process of dialogue with businesses, business associations, workers, trade unions, and universities (Cabrera Melgar, 2021[45]). However, these consultations with the private sector, and with other actors that were relevant to the process of designing the PNFDTP, have not translated into long-term sustainability for the policy, which has recently been replaced by other strategic documents.

A broader, more comprehensive, and institutionalised public-private dialogue is required in El Salvador. The process of generating key policy documents, such as the Investment and Trade Policy, has relied on intensive consultations with business organisations. However, El Salvador does not have an institutionalised body in which such a dialogue can take place. This means that the priorities of certain sectors may receive more attention than others, and makes future refinements or reviews of strategic

decisions more cumbersome. It is important to organise a broad public-private dialogue that not only covers isolated issues such as trade and innovation, but also a variety of other topics – and on a regular basis. It is also important to establish clear targets and areas of work. In addition, it is essential to make sure that all recommendations that emanate from this dialogue are taken into account and implemented.

Box 5.3. Other Latin American countries have established institutions to co-ordinate competitiveness and productivity policies

Panama's National Competitiveness Centre (CNC)

Panama's National Competitiveness Centre is a non-profit organisation that brings together high-level representatives from the public and private sectors in order to develop policies that make the country's companies more productive. In addition, the CNC conducts studies and surveys, disseminates information, and executes different activities and projects, with the aim of fostering Panama's international competitiveness.

Peru's National Competitiveness and Formalisation Council (CNCF)

Peru's National Competitiveness and Formalisation Council was created in 2002 and is attached to the country's Ministry of Economy and Finance. The CNCF brings together the public and private sectors and academia. It supports Peru's public-private technical committees in the implementation of the National Competitiveness and Productivity Plan, in order to improve the country's international competitiveness. The public-private technical committees aim to implement one or several measures of the National Competitiveness and Productivity Plan, and are composed of public officials, private-sector representatives, international consultants, and representatives of the academic sector.

The Dominican Republic's National Council for Competitiveness (CNC)

The institution in charge of facilitating public-private dialogue in the Dominican Republic is the National Council for Competitiveness. It is chaired by the President of Republic and is composed of eight ministries and eight representatives of the private sector. It was created in 2001 to manage the Competitiveness Fund (FONDEC). Financed by the Inter-American Development Bank (IDB), FONDEC provided resources to set up industrial clusters, which required private matching funds. From its inception until 2012, the fund co-financed the creation of 45 clusters for a total of USD 13.5 million (16 clusters in agro-food, 15 in tourism, and 14 in manufacturing). The co-financing from the private sector was 14% of the total investment, which was lower than expected. The IDB's evaluation stressed that the most successful clusters (mangos, organic coffee) were those that emerged in response to private-sector demand, and were supported by the international technical assistance of the United States Agency for International Development (USDA).

Once its mission of managing the FONDEC came to an end, the CNC remained in place, evolving into a strategic body. In 2018, it formulated the Competitive Dominican Republic agenda (*Dominicana Competitiva*), which pointed the way to the specific reforms that would be needed to diversify domestic production and to increase local value added. The agenda identified five priority areas and industries for the country, and includes 37 priority actions with an estimated budget of USD 542 million (0.7% of GDP), of which 63% is devoted to implementing actions in agro-food, 28% in tourism, and 8% in manufacturing.

Chile's National Productivity Commission (CNP)

Chile's National Productivity Commission was set up by national decree in 2015, aiming to facilitate strategic co-ordination and a better prioritisation of policy actions. The CNP is a consultative body for

production-development and pro-productivity reforms. It is composed of representatives from the business community, academia and government, along with some well-known national experts.

Source: OECD/UN/UNIDO (2019[46]), *Production Transformation Policy Review of Colombia: Unleashing Productivity,* OECD Development Pathways, https://dx.doi.org/10.1787/9789264312289-en; OECD/UNCTAD/ECLAC (2020[47]), *Production Transformation Policy Review of the Dominican Republic: Preserving Growth, Achieving Resilience*, OECD Development Pathways, https://dx.doi.org/10.1787/1201cfea-en; CNC (n.d.[48]), *CNC Panamá*, Centro Nacional de Competitividad, https://cncpanama.org/cnc/; CNCF (n.d.[49]), *CNCF*, Consejo Nacional de Competitividad y Formalización, https://www.cnc.gob.pe/.

El Salvador also needs an institutional mechanism for the design, co-ordination and governance of production-development policies that includes an institutionalised process of public-private dialogue. In the short run, establishing the Productivity and Competitiveness Cabinet that was proposed by the Trade and Investment Policy could provide an important consultative space. However, its weak normative foundations, and the definition of its functions within a specific policy rather than a mission-based mandate, may limit the scope of its actions. An alternative would be the reform and re-instatement of the Committee of the Integrated System for the Development of Entrepreneurial Production. In future, El Salvador should consider creating an institution to play this role that would be governed jointly by the public and the private sectors. This institution would ensure that recommendations from public-private dialogue were being implemented, and would co-ordinate and align productive transformation policies with each other. El Salvador could follow the models of other Latin American countries. Institutions in other countries in the region that could serve as examples for El Salvador are Peru's National Competitiveness Council (the *Consejo Nacional de Competitividad y Formalización*), Panama's National Competitiveness Centre (the *Centro Nacional de Competitividad*), the Dominican Republic's National Council for Competitiveness (the *Consejo Nacional de Competitividad*), and Chile's National Productivity Commission (the *Comisión Nacional de Productividad – CNP*) (Box 5.3).

The creation of an implementation agency for policies of productive transformation would help El Salvador to capitalise on existing capabilities, while also opening up new possibilities in this area of policy making. El Salvador is already considering the creation of an implementation agency for productive transformation policies, as part of the Trade and Investment Policy 2020-50. The current institutional framework suffers from imbalances. Policies towards MSEs are implemented through CONAMYPE, an institution that has a solid legal basis, but that lacks its own sources of funding. This implies that its interventions are sometimes rather scattered, and relatively small in scale. On the other hand, broader policies of productive transformation are implemented directly within the Ministry of Economy, which is also in charge of designing these policies, and determining their strategic orientation. Some of the broader policies of productive transformation are also implemented within sectoral ministries and agencies. The work that is carried out by the Directorate-General for Innovation and Competitiveness through its various departments in their respective areas, including the Operations Department of the Fund (which manages the Fund for the Promotion of Innovation and Competitiveness), gives the Ministry of Economy the capacity to provide direct support to companies. However, despite having effective processes in place, some observers indicate that the instruments of the Fund for the Promotion of Innovation and Competitiveness have barely evolved over time (De Groote, 2016[50]). A consolidated implementing agency would be better placed to develop place-based or cluster-based programmes. It would also be better equipped to design more sophisticated instruments, which could be tailored to the needs of different sectors, or to different stages of the business lifecycle. These are two of the characteristics of successful experiences of productive transformation agencies in Latin America and the Caribbean, as demonstrated by Chile's *Corporación de Fomento de la Producción* (CORFO) (Box 5.4). The Agency for Enterprise Development and Competitiveness, which was proposed in the Trade and Investment Policy 2020-50, could play this implementing role. However, it is important to ensure the long-term sustainability of this agency, which would mean providing it with the necessary operational and financial autonomy, and endowing it with a stable governance structure – preferably one that would be set out in law.

A consolidated implementing agency for productive transformation policies could also benefit from field presence for the development of programmes via a process of entrepreneurial self-discovery. The kind of analytical exercises that have been carried out in the preparation of strategic policy documents such as the now-superseded PNFDTP, or the current Trade and Investment Policy, constitute a good starting point. However, they tend to identify current comparative or competitive advantages, and therefore to target support to sectors that are performing well at the present moment, to the detriment of opportunities for diversification. Facilitating a process of entrepreneurial self-discovery can lead to further diversification and growth (Rodrik, 2004[51]). Activating territorial development through productive transformation is a key element of the European Union's smart specialisation strategy, which is one of the most relevant public-policy experiments for diversification and productive development. The EU's smart specialisation strategy aims to enable each region to identify and develop its own competitive advantages through a process of entrepreneurial self-discovery (European Commission, n.d.[52]) (Box 5.5). A key factor for implementation that is also relevant in developing countries is the importance of refocusing the development of policy documents towards action, through constructive processes of dialogue at the sub-national level between local authorities, the private sector, academia, and civil society (OECD/UN, 2018[53]).

Box 5.4. CORFO: Chile's production development agency

The *Corporación de Fomento de la Producción* (CORFO), Chile's economic development agency, is often held up as an example of promoting innovation in developing countries. The agency has undergone many changes since its creation in 1939, notably a shift towards a more independent and technocratic approach to development since the 1990s. In order to promote economic diversification and to increase productivity growth, it implements a number of programmes. These include:

- Integrated Territorial Programmes (ITP). These are temporary regional programmes (generally lasting about five years), which focus on a value chain, and include a series of policy instruments such as support for MSMEs, support for innovation, investment attraction, and project-specific competitions for funds.
- Focused support for innovation. This includes finance for innovation and technology transfer, which is concentrated in five priority areas that impact the economy as a whole: biotechnologies; information and computer technology (ICT); quality; clean production; and technological foresight.
- Support for dynamic investments. In order to foster the creation of high-risk, fast-growth ventures, CORFO established a series of instruments including start-up incubators, seed-capital facilities for companies with technical sponsors, networks of so-called business angels, and international co-operation.
- A programme to attract high-tech investment (InvestChile): through an independent investment-promotion agency, and despite its relatively limited budget, Chile has developed a network of strategic partnerships, connecting with key institutions to attract FDI into more complex sectors.

Source: Ministerio de la Economía, Fomento y Turismo, (2018[54]), *Agenda de productividad, innovación y crecimiento 2014-2018*, https://www.economia.gob.cl/wp-content/uploads/2018/02/Ministerio-de-Economia_DIGITAL-1.pdf; Rivas, G. (2012[55]), "La experiencia de CORFO y la transformación productiva de Chile. Evolución, aprendizaje y lecciones de desarrollo", *Serie Políticas Públicas y Transformación Productiva,* No. 3/2012, Corporación Andina de Fomento, Banco de Desarrollo de América Latina, Caracas, https://scioteca.caf.com/bitstream/handle/123456789/373/caf_libro_corfo_web.pdf?sequence=1&isAllowed=y; Nelson, R. (2007[56]), "Transnational strategic networks and policymaking in Chile: CORFO's high technology investment promotion program", *Latin American Politics and Society*, Vol. 49/2, pp.149-181, https://doi.org/10.1111/j.1548-2456.2007.tb00410.x.

Box 5.5. Smart Specialisation in the European Union

Smart specialisation is an innovative approach that aims to boost economic growth and job creation in the European Union (EU). It aims to enable each region to identify and develop its own competitive advantages through a process of entrepreneurial self-discovery. Through its bottom-up, co-operative approach, smart specialisation brings together local authorities, academia, the private sector, and civil society.

Since 2011, the European Commission has provided active advice to regional and national authorities on the development and implementation of their smart specialisation strategies, through a mechanism called the Smart Specialisation Platform. This platform facilitates mutual learning, data collection, analysis, and networking opportunities for around 170 EU regions and 18 national governments.

Thematic platforms for smart specialisation have also been created. Regions join forces and resources on the basis of similar priorities for smart specialisation in sectors with high levels of added value. For example, collaborations have been developed in the fields of three-dimensional (3D) printing, medical technology, smart grids, solar energy, sustainable buildings, high technology, agriculture, etc.

Harnessing local potential (Centre-Val de Loire, France)

The smart specialisation approach in the Centre-Val de Loire region of France helped to clearly identify local competitive assets. These included energy storage, biopharmaceuticals, cosmetics, environmental engineering, and tourism. This has made possible a better targeting of support to projects with high potential, such as the LAVOISIER Programme, which specialises in the development and industrialisation of materials and systems for new and renewable sources of energy.

Tapping the untapped potential of rural areas (Extremadura, Spain)

In Extremadura, Spain, the local production of the distinctive cheese *La Torta del Casar*, with the active participation of farmers, shepherds, and other local actors, has become a real specialisation asset. As a result of this alliance, the Tajo-Salor-Almonte Local Action Group for Rural Development has been able to identify weaknesses in the production system, and to design solutions to overcome them. These exchanges have also resulted in the creation of the XXI Farmers' School and the Shepherds' School (*Escuela de Agricultores del XXI* and *Escuela de Pastores*). These schools aim to become partners and training institutions for farmers and herders in the use of ICT, as well as other technological advances in this field.

Linking education and industry (Podkarpackie, Poland)

Poland's province Podkarpackie is famous for its Aviation Valley, a cluster that brings together most of Poland's aviation industry. In order to better link the academic sector with this regional industry, the Aeronautical Training Centre of the Rzeszow University of Technology was modernised and expanded with the help of EU funds.

Source: European Commission (n.d.[52]), *Smart specialisation - Strengthening innovation in Europe's regions*.

Recommendations to optimise production transformation policies, and improve their co-ordination, alignment and evaluation

Recommendations	Detailed recommendations	Key actors
1. Strengthen the institutional framework for production development		
Establish an institutional public-private mechanism for the design and governance of policies to support productive transformation.	• Review the powers of the relevant institutions, and either assign co-ordination functions or create a body dedicated to the co-ordination of productive transformation policies. • Reform the Law for Production Development (*Ley de Fomento a la Producción*) to reinstate the Committee of the Integrated System of Production Development as a Consultative committee for production development (Comité consultivo de fomento a la producción empresarial) in line with the functions assigned to the Productivity and Competitiveness Cabinet (*Gabinete de Productividad y Competitividad*) in the Policy for Commerce and Investment. • Assign to the co-ordinating body the task of establishing a vision for modern productive transformation policy, and to co-design industrial policy.	Secretariat for Commerce and Investment, Ministry of Economy, CONAMYPE, Sectoral ministries, business associations and private enterprises.
Establish an implementing agency for productive development policies, as considered in the Policy for Commerce and Investment, to favour cluster or problem-based approaches.	• Map out the existing productive transformation policies that are being implemented by different institutions. • Consolidate implementation capacities around cross-cutting strategies for productive transformation.	
2. Promote public-private dialogue around productive transformation		
Promote broad, comprehensive and institutionalised public-private dialogue on a regular basis, with clear targets and areas of work.	• Determine both the scope for action and the participants in the dialogue process (capitalise on ongoing dialogue processes such as the committee on trade facilitation). • Build spaces for dialogue around a permanent institutional setting.	Secretariat for Commerce and Investment, Ministry of Economy, CONAMYPE, Sectoral ministries, business associations, and private enterprises.
3. Align the various policies supporting productive transformation, and focus efforts on implementation		
Improve the formulation, co-ordination and implementation of productive transformation policies.	• Align policies for productive transformation, investment, trade, and enterprise development to support productive transformation. • Align productive transformation policies with innovation, science and technology policies. Consider merging innovation and productive transformation policy into a policy for innovation-driven economic development. • Focus efforts on the accelerated implementation of policies, rather than on the design of new strategic documents. Make sure that strategic documents include (or are followed by) action plans with well-identified milestones, clear priorities, timelines for implementation, and costed actions linked to the budget.	Secretariat of Commerce and Industry, Ministry of Economy, CONAMYPE, sectoral ministries.
4. Review and expand the toolbox of production development policy		
Carry out systematic evaluations of the policy instruments for production development.	• Improve the monitoring and evaluation of the implementation of policy measures that are planned in strategic documents. • Establish an inventory of policies that aim to support productive sectors, and identify criteria for their evaluation. • Carry out systematic and rigorous evaluations of policy instruments for production development in order to concentrate resources (human, financial and material) on the most efficient ones, and to avoid an unnecessary proliferation of instruments to support firms.	Secretariat for Commerce and Investment, Ministry of Economy, CONAMYPE, sectoral ministries, independent entities (evaluators).
Strengthen policy instruments for productive development.	• Assign a greater share of the productive transformation budget to policy instruments that are accessible to middle-sized firms, and to policies that help MSEs to grow. • Create more incentives and sectoral support programmes for strategic sectors. • Add a forward-looking approach to the identification of priority products and sectors (analysing export values, growth trends, global	Secretariat for Commerce and Investment, Ministry of Economy, Ministry of Finance.

	demand, and potential for creating jobs). • Make the criteria for the attribution of support transparent, and publicise them.	
Rebalance the relative weight of tax incentives and support programmes for productive development.	• Carry out periodic and systematic evaluations of the costs and benefits of tax incentive regimes, and reduce or eliminate those with negative net benefits. • Reduce the importance of tax incentives whilst at the same time improving the targeting of incentives, and dedicating more resources to other public goods. • Consider redirecting tax expenditures towards research, development and innovation, instead of towards broadly defined sectors.	Secretariat for Commerce and Investment, Ministry of Economy, Ministry of Finance.
Design policy instruments to support productive linkages in clusters and value chains.	• Support the establishment of productive clusters with support programmes for cluster-based business associations (competitive funds for the organisation of clusters, technical assistance, market intelligence). • Support local business networks to foster productive linkages, train entrepreneurs, and promote local-level organisations. • Support the design of value-chain improvement plans for priority sectors. • Put in place an information system to link domestic buyers and suppliers of intermediate goods in order to facilitate productive linkages. • Establish dialogue with actors in the value chains that export to Central America, in order to support them in exporting further afield.	Secretariat for Commerce and Investment, Ministry of Economy, CONAMYPE, sectoral ministries, business associations, private enterprises.
Link more policy instruments that support MSMEs with formalisation.	• Broaden technical assistance to informal MSMEs in their process of formalisation. • Include measures to assist with formalisation processes in policies and programmes that support informal enterprises.	Secretariat for Commerce and Investment, Ministry of Economy, CONAMYPE, MSME organisations, business associations.
Encourage linkages between free zones and services parks and the local economy.	• Gradually phase out tax exemptions on imported inputs and equipment or make them less relevant to sectors other than maquila businesses. • Create programmes to match international investors with local suppliers, and to support domestic suppliers in building the right skills and competencies.	Secretariat for Commerce and Investment, Ministry of Economy, Ministry of Finance.

Notes

[1] Textiles and apparel, chemicals, rubber, plastics, metal products, wood and paper industries, machinery, the glass industry, the energy sector, tourism, information and communication services, business services, and financial services.

[2] The committee is composed of representatives of the Ministry of Economy, the Ministry of Tourism, the Foreign Ministry, the Ministry of Agriculture, the Ministry of Finance, the Ministry of Environment, the Ministry of Housing, the National Trade Facilitation Committee, the Office of Regulatory Improvement, CONAMYPE, and three representatives of the private sector (from the *Asociación Nacional de la Empresa Privada*, or ANEP, the *Asociación Salvadoreña de Industriales*, or ASI and El Salvador's Chamber of Industry and Commerce).

[3] Most importantly, tourism, agriculture, and renewable energies (Secretaría de Comercio e Inversiones, 2020[8]).

[4] Agroindustry, food and drinks, textiles and apparel, chemicals, pharmaceuticals and natural cosmetics, plastics, electronics, shoe wear, export-oriented arts and crafts, paper and cardboard, logistics, the IT sector, medical services, creative industries, aeronautics, and tourism.

[5] The economy minister, the foreign minister, the ministers of finance, agriculture, and tourism, the Technical Secretary of the Presidency, the president of BANDESAL, two representatives of El Salvador's central bank, the directors of exports and investment from PROESA, two representatives of the Salvadoran Association of Industrialists (the Asociación Salvadoreña de Industriales, or ASI), two representatives of El Salvador's Export Corporation (Corporación de Exportadores de El Salvador), two representatives of El Salvador's Chamber of Industry and Commerce, a representative of El Salvador's Institute for Co-operative Development (Instituto Salvadoreño de Fomento Cooperativo), and a representative of El Salvador's universities.

[6] The evaluation estimated the additional employment generated through fiscal incentives, multiplied the additional jobs created by the average sectoral salaries, and subtracted tax expenditure.

[7] Authors' calculations based on MINEC's funding for policies relating to productive innovation, the competitiveness of businesses and exporters, the Productive Corridors Programme, the Ministry of Tourism's budget for the Tourism Development Programme in Coastal Areas, the Ministry of Agriculture's budget for agricultural production and agricultural innovation policies, and the annual budgets of CONAMYPE, PROESA, the Salvadoran Institute for Agriculture and Forestry Technology, the Salvadoran Tourism Corporation, and the Secretariat for Trade and Investments (Portal de Transparencia Fiscal, 2021[13]).

[8] This section uses the term "industrial policy" to refer to productive-development policies. Even though industrial policy has sometimes focused on supporting manufacturing sectors – bearing in mind the specific role that manufacturing can play (Rodrik, 2013[66]) – sector-specific and selective policies can also intervene in other areas.

[9] Including measures to simplify procedures, to reduce delays and costs, to increase transparency, to improve infrastructure, and to strengthen public institutions and strategic planning, as well as legal reforms (MINEC, 2020[5]).

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Annex 5.A. Main policy instruments to promote private sector development in El Salvador, 2021

Sector	Legislative framework or project name	Incentive package	Beneficiaries	Responsible institutions	Conditionalities
Fiscal incentives targeted at specific sectors					
• Industrial and manufacturing activities • Fishing for industrial processing • Cultivation of flowers in greenhouses and laboratories • Breeding of amphibians and reptiles	Law on Industrial Free Zones (*Ley de Zonas Francas Industriales y de Comercialización*)	• 15 to 20 year municipal and income tax exemptions followed by partial municipal and income tax exemptions. • Duty-free imports of machinery, equipment, raw materials and other goods, which investors require to pursue their economic activities. • Exemption from the tax on the transfer of real estate. • Services such as customs offices, security services, fire protection systems, wastewater treatment and telecommunications infrastructure are offered to investors in free zones.	All domestic and foreign companies	Advisory Committee on Free Zones (*Comité Consultivo de Zonas Francas*) presided by the Ministry of Economy (*Ministerio de Economía*, or MINEC)	• Initial investment (during the first two years of operations) of at least USD 500 000. • Creation of at least 50 permanent positions in the first year of operations. • The investment must be made in one of El Salvador's free zones. • Investments outside of free zones can benefit from similar tax exemptions for a shorter period of time upon request and approval from MINEC. • If goods are not exported but sold on the local market, import duties must be paid on all imported components. • Some conditions differ for investors in laboratories and greenhouses.
International services	International Services Law (*Ley de Servicios Internacionales*)	• Municipal and income tax exemptions • Duty-free import of machinery, equipment, raw materials and other goods investors, which require to pursue their economic activities. • Services such as customs offices, post offices and others are offered to investors in service parks.	All foreign and domestic companies	MINEC	• New investment of at least USD 150 000 during the first year of operations. • Creation of at least 10 permanent jobs. • The investment must be made in one of El Salvador's service parks. • Investments outside of service parks can benefit from similar incentives if they are classified as service centers by MINEC. • Services must be exported. Services sold on the national market are subject to the payment of taxes.

					• There are other special requirements for international distribution and logistics operators and medical and hospital services.
Tourism	Tourism Law (*Ley de Turismo*)	• Exemption from the tax on the transfer of real estate. • Duty-free import of equipment and accessories, including vehicles, aircrafts and ships. • 10-year exemption from income tax. • 5-year partial exemption from municipal taxes.	All foreign and domestic companies	Secretary of state responsible for tourism, Treasury (*Ministerio de Hacienda*), Ministry of Environment and Natural Resources (*Ministerio de Medio Ambiente y de Recursos Naturales*), Secretary for Culture, Ministry of Tourism (*Ministerio de Turismo*)	The tourism investment projects must be above USD 25 000.
Renewable energies	Ley on fiscal incentives for the promotion of renewable energies in electricity generation (*Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad*)	• 5- to 10-year exemption from income tax • Duty-free imports of machinery, equipment and materials for the construction of power plants for a period of 10 years. • Exemption from paying taxes on the income from the sale of emission reduction certificates in the context of the Clean Development Mechanism or similar emission trading systems.	All foreign and domestic companies	General Superintendency for Electricity and Telecommunications (*Superintendencia General de Electricidad y Telecomunicaciones*, or SIGET)	• Incentives apply only to projects up to 20 megawatt (MW). • Projects up to 10 MW are exempted from income tax for ten years. • Projects above 20 MW are exempted from income tax for five years. • Projects above 20 MW can deduct research, exploration and project preparation expenses from income tax payments.
Vertical policy instruments to foster the competitiveness of local firms					
Textiles, plastics, chemicals, pharmaceuticals, energy metal-mechanics, transport, electronics and laboratories and investigation	Innvestiga	Support in applied research to develop new products, services and materials in the industrial sector to improve the sector's competitiveness and a culture of research and innovation.	Medium and large domestic companies	MINEC	
Foods and drinks; plastics; textiles and clothing; creative industries; information and communication	Innovation and Technical and Entrepreneurial Development Centres (*Centros de Innovación*	Services to improve the competitiveness of domestic companies.	Domestic companies	MINEC	

technology (ICT); chemicals, pharmaceutics and cosmetics; fishing and aquaculture	*y Desarrollo Tecnológico y Empresarial,* or CIDTE) (only the CIDTE for footwear has started its operations; the other CIDTEs are still in development)				
Production of food, drinks and footwear	Programme "Sectoral opportunities with a focus on markets" (*Oportunidades sectoriales con enfoque de mercado*)	Advisory services on opportunities in new sectors and markets and support on complying with regulatory standards in these markets.	Domestic companies	MINEC	
Chemicals and pharmaceutics, food and drinks, plastics, creative industries, footwear and ICT	Support for the development of capabilities for innovation and the production of quality goods of local businesses	Trainings to strengthen human capital in micro, small and medium enterprises (MSMEs) and prepare companies for business restructuring.	Domestic MSMEs	MINEC	
Chemicals and pharmaceutics, food and drinks, plastics, creative industries and ICT	Technical assistance in the elaboration of quality and technical analyses	Technical assistance to develop studies of production processes and quality analyses to promote the compliance of products of strategic sectors with quality standards.	Domestic companies	MINEC	
Horizontal policy instruments to foster the competitiveness of local firms					
Exporting sector	Advice on existing trade agreements	Provision of specialised information on the category of goods covered by trade agreements.	Exporting companies	MINEC	
Productive sector	Technical assistance and support for cooperative associations	Guidance and technical support in the execution of investment projects (identification of companies, technical and financial implementation, access to co-financing funds).	MSMEs and cooperative associations	MINEC	
Productive sector	Co-funding for business initiatives	Grants for the development of productive initiatives, aimed both, at the local and the international markets.	MSMEs and cooperative associations	MINEC	
Cooperative Associations	Law on Cooperative Associations (*Ley*	• Exemption from income, agricultural land, road and municipal taxes.	Cooperative Associations	MINEC, Salvadoran Institute for Cooperative	Cooperative associations have to make a special request for income, agricultural land,

	General de Asociaciones Cooperativas)	• Exemption from paper and stamp duties and registration fees.		Development *(Instituto Salvadoreño de Fomento Cooperativo*, or INSAFOCOOP)	road and municipal tax exemptions every five years.
Micro and small enterprises (MSEs)	Law on the Promotion, Protection and Development of MSEs (*Ley de Fomento, Protección y Desarrollo de la Micro y Pequeña Empresa*)	Business mentoring and trainings, technical assistance and advisory services for MSEs in order to: • Support the creation of new companies and value chains and promote innovation and the adoption of new technologies. • Promote the offer of MSEs in international markets and support MSEs with the capacity to export. • Support MSEs in the formalisation process and procedures. • Promote the creation of business associations of MSEs.	MSEs, in particular, those owned by women; associative groups of MSEs	National Commission for MSEs *(Comisión Nacional de la Micro y Pequeña Empresa,* or CONAMYPE), MINEC	
Youths		Youth entrepreneurship programme *Jóvenes con todo*: Promotion of an entrepreneurship culture amongst the young population.	Youths	CONAMYPE	
Women entrepreneurs		Women Entrepreneur Programme: Promotion of and support for women entrepreneurs.	MSEs	CONAMYPE	
MSEs		Entrepreneurship Growth Programme: Advice, technical assistance, capacity development and support in accessing financing through 14 MSE Development Centres (*Centros de Desarrollo de Micro y Pequeñas Empresas*, or CDMYPE).	MSEs	CONAMYPE	
MSEs		Supplier Programme: Promotion of MSEs as suppliers of government institutions (most importantly through school supplies) and of medium and large companies through the creation of supply chains.	MSEs	CONAMYPE	
Local industries and products		One village one product programme (*Un pueblo un product*): Support for local industries of different location specific products.	MSEs	CONAMYPE	

MSEs		Programme for the promotion of formalisation and access to financing: • Support for MSEs in the formalisation process and procedures. • Promotion of the establishment of credit lines for MSEs at public and private financial institutions.	MSEs	CONAMYPE	
MSEs		Programme for the promotion of environmental sustainability of MSEs: Reduction of the use of equipment or materials, which have a negative impact on the environment.	MSEs	CONAMYPE	
MSEs		Marketing and Sales Programme: • Promotion of the products of MSEs products in local, regional, national and international markets. • Establishment of commercial linkages between MSEs and distributors.	MSEs	CONAMYPE	
MSEs		Programme for the promotion of exports: • Promotion of an export culture amongst MSEs and identify potential international markets for MSEs' products and services. • Advice, capacity development, market research and participation in international trade fairs.	MSEs	CONAMYPE	
MSEs		Programme for the promotion of industrialisation, productivity and quality: Improvement of MSEs' productivity and product quality through practical tools.	MSEs	CONAMYPE, Japan International Cooperation Agency (JICA), Argentinan National Institute for Industrial Technology (*Instituto Nacional de Tecnología Industrial*, or INTI)	
MSEs		• Promotion of access to credit and other sources of financing. • Financial, non-financial and capital market development services tailored to the needs of MSEs.	MSEs, in particular those owned by women; associative groups of MSEs	State Bank (Banca Estatal)	

MSEs		Lines of financing for MSEs through financial intermediaries.	MSEs, in particular those owned by women; associative e groups of MSEs	Development Bank of El Salvador (*Banco de Desarrollo de la República de El Salvador*, or *BANDESAL*)	
MSEs		Loan guarantees to MSEs through financial intermediaries (total amount available: USD 10 million).	MSEs, in particular those owned by women; associative e groups of MSEs	Guarantee Programme for MSEs (*Programa de Garantía para la Micro y Pequeña Empresa*, or PROGRAMYPE)	
MSEs		Fund for Entrepreneurship and Working Capital (*Fondo para el Emprendimiento y Capital de Trabajo*): Financing for new projects of existing MSEs in all sectors (total amount available: USD 5 million).	MSEs in all sectors, in particular those, which incorporate technical or environmental components or promote women entrepreneurship and gender equality; associative e groups of MSEs	CONAMYPE	The companies, which benefit from this fund, must pay any costs to service their loans first before distributing dividends or profits.
MSEs		Public co-investments	MSEs with important economic linkages or high growth and job creation potential and which promote gender equality; associative groups of MSEs	CONAMYPE, MINEC Export and Investment Promotion Agency of El Salvador (*Organismo Promotor de Exportaciones y de Inversiones de El Salvador*, or PROESA)	
Tourism, digital services, creative industries, fishing, agriculture and agro-industry and other strategic sectors	*Ventanilla de Despegue Económico*	• Grants to private companies to improve access to liquidity. • Technical assistance and special trainings on business development, brand positioning, quality and safety systems, business management, commercial linkages between suppliers and buyers, compliance with regulations etc. for private companies.	Domestic companies	MINEC	
Arts and crafts	Ley for the promotion, protection and development of the arts	• Promotion of arts and crafts activities, including access to raw materials for	Local artisans in El Salvador	CONAMYPE (implementing institution), MINEC	

	and crafts sector (*Ley de fomento, protección y desarrollo del sector artesanal*)	artwork. • Setting up shared workshops for artists. • Technical assistance and capacity development for artists. • Organisation of trainings for artists. • International promotion of El Salvador's arts and crafts sector.		(governing body), Ministry of Education (*Ministerio de Educación, Ciencia y Tecnología*, or MINED)	

Sources: Authors' elaboration based on Asamblea Legislativa (1998[15]), "Ley de zonas francas industriales y de comercialización", *Decreto No. 405*, 3 September 1998, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/5721963E-FA7D-447E-AD92-E11E848FF024.pdf; Asamblea Legislativa (2007[57]), "Ley de Servicios Internacionales", *Decreto No. 431*, 11 October 2007, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/EA2E067D-F3C5-4206-BFA7-F2ECF544FADD.pdf; Asamblea Legislativa (2013[17]),"Refórmase la ley de servicios internacionales", *Decreto No. 277*, 24 January 2013, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073316132_archivo_documento_legislativo.pdf; Asamblea Legislativa (2005[58]), "Ley de Turismo", *Decreto No. 899*, 10 December 2005, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/F9AD0D04-096E-4342-8E7B-397B9D8BD12A.pdf; Asamblea Legislativa (2007[59]), "Ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 462*, 8 November 2007, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_072950093_archivo_documento_legislativo.pdf; Asamblea Legislativa (2015[60]), "Reformas a la ley de incentivos fiscales para el fomento de las energías renovables en la generación de electricidad", *Decreto No. 148*, 15 October 2015, Asamblea Legislativa de El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073628316_archivo_documento_legislativo.pdf; Asamblea Legislativa (2014[61]), "Ley de fomento, protección y desarrollo para la micro y pequeña empresa", *Decreto No. 667*, 25 April 2014, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/B913BF6D-5023-4AE6-A028-B9C1789D2127.pdf; Asamblea Legislativa (1986[62]), "Ley general de asociaciones cooperativas", *Decreto No. 339,* 6 May 1986, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/1ED7EC07-1729-436E-8D08-24E5ED21BAF5.pdf; Asamblea Legislativa (Asamblea Legislativa, 2016[23]), "Ley de fomento, protección y desarrollo del sector artesanal", Decreto No. 509, 12 October 2016, Asamblea Legislativa of El Salvador, San Salvador, https://www.asamblea.gob.sv/sites/default/files/documents/decretos/171117_073716549_archivo_documento_legislativo.pdf; MINEC (2020[63]), *Memoria de Labores Junio 2019 – Mayo 2020*, Ministerio de Economia, San Salvador, https://www.economia.gob.sv/logros-y-memorias/#; ; CONAMYPE (2020[64]), *Memoria de Labores 2019 – 2020*, Comisión Nacional de la Micro y Pequeña Empresa, San Salvador; https://www.conamype.gob.sv/download/memoria-de-labores-conamype-2019-2020/; CONAMYPE (2019[65]), *Plan Estratégico Institucional 2020 – 2024*, Comisión Nacional de la Micro y Pequeña Empresa, San Salvador; https://www.conamype.gob.sv/consulta_ciudadana/web/consulta/descargar-adjunto?id=23.

6 Water management and water and sanitation for all in El Salvador

This chapter assesses El Salvador's performance in integrated water resources management and the provision of water supply and sanitation services to all. It reviews the situation with regard to the quantity and quality of water, the extent to which these are under pressure, and the country's policy responses in this area. The chapter also offers a policy framework and instruments, with a view to improving the performance and cost-effectiveness of water risk management in El Salvador.

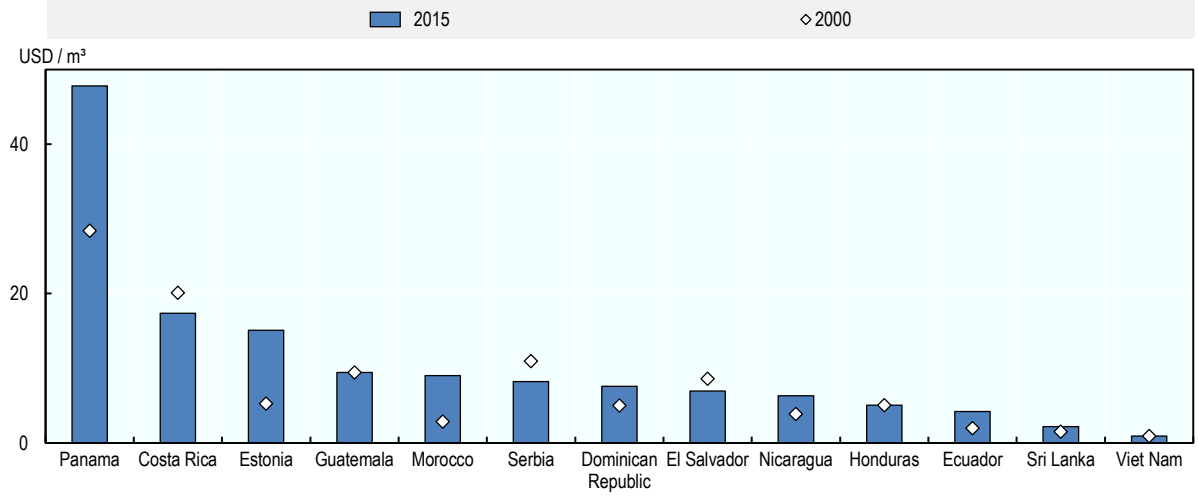
Introduction

Although El Salvador has not estimated the social cost of water insecurity. a joint analysis by the governments of El Salvador and the United States did find the poor quality and insufficiency of the supply of drinking water, and the treatment of wastewater, to be among the main obstacles to economic growth in El Salvador (MCC, 2011[1]). The delay in getting a water connection is among the single factors that most penalises El Salvador when it comes to doing business rankings (World Bank, 2020[2]). In addition, poor water quality has a cost not only because treating water to make it drinkable is more expensive when its quality is below par, but also because of the public health costs that stem from a lack of potable water. For example, insufficient water consumption is a major risk factor for chronic kidney disease, which affects around 13% of the Salvadoran population, and is the second biggest cause of death for men in the country (MINSAL/INS, 2017[3]; Orantes-Navarro et al., 2019[4]).

Water productivity – measured by national income generated per unit of freshwater abstracted – has remained relatively stable in El Salvador since 2000. By comparison with benchmark countries, it is within the middle range (Figure 6.1), but it is very low when compared to OECD countries.[1] In OECD countries, gains in water productivity have stemmed essentially from improvements in infrastructure (e.g. less leakage, investment in water-efficient technologies such as drip irrigation, re-use of treated wastewater), and from an approach to water pricing that has increasingly reflected the true cost of the resource. This has encouraged a shift towards higher-value water uses, and structural changes in the economy (towards less water-intensive industries) (OECD, 2017[5]).

Figure 6.1. Water productivity in Salvador is within the middle range of benchmark countries

GDP per unit of freshwater abstractions



Source: (FAO, n.d.[6]), *Aquastat* for water abstractions, http://www.fao.org/nr/water/aquastat/data/query/results.html; (IMF, 2022[7]), *El Salvador* (website) for GDP, https://www.imf.org/en/Countries/SLV#countrydata.

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With the publication of its National Integrated Water Resources Management Plan (the *Plan nacional de gestión integrada del recurso hídrico*, or PNGIRH) in 2017, El Salvador made progress towards the goal of integrated water resources management (IWRM) – a major achievement. The plan took stock of the water resources that are available, and their quality. It also assessed the risks of drought and flooding in the country. In addition, it assessed the demand for water from different sectors of the economy. Based on the scenarios of the national plan on climate change (2015), it also assessed the impact of climate change

on water resources. The PNGIRH set environmental objectives for the quantity and quality of water and called for a new approach to governance in order to achieve them. In particular, the plan proposed to establish a general legal framework in order to regulate and promote IWRM, and a governing body to oversee the integrated management of water resources. In so doing, it was responding to the needs for legal reform in the sector, since El Salvador did not have a general law on water.

The adoption of the General Law on Water Resources (the *Ley General de Recursos Hídricos,* or LGRH) constitutes a major milestone in the management of water resources in El Salvador. This law was adopted in December 2021, enacted in 2022, and has been in force since June 2022 (Asamblea Legislativa, 2022[8]). Five previous water bills were prepared between 2006 and 2018 but failed to win the necessary majority for adoption in the legislature. The LGRH aims to regulate integrated water resources management and its sustainability, to guarantee the right to water and water security in the interests of ensuring a better quality of life for all citizens of El Salvador, and to promote economic and social development through the sustainable use of resources. The law largely consolidates the legal framework in this area, which was very fragmented prior to its adoption. It also created the Salvadoran Water Authority (the *Autoridad Salvadoreña del Agua,* or ASA) as the governing body for water resource policy. This was a necessary step in the consolidation of a hitherto fragmented institutional framework. The implementation of the LGRH will be key for future advances in water resource management in El Salvador, for consolidating knowledge about water resources and making it available to the public, for overseeing the water allocation regime, and for the management of water-related risks and trade-offs.[2]

Another major challenge is to ensure universal access to safe drinking water and sanitation. This is part of the United Nations Sustainable Development Goals (SDGs), to which El Salvador is committed. According to the WASH Performance Index from the University of North Carolina, El Salvador is the best performing country in the world in efforts to close the gap in access to clean water and sanitation in its communities (Cronk et al., 2015[9]). However, in El Salvador, as in other Latin American countries, there are still significant gaps in the provision of public water supply and sanitation services, especially in rural areas. Only 8% of wastewater is treated before being released into the environment. The 2018 National Plan for Water and Sanitation (the *Plan nacional de agua potable y saneamento de El Salvador*, or PLANAPS) estimates the investment needs to fill these gaps in the billions of dollars.

Domestic water tariffs do not include the costs of wastewater treatment, and they only partially cover the cost of supplying drinking water and providing sanitation services. The cost of water is subsidised for over 70% of the customers of the national water provider, the *Administración Nacional de Acueductos y Alcantarillados*, (ANDA). The prices for irrigation water are extremely low. There are many extractions of water for different uses that are generally not subject to any charge. All service charges that are not billed to users are borne by the public budget (that of ANDA), which is not conducive to investments, or even to the rehabilitation of existing hydraulic infrastructures. In turn this limits the increase in coverage in the supply of drinking water and sanitation in urban and rural areas. The share of unaccounted-for water in the supply networks continues to increase, and now stands at nearly 60%.

There is a need to develop a water culture in El Salvador. The general public is often unaware of the need to use water efficiently, as a scarce resource that must be carefully managed. Economic incentives and governance mechanisms have an important role to play in this regard. Applying the polluter pays principle through taxes and charges can also be an important source of revenue for water policy. What is more, bringing in a system of payments for ecosystem services can reveal a willingness to pay for water among users.

Box 6.1. From Analysis to Action: A Policy Workshop on Water in El Salvador

Phase 3 of the Multi-dimensional Country Review of El Salvador (From Analysis to Action) was implemented mainly through a series of policy workshops. These were conducted following a version of the government learning methodology (Blindenbacher and Nashat, 2010[10]) adapted to the Multi-dimensional Country Reviews (MDCR). The methodology applies a range of facilitation techniques to foster the sharing of knowledge, and a mind-set of reform in complex contexts. Due to the COVID-19 pandemic, several of the workshops were conducted on line.

The workshop "From Analysis to Action: Towards Integrated Water Resource Management and Safe Water Supply and Sanitation for All" was held online from 27 and 28 July 2021. It brought together 36 participants from public entities. These included ANDA, the Presidency of the Republic, the council of mayors of the San Salvador metropolitan area (COAMSS), the social investment fund for local development (FISDL), the Salvadoran fund for the environment (FONAES), the Ministry of the Environment and Natural Resources (MARN), the Ministry of Agriculture and Livestock, the Ministry of Finance, the Ministry of Tourism, the Ministry of Health, the Ministry of Foreign Affairs. They also included representatives from civil society, academia, and international co-operation.

Participants carried out a prioritisation exercise among the different issues addressed in this chapter, and developed action plans for the priority areas that were jointly identified by the OECD and El Salvador's Environment Ministry. These were: the governance and financing of water basins; risk management with regard to the scarcity of water; floods and pollution; strategic financial planning for water and sanitation services; and the pricing of water and sanitation services.

The action plan at the end of this chapter is built on the contributions of the participants. The workshop took place during the initial discussion of the draft General Law on Water Resources and was publicised to feed into the consultations on the bill.

Source: (Blindenbacher and Nashat, 2010[10]), *The Black Box of Governmental Learning: The Learning Spiral - A Concept to Organize Learning in Governments*, The World Bank, Washington DC, https://doi.org/10.1596/978-0-8213-8453-4.

Towards integrated water resource management in El Salvador

Prior to assessing El Salvador's IWRM policy, as defined in the PNGIRH, the following sections review the different water risks (scarcity, pollution, flooding), and provide the legal and institutional framework for the management of water resources in El Salvador.

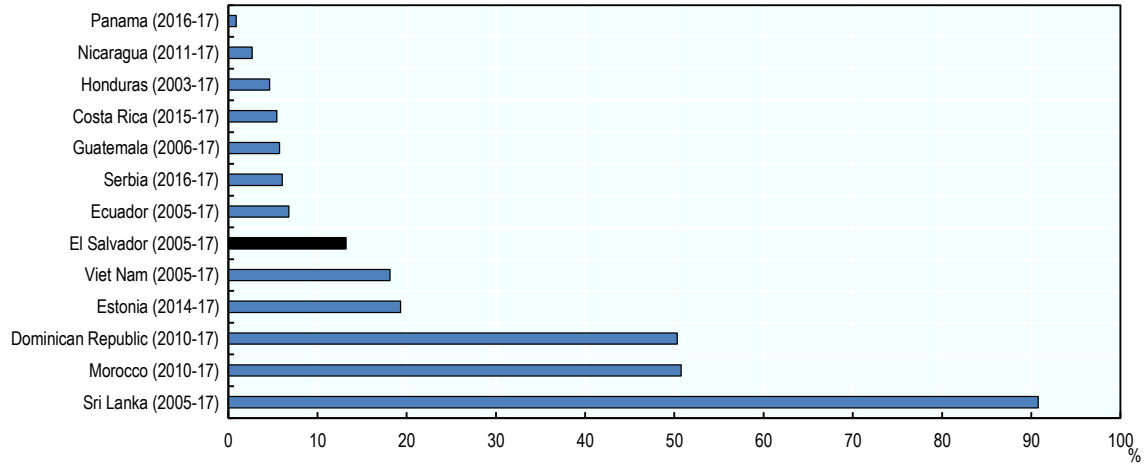
The risk of water shortages

El Salvador is well endowed with water resources, including 590 rivers and streams across its national territory. Flowing into the Pacific Ocean, the Lempa is one of the largest river systems in Central America and represents more than 60% of El Salvador's water resources. It is also used for hydropower generation through man-made reservoirs that regulate the flow of the river. At 13% of available water resources after deducting environmental flow requirements (which are essential for maintaining ecosystem health and resilience), water stress in El Salvador should be considered low (Figure 6.2).[3] However, many rivers are not permanent, or have flows that tend to fall quickly when it stops raining. Water storage in aquifers has fallen, and it is necessary to drill increasingly deep boreholes in order to find water. The artificialisation of land has considerably reduced the capacity of soils for water infiltration and retention, and thus the natural regulation of river flow and aquifer recharge. Although El Salvador has an average rainfall of

1 800 millimetres per year, rains occur through storms that are high in intensity and short in duration. Together with changes in land use, this causes the water level of rivers to rise rapidly and leads both to flooding and to a decrease in aquifer recharge. Climate variability means that droughts exceed 30 days per year.

Figure 6.2. El Salvador has a low level of water stress

Level of water stress: Freshwater withdrawal as a proportion of available freshwater resources (%)



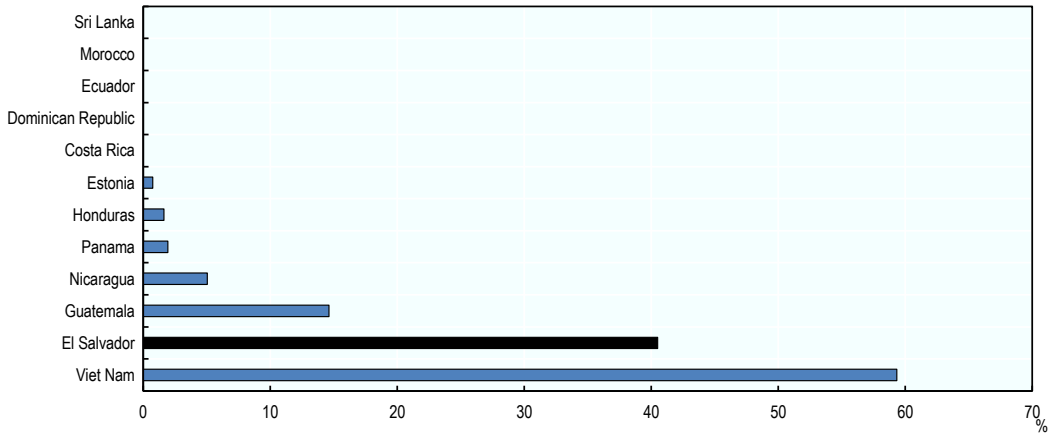
Note: Freshwater withdrawal by all sectors in relation to available freshwater resources, which are defined as precipitation, plus inflow from trans-boundary rivers, minus evapotranspiration (i.e. renewable freshwater), minus environmental flow requirements.
Source: (UN-WATER, 2020[11]), Indicator 6.4.2 "Level of water stress: freshwater withdrawal as a proportion of available freshwater resources".

StatLink https://stat.link/ufmsk3

Pressures on water resources vary within El Salvador. Withdrawal is around 20% of renewable resources in two of the country's ten hydrographic zones, and exceeds 60% in the Rio Grande de Sonsonate-Banderas hydrographic zone, which is in the south-west of the country (MARN, 2017[12]). Over 40% of El Salvador's renewable water resources originate outside the country, with 30% from Honduras and 10% from Guatemala. This is a high dependency ratio by comparison with benchmark countries (Figure 6.3). Such dependence on water originating from neighbouring countries underlines the importance of shared governance of trans-boundary basins.

Figure 6.3. El Salvador has a high ratio of water dependency

2017, in percentage of renewable water resources

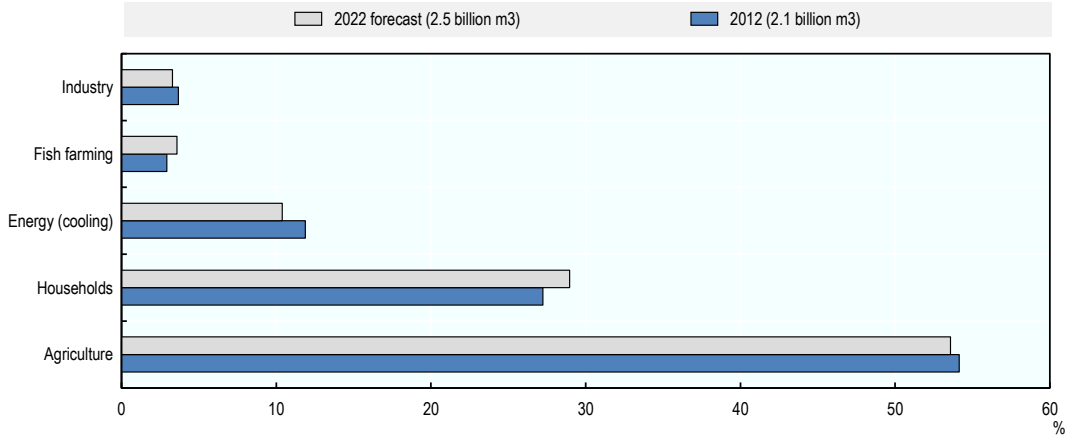


Note: Percentage of renewable water resources originating outside the country. 2017 data.
Source: (FAO, n.d.[6]), *AQUASTAT* database (accessed 27 December 2020).

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The efficiency of water use in agriculture and in the public water supply continues to be very low. Agriculture accounts for more than half of water demand, with public water supply making up nearly 30%, and energy, fish farming and industry making up the rest (Figure 6.4). Drip irrigation accounts for only 3% of irrigation systems, with gravity and sprinkler irrigation making up the rest (MARN, 2017[12]). Almost 60% of drinking water is unaccounted for, due to leaks in the piped network, illegal connections before it reaches homes, and to inefficient metering (see section on water supply and sanitation). This inefficiency in water use is exacerbating local conflicts over water. These clashes are between irrigation and human consumption, and between different irrigators (MARN, 2013[13]). The main source of water for irrigation is surface water from major rivers, but some crops (such as sugarcane) use a great deal of groundwater. Groundwater remains the main source for the supply of drinking water, as its quality tends to be better than surface water, which reduces treatment costs. Nevertheless, since groundwater is extracted from deeper wells, it tends to contain minerals in concentrations that are not suitable for human consumption, and this requires the installation of special water purification plants.

Figure 6.4. Agriculture accounts for the lion's share of water demand in El Salvador



Source: (MARN, 2017[12]), *Plan Nacional de Gestión Integrada del Recurso Hídrico de El Salvador, con énfasis en zonas prioritarias*.

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Measures have been taken to limit demand for water from the energy sector. In El Salvador, reservoirs and dams were designed almost exclusively for power generation, and due to their negative, real, and perceived impacts, the construction of new structures faces strong public opposition, regardless of their size (MARN, 2013[13]). Launched in the early 2000s, the El Cimarrón hydropower project was suspended in 2010 due to its negative social and environmental implications.

There is a risk of an over-exploitation of aquifers, as is the case with the aquifer of the eastern sector of San Salvador, which, due to urban growth, is also suffering from a decrease in its recharge. Beyond San Salvador, other aquifers that are close to urban centres are under great pressure, such as those of Santa Ana, Opico-Quezaltepeque, Guluchapa, San Miguel and Zapotitan (MARN, 2013[13]). The expansion of irrigation has also taken place at the expense of slowly recharging aquifers. This has led to the drying up of springs and wetlands, which is directly linked to the over-exploitation of aquifers, and to saline intrusion into coastal aquifers (indirectly causing salinisation in agricultural soils) (MARN, 2013[13]).

The area around the San Salvador volcano provides an example. The beverage industry tends to concentrate there due to the presence of a large aquifer, and also due to its proximity to the capital. This may gradually create tensions between the different uses that take place in the area (MARN, 2013[13]). A risk-based approach could be put in place in order to prevent conflicts over the use of aquifer water (see below).

Risk of poor water quality

Rivers

Significant bacteriological contamination affects most surface water due to discharges of urban and industrial wastewater without adequate treatment and, most often, without any treatment at all (MARN, 2017[12]). MARN (2019[14]) confirms the strong bacteriological contamination of water that is intended for human consumption (faecal coliforms), which highlights the urgency of modernising El Salvador's sanitation infrastructure (see section on water supply and sanitation). In addition to the contamination of water that is intended for human consumption, the bacterial activity of decomposing organic matter (excreta, industrial organic compounds, plant debris) decreases the quantity of oxygen dissolved in the water, sometimes to the point of threatening aquatic life (MARN, 2017[12]).

Likewise, there are high concentrations of phenols throughout most of the basins (MARN, 2017[12]). Esquivel Orellana (2007[15]) reports contamination by phenolic compounds in all hydrographic zones, with an average concentration in rivers of 1 800 microgrammes per litre (µg/l), which is well above the quality standard of 10 µg/l (or 0.01 miligrammes per litre [mg/l]). MARN (2019[14]) confirms the exceedance of the phenol standard in Salvadoran waters intended for human consumption. This compound, which is highly toxic to aquatic species, cannot be biologically degraded. The coffee industry is one of the main emitters. Pulp water from coffee processing (the water used to remove the pulp from the coffee bean) contains phenols. Since 1996, El Salvador has prescribed emission limits for synthetic phenolic compounds (0.5 mg/l)[4], but the special wastewater regulation of 2000 (Decree no. 39)[5] does not include coffee processing in the list of activities for which the analysis of phenols in wastewater is compulsory. As of 2000, all Salvadorian coffee treatment facilities (*beneficios*) started treating their wastewater. Due to the high cost of laboratory analyses, however, they did this without testing the quality of the treated wastewater (Molina Guardado and Villatoro Martinez, 2006[16]).

High concentrations of phosphates, which are often well above the limits recommended by the United States Environmental Protection Agency (EPA), contribute to eutrophication in rivers and lakes. Agricultural fertilisers are likely to be the main source (MARN, 2017[12]). Reporting from the Ministry of Environment shows that the water in a number of El Salvador's rivers is also contaminated with heavy metals. This situation led the government to ban any new investment in the mining industry in 2017. Organochlorine, organophosphorus, carbamate and glyphosate pesticides have all been detected in some

rivers at levels that fall short both of EPA standards for fish life, and the World Health Organization's (WHO) standards for human consumption. Some of the pesticides that were found are not subject to any quality standard at all.

Overall, no sampling site had excellent water quality in 2019, and the proportion of sites with average, bad, or very bad water quality has remained very high (86%). This limits aquatic life, or makes it impossible (Table 6.1). In 2019, none of the 121 sampling sites spread over 55 rivers met the quality standards for water intended for human consumption (after treatment), compared to 17% in 2011 (MARN, 2019[14]; MARN, 2013[13]). This reflects an excess of faecal coliforms, phenols and phosphates, but also of heavy metals (in particular arsenic and boron). In 2019, only three sites complied with the quality of the water intended for irrigation (without treatment), compared from 32 in 2011. This also reflects excessively high levels of faecal coliforms and heavy metals. In 2019, only six out of 121 sites had the water quality that is required for recreational activities, due to excessive levels of faecal coliforms, oil and grease, and turbidity.

Table 6.1. Poor water quality in Salvadoran rivers continues to affect aquatic life

Category[1]	Percentage of sampling sites			Aquatic life
	2006	2011	2019	
Excellent	0	0	0	Normal
Good	17	12	14	Normal
Average	50	50	62	Limited
Bad	20	31	20	Limited
Very bad	13	7	4	Impossible

Note: As measured by the Water Quality Index (Índice de calidad del agua, ICA), which includes nine parameters: faecal coliforms, dissolved oxygen, biochemical oxygen demand after five days, pH, turbidity, nitrates, phosphates, total dissolved solids, and change in water temperature.
Source: (MARN, 2019[14]), *Informe de la Calidad del Agua de los Ríos de El Salvador 2019*.

Lakes

Preliminary results of a bathymetric survey carried out by the Ministry of Environment in nine lakes and lagoons in the country showed significant reductions in the water levels of lakes. They also showed that some lagoons were critically affected by siltation, and that others still showed the ravages of the last El Niño phenomenon.[6] Lake Coatepeque, a tourist hotspot located 50 kilometres from the Metropolitan Area of San Salvador, is a good example of the vulnerability of water resources to climate change. The lake is only fed by groundwater (there are no inflow or outflow rivers), and recharge takes four to five years. Its level has dropped drastically after several consecutive years of drought and can recover only if there are good rainy seasons in the coming years. Lake Coatepeque is characterised by a very attractive turquoise colour. The colour change is possibly a consequence of algal blooms, including micro-algae that produce a change in colour, but also toxic cyanobacteria. This is due to excess nutrients from domestic and agricultural sources, with 20 000 people residing in this water basin with no wastewater treatment.

The discharge of residual water from the Metropolitan Area of San Salvador (via the Acelhuate river), the irrigation districts of Zapotitán and Atiocoyo, and the agricultural sub-basins of the northern zone, cause the siltation and eutrophication of the Cerrón Grande reservoir (which is a Ramsar site[7]). In turn, this results in the proliferation of invasive species such as water hyacinth. Excessive nutrient levels in the reservoir cause algal blooms during the dry season, resulting in fish mortality. The El Jocotal and Olomega lagoons (which are also Ramsar sites) are similarly affected. The availability of information on the quality of coastal waters is very limited (MARN, 2017[12]).

In lakes that are close to large human settlements and confluent rivers, such as in the area influenced by the Rio Grande de San Miguel in the El Jocotal lagoon, faecal coliform levels are critical. The presence of

boron and arsenic considerably increases the cost of purifying water from Lake Ilopango in order to make it suitable for human consumption.

Aquifers

The 72 aquifers that spread out over the equivalent of 46% of El Salvador have been grouped into 21 groundwater bodies (including one or more aquifers). In ten of these groundwater bodies, water quality is still not monitored, and only physico-chemical parameters are analysed (MARN, 2017[12]). All of the sampling points contain faecal coliforms of domestic, animal, and agro-industrial origin (livestock and livestock products), sometimes in very high quantities. All groundwater intended for human consumption must, therefore, undergo a disinfection process. Some sampling points also contain heavy metals from informal mining and industrial activity, in addition to those that have a natural volcanic origin. In particular, iron and manganese are found in wastewater discharges above the maximum allowable limits (as per Salvadoran technical regulation). Some wells are contaminated with nitrates (Zapotitán irrigation district, city of San Miguel). In the coastal zone, aquifers are shallow, and very vulnerable to contamination from agriculture (nutrients and pesticides). They are also prone to saline intrusion.

Risk of flooding

An area of 2 000 square kilometres (km^2) – about 10% of the whole of El Salvador – is exposed to flooding. Of this area, 80% is to be found in the part of the coastal zone that is less than ten meters above sea level, which affects nearly half a million inhabitants. These areas are affected by tropical storms. Some parts of the San Salvador Metropolitan Area are also prone to flooding, a situation that has been exacerbated by changes in land use. The impacts of changes in land use are particularly dramatic in the Metropolitan Area of San Salvador, where urbanisation has progressively waterproofed the soil, resulting in a greater volume and flow of runoff water after the rains. For example, urbanisation continues in the upper part of the Arenal Montserrat sub-basin, to the detriment of coffee plantations and evergreen forests. This generates serious flooding in the Colonia La Málaga in the city of San Salvador. A similar situation is found in the cities of Santa Ana and San Miguel.

As part of the development of the PNGIRH water management plan, El Salvador drew up a map of flood risks for the population and critical infrastructure, distinguishing between moderate, high, and very high levels of risk. It shows that 180 000 people live in areas that are at very high risk of flooding (MARN, 2017[12]). The progressive occupation of areas adjacent to riverbeds has exposed more and more people to flooding. There are communities in which the beds and banks of rivers have been invaded by precarious dwellings, and they are permanently at risk of flooding. The incorporation into the public water domain (*Dominio Público Hidráulico,* or DPH) of the zones of ordinary maximum flood of rivers in the General Law on Water Resources can help to solve this problem, as any use of the land therein requires a permit or a concession (works, extraction of sand and gravel). Such activities on the river banks are subject to environmental regulations to prevent the degradation of aquatic ecosystems, and to protect the river flow regime. Areas of private property adjacent to the riverbanks are also subject to limitations and easements.

The legal and institutional framework for water resource management

Legal framework

Ever since the end of World War II, El Salvador has tried to regulate the different uses of water through legislation. Seeking to develop electrification in El Salvador, the 1948 Act that created the Lempa River Hydroelectric Executive Commission (the *Comisión Ejecutiva Hidroeléctrica del Río Lempa*, or CEL), entrusted the CEL with the construction and operation of hydropower plants (and also of plants generating electricity from other energy sources). The law that established the General Superintendence of Electricity and Telecommunications (the *Superintendencia general de electricidad y telecomunicaciones*, or SIGET)

in 1996 entrusted this body with granting water concessions for hydropower and registering operators in the sector. The hydropower sector, however, has special conditions: concessions must be granted by the Legislative Assembly, and they cannot be permanent.

The fragmented and inconsistent legal framework has historically been an obstacle to the advancement of IWRM. Until 2022, a patchwork of laws assigned the management of water resources to several public entities, sometimes in contradictory ways. Until 1998, the Ley sobre Gestión Integrada de los Recursos Hídricos (Law on Integrated Water Resources Management or IWRM Act) of 1981 had provided a common framework for regulating the different uses of water (drinking water, irrigation, industry, hydropower, aquaculture, recreation). The IWRM Act was tacitly repealed by the Environment Act (the *Ley de medio ambiente*, or LMA), which was promulgated in 1998. The LMA regulates the protection of water resources and promotes the integrated management of river basins. It stipulates that the modalities of such integrated water resource management must be specified by a special law. The implementing regulation of the LMA did not set quantitative objectives for maintaining the ecosystems of the basin, such as the ecological flows of rivers - which remain unregulated. Other laws in El Salvador have established principles relating to the management of water resources. For example, the Irrigation and Drainage Act (*Ley de riego y avenimiento* or LRA) of 1970 stipulated that hydraulic resources, including surface and ground water, are national assets. It attributed the role of setting priorities with regard to the use of water resources to the executive branch of government. Discharge authorisations and limits were regulated by the Regulation on Water Quality, Discharge Control and Protection Zones (Decree 50, 1987), although this has now been repealed.

Following the adoption in 2022 of an over-arching General Law on Water Resources, the aforementioned LGRH, El Salvador now has a much more consolidated legal framework. The law establishes the regime for the use of water resources and discharges of wastewater. It also establishes the main policy instruments for the management of water resources, the building blocks for administrative management and information systems, and the regime for the protection and conservation of water resources. This includes the determination of environmental flows, and the prevention and control of pollution. Finally, it establishes an institutional framework, with the creation of the Salvadoran Water Agency (the *Agencia Salvadoreña del Agua*, or ASA).

The LGRH brings together, and builds upon, the principles from previous pieces of legislation. Among the principles enunciated by the LGRH, it is worth highlighting:

- The polluter pays principle.
- The river basin as the primary unit in water resource management.
- Risk management.

The LGRH establishes water as a national asset, including surface and groundwater, with the exception of rainwater that is directly collected and stored by private parties. The law establishes surface and groundwater as part of the public water domain, to which it adds river beds and banks, and land covered by peak flows (maximum ordinary floods over a 25-year period).

The LGRH also establishes a preferential order in the use of water resources if there are competing demands, thus filling a key regulatory gap. It further stipulates the priority of use for human and domestic consumption, which can only be limited by the environmental flow regime. The order of priority in uses is established as follows:

1. Water for human consumption and domestic use.
2. Use for ecosystem sustainability.
3. Agricultural use.
4. Use for electricity generation.
5. Industrial and commercial use.
6. Recreational use.

7. Other uses.

The LGRH also introduces charges for the use and discharge of water. It excludes domestic use from the payment of these fees. However, it includes drinking-water service providers, including ANDA. The law provides for charges for the use and discharge of water to be calculated by volume. The applicable parameters are subject to determination by further regulations. According to the regulation in force since December 2022, abstraction charges are to be between USD 0 and USD 0.35 per m^3, with the charge for community water provision bodies and domestic water use set initially zero (Gobierno de El Salvador, 2022[17]).

Beyond the LGRH, the legal framework also includes a number of other acts that have remained in force following the adoption of the LGRH.

The aforementioned LRA of 1970, attributes the regulation of water uses for agriculture to the executive branch of government, and establishes a regime for irrigation concessions. This regime does not match the ones that were established in the LGRH, and should be considered to have been tacitly revoked by the LGRH.

The 1961 National Aqueduct and Sewers Administration Act (the *Ley de la Administración Nacional de Acueductos y Alcantarillados*), which aims to improve water supply and sanitation infrastructure, provides that ANDA has priority in the use or operation of any national or private water body that is deemed to be necessary for public water supply or wastewater disposal (Article 70). However, the withdrawal of water for human consumption is not formally regulated in rural areas (MARN, 2017[12]). The LGRH law filled this regulatory gap. The LGRH distinguishes between domestic use and water-supply services. Domestic water use is defined as water withdrawals by households that do not have access to distribution systems, and where the withdrawal does not have a commercial purpose. Domestic use is protected by law, as it is considered as a priority use of water. It is not subject to charges, although abstraction by means of an artesian well is subject to registration. However, water service by independent system operators, such as water boards, is in principle subject to authorisation, and to the payment of a volume-based charge. Depending on how it is regulated and applied, this provision could endanger those local water distribution systems that have weaker financial situations.

In addition to regulating the quality of drinking water, the 1988 Health Code provides that no public or private infrastructure for water intended for human consumption may be built or modified without the prior authorisation of the Ministry of Health. It also stipulates that the ministry can order anyone to correct any deficiencies in sanitation infrastructure.

With the adoption, in 2017 of a law to prohibit metal mining (the *Ley de prohibición de la minería metálica*), El Salvador became the first country in the world to ban metal mining. Until 2017, mining required an environmental permit covering the prevention of water pollution, in accordance with the mining law (Ley de Minería) of 1995, which stated that the Ministry of Economy could, in order to protect underground or surface water that is intended for the supply of drinking water, declare certain areas to be incompatible with mining or quarrying activities. All of the provisions of the mining law of 1995 that related to metal mining have been repealed. This includes the provisions related to exploration, extraction, exploitation and processing activities, whether open-pit or underground. The use of toxic chemicals, such as cyanide, mercury, and others, is also prohibited in any process linked to metallic mining.

El Salvador's General Law on the Management and Promotion of Fisheries and Aquaculture, (the *Ley general de ordenación y promoción de pesca y acuicultura, of 2001*) entrusts the Ministry of Agriculture and Livestock with granting aquaculture concessions, through the Centre for the Development of Fisheries and Aquaculture. In accordance with the Law on Protected Natural Areas of 2005 (the *Ley de áreas naturales protegidas*), the granting of these concessions is subject to an environmental impact study, plus the issuance of a permit by the Ministry of Environment if the concessions are located in fragile ecosystems, such as albino lands in salt forests. The LGRH maintains the role of the Ministry of Agriculture

in the management of the aquaculture sector, but grants the power to grant authorisations and permits for the use of marine waters to the Salvadoran Water Authority (the *Autoridad Salvadoreña del Agua*, or ASA). Secondary legislation will need to resolve potential conflicts in the attribution of responsibilities.

Institutional framework

The LGRH law also established the Salvadoran Water Authority (*Autoridad Salvadoreña del Agua*, or ASA), to be in charge of formulating and implementing the country's national policy for integrated water resource management, and also of implementing the new law's provisions. This includes granting water allocations and authorisations for the use of water resources, collecting the respective charges, auditing conditions of use and permits for discharges, and penalising non-compliance. The ASA is also in charge of settling disputes over water use and discharges.

Prior to the creation of the ASA, there was no water authority – either at the national level or at the basin level – to co-ordinate water management between sectors, and to manage risks and trade-offs in order to meet water needs. Instead, the management of water was compartmentalised by sector.

The LGRH maintains the attributions of responsibility to other entities with regard to different uses of water resources, as it is contained in other laws. It identifies public entities other than ASA as being competent to manage certain sub-sectors, subject to the allocation of water resources, and to planning, as determined by ASA. These sub-sectors include drinking water (managed by the Ministry of Health), the sanitation sector (managed by the Ministry of Environment), agricultural use (managed by the Ministry of Agriculture), and water for hydropower purposes (managed in part by the power company, CEL). Industrial and tourism uses are managed directly by the ASA.

The Ministry of Environment and Natural Resources is responsible for protecting water resources, both in quantity and quality. This implies ensuring (as per LMA, article 49):

- The availability, quantity and quality of water that is intended for human consumption and other uses, through the necessary studies and guidelines, and with the participation of users.
- That the inhabitants use correct practices in the use and disposal of water resources.
- That the quality of water remains within the limits of environmental quality standards.
- That all discharges of polluting substances are previously treated by the party that causes them.
- That all wastewater re-use activities have an environmental permit.

Since 2014, and in accordance with a letter of understanding with the Ministry of Environment, the Environmental Fund of El Salvador (the *Fondo Ambiental de El Salvador*, or FONAES) has collected environmental compensation funds. They finance compensation actions for environmental impacts that have been deemed, by the Environmental Impact Assessment (EIA) process of projects and works carried out by the Ministry of Environment, to be unavoidable. This includes actions in all areas of the environment, including water. FONAES was created in 1994 and is also financed by international assistance. In the new legal framework, water-use charges replace environmental compensation for imperviousness. Recently enacted legislation provides for the dissolution of FONAES, and for the newly created ASA to assume its responsibilities (Asamblea Legislativa, 2022[18]).

The Ministry of Agriculture is responsible for ensuring the efficient use of water for irrigation, and it keeps a registry of irrigation permits for all irrigators. It supervises four irrigation districts covering 7 000 hectares (rice, maize, beans, etc.). It also supervises 700 officially registered irrigators (individual and collective), which irrigate 23 000 hectares (mainly pastures and sugar cane).

The Ministry of Public Works and Transport is in charge of the design and construction of river-flow regulation infrastructures for flood control. It is also responsible for managing water emergencies, such as the plugging and drainage of land where gullies have formed after heavy rains.

The Health Ministry sets and monitors compliance with quality standards for all sources of water used for human consumption. It is also responsible for monitoring septic tanks.

ANDA is responsible for the provision of water supply and sanitation services, along with municipalities, water boards and other institutions (see section on water and sanitation). The Ministry of Economy authorises the water tariffs that are applied by ANDA. These tariffs will be set by ASA. The Ministry of Finance manages budgetary transfers in order to balance the accounts of ANDA.

CEL is El Salvador's only wholesale hydropower operator. It owns and operates 97% of the country's hydropower capacity, through four power plants (hydropower supplies 36% of the electricity produced in El Salvador).

The Ministry of Local Development supports the creation and improvement of basic infrastructure such as water in the poorest municipalities through the Social Investment Fund for Local Development (the *Fondo de Inversión Social para el Desarrollo Local*, or FIDSL). Created in 1990, the FIDSL was endowed with USD 77 million in public funds in 2020. About 10% of FIDSL is devoted to basic infrastructure. Most of the fund is used with the aim of providing direct financial support to the poorest people in El Salvador. The National Investment Fund for Electricity and Telephony (the *Fondo de Inversión Nacional en Electricidad y Telefonía,* or FINET) subsidises electricity tariffs for groundwater pumping. Founded in 1998, FINET aims to facilitate access to electricity and telephony services for people in rural areas and on low incomes. FINET is administered by FIDSL.

El Salvador's now-superseded Integrated Water Resource Mamagement law entrusted the then Ministry of Planning and Co-ordination of Economic and Social Development with the task of developing water policies for all uses. In 1981, that ministry created a Specialised Office for Water for this purpose. This body has since been transferred to a Specialised Water Unit at ANDA. The unit provides technical assistance to the Executive Committee for the Protection of Water Resources (*Comité ejecutivo de protección de los recursos hídricos,* CEPRHI). This committee was created in 1987 and is composed of representatives from the ministries of agriculture, health, planning and the interior, plus ANDA. Until 1998, CEPRHI issued resolutions to prevent negative impacts on water from economic activity. For example, CEPRHI conditioned the construction and operation of a beverage factory in the municipality of Nejapa on the protection of an aquifer recharge area, on ANDA's supervision of water extraction by the plant, and on banning the discharge of wastewater into the San Antonio River. With enactment of the LMA in 1998, CEPRHI was phased out. Since then, economic development has required an environmental permit from the Ministry of Environment. Since 2010, the Inter-institutional Executive Technical Committee (*Comité técnico ejecutivo interinstitucional* CTEI) has facilitated institutional co-ordination in the preparation of policies and legislation relating to water resource management. The CTEI was originally placed under the authority of the Presidency's Technical and Planning Secretariat (SETEPLAN). From October 2020 to June 2021, it was then placed under the authority of a presidential commissioner for water.

Dating from 2011, El Salvador's law on land-use planning and local development (the *Ley de Ordenamiento y Desarrollo Territorial*) does not take account of individual watersheds as local units of governance. However, some municipalities and communities have spontaneously come together to form structures at the micro-basin or sub-basin level in order to improve water resource management at the local level. These structures are an important first step in developing the management of river basins.

The LGRH law creates three water-basin organisations for the management of water resources for three hydrographic zones: the Lempa river basin, the Paz-Jaltepeque hydrographic zone, and the Jiquilisco-Goascorán hydrographic zone. The zonal basin organisations are described in the LGRH as administrative management bodies, although the level of differentiation in management (for example in the collection of differentiated water charges per basin) is left to be determined by the regulation of the law. The law allows for differentiated charges to be applied depending on environmental factors, but the expectation is that they will be determined centrally. Although the law defines sub-basins and micro-basins, it does not stipulate any role for bodies at that level in the management of water resources. Nor does it explicitly

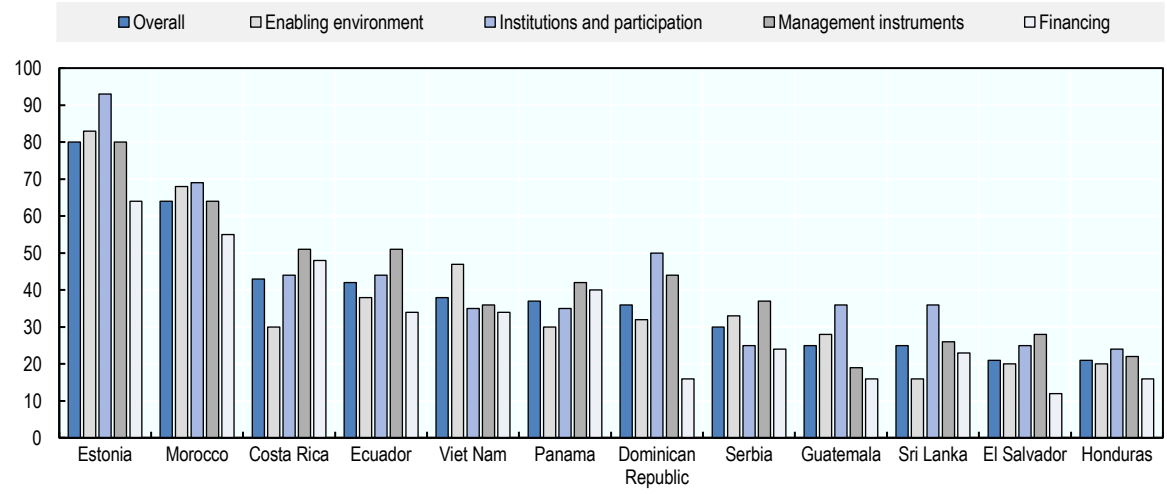
identify the basins that are integrated into the broader hydrographic zones for water resource management at the local level.

El Salvador's integrated water resources management policy

In order to provide information on the progress of IWRM in El Salvador, and with the support of the Global Water Partnership (GWP), the Ministry of Agriculture carried out an evaluation of indicator 4.6.1 of the United Nations SDGs on the degree of implementation of integrated water resource management. The assessment included a workshop with over 80 participants from various institutions and civil society organisations. It attributed a score on a scale of 0 to 100 in response to 30 questions covering the four dimensions of IWRM. The results show that, according to UN-Water standards and as of 2017, El Salvador had not made much progress towards IWRM (Figure 6.5). Of particular concern is the low level of funding compared to benchmark countries.

Figure 6.5. El Salvador lags behind in pursuing the goal of integrated water resources management

Degree of implementation from 0 (very low) to 100 (very high), 2017



Note: Degree of integrated water resources management implementation (0 to 100):

- Enabling environment includes: policies, laws and plans to sustain the implementation of IWRM.
- Institutions and participation includes: the range of functions of political, social, economic and administrative institutions and of other stakeholder groups that contribute to implementation.
- Management instruments include: the resources and activities that enable decision makers and users to make informed and rational choices.
- Financing includes: budgeting and financing available and used for the development and management of water resources from various sources (beyond the supply of drinking water and sanitation).

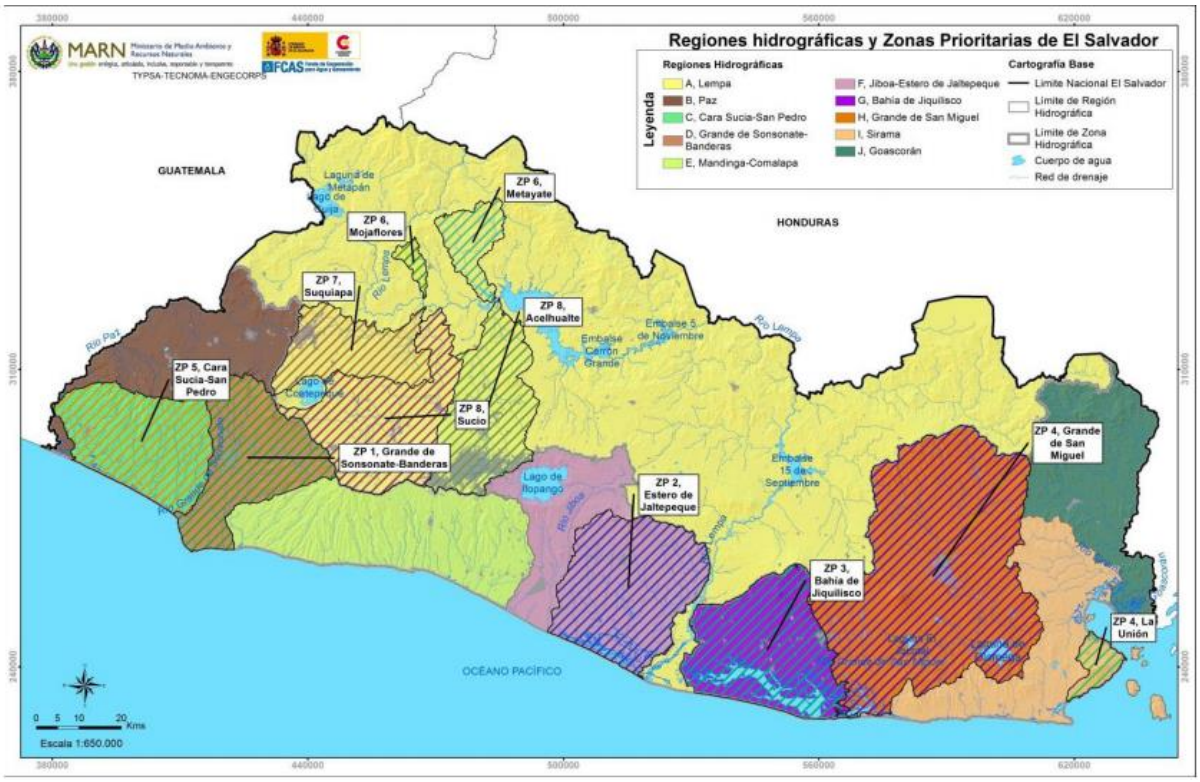
Source: (UN-WATER, 2020[11]), *The 2020 Data Drive: Joining Forces to Report on Progress towards Sustainable Development Goal (SDG) 6*.

StatLink https://stat.link/3shc1l

The PNGIRH water management plan of 2017, and the National Water Resource Strategy of 2013, set out El Salvador's IWRM policy. Some measures of the PNGIRH are national in scope, while others relate to priority action zones. In the 1970s, El Salvador delimited ten hydrographic regions. These include the Lempa hydrographic region, a tri-national basin of which El Salvador has a 57% share, Honduras has 29%, and Guatemala has 14%. There are also two bi-national basins. These are the Paz hydrographic region, of which 59% is in Guatemala, and the Goascorán hydrographic region, 56% of which is in Honduras. There are also seven smaller national basins (Figure 6.6). The PNGIRH identified eight priority action zones (*zonas prioritarias*, or ZPs) for IWRM in these ten basins. Three of these lie within the Lempa basin.

The other five form either all or part of six national basins (Figure 6.6). The key issues in these ZPs relate to conflicts over water use, the pollution of rivers by the discharge of untreated wastewater, flooding, intrusion of salt water into aquifers, soil erosion, and a lack of water for economic development (tourism, irrigation) (Table 6.2).

Figure 6.6. El Salvador is sub-divided into ten hydrographic regions



Source: (MARN, 2017[12]), *Plan Nacional de Gestión Integrada del Recurso Hídrico de El Salvador, con énfasis en zonas prioritarias*.

Table 6.2. El Salvador has demarcated eight priority zones for integrated water resources management

Hydrographic region	Priority zone*	General characteristics (key issues)
Grande de Sonsonate – Banderas.	ZP 1.	Conflict over water use between hydropower (considerable number of micro power plants), irrigation, and drinking water supply. The Grande de Sonsonate River serves as a sewer system for the town of Sonsonate and all the smaller towns in the basin. Being sparsely populated, the basin of the Banderas river is more agricultural (cereals, sugar cane, pastures).
Jaltepeque estuary and Jiquilisco Bay.	ZP 2 and 3.	The coastal plains of Jiquilisco Bay and the Jaltepeque estuary suffer from problems of flooding, environmental sanitation, and a lack of drinking water. Jiquilisco Bay and part of the Jaltepeque estuary are used for intensive agriculture, while at the same time being Ramsar sites with a high degree of potential for tourism development.
Grande de San Miguel and Sirama.	ZP 4.	The surface water of the Rio Grande de San Miguel river is polluted due to discharges of untreated urban wastewater, and there is potential demand for water for irrigation in the middle and lower basin due to high potential for agricultural development, which threatens groundwater. The Sirama river and many streams flow into the Gulf of Fonseca (La Unión), and there are direct discharges into the Fonseca Gulf. The already high pressure on scarce water resources will increase in the future (demand for drinking water).
Cara Sucia - San Pedro.	ZP 5.	The area is affected by flooding in the western coastal plain, by the intrusion of salt water into the aquifers (which are over-exploited by sugar cane cultivation), by severe sanitation problems, and by the poor coverage of the supply of drinking water. The economy is driven by agriculture, with coffee in the upper part of the basins and basic grains and sugar cane in the lower part. The scarcity of water limits the potential for irrigation.
Lempa	ZP 6.	In the northern area of the zone, the cultivation of cereals (maize and sorghum) on soils that are better suited for forestry (steep slopes) causes serious soil erosion problems in the Mojaflores and Metayate basins. There are also flooding problems near the Lempa river. In addition, discharges of wastewater from the city of Nueva Concepción cause the slight contamination of surface water. In the southern part of the area, which has irrigation potential, livestock farmers are currently active.
	ZP 7 and 8.	These basins are located on the central plateau of the country. The critical problem is the contamination of surface water by wastewater discharges from the cities of Santa Ana (Suquiapa basin), and the metropolitan area of San Salvador (Sucio and Acelhuate basins). The pressure on water resources is critical due to the demand for potable water in the metropolitan area of San Salvador, and Santa Ana. The Sucio river gets polluted by industrial and agricultural discharges (Zapotitán irrigation district) before flowing into the Cerrón Grande reservoir, which is a Ramsar site.

Note: * as identified in PNGIRH 2017.
Source: (MARN, 2017[12]), *Plan Nacional de Gestión Integrada del Recurso Hídrico de El Salvador, con énfasis en zonas prioritarias*.

The PNGIRH action plan of 2017 estimated the cost of measures to move forward with the implementation of IWRM in El Salvador at USD 2.5 billion by 2022 (Table 6.3). More than half of this cost (53%) relates to the construction of new hydropower stations, with 44% of it relating to water supply and sanitation (WSS) infrastructure (14% and 30% respectively). WSS measures are covered by the National Water and Sanitation Plan (*Plan Nacional de Agua y Saneamiento*, PLANAPS) (see section on drinking water and sanitation).

In 2000, as part of the United Nations Millennium Development Goals, El Salvador pledged to try to provide “improved” drinking water and sanitation services to, respectively, 87% and 88% of its population by 2015. The PNGRIH sets the objective of ensuring “safe” drinking water coverage in urban and rural areas for, respectively, 95% and 79% of the population by 2022. In 2019, El Salvador had already exceeded this target in urban areas (with coverage of 96% when distribution both by network and by standpipes is counted[8]). However, it is lagging behind its target for rural areas, where there is only 51% coverage, including 28% with standpipes (see section on the supply of water and sanitation and Annex 6.A). The PNGIRH action plan also provides for more sanitation infrastructure. Indeed, the strong microbiological and organic contamination detected in most of El Salvador's waterways is due, to a large extent, to the poor coverage of the sewer network, and to the insufficient or even non-existent treatment of urban and industrial wastewater before it is discharged into the natural environment. The direct discharge of untreated industrial wastewater into the environment is a major problem in El Salvador.

Table 6.3. El Salvador estimates the needs for integrated water resources management at USD 2.5 billion in the short term

Measures in the PNGIRH Action Plan	Scope[1]	Budget	
		USD million	% medium, high priority
Water resources		**1 680**	
Finalise two hydropower projects that are on hold (Chaparral and Cimarrón, both in the Lempa river basin).	N	1 345	100 (top priority)[2]
Water transfer from the river Lempa to the Mojaflores river, and from the future El Cimarrón reservoir, to the drinking-water treatment plant in Las Pavas, in the San Salvador metropolitan area[3], and from Lake Ilopango, the largest lake in El Salvador, to the drinking-water treatment plant in Guluchapa (Soyapango, El Salvador's second city).	N	263	100 (top priority)[2]
Expand public water supply infrastructure	ZP	38	98
Cleaning of waste and water hyacinth in surface water.	N	8	100 (top priority)
National erosion-control plan, national plan for the restoration of the natural bed of rivers (*cauce*), and marginal strips (*fajas marginale*s), and their inclusion in the public water domain.	N	8	100
Coating of irrigation canals in existing irrigation districts.	ZP	6	18
Expand irrigation area (infrastructure works).	N	4	100 (top priority)[2]
Study to identify the location of new drilled wells.	ZP	4	98
New drilled wells to expand irrigation.	ZP	2	86 (top priority)[2]
Analysis of ecological flows in various rivers in the country to improve knowledge about ecological flows, and establish a methodology for the calculation of flows for the country.	N	2	93
Water quality		**712**	
Expand sewerage and sewage treatment plant infrastructure.	ZP	712	92
Flood and drought risk management.		**19**	
Flood control assessment.	ZP	13	81
Measures to improve water storage or wastewater re-use in rain-fed crops.	N	6	100
Governance		**21**	
Governance and planning programme for water resources management, monitoring, and control of the PNGIRH. Feasibility study for a network of climatological and pluviometry stations.	N	21	99 ([a] is top priority)
Other		**97**	
Expand and rehabilitate water supply and sanitation networks.	N	97	100 (top priority)[3]
Total		**2 529**	

1. N =national; ZP: priority zone
2. Measures already planned or in progress before the PNGIRH.
3. The Las Pavas drinking water treatment plant supplies 42% of the drinking water for the metropolitan region of San Salvador and its surroundings (1.6 million inhabitants) with water that comes from the Lempa River.

Source: (MARN, 2017[12]), *Plan Nacional de Gestión Integrada del Recurso Hídrico de El Salvador, con énfasis en zonas prioritarias*.

After deducting governance costs, only 2% of the financial needs estimated by the PNGIRH action plan relate to the management of water resources *per se* (risk of water shortage, risk of water pollution, risk of flood). Most of the financial needs concern end-of-pipe measures, such as flood-control infrastructure (not preventive measures), increasing water supply (and not reducing water demand) in agriculture, and cleaning (not prevention) of water hyacinths in water bodies. Key IWRM measures, such as the

conservation of mountain soils (to improve the infiltration of rainwater and prevent landslides), the rehabilitation of rivers, and the establishment of ecological flows (to regulate water flows, prevent flooding, and preserve aquatic life), are, for the most part, only foreseen at the planning stage. Indeed, ecological flows cannot be imposed in the absence of legal provision in the LMA law. A notable exception is the decision – implemented through the LGRH – to include marginal bands along rivers in the public hydraulic domain. This is a very important and innovative step towards river restoration and is something that no OECD country has yet done.

Overall, the action plan places a strong emphasis on the construction of new multi-purpose reservoirs (hydropower combined with public water supply), despite public acceptability concerns for these large infrastructure projects. With regard to consumptive uses of water (uses that remove the water from the environment), the action plan focuses on supply-side measures, including public water supply and irrigation infrastructure, and the digging of new wells. There is very little demand management, such as metering water consumption in rural areas (ANDA does this in urban areas), setting water withdrawal limits, or introducing economic incentives such as an abstraction tax. This chapter proposes a risk-based governance approach to addressing public acceptability concerns regarding: i) large investment projects with an impact on water (based on OECD work); and ii) groundwater abstraction in the face of competing demand (based on the Australian experience).

Aside from sanitation of the domestic sector, the action plan does not pay sufficient attention to improving water quality in the face of pollution pressures from other sectors (industry, agriculture, aquaculture, and hydropower), which are regulated through environmental permits. This would involve applying the polluter pays principle. Some examples of how this could work would be to tax the discharge of untreated wastewater into the natural environment by industry, and of pesticides and excess nutrients by agriculture and aquaculture, or to levy taxes on the hydropower sector for obstacles to fish migration and for sediment transport in rivers. The section on economic instruments in this chapter shows how economic instruments can create incentives to prevent water scarcity and water pollution, while also generating income to finance IWRM (based on the French experience).

The environmental management premises of El Salvador's IWRM action plan are steps in the right direction that should quickly be followed by concrete action. In particular, this concerns a few key steps. One of these is the implementation of ecological river flows (via direct regulation). Another is to promote the conservation of water and soil by forests at the top of the watersheds, and by agriculture further downstream (via payments for ecosystem services). Another key step is space restoration for rivers (a combination of direct regulation and public financial support). This chapter illustrates how economic instruments can help to rehabilitate rivers (based on the Swiss experience), and to conserve water and soil in watersheds (based on the experience of Peru).

In terms of governance, the action plan proposes "to analyse the current normative and institutional fabric, and the tools available to the various organisations to carry out IWRM". It further proposes "to set up a governing body that regulates, controls and supervises IWRM, and ensures compliance with water legislation and the PNGIRH whilst, at the same time, ensuring: i) that sectoral institutions ensure compliance with sectoral legislation in harmony with water legislation; and ii) the proper functioning of multi-sectoral co-ordination and consultation mechanisms for IWRM decision making and monitoring".

However, the action plan does not address the issue of water governance by river basin. El Salvador has demarcated ten river basins (*zonas hídricas*) on the map. In the absence of a legal framework, however, it had not created basin agencies to implement IWRM at the scale of these basins. The basin is the natural hydrologic unit, and responding to pressures in priority zones is not the same as managing risks and trade-offs at the river-basin scale, as recommended by the OECD (OECD, 2015[19]). With the creation of the ASA, and the "water basin zonal organisations" as deconcentrated or devolved water-authority services (a system resembling that of Peru), the key issue is the financing of IWRM in each basin. One possible approach that entrusts water agencies with financing IWRM measures – and thus asserts their authority –

is to apply the principle of "water pays for water". The introduction of charges for the use of water, and for discharges of wastewater into the environment, makes it possible to direct the proceeds into the restoration of aquatic ecosystems, pollution control, and the protection of water resources, as provided for in the General Law on Water Resources.

For transboundary basins, IWRM governance should ideally be at the scale of the entire basin. For example, this can be within the framework of an international commission that brings together the relevant parties – as is the case for many international rivers (Rhine, Danube, etc.). This does not prevent governance specific to the Salvadoran sub-basin, which would be co-ordinated with the other sub-basins within the framework of the international commission. El Salvador has already taken commendable steps to strengthen water-related co-operation with its neighbours. Since 2001, for example, the Tri-national Sustainable Development Programme of the Upper Lempa River Basin (the *Programa Trinacional de Desarollo Sostenible de la Cuenca Alta del Rio Lempa*, or PTCARL) aims to improve the quality of life and the environment in this region, which is called Trifinio (in reference to the confluence of three borders of El Salvador, Honduras and Guatemala). The goal is to break the cycle of poverty and degradation of natural resources (with particular emphasis on the conservation of the cloud forest around the Montecristo massif). The upper basin of the Lempa River has been zoned, taking into account agricultural potential and environmental concerns. On the basis of water potential and risk, agricultural and forestry vocation, vulnerability to erosion, and over-exploitation of soils, 23 sub-basins have been prioritised. Small water-supply systems, latrines, sumps, and mini irrigation systems have been built and improved. Forest firefighters have been trained. The Association of Mayors of the Upper Lempa River Basin has been established, in order to reduce pollution in the Lempa river. The PTCARL programme is co-funded by international aid and the three countries themselves.

El Salvador also shares three transboundary aquifers in the west of the country, one with Honduras and Guatemala and the other two with Guatemala. Their use for human consumption, irrigation and industry has gradually increased, without any control over the volumes that are exploited on either side of the border (MARN, 2013[13]). As is the case for river basins, co-operation must be sought at the scale of the aquifer recharge basin. El Salvador is working on a roadmap to establish a binational entity for the management of the Ocotepeque-Citalá aquifer with a basin-oriented focus, through the Governance of Groundwater Resources in Transboundary Aquifers (GGRETA) project.

The PNGIRH action plan aims to promote a "water culture" through general measures such as the integration of the IWRM concept into education curricula (basic and secondary levels), and the creation of a public policy of citizen participation. A water culture must also develop in the field, by confronting stakeholders with water issues that are specific to the site. Developing a risk-based approach to social dialogue can help, as proposed this chapter.

The implementation of El Salvador's General Law on Water Resources is a fundamental step in the development of IWRM in El Salvador – a process that has been underway since 2006. Prior to the promulgation of this law, it had not been possible to implement of the "water pays for water" principle, which would make it possible to establish basin-based governance of water resources. This would enable basin organisations to finance basin-level management through a system of water charges, the proceeds of which may be assigned to the basin agencies or authorities. Legislation can also allow a holistic and coherent identification and management of risk areas. This includes areas that are at risk of water scarcity, areas where drinking-water extraction points require protection, areas that are vulnerable to nitrates, areas that are at risk of flooding or drought, water bodies that are at risk of pollution, etc. Like El Salvador, most countries have passed a water law, including other countries in Central America (Costa Rica in 1942, Panama in 1966, Honduras in 2009, Nicaragua in 2010).[9] Still, only France fully applies the principle by which water pays for water, which makes it a model for basin-based governance. A water code aimed at popularising the key elements of El Salvador's new general water law, the LGRH, could usefully contribute to the development of a water culture in the country.

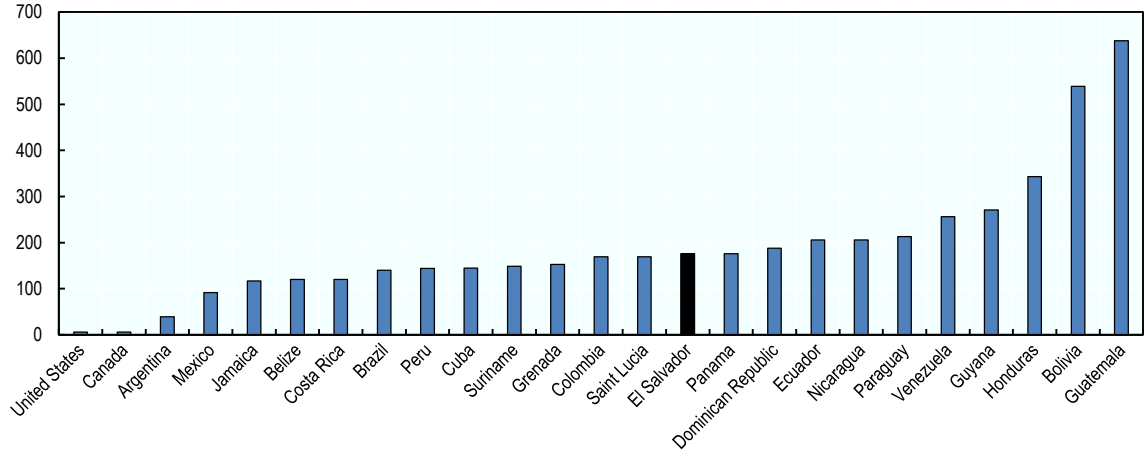
Towards water supply and sanitation for all

All 193 Member States of the United Nations General Assembly unanimously agreed to the 2030 Agenda for Sustainable Development in 2015. The 2030 Agenda established 17 Sustainable Development Goals for 2015–30, including SDG number six, which is to "ensure the availability and sustainable management of water and sanitation for all".[10] Thus, El Salvador is committed to achieving universal access to safe water and sanitation by 2030.

The health benefits of safe water supply and sanitation are significant. The burden of disease that is attributable to poor water, sanitation and hygiene in El Salvador is in the middle range of low- and middle-income countries in Latin America, but it is much higher than in high-income countries like Canada and the United States (Figure 6.7). Unsafe water, sanitation and hygiene cause a heavy burden of disease.

Figure 6.7. Unsafe water, sanitation and hygiene cause a heavy burden of disease

Disability-adjusted life year (DALY) rate per 100 000 population, 2016



Note: Burden of disease from mortality and morbidity as measured by the DALY indicator; selection of low- and middle-income countries in Latin America plus Canada and the United States.
Source: (WHO, 2019[20]), *Safer Water, Better Health. 2019 Update.*

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Institutional framework

The WSS sector in El Salvador was centralised in 1961, with the creation of ANDA as an autonomous body. ANDA provides drinking water supply services to around 95.7% of the urban population, corresponding to 168 municipalities (out of 262). It serves 76 of the 85 municipalities that have sewage systems (the other nine are served by decentralised operators). In 2004, a reform process of the WSS sector began with the objective of giving municipalities the possibility of administering WSS services themselves, and introducing private operators. ANDA started outsourcing service management to municipalities through five-year renewable contracts, while retaining ownership of the infrastructure. Born in the reform of 2004, decentralised water systems remain modest in coverage, only providing water to 3.7% of the country's population (230 000 people). There are three types of decentralised water systems: mixed private-public, municipal with community participation, and non-profit entity. A barrier to their development is the lack of incentives to invest in new WSS infrastructure, with ANDA retaining ownership.

Besides ANDA and the decentralised operators, the other WSS operators are as follows:

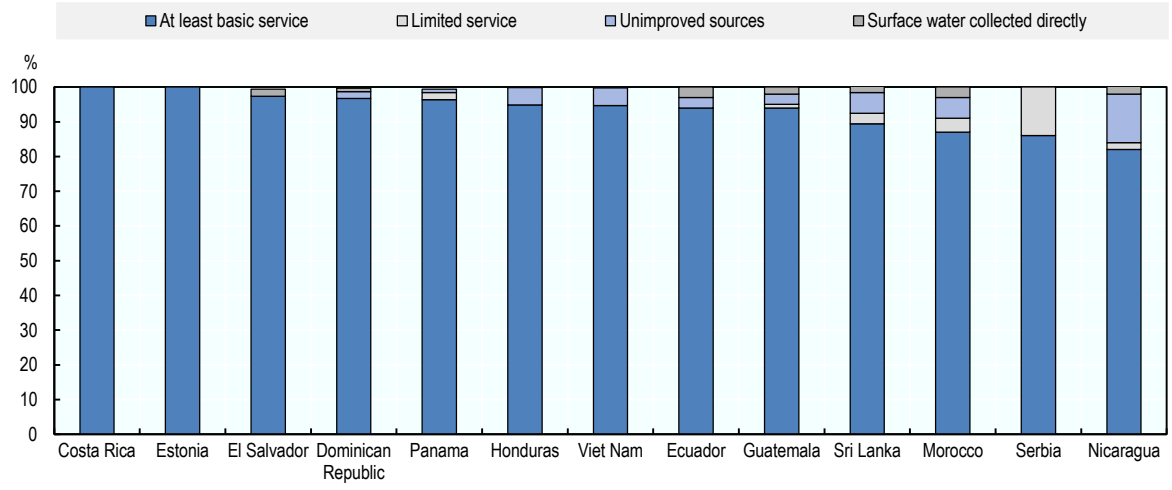
- Some 800 water boards and community associations[11] supply water to around 30% of the rural population (700 000 people). User fees are generally much higher than those charged by ANDA, except in the poorest municipalities, where FINET subsidises the electricity tariff for groundwater pumping. Founded in 1998, FINET aims to facilitate access by rural sectors and low-income people to electricity and telephone services (FINET is managed by FIDSL).
- 95 municipalities own and operate their WSS system. These cover 0.6% of the total population (40 000 people).
- Residential and industrial-zone projects have created their own WSS systems to fill gaps in ANDA's infrastructure. This covers 1.6% of the country's population (around 100 000 people).

Investment needs

El Salvador has made progress in providing WSS services. According to UN-Water, the vast majority of the Salvadoran population (97% in 2017) uses a safely managed drinking water service. This is a high proportion compared to benchmark countries (Figure 6.8). Still, according to UN-Water, most of Salvadoran population (87% in 2017) uses a safely managed sanitation service. This is an average result compared to benchmark countries, although it is a better performance than El Salvador's regional neighbours (Figure 6.9).

Figure 6.8. El Salvador has high public water supply coverage

Water service in % of the population, 2017

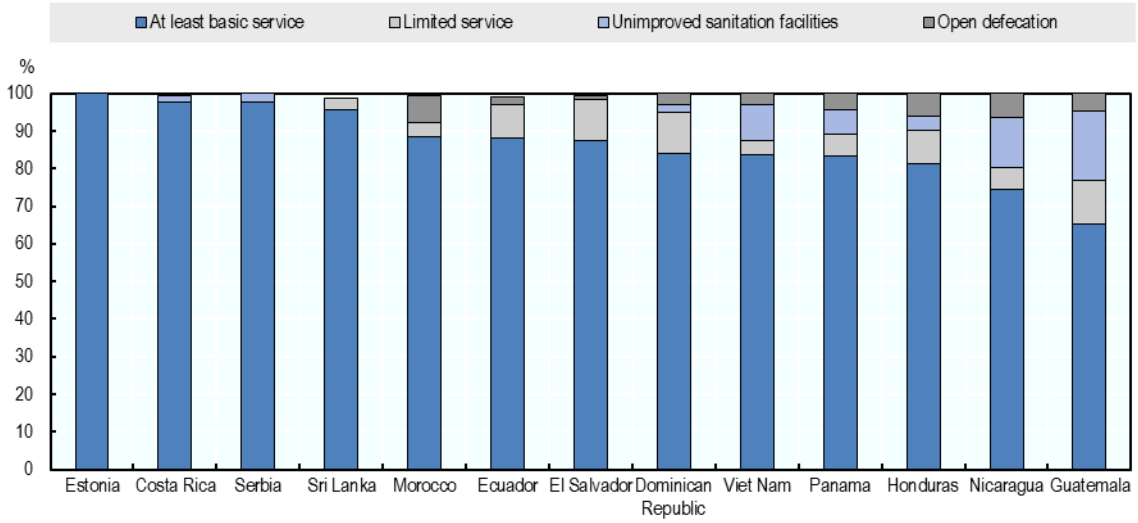


Source: (UN-WATER, 2020[11]), *The 2020 Data Drive: Joining Forces to Report on Progress towards Sustainable Development Goal (SDG) 6.*

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Figure 6.9. El Salvador has relatively good water sanitation coverage

Sanitation service in % of the population, 2017



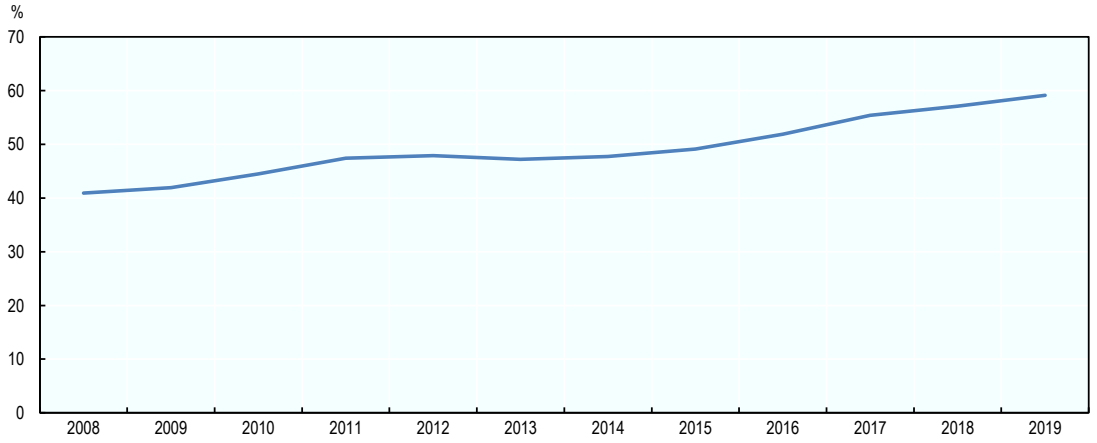
Source: (UN-WATER, 2020[11]), *The 2020 Data Drive: Joining Forces to Report on Progress towards Sustainable Development Goal (SDG) 6.*

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However, national statistics differ substantially. According to ANDA's latest statistical bulletin, in 2019, 96% of the urban population benefited from improved drinking water supply, including tap water and standpipes, but only 41% of the rural population did. Still, according to ANDA, in 2019, 89% of the urban population benefited from improved sanitation, including sewers, septic tanks and latrines, whereas only 54% of the rural population did. Data from the Ministry of Economy drawn from the 2019 Multipurpose Household Survey also show improved drinking water supply coverage of 96% in urban areas, but much lower coverage (78%) in rural areas. The Ministry of Economy's data for improved sanitation coverage are much higher than those of ANDA (98% and 91% for urban and rural areas, respectively). The following analysis is based on ANDA data.

In 2019, more than 4% of the urban population (180 000 people) was still supplied by unimproved sources of drinking water, including tanker trucks, and almost 60% (1.45 million people) in rural areas (Annex 6.A). Households that buy water from tanker trucks pay up to 25 times more than ANDA clients for piped water (MARN, 2013[13]). ANDA and decentralised operators report drinking water leaks due to illegal connections, theft of water from fire hydrants, unbilled water, and losses in distribution networks (many dating back to the 1960s) (ANDA, 2020[21]). The rate of pipe leakage increased from 41% in 2008 to 59% in 2019 (Figure 6.10).

Figure 6.10. Leaks from the piped water supply network continue to increase



Source: ANDA annual statistical bulletins.

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In most areas that are served by ANDA, drinking-water service is irregular. A national survey on family health that was carried out in 2002 showed that it ranged from 16 hours a day in some areas to less than four hours a day, and even once every four days in others (Carpio Hernández, Flores Olivares and Hernández Benitez, 2010[22]). In 2017, a non-governmental organisation (NGO), the Unidad Ecológica Salvadoreña, estimated that the water consumption of households that were connected to the public network varied between 81 and 531 litres per head per day, and that 7% of urban households (8% in rural areas) had to rely on tanker trucks (UNES, 2017[23]). By comparison, OECD countries with high domestic water consumption are between 200 and 450 litres per head per day (this is the case of Australia, Canada, Japan, Mexico and the United States) while “middle-range countries” are between 130 and 180 litres per head per day.

In 2019, unimproved sanitation affected 11% of El Salvador’s urban population (470 000 people), and 46% of the rural population (1.13 million people) (Annex 6.A). These data exclude wastewater treatment. According to ANDA, in 2020, only 8% of the country's domestic wastewater was treated before being released into the environment. By comparison, the proportion of safely treated wastewater in 2015 was 92% in Estonia, 43% in Ecuador and Morocco, and 25% in Serbia (UN-WATER, 2020[11]). All OECD countries have at least 60% of their population connected to a wastewater treatment plant with secondary or tertiary treatment. Still, primary treatment remains widespread in some OECD countries, and a few still lag behind with 20% of their population not connected to wastewater treatment (OECD, 2020[24]).

There are plans to build two wastewater treatment plants to treat 60% of San Salvador’s wastewater in the coming years (at an estimated cost of USD 360 million). However, the lack of access to private finance is a major obstacle to the development of such plants. In order to foster private investment in wastewater treatment plants, the 1961 National Aqueduct and Sewers Administration Act (Article 3) should be amended to mention explicitly that the construction and operation of wastewater treatment plants is also subject to charges for the recovery of costs (see below). Municipalities and communities have organised to build and operate wastewater treatment plants, and private companies provide wastewater treatment services in residential areas. However, these plants operate at very low efficiency levels, due to very low cost recovery (MARN, 2013[25]). El Salvador's water pricing system does not include wastewater treatment costs (see below).

Public financial support for rural WSS systems has waned. From 1962 to 1995, the Ministry of Health supported community sanitation projects through the National Basic Rural Sanitation Plan (*Plan Nacional de Saneamiento Básico Rural,* PLANSABAR). This allowed decentralised operators and others to fill the gap left by ANDA in rural areas, but service coverage remained insufficient because many rural households

could not afford the water bill. In 1996, rural sanitation was entrusted to ANDA, but without allocating additional budgetary resources. ANDA thus tends to prioritise the development of sanitation in urban areas, and to link its engagement in rural areas to obtaining specific financial support (for example from international co-operation, or FIDSL) (MARN, 2013[25]). The Ministry of Health continues to support community sanitation projects through its network of 2 912 "health promoters" (technical assistance), and a corps of 628 sanitation inspectors. Transitional public financial support could be combined with acceptable prices for WSS services (as potentially defined by a future regulator), in order to fill the financing gap in rural areas. This would be similar to the approach in unserved urban areas. It should be part of a policy of full cost recovery in the longer term (see below).

The 2019-20 National Water Plan of ANDA aims to improve the supply of drinking water in areas that for decades have had irregular service, by constructing new groundwater wells or by improving existing wells (ANDA, 2020[26]). The National Plan for Water and Sanitation (*Plan Nacional de Agua Potable y Saneamiento* PLANAPS) foresees investment needs for water supply and sanitation of approximately USD 14 billion over 20 years (2019-39), including 39% for drinking water supply, and 61% for sanitation (ANDA, 2018[27]). It is not clear how the 2018 estimates tally with the investment needs that were defined a year earlier in the PNGIRH plan for water resource management. However, water resource management, and the management of WSS, are tightly linked (as they correspond to short and long water cycles). Integrated water resource management should be considered as a prerequisite for profitable management of WWS. For example, water consumers in downstream cities could contribute to the protection of ecosystems upstream, as is the case in Peru (see below).

The estimates of the PLANAPS appear to be high. Annex 6.A provides a rough estimate almost three times lower for achieving universal water and sanitation coverage for households (urban and rural) by 2050 (Table 6.4). El Salvador should develop a model to assist policymaking on water and sanitation capital spending, with data that can be adjusted as new information emerges.

Table 6.4. Investment in billions of USD are needed for universal household access to safe water supply and sanitation in El Salvador by 2050

Investment (USD billion)	Public water supply		Sanitation		Total	
	full	basic	full	basic	full	basic
Urban[1]	1.3	1.1	3.3	2.4	4.6	3.5
Rural[2]	0.3	0.2	0.2	0.2	0.5	0.4
Total	*1.6*	*1.3*	*3.5*	*2.6*	*5.1*	*3.9*

Note: Excluding operation and maintenance (O&M) costs. See Annex 6.A for more details.
1). "Full" coverage scenario: All people living in urban areas are connected to piped water, sewerage and wastewater treatment (secondary level), plus a separate storm water collection network. "Basic" coverage scenario: Similar except that half of people living in slums have access to water through standpipes, and to sanitation through septic tanks or latrines (the other half having full coverage).
2). "Full" coverage scenario: all people living in rural areas connected to piped water, one quarter to sewers, and three quarters with access to sanitation through septic tanks or latrines. "Basic" coverage scenario: half of the rural population connected to piped water, and the other half have access to water through standpipes; access to sanitation similar to the full coverage scenario.
Source: Authors' compilation.

Models to forecast water investments should not be biased towards the management of supply. The scope of demand-side management needs to be fully developed. The model proposed in Annex 6.A provides for the rehabilitation of existing infrastructure (to reduce leaks in pipes and increase treatment efficiency), and water metering. The recovery of treated wastewater could be added, as well as smart metering. In 2018, for example, Chile introduced a new regulation on grey water (relatively clean domestic wastewater from baths, showers, sinks, and others), for their use in activities such as irrigation, industry, or other environmental uses. Smart metering systems consist of meters, terminals and a data-gathering and management system. The meters record water flow 24 hours a day, seven days a week. Terminals gather

data which is transmitted to the data-gathering system at regular intervals. This allows water supply systems to manage their network, and to diagnose areas with pressure deficits and leaks. In turn, this enables them to address issues rapidly, and to bill customers more precisely. Clients can see their usage at any time, and they receive alerts if they overconsume, which helps them to reduce their bills. Countries such as Brazil or Mexico have already started a large-scale update of WWS systems through the implementation of smart metering. Prioritising demand-side management is certainly a more cost-effective way of investing in water than building more reservoirs and dams, unless they are multi-functional (hydropower combined with water supply).

In order to get a complete picture of the water expenditure to be incurred, the scope of cost estimates should – in addition to households – cover irrigation, water storage, and industrial water. Data availability and research are heavily skewed in favour of municipal water and wastewater services, rather than the provision of industrial and agricultural water. This also reflects the greater emphasis for utilities on the provision of municipal water and wastewater services to domestic, commercial and industrial customers, rather than on in-house provision – as can be the case for industrial and agricultural water.

Financing and pricing water

Since 2009, and the World Water Forum in Istanbul, the OECD has encouraged the combination of water tariffs, budgetary transfers, and official development assistance (ODA) transfers, to help fill the water financing gap. These are known as the “three Ts”. Another way of looking at this approach is that public budget and ODA may both be used to supplement tariff revenues until an acceptable level of infrastructure is reached, and household access is improved. The idea is that sustainable income from all three sources makes it easier to obtain repayable aid in the form of loans, bonds and shares. However, this “sustainable cost recovery” approach should be seen as a transitional one, and as an intermediate step towards the ultimate goal of “full cost recovery” (Cox and Borkey, 2015[28]). Ultimately, tariffs alone should be sufficient to recover the costs of building and maintaining water supply and sanitation infrastructure.

ANDA's monthly water bill for household water supply includes a minimum charge (USD 2.29) for the first 10 cubic metres (m^3) consumed (implicit rate of USD 0.229/m^3), plus a block charge. The minimum charge aims to protect the finances of the company to some extent. To this effect, customers must pay 10 m^3 of service each month, whether or not this amount has actually been consumed. Beyond 10 m^3, different volumetric rates are attached to different consumption blocks, with the rates rising consistently as more water is consumed. This schedule is called an increasing-block tariff, or IBT) (Table 6.5). In fact, a charge rate per block that is lower than the implicit rate of the minimum charge (0.210 USD/m^3) applies between 10 and 20 m^3. These low rates for the first 20 m^3 aim to cover water needs up to 183 litres per head per day, for an average household of 3.6 people, as per the multi-purpose household survey of 2019 (DIGESTYC, 2020[29]). This level of consumption is in the middle-upper range for cities in the OECD. Subsidised tariffs (i.e. tariffs that are lower than the cost of producing water)[12], apply up to 40 m^3 per month, or 365 litres per head per day, a level of consumption that is also found in the OECD countries of North America.

While the sizing of these blocks seems judicious to the extent that it is encouraging households to reduce their consumption from North American standards to levels closer to the overall the average for OECD countries, the rates that are applied are still very low compared to OECD countries as a whole (Figure 6.11). As a result, less than half of the cost of producing tap water is recovered, because the vast majority of consumption takes place in subsidised blocks (93% of households consume less than 30 m^3) (Table 6.6). Budgetary transfers are insufficient to cover the deficit of ANDA, which has to resort to debt finance. ANDA benefits from a preferential tariff from CEL for its electricity consumption.

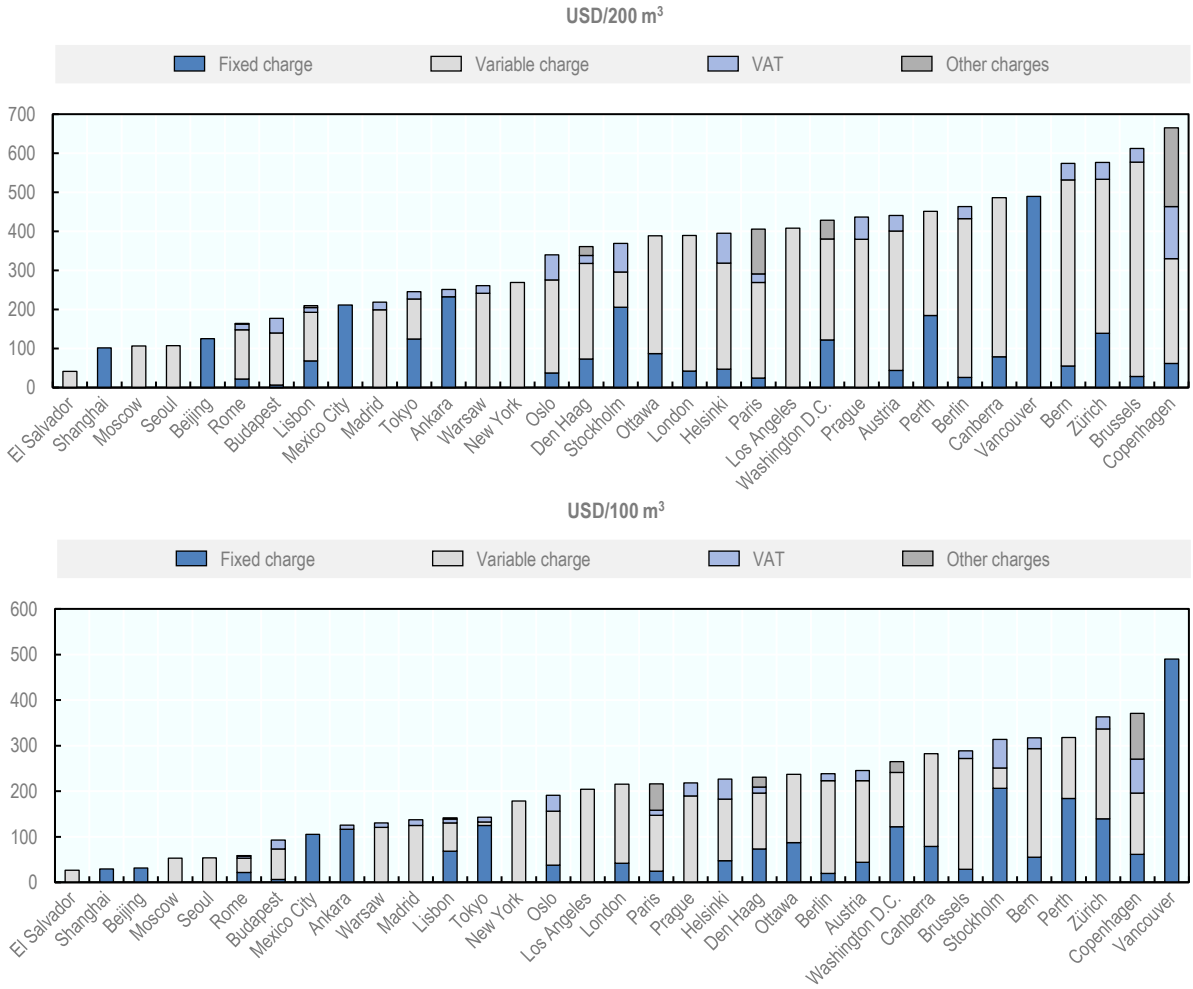
Table 6.5. El Salvador implements a progressive water tariff structure

Charges in USD

Block (m^3)	Households		Block (m^3)	Industry	
	Water supply (USD/m^3)	Sewerage (USD/month)		Water supply (USD/m^3)	Sewerage (USD/month)
0-10	2.29[1]	0.10	0-5	3.76[1]	0.100
11-20	0.210		6-20	0.900	5.00
21	0.250	1.80	21-30	1.200	
22	0.280		31-50	1.500	7.50
23	0.310		51-60	1.875	
24	0.340		61-90	2.344	
25-30	0.370		91-100	2.930	
31	0.420	3.00	101-500	3.662	10.00
32	0.480		Above 500	4.578	20.00
33	0.540				
34	0.640				
35-40	0.760				
41	0.900	4.00			
42	1.050				
43	1.200				
44	1.400				
45-50	1.650				
51-60	1.900	7.50			
61-70	2.200				
71-90	2.500				
91-100	2.900				
101-500	3.400	10.00			
Above 500	3.900	20.00			

Note: 1) Minimum charge.
Source: (MINEC, 2015[30]), *Acuerdo Número 1279 del Órgano Ejecutivo en el Ramo de Economía*.

Figure 6.11. El Salvador's drinking water prices are low compared to OECD cities



Note: 2017 data. Based on a monthly consumption of 8 m^3, and 17 m^3 during one year (i.e. 100 m^3 and 200 m^3 annually, respectively).
Source: (IWA, 2018[31]), *International Statistics for Water Services 2018* and (MINEC, 2015[30]), *Acuerdo Número 1279 del Órgano Ejecutivo en el Ramo de Economía*.

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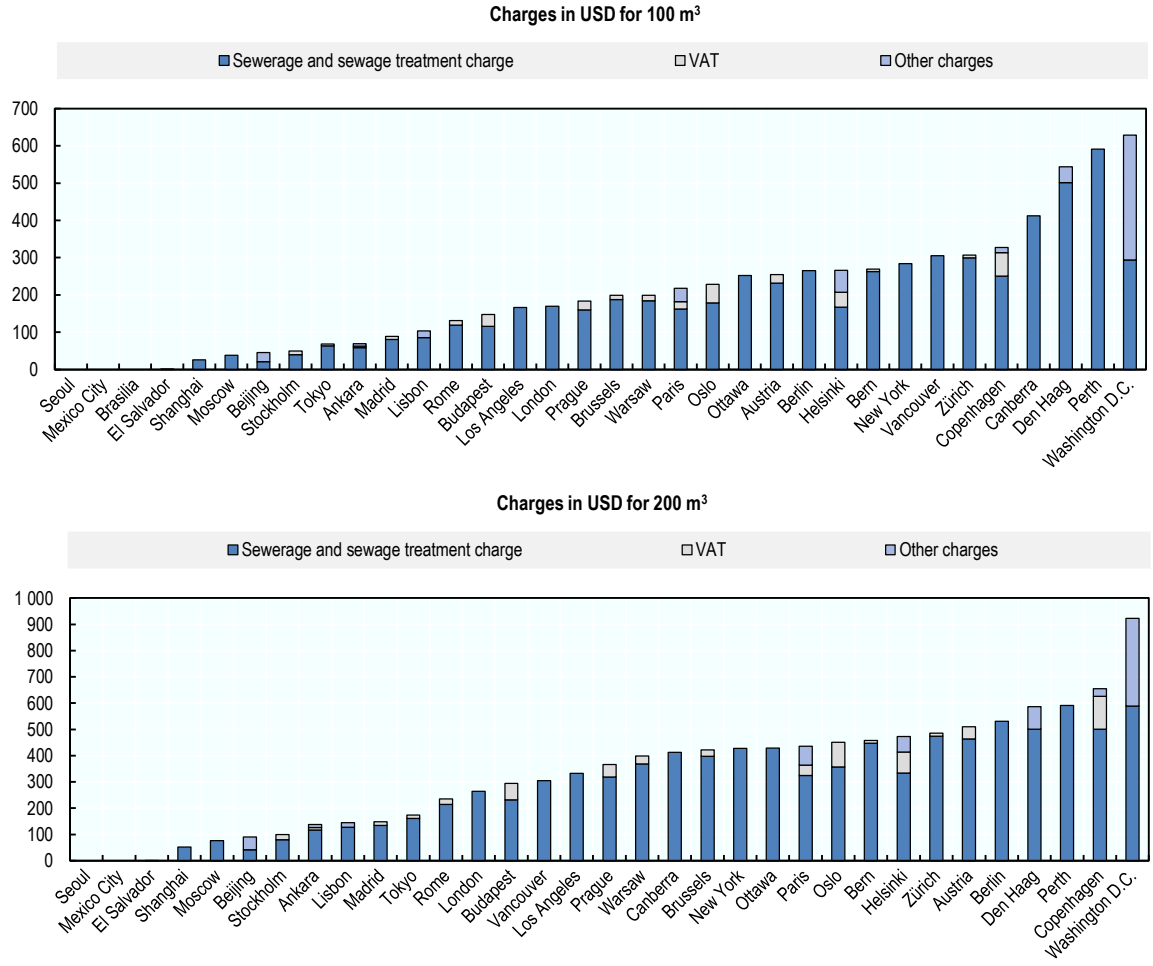
Table 6.6. Only half of the cost of supplying drinking water is recovered by the water bill

Consumption level	Average monthly consumption (m^3/household)	Annual consumption (thousand m^3)	Block tariff rate (USD/m^3)	Billed amount (thousand USD)	Producing cost (thousand USD)[1]	Cost recovery (%)
Low	10	38 093	0.229	8 723		
Medium	30	23 328	0.37	8 631		
High	100	4 745	2.9	13 761		
Total	Total	66 166		31 116	64 181	48

Note: 2018 data.
1) Unit cost estimated by ANDA at 0.97 USD/m^3.
Source: OECD Secretariat; (ANDA, 2019[32]), *Boletín Estadístico 2018*.

The cost recovery gap is significantly higher for sanitation services. These are billed on an increasing block tariff basis (and not by volume of water consumed, as is generally the case in OECD countries). They are billed at very low levels compared to OECD countries (USD 0.10 for water consumption up to 20 m^3, USD 1.80 up to 30 m^3, and USD 5 for over 500m^3) (Figure 6.12). Wastewater treatment services are not priced, which explains El Salvador's delay in the construction and rehabilitation of wastewater treatment plants.

Figure 6.12. El Salvador charges very little for sewerage and sewage treatment services compared to OECD cities



Note: 2017 data. Based on a monthly consumption of 8 m3, and 17 m3 during one year (i.e. 100 m3 and 200 m3 annually, respectively).
Source: (IWA, 2018[31]), *International Statistics for Water Services 2018*, http://waterstatistics.iwa-network.org/ and (MINEC, 2015[30]), *Acuerdo Número 1279 del Órgano Ejecutivo en el Ramo de Economía*.

StatLink https://stat.link/qeuarv

Progressive pricing structures of the kinds that have been described aim to reconcile conservation objectives (the more a person consumes, the more expensive their bill will be), and social objectives (covering basic needs at affordable prices). The tariff revision in 2015 reinforced the conservation signal by increasing rates as of 20 m^3, and even more above 40 m^3. However, poor families are not necessarily those who consume the least, and do not, therefore, benefit the most from subsidised tariffs.

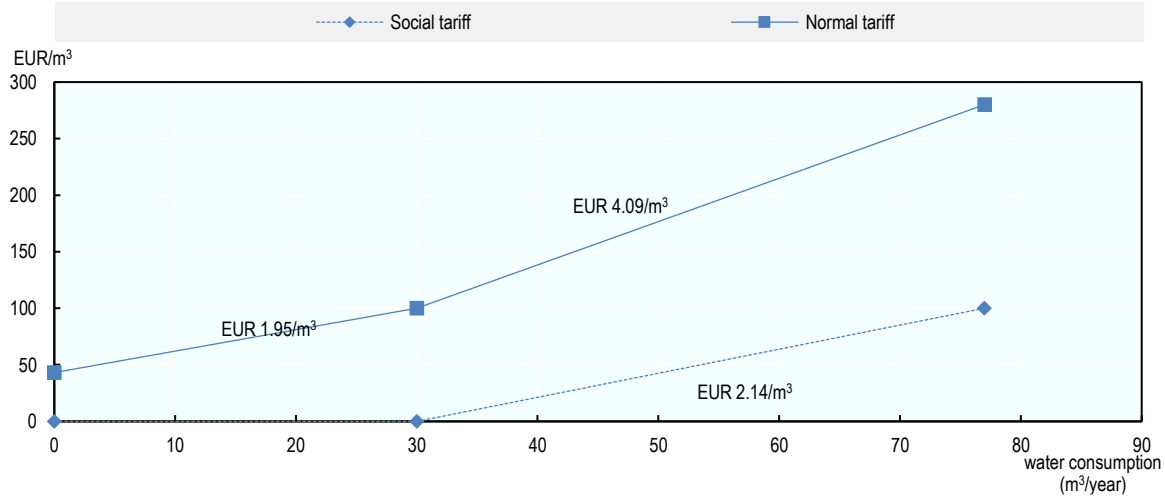
The way forward

OECD countries approach the issue of affordability for low-income groups in two ways: either through the tariffs themselves, or by targeting poor households through tariff discounts or income support (OECD, 1999[33]). In both cases, cross-subsidies between water consumers (from industry to households, rich to poor) make up the shortfall of water companies from reduced tariffs. Where appropriate, social security generally provides income support. The two approaches are not mutually exclusive. A tariff can be reserved for poor consumers (those who receive social security benefits, or according to the value or type of property).

The Belgian region of Flanders implements a progressive tariff system, with cross-subsidisation and a free allowance for the poor (all people on social benefit, i.e. 7% of the population). The first 30 m^3 per year (equivalent to 41 litres per head per day for a household of 2 people) are provided free of charge to each poor household (the initial allocation was 15 m^3 in 1997). A social tariff (half of the normal rate) applies beyond 30 m^3 (Figure 6.13. A cross-subsidy between rich and poor covers the shortfall that is caused by the 4% loss in overall water sales that results from the subsidised rates. This pricing system would be fairer if the free allowance were based on the number of people in the household, but this information is difficult to obtain. This type of approach, apparently unique in the world, is cost-effective, and is politically acceptable as long as the free allowance i) covers basic household needs, and ii) is small enough to ensure that very few households pay nothing at all for their water.

Figure 6.13. Flanders (Belgium) is a good example of combined social and progressive water pricing

Water and sanitation bill in EUR/m3



Source: (Smets, 2011[34]), *La tarification progressive de l'eau potable - Les solutions en France et dans le monde*.

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Another option is to apply purely (linear) volumetric pricing, with rates set at such a rate as to recover the full costs of water supply and sanitation. This is the case in Austria, Denmark, Finland, France, Germany, Netherlands, Sweden and Switzerland. The social objective would then be achieved via social transfers. Fifty municipalities in France are currently experimenting with this pricing policy. For example, *Eau du bassin rennais* (a river basin agency) grants a "water check" of EUR 15 per year per household to beneficiaries of complementary universal health coverage, plus, in the city of Rennes, EUR 15 for

sanitation expenses. Large families receive an additional water voucher of EUR 30 per year per child, as of the third child.

A third option is to create a solidarity fund financed by a tariff supplement applied to all customers, in order to pay the water bill of the poor. The city of Brussels takes EUR 0.03/m^3 from water bills, but the funds only suffice to pay the water bill of 0.2% of the population.

A separate standing charge could be added to the tariff structure to recover costs that are not directly linked to the volumes of water used (such as the maintenance and reading of meters, and billing). It would also help to finance the control of illegal connections ("non-revenue water"), and the collection of unpaid bills. In turn, this would help to improve the quality and continuity of the service. The continual imbalances between the actual costs of production, on the one hand, and service charges, on the other, are an impediment not only for investment, but also for the operation and maintenance of ANDA's infrastructure. This has a cost for the Salvadoran economy, not only by straining the state budget, but also by exerting a negative impact on the health and labour productivity of the population.

El Salvador must enshrine clear and precise criteria for water pricing in the ANDA law in order to comply with the UN's SDG 6 (ensure the availability and sustainable management of water and sanitation for all) in the most cost-effective way. A good example comes from Switzerland. The Swiss Federal Water Protection Act of 1991 provides that water tariffs must cover the costs of building, operating, and maintaining WSS infrastructure, including wastewater treatment plants, as well as the investments planned to adapt the infrastructure to regulatory requirements, and for operational optimisation. Depreciation (to preserve the value of the WSS infrastructure), and market interest rates, should be taken into account when setting tariffs, and the necessary financial reserves built up. Tariffs should include a standing charge, and a volumetric price, ideally reflecting the fixed and variable costs of the utility. The principles for calculating tariffs must be made public.

El Salvador is not starting from scratch. Article 3 of the 1961 National Aqueduct and Sewers Administration Act provides that tariffs for drinking water and sanitation services shall be sufficient to cover: i) the operation, maintenance, administration, improvements, development and expansion of infrastructures; and ii) payment of capital, interest and other charges to honour debts. The tariffs are to be set according to criteria of corporate self-financing and social public service, and to provide a safety margin. Similarly, Article 5 of the 1948 Act that created the CEL provides that tariffs for the supply of electricity and irrigation water (*cánones*) shall be sufficient to cover: i) the maintenance, improvement, development, and expansion of infrastructure; and ii) payment of capital, interest and other charges to honour debts. The Ministry of Economy must approve the tariffs proposed by ANDA and CEL.

The LRA law (Articles 49 to 51) does not provide for full cost recovery in supplying irrigation water but, unlike the laws that created ANDA and CEL, it provides for an abstraction fee (for direct water withdrawal). The rules stipulate that the state shall bear at least 40% of the cost of its investments in irrigation infrastructure. This includes the value of the land, and any interest on loans, whether in the irrigation districts or outside them. The remaining depreciation quota is to be shared among the irrigators on the basis of the irrigated area. Irrigation water-use charges (*tarifas por servicios*) in the irrigation districts are to cover operation and maintenance, and be based on the volume of water supplied, the area irrigated, or a combination of both. For irrigation districts that are transferred to irrigation associations, revenues from the charges paid by users shall accrue to an irrigation association fund. Permit holders outside the irrigation district shall pay an abstraction fee (*tarifa por el permiso de riego*), for the use of the water. The Legislative Assembly must approve the user charges, abstraction charges and depreciation quotas, which are proposed by the Ministry of Agriculture and the Ministry of Economy, both for and outside of the irrigation districts.

However, the abstraction fees are per hectare and not per volume withdrawn, which would be preferable. They do not reflect the risk of water shortage in the withdrawal area. The rates are far too low to encourage careful use of the resource and have not changed since 2004 (Table 6.7). In addition, the electricity tariff

for pumping groundwater is subsidised in the irrigation districts, which goes against the (already weak) incentive to preserve water created by the abstraction fees. Revenues from irrigation-water withdrawal permits (paid to the Ministry of Agriculture) increased from USD 29 000 in the 2014-15 irrigation season, to USD 38 000 in 2018-19, reflecting an increase in the irrigated area (from 21 000 to 23 000 hectares).[13] Regarding user charges, MARN (2017[12]) refers to USD 5.71 per hectare for irrigation districts ("canon" paid to the Ministry of Agriculture), and from USD 57 to 70 per hectare outside of the districts (a service charge, or *tarifa de servicio*, paid to irrigation associations). This seems to indicate that operational and maintenance costs are not covered in irrigation districts.

Table 6.7. El Salvador levies irrigation water abstraction fees, but at very low rates

Irrigated area (hectare)	Rate of fees paid annually to the Ministry of Agriculture for water use permits (USD)
1 – 3.5	14.86
3.5 - 7	29.72
7 – 10.5	44.58
10.5 – 17.5	74.30
Above 17.5	113.00

Note: The first irrigated hectare is exempt from the abstraction fee.
Source: MAG and Treasury (Agreement N° 444 of 11 June 2004), https://www.transparencia.gob.sv/institutions/mag/documents/147471/download.

An independent water regulator could be created to help develop criteria for water pricing, and then to enforce them. The establishment of water regulators is a consistent trend among OECD and non-OECD countries (OECD, 2015[35]). A certain number of Latin American countries have one (e.g. Brazil, Chile, Colombia, Peru, and Uruguay). A water regulator is generally established in order to protect the public interest as part of broader reforms to make service providers more accountable, to establish an independent price-setting process, and to bring regulatory expertise into the public sector. The scope of supervision (the number of supervised utilities) must match the human and financial means. The regulator is often financed through a levy on the water bill. For example, Peru's SUNASS (*Superintendencia Nacional de Servicios de Saneamiento*) regulates, oversees and monitors the supply of WWS, including the definition of geographic areas for WWS service provision. SUNASS has several powers. These are: i) regulatory (it can issue regulations, guidelines and standards); ii) the power to set tariffs for WWS services; iii) surveillance (it can verify compliance with legal, contractual or technical obligations); and iv) sanctioning (it can impose sanctions and corrective measures in cases of non-compliance with legal or technical regulations). It can also resolve conflicts between the operators and users of water services (complaint settlement), and between companies (dispute settlement) (OECD, 2021[36]).

Making greater use of economic instruments to manage water risks

This section provides examples of international experiences that El Salvador could consider when it comes to financing IWRM, soil and water conservation in watersheds, and river rehabilitation. An example of good governance of the use of groundwater is also provided.

Financing IWRM by applying the principle of "water pays for water"

This is the case in France, where water agencies (created in 1964) collect the charges on water abstraction and sewage discharge, along with other charges (Table 6.8). The agencies redistribute the charge revenues in the form of financial aid to local communities, industry, and farmers – in accordance with each

basin's "master plan for water development and management". The idea that water should pay for water is socially well accepted, although agency fees do increase water bills (by some 16% in 2018).[14] Water consumers know what they are paying for and the benefits that they get in terms of quality of service, their health, and environmental protection. Public acceptability is higher with this approach as compared to depending on taxpayers to finance IWRM.

Table 6.8. The Seine Normandy water agency (France) collects numerous charges in 2019-24

Charge	Rate	Base
Abstraction		
Drinking water	EUR 0.038-0.082/m³ (according to water scarcity in the area).	m³ abstracted.
Industry (cooling and other)	EUR 0.0028-0.042/m³ (according to use and water scarcity in the area).	m³ abstracted.
Irrigation	EUR 0.0014-0.035/m³ (according to irrigation technique and water scarcity in the area).	m³ abstracted.
Environment (aquatic ecosystems)	EUR 0.00002-0.00035/m³ (according to water scarcity in the area).	m³ abstracted.
Hydropower	EUR 0.5/Mm³ of waterfall.	m³ water passing through the turbines.
Aquatic life	EUR 1-28.8/capita (according to fish species).	Fishing licence.
Obstacles on rivers	EUR 150/m.	Waterfall height in meters.
Water storage in dry period	EUR 0.01/m³/year.	m³ stored in dry period.
Pollution		
Households	EUR 0.22-0.42/m³ (according to water quality in the area).	m³ of water consumed.
Household sewer upgrade	EUR 0.185/m³.	m³ of water delivered.
Industry	Pollutant-specific (according to water quality in the area).	Amount of pollutant in effluent discharge.
Industry sewer upgrade	EUR 0.24/m³.	m³ of sewage collected.
Livestock	EUR 3 per livestock unit per year.	Number livestock units.
Pesticides	EUR 0.9-5.1 per kilogramme of active ingredient (according to toxicity).	Amount of pesticides purchased.

Source: (Agence de l'eau Seine-Normandie, 2019[37]), *Les redevances de l'Agence de l'eau Seine-Normandie*.

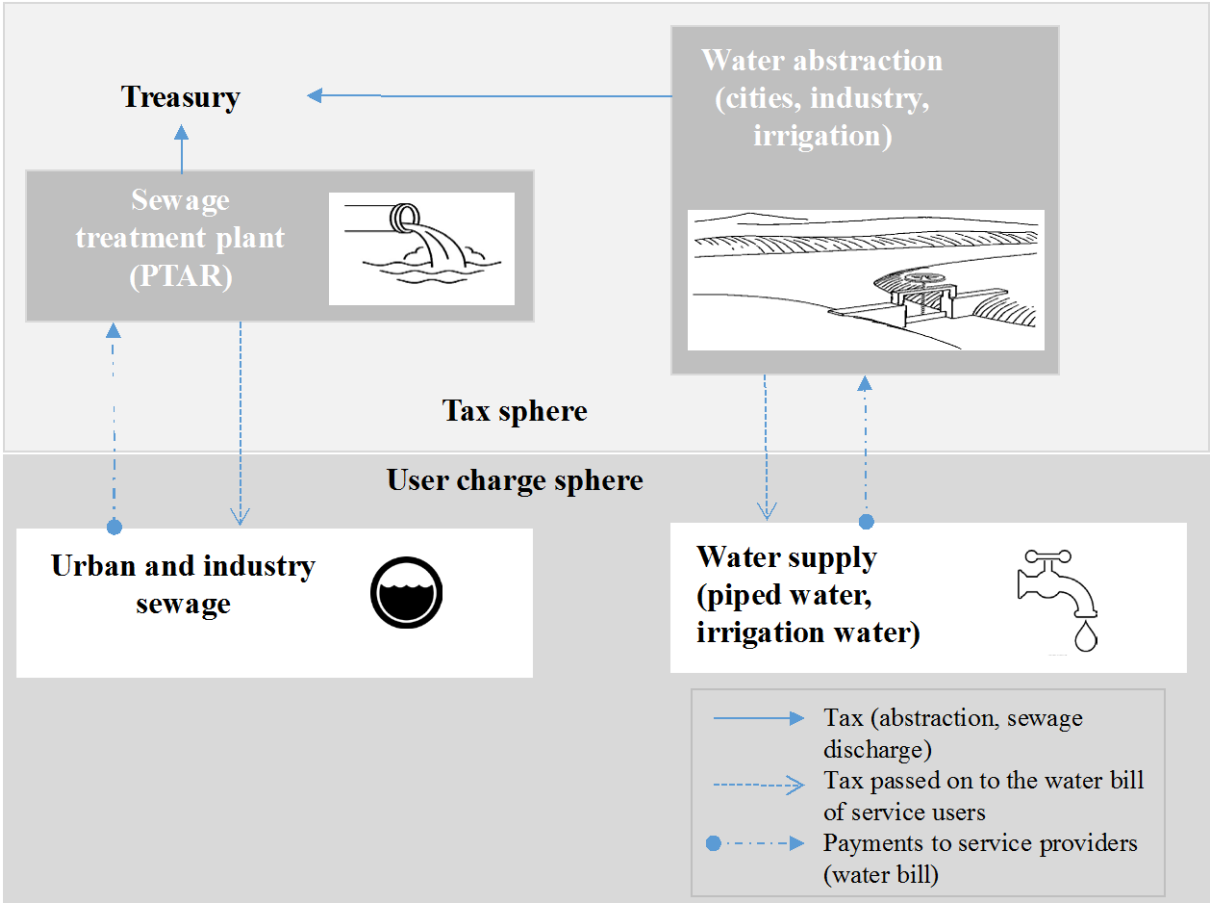
Since 2015, ANDA has applied a fee of USD 0.03/m³ to the direct abstraction of water for human consumption. In rural areas, entities that have been declared to be of social interest[15] are exempt. ANDA also applies a fee of USD 0.30/m³ to direct water withdrawal for other (industrial) purposes.[16] According to a ruling by the Supreme Court of Justice in 2016, the justification for ANDA's abstraction fee is the control and supervision of drilling and water exploitation in private wells.[17] Beyond raising revenue to finance IWRM, the taxation of withdrawals must above all aim to reduce the risk of water shortage. It is therefore imperative to first remove the dis-incentives created by electricity subsidies (to ANDA and farmers in irrigation districts) before any increase in water withdrawal tax rates.

Private water abstraction operators that use ANDA's sewerage pay an additional USD 0.15 per cubic metre of water abstracted. The pricing of ANDA's sewerage service is thus differentiated between ANDA customers and others, to the benefit of the former, which is difficult to justify. Such a fee on sewage discharges should also apply to discharges into the natural environment (rivers, lakes, and coastal waters), whether from a wastewater treatment plant, or from another source (industry). This is in order to encourage

the wastewater treatment plant, or the industry in question to treat its wastewater at the economically optimal level (depending on the level of the tax), prior to discharging it into the water body. Similarly, the fee on direct withdrawals should encourage operators, including ANDA, to reduce their water withdrawals in order to sustainably preserve the resource (to prevent situations of water scarcity). Such fees are payments made by consumers for the provision of WWS services (and they differ from taxes that constitute unrequited payment to the general government).

These two instruments (water abstraction fees and sewage discharge fees) target negative environmental externalities. Economically, they should be viewed as taxes, not charges or fees. The former are defined as "compulsory and unrequited payments to general government" while the latter are "payments made to service providers in return for the provision of services". The abstraction/pollution tax can be passed on to users through the user charge (Figure 6.14).

Figure 6.14. Taxes can be combined with charges in water pricing



Source: Authors' elaboration.

Most OECD countries apply an abstraction tax (or charge), and many levy a pollution tax (or charge). The rate of the tax (or charge) should not vary according to the category of users/polluters, as is often the case in OECD countries, where farmers, and industry sometimes enjoy preferential rates. In addition, the rate should not be lower for surface water than for groundwater, assuming that the latter is more vulnerable. To be cost-effective, the rate must reflect the risks of scarcity or pollution for a given body of water, whether it be an aquifer, a river or a lake. For example, the European Union's directive on urban wastewater provides criteria for identifying water that is sensitive to eutrophication.[18]

Applying the water pays for water principle can make a substantial and lasting contribution to the financing of IWRM. In France, the proceeds of the charge amount to more than EUR 2 billion a year for the six water agencies (Table 6.9).

Table 6.9. French water agencies collect more than EUR 2 billion per year in 2019-24

Tax collection (EUR million/year)		Planned expenditure (EUR million/year)	
Total	*2 182*	*Total*	*2 329*
Pollution taxes	*1 759*	*Water resource and biodiversity management*	*848*
Households connected to sewage treatment plant[1]	1 046	Restoration/management of habitats and ecosystems	269
Sewerage upgrade (households)[1]	499	Pollution abatement (agriculture)[7]	201
Diffuse pollution (agriculture)[2]	136	Storm water management	131
Livestock[3]	4	Water quantity management	110
Industry[4]	55	Pollution abatement (industry)	102
Sewerage upgrade (industry)[1]	18	Water resource protection	35
Abstraction taxes	*363*	*Water supply and sanitation*	*825*
Public water supply	246	Sewerage	275
Hydropower	25	Sewage treatment	223
Irrigation	23	Public water supply	159
Cooling (industry)	13	Sewage plant efficiency premium	151
Other	57	Technical assistance	16
Other taxes	*60*	*Other expenditure*	*656*
Hunting[5]	50	Budget expenditure	*322*
Protection of the aquatic environment[6]	9	Information and planning	168
Water storage during low water periods	0.7	Operating budget	166
Obstacles on rivers	0.2		

1. Tax levied by water companies on the water bill.
2. Retail sales tax on pesticides.
3. Tax on nitrogen and phosphorus paid by large livestock farmers.
4. Tax on effluent discharges directly into water.
5. Hunting licence tax.
6. Fishing licence tax.
7. Incentives for farmers to convert to organic farming/reduce pesticide use.

Source: (MEFR, 2020[38]), *Annexe au projet de loi de finances pour 2021 – Agences de l'eau*.

However, there are some shortcomings in the approach that should be kept in mind. In France, most of the proceeds come from households, while the agricultural sector receives more than it contributes, resulting in cross-subsidisation (Table 6.9).[19] Thus, the principle that water pays for water responds very imperfectly to the polluter-pays principle, because it inflates the water bills of households in order to address the negative effects on agriculture. In the south of France, the irrigation tax represents a tiny fraction of abstraction taxation, while irrigation is the source of most abstraction from surface water. Agricultural pollution (nitrogen, pesticides) in the catchment areas of water companies generates additional costs for the supply of public water, and these are passed on to household water bills. To correct this imbalance, the French government has considered taxing crop nitrogen (in addition to large livestock farms), and reducing support for irrigation, while continuing to tax pesticides.

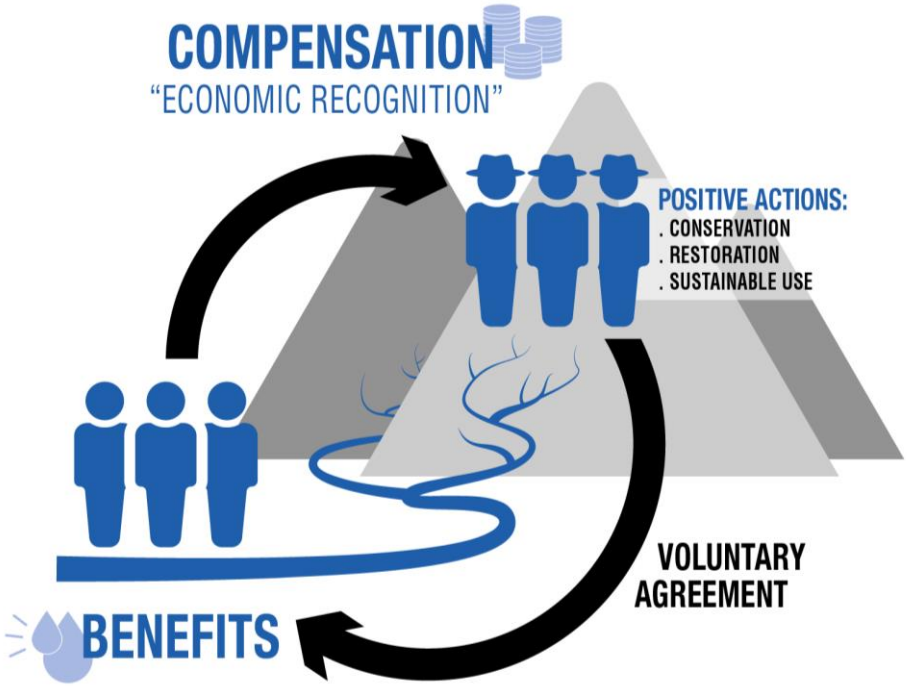
In other OECD countries, proceeds from abstraction and pollution taxes go to the general budget. The OECD recommends that the earmarking of public revenues for particular purposes be kept to a minimum (OECD, 2015[39]). Earmarking limits flexibility in the use of public funds.

Financing soil and water conservation in watersheds

Changes in land use in rural areas, such as deforestation in northern El Salvador, severely affect the downstream water regime, including by reducing river flow during dry spells, and by increasing flooding and landslides during the rainy season.[20] The PNGIRH plan aims to restore the infiltration capacity of hillside soils by disseminating agroforestry practices for staple cereals.[21] As part of the 2013 national strategy for biodiversity, the National Ecosystem and Landscape Restoration Programme (*Programa Nacional de Restauración de Ecosistemas y Paisajes*, PREP), will help to achieve this objective. It has already entered its start-up phase in some pilot sites in the country (MARN, 2017[12]). El Salvador could explore other sources of funding to improve hillside soil and water conservation, particularly payments for ecosystem services (PES). El Salvador already has some experience with PES, notably in Mancomunidad La Montañona (Chalatenango) and Microcuenca La Poza (Ozatlán) (Ramos, 2010[40]).

In 2015, Peru's Ministry of the Environment introduced an innovative PES mechanism. The water companies have created specific funds financed by the water bill, which represent around 1% of their turnover. The funds aim to compensate communities that commit to providing hydrological services, such as protecting high-mountain lake watersheds through reforestation (USD 43 million was raised nationwide through to 2019) (Figure 6.15). This fund-raising mechanism could usefully extend to other beneficiaries of the protection of mountain ecosystems, namely farmers and industry.

Figure 6.15. Peruvian cities compensate upstream rural communities for ecosystem protection



Source: Ministry of the Environment of Peru, http://www.minam.gob.pe/economia-y-financiamiento-ambiental/mecanismos-de-retribucion-por-servicios-ecosistemicos-mrse/.

Because of the desire to go fast (to maintain momentum after the adoption of the law on the PES mechanism in 2014),[22] and because the water regulator understood the importance of water companies and upland communities joining forces, water companies raised funds before identifying ecosystem services. In an ideal world, it would be better to: i) first identify the water risks in the basin where the water company is located; ii) second, identify the related ecosystem services, and iii) third, set the rate and base

of PES. The proportion of companies' turnover that is devoted to PES should depend on the cost-effectiveness of the PES compared to investment spending in traditional grey infrastructure.

In addition, since 2013 the Peruvian Ministry of Agriculture and Irrigation has used part of the budget of the Sierra Azul Fund (initially known as the My Irrigation Fund) to improve cultivation practices in highland areas. The goal is to intercept and retain rainwater in soil, aquifers and surface water bodies, in order to increase irrigation water downstream – an ancient technique of "sowing and harvesting water" (*siembra y cosecha de agua*). This public financial support can be qualified as PES. The three levels of government in Peru can present projects whose execution will be under the responsibility of Ministry of Agriculture and Irrigation. Since its inception, the annual expenditure of the Sierra Azul Fund has ranged from USD 55 million to USD 128 million, including projects to improve the efficiency of irrigation infrastructure, and to modernise irrigation at the plot level (*tecnificación del riego parcelario*).

Financing river rehabilitation

As part of the development of El Salvador's PNGIRH plan, 13 river sections were selected from 12 of the country's rivers for the implementation of ecological flows. This work is still ongoing and began with the determination of ecological flows in priority rivers. These pilot sections were selected by taking into account their degree of conservation, the human pressures on them, and the presence of protected natural areas. The choice of the river sections where the minimum flows should be implemented first, on the basis of a cost-benefit analysis, is a step in the right direction. It provides a good basis for the choice of river sections to be rehabilitated. The geomorphology and natural hydrological regime of El Salvador's rivers have been altered by the occupation of areas adjacent to river beds, destruction of riparian forests, overexploitation of gravel and sand from river beds, and poor channelling of stretches of river (MARN, 2017[12]).

In 2011, Switzerland embarked on a long-term endeavour to rehabilitate its rivers to their natural functioning state. The Swiss policy of river rehabilitation was triggered by a popular initiative on the part of the Swiss Fishing Federation, "Living Waters". This initiative set out to strengthen the biological functions of watercourses by creating habitats and managing riparian zones. Around 40% of Swiss rivers (and 50% of those at an altitude below 600 metres) lack the necessary space for natural functioning, and about a quarter have a high degree of fragmentation due to artificial structures. A national target has been set to rehabilitate about 25% of waters with poor morphological status in the next 80 years, i.e. some 4 000 kilometres of river length by about 2090.

Public financial support is provided through biodiversity policy and agricultural policy, while electricity consumers (via a tax on electricity bills) support the ecological improvement of hydropower plants (Table 6.10). The biodiversity policy finances rehabilitation projects, while agri-environmental payments reward farmers who manage riparian lands as "biodiversity promotion areas". These two policies, combined with direct regulations on minimum flows, aim to provide space for water and to preserve aquatic life, while preventing flooding (by preserving floodplains).

Table 6.10. Switzerland has three funding levers for the rehabilitation of its rivers

Policy	Aim	Financial support	
		Sources	USD million/year
Environment (biodiversity)	Rehabilitation projects	2/3 central budget; 1/3 local/regional budget	67
Agriculture (agri-environment)	Biodiversity-friendly farming on riparian land	Central budget	22
Energy (hydropower)	Ecological improvement of hydropower plants	Tax on the electricity bill	56
Total funding			145

Source: (OECD, 2017[41]), *OECD Environmental Performance Reviews: Switzerland 2017*.

Since 2011 and by 2030 for old installations, Swiss hydropower plants must meet three requirements: i) reduce obstacles to fish migration; ii) reduce changes in sediment transport; and iii) prevent hydro-peaking (abrupt variations in flow rates at the dam outlet). The latter two requirements also help to mitigate the risk of flooding. In accordance with the polluter pays principle, operators of hydropower plants must cover the cost of upgrading plants to such environmental standards. In Switzerland, however, a tax on electricity bills finances the costs of environmental upgrades to existing power stations, on the principle of acquired rights guarantees. Financial support should "compensate" for any limitation in the use of hydroelectric power (compensation by virtue of the rights acquired following the granting of a concession for hydropower use). The tax base is large (each electricity consumer must pay the tax). Asking operators of hydropower plants to bear the cost of greening, and to pass it on to distributors (or consumers if they are distributors themselves), would penalise hydropower compared to other forms of energy. This principle of "electricity pays for electricity" can be justified by the political will to promote clean energy.

Risk-based governance of groundwater use

Urbanisation in aquifer recharge areas is a concern in El Salvador, where major cities are located in high-production aquifer units (MARN, 2013[13]). In each of El Salvador's 21 groundwater bodies,[23] an environmental reserve of 35% of the incoming water has been established (in m^3/year). Based on the water balance, its purpose is to keep the aquifers in a good quantitative state during the low-water period (MARN, 2017[12]). In order to avoid an over-exploitation of aquifers, the PNGIRH recommends that each of the groundwater bodies should take no more than 80% of the incoming water, net of environmental reserve. It is a step in the right direction. A more cost-effective approach, which would also be more site-specific, and not necessarily complex to set up, would be to estimate an abstraction limit that would be acceptable to all stakeholders based on the risks involved. It would also be a good way to avoid conflicts of use, and to develop "water culture".

Table 6.11. Preserving the integrity of aquifers means assessing the risks of water scarcity for users

Values	Likelihood/sensitivity	Consequence	Risk rating[1]	Overall risk
Aquifer properties.	How sensitive is aquifer integrity to abstraction?	If aquifer integrity were to be impacted, how significant would that be?	High, Medium, Low.	In situ risk.[1]
Groundwater-dependent ecosystems (GDEs).	How dependent are GDEs on groundwater? What is the likelihood that GDEs would be impacted if water were to be abstracted, i.e. how sensitive are they to abstraction?	How significant are the GDEs in terms of environmental value?	High, Medium, Low.	
Cultural and social.	How dependent are cultural and social values on groundwater? What is the likelihood that these values would be impacted if water were to be abstracted, i.e. how sensitive are they to abstraction?	How significant are the GDEs in terms of cultural and/or social value?	High, Medium, Low.	
Current and future water use.	How important is the resource for meeting current and future development needs? Are there alternative water sources or alternative production approaches that mean groundwater is not required?	How significant is the current and future productive use/ development for the community?	High, Medium, Low.	Development risk.[1]

1. Highest risk rating.
Source: (Government of Western Australia, 2011[42]), *Groundwater Risk-based Allocation Planning Process*.

In 2011, for areas where groundwater knowledge was limited and current demand for the resource was low, the government of Western Australia developed a risk-based approach to set water allocation limits. The first step in this approach is to identify and define the groundwater resource, including the recharge of the aquifer. Second, the risks to environmental, cultural and social values that are dependent on

groundwater ("*in situ* values") must be assessed, as well as the opportunity cost of not withdrawing groundwater for economic development ("development risk") (Table 6.11). The sophistication of this assessment depends on the level of risks involved (the value of planned investments, the number of people who depend on these water resources, and the presence of protected natural areas in the area). Third, the acceptable level of groundwater abstraction (and therefore of the permits that are issued) is set by weighing *in situ* risks against development risks (Table 6.12). Such a "risk matrix" helps to manage trade-offs between groundwater uses, while protecting the integrity of the aquifer.

Table 6.12. The sustainable use of aquifers means managing risks and trade-offs between uses

	Proportion of recharge		
High *in situ* risk	5%	25%	50%
Medium *in situ* risk	25%	50%	60%
Low *in situ* risk	50%	60%	70%
	Low development risk	Medium development risk	High development risk

Note: Risk matrix for determining the proportion of recharge for allocation.
Source: (Government of Western Australia, 2011[42]), *Groundwater Risk-based Allocation Planning Process*.

Recommendations

Towards integrated water resource management

IWRM governance

The newly created Salvadoran Water Authority, the ASA, should oversee IWRM – and finance it. The ASA could be decentralised in each of the ten river basins, and governance specific to each basin could be put in place (e.g. Lempa Water Agency, Grande de San Miguel Water Agency, etc.). The basin is indeed the best scale of governance for IWRM, because it is the basic hydrological unit. Groundwater could be subject to specific governance at the level of groundwater basins. El Salvador could work towards the creation of international commissions supervising basin management for the trans-boundary rivers Lempa, Paz and Goascorán.

IWRM financing

The polluter pays principle should be applied to the financing of IWRM. This means taxing or charging for the direct withdrawal of water and for the discharge of wastewater into the environment, as provided for in El Salvador's General Law on Water Resources. This also involves phasing out subsidies that are harmful to IWRM, such as subsidies for electricity used to pump water and subsidies for fertilisers. The tax/charge proceeds could accrue to the river-basin agencies to finance their activities according to a IWRM plan for the river basin (the principle of water pays for water). El Salvador could develop payments for water and soil conservation services provided by mountain communities, according to the principle that the beneficiary pays.

Risk-based approaches

El Salvador could define risk areas within each basin based on the current impacts on water (scarcity, pollution, floods), and in such a way as to anticipate impacts on vulnerable areas. This would be different from the existing priority zones, which could be abandoned. It may involve the identification and definition of:

- Water bodies that are sensitive to contamination (stagnant water).

- Sections of rivers that need to be rehabilitated (so that they find their natural course).
- Parts of watersheds where priority should be given to protection of soil and water in sloping land (to regulate the water regime and prevent downstream floods and landslides).
- Vulnerable aquifers (and their recharge zone).
- Areas that are vulnerable to nitrates (to thwart the proliferation of algae and water hyacinths).

Demand-driven approaches

El Salvador could strengthen incentives to save irrigation water (abstraction tax/charge), and foster the spread of modern irrigation technology (e.g. agricultural policy support for drip irrigation).

Towards water supply and sanitation for all

Strategic financial planning

El Salvador could assess the funding gap between infrastructure needs and tariff revenues under a scenario of business as usual and develop scenarios to narrow the gap.

Financing WSS

El Salvador could define prospects for full cost recovery of WSS services (i.e. a timetable for a gradual increase in tariff revenues). It could create an environment conducive to the mobilisation of private financing (e.g. state guarantees, and official development assistance more focused on WSS).

Pricing WSS

El Salvador could apply a single water tariff for all, letting social policy support the incomes of the poor. Other options include reducing the subsidised tariff base for drinking water by better targeting it for the poor, improving the rate of invoice collection, involving real-estate developers in the repair of the piped network (to reduce the rate of leakage), charging by volume for the connection to sewers (instead of on a flat-rate basis), and billing for wastewater treatment.

Demand-driven approaches

El Salvador could extend meter coverage and introduce smart meters.

Although no estimates are available, the economic and social cost of water insecurity is undoubtedly very high in El Salvador. The permanent imbalances between the actual costs of water supply and sanitation, and their recovery through water bills, constitute an obstacle not only to investment in the water sector, but also to the operation and maintenance of existing infrastructure. This has a cost for the Salvadoran economy, as it hinders investment in the country, and also affects health and labour productivity. Lack of water is a factor in the prevalence of chronic kidney disease, which is the second leading cause of death among Salvadoran men. Improving water infrastructure, setting water prices that enable the necessary improvements, and establishing risk-based management of water resources, would significantly improve water productivity in El Salvador. This would make water a driver of, rather than an impediment to, economic growth.

The PNGIRH plan of 2017 calls for a new legal and governance framework to improve water resources management. The adoption and implementation of El Salvador's General Law on Water Resources is an important step in this direction. Another key challenge for El Salvador is to ensure universal access to safe drinking water and sanitation for its population, in line with the United Nations SDGs. The 2018 PLANAPS

plan for drinking water and sanitation estimated that investments to close gaps in WSS infrastructure amount to billions of US dollars.

Towards integrated water resource management

To achieve integrated and cost-effective water resource management, this chapter suggests basin-level governance combined with a risk management approach. Basic governance enables the implementation of integrated water resources management based on science (hydrological logic). A risk management approach to water (risks of scarcity, pollution, flooding) promotes cost-effectiveness by prioritising where to intervene first in the basin (risk mapping), to what extent (acceptable levels of risk), and how (which policy instruments are most cost-effective).

Water scarcity risks

El Salvador is well endowed with water resources, but inefficient use of water exacerbates conflict over water at the local level. The PNGIRH proposes to invest in water infrastructure

Groundwater is the main source of drinking water. Water in aquifers is threatened by increasing demands from cities and industry, and by lower natural recharge due to soil sealing driven by urbanisation. Above and beyond the risk of water scarcity for users, there is a risk that groundwater-dependent ecosystems could be lost. There is also a risk that the aquifers themselves could be depleted, or could suffer from saline intrusion. The PNGIRH proposes digging new wells.

The main source of irrigation water is surface water. Drip irrigation accounts for only 3% of irrigation systems, while agriculture accounts for over half of water demand. The PNGIRH proposes to expand irrigation infrastructure.

Dams and reservoirs in El Salvador were designed exclusively for energy generation. Because of their real and perceived negative impacts, the construction of new installations faces strong public opposition. In spite of the issues linked to public acceptance, the PNGIRH proposes the construction of new dams combining hydropower production with public water supply.

The PNGIRH focuses little on reducing water demand. The metering of drinking water is generalised in urban areas (which are served by ANDA), but not in rural areas. The extraction and use of water for irrigation is subject to charges, but their low level, and the characteristics of their design, do little to encourage farmers to save water. In order to incentivise the adoption of water-efficient irrigation technologies, charges to users of irrigation water should be based on the volume of water supplied, and not on the area irrigated. This is because the volume of water used depends largely on the irrigation technology used (e.g. sprinklers compared to drip irrigation). Irrigation associations have to bear all of the costs of operation and maintenance of the irrigation infrastructure that is transferred by the state. In contrast, holders of abstraction permits in irrigation districts only bear a small fraction of the operation and maintenance costs. According to El Salvador's Irrigation and Drainage Act, the state has to cover at least 40% of investment in irrigation infrastructure, with charges to users covering the rest. As in the case of WSS in urban areas, the ultimate objective should be full cost recovery. Holders of permits outside of irrigation districts have to pay a charge for water abstraction. However, the charge is per hectare, and not on the basis of abstracted volume (as would be desirable), and does not reflect the risk of water scarcity in the area of abstraction. Moreover, the level of charges are too low to encourage careful use of the resource. Extraction charges are not applied in irrigation districts, where, in addition, the electricity tariff for groundwater pumping is subsidised.

Recommendations for managing the risk of water scarcity

To manage the risk of water scarcity, El Salvador could adopt a risk management approach by:

- Identifying and mapping the water bodies (rivers, lakes, and aquifers) that are at risk of water scarcity, as well as their recharge area (sub-basin, groundwater recharge area). This first step aims at "knowing the risk". The Ministry of Agriculture could supervise scientific risk assessments.
- Establishing acceptable abstraction levels in each risk area (sub-basin, and aquifer recharge areas), in order to optimise water abstraction against competing demands, and to prevent conflicts that are associated with water use. This second step aims to "target the risk". The CTEI could oversee: i) stakeholder concern assessments to correct misperceptions of risk, and ii) cost-benefit analyses to define acceptable levels of risk.
- Identifying policy instruments in order to achieve agreed water abstraction targets in a cost-effective manner. This third and final step aims to "manage risk". The Ministry of Agriculture could oversee ex-ante analyses of cost-effectiveness.

Policy instruments could include:

- Abstraction limits for water bodies that are threatened by scarcity.
- Groundwater and surface water abstraction charges, with a rate based on the risk of water scarcity, and a base that covers all sectors of the economy.
- Public financial support to help equip rural households with water meters in areas where the source of drinking water comes from an area that is at risk of scarcity.
- Other instruments that address several water risks simultaneously (see Governance section, below.

Risks related to inadequate water quality

Surface water

Excessive faecal coliforms, phenols, nutrients, and heavy metals (e.g. arsenic, boron), limit or preclude aquatic life in 86% of the sites sampled. Widespread bacteriological contamination (faecal coliforms) from untreated urban wastewater discharges underscores the urgent need to improve El Salvador's sanitation infrastructure.

Excess phenols threaten aquatic life and call for better control of wastewater from coffee-processing facilities (*beneficios*). Excess phosphates and nitrates cause eutrophication, and several types of pesticides have been detected. This requires better management of agricultural inputs. Contamination by heavy metals led the government to take the drastic decision to ban new investment in the metal-mining industry in 2017.

Groundwater

The quality of groundwater tends to be better than that of surface water. However, all groundwater intended for human consumption has to be disinfected due to the presence both of faecal coliforms of domestic or livestock origin, and heavy metals from informal mining and industry, in all sampling points. This calls for improved sanitation. Some wells are contaminated with nitrates and pesticides, especially in shallow aquifers in the coastal zone, and this calls for better management of agricultural inputs.

Recommendations for managing the risk of water contamination

The risk of water pollution is widespread. For a much-needed improvement in surface and groundwater quality throughout the country, El Salvador could consider:

- Expanding urban sanitation services throughout the country. ANDA could assess investment needs (see WSS Section below).
- Incentivising industry to reduce discharges of pollutants into the environment. The Ministry of Environment could oversee both the setting of emission limits and the assessment of the vulnerability of water bodies.
- Incentivising farmers to limit the excessive use of nutrients and pesticides. The Ministry of Agriculture could monitor the establishment of acceptable nutrient surpluses at the farm level. The health and environment ministries could determine the level of toxicity of pesticides to health and the environment.

Policy instruments could include:

- User charges, public financial support, and foreign direct investment or Official Development Assistance (ODA) to expand sanitation infrastructure (sewerage and wastewater treatment) throughout the country (see the “3Ts” principle in the WSS Section below).
- For point sources (wastewater treatment plants, industry), emission limits based on the toxicity of pollutants to health and the environment, and pollution charges at rates that are commensurate with the vulnerability of the water body receiving the discharge.
- Mandatory monitoring of on-farm fertiliser balances.
- Pesticide taxes with rates established according to health and environmental toxicity.
- Other instruments addressing several water risks simultaneously (see Governance section, below).

Risk of flooding

Approximately 10% of the territory of El Salvador is at risk of flooding. Much of it is in coastal areas that get hit by tropical storms. The San Salvador Metropolitan Area is also prone to flooding after heavy rains. This risk has increased due to the soil sealing that has resulted from urbanisation.

El Salvador’s flood risk map shows that 180 000 people live in areas with a very high risk of flooding. The inclusion of ordinary maximum flood areas of rivers in the public hydraulic domain can prevent greater occupation of rivers banks and illegal sand and gravel extraction, thus protecting the flow regime of rivers. Privately owned areas adjacent to river banks are subject to easements.

Recommendations for managing flood risk

By mapping flood risks, El Salvador has taken the first step in the risk management approach to dealing with flood risks, which is to “know the risk”. The next steps would be:

- Establish the acceptable level of flood risk for each risk area (“target risk”). Basin organisations could assess the acceptable level of flooding in risk areas, in close consultation with stakeholders, for approval by the CTEI.
- Identify and implement the most cost-effective instruments to keep flood risk at an acceptable level (“manage the risk”). The Ministry of Environment could assess the economic effectiveness, cost-effectiveness, and feasibility of different policy instruments. To this end, an economic analysis unit should be created within the ministry.

Policy instruments could include:

- Flood damage insurance premia according to flood risk.
- Other instruments that address several water risks simultaneously (see Governance section, below).

Water governance

The very logic of hydrology speaks in favour of watershed governance. El Salvador has defined ten river basins (called "hydrographic regions"). However, the PNGIRH does not address the issue of river-basin governance. Some measures of the PNGIRH are national in scope, while others refer to priority action zones. However, these zones were delimited without distinguishing between scarcity, pollution or flood risks – each having its own geography. This does not favour a risk management approach. Such an approach would recommend prioritising action in risk areas. Basin governance and water risk governance are not mutually exclusive, but should complement each other. Some municipalities and communities have spontaneously grouped themselves into structures at the micro- or sub-basin level in order to improve water management at the local level. El Salvador could rely on these entities to develop a culture of taking a risk management-based approach to water management.

Almost all estimated financing needs for IWRM in the PNGIRH plan relate to the construction of new hydropower plants, and to water and sanitation infrastructure (the latter is also covered by PLANAPS). Only 2% of the financing needs relate to water risk management, and this segment favours control rather than prevention (for example, infrastructure for flood control, irrigation infrastructure, and the cleaning of eutrophic water bodies). Key preventive measures such as soil conservation (to improve rainwater infiltration and prevent landslides and downstream flooding), and river rehabilitation and ecological flows (to regulate river flows, prevent flooding and preserve aquatic life), are only at the planning stage. The General Law on Water Resources includes marginal strips along the rivers as part of the public hydraulic domain. This is an important and innovative step towards river rehabilitation, which has not yet been taken in any OECD country. Beyond domestic sanitation, the PNIGRH pays little attention to improving water quality in the face of pressures from other sectors (such as industry and agriculture).

Shared governance of trans-boundary water is particularly important, as more than 40% of renewable water resources come from outside the country (30% from Honduras, and 10% from Guatemala). As already noted, El Salvador has developed co-operation with its neighbours to alleviate poverty, protect ecosystems, and manage water risks in the upper Lempa river basin. Co-operation is less advanced in the case of trans-boundary aquifers in the west of the country, despite increasing pressure from users, and a lack of control over the volumes abstracted on both sides of the border.

Recommendations to improve water governance

To improve water governance in El Salvador, the country is recommended to:

- Create basin agencies to implement integrated water resources management (i.e. co-ordinate water risk management) at basin level in a hydrographic logic.
- Establish a funding mechanism for public financial support measures at the basin level, e.g. budget transfers from central government, or applying the water pays for water principle (i.e. allocating the proceeds of abstraction and pollution charges to the basin agencies)
- Begin operations of the Salvadoran Water Authority as the governing body for water resources that will re-organise the sector, and will have strategic planning and oversight functions, as well as promoting the exchange of good practices between basin organisations.
- Entrust the Ministry of Environment with the development and implementation of legislation on: i) environmental flows of rivers; ii) pollutant emission limits for point sources and classification of water bodies according to their vulnerability to pollution; iii) water abstraction charges and water pollution charges; and, in conjunction with the Ministry of Health, iv) pesticide taxes.
- Mandate the Ministry of Agriculture to develop and implement legislation on agricultural nutrient monitoring at the farm level.
- For trans-boundary basins and aquifers, establish an international co-operation mechanism responsible for co-ordinating water governance in sub-basins and aquifer recharge areas across the borders.

Policy instruments to simultaneously address water scarcity, water pollution, and flood risks could include:

- Public financial support for the restoration of riparian ecosystems and floodplains to restore space for watercourses (combined with the obligation of respecting environmental flows and the registration of river beds in the public water domain).
- Payments for ecosystem services to protect ecosystems upstream of river basins, to preserve the natural flow and water quality of downstream watercourses, and enhance aquifer recharge.
- Environmental standards for dams and reservoirs to prevent hydro-peaking, and to facilitate fish migration and sediment transport.

Towards water supply and sanitation for all

The service gap in improved drinking water supply and wastewater treatment in El Salvador is much higher than in OECD countries, and causes a high burden of disease, especially in the context of COVID-19, which requires frequent hand washing. WSS tariffs do not include the costs of wastewater treatment, and only cover about half of the cost of the drinking water supply service, which is not conducive to investments in water infrastructure.

The combination of public financial support with water tariffs is proposed as a transitional step towards the ultimate goal of full cost recovery for water and sanitation services. This involves anticipating the financing gap between infrastructure needs and expected tariff revenues (strategic financial planning).

Investment needs

Almost 60% of the rural population, and 4% of the urban population, rely on unimproved sources of drinking water, including tanker trucks. This can result in a much higher water price compared with the parts of the

population that have access to improved sources (be they piped water or standpipes). Even when it is available, drinking-water service can be irregular – just a few hours a day or even a few days a week in some areas. ANDA plans to dig and upgrade wells in order to improve service in these areas. Drinking-water pipes need to be modernised (many are from the 1960s). Combined with illegal connections, water theft, and unbilled water, loss rates (unaccounted-for water) in distribution networks are around 60% and continue to increase.

Almost half (46%) of the rural population, and 11% of the urban population, do not have access to improved sanitation (sewerage, septic tanks or latrines). In addition, only 8% of urban wastewater is treated before it is discharged into the environment. The few municipalities that have organised themselves to build and operate wastewater treatment plants do not recover costs, which results in very low efficiency levels. Some private companies provide wastewater treatment services in residential areas, but the lack of access to private financing is a major obstacle to the spread of wastewater treatment plants. The situation is no better in rural areas, where FIDSL devotes a few million dollars every year to sanitation, targeting the poorest populations. The remainder of public investments depends on international development assistance.

El Salvador's PLANAPS plan for drinking water and sanitation foresees billions of US dollars in investment in providing universal access to the supply of drinking water and sanitation. Although the goal of catching up with the country's needs in terms of water infrastructure fully justifies a supply management policy, it would be more cost-effective to prioritise demand management through better water pricing.

Recommendations for planning investment needs

To support decision making on investments for water and sanitation services in the long term (by 2050), it is recommended to:

- Develop a template with data on infrastructure needs and costs that can be adjusted as new information becomes available (e.g. new legal requirements) (see Annexes).
- Consider the rehabilitation of existing infrastructure.
- Consider demand-side management of WSS (e.g. extension of water metering, re-use of treated wastewater).
- In addition to the provision of services to households, estimate water supply needs and costs for industry and agriculture, and for water storage, in order to get a complete picture of the water expenditure to be incurred.

Water financing

According to the 1961 National Aqueduct and Sewers Administration Act, WSS tariffs must meet criteria of corporate self-financing and social public service, and allow for a margin. They must cover the costs of operation, maintenance, administration, improvement, development and expansion of infrastructure, including loan repayments. However, ANDA recovers less than half of the cost of piped water production. This forces it to resort to borrowing in order to cover the shortfall. In turn, this does not favour investment in the renewal or expansion of infrastructure. The cost recovery gap is even larger for sewerage services, which are billed at extremely low levels on the basis of an increasing block rate (and not by volume of water used, as is often the case in OECD countries). The price of wastewater treatment services is simply not regulated in El Salvador. Only drinking water supply and sewerage are regulated, which explains El Salvador's delay in constructing wastewater treatment plants.

As has been the case with post-COVID stimulus packages in advanced economies, massive public financial support could be dedicated to the modernisation of WSS infrastructure in El Salvador, as an engine of employment and growth. Combining public financial support with tariff revenues to cover the

financing gap for water infrastructure could also facilitate access to reimbursable assistance and finance (loans, bonds, and equity). However, this "3 Ts" approach – the combination of water tariffs, budget transfers, and ODA transfers – should be seen as a transitional step towards the ultimate goal of full cost recovery. Ultimately, tariffs alone should be sufficient to recover the costs of building, operating and maintaining WSS infrastructure, including wastewater treatment plants. They should also make it possible to build up financial reserves for investment, as required by law.

Recommendations for financing investment needs

To foster investment in the water sector and to achieve the three goals of universal access to safe drinking water and sanitation, economic development, and environmental protection, it is recommended:

- In the short term, to combine public financial support with tariff revenues in order to meet the financing gap for water infrastructure, including as part of post-COVID recovery plans, and by increasing the amount of official development assistance that is dedicated to water.
- At the same time, to facilitate the use of reimbursable aid (loans, bonds, equity), and foreign direct investment.
- Plan ahead for long-term tariff increases (through to 2050), with the objective of gradually recovering all costs of WSS services (operation and maintenance of infrastructure, and the constitution of financial reserves for investments).

Water pricing

While increasing block tariffs theoretically create an incentive to reduce water consumption, the tariffs that are applied in El Salvador are too low, and the blocks are too generous, to send a conservation signal to water consumers. Very low tariffs for the first 20 m^3 aim to cover water needs up to 183 litres per person per day (considering an average household of 3.6 people). The first 40 m^3 (365 litres per day) are billed at a subsidised rate (lower than the cost of producing water). In fact, the vast majority of billing relates to the consumption of up to 40 m^3 per month. This is a very high level of consumption by OECD standards.

A progressive pricing structure (with tariffs per m^3 increasing along with consumption) may send a strong conservation signal, depending on tariffs and blocks. Still, it does not necessarily meet social objectives. Poor households are not necessarily those that consume the least, and are, therefore, not necessarily those who benefit the most from subsidised tariffs. True social pricing of water services would consist of setting lower tariffs for people who receive social benefits (as is the case in part of Belgium). However, this would imply a cross-subsidy from the rich to the poor to cover the deficit of service providers. It would also reduce the water-conservation signal for the poor.

Treating the social and management objectives of WSS separately would be more cost-effective. Thus, tariffs could be set high enough to recover the costs of WSS service and investment. Meanwhile, the task of sustaining revenues would be left to social policy (thus allowing the most needy to pay their water bill).

A separate fixed charge could be added to the tariff structure to recover costs that are not directly related to the volume of water used (such as meter maintenance, or billing). This would also help to finance the control of illegal connections (unaccounted-for water), and the recovery of unpaid bills. In turn, this would help to improve the quality and continuity of service.

As in a growing number of countries, including in Latin America, an independent water regulator could be created in order to help to develop and enforce water pricing criteria that, in the long term, should aim at full cost recovery.

In application of the polluter pays principle, ANDA charges for direct water abstractions at higher rates for abstractions for industrial purposes than for those for human consumption. In rural areas, operators of WSS that have been declared to be in the social interest are exempted. As with agriculture (see above), the design of abstraction charges for WSS service providers and industry should aim primarily at managing the risk of water scarcity. Similarly, a charge should be applied to the discharge of urban and industrial wastewater into the natural environment, in order to manage the risk of pollution (see above).

Recommendations for the pricing of water and sanitation services

To achieve full cost recovery in the long run, it is recommended to:

- Improve the cost-effectiveness of WSS service provision by applying the same volumetric rate for all users, leaving income support functions to social policy instruments.
- Plan ahead for a gradual increase in the tariff rate, with a view to achieving full cost recovery by 2050.
- Add a specific fixed charge to the tariff structure in order to recover fixed costs such as meter management, control of illegal connections, and the collection of unpaid bills.
- Establish an independent water regulator to help to develop and enforce water pricing criteria, with the aim of gradually recovering all costs.
- For WSS service providers and industry, redesign abstraction charges, and introduce charges for wastewater discharge to receiving bodies. The aim is to address the risks of water scarcity and water pollution (see above). For WSS service providers, charges could be passed on to their customers via the water bill.

An action plan for integrated water resource management and water supply and sanitation for all

Priorities	Actions for implementation
1. Basin-level governance and its financing	
1.1. Establish basin-level governance through the Salvadoran Water Authority (ASA)	• Mandate basin organisations to collect charges (for abstraction, discharge, and pollution), and to assign the proceeds to finance IWRM measures, according to the priorities established by management plans in each basin.
1.2. Implement a risk-management based approach in each water basin.	• Involve all relevant stakeholders in IWRM (each seeking to minimise their risk). • Mandate basin organisations to seek agreements with stakeholders.
1.3. Develop a water culture.	• Involve stakeholders in risk management to address the lack of public acceptability of water tariffs and charges in El Salvador.
2. Risk management: water scarcity, floods and water pollution	
2.1. Define risk areas within each basin in order to prioritise actions (different from the existing priority areas).	• Drinking water catchment areas (to guarantee the supply of drinking water to the population). • Aquifers and recharge zones that are vulnerable to scarcity (to preserve the integrity of aquifers). • Rivers and lakes that are vulnerable to nitrates and phosphates (to avoid algal blooms and the development of water hyacinth). • Aquifers and recharge areas that are vulnerable to nitrates and phosphates (to preserve the integrity of aquifers). • Areas that are vulnerable to floods, as classified by the periodicity of river floods (every 10, 100 years), (to plan flow-control measures upstream). • Water bodies that are sensitive to contamination (to plan discharge-control measures that match the quality objectives for these water bodies). • Headwaters (to plan soil- and water-conservation activities, to manage the flood regime, and to prevent flooding and landslides downstream). • River sections to be rehabilitated so that they return to their natural course (to prevent flooding downstream and preserve aquatic life).
2.2. Determine acceptable levels of risk.	• Within each risk area, reach stakeholder agreements on acceptable levels of abstraction, pollution, and increases in water level, in order to manage competing demands and to prevent conflicts over the use of water. • In parallel, organise concern-assessment evaluations with stakeholders to correct erroneous perceptions of risk.
2.3 Manage the risk: choose policy instruments (e.g. economic instruments) in order to achieve acceptable levels of risk in a cost-effective manner.	• In addition to abstraction limits in water bodies that face risks of scarcity, establish abstraction charges at sufficient levels to incentivise water conservation: ○ Implement the charges for water use that were established in the LGRH, with appropriate adjustments according to the area of abstraction. ○ Charges already exist for agricultural producers, but they are set by land area and not by abstracted volume, and they do not reflect scarcity risk in the area of abstraction. In addition, current charges are too low to foster water conservation • Progressively eliminate the electricity tariff subsidy for pumping groundwater, as it goes against the incentives created by abstraction charges. • In addition to establishing permissible discharge limits for wastewater, establish pollution charges according to the pollution load and the vulnerability of receiving water bodies, based on the discharge charges established by the LGRH. • Mobilise public financial support to finance soil and water conservation in headwaters. ○ For example, from the National Programme for Ecosystem and Landscape Restoration (the *Programa Nacional de*

Priorities	Actions for implementation
	Restauración de Ecosistemas y Paisajes, or PREP), which is part of the 2013 national biodiversity strategy. • Consider the introduction of payments for ecosystem services (PES) to improve soil and water conservation in slopes. • To "give water space" and to improve the hydrological cycle, preserve aquatic life, and prevent floods, and in addition to the regulations on ecological flows: ○ Build on the inclusion of maximum ordinary flow areas of rivers in the public water domain in order to encourage river rehabilitation. ○ Consider providing financial support for river rehabilitation, for example: ▪ Through biodiversity policy, by financing projects for the rehabilitation of riparian vegetation and floodplains. ▪ Through agricultural policy, by supporting producers that manage river banks as biodiversity promotion areas.
3. Strategic financial planning for drinking water supply and sanitation	
3.1. Estimate financing needs according to targets (for example, universal WSS access by 2050).	• Estimate needs in WSS infrastructure. • Estimate needs for rehabilitation of existing infrastructure. • Estimate efficiency gains to be realised on the demand side (for example, the expansion of water metering, and the use of treated wastewater). • Estimate water needs for industry and agriculture. • Estimate needs for water storage infrastructure (dams, reservoirs).
3.2 Estimate expected revenue.	• Estimate expected revenue from: ○ Invoicing; ○ Public financial support. • Examine different scenarios within the current legal framework: ○ Status quo; ○ Increases in the base (including wastewater treatment plants, and sewerage charges by volume, as opposed to flat rates); ○ Increases in the tariff; ○ Changes in the tariff structure (changes in blocks, or removal of blocks in favour of volume-based charges).
3.3. Close the financing gap	
4. Pricing water supply and sanitation (WSS) services	
4.1 As a transition phase, combine water tariffs, budget transfers and ODA.	• Estimate public health benefits from WSS infrastructure (as a justification for budget transfers and ODA allocations). • Offer an income guarantee (through the budget or from ODA) to facilitate access to reimbursable finance (loans, bonds, stocks).
4.2 Move gradually towards full cost recovery.	• Gradually increase water tariffs to levels that are sufficient to recover the cost of construction, operation and maintenance of WSS infrastructure, as well as the generation of financial reserves for investment - as required by law. • Attract foreign direct investment through tariffs that cover costs and allow for profit margins.

Notes

[1] Water productivity in OECD countries ranges from USD 15/m^3 (Colombia) to over USD 1 000/m^3 (Luxembourg).

[2] The secondary legislation for the implementation of the General Law on Water Resources was developed in the second half of 2022 and issued in December 2022, after the finalisation of this report. The analysis included in this chapter was conducted during 2021 in collaboration with El Salvador's environment ministry, and shared with stakeholders for use in the discussions on the General Law on Water Resources in the Legislative Assembly. However, the OECD drafting team did not have access to the draft law during the analysis.

[3] According to (FAO, 2018[45]) water stress starts at 25%.

[4] Admissible values for wastewater discharged into a receiving body (standard NSO 13.49.01:09 of 1996), https://www.transparencia.gob.sv/institutions/anda/documents/115912/download.

[5] http://cidoc.marn.gob.sv/documentos/reglamento-especial-de-aguas-residuales-decreto-n-39/.

[6] See: https://www.marn.gob.sv/lago-de-coatepeque-ha-perdido-siete-metros-de-nivel-en-los-ultimos-40-anos/.

[7] Ramsar sites are wetland sites designated to be of international importance under the Convention on Wetlands, an intergovernmental treaty established in 1971 in Ramsar, Iran.

[8] A standpipe is a vertical pipe connected to the water supply that supplies water in a public space such as a village square.

[9] Guatemala does not have a general water law, but bills are under discussion.

[10] See: https://sdgs.un.org/goals/goal6.

[11] Known before 1986 as community development associations (*Asociaciones de Desarrollo Comunal,* ADESCO).

[12] In October 2020, ANDA estimated the cost of producing water at USD 0.97/m^3 (https://www.transparencia.gob.sv/institutions/anda/documents/392414/download).

[13] See https://www.transparencia.gob.sv/institutions/mag/documents/308279/download.

[14]https://www.clcv.org/storage/app/media/eau-anc/Enqu%C3%AAte_CLCV_Les_dessous_de_la_facture_deau_mars_2019_.pdf.

[15] Community associations, water systems management associations, non-profit foundations, community directives, water committees and any other similar entity, legally constituted, that develop projects for community benefit.

[16] ANDA keeps a register of direct water withdrawals for consumptive uses other than irrigation (which must be metered and registered with ANDA).

[17] https://www.jurisprudencia.gob.sv/DocumentosBoveda/D/1/2010-2019/2018/02/CD607.PDF.

[18] Council Directive 91/271/EEC concerning urban wastewater treatment.

[19] For industry, tax levies and water agency disbursements are more balanced.

[20] Landslides have claimed many lives in El Salvador. They also affect the economy due to the loss of infrastructure and productive soils.

[21] Agroforestry is already successfully applied in southern Honduras (where it is known as the Quesungual agroforestry system).

[22] http://www.minam.gob.pe/wp-content/uploads/2014/06/ley_302105_MRSE.pdf.

[23] El Salvador has grouped its many aquifers into pairs, or indeed into larger groups, according to their hydro-geochemical characteristics. These groupings are called groundwater bodies.

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Annex 6.A. Investment needs for water and sanitation in El Salvador

Annex Table 6.A.1. Investment needs for universal access to water in El Salvador by 2050

Public water supply	million people	USD per capita, or %	USD million
Total urban (full)			1 329
Total urban (basic)			1 193
Piped network (full)			496
Piped network (basic)			319
90.6% piped in 2019 (5.1% standpipe; 4.3% other)	3.843		
household piped (investment cost)		200	
standpipe (investment cost)		50	
whole population piped by 2050 (full)			418
whole population piped by 2050, except 44.4% standpipe in slums (basic)			241
rehabilitation piped 2019 (25% investment cost)		50	77
rehabilitation standpipe 2019 (25% investment cost)		12.5	1
rehabilitation need		40%	
Water mains			510
extension to population 2050		200	418
rehabilitation piped 2019 (30% investment cost)		60	92
rehabilitation need		40%	
Water treatment			233
treated 2019 (100% coverage)	4.240		
extension to population 2050		100	169
rehabilitation treated 2019 (30% investment cost)		30	64
rehabilitation need		50%	
Metering & monitoring (full)			91
Metering & monitoring (basic)			132
metered 2019 (piped coverage)	3.843		
meter extension to population 2050 (full)		15	31
meter extension to population 2050 (basic: 55.6% in slums)			72
monitoring population 2050		20	59
monitoring coverage		50%	
Total rural (full)			340
Total rural (basic)			195
Piped network full)			340
Piped network (basic)			195
13.1% piped in 2019 (28.2% standpipe; 58.7% other)	0.324		
household piped (investment cost)		150	
standpipe (investment cost)		75	
whole population piped by 2050 (full)			321
half population piped/half standpipe by 2050 (basic)			177
rehabilitation piped 2019 (25% investment cost)		37.5	9
rehabilitation standpipe 2019 (25% investment cost)		18.75	10
rehabilitation need		75%	

Note: Projected population in 2050 (6.9 million), according to the website of the United Nations Department of Economic and Social Affairs (UNDESA). Assuming that 42% of the urban population lives in slums in 2019 and 2050 (following (FLACSO/MINEC/PNUD, 2010[43])), and that the rural population remains unchanged in 2050 (despite UNDESA's forecast for it to decrease), because rural populations need sanitation services before migrating to cities. The share of the urban and rural population connected to piped water and with access to standpipes in 2019 is according to ANDA.
Source: Authors' compilation.

Annex Table 6.A.2. Investment needs for universal access to sanitation in El Salvador by 2050

Sanitation	million people	USD per capita or %	USD million
Total urban (full)			3 342
Total urban (basic)			2 359
Sewerage (full)			946
Sewerage (basic)			661
67.1% sewer in 2019 (11% septic tank; 11% latrine; 11% unimproved)	2.847		
sewer (investment cost)		260	
latrine (investment cost)		125	
whole population connected to sewer by 2050 (full)			802
whole population connected to sewer by 2050, but 50% septic tank/latrine in slums (basic)			517
rehabilitation sewer in 2019 (45% investment cost)		117	133
rehabilitation latrine in 2019 (45% investment cost)		56.25	10
rehabilitation need		40%	
Sewer mains (full)			479
Sewer mains (basic)			317
extension to population 2050 (full)		130	401
extension to population 2050 (basic: half sewers in slums)			239
rehabilitation sewer 2019 (35% investment cost)		45.5	78
rehabilitation need		60%	
Storm water (full)			758
Storm water (basic)			472
25% separate storm water sewer in 2019	1.060		
extension to population 2050 (full)		150	731
extension to 50% population 2050 (basic)			444
rehabilitation storm water 2019 (35% investment cost)		52.5	28
rehabilitation need		50%	
Secondary sewage treatment (full)			1 128
Secondary sewage treatment (basic)			879
8% sewage treated in 2019 (92% untreated)	0.339		
extension to population 2050 (full)		200	1 118
extension to population 2050 (basic: half sewage treated in slums)			869
rehabilitation sewage treated 2019 (35% investment cost)		70	9
rehabilitation need		40%	
Sewage disinfection			31
0% disinfection in 2019	0		
extension to 35% population 2050		15	31
Total rural			217
Improved sanitation			217
no connection to sewer in 2019 (16% septic tank; 38% latrine; 46% unimproved)	0.0		
sewer (investment cost)		200	
latrine (investment cost)		100	
25% population connected to sewer by 2050 (16% septic tank; 59% latrine)		100	175
rehabilitation latrine 2019 (45% investment cost)		45	42
rehabilitation need		100%	

Note: Projected population in 2050 (6.9 million) according to the website of UNDESA. Assuming that 42% of the urban population lives in slums in 2019 and 2050 (following (FLACSO/MINEC/PNUD, 2010[43])), and that the rural population remains unchanged in 2050 (despite UNDESA's forecast for it to decrease), because rural populations need sanitation services before migrating to cities.
The share of the urban and rural population in 2019 that was connected to sewer is according to ANDA, the share of that population that has access to septic tanks and latrines is following (INS, 2014[44]).
Assuming that access to septic tanks unchanged in 2050.
Source: Authors' compilation.

7 Education and skills formation for development in El Salvador

This chapter examines the state of El Salvador's education system, and its ability to prepare children and young people for the labour market. The review underscores barriers to access, progression and completion, in light of the country's socio-economic and geographical disparities. It suggests targeted policy recommendations to provide children and youth with the necessary skills to help build El Salvador's future.

Transforming the education and skills system in El Salvador is critical to promoting equity in access to education, and to improving future outcomes for the country's young people, both in education and the labour market. As a driver of social mobility, education provides a unique opportunity to mobilise national resources efficiently, with long-term benefits for future generations. Improving educational outcomes, and raising educational attainment, serve to expand the skill set of individuals, to make workers more productive, and to promote economic development. Education not only fuels economic growth: it is also associated with social and economic well-being, and better health outcomes (Nozal, Martin and Murtin, 2019[1]). Investment in education also requires structural and organisational frameworks to enhance the performance of the education system. For example, higher attendance in quality pre-primary education, and targeted in-service teacher training, can boost students' learning outcomes.

While El Salvador has made substantive progress, especially with regard to enrolment, low attainment levels and high rates of dropout continue to limit opportunities for the development of human capital in the country. Compared to international benchmarks, children and young people do not stay in school long enough to obtain the necessary skills and qualifications to be competitive in the labour market. The quality of education and the learning environment can create inequality across the education system, as evidenced by gaps across gender and rural-urban lines. Furthermore, the benefits of staying longer in school are weakened by financial and opportunity costs for vulnerable populations, especially those living in violence-affected areas.

This chapter analyses the causes behind these challenges, identifies policy priorities, and provides recommendations to boost the education and skills system in El Salvador. The chapter is organised into five sections. First, it reviews the main educational challenges in El Salvador in terms of access, completion and financing. Compared to other countries in the region, the expansion of pre-primary education amounts to significant progress in El Salvador. In contrast, the degree to which students progress through and remain in secondary school – which in the terminology of the Salvadoran school system equates to the third cycle of basic education (*educación básica*), plus middle school (*educación media*) – pose a fundamental challenge for increasing educational attainment in the country.

The rest of the chapter focuses on four priority areas for action. After describing the education system and its main successes and challenges in the first section, the second section proposes to strengthen access to quality early-childhood education in order to lay the foundations for lifelong learning, and to reduce social inequality. The third section analyses barriers to school progression, with a focus on secondary school. The fourth section examines two critical areas for the quality of education, namely policies with regard to teachers, and the quality of learning environments. The fifth section focuses on the pertinence of education, and the potential of the technical and vocational training system to endow young people with skills and competencies that will immediately be valuable on the labour market. In light of El Salvador's commitment to Sustainable Development Goal (SDG) 4 to "ensure inclusive and equitable quality education and promote life-long learning opportunities for all", this chapter focuses on the priority areas that can have a major impact on improving opportunities for all children and youths. As such, university education is intentionally not addressed in this chapter, so as to focus on strengthening the earlier foundational stages of the education system.

Box 7.1. From Analysis to Action: A Policy Workshop on Education and skills in El Salvador

Phase Three of the Multi-dimensional Country Review (From Analysis to Action) was implemented mainly through a series of policy workshops. These were conducted following a version of the governmental learning methodology proposed by Blindenbacher and Nashat (2010[2]) that was adapted to the OECD's Multi-dimensional Country Reviews (MDCR). The methodology applies a range of facilitation techniques to foster knowledge-sharing and a reform-oriented mind set in complex contexts.

The workshop "From Analysis to Action: Education and Skills" was held in San Salvador on 29 June 2022. It brought together 48 participants from public entities (the Ministry of Education, Science and Technology [*Ministerio de Educación, Ciencia y Tecnología*, or MINED], the Ministry of Foreign Affairs, the Secretariat for Commerce and Investment of the Presidency, the *Instituto Salvadoreña para el Desarollo Integral de la Niñez y la Adolescencia* [ISNA], the *Agencia de El Salvador para la Cooperación Internacional* [ESCO], the Ministry of Agriculture, and the *Consejo Nacional de la Niñez y de la Adolescencia* [CONNA]), as well as representatives from civil society, academia and international co-operation.

Participants carried out a prioritisation exercise among the different issues that are addressed in this chapter and developed action plans for priority areas that were identified during the workshop. These are: teacher professionalisation, evaluation in education, pertinence of education, financing and strategy, and pedagogy and education quality.

The text of this chapter incorporates the inputs that were provided during the workshop. In the cases in which participants formulated detailed action plans, they are clearly identified in boxes. These are included after the recommendations of the corresponding section of the chapter. In other cases, the inputs are included directly in the recommendations that are presented at the end of each section.

Source: (Blindenbacher and Nashat, 2010[2]), *The Black Box of Governmental Learning: The Learning Spiral - A Concept to Organize Learning in Governments*, The World Bank, Washington DC, https://doi.org/10.1596/978-0-8213-8453-4

The education system in El Salvador: Progress and challenges

After suffering from the global crisis of 2008, development in El Salvador has been characterised by a slow recovery and persistently low levels of growth in gross domestic product (GDP). This has contributed to high levels of youth unemployment, violence, and insecurity, which have affected the bottom 40% of the population disproportionately (World Bank, 2019[3]). Successive national development plans – the *Plan Global Anti-Crisis* 2009-2011, the five-year plans (*Planes Quinquenales de Desarrollo*) 2010-14 and 2014-19, and the National Plan for Social Development, Social Protection and Social inclusion (*Plan Nacional de Desarrollo, Protección e Inclusión Social*) 2014-2019, aimed to reduce poverty, socio-economic inequality, and social exclusion, by emphasising the quality of public services, including education.

The generalised expansion of access to education in the past two decades is one of the greatest achievements of El Salvador's education system. Thanks to strong political will, and supported by policy and institutional changes, 1.06 million children and youths were enrolled in education in 2020, from kindergarten to upper secondary, and in 5 145 educational centres (UNDP, 2021[4]).

Increasing access to education for the most vulnerable populations has been a priority in the education plans of successive governments in El Salvador (World Bank, 2020[5]). Public funding for education contributed to a major boost in educational resources in 2009, with a focus on targeting areas where

schools were failing. The *Plan Global Anti-Crisis*, for example, dedicated resources to a school meals programme (the *Programa de Alimentación Escolar)*, to educational transfers that take place through the *Comunidades Solidarias Rurales* conditional cash-transfer programme, to school kits (*paquetes escolares*), and to financing for community-based schools (MH, 2009[6]). El Salvador's 2009-14 strategy for the education sector (*Vamos a la Escuela*) articulated comprehensive reforms of secondary school, with the objective that all children have access to, and complete, quality secondary education, with support from donors (World Bank, 2011[7]; World Bank, 2019[3]; World Bank, 2020[5]). This sectoral strategy was combined with the creation of anti-violence policies in priority areas, such as the Safe El Salvador plan (the *Plan El Salvador Seguro*, or PESS), which provided support to full-time public and private schools to reduce the numbers of young people that get involved with gangs. The Inclusive Full-Time School (*Escuela Inclusiva de Tiempo Pleno*, or EITP) model was a key programme in the strategy to improve community-based governance and educational equity for economically disadvantaged children.

The legal and institutional framework for education and skills in El Salvador

The legal and institutional framework for education in El Salvador is the result of a number of consecutive processes of reform. The current regulatory framework, which is based on the 1983 Constitution of the Republic of El Salvador, originated with the process of education reform that was initiated after the 1992 peace accords. It led to the approval of three main laws: the General Education Law, the Teaching Career Law, and the Higher Education Law. The 1996 General Education Law (the *Ley General de Educación*) (Asamblea Legislativa, 1996[8]) is the framework legislation for the sector. It establishes the distinction between formal modalities of education, which are provided in educational establishments and lead to degrees and diplomas, and non-formal education, which is offered in order to complete people's knowledge and training, but without being subject to a system of levels and degrees. The law also dictates the organisation of the formal school system, which is governed by the Ministry of Education. Dating from 1996, El Salvador's Teaching Career Law, the *Ley de la Carrera Docente*, establishes the requirements for teaching, the process of registrating to teach, and the attribution of positions in public schools (Asamblea Legislativa, 1996[9]). The 1995 Higher Education Law governs all higher education in the country and the institutions that provide it, including technical training institutions (Asamblea Legislativa, 1995[10]).

The formal education system has a centralised structure, with the Ministry of Education, Science and Technology as the highest authority for all levels of education. However, it has followed a process of administrative decentralisation. Decisions on curriculum development and other education policies are centralised, and apply at the national level. In contrast, schools have some autonomy with regard to administrative management and responsibility. They are responsible for planning and managing the financial resources of the school, and they play an important role in recruitment and human resources (although they do not have the power to recruit teachers according to the Teaching Career Law) (Edwards, Martin and Flores, 2015[11]; Alberti, 2018[12]). Public schools (which are also called official schools), are administered by a governing board, which is in charge of organising the participation of the educational community, teachers, students and parents. The deconcentrated structure of the Ministry of Education, through its departmental education directorates, provides support to schools, and acts as an intermediate level of management in some processes. In 2021, there were 5 935 education establishments in El Salvador, most of them public (86%). This included 180 public centres managed by the Catholic Church (and administered by their director and a Catholic School Education Council). It also encompassed 24 centres with different modes of administration (e.g. managed by other state agencies, such as education centres in detention centres) (MINED, 2022[13]).

Initial teacher training is provided by 16 universities and higher education institutions, under the supervision of the Ministry of Education. Since the closure of the system of teacher-training colleges (*Escuelas Normales*) in 1980, teacher training was provided by technical institutes and private universities, but with very mixed results in terms of quality. The education reform that followed the civil war introduced a rigid

three-year syllabus, with a centralised curriculum and a system of monitoring and supervision by the Ministry of Education. In order to further deepen this reform, the National Institute for Teacher Training (the *Instituto Nacional de Formación Docente*, or INFOD) was created in 2018 (Asamblea Legislativa, 2018[14]). The INFOD was created as a higher education institution for teacher training. However, right from its first conceptualisation, and also in practice, it can play an important role in training teacher-trainers, and in curricular and pedagogical research (Luna and Candray, 2019[15]).

Several bodies have played co-ordinating roles with regard to education issues over the past decade. The National Education Council (*Consejo Nacional de Educación*, or CONED) was created in 2015 (by Executive Decree no. 57), as a consultative body on education, and as a space for broad dialogue for the formulation of consensus on education policies. CONED is a dialogue forum with broad membership, and its creation sought to transcend the scope of the Ministry of Education – and even that of a single presidential term – by drawing on the broad participation of education experts from various fields, as well as international organisations and supporting countries, in addition to various state institutions. It had the same name as that of a National Education Council, which went by the acronym of CNE, and was created in 2009 as an advisory institution to the Ministry of Education, with a much narrower scope of work and membership. CONED's work led in particular to the formulation of the Educated El Salvador Plan (*Plan El Salvador Educado*), an education plan with a 10-year horizon (2016-26). Its work covered diverse issues in education along six main axes (CONED, 2016[16]). CONED's last reported activity was the publication, in December 2018, of a progress report on the Educated El Salvador Plan, which it addressed to the then President of the Republic. CONED has not been active as a space for dialogue since 2019.

This legal framework is complemented by legislation that has a broader scope in the protection of childhood and adolescents. The 2009 Law on the Comprehensive Protection of Childhood and Adolescence (the *Ley de Protección integral de la Niñez y la Adolescencia*, or LEPINA) guarantees the right to free and compulsory education. The law was reformed in 2022 as the Growing Together Act (*Ley Crecer Juntos*). The LEPINA law also establishes the rights of children and adolescents, bringing Salvadoran law into line with international standards - and especially the Convention on the Rights of the Child, which El Salvador ratified in April 1990. LEPINA created a national system for the comprehensive protection of children and adolescents, with a National Council for Childhood and Adolescence (*Consejo Nacional de la Niñez y la Adolescencia*, or CONNA) as its highest authority. CONNA is an autonomous body, but through the Ministry of Education it establishes links to, and co-ordinates with, other entities. With the implementation of the Growing Together Act from January 2023, the powers of CONNA are passed on to a National Council on Early Childhood, Childhood and Adolescence (*Consejo Nacional de la Primera Infancia, Niñez y Adolescencia*, or CONAPINA), which also absorbs the powers of the Salvadoran Institute for Comprehensive Development of Childhood and Adolescence *(Instituto Salvadoreño para el Desarrollo Integral de la Niñez y Adolescencia* or SNA) as manager of the network of early childhood service providers.

The legal and institutional framework for vocational education and training in El Salvador is separate from that of education. The 1993 Vocational Training Law (Ley de Formación Profesional) establishes a system of vocational training, including the Vocational Training Institute (*Instituto Salvadoreño de Formación Profesional*, or INSAFORP) (Asamblea Legislativa, 1993[17]). The law explicitly excludes from its scope all technical education programmes that are authorised by the Ministry of Education. In turn, INSAFORP was created as an autonomous institution reporting to the Ministry of Labour and Social Security. INSAFORP's powers include the design and regulation of vocational training. This includes the provision of training, and the accreditation and certification of training provided by third parties.

Co-ordination between different systems of education and vocational training, especially between the sectors of technical education and vocational training, has recently been improved through institutional reforms. The progress that was made in recent years, especially with the support of the second *Fondo del Milenio El Salvador* (FOMILENIO II) programme, led, in 2019, to the elaboration of a policy for the co-ordination of technical education, vocational training, and the productive sector (the *Política de articulación*

de la educación técnica, la formación profesional y el aparato productivo) (FOMILENIO et al., 2019[18]). This policy establishes lines of action to overcome the segmentation of professional and vocational training. As part of the implementation of this policy, an institutional co-ordination structure was established. This is headed by the Co-ordination Council for Technical Education and Vocational Training (the *Consejo de Coordinación de la Educación Técnica y la Formación Profesional*, or CCETFP). It also includes sectoral skills committees. It is worth noting that, with the activities of the FOMILENIO II programme having now come to an end, the momentum of this effort to establish linkages between the education and training systems seems to have waned. There is no mention of the co-ordination bodies in the Ministry of Education's strategic planning document (Plan Togoroz) (MINED, 2021[19]). There is also no mention of the CCETFP in the 2020 and 2021 annual reports of the Ministry of Education or INSAFORP.

After the education reform that followed the civil war, and which was implemented from 1995 onwards, successive reform plans have lacked continuity, and have been implemented only in part. In the post-war period, five education plans with different characteristics have marked the evolution of education policy. El Salvador's ten-year reform plan 1995-2004 for education established as priorities an increase in coverage and quality, and institutional modernisation. It did this under the aegis of of the legal framework of the post-civil war reforms, which to a large extent still prevails. Subsequently, the *Plan 2021* (2004-21) was conceived as a long-term blueprint, and also as a continuation of the ten-year plan. Its objective was to increase educational attainment and to enhance the competitiveness of the education system, with a horizon set for the bicentenary year of El Salvador's independence. However, El Salvador's Social Education Plan (or *Plan Social Educativo*), which is called "Let's go to school!" (*Vamos a la Escuela*), and which aligned with the 2009-14 five-year presidential term, proposed a radical change in education, both from a curricular and an organisational point of view, meaning that Plan 2021 was abandoned in practice. The Social Education Plan proposed discipline-based learning rather than subject-based teaching, with the formation of teaching teams and the development of a full-time inclusive school. This implied profound changes in the organisation of teaching and the school environment. The education plan for the five-year period 2014-19, despite being presented as a continuation of the Social Education Plan, did not contain structural changes of the same scope (MINED, 2015[20]). In this context, the formulation by CONED of the Educated El Salvador Plan again sought to establish a long-term vision (through to 2026), based on a broad process of consultation. The Educated El Salvador Plan is structured around six challenges: i) violence-free schools; ii) teaching quality; iii) comprehensive early-childhood development; iv) increasing educational attainment (to 12 years of schooling); v) higher education, productivity and competitiveness; and vi) infrastructure. As for the five-year period 2019-24, the Togoroz Plan, which was published in 2021, is presented not as a global education plan, but as an institutional strategic plan for the Ministry of Education. Despite this, it sets objectives for 2030, and takes up some of the areas of action of previous plans.

The structure of the Salvadoran education system

The legal framework for education has evolved to further support policies for inclusive, quality education, in accordance with international standards. The Constitution of 1983, and the General Law on Education, establish the right to pre-school and basic education for the whole population of El Salvador. The state is responsible for offering free education (Asamblea Legislativa, 1996[8]). The LEPINA is more detailed. It established the right to free and compulsory education, including initial education, pre-primary education, basic education, and middle school. In addition, it established the framework for special education for children with disabilities (Asamblea Legislativa, 2009[21]).

The current structure of the education system was set up by the General Law on Education of 1996, and the reforms that it put in place. Free and compulsory education starts at four years of age (*parvularia*) and runs until the end of basic education (the *tercer ciclo*), which corresponds to lower-secondary education) (Box 7.2 and Figure 7.1). Relative to education systems in other countries, El Salvador has one of the lowest starting ages for compulsory education in the world, and one of the longest durations, with three

years of pre-primary education (UNESCO, 2021[22]). However, compulsory education for adolescents, with nine years of basic education (cycles one to three), is relatively short. Most countries in the region (30 out of 41) have more than nine years of compulsory basic education and include middle school as the upper end of compulsory education. This corresponds to upper-secondary schooling in the 2011 International Standard Classification of Education (ISCED 2011).

Box 7.2. The structure of the education system in El Salvador: levels and types of education

The Salvadoran education system consists of four broad components (Figure 7.1).

- Early childhood education and care (ECEC) (ISCED 0). ECEC is the period from birth to age six, up to when a child enters primary education. From ages zero to three, children can attend early learning programmes (*educación inicial*). *Parvularia* or *educación preescolar* refer to the first three years of compulsory education, from ages four to six. They are organised in formal care centres, or pre-schools, which are often annexed to primary schools.
- Basic education (ISCED 1 and 2). This includes both primary education and lower-secondary education, from ages seven through to 15. It is composed of three cycles, each lasting for three years. The first cycle, *Ciclo I*, is for grades 1 to 3 (ages seven to nine). The second cycle, and *Ciclo II*, is for grades 4 through to 6 (ages 10 to 12). Together, they compose the primary education level. The third cycle, the *Tercer ciclo*, is for grades 7 to 9 (ages 13 to 15). It corresponds to the lower-secondary level of ISCED 2011.
- Upper secondary education (ISCED 3). Upper secondary education is not compulsory, and it lasts for two years for a general baccalaureate degree, or three years for a technical-vocational baccalaureate degree. These different qualifications are usually taught in the same institution. The articulated technical baccalaureate lasts for four years. It is known as *educación media*.
- Higher education (ISCED 5, 6, 7, and 8). Higher education opens up access to post-secondary education. It is organised depending on the duration and specificity of the studies, and the range of degrees that are offered.
  - Universities grant higher education degrees. These include short-cycle degrees (technicians and teachers) (ISCED 5), undergraduate degrees (bachelor's degree, engineer, or architect; five years, ISCED 6). They also include post-graduate degrees, such as masters (ISCED 7) and doctorates (ISDCED 8).
  - Technological institutes offer short-cycle applied training programmes. They grant technician (two years) and technologist (four years) degrees (ISCED 5).
  - Specialised higher education institutes are higher education institutions that offer training in fewer than five degree programmes, in a specific area of specialisation.

Figure 7.1. Education levels in El Salvador

ISCED level	Official school age	Grade/ Year	Education programme	General education programme	Technical and vocational education and training
0	0 1 2 3 4 5 6		Early education (*Educación inicial*)	*Early childhood education and care*	
			Pre-primary (*Preescolar* or *Parvularia*)		
1	7 8 9 10 11 12	1 2 3 4 5 6	**First cycle (*Ciclo 1*)** **Second cycle (*Ciclo 2*)**	*Basic education (Primary and lower secondary)*	
2	13 14 15	7 8 9	**Third cycle (*Tercer ciclo*)**		
3	16 17 18	1 2 3	Upper secondary (*Educación media*)	*General baccalaureate (Bachillerato general)*	*Technical baccalaureate (Bachillerato técnico vocacional)*
4 - 8	18 +		Higher education and post-secondary education (*Educación superior*)	University education	Technical education

Note: Compulsory education levels are in bold (12 years in total). The official starting age for each level is indicated. “Grades” refer to basic education and “years” to upper secondary class names. Academic degrees that correspond to higher education are: Technician, Professor, Technologist, Bachelor (*Licenciado*), Engineer, Architect, Master, Doctor and Specialist. Middle school is also free, but not compulsory.

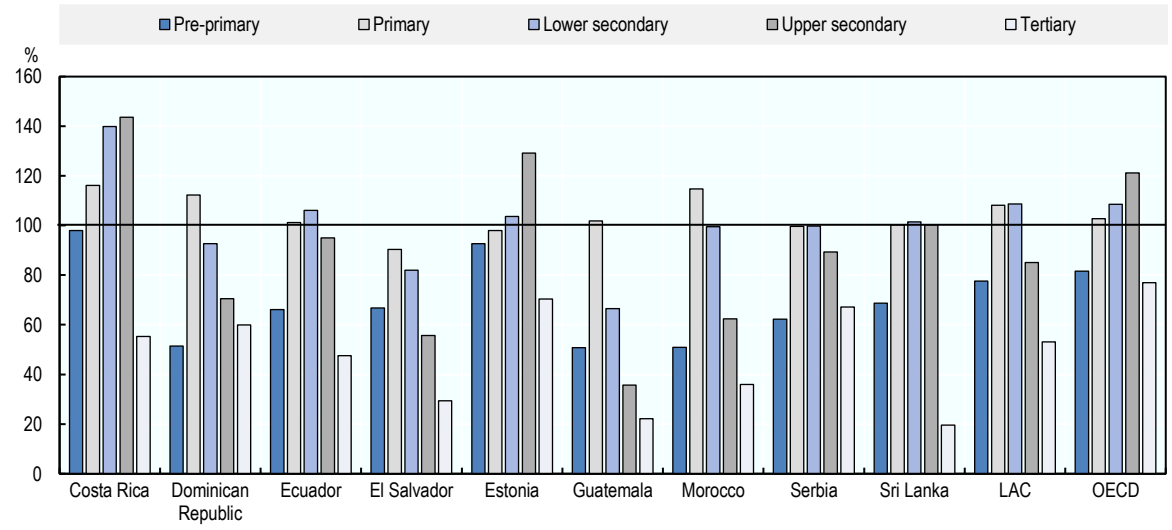
Access to compulsory education has increased, but remains low

Building on the strong education framework established since the 1992 Peace Accords, El Salvador aimed to address major challenges in terms of access to, and the quality and equity of, education. Access to primary school increased during the 1990s and 2000s, from initially low net enrolment rates, rising from 72.8% in 1990 to 95.0% in 2005 (DIGESTYC, n.d.[23]). Access to pre-primary education (*parvularia*) also increased by 51% between 2000 and 2018, albeit at a slower pace than some countries, such as Costa Rica, which had comparatively low starting points (Figure 7.3).

El Salvador’s achievements in terms of pre-primary enrolment stand out, as does the lag in middle school and higher education. The gross enrolment rate in pre-primary education (66% in 2019) stands at the same level as in emerging economies like Serbia, However, enrolment rates in secondary school, and especially in upper secondary (middle school), are among the lowest in the comparison group, exceeding only those of Guatemala.

Figure 7.2. Gross enrolment rate by education level

2019 or nearest data available

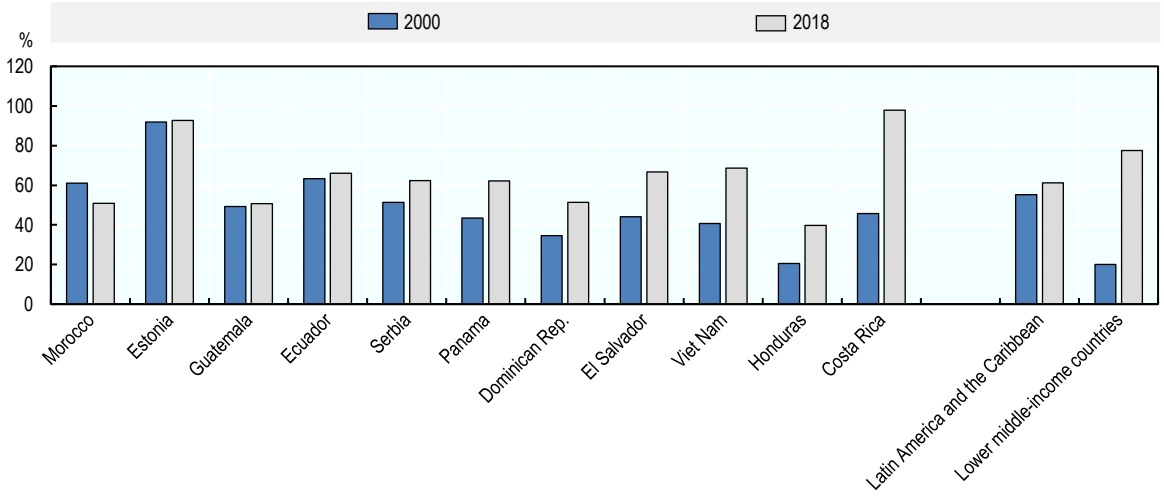


Note: LAC: Latin America and the Caribbean. Data are presented for 2019 as available. Enrolment data for 2020 and 2021 include numerous estimations with different methodology due to the impact of the COVID-19 pandemic. Data for pre-primary and tertiary education are for 2018, except for Dominican Republic, where they are for 2017, and for Guatemala (2019). Data for Sri Lanka (upper secondary) are from 2018. Given that gross rates compare enrolment to the size of the age group, education systems that manage to keep students in school despite being over-age tend to have higher enrolment rates in higher education.
Source: UNESCO (2022[24]) UNESCO Institute of Statistics (*database*), http://data.uis.unesco.org/.

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Figure 7.3. Gross enrolment rates in pre-primary education

Percentage, 2000-18



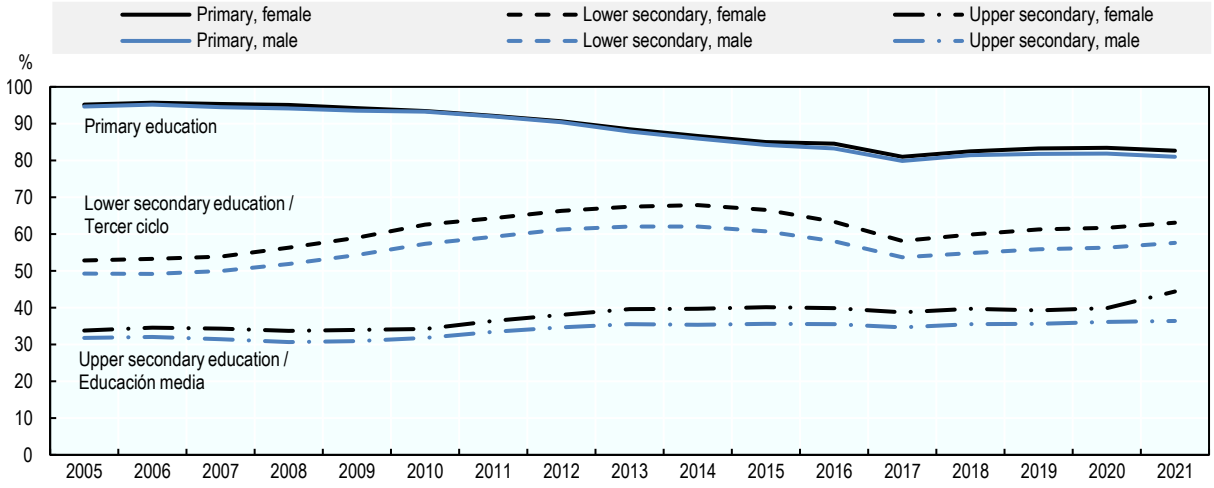
Source: UNESCO (2022[24]), *UNESCO Institute of Statistics* (*database*), http://data.uis.unesco.org/.

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In recent years, progress in the education sector has stagnated or regressed, with worrying trends in participation data. Over the past decade, gains obtained in education since the 1990s have been eroded, with declining rates of net enrolment. Even though net enrolment rates reached almost universal levels during the 2000s, they have been falling since 2005 (Figure 7.4).

Progression through the education system remains one of the greatest challenges, as indicated by the discontinuity of enrolment between the different levels of education. Since many children do not advance to lower secondary education (*tercer ciclo*) after completing their primary education, the net enrolment rate drops by 45%. At levels of education where it is not compulsory, and between lower-secondary and upper-secondary education, net enrolment rates fall between 20 and 25 percentage points for both boys and girls. In 2021, the net enrolment rates were 81.8% for primary school, 60.3% for lower secondary school, and 40.3% for upper secondary school.[1]

Figure 7.4. Net enrolment rates by education level and gender, 2005-21



Note: From 2021, the calculation of net enrolment rates for upper secondary education only takes into account students aged 16 and 17.
Source: (MINED, 2022[25]), *Education statistics*, Ministerio de Educación, San Salvador, https://www.mined.gob.sv/estadisticas-educativas.html.

StatLink https://stat.link/b3mo5z

As in many Latin American countries, El Salvador trains youths in Technical and Vocational Education and Training (TVET) skills within the upper-secondary level (*educación media*). In 2017, more than half (52.6%) of all upper-secondary students were enrolled in technical and vocational programmes, although this has been declining recently, down from 57.5% in 2014. The share of all (lower and upper) secondary students enrolled in TVET (18%) is lower than the average for Central America as a whole (27%), but higher than in the whole of Latin America and the Caribbean (LAC) (13%) (MINED, 2018[26]; UNESCO, 2020[27]).

Inequality in education remains a challenge for El Salvador, as vulnerable groups face greater obstacles to access education. The gender gap in enrolment rates is visible, especially in secondary school, where female enrolment rates are about 5 percentage points higher than for males, indicating lower participation by boys (Figure 7.4). Enrolment in technical secondary school, however, is equally distributed across genders. Children and young people in rural areas have participation rates that are lower in all levels, but especially in pre-primary and upper secondary education.

Table 7.1. School attendance by age group and area

Percentage, 2021

	4 to 6 (Pre-primary)	7 to 15 (Basic education)	16 to 18 (Upper secondary)
Rural	57.2	90.6	50.6
Urban	62.5	94.5	74.4
Total	60.2	92.9	64.3

Source: (DIGESTYC, 2021[28]), *Encuesta de Hogares de Propósitos Múltiples (EHPM) 2021*.

Educational attainment has increased, but remains far from the target

Educational attainment is a measure of the amount of human capital that is available in an economy, as well as an indicator of the capacity of the education system to prepare future citizens. As such, it constitutes an objective of public policy, and measurements of educational attainment complement measurements of education quality and learning. Successive education plans in El Salvador have established goals for educational attainment. *Plan 2021* set a target of 11 years of education, while the Educated El Salvador Plan set universal compulsory education as a target (12 years of formal education for all).

Increases in enrolment rates in primary education since the 1990s have been part of a global phenomenon. However, this trend has not yet pushed the educational attainment of adults (25 years old and above) in El Salvador up to levels seen in other countries – including those with which it competes to attract international investment. El Salvador's performance in this regard remains among the lowest in Central and South America (Table 7.2). Only 59% of adults attained at least the primary level of education, compared to around 80% in Costa Rica and Ecuador. The share of adults who have attended post-secondary education is 8%, whereas the Central American average is 15%, and the South American average is 19%.

Table 7.2. Distribution of educational attainment among adults by level, 2018

	Share of adults 25 and older having attained at least the education level (%)			
	Primary	Lower secondary	Upper secondary	Post-secondary
El Salvador	59	43	30	8
Costa Rica	81	53	38	21
Dominican Rep.	67	57	35	12
Guatemala	62	37	27	10
Ecuador	83	53	44	14
Central America	79	58	34	15
South America	83	61	50	19

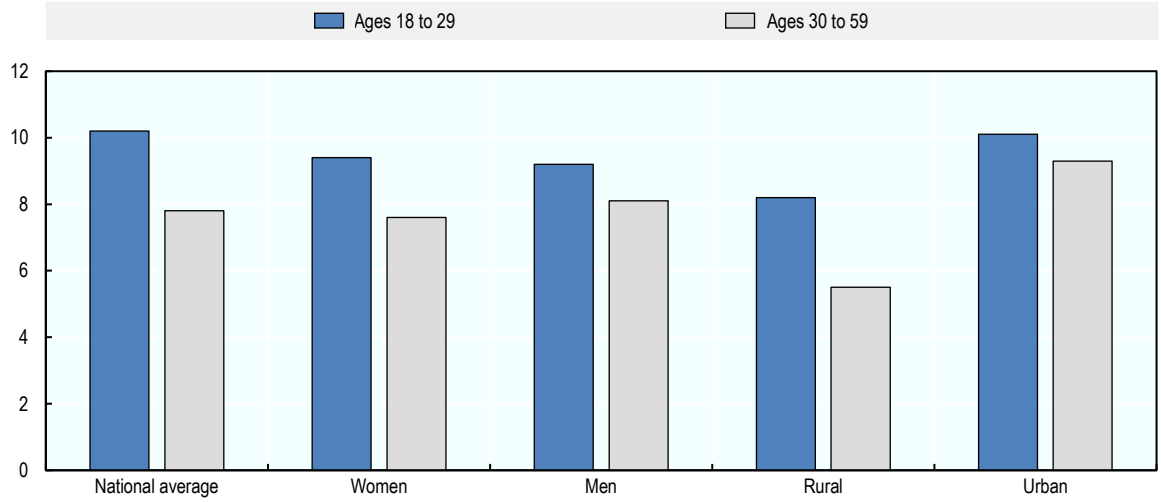
Note: Values for South and Central America are calculated as weighted averages using most recent data as of 2018, except for Ecuador (2017), Costa Rica (2016), El Salvador (2017), Dominican Republic (2015) and Guatemala (2014).
Source: (UNESCO, 2020[29]), *Global education monitoring report, 2020: Inclusion and education: all means all*.

Educational attainment has progressed, but there is still some way to go to reach the targets that have been set in national policy documents. Attainment for people aged 16 and over increased from 6.3 completed years of education in 2000 to 7.9 years in 2018 (DIGESTYC, 2019[30]). Educational attainment for young cohorts does reflect the increases in coverage and enrolment. Young people aged 18 to 29 years old, who were educated almost entirely after the reforms of the 1990s, have reached educational attainment of 10.3 years. This is 2.2 years higher than that of adults aged 30 to 59 (DIGESTYC, 2021[31]). Gender gaps, and gaps between urban and rural areas, do persist, despite recent

increases in access to education. The gender gap has narrowed in younger generations, with only 0.2 years of difference between men and women compared with 0.5 years in older generations. On the other hand, the rural/urban gap persists. Notwithstanding the increase of educational attainment in younger generations, those in rural areas have two fewer years of education on average compared to those in urban areas. The rural/urban gap is of almost four years in the older age group (Figure 7.5).

Figure 7.5. Educational attainment (average years of education) by age, gender and area

Years of formal education, 2017



Source: (DIGESTYC, n.d.[23]), *DIGESTYC homepage*, Dirección General de Estadística y Censos, Ministerio de Economía, San Salvador, http://www.digestyc.gob.sv.

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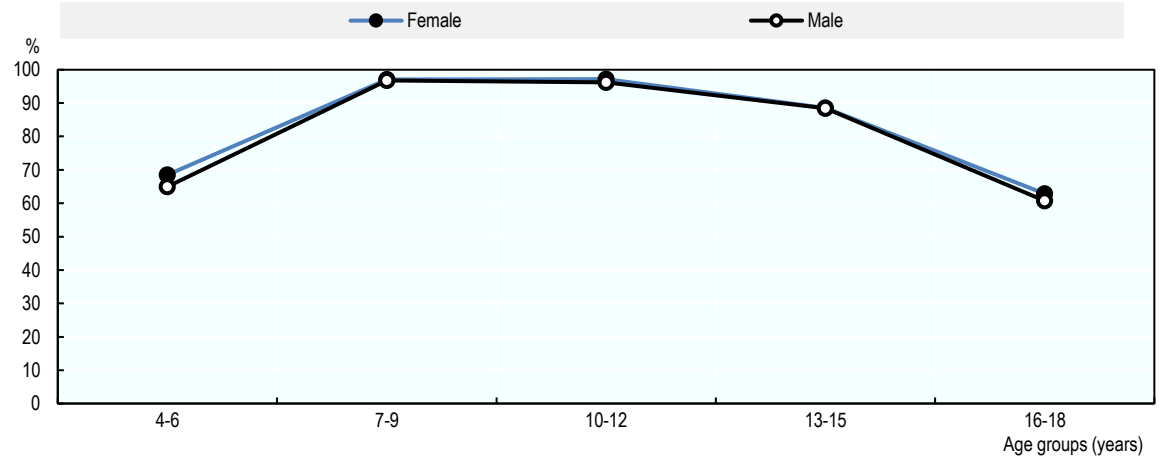
Progression through basic education is challenging, with high drop-out rates

El Salvador's basic education system (cycles 1 to 3) suffers from a low level of internal efficiency, as shown by high rates of school dropout and low rates of transition between cycles.[2] This has not always been the case. During the 2000s, El Salvador made significant improvements in overall pupil retention, with primary drop-out rates falling from 37% to 14% (UIS, 2012[32]).[3] Despite this progress, only 86% of students completed primary education in 2018, which is one of the lowest rates in Central America, along with Nicaragua (74%) and Guatemala (78%). It is 10 percentage points below most other countries in the region (UNESCO, 2020[29]). Data from the Ministry of Education show a significant fall in the intra-annual drop-out rate in recent years. It fell from 5.6% in 2014 to 3.5% in 2019 in the first cycle of basic education, and from 5.7% to 3.6% in the second cycle[4] (MINED, 2021[33]). However this trend appears to a large degree to be the result of improved tracking of students by the registry system, as earlier studies indicate that close to 30% of recorded drop-outs were due to changes of residence (Montes, 2018[34]).

The drop in school attendance rates starts among 13 to 15-year-olds, a group in which less than 90% of youths report that they are attending school (regardless of grade).[5] At the end of compulsory education for 16 to 18-year-olds, school attendance falls more radically, by 26% for males and 28% for females (Figure 7.6).

Figure 7.6. Age-specific school attendance rate, by age group and sex, 2019

Attendance rate in 2019, as a share of the age group



Notes: School attendance rates are calculated from responses to questions on whether members of the household are currently attending a formal educational institution in the *Encuesta de Hogares de Propósitos Múltiples* (EHPM) household survey.
Source: Calculations based on DIGESTYC (2020[35]) *Encuesta de Hogares de Propósitos Múltiples 2019* (database), Dirección General de Estadística y Censos, https://onec.bcr.gob.sv/encuesta-de-hogares-de-propositos-multiples-ehpm/.

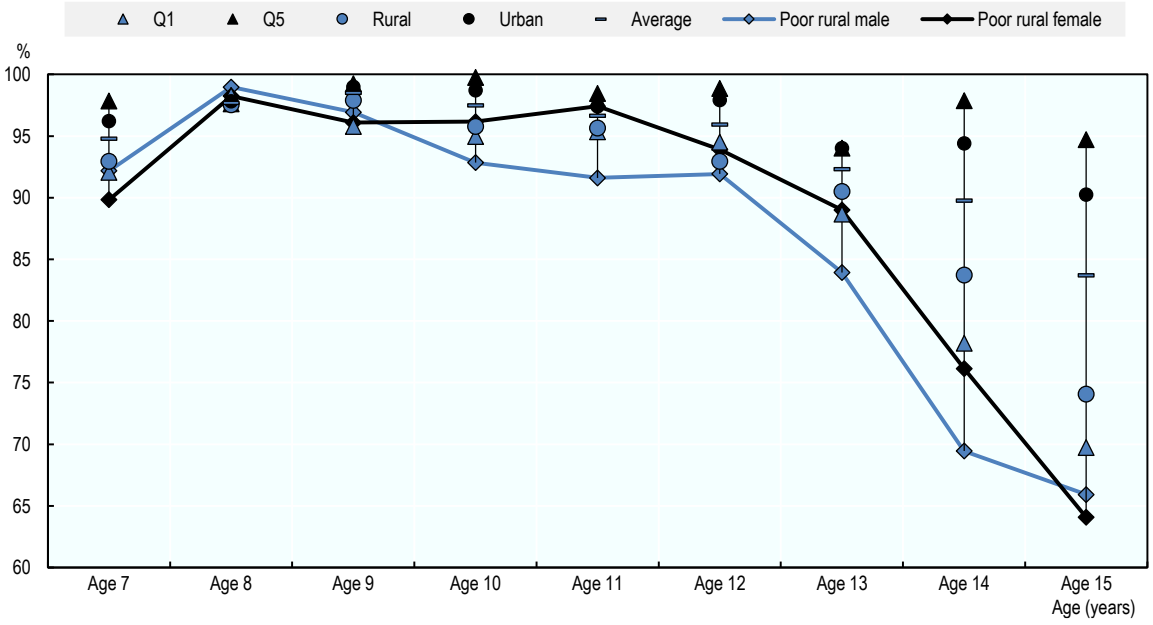
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Examining students' progression through school by their individual age groups highlights difficulties in retention at various points in the education system. In 2019, average school attendance peaked at 98.5%, at nine years of age, which corresponds to the official age at the end of the first cycle of primary education. After this point, average school attendance falls gradually, declining to 83.7% by age 15 (Figure 7.7). As of age 13 – which corresponds to the official age between the end of primary education (*Ciclo II*) and entrance into lower secondary education (*Tercer Ciclo*) – overall school attendance falls to 95%.

Children from poor households and who live in rural areas are more likely to drop out of school than other groups.[6] The school attendance gap between poor rural households and the national average increases with age, reaching a difference of nearly 20 percentage points by age 15.[7] Gender is a significant determinant for non-attendance, and this varies by age. More boys from poor rural households drop out as of age 10, and again at age 13. Only 65.9% are attending school by the time they reach the end of compulsory education (age 15). Girls from poor rural households are more likely to drop out as of age 13.

Figure 7.7. Age-specific school attendance rates, ages 7 to 15, 2019

School attendance rate by age, income quintile and area of residence



Notes: School attendance can be at any level of formal school. Q1 and Q5 refer to the lowest and highest household income quintiles (20%). Households in Q1 are deemed to be in poverty.
Source: Calculations based on DIGESTYC (2020[35]) *Encuesta de Hogares de Propósitos Múltiples 2019* (database), Dirección General de Estadística y Censos, https://onec.bcr.gob.sv/encuesta-de-hogares-de-propositos-multiples-ehpm/.

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Factors that undermine internal efficiency in El Salvador's education system lead to an inefficient use of resources per student (Box 7.3). It is important, therefore, to identify and reduce the risk factors that prevent progression in primary education, and transitions into lower secondary education. Global evidence suggests that there is no single factor or combination of factors that can predict school drop-out. Identifying profiles of students that are at risk of drop-out is pertinent when risk factors are analysed (Stromquist, 2014[36]; UNICEF/UIS, 2011[37]).

Box 7.3. The costs of internal inefficiency in education

Theoretically, an education system is considered to be internally efficient when it is composed of students who enter school at the official school age in the correct grade, and who pass and complete each grade in one school year, graduating to the next level on time. Internal efficiency is evaluated using education indicators including repetition and drop-out rates, and the share of students who are over-age in their current grade. A reconstructed cohort analysis, which takes a theoretical group of students in the first grade, and follows its progression through a level of education, can also reveal weaknesses in the system's capacity to reduce internal risk factors for dropping out or having to repeat a year. Policy analyses need to complement such statistical efforts, as low repetition rates can also reflect policies or practices of automatic grade promotion. Education systems in Latin America and the Caribbean have traditionally had high levels of repetition, with nearly one in five students repeating a grade in primary school (UIS, 2012[32]).

Grade repetition, for example, is considered to be inefficient in improving learning outcomes, and it significantly increases costs per student. Cross-country evidence suggests that widespread use of repetition increases the overall cost of primary and secondary education by around 5% in Brazil, Germany and Italy and up to 10-12% in Portugal and Spain. The cost of repetition includes direct costs (providing an additional or repeated year of education), and opportunity costs (delaying entrance into the labour market by a year), that result from internal inefficiencies in education. (OECD, 2021[38]; OECD, 2011[39]).

Being over-age is a significant risk factor for non-completion of primary and secondary education. El Salvador has some of the highest rates of over-age children in the region, and across comparable countries – as shown in Table 7.3. In primary education, 13.5% of pupils are at least two years over age, as are 19.9% of those in lower secondary education. Given the relatively low repetition rates in El Salvador, it is likely that being over-age is linked to entering school late, to attending part-time, to child labour, and to other disruptions in regular school attendance (UNICEF/UIS, 2011[37]).[8] These rates are 60% and 40% higher than the LAC averages. At the primary level, the share of over-age students is much higher than in neighbouring countries, such as Guatemala and Costa Rica. In almost every country with a high percentage of over-age children (over 10%), including El Salvador, boys are more likely to be over-age than girls at both primary and lower secondary levels.[9] Children living in poverty are also more than twice as likely to be over-age in school (SETEPLAN/MINEC-DIGESTYC, 2019[40]).

Table 7.3. Percentage of pupils who are at least two years over-age for their current grade, by level and gender, 2018

	Primary			Lower secondary		
	Total (%)	Female (%)	Male (%)	Total (%)	Female (%)	Male (%)
El Salvador	**13.5**	**10.7**	**16.0**	**19.9**	**15.3**	**24.2**
Costa Rica	0.6	0.6	0.5	1.1	0.8	1.4
Dominican Republic	0.7	0.6	0.8	0.7	0.6	0.8
Ecuador	0.7	0.5	0.9	3.5	2.7	4.3
Estonia	3.1	2.7	3.4	7.4	6.4	8.4
Guatemala	6.4	5.3	7.4	30.5	27.5	33.5
Morocco	12.5	8.9	15.7	23.0	16.9	28.9
Serbia	14.9	11.6	17.9	31.4	22.8	38.8
Sri Lanka	16.2	14.1	18.3	26.5	22.4	30.1
World	10.2	10.5	9.9	11.0	10.0	12.3
Lower-middle-income countries	11.2	11.7	10.7	11.4	11.1	11.8
Latin America and the Caribbean	8.4	8.4	8.5	13.9	12.0	16.4

Source: UNESCO (2020[27]) *Education dataset* (dataset), UNESCO Institute of Statistics, http://data.uis.unesco.org/.

Boys and girls face different obstacles in completing education levels

The challenges that are linked to enrolment and school progression for children and youths in El Salvador call for a gendered approach. Completing compulsory education presents difficulties for both boys and girls, but the challenges that they face are different. The challenges are linked to the lack of gender equity in schools, and in communities.

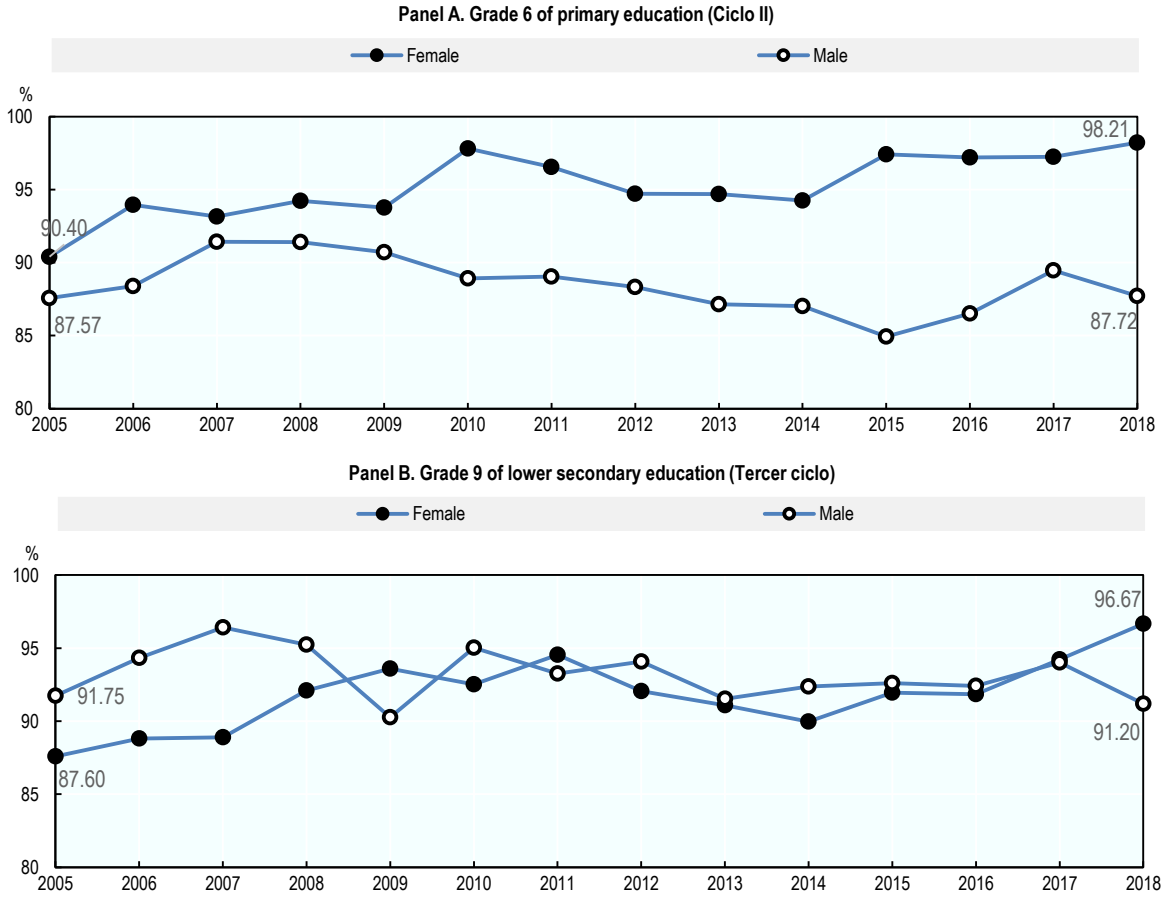
El Salvador's high rates of pregnancy in girls and adolescents stand out in comparison with neighbouring countries. Between 14% and 16% of all schools reported pregnancies in 2017, in both primary and secondary education.[10] Both the General Law on Education, and El Salvador's main law on childhood and adolescent protection (the *Ley Crecer Juntos para la Protección Integral de la Primera Infancia, Niñez y Adolescencia,* and previously, LEPINA) protect pregnant students from expulsion. However, an estimated 75% of pregnant girls dropped out of school in 2017. On average, they had completed five years of schooling, which is four years short of the national average (UNFPA, 2019[41]). Sexual violence in El Salvador is linked to dropping out of school. Teenage pregnancies are only one facet of the violence that girls and adolescents face, which can lead to dropping out of school. About one-third of all female dropouts in 2017 were related to violence in their communities, which made attending school a serious risk for girls (UNFPA, 2019[41]).[11]

In El Salvador, boys also face numerous obstacles to progressing smoothly through, and then completing, basic education. Boys begin primary school at a disadvantage relative to girls. A smaller proportion participates in pre-primary education (96% compared to 91%), and they are less well prepared for formal schooling (UNESCO, 2020[29]). From primary education onwards, being male is an important factor of disadvantage across indicators of progression. Boys are more likely than girls to repeat grades in primary and lower secondary school. In 2019, 58% of all repeaters aged 7 to 15 were boys. Nearly 60% of boys reported disinterest in studying as the main reason for not attending school, compared to 47% of female repeaters (DIGESTYC, 2020[35]). A higher proportion of boys are over-age compared to girls in primary education (16.0% compared to 10.7%), and the gender gap grows to 9 percentage points in lower secondary education (Table 7.3).

The low level of boys' school attendance is observed through their likelihood of not completing a grade in which the stakes are particularly high. The gender gap in graduation rates for the last grade of primary education (Grade 6, *Segundo ciclo*) has been increasing since the 2000s in El Salvador (Figure 7.8, Panel A). While female retention and graduation in that last grade of primary school has improved by eight percentage points, there has been no improvement among boys. The end of primary education has been identified as a pivot age for boys to be recruited by gangs, or to engage in early work.

A similar pattern can be observed in the last grade of lower secondary education (*Tercer ciclo*), where boys are less likely to complete and graduate than girls, and where the situation has been worsening over the years (Figure 7.8, Panel B). The benefits of attending school rather than engaging in other opportunities (e.g. formal or informal employment, gang membership, family responsibilities) appear to have been deteriorating for boys for several years, with boys also becoming more likely to perceive these deteriorating benefits at an earlier age. Educational attainment among boys aged 15 to 24 is lower than for girls of the same age (DIGESTYC, 2019[30]).

Figure 7.8. Graduation rates of the last grades of primary and lower secondary education, by gender, 2005-18



Notes: Graduation rates are calculated as the percentage of students who pass the last grade of the specified education level, as a share of those enrolled in that grade.
Source: (MINED, 2022[25]), *Education statistics*, Ministerio de Educación, San Salvador, https://www.mined.gob.sv/estadisticas-educativas.html.

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Public spending in education has been too low to achieve national and international education goals

Public expenditure on education in El Salvador has been relatively low compared to international standards. The Education 2030 Framework for Action of the United Nations Educational, Scientific and Cultural Organization (UNESCO) proposes two benchmarks for minimum government allocation to education. These stipulate that public spending on education should reach at least 4%-6% of GDP, or at least 15%-20% of total public expenditure (UNESCO, 2015[42]). For most of the past 20 years, El Salvador has struggled to prioritise spending on education. Public expenditure on education in El Salvador has hovered below these minimum benchmarks. Between 2000 and 2018, it represented 3.7% of GDP on average, dropping from a high of 4.7% in 2009 to 3.6% in 2018. Education as a share of total government expenditure averaged 15.8% during the same period, with a high of 19.4% in 2008, and a low of 14.9% in 2018 (UNESCO, 2020[27]). Relative to comparator countries, El Salvador was among those that spent the least on education, below the median for lower-middle income countries (Figure 7.9).

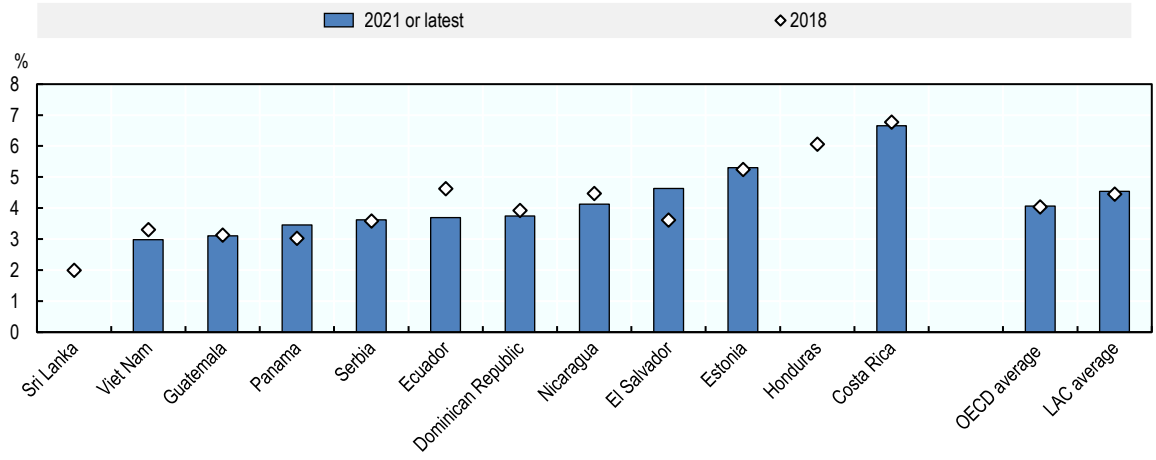
One estimate suggests that all low- and middle-income countries will have to raise their total education expenditure to at least 8.5% of GDP by 2030 in order to meet all of the SDGs related to education. In

particular, this means SDG , which is to “ensure inclusive and equitable quality education” and to “promote lifelong learning opportunities for all” (Education Commission, 2016[43]).

The response to the COVID-19 crisis resulted in a significant increase in the public education budget. The 2020 budget already included an increase in education spending for the education branch of government, with an approved budget of USD 1.039 billion (MH, 2021[44]). By the end of 2020, the budget execution of the branch reached 4.07% of GDP, despite the downward modification to the budget. In the face of the COVID-19 crisis, an important part of the response was channelled through the education system, with a 29.8% increase in the branch's budget in 2021. The proposed budget law for 2022 maintained education spending at almost 5% of projected GDP. During the global financial crisis of 2008-09, there was also a significant increase in education spending through the *Plan 2021* national education plan, although on that occasion it was only temporary (Figure 7.10). Maintaining future levels of investment in education is necessary in order to meet the country's education and development goals.

Figure 7.9. Government expenditure has increased in El Salvador compared to other countries, 2021

2021 or latest data available, government expenditure in education as % of GDP

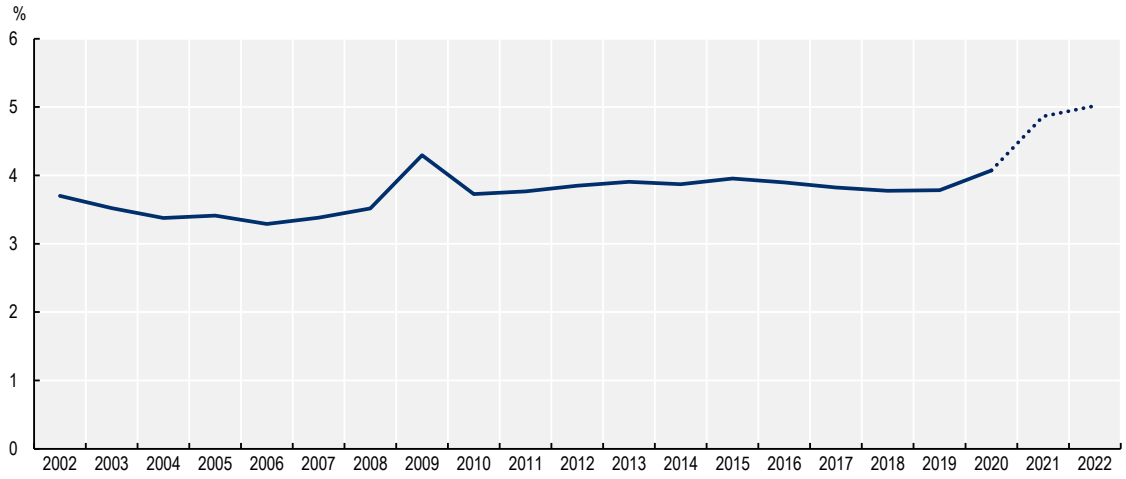


Note: The average for Latin America is calculated as the average of the latest data available for each country in the region. The latest data available for Sri Lanka and Honduras is for 2018. The OECD average is from (OECD, 2023[45]).
Sources: UNESCO (2023[46]) *SDG4 Indicators* (database), UNESCO Institute of Statistics, http://sdg4-data.uis.unesco.org/; OECD (2023[45]), *Public spending on education* (indicator), https://doi.org/10.1787/f99b45d0-en.

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Figure 7.10. Government expenditure on education has increased in times of crisis in El Salvador

Central government expenditure on education (% of GDP)



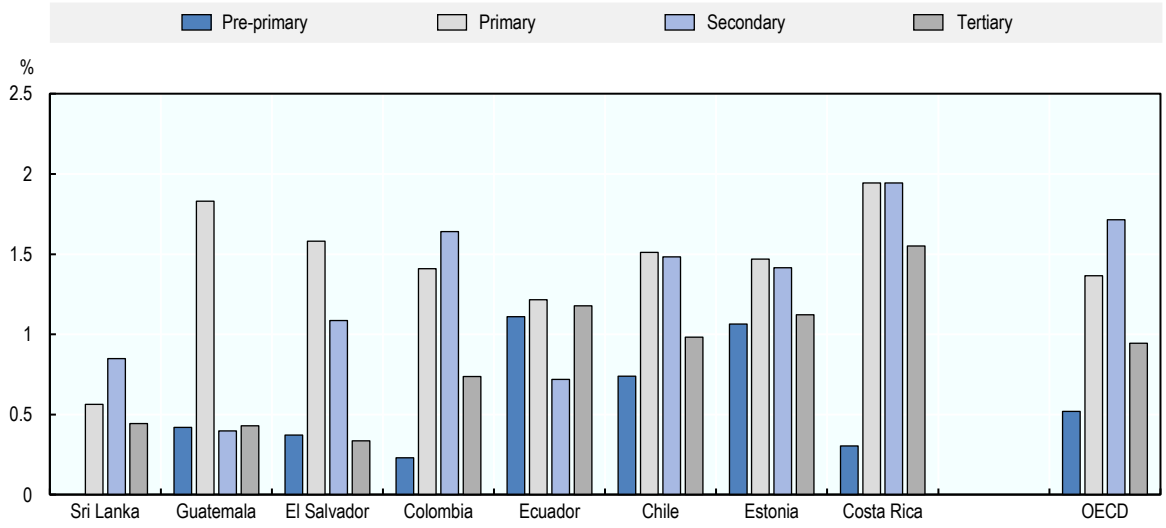
Note: Executed budget in the education branch for 2002-20, voted budget for 2021, budget law for 2022.
Source: Budget Laws and reports of Budget execution, Ministry of finance, portal de transparencia fiscal (https://www.transparenciafiscal.gob.sv/). Data for GDP for 2021 and 2022 and IMF projections from the World Economic Outlook of October 2021.

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The distribution of expenditures by education levels reflects both government priorities and the limits on available fiscal space. The share of investment by education level relative to GDP per capita in El Salvador reflects efforts that have been made to increase coverage. Expenditure in pre-primary education reflects the dynamism of this sector (Figure 7.11). However, government finance for tertiary education (0.34% of GDP in 2019) is well below public investment in benchmark countries. It is even below that of countries like Chile, where public expenditure is not the primary source of finance for higher education.[12] Investment per student as a share of GDP per capita in El Salvador is in line with that of other countries in the region in pre-primary and primary education. However, investment per student in secondary school is below the regional average, in addition to being below the average for lower middle-income countries (Figure 7.12).

Figure 7.11. Government expenditure by education level

2019 or closest data available, % of GDP

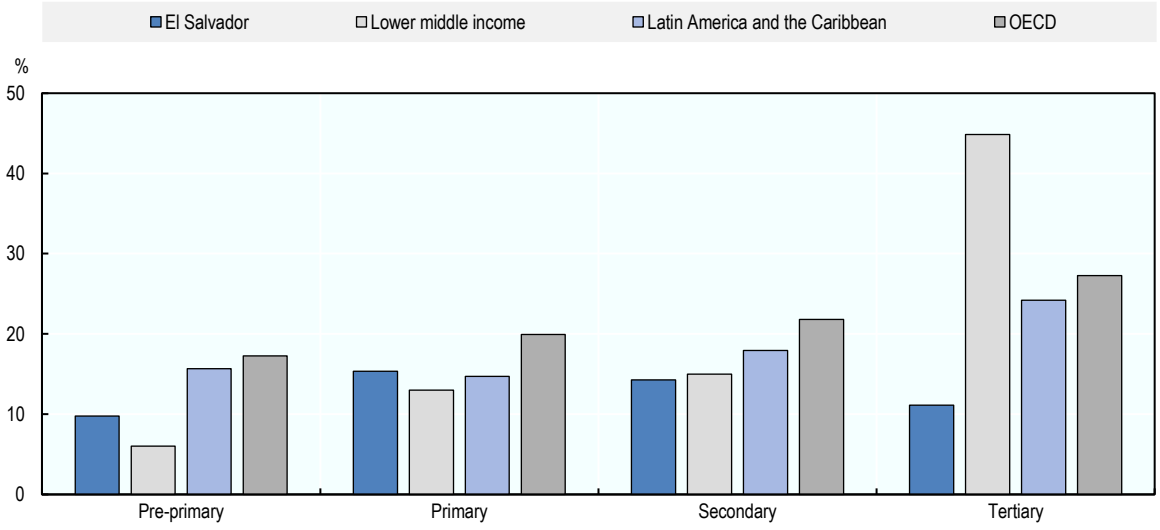


Notes: Data for Chile, Colombia, Costa Rica and Estonia correspond to 2019. Public investment in pre-primary education in Sri Lanka is close to nil. Data for Estonia include all early childhood development programmes in the pre-primary category
Source: OECD (2021[47]), *Education at a Glance 2021: OECD Indicators*, https://doi.org/10.1787/b35a14e5-en for Chile, Colombia, Costa Rica, and the OECD average; UNESCO (2022[24]) *Education dataset* (dataset), UNESCO Institute for Statistics http://data.uis.unesco.org for all other countries.

StatLink https://stat.link/g4amiz

Figure 7.12. Government expenditure in education per student

As a percentage of GDP per capita, by education level, 2018



Note: For tertiary education, the LAC average includes only eight countries, and the lower-middle income average also includes eight countries.
Source: (UNESCO, 2020[29]), *Global education monitoring report, 2020: Inclusion and education: all means all*.

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Building on early childhood education and care as a foundation for learning, and as a socio-economic equaliser for all children

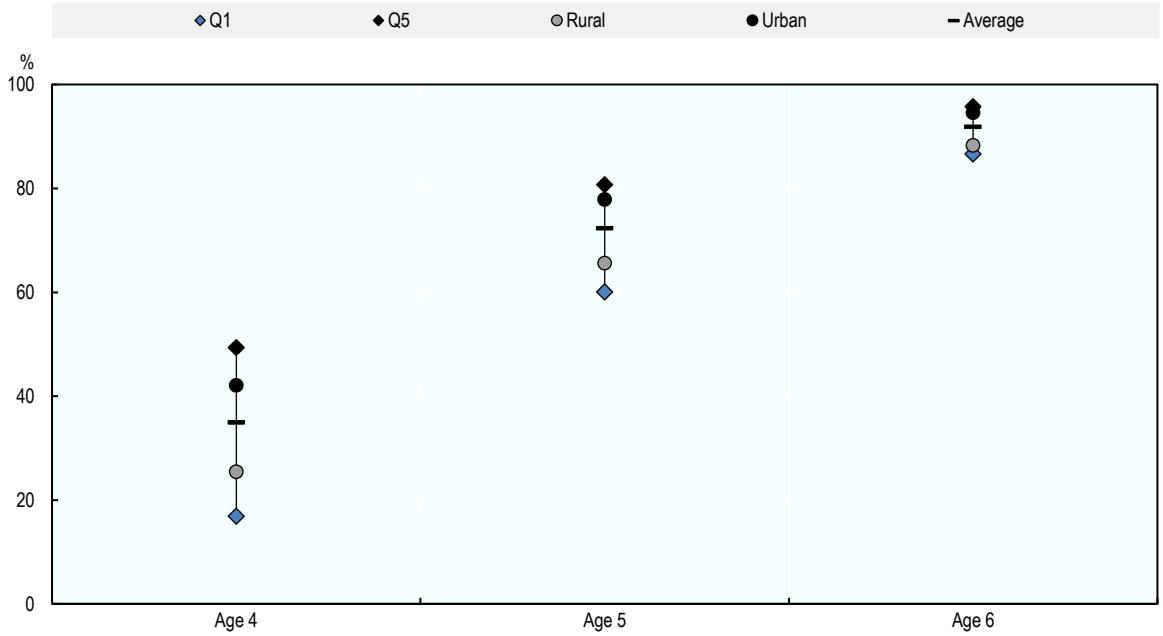
Developing the ECEC system in El Salvador is a necessity in order to provide all children with the foundations for life-long learning, and to strengthen the education system. Over the past two decades, El Salvador has made significant progress on maternal and early-childhood access to medical services, but more emphasis needs to be placed on the provision of and access to quality pre-primary education.[13] Decades of international advocacy and evidence show that early childhood (which in El Salvador is defined as being from birth to seven years old) is as an essential phase in which to provide the foundations for critical cognitive, emotional, physical and social development (Britto et al., 2016[48]; Clark et al., 2020[49]).[14]

Investing in early childhood for quality ECEC programming would have positive repercussions for later schooling outcomes. Children who participate in initial education, and who attend pre-primary education, are more likely to enter school on time, to succeed in school, and to achieve higher educational attainment (Busso et al., 2017[50]; Schady, 2006[51]). External socio-economic factors such as nutrition, health, poverty and geography are linked to early achievement gaps among children before they enter primary education. This has a life-long impact on future opportunities (Engle et al., 2011[52]; Naudeau et al., 2011[53]; Neuman, Josephson and Chua, 2015[54]). Compounded factors of marginalisation and vulnerability during early childhood can exacerbate the negative impact on children's development, increasing the probability of greater deprivation later in life (Britto et al., 2016[48]). Participating in early childhood education contributes to mitigating such factors.

Access to pre-primary education is not universal or equitable in El Salvador, despite being free and compulsory as guaranteed by the 2011 General Law on Education. A third of children aged four to six do not participate in pre-primary education.[15] Younger children in this age group (aged four to six) are less likely to attend than older children. Only 34.9% of four-year-old children participate in kindergarten, compared to the 91.9% of six-year-olds who attend educational institutions (Figure 7.13). Children from vulnerable households, such as those whose mothers have very low educational attainment, who live in rural areas, and who belong to the poorest 20%, participate less than others.

When factors of vulnerability combine, this further reduces children's chances of attending pre-primary education in El Salvador. Children from the poorest 20% households, and who live in rural areas, are the least likely among all to attend school (54%). Meanwhile, children who come from better-off households and live in urban areas are much more likely to attend school (77%). Moreover, children from more advantaged households are more likely to begin school on time (at age four) than others, thereby giving them a stronger foundation of development for primary education (DIGESTYC, 2020[35]).[16] These same children also are more likely to face poor learning environments at home, and they therefore stand to gain the most from access to quality ECEC services. Such access could mitigate factors of inequality that are present event before children start school (MINSAL; UNICEF, 2016[55]).

Figure 7.13. School attendance for children aged four to six in El Salvador by income quintiles and geography, 2019



Note: School attendance can be at any level of formal schooling. Respectively, Q1 and Q5 are abbreviations for the lowest and highest household income quintiles (20%).
Source: Calculations based on DIGESTYC (2020[35]) *Encuesta de Hogares de Propósitos Múltiples 2019* (database), Dirección General de Estadística y Censos, https://onec.bcr.gob.sv/encuesta-de-hogares-de-propositos-multiples-ehpm/.

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El Salvador's next steps are to commit to planning for the expansion of pre-primary education to reach all children, especially those in vulnerable situations, and to invest adequate resources in the development of quality universal early-childhood education. Efforts to expand initial education should also be considered. Investments in ECEC have both short- and long-run benefits for children and parents in terms of well-being. They can also have far-reaching socio-economic benefits and can support national development goals. ECEC enables children to increase their skills and competencies in order to become productive citizens who can contribute to greater workforce productivity and economic growth. Evidence from OECD member states found that children who attended three years of quality, full-time pre-primary education scored higher in reading, science and mathematics at age 15 (OECD, 2020[56]). In El Salvador, 36% of children attending early learning programmes were at the appropriate developmental level for early literacy and numeracy skills, compared to 13% who did not attend (MINSAL; UNICEF, 2016[55]).

Leverage international goals to support expansion of public ECEC

One of the most promising reforms in El Salvador was the inclusion of three years of pre-primary education as part of free and compulsory education. At a global level, international policy documents such as the Education 2030 Framework for Action, and SDG Target 4.2, call for countries to provide access to quality early childhood development, care, and pre-primary education for all children. Ensuring at least one year of universal quality pre-primary education by making it free and compulsory is the minimum recommendation for all countries to implement SDG Target 4.2.

Implementing the right to free and compulsory pre-primary education in El Salvador has been more challenging in practical terms, however, despite successive legislative frameworks and national early childhood policies over the past few decades (Box 7.4). Salvadoran ECEC policies and plans have

articulated an integrated approach to service delivery, and a holistic vision of early childhood development. The Ministry of Education has worked in co-ordination with other sectors (health, justice and finance) in order to develop comprehensive, high-quality and progressive education, in conditions of equality and equity, for all girls and boys. At the same time, the state is to provide free food assistance in public education institutions of initial and pre-school (*parvularia*) education.

Box 7.4. Milestones in the legal and policy framework for ECEC in el Salvador

- 1990: El Salvador ratifies the United Nations Convention on the Rights of the Child.
- 1992: An institute for the protection of minors (the *Instituto Salvadoreño de Protección al Menor*) was set up to co-ordinated ECEC programmes (in childhood wellness centres, or *Centros de Bienestar Infantil*).[17]
- The 1996 General Education Law, which was revised in 2005, established that initial education begins at birth, and lasts until age four.
- 2009: adoption of the Law for the Comprehensive Protection of Childhood and Adolescence (*Ley de Protección Integral de la Niñez y la Adolescencia*, LEPINA), which includes in its body the right to free compulsory education, and encompasses initial education, pre-school, basic, middle school and special education.
- 2010: Programme for Initial and Pre-school Education, and adoption of the National Policy for Early Childhood Education and Comprehensive Development.
- 2010: Adoption of the National Policy for the Comprehensive Development of Childhood and Adolescence (the *Política Nacional para el Desarrollo Integral de la Niñez y Adolescencia*, or PNDINA), which operationalises the United Nations Convention on the Rights of the Child.
- 2016: The National Education Council (*Consejo Nacional de Educación,* or CONED) presents the Educated El Salvador Plan, to deliver on the right to quality education.
- 2018: CONNA develops the National Strategy for Comprehensive Early Childhood Development (*Estrategia Nacional para Desarrollo Integral de Primera Infancia*).
- 2021: The government adopts the policy “Growing up and Learning Together” (*Crecer Juntos*), a national policy to support early childhood development.
- 2022 (June): Adoption of the “Growing and Learning Together” Act (*Ley Crecer Juntos para la Protección Integral de la Primera Infancia, Niñez y Adolescencia*), which expands and replaces the LEPINA law and carries out institutional reforms in the management of the system of provision of early childhood education and care.

The Ministry of Education designed the first National Policy for Comprehensive Early Childhood Development in 2010, with the support of the local chapter of an international non-governmental organisation (NGO), Plan Internacional El Salvador. It also had technical and financial support from the United Nations Children’s Fund (UNICEF). The policy was part of the government’s programme for 2009-14. It aimed to provide universal Early Childhood Development (ECD) services from birth to seven years of age, co-ordinated by the Ministry of Education (MINED, 2010[57]). Many concrete efforts were made to develop ECD services (e.g. increasing available supplies, family support programmes, teacher training), but delivery capacity and inter-sectoral co-ordination remained low. In 2015, an Early Childhood Education department was created within the Ministry of Education, at the same level as other education levels. This reflected its growing importance within the education sector.

Efforts to co-ordinate programmatic and operational links with other sectors working with young children and their families (e.g. health, social affairs, women’s affairs, local government) were institutionalised recently (in 2020). In 2018, a new National Strategy for Integrated Early Childhood Development was

approved by CONNA, with the participation of high-level government officials and civil society. However, it was not implemented in full by the end of the previous presidential mandate in 2019.

In 2019, El Salvador's new administration identified ECEC as central to its development agenda for the country (the *Plan Cuscatlán* 2019-24). It developed its *Crecer Juntos* (Growing up and Learning Together), a new national Early childhood development policy with technical assistance from UNICEF, the World Bank and the Inter-American Development Bank. The design of the policy was an inter-sectoral and inter-institutional effort. It was designed with the participation of members of the private and public sectors, at national and local level, and in the areas of health, education and the protection of rights. The Inter-sectoral Plan for Early Childhood was presented by the First Lady in February 2020, and work progressed with technical and financial support from the World Bank. As part of the inter-sectoral framework created under *Crecer Juntos*, the government developed early childhood development and learning standards for public and private institutions. It also developed plans for the training of professional directors and teachers for their work at ECEC centres, the new construction of 110 public ECEC centres, plus improvements in the quality of 400 existing centres (World Bank, 2019[58]). The responsible entity for ECEC is the *Dirección Nacional de Educación de Primera Infancia*. It is located within the Ministry of Education, but it still lacks a framework for inter-sectoral co-ordination or a mechanism for decision making.

The "Growing up and learning together" Act (*Ley Crecer Juntos*) has established a new institutional framework for ECEC (Asamblea Legislativa, 2022[59]). The law was approved in June 2022 and is in force since 2023. This law replaces the LEPINA law and expands its provisions in a number of areas. Among other reforms, it creates a National council for early childhood, childhood and adolescence (*Consejo Nacional de la Primera Infancia, Niñez y Adolescencia* or CONAPINA) as the governing entity of the system for the protection of early childhood, childhoold and adolescence, absorbing the attributions of CONNA and ISNA. The law also creates the "Growing together institute" (*Instituto Crecer Juntos*) as the reference institute for the definition and implementation of a comprehensive care model for early childhood.

Despite the extensive history of robust ECEC policy development in El Salvador, the provision of pre-primary education is not sufficiently developed compared to most other countries in the region to countries with similar levels of development (Figure 7.3). Because of SDG Target 4.2, the momentum for promoting and expanding pre-primary education is global. But El Salvador is falling behind in terms of implementation. The experience of other middle-income countries, Ecuador, Indonesia, Jamaica and Mexico, can provide lessons on the expansion of ECEC in El Salvador (Gertler et al., 2013[60]; Jung and Hasan, 2014[61]; Paxson and Schady, 2005[62]; Yoshikawa et al., 2007[63]).

The expansion of formal ECEC services can take a variety of forms. One of these is parent-supported community education programmes such as "I Am Also a Person" (*También Soy Persona*) and "Family Circles" (*Círculos de Familia*). Another is the development of pre-primary schools. Qualified early childhood educators are essential for children to develop social and emotional skills from birth. They can foster strong relationships with children and their parents and mobilise practical and didactic learning experiences (OECD, 2015[64]).

Lower middle-income countries have often expanded ECEC services by favouring universal access for specific age groups or through the supply of targeted services for vulnerable households. Challenges with regard to geography (rural, remote), gender inequality, and natural hazards will compound difficulties in expanding the reach and effectiveness of pre-primary education. In El Salvador, poverty, teenage maternity, disability, and violence in the community, are factors that make it more difficult for families to access basic public services, and to provide care from birth that can satisfy the needs of early childhood development. Difficulties can be worsened when families and communities are subject to emergency situations, including natural hazards, conflict, displacement or a pandemic such as COVID-19. Targeting children from vulnerable families and unsafe environments during the scaling up of pre-primary education is an effective measure for providing every child with the opportunity to succeed in learning and in life. The availability of early childhood services can also help more women to enter the labour force, thus generating

income for their households and contributing to the country's social and economic development. Current plans, which were formulated with the World Bank, aim to improve existing physical learning environments in the country. However, vulnerability-based needs are not associated with a process of expanding supply (World Bank, 2020[65]).

In light of El Salvador's legal framework for compulsory pre-primary education, the country could choose initially to expand ECEC services in the poorest municipalities. The targeting system of the conditional cash transfer programme (known formerly as *Red Solidaria*) can help to identify vulnerable families and children. Pilot programmes, and policy experiments for which there is evidence of positive impact in El Salvador or in other countries, such as the Triple E pilot programme (Box 7.5), can be sources of opportunity for the rapid expansion of pre-primary education.

Box 7.5. Outcomes of the Triple E programme in El Salvador (2012-15)

The Triple E pilot programme was supported by UNICEF and the Ministry of Education. It was implemented by community-based organisations in four municipalities that were prioritised in the *Plan El Salvador Seguro* (PESS), a programme focusing on preventing violence at the community level. The community-based programme sought to improve ECEC services, and to reduce family and community violence. It did so through a three-pronged approach based on three E's: education and integral development; empowerment of families and youth; and protective environment in communities. The programme operated in four municipalities (Ciudad Delgado, Cuscatancingo, Ilopango and San Martín). These were selected on the basis of their high levels of violence. Interventions modified child-rearing practices based on a cultural and children's rights perspective, and they helped to prepare children for pre-primary education. This programme filled a service-delivery gap in ECEC that was caused by a lack of sufficient resources for operating and expanding the network of Comprehensive Development Centers (*Centros de Desarrollo Integral*, or CDIs).

The evaluation of the Triple E programme measured parenting practices, the academic performance of children aged from four to six, and cross-sectoral co-ordination. Parents who participated in the programme used lower levels of physical violence against their children, used positive disciplining techniques, spent more time reading to their children, and had more books in the home. Children benefitted from the intervention, as indicated by higher levels of socio-emotional development (e.g. communication, motivation, sociability), and were better prepared for primary education. Participating fathers played more with their children. The programmes improved co-ordination across sectors at national and local levels, and strengthened local capacity for programme operations. Finally, the evaluation provided insight on the cost effectiveness of using community-based programmes to expand the national provision of ECEC. They can use community spaces, resources that are available locally, and volunteers, and can draw on the capacities of institutions that are in contact with the community.

Source: (UNICEF, 2017[66]), *Country Office Annual Report 2017 El Salvador* and (Rodríguez Montano, 2018[67]), *Evaluación del programa triple E: Educación y desarrollo integral de primera infancia, empoderamiento de familias y jóvenes y entorno protector comunitario en comunidades seleccionadas*.

Expanding the supply of pre-primary schooling requires taking into consideration the diversity of the organisations that are involved in ECEC. In 2018, 83.3% of pre-primary enrolment was in the public sector, and 16.7% of it was in the private sector. The latter includes community-based organisations, international non-governmental organisations, for-profit enterprises, and religious entities (DIGESTYC, n.d.[23]). The World Bank estimated that educational services are dispensed in El Salvador in 4 557 public schools and 742 private centres (World Bank, 2020[65]). Mapping existing services is an essential component for determining what is available, at what scale, and who might fill the service-delivery gaps.

An essential component of scaling up pre-primary education is to develop a participatory approach whereby the voices and needs of parents are considered. It is necessary to implement initiatives to encourage parents and communities to value children's rights to education. The interest of Salvadoran parents in pre-primary education is very low, despite it being free and compulsory. Almost half (47%) of parents are not interested in pre-primary education for their 4-6 year olds. Another 40% mention that they think their children are too young to go to school (DIGESTYC, 2019[30]). The value added of ECEC relative to other levels of education has limited recognition among households in many countries of Latin America and the Caribbean. On average, all households – regardless of their income levels – increase education spending threefold during primary and secondary school age, relative to earlier and later stages of education (Busso et al., 2017[50]).

Ensure sufficient public financing to give all vulnerable children a nurturing learning environment

Expanding the provision of universal high-quality ECEC is a key objective for improving overall education performance and enhancing social equity. Higher public spending during the early childhood period is justified in terms of the higher return on investment relative to later periods (childhood, adolescence), most notably in terms of productivity during adulthood (Heckman et al., 2010[68]; Heckman, Pinto and Savelyev, 2012[69]). Although most estimates are based on data from the United States, recent evidence from developing countries finds that every U.S. dollar that is spent on pre-primary education results in USD 9 of benefits to society (Muroga et al., 2020[70]). These are measured in terms of monetary gains from increased years of schooling (linked to higher expected lifetime earnings), plus the cost savings in the education system from reduced repetition rates in primary education.

Increasing the supply of pre-primary education to enable universal access and enrolment in El Salvador requires the allocation of a sufficient budget from government, and sustainable financing. Government investment in pre-primary education has been very low in El Salvador, both relative to other education levels, and based on international standards – as is the case in many other countries.[18] The distribution of education expenditure by level of education in El Salvador reflects, as in many other countries, the lack of investment in pre-primary education compared to other levels of education. Despite the recommendations made to countries to allocate at least 2% of total government expenditure to pre-primary education (UNICEF, 2019[71]; UNICEF, 2019[72]; Education Commission, 2016[43]), public expenditure and donations to pre-primary education in El Salvador remain below this level.[19] In El Salvador, 1.5% of public expenditure was devoted to pre-primary education in 2018 (UNESCO, 2020[27]). Public expenditure per student in pre-primary education (as a share of GDP per capita) remains lower than in primary or secondary education (Figure 7.9).

Investment in early childhood has been historically low in El Salvador, but it has increased recently through expenditures on health. The budget that is dedicated to ECEC activities increased 21.5% between 2012 and 2019 in nominal terms, but it has remained under 0.3% of GDP over the period as a whole (Diálogo Interamericano; UNICEF, 2021[73]). The total amount of money destined to finance early-childhood activities was doubled in 2020. This included a small increase (4%) in the budgets allocated to initial education and pre-school. It also included specific budget lines for the implementation of the National Policy for Comprehensive Early Childhood Development in the Ministry of Health and the FOSALUD (*Fondo Solidario para la Salud*). In total, it amounted to USD 161.1 million.

Different costing models provide a wide range of estimates of the investment that would be necessary to make quality pre-primary education universal. All of them imply a significant increase in resources in El Salvador. A number of specific costing models have been developed in order to simulate the cost of extending ECEC programmes (e.g. UNICEF Regional Office for West and Central Africa (WCARO), Van Ravens and Aggio, UNESCO, and the Brookings Institution/World Bank's Standardized Early Childhood Development Costing Tool [SECT]). One cost estimate of the provision of a year of universal pre-primary education (as per SDG Target 4.2) in low- and lower-middle-income countries found that governments

would have to increase total annual spending from four to six times compared to 2012 levels.[20] Accordingly, expenditure would need to be almost three times current spending as a percentage of GDP, which implies a large domestic financing gap (UNESCO, 2015[42]). According to the global model that is used by the Education Commission, reaching two years of free and universal pre-primary education by 2030 would require USD 40 billion per year in all lower-middle income countries. This is equivalent to increasing education expenditure to 8.5% of GDP in low and middle-income countries in order to meet SDG Target 4.2 by 2030, with an expenditure on pre-primary education of 0.45% of GDP. In the case of El Salvador, that represents an increase of 0.15 percentage points (Education Commission, 2016). A recent report stated that a programme to make pre-primary education universal in El Salvador – which would imply expanding enrolment to 277 000 children, creating 33 600 jobs – would cost USD 359 million a year (UNICEF, 2018[74]). This would entail investment in pre-primary education of 1.46% of GDP per year, above the OECD average (0.54%), and even above the level in the OECD country with the highest expenditure in pre-primary education (Sweden invests 1.21% of its GDP in pre-primary education).

Public investment in early childhood can be a powerful force in reducing inequalities, especially when resources are targeted efficiently, effectively, and sustainably. As in many other countries, financing for pre-primary education needs greater attention from domestic and international sources. The international community spends less than 1% of Official Development Assistance (ODA) on pre-primary education, and that figure has not risen substantially since 2015. In El Salvador, the share of ODA that is spent on education has increased steadily since 2002, standing at 19.7% in 2019. This was well above the global average (7.5%) and the Latin American and Caribbean average (7.8%). However, the share devoted to ECEC has remained relatively low (0.09% on average between 2002 and 2019) (Zubairi and Rose, 2017[75]; Zubairi, Rose and Moriarty, 2019[76]) (OECD, 2021[77]). A sustainable financing strategy needs to draw on complementary sources of funds. Some countries have increased funding for pre-primary education through innovative financing mechanisms (Box 7.6). To ensure financing for the *Crecer Juntos* policy, a fiscal strategy has been developed that includes partnerships with donors, private enterprise, NGOs, and budgetary allocations for specific programmes.

Box 7.6. Innovative and sustainable financing for pre-primary expansion

Social impact bonds in education are used in few countries, including South Africa, to reinforce national investment in ECEC, and are particularly well-suited to this sector. Bonds purchased by investors are combined with development grants from governments or foundations, and they are invested in the target sector (in this case, education). Education outcomes, such as school retention, attendance, and learning outcomes, are associated with the repayment of the bond. The theoretical framework for the social impact bond is based on generating initial cost savings through preventive measures. These are initial upfront investments that avoid future expenditures for governments. This is the case for ECCE. If the objectives are achieved, the cost savings for government are used to repay the upfront investment, plus a dividend. The use of social impact bonds can help to leverage additional public capital through partnerships. Impact bonds are considered to be well-suited to public ECEC expansion, due to the low political cost that they represent relative to the positive outcomes that they can generate.

Other categories of innovative financing models and mechanisms include direct government financing through conditional cash transfers or subsidies. They also include taxes or earmarked funding (e.g. taxes on harmful goods, national lotteries), and voluntary contributions from private or non-government actors.

Source: (UNESCO, 2019[78]), *Regional Guidelines on Innovative Financing Early Childhood Care and Education (ECCE)* and (Gardiner and Gustafsson-Wright, 2016[79]), *South Africa is the first middle-income country to fund impact bonds for early childhood development*.

Recommendations to boost pre-primary education

Priorities	Detailed recommendations
1. Prioritise multi-sectoral governance at the national level to steer the expansion of pre-primary education and ECEC services. Ensure that sufficient resources are available to enroll all children in three years of quality pre-primary education, and to prioritise the development of early childhood education in vulnerable areas. Consider the extension of ECEC services to children aged 0 to 3.	
Priority 1.1 Provide universal access to compulsory pre-primary education from 4 years of age, and target the expansion of public, family, and community ECEC services in vulnerable areas.	• Increase the supply of pre-primary education in the context of the *Crecer Juntos* policy. • Develop a participatory approach to plan ECEC expansion at the decentralised levels, prioritising vulnerable areas. • Community-based advocacy from social-service providers and other local actors to encourage families to trust and access quality early-learning programmes. • Develop national standards (infrastructure, pedagogy, teachers), as well as the monitoring and certification of ECEC programmes and workforce, in order to ensure quality pre-primary education. • Promote locally-adaptive solutions (e.g. flexible schedules, part-time access) to facilitate the combination of work and care.
Priority 1.2 Ensure funding for the new strategic plan for early childhood (*Crecer juntos*).	• If necessary, use innovative sustainable-finance mechanisms such as earmarked taxes, impact bonds, or private contributions, in order to increase options beyond an exclusive reliance on the general budget and multilateral and bilateral donor support. • Align the contributions of international development co-operation with articulated national programmes, and not as isolated specific programmes. • Ensure budget co-ordination across sectors through joint programming and service-delivery approaches, linked to each sector's planning processes. • Develop integrated monitoring and evaluation mechanisms across sectors.
Priority 1.3. Design and implement a national communication strategy to support awareness of ECEC and pre-primary education at the community level.	• Reinforce messages around holistic ECEC for children, parents, care givers, and future parents. • Adapt strategies to target vulnerable populations, recognising their specificity (young mothers, indigenous communities, the poor, disabled, etc.), with the support of local authorities, community leaders and education advocates. • Build and mobilise support for ECEC among senior policy officials and civil servants to maintain continuity across administrations.

Fostering enrolment and progression, especially in secondary education

Increasing participation beyond primary education is among the goals of El Salvador's education policy, as a means of supporting socioeconomic development in the country. In El Salvador, one in six young people of lower-secondary age (13 to 15), and one in three of upper-secondary age (16 to 18), were not in school in 2018.[21] Compulsory education stops short at the end of lower secondary education, even though legally guaranteed access to upper secondary is generalised in most countries in the region.

The objective behind increasing the number of years of schooling (educational attainment) is for all youth to achieve basic skills beyond literacy and numeracy, including critical social and emotional skills for success in the labour market. Such skills include creativity, critical thinking, and collaboration, as well as resilience, perseverance, and self-control (OECD, 2015[64]). From an economic perspective, significant gains could arise if all students achieved these skills. One estimate for lower-middle income countries suggests that GDP could increase to 13 times its current value if this were the case (OECD, 2015[80]). Increased enrolment in quality secondary school is an important, if not sufficient, step towards achieving this.

Poverty and violence in schools and communities are linked to reduced demand for education. The factors behind the high rate of out-of-school children in El Salvador have shifted over time. In 1997, the first reason for dropping out of school was cost, but this was only the seventh most cited reason in 2019 amongst

seven to 15-year-olds who were not in school (Cox and Ureta, 2003[81]; DIGESTYC, 2020[35]). The relevance and pertinence of education were the most salient concerns in 2019. Lack of interest was cited as the most important factor for non-attendance for 40% of out-of-school children.[22] Factors of non-attendance also differ by gender and reflect traditional gendered approaches to educational opportunities. Out-of-school girls are more likely than boys to report their parents' refusal as reasons for non-attendance (second highest reason at 11%, compared to fourth highest for boys), while boys are more likely to report needing to work (second highest reason 10%, compared to ninth highest for girls).

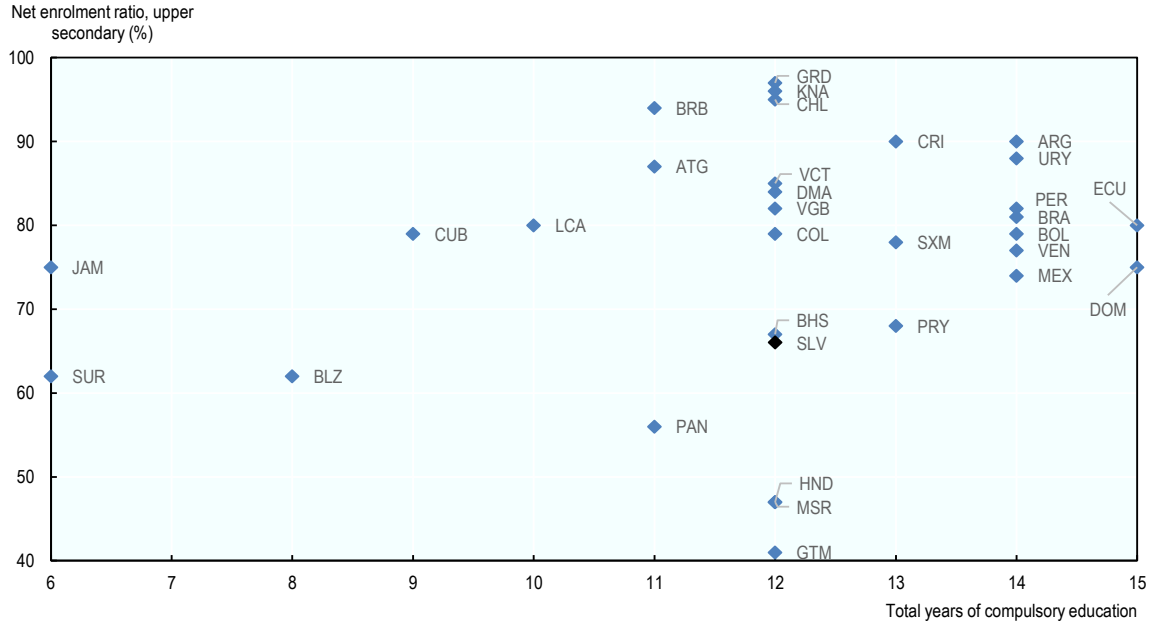
Tackling student dropouts will require strong incentives and support directed at students and their families to encourage progression through, and completion of, basic education. These measures need to be accompanied by reforms at the school and classroom level in order to increase students' engagement and motivation, and to help accommodate children with different needs (Lyche, 2010[82]). This section reviews evidence on the impact of the duration of compulsory schooling. It then focuses on how to mitigate some of the key obstacles to school progression, such as costs and violence.

Expanding compulsory schooling while guaranteeing provision

Making the last three years of secondary schooling compulsory in El Salvador would be an opportunity to attract more of the country's young people, but only if the quality of the education can be assured. Global evidence on the expansion of compulsory schooling finds that it has a positive effect on increasing educational attainment and reducing dropout rates (Smidova, 2019[83]). The increase in the length of compulsory schooling has been an important component of the increase in educational attainment over the past century. Many countries in Europe and the OECD extended compulsory schooling gradually from the 1950s onwards. Empirical evidence indicates that educational attainment increased by about 0.4 years for each additional year of compulsory schooling (Smidova, 2019[83]; Braga, Checchi and Meschi, 2013[84]).

Compulsory secondary education, along with complementary measures, can lead to increasing enrolment. In Latin America and the Caribbean, nearly all countries with 12 or more years of total compulsory education have higher net enrolment rates at the upper secondary level than El Salvador. In Colombia, for example, where upper secondary education is part of compulsory schooling, net enrolment rates are 13 percentage points higher than in El Salvador (79% and 66% respectively) (Figure 7.14). Combined with demand-side policies, such as cash transfers, which aim to change household behavior, the expansion of compulsory schooling can increase student enrolment and reduce child labour (e.g. Brazil, Mexico). Experience in low- and middle-income countries suggests that intra-group benefits could also occur, reducing inequities across socio-economic groups, and increasing female participation in the labour market.[23]

Figure 7.14. Net enrolment rates in upper secondary education, and length of compulsory education, in Latin America and the Caribbean



Note: ISO3 country codes. Total years of compulsory education can include pre-primary education, as is the case in El Salvador.
Source: (UNESCO, 2020[29]), *Global education monitoring report, 2020: Inclusion and education: all means all*.

StatLink https://stat.link/uacbd2

Household spending on education is sensitive to their financial status and geographical location

Salvadoran households contribute to the cost of education to cover school fees, supplies, uniforms, food, transportation, and other associated costs. Families in El Salvador paid on average USD 783 and USD 985 (at PPP) for primary and secondary school, respectively, in 2018 (Figure 7.15). Between 2012 and 2018, household spending per student on primary education rose from 7.7% to 9.1% of GDP per capita, the equivalent of nearly USD 200. This is nearly ten times the levels observed across the world, where household spending on education accounted for a mean of 1.1% of GDP (UNESCO, 2020[29]).[24]

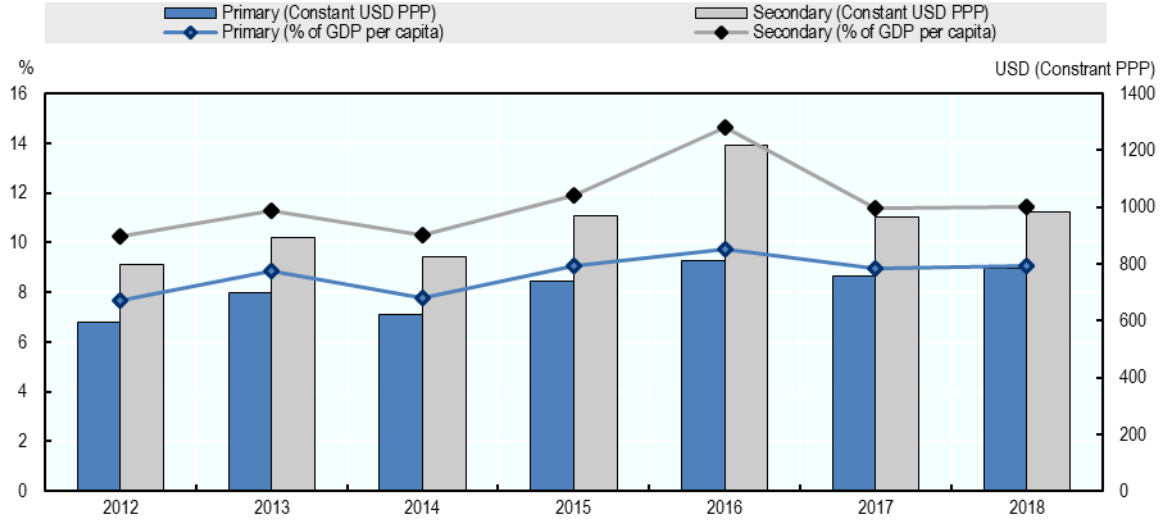
The socio-economic circumstances and the location of households are determinants for the contributions that they make to school expenses. Wealthier households spend a larger share of their expenditures on education (29%) than the poorest households (8%). Households in rural areas also spend a greater proportion of their expenditure on education than households living in urban areas. This is most likely due to transportation costs (DIGESTYC, 2020[35]). A high level of household spending on education can be a significant burden for the most vulnerable households. This is because the financial barrier imposed on families leads to limited access to education. Such a scenario contributes to an increase in the educational inequalities between advantaged and disadvantaged students. Besides, given that the cost of household spending on education in El Salvador increases by USD 200 per student between primary and secondary education, financial considerations might be even more relevant during the transition between these two levels (Figure 7.15).

Government programmes help to reduce the cost of education. Students in primary and secondary education in public schools receive uniforms, shoes, and school supplies - with universal coverage. They also receive school meals, with somewhat lower coverage (89% in basic education, 75% in secondary education, according to data from the EHPM (DIGESTYC, 2022[85]). As a result, expenditure per primary school student in public schools (USD 77) is much lower than in private secular (USD 734) or religious

(USD 482) schools. However, even in public schools, spending remains high, at 1.1% of GDP per capita in basic education, and 3.3% in secondary education.

Many schools in rural areas are difficult to access or are far from students' homes. Transportation issues are a reality for many school children in El Salvador, and access to schools can be impassable, especially during the rainy season. In 2016, 307 single-teacher schools had no public means of transport to reach the school, and another 42% of schools had poor access routes (MINED, 2016[86]). Another consequence of the urban-rural gap in school supply is the weak transition rate observed from lower to upper secondary levels (from the *tercer ciclo* to *educación media*). This varies across municipalities. The relative supply of feeder schools to receiving schools – that is, the number of lower-secondary schools that converge into one upper-secondary school – averages 4-to-1 at a national level, but can be as high as 8-to-1 in some municipalities, including Colón and Metapán (FUSADES, 2019[87]).[25] Some children and youths opt not to attend schools that are further from their previous school, and therefore impose additional costs for transportation or other requirements. The low supply of nearby schools has also been cited as a cause for internal migration (Taddei et al., 2016[88]). Investment in rural infrastructure projects in El Salvador, such as paving critical road access, is linked to increases in school enrolment in secondary school, and decreases in the time and cost of transportation to school (Corral and Zane, 2021[89]).

Figure 7.15. Household spending per student on primary and secondary education in El Salvador, 2012-18



Source: UNESCO (2020[27]) *Education dataset* (education), UNESCO Institute of Statistics, http://data.uis.unesco.org/.

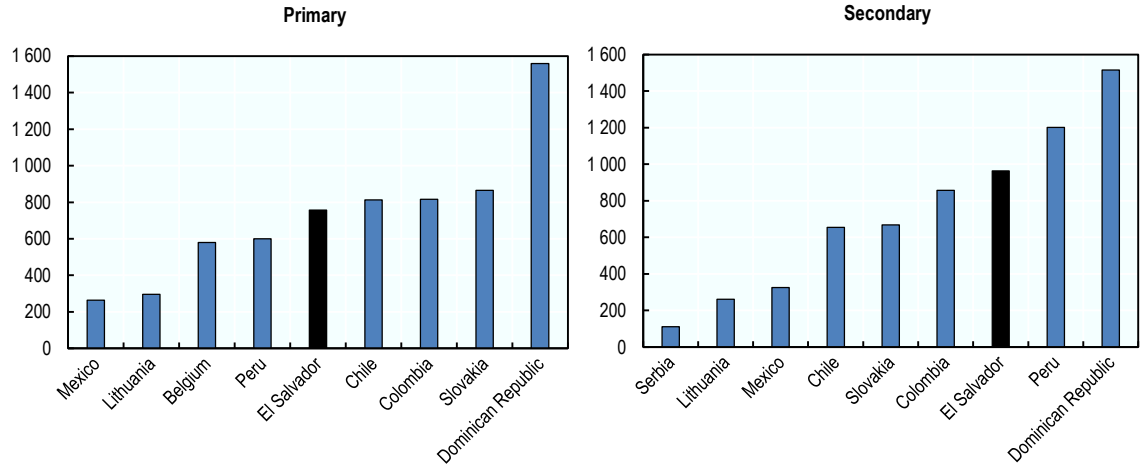
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Compared with other countries, and especially at the secondary level, the burden of financing education stands at a high absolute level for households in El Salvador. Salvadoran households spend USD 985 (at constant PPP), compared to USD 111 in Serbia and USD 326 in Mexico (Figure 7.16). The higher the level of private spending on education, the more likely that household income will be a sensitive factor in the enrolment of children and youths. Household allocations to education costs are likely to reflect cultural and parental attitudes towards the value to education. Emergency situations – including natural disasters and the COVID-19 pandemic, for example – are likely to exacerbate economic pressures in poor families, and to create a decisional trade-off between child labour and school attendance in order to meet basic household needs (Jaramillo, 2020[90]).

High rates of household participation in financing also reflect insufficient overall levels of public expenditure in education, as is the case in El Salvador. The poorer the country, the higher the out-of-pocket (private) share of national education spending. Households in lower-middle income countries like El Salvador account for nearly 25% of all education expenditures, compared to 11% in high-income countries (UNESCO, 2020[29]). Labour-market conditions have an impact on dropout rates. For instance, some regional and seasonal labour markets (e.g. tourism, construction) can attract young people out of school into unskilled jobs with poor prospects. The availability of such jobs, and the prospect of earning money early – either to improve the economic situation of the family, or to enable the young person to become more independent – motivate many young people to leave school prematurely. However, education systems can be designed in such a way as to give these youngsters the incentives either to stay in education, or to return to it at a later stage.

Figure 7.16. Household spending on primary and secondary education, 2017

Initial household funding per student (constant USD PPP)



Source: UNESCO (2020[27]) *Education dataset* (education), UNESCO Institute of Statistics, http://data.uis.unesco.org/.

StatLink https://stat.link/5m09d2

Remittances play an important role in financing household spending on education. About half (54%) of households that receive remittances spend an average USD 98 per month on education-related expenses, which are composed mostly of school fees, food, and transportation (DIGESTYC, 2019[30]). An increase in remittances has a stronger effect on education outcomes than increasing household income by other means. This may be due to remittances being explicitly destined for spending on education, or to a different propensity towards education in households that receive remittances. A 2003 study found that children in Salvadoran households who receive an average level of remittances are more likely to enrol in school, and are significantly less likely to drop out. They were 54% less likely to drop out at primary level, and 27% less likely at subsequent stages of education. This contrasts with the impact of the level of total income in the household, which has no or little effect in reducing the drop-out risk beyond primary education (Cox and Ureta, 2003[81]). Across multiple dimensions (e.g. living standards, health, employment, environment), households that receive remittances are significantly less likely to live in vulnerable situations than those that do not receive remittances (SETEPLAN/MINEC-DIGESTYC, 2019[40]).

Several programmes of successive administrations have supported disadvantaged families with a range of in-kind transfers and stipends to promote equal opportunities in access to education, and to reduce inequalities that are due to income or gender. Through the Ministry of Education and partner organisations, El Salvador's government has the capacity to help poor families to purchase or cover the costs that are

associated with the inputs necessary to attend school. This includes uniforms, shoes and tuition fees. The School Feeding and Health Programme (the *Programa de Alimentación y Salud Escolar*, or PASE) has been in place since 1984. It provides a daily ration to students in public education establishments. The "Glass of milk" (*Un Vaso de Leche*) programme has had growing reach since 2011, but has had difficulties meeting the needs of rural areas (Alvarado and Lazo, 2019[91]). The *Instituto Salvadoreño Para el Desarollo Integral de la Niñez y la Adolescencia* (ISNA) provides the logistical services for the storage, conservation, registration and dispatch of food for, on average, 9 167 children and adolescents, in 115 Early Childhood Care Centres.

In El Salvador, as in many other countries in Latin America and the Caribbean, conditional and non-conditional cash transfers have constituted the programmatic foundation for promoting equity in enrolment, completion and attainment in primary and lower-secondary education. Several cash-transfer programmes in the form of education grants (e.g. *Comunidades Solidarias Rurales y Urbanas*, and *Familias Sostenibles*) have sought to incentivise enrolment, regular attendance, permanence in the education system, and completion of Cycle 3 of basic education for girls, boys and youths in targeted disadvantaged municipalities. In El Salvador, the initial phase of the conditional cash transfer for households living in extreme poverty in rural areas (*Red Solidaria*) conducted in 2005-08 proved that transfers reduced repetition rates.[26]

El Salvador could consider expanding conditional transfer programmes in order to support students' school enrolment and attendance. El Salvador's main conditional transfer programme (*Comunidades Solidarias Urbanas y Rurales*) has demonstrated positive effects on the school attendance of pre-school children. Six years after the start of the programme, 5-year-olds with access to the programme were almost 30% more likely to attend school than those without access (Sanchez Chico et al., 2020[92]). These effects are even larger than the impact that was found at the start of the programme (15% for 6-year-olds, 9% for 7-year-olds) (De Brauw and Gilligan, 2011[93]). However, the programme's coverage has been very limited since its inception in 2005. According to estimates from the Economic Commission for Latin America (ECLAC), it covered 6.8% of households by 2015 (Cecchini and Atuesta, 2017[94]). This is far below the coverage levels in countries such as Argentina (24%) or Mexico (24%). With the shutdown of the implementing entity of the conditional cash transfer programme (the *Fondo de Inversión Social para el Desarrollo Local*) in January 2022, the continuity of the programme seems to be in question, although there has been no formal announcement of its closure. It would, therefore, be necessary specifically to target the education grant component towards households and pupils who are at risk of dropping out of school.

In 2019-20, the state provided health and education grants worth USD 5.7 million in cash transfers for children who are enrolled in lower secondary and middle school to attend school regularly, and to stay in the education system. Some municipalities, with support from local civil society (e.g. non-governmental organisations and churches) have adopted scholarship schemes that help maintain access to education for specific populations, including pregnant adolescents, teenage mothers, children with disabilities, child victims of violence, and those living in extreme poverty (UNICEF, 2017[66]). These programmes have provided immediate financial and nutritional relief to low-income families. However, their effectiveness in improving education outcomes in a sustainable manner merits examination. Few of the Salvadoran programmes mentioned have been subject to rigorous evaluation with regards to their impact on access and progress in schooling. Strong implementation, and monitoring and evaluation systems, are essential components of such programmes. They enable the targeting and adaptation of a programme's objectives at the levels both of the individual and the community. This is the case of Mexico's *Oportunidades* programme (Box 7.7).

Box 7.7. Measuring progress in the *Oportunidades* programme in Mexico

Mexico's conditional cash transfer programme, *Oportunidades*, set out to improve the lives of poor families through interventions in health, nutrition, and education. It was one of the first and largest conditional cash transfer (CCT) programmes and has been the basis for CCT programme design worldwide including in Colombia (*Familias en Acción*), Ecuador (*Bono de Desarrollo Humano*), and Guatemala (*Mi Familia Progresa*). In Mexico, more than two million families in 31 states participated in the programme. They were selected within targeted communities and phased into the programme by random assignment of communities. This facilitates the implementation of a rigorous formal evaluation.

Transfers were given to female heads of household. They were conditional on children attending primary school, as well as on participation in preventive medical care, and on attending talks. Positive impacts were obtained with relation to school attendance, with a stronger impact on lower- and upper-secondary enrolment. Educational attainment increased slightly, but without an impact on learning. Youths were also more unlikely to work while attending school (delayed entry into the labour market), and they participated in more after-school activities.

The experimental design of the implementation enabled the comparison of treatment and control groups before *Oportunidades* was rolled out nationally. Given the duration of the programme, and its data-collection practices, comparisons can be made with regard to the longer-term impacts of the programme, and with a view to comparing initial and later-treatment cohorts. Programme duration can also be exploited to examine the long-term effects of the CCT (Cecchini and Madariaga, 2011[95]; Millán et al., 2019[96]).

Violence in schools and communities reduces demand for schooling

Many of El Salvador's children and youth grow up surrounded by a persistent culture of violence in all spheres of their lives, including in their families, schools, and communities. Combined with the cumulative weight of El Salvador's political history of authoritarianism, the poor labour-market opportunities in the country, and the prevalence of gangs, disadvantaged children and youths have a bleak vision of their future (UNICEF, 2014[97]). Attending school is considered optional at best, and dangerous at worst. Aside from the loss of life, the direct and indirect consequences of decades of violence in El Salvador are estimated to generate costs that are equivalent to 16% of GDP (OECD Development Centre, 2017[98]). Addressing the impact of violence on schooling requires an understanding of the multiple ways in which community-based violence acts to perpetuate low educational attainment among children and youths in El Salvador.

In certain circumstances, attending school can simply be considered dangerous and life-threatening. While 5% of children not attending school stated violence as the main reason, another 10% stated that their parents did not want them to attend (DIGESTYC, 2020[35]). Parents of children and youths can feel threated while they are in school, or on their way there, and parents may choose for them not to attend (Díaz Alas, 2018[99]). One survey found that 23% of students aged 13-15 had not attended school on at least one day in the past month due to safety concerns (MINSAL, 2013[100]). Extreme violence in Salvadoran communities has not spared schools. In 2015, 64% of schools experienced gang-related violence, and 72 students and 15 teachers were murdered that same year (Bautista et al., 2017[101]). In 2018, 507 schools (8.4% of total) reported the presence of gangs, and rural schools have slightly more incidents of student threats reported than urban schools (55% compared to 45%) (MINED, 2022[25]). Families also can perceive public schools to be unsafe relative to private schools. If financially feasible, they respond by enrolling them in private schools. In peri-urban, violence-affected areas, one in every five students enrolled in basic education attends a private (non-state) school (Francis, Martin and Burnett, 2018[102]).

Violent environments during childhood can incite youths to join gangs, which appear as protective refuges from dysfunctional families and communities (Bolaños and León, 2008[103]). When the perceived value of education is lower than the security risk of attending school, violence becomes an indirect barrier to education in El Salvador. Concerns about the high level of impunity, and the lack of official recognition of their impact on the internal displacement of families, remain prominent in the latest report on El Salvador's adherence to the United Nations Convention on the Rights of the Child (UNCRC, 2018[104]). Households opt for internal and external migration as a reaction to living in violent areas. These displacements are strongly related to school drop-outs. In 2018, the top three reasons cited for withdrawing from an educational institution included changes in residence (37.7%), moving out of the country (12.1%), and moving to another school (11.0%) (Edwards, Martin and Flores, 2015[11]; MINED, 2020[105]).[27]

The overall climate of violence experienced by Salvadoran children and youths in their daily environment can have a negative impact on their developmental outcomes, including foundational learning, competency acquisition, and school completion. From a developmental perspective, violent environments inhibit positive relationships, and are related among children and youths to low self-esteem, emotional anxiety, and depression. Poor school climates are associated with lower learning levels, as measured by regional learning assessments (Treviño et al., 2016[106]).

The violent climate in families and communities in El Salvador increases the risk of school drop-out. Despite legal protection against gender-based violence in schools and communities, sexual violence disproportionately affects girls, and makes them more likely not to attend school, or to drop-out with no intention of returning (Moreno Uriza, 2014[107]). Half of all children under 14 experienced a form of violent discipline (i.e. psychological aggression and/or physical punishment) (UNICEF, 2019[108]). Recent reports also indicate an increase in gender-based sexual violence among girls, with nearly two-thirds of identified victims having experienced violence in the homes of their families or friends (UNFPA, 2019[41]). Relative to other countries in the region, pregnancies among adolescents are more prevalent in El Salvador. In fact, 28% of all pregnancies in the country are among females aged 10 to 19, compared to 15% in Latin America and the Caribbean as a whole (UNFPA, 2019[41]). Although pregnant adolescents are guaranteed the right to education in the General Law on Education, they often feel forced to leave school, and they do not return due to the absence of supportive measures (ISNA, 2019[109]). As such, the economic cost of teenage pregnancy is high (estimated at USD 352 million[28]). This is due to limited opportunities in education and work, and to the ensuing intra-generational transmission of poverty (UNFPA, 2019[41]). Holistic community-based programmes, such as the *Ciudad Mujer* Programme (developed in 2011) provide linked services, referrals, and support to women in need. This programme provides women with integrated social services in a single location, including female economic development, female empowerment, childcare, women's health, and protection of women against violence (Bustelo et al., 2016[110]). These centres are located in six departments in which there are high levels of domestic violence against women.[29]

Experiences from Latin America and the Caribbean identify a series of risk factors for school violence. These are rooted at different levels: that of the individual, that of the school, and that of the community. Successful violence-prevention programmes tend to include activities that cover more than one of these levels, although evidence from rigorously evaluated programmes is scarce in the region. Nonetheless, several conclusions are well supported by global evidence from programmes that have attempted to reduce youth violence in and around schools (Alda, 2007[111]; Atienzo, Baxter and Kaltenthaler, 2017[112]; Chaux et al., 2017[113]; Moestue, Moestue and Muggah, 2013[114]; WHO/WHO Collaborating Centre for Violence Prevention, 2010[115]). These conclusions include:

- Community-based programmes consistently appear to be effective in preventing violence.
- School-based programmes that focus on expanding hours, providing youths with links to employment, and involving children and youths in recreational, cultural and sports activities, have promising preventive results.

- Changing norms in school environments by empowering youths, expanding opportunities to include parents, and engaging in positive classroom management, reduces violent behaviours.
- Developing life skills among children and adolescents, and building socio-emotional competencies, reduces patterns of youth violence.
- School-based programmes that address gender norms and attitudes can prevent violence against women.

Successive governments have made efforts to reduce gang-related violence in communities, and the inclusive full-time school (*Escuela inclusive de Tiempo Pleno*, or EITP) is a promising model that could benefit from being updated and monitored. In the communities that were targeted by the *Plan El Salvador Seguro* (the PESS), the benefits of full-time school in curbing the entry of youths into gangs were recognised. Other Salvadoran experiences are in line with international experience. As already noted, one of the effects of violence is to encourage enrolment in private schools in areas that are particularly affected by violence. In the implementation of PESS, which ran until 2019, the experience of partnerships between government and affordable privately-run schools offered lessons on how to mitigate the impact of conflict and violence in schools. Privately run schools succeed in creating a sense of community among principals, teachers and parents. Their commitment to safety and educational quality is a strength in creating safe educational spaces in communities with high levels of violence (Francis, Martin and Burnett, 2018[102]). Indeed, violence is more widespread in public schools than in private schools (MINED, 2022[25]).

Analyses of policies to prevent violence in school environments in El Salvador identify several areas where there is scope for improvement. The first relates to the current predominance of a public-safety approach over a comprehensive violence-prevention approach. Although public security is important, the former overlooks the need to establish the school not only as a safe place but also as a place for learning to live together. This means having not only security tools but also pedagogical tools. These should be focused on the students, but also aimed at families and communities. Secondly, there is a multiplicity of interventions, which in many cases are focused on a limited number of schools or municipalities. Thirdly, there is a paucity of evaluations of implemented initiatives. This makes decision making difficult, especially when taking into account the need to focus on more comprehensive interventions due to budget constraints (Cuéllar-Marchelli and Góchez, 2017[116]; Alas, Linares and Ramos, 2019[117]).

It is desirable to expand interventions both in the management of violence, and in violence prevention in school environments. For example, school counsellors can provide psycho-social assistance to victims of violence in the framework of a holistic approach that also includes the participation of parents and communities. The latter is important to avoid a purely public-safety oriented approach leading to a neglect of problems that are relevant to students, but that are not a priority in terms of public safety (such as bullying). A psycho-social care programme has been implemented in this regard in recent years through School Counselling Centres (*Consejerías Escolares*), prioritising 505 schools (out of 6 025 in the country) to provide care and support to students, teachers, and parents. This effort deserves to be reinforced. On the other hand, the experience of full-time inclusive schools should be evaluated in terms of the impact of the extended school day on violence, and of violence risk factors. Based on this evaluation, this element of the EITP full-time school model, whose roll-out seems to have stagnated, could be extended.

The current administration seeks to regain administrative control of gang-controlled territories, and to reduce violence generally across 262 municipalities with the *Plan de Control Territorial* (Territorial Control Plan). The four-phased plan began in June 2019, with a reinforced policing phase. This was followed by a phase focused on providing youths with positive alternatives to joining gangs. This “social well-being” phase includes regaining community spaces and youth skill development through scholarships and training programmes, as in the former Safe El Salvador Plan, the PESS.

Box 7.8. Violence prevention in the Inclusive Full-Time School model

The Inclusive Full-Time School (*Escuela inclusive de tiempo pleno*, EITP) model was piloted in El Salvador between 2015 and 2018 in 750 schools in 25 municipalities, for about 136 000 students (FEDISAL; FUSALMO; AIS; Universidad Don Bosco; EDYTRA; FUNPRES; FHI 360, 2015[118]). Built on international experience from Uruguay, Chile, Argentina and Mexico, the EITP aims to reduce crime and violence while addressing questions linked to school retention and completion. The expansion of small, community-based schools through the *Educación con Participación de la Comunidad* (EDUCO) model had increased enrolment in primary school. However, these schools were under-resourced and had low student performance. The EITP model adds 15 hours to the 25-hour school week in lower-secondary education (the third cycle of basic education). It also trains teachers in methodology (e.g. collaborative learning, inclusion strategies, active learning, student autonomy). In addition, it implements school feeding, and shares resources among public schools for a more efficient allocation. The EITP model aims to facilitate the co-construction of a learning environment in the school, in partnership with the local community. As alternatives to violence and social isolation, it seeks to offer accessible and concrete opportunities for sports and extracurricular activities (World Bank, 2019[3]). Furthermore, youths are linked to community-based skills-training programmes for local labour markets. An initial evaluation report found that the interventions were effective in addressing multiple factors related to the prevention of youth crime, and in contributing to improving school safety (Mendez England & Associates, 2017[119]).

Recommendations to encourage enrolment and progression in school

Priorities	Detailed recommendations
2. Encourage enrolment and progression for all children and youths in primary and secondary education, through targeted support and incentive mechanisms.	
Priority 2.1 Extend compulsory education to include all of secondary education	• Consider extending compulsory education including upper secondary education, while guaranteeing access, especially in rural areas.
Priority 2.2. Allocate appropriate resources to reduce disparities in access to quality education.	• Reduce the impact of social and income inequalities on enrolment and performance in school, through the use of efficient transfers to vulnerable families at all levels of education. Consider including school attendance as a condition for specific transfers or stipends. • Develop conditional cash transfer programmes to ensure attendance at all levels of education. • Guarantee the right to education of all children during emergency situations (for example through communal Internet access), and in vulnerable areas. • Develop a motivation scheme to attract experienced and trained teachers to schools with difficulties, and to schools in rural areas.
Priority 2.3. Assess the impact of programmes to prevent violence in schools and expand those that have positive results.	• Establish programmes with a holistic approach to violence prevention in school environments (counselling, teaching aids and training for students, teachers and families) as a complement to ongoing efforts in public safety programmes. • Assess the existing programmes to prevent violence at school, and the impact that other programmes (such as the Inclusive full-time school model, *Escuela Inclusiva de Tiempo Pleno*, EITP) may have on violence in school environments. • Scale up programmes with proven effectiveness, depending on the needs of each school or municipality.

Enhancing the quality of education to foster better learning outcomes

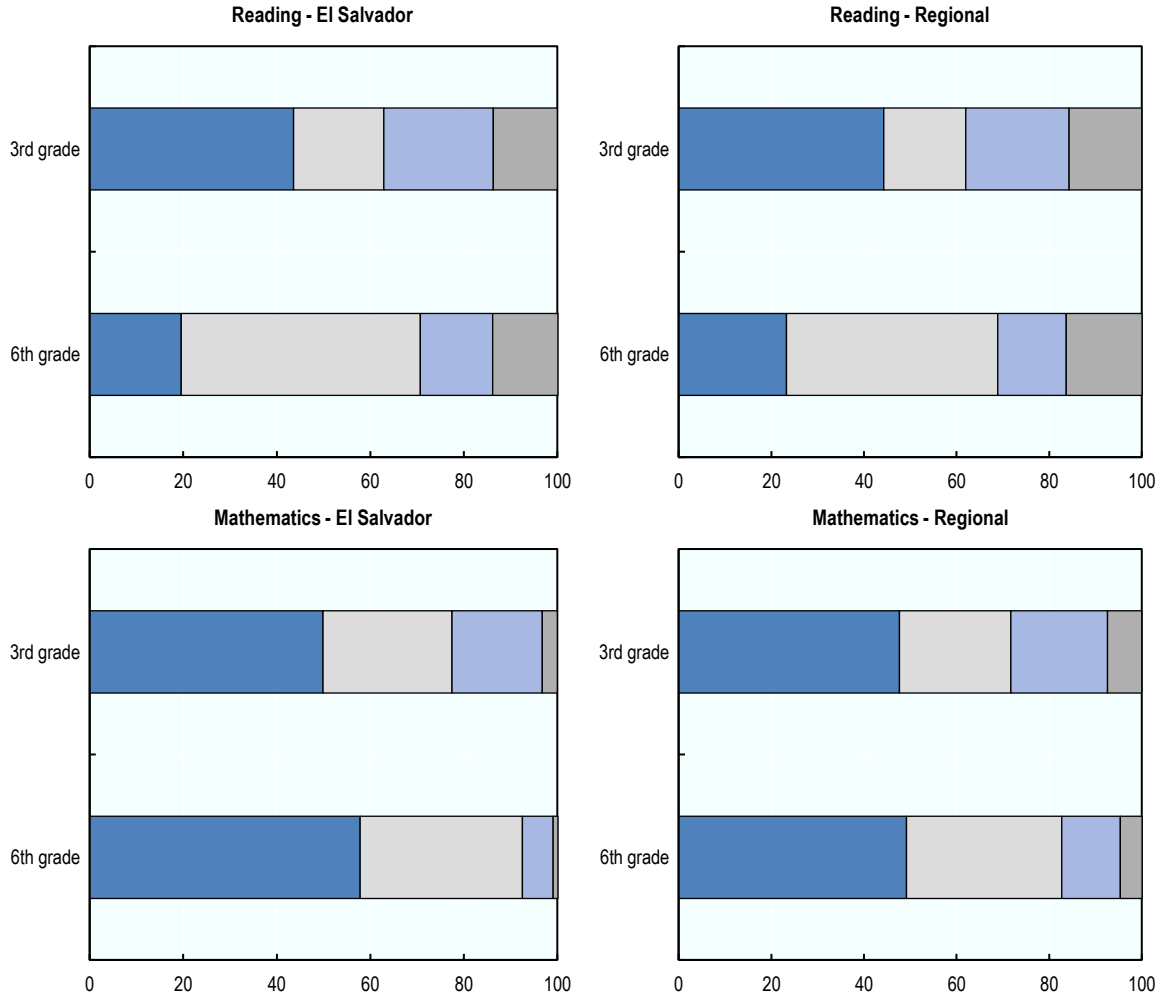
A key policy challenge facing El Salvador's education system is to improve quality compulsory education in order to boost learning outcomes. Results across national and regional learning assessments point to inadequate levels of basic learning achievement across all levels of education.[30] In Grades 2 and 3, 49% and 40% of students respectively cannot read at their grade level as per international literacy standards (Castro et al., 2018[120]).[31] Students who are reaching the end of secondary education are leaving school with low achievement in mathematics, social studies, science, and language and literature. As per the national *Prueba de Aprendizaje y Aptitudes para Egresados de Educación Media* (PAES) examination, which was conducted as a high-stakes graduating exam until 2020, students scored an average of 5.5 out of 10 points across the four subjects (with 6 being the pass grade for a subject matter in El Salvador). Moreover, 23% attain only the lowest achievement level in language, 26% achieve only the lowest level in sciences, and 41% of students only achieve the lowest level of achievement in mathematics (Gavin et al., 2017[121]; Novella et al., 2018[122]; MINED, 2018[123]).

The results of the recent international assessment in 2019, (the *Estudio Regional Comparativo y Explicativo*, or ERCE), highlight the difficulties with regard to learning achievement in primary school, especially in mathematics. ERCE analysed the proficiency level of 3rd and 6th graders in reading and mathematics, and that of 6th graders (only) in science. The results show that the majority of students do not reach basic levels of proficiency. In reading, results in El Salvador are comparable to those of all countries in the region. In 3rd grade, 56% of students are above the minimum expected level (levels II and above), and 29% of 6th graders are above the minimum expected level (levels III and above) (Figure 7.17). For Latin America and the Caribbean, the corresponding proportions are, respectively, 56% and 31%. In mathematics, however, 50% of 3rd grade pupils are above the minimum expected level (levels II and above), but only 7.6% of 6th grade pupils are above the minimum expected level. The corresponding proportions for the region are, respectively, 52% and 17%. There is, therefore, a deficit in mathematics learning that accumulates between grades 3 and 6. In reading, the distribution of students by level between the two grades in El Salvador is similar to the regional average. In mathematics, however, it is observed not only that the number of students in levels III and above decreases, but also that the number of students in the lowest level of learning achievement increases.

Specific learning gaps in mathematics were already identified in one of the few earlier international learning assessment exercises in which El Salvador participated in the past. In the 2007 international Trends in International Mathematics and Science Study (TIMSS), El Salvador was among the lowest-performing countries. In the study, 22% and 47% fourth grade students scored at or below the lowest benchmark level, indicating that they had only basic knowledge in mathematics and science (Martin, Mullis and Foy, 2008[124]; Vegas and Petrow, 2008[125]).[32]

Figure 7.17. Results of the ERCE assessment for El Salvador and the LAC region

Share of students by level of proficiency (%)



Source: UNESCO (2021[126]), Estudio Regional Comparativo y Explicativo (ERCE 2019), National Results Report for El Salvador, UNESCO Office Santiago and Regional Bureau for Education in Latin America and the Caribbean, Latin American Laboratory for the Assessment of Quality in Education.

StatLink https://stat.link/mx4w7g

Learning outcomes result from a variety of factors, including the quality of teaching and the learning environment. In El Salvador, the teaching workforce faces low levels of motivation. In addition, given the absence of teacher training that is specifically geared to the difficulties they face, teachers are not sufficiently prepared to face their daily challenges in the classroom. Marked as it is by significant and unequal gaps in infrastructure and materials provision, the learning environment in El Salvador perpetuates inequalities based on incomes, gender and territory. This section begins by looking at the need to strengthen evaluation in education. It then focuses on improving the quality of teaching, and on how to reduce inequalities between learning environments.

Strengthening the system for evaluation in education

Evaluation and assessment in education play a fundamental role in improving the quality and management of education. Learning assessment is a key tool for achieving the education goals of the 2030 Agenda of

the United Nations. Assessment can serve multiple purposes. These include certifying and validating learning, providing an evidence base for policy formulation, accountability, and the shaping of teaching and learning practices (UNESCO, 2017[127]). The development of educational assessment in recent years has been marked by several trends, including a large increase in educational assessment activity in many countries, the development of indicators that are centred on students and learning outcomes, the use of assessments for more diverse purposes, and the importance of educational standards as a basis for assessment (OECD, 2013[128]).

In El Salvador, interest in educational evaluation emerged with the education reform of the 1990s, as a means of achieving quality education, but its development has been uneven. Evaluation and assessment practice has focused on learning assessment, which is centred on students' learning outcomes rather than on teachers or the teaching process. Learning assessments in secondary education have been implemented regularly since 1997, when the PAES examination was introduced. From 2002, the PAES was a criterion-referenced test that measured proficiency in competencies established in the curricula for core subjects of study. Later, it also included social-emotional skills. A passing grade in PAES was a condition for university entrance and scholarships. As for basic education, between 1996 and 2014, assessments were implemented for students in grades 3, 6 and 9, (i.e. at the end of each cycle). They were implemented annually until 2004 and were census-based in 2005 and 2008 (assessing only language and mathematics). In 2010, however, they were discontinued, and they were administered only on a sample basis in subsequent years. In 2014, El Salvador began implementing diagnostic tests in 3rd, 6th and 9th grades, as well as in the 2nd year of high school (*bachillerato*). These tests were designed to be quarterly, but were implemented irregularly due to budget constraints. As of 2018, these sample tests (they are applied to a sample of schools) have been called Evaluations of Productive and Citizen Capabilities (*Evaluaciones de Capacidades Productivas y Ciudadanas*, or ECPYCs). They build on an approach that focuses on productive capacities beyond classroom learning[33] (Cuéllar-Marchelli, Góchez and López, 2019[129]).

The institutional framework for educational evaluation and assessment has not yet been consolidated. Since the establishment of an Educational Quality Analysis Unit (*Unidad de Análisis de Calidad Educativa*) in the Ministry of Education in 1993, the institutional framework has undergone multiple overhauls, depriving it of the necessary stability. A National Learning Assessment System was created in 2001, but it ceased to exist in 2010. In 2014, the Ministry of Education proposed the creation of a National Education Evaluation System as one of the axes of the five-year strategic plan (MINED, 2015[20]). In 2014-19, important progress was made in establishing the practice of educational evaluation, but neither the National System of Educational Evaluation, nor its main components (evaluation units by educational level and the creation of the National Institute of Educational Evaluation), became institutionally established.

Learning assessment remains a priority for El Salvador. The Ministry of Education's strategic plan for the five-year period 2019-24 establishes evaluation as a foundational block (MINED, 2021[19]). A specific administrative unit dedicated to evaluation has been created in the Ministry of Education, at the National Directorate level (*Dirección Nacional de Evaluación Educativa*). In 2020, the creation of the National System of Educational Evaluation began with the aim of progressing towards a system that allows the different stakeholders to have holistic information on the education system as a whole, and seeking to evaluate not just learning, but also institutional management and curricula.

Since 2020, the standardised test that is applied to students in the second year of the baccalaureate, and who are about to leave, has been reformed. The new test (AVANZO) is an online test that seeks a more comprehensive assessment of students' skills. It aims to provide institutions, teachers, families, and the education system as a whole, with information on students' skills. It explores cognitive and socio-emotional skills, as well as vocational orientation, in order to encourage reflection and decision making.

El Salvador has recently participated in international assessment exercises, enriching the evidence base that is available for the design of education policies. The country participated in the ERCE 2019 regional test and has been participating in the 2022 edition of PISA (Programme for International Student

Assessment). In addition to internationally comparable results, participation in international assessments presents opportunities to strengthen technical capabilities for educational assessment. El Salvador is on track to publish assessment results in December 2023, in full compliance with PISA technical standards. In addition to the data that will be collected through PISA, El Salvador has also developed capacities to implement large-scale international assessments, and to analyse the resulting data, interpret the results, and prepare a policy-oriented national report.

A robust institutional framework is necessary in order to further strengthen the educational evaluation system. It should be endowed with the necessary technical and financial capacity to develop a comprehensive programme of educational evaluation. Taking into account recent history in this regard, it is desirable in the first instance to centralise the evaluation functions of the Ministry of Education. As a second step, however, El Salvador should consider establishing an autonomous body for evaluation in education. Autonomous entities are less subject to political pressures, and financial autonomy would allow for greater respect for the periodicity of evaluations. This has been problematic in the past, and it reduces the value of evaluation, for example when it assesses competencies on a rotational basis and the cycle is not completed (Diálogo Interamericano, 2016[130]; OECD, 2013[128]). The law that created the Institute for Teacher Training (*Instituto de Formación Docente*, or INFOD) gives it a support function in processes of in-service teacher evaluation. It would be important for the construction of an educational evaluation system to be able to rely on INFOD, while maintaining a holistic vision of educational evaluation.

The dissemination and use of assessment results should also be strengthened. Analyses of specific evaluation exercises in El Salvador identify a lack of dissemination as an important element that limits the use of evidence and limited the effectiveness of evaluation in improving teaching practice and education policies (Cuéllar-Marchelli, Góchez and López, 2019[129]). For example, teacher training institutions can use the results to inform the strengths and weaknesses of teaching approaches and pedagogies in order to achieve national programme learning objectives; INFOD is well positioned to fulfil this function. Teaching programmes can then reassess the capacity of initial and in-service teacher training. National and international assessments are also an important element of accountability (OECD, 2013[128]). A strategy for the dissemination and use of the results of the different assessments should be designed. It should be aimed at teachers, but also at policy makers, academics, and members of the general public.

Given the number of out-of-school children and youths in El Salvador, the educational evaluation and assessment system could be complemented by out-of-school learning assessments. International experiences have mobilised inclusion-focused household surveys with community or civil society participation (e.g. ASER in India and Pakistan, Uwezo in Kenya, Tanzania, Uganda) as a complement to the school-based educational assessment system. The OECD's Programme for International Student Assessment (PISA) has developed a specific tool for assessing the competencies of out-of-school 15-year-olds. This has been piloted in countries in Latin America (Guatemala, Panama, Paraguay), within the PISA for Development (PISA-D) programme (Ward, 2020[131]). This tool, which is available as an optional module for PISA participants from 2022, will be available for implementation in El Salvador from its next participation in PISA (in 2025). This option has recently been implemented by Guatemala, Honduras, Panama and Paraguay. It is designed for PISA countries that have significant numbers of out-of-school 15-year-olds. By taking the out-of-school assessment option, El Salvador would ensure that this population is no longer beyond the reach of PISA and the Ministry of Education, as it would assess the success of its education system in educating all children and young people, and not just those who have been able to stay in school until the age of 15. It could also serve as a basis for the development of a national assessment of educational attainment among out-of-school youths.

Build a stronger, more motivated, and better-equipped teaching workforce

Given that the quality of teaching is one of the most important determinants of student learning in the education system (Hanushek and Woessmann, 2015[132]), providing learners with trained and motivated teachers is an immediate priority for El Salvador. The quality of teacher training, its relevance to teaching

conditions, and the level of training, have been considered weak for many years in El Salvador (AED, 2005[133]). Successive reforms of teacher training have organised and set quality standards. However, the quality of teaching remains a challenge. The mismatch between the specialisations that are needed in the education system, and those that are available among graduate teachers, also remains a major problem (Cuéllar-Marchelli, 2015[134]).

Reforms addressing teacher motivation in low-income countries have found that meeting their basic needs (e.g. regular salary disbursements, housing in rural areas), and improving teacher-development programmes, are key factors of success (Richardson, 2014[135]). Motivating the teaching workforce remains a policy challenge in El Salvador, which has tried to strengthen the capacity of the workforce at several points. Examples include the 2012 National Policy for Teachers' Professional Development (the *Política Nacional de Desarrollo Profesional Docente*), and the 2014-19 Five-Year Development Plan. The creation of INFOD in 2018 is a step forward in the drive to create training norms and guidelines, but implementation has been slow due to union resistance and limited budget allocations.

The National Plan for In-Service Teacher Training in the Public Sector (*Plan Nacional de Formación de Docentes en Servicio en el Sector Público*) (2015-19) articulates the elements that are necessary to strengthen teachers' capabilities. Appropriate career management for teachers, combined with relevant in-service training, and pedagogical mechanisms for managing diverse classrooms, should equip teachers with the knowledge and the skills that they need to use classroom teaching time effectively. This will enable them to support student development through high-quality instructional and assessment practices (Best, Tournier and Chimier, 2018[136]). Teachers need strong technical support and resources provided by teacher trainers if they are to feel prepared to deal with challenging circumstances – both in and around their classrooms. Furthermore, salaries and career progression in El Salvador are not clearly linked to the difficulty of the teaching environment, to completed in-service training, or to positive evaluations. On the contrary, in El Salvador, teachers are promoted on the basis of seniority, without direct links to performance or teaching ability.

The OECD's Teaching and Learning International Survey (TALIS) of lower secondary school teachers identified that teachers were motivated to change by a collaborative professional environment, and by observations or assessments of their teaching practices. In El Salvador, there is little research on teachers' abilities in the classroom. This leads to a gap in information that otherwise would be useful for improving teaching practices, as well as for promotions, career progression, or other forms of motivation and recognition of good performance (Cuéllar-Marchelli, 2015[134]). Guidelines and teaching competencies are not articulated in such a way as to be usable by teachers themselves, or by external evaluators, to assess teachers' work. The PAES learning assessment, and its successor, AVANZO, are limited to students who complete secondary education. Their results are not as useful in the evaluation of teaching practices as a learning-assessment programme that measures classes or a classroom observation programme would be.

Salvadoran teachers have relatively high levels of qualifications. Three-quarters of them have completed a three-year university-level teacher training programme (ISCED 6), and 12% have a teaching high school diploma (*bachillerato*) (Taddei et al., 2016[88]). Initial training for teachers (*Formación Inicial Docente*, or FID) is conducted mostly in private universities, although a large proportion of students are enrolled at the national public university, the *Universidad de El Salvador*. INFOD, the national teacher-training institute, was founded in 2018, with the double mission of training teachers and co-ordinating the teacher-training system. To date, it has not carried out initial teacher training. All programmes follow a national curriculum that is regulated by a legal framework, but poor student learning outcomes in the PAES have pointed to a need for reinforced teacher training on teaching pedagogies.

Initial teacher education suffers from many of the problems of the public education system. These include a lack of specialists, which leads 53% of teacher educators to teach subjects in areas for which they were not trained. It also suffers from a lack of development of research activity, with a very small number of teacher educators holding doctorates, and two thirds not having carried out academic research. Finally,

despite the guiding role of the Ministry of Education, there is significant curricular dispersion in teacher training, reflecting unfinished curricular reforms (González and Avelar, 2019[137]).

Despite the country's relatively strong teacher-training system, El Salvador faces several difficulties in maintaining a motivated workforce. The management and deployment of teachers, as well as their career prospects, are critical issues. Entry into the teaching career in El Salvador is regulated by the Teaching Career Law (the *Ley de la Carrera Docente*). This law stipulates that only people who have registered in the relevant career registry (*Registro Escalafonario)* can teach. In order to be eligible, candidates must be graduates of university teacher-training programmes, or be professionals from other fields with a university degree and have passed a one-year pedagogical training course. In practice, the system has generated a large oversupply of teachers, which has been documented for decades (Cuéllar-Marchelli, 2015[134]; Merino and Galdámez, 2019[138]).

The oversupply of teachers, and the system for allocating positions, limit the motivation of potential teachers and hinders the efficient distribution of human resources. The allocation of posts, and any transfers, are centralised through the Qualifying Tribunal of the Teaching Profession (the *Tribunal Calificador de la Carrera Docente*), although the administration of each educational establishment is the one that issues the vacancy notice and receives applications. By law, the allocation of posts (at least of titular posts, registered in the Salary Law) by the qualifying court must take into account the seniority of graduation, which generates a waiting list for access to teaching posts. Recent graduates remain unemployed, or under-employed, for up to three years, and 40% of them have spent more than a year without a post after graduation. In response, in 2012, the regulation for initial teacher education programmes was adjusted, with higher requirements for entry. While enrolment in initial teacher training programmes has declined compared to the 20 000 people reported in 1997, it remains high, standing at around 12 500 since 2015 (MINED, 2021[139]). By contrast, in 2017 only 1 105 vacancies became vacant due to retirement (Quiñónez, Lizama and Narváez, 2018[140]).

Despite the oversupply of teachers in aggregate, there is a significant gap in terms of supply and demand for specialisations. The demand for trained teachers in critical subjects, such as mathematics and science, is high, but a surplus of teachers exists in other subjects (Quiñónez, Lizama and Narváez, 2018[140]). This mismatch leads to teaching challenges in the classroom, as teachers are often deployed to schools without consideration of their field of training, or of the number of years of experience that they have (Taddei et al., 2016[88]). For example, an estimated 84% of pre-primary teachers have not received specialised training for the pre-primary level, which requires specific pedagogies and attitudes in order to promote early childhood development, as well as to develop early literacy and numeracy skills (World Bank, 2019[58]). Teachers who are assigned to secondary education (the *tercer ciclo* and *educación media*) can also be unprepared for teaching at those levels, or in those subjects, and they see this as a major challenge to performing well in or enjoying their work.

In view of the oversupply of teachers, it is important to review human-resource management processes for the teacher workforce, as well as the criteria for entry, advancement, and career development. The importance of seniority in the career ladder should be adjusted by criteria of merit, and of adequacy to needs in terms of specialisations and competencies. There is also scope to review the composition of teachers' remuneration. According to data compiled by Candray Menjívar (2019[141]), teachers' salaries in the public sector are significantly higher than those in the private sector. This leads to an oversupply for vacancies in the public sector. In addition, increases in remuneration that occur because of seniority limit the impact of incentives, for example for teachers working in remote areas. They also limit incentives to acquire further training. For example, a teacher with a bachelor's degree may be eligible to enter the career ladder at level II, which corresponds to a 10% increase in salary. However, they can obtain the same salary increase with five years of seniority. Given that initial teacher training does not grant the equivalent of a bachelor's degree, the financial incentive does not carry much weight, as it means delaying entry into the labour market for up to three years. Moreover, there is no salary recognition for further training beyond this

system. By contrast, more than half of OECD countries provide for additional remuneration for teachers who obtain training or qualifications beyond the minimum (OECD, 2019[142]).

Donor-supported programmes, such as the EITP full-time school programme articulated in the 2009-14 Education Sector Strategy, have been instrumental in filling training gaps and providing targeted in-service training courses, as well as teaching and learning materials to support the teaching workforce. However, they are not always linked to sustainable outcomes in terms of working conditions (Box 7.9).

Box 7.9 Motivating teachers in the Inclusive full-time school (EITP) model

The Full-Time Inclusive School (*Escuela inclusiva de tiempo pleno*, EITP) model is a proposal that implies a radical change in the organisation of education. It was a paradigm shift in the organisation of school time, which also implied the extension of the school day and of the scope of activities as a means of fostering links between schools and communities, and of preventing violence. The model was implemented as a series of pilots since 2009, and in particular as pilot project between 2012 and 2018 that was funded by the World Bank. Lower-secondary school classrooms (grades 7 to 9) were upgraded with learning materials and equipment (such as books and computers), and school equipment and facilities were renovated or built. The school week was extended from 25 to 40 hours, so that students could spend more time working with the programme.

Teachers received training and certifications based on subject-matter content, implementing the programme, and using new learning materials through the use of the cascade model for training trainers. Teachers' salaries were increased to cover the additional 20 hours per week. School principals and teachers took on responsibility for reducing dropout rates and increasing access to education, by communicating with parents and the community, and collaborating to remove barriers for at-risk children.

During the project period, 1 150 teacher trainers and teachers were trained and certified on pedagogical reforms, and 436 head teachers were trained and certified on the EITP model. An impact evaluation found that the project had positive results, with an increase in the lower-secondary graduation rate of 4.1%. More students transitioned to upper secondary education (middle school) (Taddei et al., 2016[88]; World Bank, 2020[5]; World Bank, 2019[3]).

In addition to the extension of the school day, the proposed Integrated System of Full-Time Inclusive Schools (SI EITP) model entails changes in models of management, pedagogy, and teacher organisation. Some of these elements have become more widespread than others. As of 2018, just over a third of schools were part of the SI EITP (1 950 schools, 38% of the total), but only a third of these (i.e. 11% of all schools) had an extended school day (MINED, 2018[143]). The model as such seems to have been relegated in terms of strategic planning. It was the central element of the *Vamos a la Escuela* Plan (2009-2014) but it is only mentioned once in the Education Plan 2014-2019 and not at all in the recent Togoroz Plan (2019-2024). The Togoroz Plan does include elements of the model as objectives, such as the development of face-to-face or virtual activities for the positive use of free time in 3 300 schools.

Single-teacher schools (*escuelas unidocentes*), or schools with multi-grade classrooms, are an important part of the rural education landscape in El Salvador (Table 7.4). As of 2018, nearly all *unidocente* and *bidocente* schools were in rural areas (94%), and in public schools (98%) (MINED, 2019[144]). In 2014, estimates found that 3% of students in El Salvador were in one- or two-teacher schools (Edwards, Martin and Flores, 2015[11]).

Table 7.4. Number of schools with one or two teachers, by geographical area, 2018

	Schools with one teacher (*unidocente* schools)	Schools with two teachers (*bidocente* schools)
	Total number	
National	503	795
	% of all schools	
National	8.3	13.2
Rural	11.9	18.1
Urban	1.7	3.6

Source: (MINED, 2019[144]), *Indicador 10.2 Centros educativos según cantidad de docentes*, Ministerio de Educación, San Salvador.

Teachers who are deployed to rural areas often teach in fields for which they have received no specific training, and only 23% of teachers have received specific training on multi-grade classrooms (MINED, 2016[86]; MINED, 2019[144]).[34] Single-teacher schools also are characterised by fewer hours of teaching for students, and less access to teaching and learning materials, including technology (Quiñónez, Lizama and Narváez, 2018[140]).[35] Teachers in rural areas receive less pedagogical support, with fewer visits from inspectors and peer technical advisors than urban teachers (Cuéllar-Marchelli, 2015[134]). These conditions have a significant impact on the quality of teaching. Salvadoran students in single-teacher schools in rural areas have significantly lower performance in reading than students in standard rural schools or low-income students (Castro et al., 2018[120]).

Providing teachers in rural areas with continuous peer support and in-service training can help to increase both the quality of teaching and student-learning outcomes, especially in multi-grade schools. Teaching in multi-grade classrooms requires specific skills, such as more careful planning. The need for increased attention to the diversity of learning needs adds further to the pedagogical challenge of teaching. The Ministry of Education and numerous other organisations dispense in-service training courses, but they are not always available to teachers (especially those in rural areas). Also, they do not always respond to teachers' current needs (e.g. updates to curriculum changes, distance learning, multi-grade classroom management, approaches to early-grade reading and numeracy, inclusive education). Furthermore, they do not improve motivation (Quiñónez, Lizama and Narváez, 2018[140]). Lessons from Colombia's New Schools (*Escuelas Nuevas*) could benefit education reforms to support teachers, improve learning in multi-grade classrooms, and reduce drop-out rates (Box 7.10).

Box 7.10. *Escuelas Nuevas* in Colombia

Colombia's *Escuelas Nuevas* (New Schools) were first developed as a grassroots initiative in the 1970s, as a solution to problems associated with multi-grade classrooms in remote, rural areas of Colombia. Several components characterise this successful model, which has been replicated in many other countries in Latin America.

First, teachers receive adequate training during their first year of teaching in a multi-grade environment (three one-week sessions). Second, relevant learning resources are essential to provide teachers and students with instructional materials and textbooks that are suited to multi-grade teaching. Students spend more time in autonomy, and teachers learn how to create their own materials as needed. Third, teachers participate in regular opportunities for professional interaction with colleagues in other schools, which addresses their relative isolation and in-service training needs. Fourth, the reforms emphasise that students are active participants in the learning process, and are encouraged to work independently and in small peer groups towards specified learning goals.

Several evaluations have pointed to a significant increase in student learning outcomes in mathematics, English and Spanish, as well as in socio-emotional skills. For teachers, one of the strongest predictors of the successful use of multi-grade instructional techniques is participation in the training sessions on textbook use. *Escuelas Nuevas* also significantly improved community participation, and reduced dropout rates (Kline, 2002[145]; Martin et al., 2016[146]; McEwan, 2015[147]; McEwan, 2008[148]; Psacharopoulos, Rojas and Velez, 1992[149]).

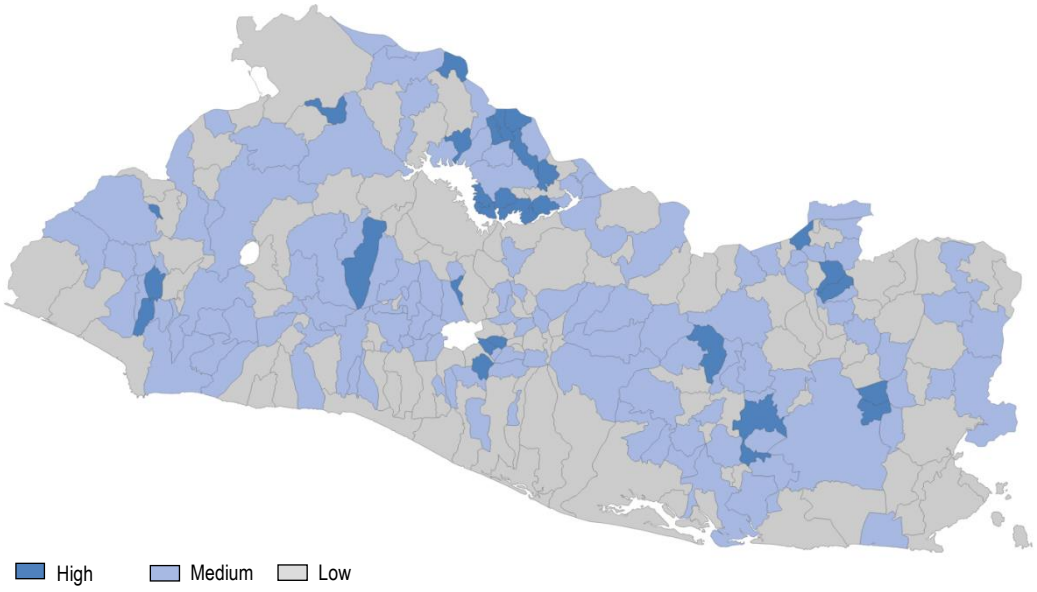
There is strong evidence of the role that peer networks among teachers can play in improving motivation, especially in conflictual settings and in rural or isolated school environments (Falk et al., 2019[150]). Peer networks can be organised by cluster schools, or with mobile teacher trainers for difficult-to-reach areas. However, they require adequate resources and qualification equivalencies for teacher motivation (Singh and Sarkar, 2012[151]). In El Salvador, the model of the Integrated system of Inclusive Full-Time Schools (SI-EITP) has promoted the organisation of teachers into local networks. Although the SI-EITP covers only a fraction of educational establishments, it is an important foundation upon which to build the support mechanisms that teachers require. El Salvador should provide teachers in rural areas with continuous support in the form of mentoring, in-service teacher training, and psycho-social support. Monitoring and expanding promising initiatives, such as El Salvador's Teacher Learning Circles (*círculos de aprendizaje docente*), could facilitate in-service training. These forms of support increase teachers' well-being through mindfulness strategies and the development of socio-emotional competencies, and help to improve their motivation, job satisfaction and resilience (FHI 360, 2016[152]).

Creating motivating learning environments in and out of schools for inclusive education

The quality of the learning environment in El Salvador can be a driver of increased school progression, and it can improve learning outcomes – especially for vulnerable groups.[36] Inequalities between regions in the school environment – particularly in terms of basic infrastructure, pedagogical materials, school coverage, and school environments – deepen existing inequalities in learning opportunities that are linked to geographic location, gender or income levels.

Inequality in the overall quality of schools creates deep disparities between urban and rural areas. According to a school quality index of publicly available data for 13 indicators in five thematic areas (institutional performance, student performance, learning materials, school atmosphere, school environment), the schools that are of the lowest quality are found in the coastal regions of La Paz, La Libertad and Usulután, as well as in the central regions across most of the country, and most of Santa Ana and La Unión (Figure 7.18).

Figure 7.18. School quality index by municipality, 2016



Source: (FES, 2016[153]), *¿Qué es una buena escuela? Una propuesta de índice de calidad escolar*.

School infrastructure in rural areas in particular, has been notably underfunded compared to urban areas, and primary schools tend to have poorer conditions than lower and upper secondary schools (Álvarez, 2020[154]; UNESCO, 2020[27]). Infrastructure is not inclusive of all children, especially at the primary level, where less than a third of schools have adaptive materials and infrastructure for children with disabilities. Not all Salvadoran schools provide all learners with a safe and healthy learning environment. In 2019, about 18% of all schools did not have access to basic drinking water, and 12% did not have basic sanitation services. Drinking-water coverage is the lowest in rural schools, despite recent progress. The latest data that are available indicate that the share of rural schools without improved sources of water fell from 19% to 2% between 2011 and 2021 (although there is no data on whether those sources supplied water reliably). According to the latest data available, which date from 2015, 19% of rural schools lacked improved sources with available supply. As many as 14% of rural schools (and 8% of urban schools) do not have a sufficient number of toilets (UNICEF/WHO, 2022[155]). Schools also are regularly subject to natural hazards (e.g. earthquakes, tropical storms), and many students attend schools that are considered unsafe and inadequate. One survey found that 830 000 students learn in spaces with high seismic vulnerability, where 16% of the learning spaces had a high potential of collapse, and 84% had a high potential of structural damage during an earthquake (World Bank, 2019[58]).

Across El Salvador's schools, the learning environment and learning materials are also outdated or missing. As of 2016, only 13.6% of schools had libraries, and only 24.6% had science laboratories (FES, 2016[153]). Although electricity coverage is high across the country, reaching about 95% of schools at all education levels, the use of modern teaching materials is weak. Nearly two-thirds of all schools were equipped with computers as of 2018, a figure that has certainly increased with the drive to provide teachers and students with computers in the wake of the COVID-19 pandemic. As of 2018, however, respectively only 23.2% and 35.8% of primary and lower-secondary schools had Internet access for pedagogical purposes (UNESCO, 2020[27]; UIS/TCG, 2020[156]).

Evidence from El Salvador shows that, as in most countries, many students and teachers still have problems accessing online information for remote learning. While 94.5% of households had mobile phones, only 16.7% had computers, and only 23.5% had internet access as of 2019. These are among the lowest levels in the region (Table 7.5). Compared to other countries in the region, Salvadoran households had a

low level of connectivity, leaving some 1 330 417 students without possible connectivity during the quarantine in El Salvador for COVID-19 (ITU, 2020[157]).[37]

Table 7.5. The digital divide in El Salvador

2019, or closest available

	Share of households with… in the home						
	Radio	Television	Mobile phone	Computer	Internet access	Households off the grid	Learners off the grid
	% of all households					% of all households	Total
El Salvador	29.3	87.9	94.5	16.7	23.5	82.9	1 330 417
Argentina	...	...	...	64.3	75.9	24.1	3 422 718
Bolivia	39.7	83.9	...	34.8	55.2	83.8	2 189 557
Brazil	60.8	95.2	92.9	39.4	71.4	33.3	17 615 150
Colombia	69.7	90.7	95.2	37.2	52.2	47.3	5 455 063
Costa Rica	69.1	97.1	96.2	47.0	84.7	26.9	354 403
Dominican Republic	51.8	84.1	91.6	27.9	33.7	68.4	2 056 651
Ecuador	25.9	71.8	90.7	43.9	53.2	62.8	3 222 831
Estonia	...	...	...	86.9	90.0	9.5	25 914
Jamaica	73.3	89.7	95.1	38.0	64.4	47.1	295 390
Mexico	53.9	92.5	89.4	44.2	60.6	47.1	17 704 707
Morocco	...	...	99.9	64.2	84.5	25.8	2 307 334
Panama	...	...	...	37.3	70.7	47.3	472 219
Paraguay	73.7	90.0	96.7	27.7	36.5	75.6	1 319 136
Serbia	69.6	99.1	...	74.3	81.0	27.1	330 882

Note: ...: not available.
Source: ITU (2021[158]) *Country ICT Data* (database), International Telecommunications Union, https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx and (Montoya and Barbosa, 2020[159]), *The Importance of Monitoring and Improving ICT Use in Education Post-Confinement*.

In addition, there are wide digital gaps by income levels, and across territories. The poorest households are three time less likely to have access to the Internet than better-off households (31% compared to 92%). In addition, rural households are disadvantaged compared to urban households (DIGESTYC, 2020[35]). Public access to the Internet is limited in rural areas, where only 35% of people aged 10 and above have access to it (even when considering access outside the home), compared to 59.7% of persons in urban areas (ITU, 2021[158]). Recent efforts have sought to close the digital gap, with disbursements of USD 450 million to equip 1.2 million students with connected tablets (grades 1 to 4) or computers (grade 5 to end of upper secondary). Teachers will also have free access to the Internet and digital devices. International experiences such as the *Plan Ceibal* (one laptop per child), in Uruguay, underscore the importance of providing training to teachers on how they can incorporate computers into their teaching practices in order to improve their students' learning outcomes (de Melo, Machado and Miranda, 2014[160]; de Melo et al., 2013[161]; Cuéllar-Marchelli, 2021[162]).

Box 7.11. School environments and approaches in the face of the COVID-19 pandemic

School closures in response to the COVID-19 pandemic underscored existing problems, while also unleashing additional challenges in school environments. El Salvador closed schools in March 2020, leaving an estimated 1.4 million students who were enrolled in pre-primary, primary and secondary education with distance learning as the only means of education. The Ministry of Education organised distance learning with its "Let's learn at home" (*Aprendemos en Casa*) programme. This had three stages: the production of school materials for use at home, the distribution of materials by teachers and community members, and the creation of radio and television programmes to attempt to bridge the learning void. The "*Aprendamos en Casa*" television programme was organised by subject of study for primary and secondary grades. There was also a daily, one-hour radio programme emitted for children in kindergarten, called "Growing up reading". The Ministry of Education then added television and YouTube programmes with artistic (visual arts, music, dance, theatre), inclusive (sign language, indigenous), and psycho-social (emotions) themes. In the context of school closures due to COVID-19, distance, paper, and digital education platforms became essential in El Salvador, for the continuous provision of education for all (Ministerio de Cultura, 2020[163]; UNDP, 2021[4]).

The change in the mode of learning brought about by a school closure period of more than a year in El Salvador posed significant challenges and showed the resilience of Salvadoran teachers and families. Surveys of principals and teachers conducted about the period of confinement confirm that they found ways to stay in touch and maintain channels of communication with students and their families. Indeed, 91% of teachers surveyed said they were able to maintain fluid channels of communication with their students (Pineda et al., 2021[164]). Progress in the use of the tools has also been also apparent. In a survey conducted in mid-2020 by the Ministry of Education, the Inter-American Development Bank (IDB), and Innovations for Poverty Action (IPA), a quarter of teachers were using virtual learning guides (Näslund-Hadley, 2020[165]). By the end of 2020, the vast majority of teachers (79%) and students (90%) had used them. It should be noted, however, that both surveys were conducted on line, and were self-administered. As such, it is possible that among the population not covered by the survey (almost 50% of teachers), use may have been lower due to the digital divide.

School closures due to the COVID-19 pandemic may have increased inequality in education. The vast majority (87%) of students needed help to complete learning guides during 2020, most of which they received from their parents (Pineda et al., 2021[164]). The concern that some teachers (15%) expressed that their students may not be following educational activities was complemented by the difficulties that parents reported in helping their children, either because of a lack of time (68%), or because of attitudes towards education that are not conducive to learning (59%) (Näslund-Hadley, 2020[165]). Given that 27% of teachers who were surveyed by the Ministry of Education were unable to teach virtually during 2020, it is possible that the effect of school closure during the pandemic had a very uneven impact on the population (Pineda et al., 2021[164]). Understanding the digital skills of households is essential to targeting support and skills development at home, especially so that children from low-digital-skill households do not fall behind. In addition, the roll-out and reach of national distance-learning programmes require vigilance and support from trained educators. During the implementation of "*Aprendemos en Casa*", 53% of teachers experienced stress, and 17% felt they were failing in their job of educating children. This shows both the dedication of teachers, and the need to provide them with adequate training in the use of the implemented tools (Näslund-Hadley, 2020[165]).

In addition to well-adapted resources, it is also necessary to develop pedagogical tools that are adapted to the rural environment, and to promote their use. The small size of many rural schools is a challenge due to the multitude of multi-grade classrooms. However, small size is also an opportunity to adopt more personalised methods. At the same time, in rural settings, schools play a key role in the social fabric, which

may allow for greater parental involvement, but also may place an additional burden on teachers. Contextualising teaching practice and education policy is necessary in order to equip schools and teachers with the tools that they need. Analysis by the OECD also highlights the importance of integrating rural schools into networks of schools and teachers, in order to form a system of support, and promote the effective use of resources (Echazarra and Radinger, 2019[166]).

Recommendations to increase the quality of education

Priorities	Detailed recommendations
3. Increase the quality of compulsory education in order to support school progression	
Priority 3.1: Strengthen the system for evaluation in education in order to better inform education policies and teaching.	• Participate regularly in periodic international and regional learning assessments. • Develop the national technical capacity to produce national learning assessments, which can be used to improve planning and policy making, and to identify strengths and weaknesses in the education system (e.g. alignment with national curriculum, alignment with international standards). • Establish a sound institutional framework for the system for evaluation in education. Consider establishing an autonomous body that would be in charge of evaluation in education. • Design and implement a differentiated strategy for the dissemination of results of evaluation processes. • Encourage the use of assessment results to strengthen teaching. • Consider including learning assessments in household surveys, (centred on inclusion and community participation), in order to reach out-of-school children. • Consider implementing the out-of-school assessment module in future participations in the PISA programme.
Priority 3.2: Improve the quality of pre- and in-service teacher training programmes so that they take better account of the education environment and its particular needs.	• Evaluate initial teacher training, including by using criteria such as attractiveness and entry into the teaching profession, curricula, and classroom practice. • Monitor and regulate the supply of in-service training, prioritising training for teachers in challenging environments (multi-grade classes, single and two-teacher schools, remote areas). • Develop continuous education training, making sure that its contents help teachers to meet the teaching challenges that they are likely to face. These could include approaches to early-grade reading and numeracy, classroom management techniques with an emphasis on multi-grade classrooms, socio-emotional development, and distance teaching. Develop regular processes of teacher management (assessment inspection, training), as well as processes to foster motivation in teachers' careers. Evaluate the adequacy of teacher management policies.
Priority 3.3 Review the processes for managing teachers' career development.	• Review the mechanisms to incentivise teachers, recognise merit, and reward performance in the teaching profession. • Match the allocation of positions to schools' needs in terms of teachers' specialisations and competencies.
Priority 3.4. Improve the quality and inclusivity of learning environments.	• Renovate or improve infrastructure in rural and remote areas. Evaluate the quality of infrastructure, access to water, sanitation, and hygiene, and prioritise the schools that are most in need. • Evaluate the adequacy of current quality standards for learning environments and teaching. • Appreciate the need to provide attention that is adapted to the population and community, as a complement to established standards. • Ensure an adequate supply of learning and teaching materials for all learners, including outside of the classroom. • Develop pedagogical guidelines that are adapted to specific environments (such as rural areas). • Develop innovative programmes using mobile technology and mobile libraries and include family literacy programmes.

Box 7.12. An action plan for evaluation in education

Table 7.6. Strengthen the system for evaluation in education in order to inform teaching and education policies

Detailed recommendations	Actions for implementation	Key stakeholders	Priority 1 (max) to 3 (min)
Participate regularly in periodic international and regional learning assessments.	• Disseminate the results of the country's participation in international assessments in a timely manner. • Understand the results, and implement actions for improvement, thus improving at the regional and international levels. • Give continuity to education cycles and the various assessments in which the country participates, in order to capitalise on the results.	Ministry of Education / Departmental Directorates, Education establishments.	2
Develop the national technical capacity to produce national learning assessments, which can then be used to improve planning and policy making, and to identify the education system's strengths and weaknesses (e.g. alignment with national curriculum, alignment with international standards).	• Implement training for teachers to enable them to formulate or design questions that explore cognitive processes. • Motivate head teachers and teaching teams to show commitment to the process of evaluation, teaching and learning.	Ministry of Education, establishment directors, teachers.	1
Establish a sound institutional framework for the system for evaluation in education. Consider establishing an autonomous body to be in charge of evaluation in education.	• Create a national autonomous institute for evaluation in education to prevent the perception that the Ministry of Education is judge and party in the process.	Ministry of Education.	2
Design and implement a differentiated strategy to disseminate the results of evaluation processes.	• Commit all stakeholders in the education community to take responsibility for the results.	Directors of Education Establishments, Teachers, Students, Communities.	1
Encourage the use of assessment results to strengthen teaching.	• Ensure that the results reach every stakeholder. • On the basis of the results and information generated, take action to overcome the results.	Ministry of Education / Departmental Directorates, Education Establishments, Teachers.	1
Consider including learning assessments in household surveys, centered on inclusion and community participation, in order to reach out-of-school children.	• In the medium term, try to build an instrument to diagnose skills developed by people outside the education system.	Ministry of Education.	3
Consider implementing the out-of-school assessment module in future participations in the PISA programme.			

Source: Action plan elaborated during the Policy workshop: From analysis to action: education and skills, held in San Salvador, 29 June 2022.

Box 7.13. Action plans to improve the quality of education through teacher policies

Table 7.7 An action plan for teacher professionalisation and training

Detailed recommendations	Actions for implementation	Key stakeholders	Priority 1 (max) to 3 (min)
Improve the quality of initial teacher-training programmes and of in–service training relative to the school environment and needs.			
• Carry out an evaluation of initial teacher training, from attractiveness to entry of candidates, curricula, profiles of trainers, and classroom training time. • Define a programme of capability development in school management as part of initial training.	• Carry out a study of the state of initial teacher training. • Define teacher profiles and new standards for training.	Ministry of Education, Higher Education institutions (HEI), and international co-operation. Ministry of Education, INFOD, Higher Education institutions.	1
• Reform the curriculum of initial teacher training.	• Reform the curricula, bringing in emerging offers, technologies, gender, sports, etc. • Include the development of soft skills from the first cycle of basic education, training teachers on more active methodologies that encourage autonomy, decision making, critical thinking, participation, and childhood agency.	Ministry of Education; Children, adolescents and youths.	
• Develop a national plan for in-service teacher training.	• Design the curriculum. • Train trainers. • Establish an incentive system. • Allocate resources and technology.		
• Monitor and regulate the supply of in-service training, prioritising teachers in challenging environments (multi-grade schools, one and two-teacher schools, remote areas).	• Develop in-service training processes for teachers that enable comprehensive educational attention across modalities and education levels. • Transition from multi-grade and single-teacher schools, to teaching according to education levels and by subjects (with due consideration to the needs of every territory).	Ministry of Education, HEI, INFOD, Training institutes.	1
• Develop in-service training with material on emerging challenges, including for example early-reading approaches and basic arithmetic knowledge; techniques for classroom management, with emphasis on multi-grade classes; socio-economic development; distance learning.	Design a comprehensive teacher-training policy, addressing all dimensions and areas of students' development to achieve their potential (values, knowledge, skills, socio-emotional development, among others)	Ministry of Education, Directorate for modalities and levels of education.	1
• Design a teacher-training policy that includes motivation, skills updates, social and economic incentives, and the evaluation process.			1
Teacher professionalisation and human resource management of the teaching workforce			
• Review the legal framework for teachers and teaching.			
• Review the requirements and mechanisms for entry into the teaching profession and for career progression. This includes incentive mechanisms and the recognition of merit and performance.	• Reform the teaching career law (*Ley de la Carrera Docente*). • Review the incentive and reward mechanisms (for merit and performance). • Update the Law on Higher Education.	Ministry of Education, INFOD, Legislative Assembly Ministry of Education, INFOD	1

• In the case of higher education and technical and vocational education, requirements for entry should be specific.		Ministry of Education, HEI	
• Map the current and future supply of teachers to support decision making in investment and teacher-management.	Produce studies and projections of the supply and demand for teachers, and estimates of the cost of investment, according to the needs of the education system.	Ministry of Education, INFOD, Ministry of Finance, International co-operation support.	1

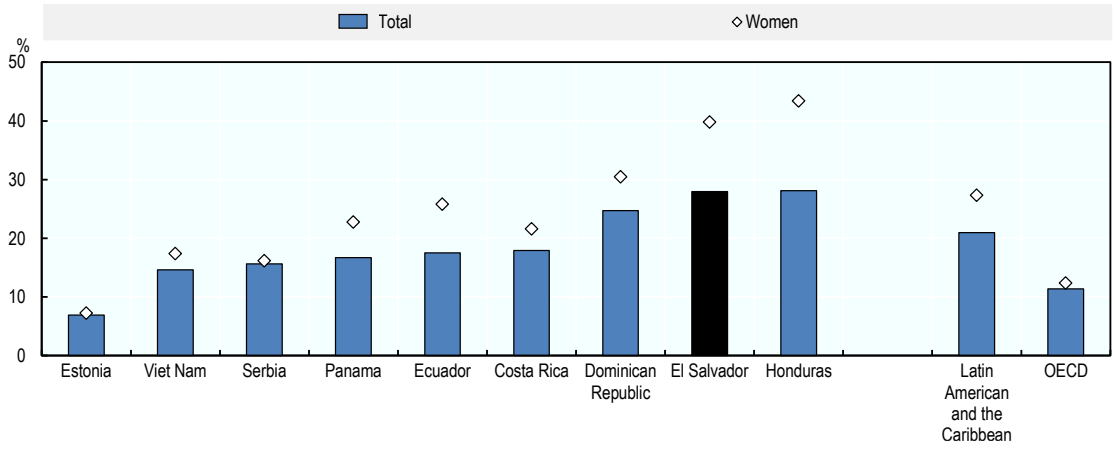
Source: Action plans elaborated during the Policy workshop: From analysis to action: education and skills, held in San Salvador, 29 June 2022.

Increasing the relevance of education to improve the labour market perspectives of youths, strengthen their commitment to education, and boost productivity

The trajectories of children and youths in the Salvadoran education system determine their ability to acquire competencies and skills, and to participate successfully in the labour market. They also determine the country's ability to achieve national development objectives. Keeping children and youths in quality schools long enough to obtain the needed competencies is a first barrier to successful labour-market preparation in El Salvador. Among those who do not attend school, or who leave too early, their prospects for formal employment are weakened. A second barrier relates to the ability for secondary schools to prepare students for work by teaching practical labour market skills, and by adjusting curricula according to the changing needs of employers. Both barriers are inter-related: children and youths are not motivated to stay in schools that are not viewed as relevant, or do not provide them with promising opportunities for improved wealth or employment. The role of quality education in the development of competencies is fundamental to improving access both to higher levels of education and to opportunities for formal employment. Yet in El Salvador, the disconnect between the education system and employers reinforces the weak attachment to schooling, especially beyond compulsory education.

By the time that Salvadoran youths reach the age where they can obtain technical or academic skills through education, many have already dropped out of school, and are also not working. About a quarter of 15 to 24-year-olds are not in education, employment or training (NEET) in El Salvador. Compared to benchmark countries and the region, El Salvador's level of youth inclusion is problematic. The total rate of NEET is 27.9%, 7 percentage points higher than the LAC average (20.5%). The gap has persisted at high levels over the past ten years.

Figure 7.19. Share of young persons (15-24-year olds) who are Not in Education, Employment, or Training (NEET), by gender, 2019



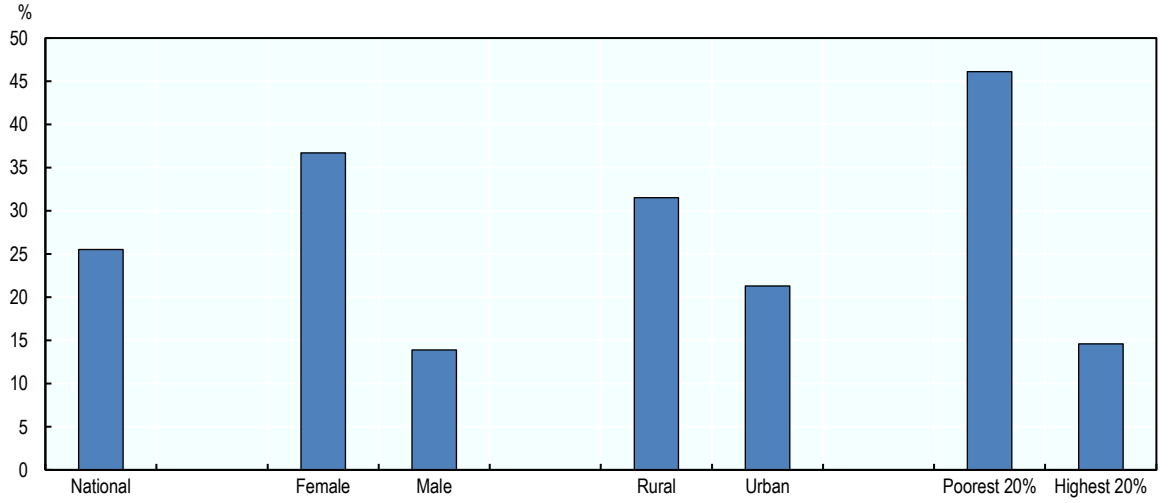
Source: ILO (2021[167]), *Share of young persons not in employment, education or training* (indicator), Intenational Labor Organization, https://ilostat.ilo.org/topics/youth/.

StatLink https://stat.link/pjzkng

Education opportunities are inequitably distributed across the country, with marked disadvantages for vulnerable groups. These groups have disproportionally high rates of young people who are not in education, employment or training. The gender gap is 12 points higher than the average for Latin America and the Caribbean, which is almost double the average regional gap (Figure 7.19). Domestically, this translates into a 22.8 percentage point gap in the NEET rate between men and women. In addition, young people in rural areas, and those from the lowest income quintiles, have higher rates than the national average (Figure 7.20).

Figure 7.20. Share of young persons (15-24-year olds) who are not in education, employment, or training (NEET)

% by gender, geography and income quintile, 2018



Source: (DIGESTYC, 2019[30]), *Encuesta de Hogares de Propósitos Múltiples 2018*.

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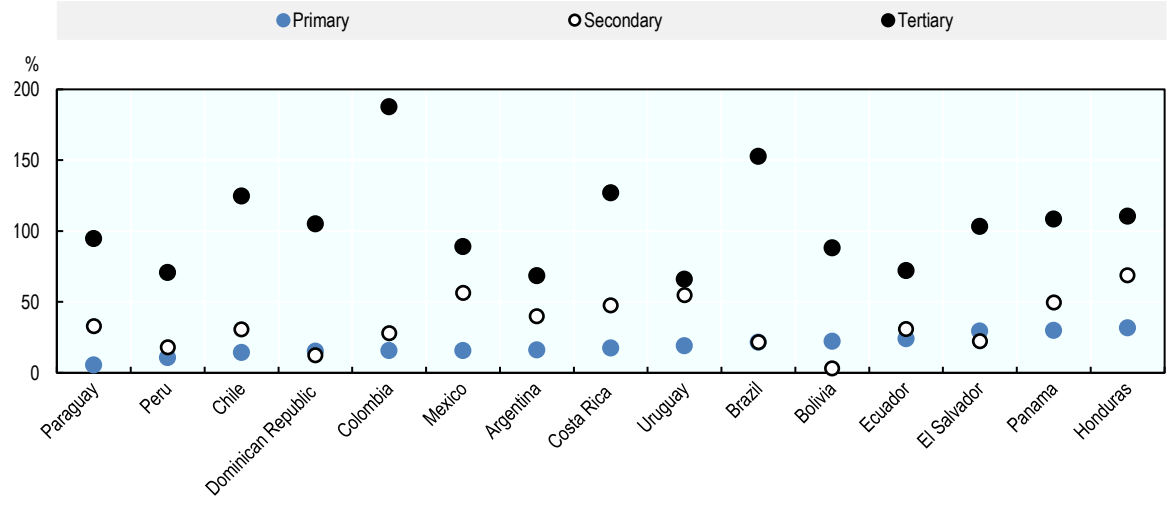
The status of youths who are not in employment, education or training has worsened over the past decade, with people who are unemployed rather than merely being inactive in the labour force accounting for a greater share of NEET (OECD Development Centre, 2017[98]). Since 2008, youth unemployment has increased relative to adult unemployment, and young people who do work are more likely to do so in the informal labour market (Novella et al., 2018[122]). The lack of appropriate educational and job opportunities for youths has contributed to the formation of gangs (OECD Development Centre, 2017[98]; OECD/CAF/ECLAC, 2018[168]).

Young people do not perceive education as giving them a sufficient return in the labour market to compensate for the costs of education. Among 15-24-year-olds who do not attend either school or another educational programme, 21% say that they do not attend because of lack of interest, 33% because they need to work, and 23% because it is too expensive, according to the 2019 EHPM survey (DIGESTYC, 2020[35]). Lack of interest is the main reason for 15-17-year-olds (40%), while for young adults, the need to work (34%), and the direct cost (25%), are the most important reasons.

The financial return to education is relatively low in El Salvador. As might be expected in a country with relatively low educational attainment, the return to primary education is relatively high. Workers with primary education earn wages that are almost 30% higher than those who did not complete primary school (comparing workers of the same age and region). However, despite relatively low educational attainment in the country, returns to secondary education are among the lowest in the region (22%). In general, countries with lower shares of the population with university education tend to have higher returns to tertiary education. In El Salvador, however, although the return to tertiary education is much higher than those for lower levels of education, it is modest compared to other countries, even compared to countries with higher levels of educational attainment (Figure 7.21).

Figure 7.21. Marginal returns by level of education in Latin America

2019 or nearest data available, male workers



Note: The figure shows the marginal returns to each education level in the hourly wages of male workers, calculated on the basis of a Mincer equation. Mincer equations present sample selection issues for women, because of the impact of care duties in labour market participation. It is usual practice to estimate returns to education separately by gender.
Source: Socio-Economic Database for Latin America and the Caribbean, CEDLAS and the World Bank. https://www.cedlas.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/).

StatLink https://stat.link/qbtcpi

Increasing the relevance of education will require efforts in multiple areas. First, it is necessary to establish institutional mechanisms that can identify the skills and profiles that are needed by the productive sector and the labour market, and to translate them into appropriate curricula at all levels of education, especially those that lead to labour market entry, (i.e. secondary education, especially technical-secondary, and higher education). Second, technical and vocational education and training (TVET) has the potential to generate applicable skills for the population more rapidly. In addition, increasing the capacity of the TVET system, and bringing the systems of technical education and vocational training closer together, offer pathways to strengthen the skills of the working-age population.

Skills mismatches penalise productivity and labour market matching

A better-educated and more skilled workforce can enhance productivity. More educated and skilled workers facilitate the adoption of new technologies and technological advances. In emerging-market and developing countries like El Salvador, better education, and higher levels of skills, can contribute to shifting to sectors that are more intensive in skills and education, moving up the value chain and shifting to the production of more complex goods with a higher level of value added. A World Bank report finds that between 1960 and 2018, productivity in economies with a higher level of education grew about one percentage point faster than in economies with lower education levels, after controlling for initial productivity levels[38] (World Bank, 2020[169]).

El Salvador faces skills mismatches. Many young Salvadorians are either under-educated (they work in sectors that require higher levels of education than their actual levels of education), or over-educated (they have too much or irrelevant education for the sectors they are working in). El Salvador's negative skills gap in education for youths aged 15 to 19 was estimated at 35% in 2017, with a positive gap of close to 50% (ESEN, 2019[170]), bearing in mind that these gaps were estimated relative to arbitrary levels of education across sectors.

Higher skills mismatches are associated with lower levels of labour productivity. Under-qualification and over-qualification are particularly costly. Under-qualified workers mainly reduce levels of productivity within firms. A high share of over-skilled workers can, in addition, reduce the efficiency of resource allocation in the economy, since skilled labour is retained in low-productivity firms, and high-productivity firms may, therefore, face difficulties in contracting skilled workers. Skills mismatches explain a non-trivial share of cross-country variation in labour productivity. For example, Italy and Spain could boost productivity by 10% by reducing skills mismatches to best-practice levels (Adalet McGowan and Andrews, 2017[171]) (Adalet McGowan and Andrews, 2015[172]). In developing and emerging market countries, including El Salvador, productivity gains from reducing skills mismatches are likely to be even larger, since skills mismatches tend to be more severe than in OECD and developed countries.

There is a shortage of technical, digital, foreign-language and soft skills in El Salvador. In the World Economic Forum's Global Competitiveness Index 2019, in the skills dimension, El Salvador performed worst in terms of digital skills among the active population (rank 131/141, score 36/100), and skills of the future workforce (112/141, score 52.7/100) (WEF, 2019[173]). In order to develop the business-services sector in El Salvador further, there is a need for more English speakers and computer scientists. The development of the tourism sector requires more foreign language speakers (ESEN, 2019[170]). Less than 1% of students in technical education in El Salvador are enrolled in careers such as aeronautics, electro-mechanics, customs logistics, software development, agriculture, or tourism (FUSADES, 2018[174]).

There is also a shortage of specialised technicians and education in soft skills and creative skills in El Salvador.[39] In the World Economic Forum's Global Competitiveness index 2019, El Salvador ranked 129 out of 141 countries in critical thinking in education, with a score of only 26.4 out of 100 (WEF, 2019[173]) Critical thinking is very important to foster creativity from a young age. According to the 2019 Entrepreneurial Competitiveness Survey by the *Fundación Salvadoreña para el Desarollo Económico y Social* (FUSADES), Salvadoran firms' main training priorities are: marketing and sales strategies;

production techniques; quality control; information technologies; accounting and finance; and management and administrative tasks (FUSADES, 2021[175]).

Currently, employers' expectations do not match the academic competencies that are stipulated in academic degrees. According to the analysis of Vaquerano-Amaya et al. (2017[176]), the gap can be as high as 70% of generic competencies (on the basis of a list of 27 generic competencies that was established for the region) (Proyecto Tuning América Latina, 2007[177]). Employers in El Salvador state a preference for students with higher education degrees (secondary and tertiary diplomas), English-language skills, and higher test scores. They also express the need for youths to be better equipped with relevant socio-emotional, non-academic and non-technical skills, such as "communication, teamwork, work ethic, relationship building, decision making, leadership, autonomy, responsibility, flexibility, adaptability, initiative, self-control, social-awareness, conflict resolution, and self-esteem", which are critical in advanced production processes (Florez and Jayaram, 2016[178]).

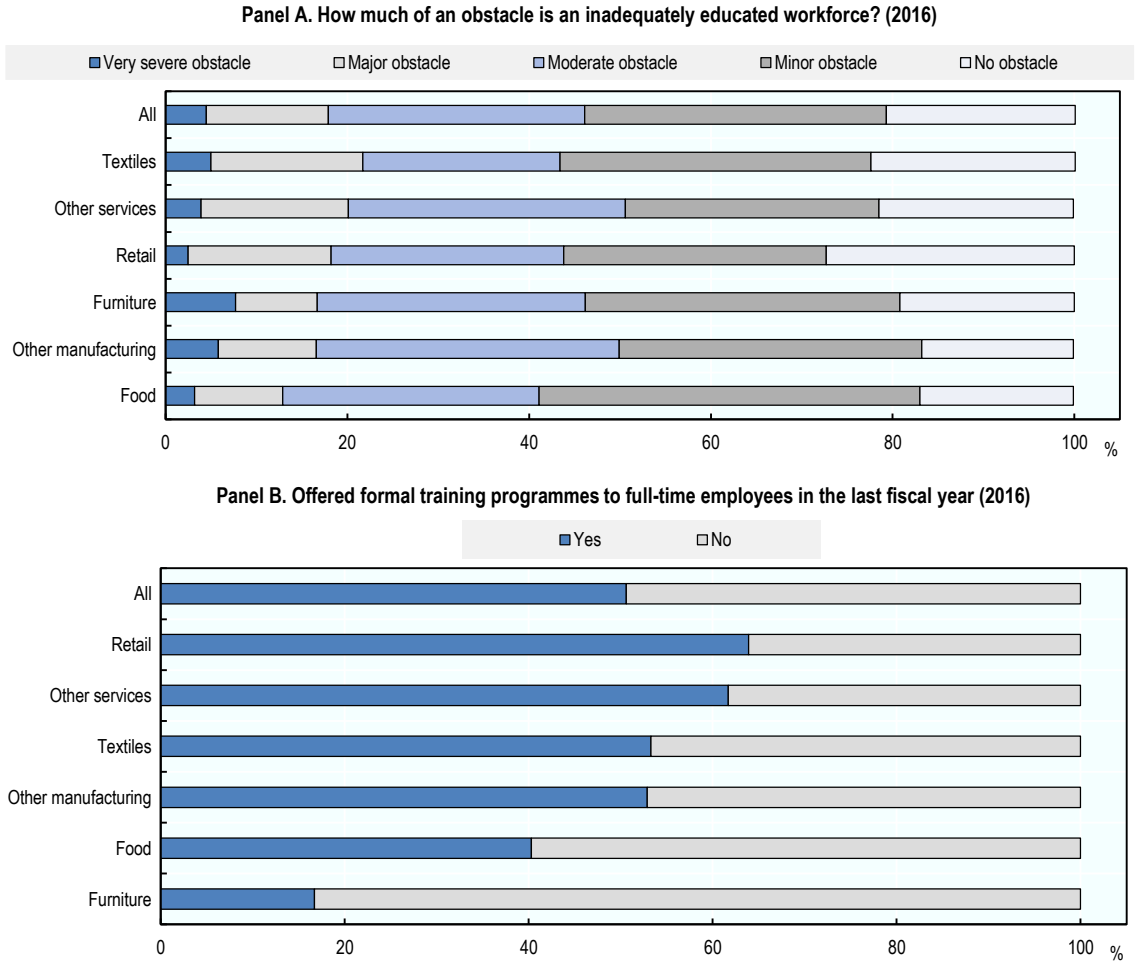
As a consequence of insufficient levels of education, and mismatches in terms of skills, many private companies in El Salvador face difficulties in finding appropriately skilled labour. In 2016, 25.6 % of firms in El Salvador identified an inadequately educated workforce as a major constraint. Poorly educated workers were a more important constraint for the textile sector and services industries (Figure 7.22) (World Bank, 2016[179]). Business services, digital and financial services, the tourism sector, manufacturing of complex goods, and organic agriculture are among the other sectors that are strongly affected by skills shortages.[40]

Many companies organise technical education and training for their employees to compensate for skills gaps. In 2016, 53.8% of the companies covered by the 2016 World Bank Enterprise Survey offered formal training to their employees, compared to 43.2% on average in Latin America and the Caribbean. This number is even higher in retail and other service industries, textiles, and other manufacturing (World Bank, 2016[179]) (Figure 7.22). According to FUSADES's 2019 Entrepreneurial Competitiveness Survey, 89% of large companies in El Salvador trained new employees, as did 66% of micro, small and medium-sized enterprises (MSMEs). Companies' main source of finance for training employees is from their own financial resources (89.5%), and companies frequently organise training for employees through El Salvador's Institute for Professional Training (the *Instituto Salvadoreño de Formación Profesional*, or INSAFORP) (FUSADES, 2021[175]). INSAFORP is financed by contributions from the private sector and offers training in technical, administrative, computer and language skills for the employees of private companies. Depending on the training course, private companies sometimes have to pay the entire cost of the training for their employees, or part of it, in addition to the compulsory contributions that companies with more than ten employees in El Salvador have to make to INSAFORP's budget (INSAFORP, n.d.[180]).

The degree of collaboration between private-sector firms, on the one hand, and universities and other educational establishments, on the other, is rather low. According to FUSADES's 2019 Entrepreneurial competitiveness survey, 70% of private companies in El Salvador do not collaborate with educational institutions, and this number is even higher for MSMEs (80%) (FUSADES, 2021[175]). In the Global innovation Index for 2020, El Salvador is ranked 120 out of 131 countries with regard to collaboration in research between industry and university, with a score of only 27.2/100 (Cornell University, INSEAD, and WIPO, 2020[181]).

Figure 7.22. Many private companies see the skills gap as an obstacle for their growth

Share of firms responding (%)



Source: World Bank (2016[179]), *Enterprise Surveys – El Salvador* (database), https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/el-salvador.

StatLink https://stat.link/ri4bmj

Increasing the relevance and resilience of education to make it more attractive and pertinent

Discussions and reports that have engaged with employers and educators in El Salvador have revealed the disconnect between the labour market and the education system. Salvadoran employers believe that education institutions, teachers, and researchers in higher education, are responsible for preparing youths for employment by developing quality training programmes, imparting personal and professional development, and adapting to labour-market needs. One of the functions of the Salvadoran education system is to promote skills that respond to the needs of the economy, including entrepreneurship, leadership skills, digital skills, socio-emotional skills, and also the needs of society and of young people themselves.[41]

Design a comprehensive skills strategy

The changing needs of the economy and society call for changes in the skills-development system. The combination of the global trends of digitalisation, globalisation, demographic ageing and migration implies changes in the skills that societies need. In turn, it requires the adoption of a lifelong-learning strategy, in which each society and economy makes maximum use of the skills that are available to it. This implies considering skills development not only for young people and the education system, but also for the productive sector, organised workers and employers, labour market institutions, the innovation, science and technology system, and civil society, among others.

El Salvador should adopt a comprehensive skills strategy as a basis for education and training reform. Inter-institutional co-ordination and funding frameworks are the biggest challenges for skills training systems worldwide (OECD, 2019[182]). A skills strategy with a whole-of-government perspective, based on a mapping of all skills development activities, would allow for clear objectives to be assigned to the whole training system, and for appropriate co-ordination and information-management mechanisms to be put in place.

Identifying current and future skills needs to improve educational offerings

In order to align the educational offer with the private sector's demand for skills, El Salvador could improve its efforts to identify current and future skills needs on a regular basis. Individuals, educational institutions, and firms in El Salvador require information on which skills are either available or lacking in the labour market, so as to make decisions about which skills to develop, and in which sectors to invest. The government requires this information in order to design relevant educational policies and programmes (OECD, 2019[182]).

A robust labour market observatory, with sufficient technical capabilities, is an important ingredient for the identification of skills needs. In the framework of a World Bank project, a Labour Market Observatory was created in El Salvador in 2015, aiming to improve the quality of labour market information to guide policy making processes (World Bank, 2019[183]). However, this Observatory was initially created with limited sustainability and capacity (Riveros Rojas, 2013[184]). The Ministry of Labour and Social Security is currently developing, in collaboration with other public institutions, a platform called the Labour Information System (the *Sistema de Información Laboral,* or SIMEL). This platform gathers key information and indicators in order to measure the real evolution of employment in the labour market. It is planned for SIMEL to include information on the current state of the labour market, its future trends, the characteristics of the labour force, and labour demand and supply.

In the future, the evidence base of SIMEL could serve as a basis to identify current qualifications and expectations with regard to needs. Regular skills-forecasting and evaluation exercises could gather information and data on the types of professional profiles, qualifications and fields of study that are in demand in the labour market. Periodic monitoring of the labour market through a labour market observatory with a proven analytical capacity would also contribute to that endeavour (OECD, 2019[182]). In Norway and Portugal, successful skills forecasting and assessment exercises have been carried out and used to develop skills policies (Box 7.14).

Improved regular communication and co-ordination between the government, the private sector, and educational institutions is important for the success of Skills Assessment and Anticipation (SAA) exercises, and for the identification of skills needs. For this purpose, stakeholders in El Salvador, such as employers and businesses, trade unions, educational institutions, and government institutions, could be regularly engaged through a dedicated council or committee (OECD, 2019[182]). The FOMILENIO II project (the Millennium Challenge Corporation project in El Salvador) has tried to align technical education and training with demand on the labour market, and has supported the establishment of sectoral committees in order to bring together the private sector and educational institutions. By the end of February 2019, nine such committees had been established. These were in textiles and apparel, tourism, plastics, poultry, construction, sugar, coffee, and information technology, plus a specific committee for female-led micro,

small and medium-sized enterprises (MSMEs) (FOMILENIO II, 2020[185]). These committees would serve to identify different sectors' educational needs (FUSADES, 2018[174]). This promising initiative should be institutionalised, and should include training institutions, the Ministry of Education and INSAFORP in the dialogue process. It could also be complemented with capacity to carry out foresight exercises with regard to needs in terms of skills or qualifications. This could be housed in the Ministry of Labour, INSAFORP, or the Ministry of Education. The active participation of government institutions in this initiative is key in order to guarantee its success in the long run. Both Norway and Portugal have established dedicated bodies for co-ordination between different stakeholders on the identification of skills needs and skills development, and these could serve as examples for El Salvador (Box 7.14).

Box 7.14. Norway and Portugal have developed regular Skills Assessments and Anticipation (SAA) exercises, and dedicated bodies for policy co-ordination in skills development

SAA exercises and policy co-ordination in Norway

Norway's Committee on Skills Needs was formed in response to the need for an evidence-based understanding of the country's future skills needs. The committee plays a key role in co-ordinating between different ministries and stakeholder bodies in the area of skills-needs assessments and responses. The committee is funded by the Ministry of Education and Research, and its secretariat is within the directorate for lifelong learning (Skills Norway), in the Norwegian Ministry of Education and Research. The committee includes 18 members that represent social partners, ministries, and researchers. It is tasked with compiling evidence on Norway's future skills needs, contributing to open discussions and the better utilisation of resources between stakeholders, and producing an annual report with analyses and assessment of Norway's future skills needs.

The Committee on Skills Needs uses a comprehensive set of methods and tools, including employer surveys, surveys of workers or graduates, quantitative forecasting models, sector studies, qualitative methods, and labour-market information systems. The committee also makes use of projections. Norway forecasts skills needs 10 to 80 years into the future in the health sector, and 35 years into the future in the teaching sector. Furthermore, it carries out 20-year general occupational forecasts, and estimates employment trends in specific industries a year in advance, as a direct input for the planning of training and employment policy. Unusually, these skills needs are forecast at both the national and the regional levels.

SAA exercises and policy co-ordination in Portugal

Portugal's skills needs assessment system is the *Sistema de Anticipação de Necessidades de Qualificações* (SANQ), which was created in 2014. The SANQ is co-ordinated by Portugal's National Agency for Qualifications and Vocational Education and Training. It includes a consultative board that encompasses the Public Employment Service, representatives of workers and employers, and receives technical assistance from the International Labour Organization (ILO). Its diagnostic exercises assess skills needs both through a retrospective analysis of labour market trends, and a forecast of the demand for certain qualifications. The system is used to plan the delivery of vocational education and training for young people, and Portugal is considering expanding its use in order to plan the supply of adult-learning programmes. Furthermore, Portugal uses inputs of skills-needs assessments in order to provide young people with career guidance through its network of *Qualifica* Centres.

Source: OECD (2019[182]), OECD Skills Strategy 2019: Skills to Shape a Better Future, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264313835-en based on OECD (2016[186]) Getting Skills Right: Assessing and Anticipating Changing Skills Needs, http://dx.doi.org/10.1787/9789264252073-en; OECD (2018[187]) Skills Strategy Implementation Guidance for Portugal: Strengthening the Adult-Learning System, http://dx.doi.org/10.1787/9789264298705-en; Norwegian Committee on Skills Needs (2018[188]), Mandate of Official Norwegian Committee on Skill Needs, https://kompetansebehovsutvalget.no/mandate-of-official-norwegian-committee-on-skill-needs/.

Strengthening bodies for co-operation and co-ordination between the private sector, training and education institutions, and public institutions

Promoting co-ordination, co-operation and collaboration in skills formation will be a significant challenge. The work of FOMILENIO II has set the stage by supporting the Government of El Salvador through the establishment of a number of sectoral councils and a governance structure for linking the institutions that are responsible for technical and vocational training. The policy for coordinating technical education, vocational training, and the productive sector (the *Política de articulación de la educación técnica, la formación profesional y el aparato productivo*), drafted in the framework of FOMILENIO II, sets out an institutional structure. At its head is a council for co-ordinating technical and vocational training (the *Consejo de Coordinación de la Educación Técnica y la Formación Profesional*, or CCETFP). The council includes the education minister, the president of INSAFORP, and two members from the private-sector joint sectoral committee (the *Junta de Comités Sectoriales)* (FOMILENIO et al., 2019[18]). It is a permanent forum of dialogue and co-ordination, to co-ordinate actions between the technical education system (governed by the Ministry of Education), the vocational training system (governed by INSAFORP), and the productive sector. The CCETFP was established in 2019 and was one of the bodies that received the final deliverables of FOMILENIO II. The CCETFP is working on a roadmap for the implementation of a national qualifications framework for El Salvador (INSAFORP, 2020[189]). Ensuring the sustainability of the institutional framework will be critical for building upon the work carried out towards a national competency framework.

Looking ahead, El Salvador should consider extending the membership of the CCETFP to foster a whole-of-government approach to skills. Similar institutional arrangements in OECD countries tend also to feature participation by other relevant ministries, as well as by the usual tripartite constituents, and also by other actors in skills formation. In countries such as Ireland or Norway, skills councils of this kind have been set up with the explicit mandate of delivering on national skills policies (OECD, 2019[182]).

To broaden the scope of co-ordinated action between training institutions and productive sectors, it is also necessary to continue support for the creation of sectoral committees beyond those initially created, and to ensure the sustainability of the newly created bodies. To that end, it is important to develop capacity in the governing institutions (the Ministry of Education and INSAFORP), to support the Joint Sector Committee and the CCETFP, and to establish a sustainable financing plan.

Co-operation between the productive sector and educational institutions can also be beneficial in other configurations. Collaboration between the private sector and educational institutions (e.g. through internships and collaborative programmes) can contribute to generating the right skills, and to the development of new value chains (OECD, 2017[190]; OECD, 2015[191]). In El Salvador's aeronautics sector, the involvement of educational institutions in the value chain has made it possible to set up a technical curriculum in aeronautics in El Salvador. The possibility of training technical staff according to international standards in aeronautics has contributed to the success of this industry in the country. Students in El Salvador can pursue two years of internationally recognised university studies that prepare them to become qualified technicians in the field of aeronautics. El Salvador is home to the largest aircraft maintenance centre in Latin America. The centre was established in 1983 and is operated by Aeroman. This company employs approximately 3 000 Salvadoran workers, and has had a significant economic multiplier effect, creating thousands of indirect jobs (Colantuoni, 2020[192]). Plycem, a manufacturing company that produces fibre cement in El Salvador, is another success story (Estrategia & Negocios, 2013[193]). This local company was able to become a major exporter of fibre cement to other Latin American countries through the complete automation and incorporation of artificial intelligence and new technologies in its production process. It was supported by a partnership with the robotics faculty of a local university in El Salvador in order to train the amount of technical staff that were required (López, 2015[194]). More partnerships between private companies and educational institutions following these examples could support the development of new industries in El Salvador, while also enhancing the productivity of existing ones.

Public policies can promote integrated and ongoing links between, on the one hand, education and training institutions and providers and, on the other, businesses and industry in order to tailor educational programmes to business needs (OECD, 2015[191]). New regulatory frameworks can facilitate the participation of industry and civil society in the governing boards of institutions of higher education and public research, and promote consultation with stakeholders in industry and civil-society in the decision-making processes of these institutions. Another strategy is to encourage "co-creation", which involves industry, civil society, academia and government, and which also aims to solve broader societal challenges. Examples of co-creation are joint research laboratories in which education and research institutions work together with industry (e.g. CoLABS [*Laboratórios Colaborativos*] in Portugal), two-way mobility of researchers (e.g. through industrial doctorates), or the establishment of new intermediary institutions (e.g. Catapult Centres in the UK) (OECD, 2019[195]).

Recent efforts in El Salvador in the context of FOMILENIO, and the development of the *Modelo Educativo Gradual de Aprendizaje Técnico y Tecnológico* (MEGATEC), suggest that co-ordination is possible when stronger institutional frameworks are in place. The FOMILENIO experience highlights the need for the education system to develop a modern curriculum in co-ordination with the private sector. Sector councils were developed to draw up competency-based frameworks for each sector. Employers defined typologies of critical skills for inclusion in the curriculum, and had the opportunity to identify specific technologies, machinery, or techniques that correspond to real work situations.

Other initiatives in the Salvadoran education system have attempted to bridge the competencies gap between training institutes and employers. In the technical pathway in upper secondary education, new curriculum material was added that addresses socio-emotional skills in the workplace. The recent broadening of the scope of assessment in the AVANZO test (which has replaced the PAES) will measure student competencies at the time of graduation with regards to cognitive skills, socio-emotional skills, and vocational orientation. It will also provide a better diagnosis of the kinds of curriculum reform that are necessary. The development of competency frameworks could guide changes to the secondary curriculum, but the lag between the rapidly changing needs of the Salvadoran labour market, and processes of curriculum development, could hinder their efficacy.

The National Qualifications Framework: a key tool to organise the skills development system

A National Qualifications Framework (NQF) is an essential complement to needs identification processes. An NQF would serve as a basis for translating the identified competences into profiles and curricula. An NQF is an instrument to develop and classify qualifications according to a set of criteria regarding the levels of learning that have been achieved. This set of criteria can be implicit in the descriptors of qualifications, or explicitly defined by a set of level descriptors (OECD, 2008[196]). The NQF is a central element for technical and vocational education and training systems. It identifies the most significant or relevant vocational qualifications for the economic environment. It then describes, classifies, and orders them according to criteria (sectoral, functional, skill levels, or other), as agreed between the productive sectors and the respective systems. Furthermore, it identifies the training that is associated with these qualifications, and that should correspond to the supply emanating from both systems.

The adoption of an NQF would also be a tool to allow more flexible educational pathways. This is already possible to some extent. For example, MEGATECs allow technical secondary-school graduates to continue their studies, and to obtain higher-education diplomas. A framework that serves as a basis for recognising skills would allow workers to update their skills in higher education institutions, including universities, beyond what is possible in the current system, which dictates differentiated trajectories according to choices that students made in secondary school.

An NQF is a fundamental tool for the development of a skills certification system. This is particularly relevant in El Salvador, given the high level of informality in some sectors that are linked to crafts or

professional services. In El Salvador, a proposal has been put forward for a general system for the certification of competencies (a *Sistema General de Certificación de Competencias*). The proposed system includes the possibility of promoting the certification of competencies through various channels that would allow for different exits from the formal education system. It would also allow economically active people to enter the system so that they may progress academically. The development of a system with these characteristics would be a major input for orderly skills development in El Salvador.

Improving the supply of education and training, and adapting it to skills needs

Technical and vocational education and training can boost employability

Strengthening the technical and vocational track in secondary education (the *Bachillerato técnico*) is a practical scheme to attract youths who are at risk of dropping out of school. The high levels of people who classify as NEET in El Salvador, especially among the most vulnerable populations, underscore the urgency of rapidly increasing both their skills, and their prospects of employability. In terms of human development, secondary schools have the responsibility to develop a relevant quality education system that attracts youths, keeps them in school, and builds their skills for local employment opportunities.

Dual training in TVET is an opportunity to increase employability among young people. In El Salvador, as in many other lower middle-income countries, the emergence of new markets, and changing economic paradigms, have created challenges for education systems. In response, these systems need to adapt rapidly and match workforce training to the market's requirements. Countries that have combined school- and work-based learning (mostly at the upper-secondary level) are those with the highest employment rates for adults (OECD, 2020[197]). Combining training opportunities through work within individual education levels is essential for promoting youth inclusion in the labour market. Concerted efforts from the TVET sector and private business can benefit from a community-based approach that reinforces demand in the local labour market, promotes entrepreneurship, and develops work ethics (OECD Development Centre, 2017[98]).

In particular, technical and vocational curricula have the capacity to respond rapidly to employment opportunities across regions in El Salvador, as evidenced by several pilot projects to strengthen TVET. These have been conducted since 2007 by FOMILENIO, in partnership with the Ministry of Education, in the northern and coastal zones of El Salvador. The pilot project was composed of several activities, which began with a mapping and an assessment of needs, in order to understand employers' requirements in terms of training. Three sectors were selected for the priority development of new secondary TVET curricula and training modules (agro-industry, innovation and service businesses), in the northern zone of the country. The project's activities included large infrastructure investments, teacher training, competency-based teaching modules, and the assessment of curricula (including technical and socioemotional skills), and students.[42] The random assignment evaluation found that the enrolment of students rose. In addition, it found that learning outcomes increased, with higher PAES scores (both overall and in science) than in comparison groups. It also found that scholarships were critical in increasing TVET progression and graduation rates. Employment rates were slightly lower than expected but were explained by graduating students choosing to continue their education in other institutions rather than to join the labour market (Campuzano et al., 2016[198]).

Going beyond TVET at the secondary level, El Salvador's deployment of the MEGATEC model of technical and technological learning responded to the need to meet demand from the local labour market, and to train youths in the skills and competencies required by industry and employers. The MEGATECs act as bridge programmes between TVET and post-secondary or tertiary education. They equip students with higher-level technical skills that are adapted to the local labour market (Box 7.15). Since students are recruited from improved TVET secondary feeder schools, students who enrol in the MEGATECs are better prepared for post-secondary education. The evaluation of the Chalatenango Technical Institute (ITCHA)

MEGATEC in the northern zone of El Salvador found that enrolment levels increased, and that scholarships were critical in sustaining that enrolment. Graduation rates surpassed expectations for the intervention, reaching 85% (Campuzano et al., 2016[198]).

Box 7.15. MEGATECs

El Salvador has seven MEGATECs that have been established all across the country to provide specialised upper-secondary and post-secondary technical education (at the levels of *técnico superior* and engineering degree), in the areas of science, technology and arts, to about 6 000 students. Over 50% of these students receive transport, food and connectivity stipends. MEGATECs operate in close co-ordination with employers, and are each organised in one of three possible ways:

- Split between upper-secondary (*educación media*) and higher education, with curricula that are linked to the transition from one level to another. Programmes can be completed with a university degree, at master's or doctorate level.
- A combination of education and training, where a skills map is linked to the technical curriculum.
- A combination of aligned technical skills and key competencies defined by the employer or productive sector.

MEGATECs were established with the dual objective of developing local human capital and bolstering the local and regional economy. The main characteristics of the education programmes (quality certifications, normative alignment with other national degrees, modularity and flexibility) ensure that employers partner with the institution. Students from poor households can obtain scholarships and other financial support measures to attend the schools. Each MEGATEC is located within a specific geography with regard to industrial production or the provision of services. This orients the competencies of each particular institute, which include tourism, agriculture, ecology and port operations.

To be attractive and effective, TVET systems need to expand the set of skills that they teach. Common critiques of TVET systems in El Salvador and elsewhere are their rigidity in terms of teaching a limited set of skills (not going beyond technical content, literacy and numeracy), and not responding rapidly to changing labour-market needs. TVET also has the potential of safeguarding students from the negative effects of economic crises, which otherwise could force them to drop out of general education for financial reasons. Being in an employment training programme provides links to the labour market, and in some cases income, thereby reducing the negative impact of economic shocks on education. Making TVET provision more flexible has the benefits of attracting different groups of learners, which can respond to changing needs in their communities. TVET systems need to go beyond providing low-skill and low-quality training in industries that are no longer aligned with the local economic market (Marope, Chakroun and Holmes, 2015[199]). The *Entra 21* programme that was conducted in El Salvador in the 2000s focused on engaging youths in work, integrating life-skills training, and the development of micro enterprises in the informal sector. It was particularly successful in attracting vulnerable populations, including youths from poorer households, and who were under- or un-employed (IDB, 2009[200]). All economic sectors – whether formal or informal – can benefit from skills development in a co-ordinated TVET system.

Developing training for upskilling and labour market inclusion

El Salvador should broaden its offering of technical education and align it with the identified needs in terms of skills. More technical training institutes that offer curricula that are in demand among private companies need to be set up in El Salvador. Universities need to adapt their educational offer to the needs of the private sector. Dual professional training (combining training with long internships in companies) should

also be promoted. Work-based learning can facilitate the transition from school to work (OECD, 2019[182]). INSAFORP needs to be transformed in order to support the development of human capital through key subjects that are most in demand (English, soft skills, specific technical careers) (ESEN, 2019[170]). Furthermore, El Salvador needs to improve the dissemination of information about the offering of technical education in the country, ensure that individuals face the right incentives, and that they have sufficient information to invest in the skills that are in demand on the labour market. In addition, El Salvador should improve the evaluation of technical education programmes (FUSADES, 2018[174]; OECD, 2015[191]; OECD, 2019[182]).

The use of novel forms of training can help to narrow skills gaps in El Salvador in an agile manner. With the development of digital-learning platforms, and their expansion during the COVID-19 pandemic, the development of "alternative credentials" to university programmes in post-secondary education has accelerated (Kato, Galán-Muros and Weko, 2020[201]). These include micro-credentials, digital credentials, and professional certificates. Micro- or nano-credentials are characterised by their narrow curriculum[43], and thus their short duration of less than a year. Since they typically offer applied training, nano-credentials can support a rapid upgrading of skills. Still, evidence on their success is still scarce (OECD, 2021[202]), Several countries have increased support for the design and delivery of short training courses, in order to upgrade workforce skills. They have done this both by supporting training institutions (Hungary, Portugal, Costa Rica, Norway and Japan, among others), and by supporting students through scholarships (Australia, Hungary, Denmark or the province of Ontario, in Canada) (OECD, 2021[203]).

Several governmental bodies are promoting nano-credentials in El Salvador, with the aim of closing the skills gap. Five initial nano-credential programmes have been identified for the country, focused on the software sector (online programmes that have been recognised or recommended by Silicon Valley companies such as Microsoft, Google, or Amazon). The nano-credentials aim to promote international employment, freelancing, and entrepreneurship, and to create the basis for a real technology industry in El Salvador. The Ministry of Education is currently working on a draft bill to establish the legal basis, and to recognise nano-credentials. Furthermore, a presidential initiative aims to provide 20 000 scholarships for young Salvadorans so that they can pursue a nano-credential. Plans include joint work with domestic and international employers in order to stimulate interest in people who have graduated with nano-credentials (Gobierno de El Salvador, n.d.[204]).

A reliance on alternative forms of training should be accompanied by the state. Since this is a new development, there are no commonly accepted standards of quality or acceptance of the qualifications awarded by nano-credentials. Some countries have established specific quality standards for micro-credentials. New Zealand, a forerunner in this area, established quality standards through the national qualifications authority. However, there is a need to balance quality assurance and labour-market acceptance with the benefits that the agility and flexibility of these new modes of training can bring (Kato, Galán-Muros and Weko, 2020[201]; OECD, 2021[203]).

The need for an inclusive competency-based curricular reform

The foundations of El Salvador's national curriculum were established during the Education Reform process that was initiated in the mid-1990s. The reference document setting out the curricular foundations of national education was prepared by the Ministry of Education in 1997 (MINED, 1997[205]). At the end of the 2000s, a reform was carried out that involved the introduction of competency-based learning. This was presented in a policy document on "Curricula at the service of learning" (*Curriculo al servicio del aprendizaje*) (MINED, 2008[206]). Within this framework, most of the curricula and pedagogical tools for basic and secondary education that are still available at the Ministry of Education were revised (MINED, 2022[207]). Despite including in its motivation links to the development of competencies, the framework for teaching and learning is still governed and organised by subject.

Following this initial impetus, there have been a number of curriculum-reform processes with a narrower scope. They have been carried out through specific, dedicated projects. It was through the ESMATE project to improve learning in mathematics in basic and secondary education, for example, that the set of curricular documents and pedagogical tools for mathematics was updated in 2016. The explicit inclusion of the competency-based approach, including the teaching and subsequent assessment of competency components (knowledge, processes and attitudes), in an important contribution of this initiative. Other efforts have focused on building on earlier reforms, and on implementing new pedagogical models, for example in the framework of the Integrated Full-Time Inclusive School System (USAID/MINED, 2013[208]).

Changes in the global environment call for changes in education systems around the world. A recent OECD report identifies four common axes toward which different education systems have been tending, in recent years, to adapt their curricula to the needs of the 21st century. These are: i) digital curriculum; ii) personalised curriculum; iii) cross-curricular content and competency-based curriculum, and; iv) flexible curriculum (OECD, 2020[209]). Among other objectives, these reforms seek to articulate the introduction of key transformative competencies (creating value, taking responsibility, and reconciling tensions, dilemmas, trade-offs and contradictions), cognitive skills (such as critical thinking and problem solving) and meta-cognitive skills (learning to learn).

A curricular reform would offer an opportunity to implement new pedagogical approaches, while updating students' profiles in order to adapt them to the needs of the country. Among its education reform strategies, El Salvador's government has announced a comprehensive curricular reform, and the implementation of a new pedagogical model (MINED, 2022[210]). Still, by mid-2022, the contours and strategies of this reform had not yet been established.

The reform should be designed taking into account the difficulties of implementing past reforms, as well as the lessons from international experience. Among other things, this calls for adequate planning of the reform, including of the resources that are needed to implement, monitor and evaluate it. It also calls for the reform to be designed in a participatory manner, generating a common vision of reform, especially with teachers, and empowering those who will implement the reform at all levels – and especially in the classroom. It also calls for a balancing of curriculum reform with other educational transformations, such as digitalisation, and recognising the need for incremental and stable changes, even as radical transformations are pursued (OECD, 2020[209]).

Recommendations to increase the relevance of education

Priorities	Detailed recommendations
Increase the pertinence of education in order to improve the perspectives of young Salvadorans in the labour market, and to reinforce their commitment to education	
Develop mechanisms to identify demand for skills in productive sectors and translate them into modern and flexible curricula.	• Develop a skills strategy based on the needs of the country, to improve the supply of education, and to adapt it to the skills needs identified. • Develop mechanisms to identify demand for skills in productive sectors, and adjust vocational education and training curricula, through sectoral skills councils and other means of public-private co-ordination • Strengthen the co-ordination bodies that act as a bridge between the private sector, educational institutions, and public institutions. • Establish and strengthen more sectoral committees for technical and vocation education and training. • Support the interface between the Technical Education and Vocational Training systems, strengthening existing co-ordination bodies, and the capacity of participating institutions. • Develop and adopt a national qualifications framework, and competency profiles in priority sectors. • Establish a skills-recognition mechanism that will allow entry to higher education through non-traditional trajectories.
Improve the supply of technical and vocational education and training and adapt it to the skills needs identified.	• Strengthen the supply of technical and vocational training, devoting resources to the creation of training courses that match demand, and to the institutional reinforcement of training institutions. • Promote a process to update machinery and equipment in educational institutions, in order to enable the development of skills that facilitate students' insertion into the labour market. • Develop scholarships, transfers and other financial incentives to complete education and training. • Promote linkages between training and education institutions, public institutions, business and industry, and civil society. • Encourage the development of formal internships, apprenticeships, traineeships and training programmes between schools and employers, especially at the local level.
Revise the national curriculum so that it takes a student-centric, competency-based approach.	• Design a competency-based curricular reform to respond to current and future needs. • Design a participatory process for building curricula. • Include student-centric pedagogical guidelines that take account of different educational environments (e.g. rural areas).

Box 7.16. Improving the relevance of education in El Salvador: Insights from two policy workshops

The pertinence of education in El Salvador was a key theme in two of the policy workshops held in the framework of the Multi-dimensional Review of El Salvador, entitled “From analysis to action: education and skills”, and “From analysis to action: accelerating productive transformation in El Salvador”. This box summarises the outcomes of both workshops in the form of an action plan to increase the relevance of education.

Table 7.8. An action plan to increase the relevance of education.

Detailed recommendations	Actions for implementation	Key stakeholders
Increase the pertinence of education in order to improve the perspectives of young Salvadorans in the labour market, and to reinforce their commitment to education.		
Develop mechanisms to identify demand for skills in productive sectors and translate them into modern and flexible curricula.		
• Develop a skills strategy based on the needs of the country, in order to improve the supply of education, and adapt it to the skills needs identified.	• Map institutions and actions for skills development in the country. • Implement a participatory process to produce a holistic skills strategy.	Productive sectors, Ministry of Education, INSAFORP, Ministry of Labour, academia (higher education institutions and training bodies), Ministry of Economy.
• Develop mechanisms to identify demand for skills in productive sectors and adjust curricula through public-private co-ordination.	• Create a consolidated labour market observatory, with strong technical capabilities, the ability to incorporate information from multiple sources, and endowed with sufficient resources. • Frequent skills anticipation and assessment exercises (foresight analysis of trends and emerging opportunities). • Regular consultations with the productive sector.	
• Strengthen the co-ordination bodies that act as a bridge between the private sector, educational institutions, and public institutions, for example by creating more sectoral committees for technical and vocational training, and by reinforcing the co-ordination between technical education and vocational training.	• Support the creation of additional sectoral skills councils. • El Salvador could also consider the creation of a high-level skills council with a broader mandate, in line with a national skills strategy. • Support the work of the Co-ordinating Council for Technical Education and Vocational Training (*Consejo de Coordinación de Educación Técnica y Formación Profesional*). • Reinforce, in terms of human capital and capacity, the technical teams of the institutions that participate in the Co-ordination Council.	
• Develop and adopt a national qualifications framework, and competency profiles in priority sectors.	• Produce a National Occupation Classification, • Mobilise the sectoral skills councils to develop qualification frameworks that are adapted to the reality in the country.	
• Establish a skills-recognition mechanism that will allow entry into higher education through non-traditional trajectories.	• Design the system of skills recognition, with the needs of the private sector in mind. • Implement the system. • Evaluate the system and its components.	
Improve the supply of technical and vocational education and training and adapt it to the skills needs identified.		
• Strengthen the supply of technical and vocational training, devoting resources to the creation of training courses that match demand and to the institutional reinforcement of training institutions.	• Create more technical training institutes and add more technical professions in the educational offering of existing technical training institutions and universities, matching demand in the productive sector. • Update curricula to achieve relevance: ○ Harmonise the education and training offering of INSAFORP with the professions and skills demanded in the private sector; ○ Introduce certification for non-technical skills (e.g. social skills).	Ministry of Education, Ministry of Foreign Affairs, Agency for international

	• Boost the capacity of training institutions: ○ In higher education for competency-based education; ○ Invest in the necessary equipment for technical training and effective labour-market integration (tools, machinery, etc.); ○ Develop training on management development for technical trainers and managerial personnel. • Improve the evaluation of vocational training programmes.	co-operation of El Salvador (ESCO), International Co-operation, Special fund of resources from the privatization of ANTEL (FANTEL).
• Develop scholarships, transfers, and other financial incentives for learners to complete education and training.	• Improve the dissemination of information on the available offering of training. • Implement appropriate incentives for people to invest in the skills that are in demand on the labour market. • Strengthen the scholarship fund and unify the various funds. • Establish a unified system for scholarships (promotion, selection, ensuring equitable opportunities).	
• Promote linkages between training and education institutions, public institutions, business and industry, and civil society.	• Set up new normative frameworks that facilitate the participation of industry and civil society in the boards of governors of institutions of higher education and research, and promote consultations with stakeholders in industry and civil society in decision-making processes in those institutions. • Encourage "co-creation" involving industry, civil society, academia, and the government. For example, this can be through: ○ Joint research laboratories between education and research institutions and industry; ○ The mobility of researchers between companies and academic or research institutions; ○ Setting up new intermediary institutions; ○ Fostering entrepreneurship and research in secondary-school students, technical-training institutions, and universities. • Cost the various co-creation projects, and make sure that sufficient financial resources are allocated. • Promote regular events with the various stakeholders in order to nourish relationships and knowledge about the demand and supply of skills. • Create incentives for firms to offer internships.	
• Encourage the development of formal internships, apprenticeships, traineeships, and training programmes between schools and employers, especially at the local level.	• Foster dual vocational training (combining training with long internship periods in companies), and internships. • Develop a legal framework to boost the development of formal internships, apprenticeships, internship programmes and training and training between schools and employers, especially at local level. • Update the regulation for school management in regard to internships.	
Design and implement a strategy for a curricular reform in the national education system that fosters the development of skills.		
• Design a competency-based curricular reform to respond to national and global challenges at all educational levels, with the student as the protagonist. • Involve all social sectors in the country in the design and implementation of the curricular transformation.	• Design a new curriculum for all levels and areas, and all subjects. • Include student-centred pedagogical approaches. • Include pedagogical approaches that are appropriate for rural areas, and specific training for teachers in rural areas. • Promote the implementation of the new curriculum.	Ministry of Education, Ministry of Foreign Affairs, Ministry of Finance, productive sectors.
• Allocate educational resources to educational establishments to further the reform.	• Create an inter-sectoral working group to support the curricular transformation. • Negotiate resources form the public sector, the private sector, and international co-operation. • Support the plan for the professional development of teachers.	
• Generate evidence on the outcomes and progress in implementing the strategy.		
• Foster teacher professionalisation in line with the transformation of the curriculum.		

Source: Policy workshops: "From analysis to action: education and skills", and "From analysis to action: accelerating productive transformation in El Salvador".

Notes

[1] In 2021, the calculation method for net enrolment rates for middle school (upper secondary education) was modified to count only students aged 16 and 17, causing a 4 percentage point increase with respect to 2020, despite a fall in absolute enrolment figures.

[2] An education system is considered fully efficient when children and youths enter school at the right age, move upwards from one grade to the next grade each year, and complete their schooling.

[3] The dropout rate to the last grade of primary education is defined as 100% minus the survival rate to the last grade of primary education.

[4] The Ministry of Education publishes data on intra-annual drop-outs, i.e. the rate of students who drop out during the academic year in which they are enrolled, but not on inter-annual drop-outs, i.e. the rate of students who do not continue studying at the beginning of the following academic year. Hence, the drop-out rates published by the Ministry of Education do not match the drop-out rates by cycle that are derived from survival rates.

[5] Attendance rates are calculated on the basis of responses to the EHPM household survey, and differ from official enrolment rates.

[6] Other variables included are the education level of the head of household, urban residence, gender, and income. Several combinations of variables (e.g. income-geography, income-gender) were also examined.

[7] School attendance for poor rural 15-year-olds is 65%.

[8] Repetition rates are considered to be strong predictors of dropping out before completing primary education, but repetition rates in El Salvador are relatively low, reaching a cumulative 3.7% and 3.6% in primary and secondary education in 2017, respectively.

[9] For example, 18% of 14-year-old boys were in primary school (2-years over age), compared to 9.6% of girls of the same age (MINSAL; UNICEF, 2016[55]).

[10] Data from the Ministry of Education reports 14%, while data from the United Nations Population Fund (UNFPA) report 16%.

[11] In addition to pregnancy, the other categories that are included for dropping out are going to another school, leaving the country, parents not wanting them to attend school, crime, death by homicide, being a victim of forced displacement, and being a victim of gangs.

[12] In Chile, public expenditure on higher education makes up only 41% of total expenditure on higher education, compared to an average of 70% for the OECD (OECD, 2021[47]).

[13] For example, improved nutrition and vaccination policies led to a reduction in the mortality rate for children under five years old, from 32.8 per thousand live births in 2000, to 13.3 in 2019 (UNDESA, 2020[213]). As this chapter focuses on the education component of Salvadoran ECEC (i.e. pre-primary education), it does not analyse the ECEC needs of for the younger population (0-3 years) in depth. Approximately 2% of children under four years of age attended early learning programmes in El Salvador as of 2019.

[14] Internationally, early childhood is generally taken to mean 0 to 8 years old.

[15] Rates of attendance are derived from the annual household survey (the EHPM). Enrolment rates are based on school-census and population data, which are respectively collected and estimated by the Ministry of Education and the Ministry of Economy's Directorate General for Statistics and Census (DIGESTYC).

[16] Differences among groups are statistically significant at the 0.05 level.

[17] In 2002, the *Instituto Salvadoreño de Protección al Menor* became the current Salvadoran Institute for Comprehensive Development of Children and Adolescents (the *Instituto Salvadoreño para el Desarrollo Integral de la Niñez y la Adolescencia,* or ISNA).

[18] Estimating government investment during the early childhood period in a comparative manner is more complex, as it can include budget lines from other ministries, and it differs across countries. In many countries, estimates are limited to education-budget appropriations for pre-primary education. For a regional analysis on ECD investment including El Salvador and eight other countries, see (UNICEF; UNESCO/IIEP; OEI, 2015[218]).

[19] In 2013, UNESCO made a recommendation that 10% of public education expenditure should be devoted to pre-primary education, and that 6% of GDP should be directed to public expenditure in education (UNESCO, 2013[214]). The 2015 Incheon Declaration recommends that 15% to 20% of government expenditure be devoted to education, and that 2% of total government expenditure (or 10% to 20% of expenditure in education) be devoted to pre-primary education (UNESCO, 2015[42]).

[20] The estimates were calculated assuming a significant increase in pre-primary enrolment to reach universal access, as well as higher per-student expenditure to improve quality (e.g. ratio of 20 children for one adult), and to address marginalisation.

[21]17% and 34% respectively (UNESCO, 2020[29]).

[22] The question in the EHPM is answered by the head of household.

[23] See for example Kirdar, Dayioglu and Koç (2014[215]) and Torun (2018[212]) in Turkey.

[24] Based on 72 countries with data available between 2013 and 2018.

[25] Examining the distances, geographic clusters and relative sizes for each school requires data not available for analysis for this report, but distance and transportation costs are barriers and disincentives leading to dropping out of school, especially children from for vulnerable families.

[26] 2005-2008: *Red Solidaria*; 2009-Present: *Comunidades Solidarias Rurales y Urbanas*. Municipalities covered by the programme are being incorporated in the Strategy for Poverty Eradication.

[27] Since 2019, El Salvador has been a member of the *Marco Integral Regional para la Protección y Soluciones* initiative (MIRPS), along with six other countries, to protect displaced people in terms of education, health, protection and labour.

[28] This estimate reflects lost tax income linked to the permanent fall in incomes of recorded pregnancies for women under 20 in a single year (2015).

[29] *Ciudad Mujer* centres are currently open in Colón, San Martín, Santa Ana, Usulután, San Miguel and Morazán.

[30] El Salvador has not participated in many international learning assessments. The assessments that it has participated in are limited to the International Association for the Evaluation of Educational Achievement's Trends in International Mathematics and Science Study (TIMSS) (2007), the regional *Segundo Estudio Regional Comparativo y Explicativo* (SERCE) (2006), and, most recently, the *Estudio Regional Comparativo y Explicativo* (ERCE) (2019), for which only aggregate results were available at the time of drafting this report.

[31] Based on the Early Grade Reading Assessment, which measures early reading skills, including letter recognition, reading comprehension, and fluency.

[32] The lowest level includes basic knowledge in the subject. In Mathematics, for example, student at this level know how to add and subtract whole numbers and identify basic geometric shapes. In El Salvador, only 50% of students were able to identify two triangles of the same size (Martin, Mullis and Foy, 2008[124]).

[33] For example, they assess capabilities that are linked to citizen participation, or the skill of generating a dialogue process to resolve conflicts, assessed in an evaluation of language-learning outcomes.

[34] According to Janet Lorena de Lopez, Director of Basic Education at the Ministry of Education. Multi-grade teaching requires specific skills and methodologies to teach students of different levels, especially in the early grades, in order to impart fundamental skills in mathematics and reading.

[35] A 2016 report estimates that two-thirds of single-teacher schools only teach in the morning (MINED, 2016[86]).

[36] Studies from developing countries have shown that teaching materials can help to improve graduation rates and learning outcomes, especially when they are combined with teacher training on the use of new materials (Glewwe and Muralidharan, 2015[211]; McEwan, 2015[147]).

[37] The estimate is sourced from unpublished UIS data and calculated on basis of households without access to the electricity grid (Montoya and Barbosa, 2020[159]).

[38] Countries with higher/lower levels of education are those countries in the top/bottom 25% in terms of the level of education as a share of adult population in 1960. The samples include 26 advanced economies and 51 emerging-market and developing economies.

[39] Interview with private-sector representatives in El Salvador.

[40] Interview with private-sector representatives in El Salvador.

[41] See for example the OECD's *Skills for Social Progress*; the World Bank's *Stepping up Skills toward Employability and Productivity (STEP)* framework and *2013 World Development Report*; and the IDB's *Learning Better* report (Busso et al., 2017[50]; Denboba et al., 2014[216]; OECD, 2015[64]; World Bank, 2012[217]).

[42] Teacher training focused on pedagogical principles, both to general academic teachers and to industry specialists.

[43] There is no generally accepted standard, with nanodegrees that range from 1 to 60 ECTS credits in higher education institutions analysed by the OECD (60 credits correspond to one year of full-time study) (OECD, 2021[202]).

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8 Towards sound public governance in El Salvador

This chapter analyses public governance in El Salvador. The first section provides an overview of El Salvador's Centre of Government (CoG) capacity to lead whole-of-government co-ordination and align sectoral policies with government priorities. The second section analyses the strategic planning instruments put in place and discusses the importance of developing detailed action plans that are bound by budget constraints and human and financial resources. Finally, the chapter provides an assessment of the reform efforts undertaken by El Salvador in key areas of state modernisation, namely workforce management, regulatory policy, digital transformation, and the use of open government principles to promote transparency, integrity, accountability and stakeholder participation. The recommendations seek to improve El Salvador public governance practices to provide better services to its citizens.

Introduction

Sound public governance is about how governments can shape policy making in order to meet the needs of, and improve outcomes for, citizens. They do this by making strategic use of enablers, policy instruments, and management tools, to pursue effective, equitable decision making, and successful reforms, in a sustainable and inclusive manner.

The Initial Assessment of the Multi-dimensional Country Review of El Salvador (Chapter 2) identified key challenges in the area of public governance. It identified as key constraints the lack of institutionalisation in certain policy sectors, and the existence of obsolete legal frameworks and cumbersome co-ordination mechanisms that hinder the capacity of the Salvadoran administration to perform effectively in a structural manner. It also presented some of the challenges that arise in the process of state modernisation, for instance in the area of human-resources management.

This chapter will analyse in greater depth some of the key public governance issues that were identified in the Initial Assessment and will benchmark El Salvador against OECD standards and good international practices, as well as against available data on how other governments are performing in Latin America and the Caribbean. This assessment, which will be accompanied by a series of practical recommendations that El Salvador could consider adopting, may help the Salvadoran administration to identify possible areas of opportunity to improve its capacities for policy making, implementation and evaluation. Consequently, the recommendations could help it to provide better services to its citizens.

The first section of this chapter provides an overview of El Salvador's Centre of Government (CoG) as a key actor to lead whole-of-government co-ordination efforts across administrative units and agencies. As such, it promotes policy coherence in cross-cutting initiatives, and aligns sectoral policies with government priorities, both with regard to public policies and to institutional modernisation efforts. In particular, it analyses the current mandate, composition and reporting arrangements of the institutions and agencies that make up the CoG, and the mechanisms put in place to co-ordinate both whole-of-government strategies and sectoral policies. It also looks at how decision making by the head of government could best be supported.

The second section analyses the strategic planning instruments put in place in El Salvador over the past decade, and identifies possible pathways for the implementation of the political commitments presented in the *Plan Cuscatlán*. This is the main strategic document that is currently being used by government institutions and agencies, as of the change of government in 2019. It also discusses the importance of developing detailed action plans that are bound by budget constraints and other available resources (human, material, etc.), while ensuring an effective monitoring of progress made in their implementation.

The third section provides an assessment of the reform efforts undertaken by El Salvador in key areas of state modernisation, to improve the efficiency of the public administration. It highlights elements such as the harmonisation of the national civil-service strategy for the management of the workforce, the simplification of administrative processes in public-service delivery, digital transformation to tackle digital divides and improve services provided to citizens, and the use of open government principles to promote transparency, integrity, accountability and the participation of stakeholders. The chapter then concludes with a summary of the main recommendations that El Salvador could consider adopting.

Box 8.1. From Analysis to Action: A policy workshop towards sound public governance in El Salvador

Phase 3 of the Multi-dimensional Country Review (*From Analysis to Actio*n) was implemented mainly through a series of policy workshops. These were conducted following a version of the government learning methodology (Blindenbacher and Nashat, 2010[1]) adapted to the Multi-dimensional Country Reviews (MDCR). The methodology applies a range of facilitation techniques to foster knowledge-sharing and a reform mindset in complex contexts. Given the context of the pandemic, several of the workshops were conducted online.

The workshop "From Analysis to Action: Towards sound public governance in El Salvador" (*Del análisis a la acción: Hacia una gobernanza pública sólida en El Salvador*) was held online on 28-29 October 2021. It brought together 60 participants. These included representatives from public entities (the Presidency of the Republic, the Vice-presidency of the Republic, the Ministry of Finance, the Ministry of Agriculture and Livestock, the Ministry of the Environment, OPAMSS, ESCO, the Ministry of Education, Science and Technology, the *Instituto de Acceso a la Información Pública* (IAIP), the Ministry of Economy, the Ministry of Labour and Social Protection, and the Ministry of Tourism). They also included representatives from the private sector (Association of distributors of El Salvador, the *Comisión Intergremial para la Facilitación del Comercio*, or CIFACIL, the American Chamber of Commerce (Amcham) El Salvador, Key Process, Echo Technologies, El Salvador's Chamber of Industry and Commerce [the *Cámara de Comercio e Industria de El Salvador*, or CAMARASAL], Impact Humb), civil society (the *Fundación Dr. Guillermo Manuel Ungo,* or FUNDAUNGO, the *Confederación Sindical de Trabajadores y Trabajadoras,* or CSTS and the *Iniciativa Social para la Democrácia,* or ISD) and academia (the *Universidad Dr. Andrés Bello*, or UNAB).

Participants carried out a prioritisation exercise among the different issues that are addressed in this chapter, and developed action plans for priority areas that were jointly identified by the OECD and the Presidency of the Republic of El Salvador. These were: strategic planning, monitoring, civil service, and transparency and open government.

The action plans at the end of the relevant sections of this chapter were built on the basis of the contributions of participants. Many other inputs obtained during the workshop are included in the text.

Source: Blindenbacher, R. and B. Nashat (2010[1]), *The Black Box of Governmental Learning: The Learning Spiral - A Concept to Organize Learning in Governments*, https://doi.org/10.1596/978-0-8213-8453-4.

The centre of government in El Salvador

Governments are increasingly adopting whole-of-government policy responses to address emerging crosscutting policy challenges (OECD, 2020[2]). To this end, OECD countries are progressively strengthening the institutional and financial capacities of their centres of government (CoG).

The OECD defines the CoG as the body, or group of bodies, that provides direct support and advice to the Head of Government/Head of State and their Cabinet and the Council of Ministers (OECD, 2014[3]). Its main mandate is "to ensure the consistency and prudency of government decisions, and to promote evidence-based, strategic, and consistent policies" (Box 8.2).

Box 8.2. What is the centre of government (CoG)?

Depending on the country, the institutions that shape the centre of government take on a wide variety of names. In its expanded definition, the CoG not only refers to the bodies directly reporting to the head of government or the head of state, it also includes other bodies or agencies that perform cross-cutting governmental functions across the national administration (Santiso, Lafuente and Alessandro, 2013[4]).

Traditionally, the functions of the CoG were limited to those of an administrative unit that would support the head of government or the head of state, and their cabinet, in their daily activities. However, in OECD countries, centres of government are expanding their strategic role in areas such as co-ordination, planning, communication, and the monitoring of policy priorities, among others.

According to the OECD report "Centre Stage 2: The organisation and functions of the centre of government" (OECD, 2018[5]), the top five priority tasks of the centre of government identified by OECD countries are:

- Supporting decision making by the head of government and the cabinet.
- Policy co-ordination across government, which increasingly involves leading cross-cutting policy priorities or initiatives.
- Strategic planning for the whole-of-government.
- Communicating government messages to the public, and across the administration.
- Monitoring the implementation of government policy.

Source: Alessandro et al. (2013[4]), *The Role of the Center of Government : A Literature Review, Inter-American Development Bank*, https://publications.iadb.org/en/role-center-government-literature-review; OECD (2018[5]), *Center Stage 2: the organisation and functions of the center of government*, https://www.oecd.org/gov/centre-stage-2.pdf.

The first section of this chapter will analyse how the CoG of El Salvador is performing in some of these key areas of work identified by OECD countries as priority tasks.

A fragmented centre of government curbs the government's ability to tackle multi-dimensional challenges

Countries are facing a number of complex, multi-dimensional policy challenges, such as climate change, mass migration, and the management of the COVID-19 pandemic. These have proven to be particularly difficult to tackle, as they require integrated approaches that cross over policy silos. El Salvador is no exception. Climate-change risks are increasingly pressing, and are expected to affect El Salvador's agricultural production, costing around 7.2% of GDP by 2030 (ECLAC, 2018[6]). The insecurity of citizens, and the search for better economic opportunities, have triggered waves of internal and external migration, which require ambitious infrastructure and urbanisation plans in order to deliver basic services, and to limit the ecological impact of these demographic shifts (Knox, 2018[7]). Like many other countries in Latin America and the Caribbean (LAC), El Salvador also suffers from low fiscal revenues and capacity. In 2019, for instance, taxes only represented 20.4% of gross domestic product (GDP), which is far below the OECD average of 34.2% (OECD et al., 2019[8]). This severely limits the government's fiscal space. Although they are daunting, these pressures are not unique to El Salvador. Increasingly complex "megatrends" such as demographic changes, technological innovations, and financial crises, are affecting all OECD governments (Laegreid et al., 2015[9]).

Tackling these complex, cross-cutting challenges requires a coherent, whole-of-government approach that transcends traditional administrative siloes to design, implement and evaluate responses through

sustained co-ordination across administrative units (OECD, 2020[2]). While effective horizontal co-ordination has always been a challenge for governments, the atomisation of administrative structures, and the size of many governments, have compounded these issues. Indeed, when governments become larger and more fragmented, more stakeholders with a multitude of interests enter the decision-making and policy-making process. Without adequate co-ordination across government units, policy makers may base their decisions on incorrect, biased, or incomplete information. This results in flawed services and policies, which are not assessed accurately with regard to their costs and benefits, impact, legality, and coherence with existing policies (World Bank, 2018[10]).

In El Salvador, the centre of government has evolved extensively over the past decades. This has led to the creation of multiple units, which to some degree requires the development of more robust co-ordination mechanisms. The highest-level decision-making body of El Salvador's executive branch of government is the Council of Ministers. The Council is enshrined by Art. 166 of the Constitution of the country and is in charge of providing coherence to government action (Asamblea Legislativa, 1983[11]). It comprises the President and Vice-President of the Republic, plus State Ministers. Moreover, the Internal Regulation of the Executive Branch of government (Consejo de Ministros, 1989[12]) sets up both the institutional framework, and the mandate, of the various ministries. It also establishes other entities, such as the Presidential Commissioners and Deputy Commissioners, and the Secretariats of the Presidency, and sets out their responsibilities.

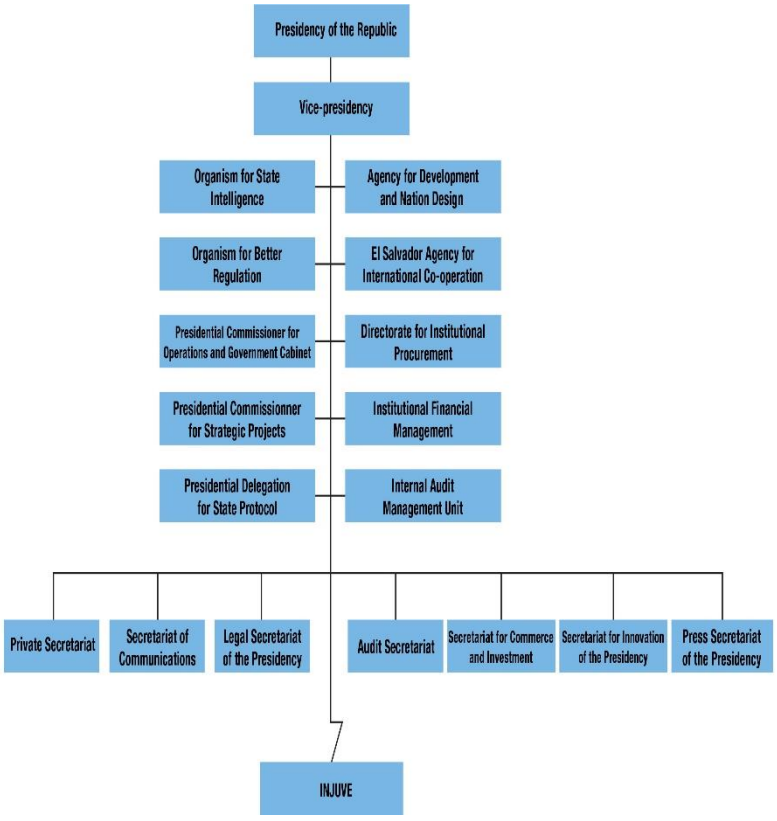
The main institutions that shape El Salvador's CoG are the bodies of the Presidency. The OECD includes in its analytical definition of the centre of government units that fulfil key cross-cutting roles for public governance, and for the co-ordination of strategic priorities between units and levels of government. In this spirit, a broader definition of the CoG in El Salvador would also include the Ministry of Governance and Territorial Development, the Ministry of Finance, and the Ministry of Economy.

- The **Presidency of the Republic.** Its current structure comprises the Presidency, the Vice-presidency, two presidential commissioners, seven secretariats, two organisms, two agencies, one institute, and three other institutional bodies (Gobierno de El Salvador, 2020[13]) (Figure 8.1). The following units of the Presidency carry out core CoG functions in El Salvador:
  - The **Presidential Commission for Operations and Government Cabinet** (*Comisión Presidencial de Operaciones y Gabinete de Gobierno*) is in charge of co-ordinating the institutions of the Executive Body, in line with the objectives of the general government plan.
  - The **Presidential Commission for Strategic Projects** (*Comisión Presidencial de Proyectos Estratégicos*) is in charge of planning, co-ordinating and monitoring the execution of all priority projects and actions, as assigned by the President. It is also in charge of guaranteeing the prompt execution of Presidential initiatives in the areas of social development, security, migration, labour, international affairs, industry, production, technology, economy, finance, development, public works, and territorial development.
  - The **Secretariat for Innovation** (*Secretaría de Innovación*) is the unit in charge of planning, co-ordinating and promoting state strategies for innovation and modernisation. This includes digital-transformation actions. This unit also aims to develop the capacities of public servants to improve the quality of the services that are provided to citizens.
  - The **Secretariat for Commerce and Investment** (*Secretaría de Comercio e Inversiones*) is the unit in charge of participating and representing national interests in the formulation of bilateral trade policies, as well as contributing to the definition the national position in international institutions in the field of international trade and investment.
  - The **Secretariat for Communications** (*Secretaría de Comunicaciones*) is the unit in charge of leading the communication policy of the government. It is also tasked with co-ordinating the Inter-institutional Communications Committee (*Comité Interinstitucional de Comunicaciones*). At the president's request, it acts as a spokespersons' service for the government.

- The **Private Secretariat** (*Secretaría Privada*) is the unit in charge of planning, co-ordinating and managing human and financial resources within the Presidency.
- The **Legal Secretariat** (*Secretaría Jurídica*) is the unit in charge of providing legal advice to the President in relation to legislative decrees, as well as any draft normative texts that are required for the application of the laws. This unit contributes to executive functions in the process of law formulation. This involves the President of the Republic and the legislature (*Asamblea Legislativa*).
- The **Audit Secretariat** (*Secretaría de Auditoría)* is the unit in charge of strengthening internal control mechanisms in the Executive, through audits and preventive and corrective actions.[1]
- The **Organism for Better Regulation** (*Organismo de Mejora Regulatoria*, or OMR) is a deconcentrated institution that is attached to the Presidency. It is in charge of leading and co-ordinating the institutionalisation of the Better Regulation System, as well as ensuring its implementation in accordance with the Law for Better Regulation (Asamblea Legislativa, 2019[14]).
- The **Salvadoran Agency for International Co-operation** (the *Agencia de El Salvador para la Cooperación Internacional,* or ESCO) is the unit in charge of co-ordinating international co-operation in El Salvador, channelling and supporting different needs in terms of technical and financial support.
- The **Agency for Development and Nation Design** (the *Agencia de Desarrollo y Diseño de Nación*) is tasked with programming, co-ordinating and following up on cross-cutting plans, programmes and projects for development, and on sectoral programmes as determined by the President.

- The **Ministry of Governance and Territorial Development** (*Ministerio de Gobernación y Desarrollo Territorial*, or MIGOBDT) plays a role in the co-ordination of policy implementation across El Salvador, including at the sub-national level. Its mandate includes functions as varied as: the management and administration of the centres of government at the departmental level; the co-ordination of the articulation of decentralisation processes; the promotion of development initiatives; and the management of the system for the prevention and response to emergencies and disasters. Among others, the current organigramme of MIGOBDT (MIGOBDT, 2021[15]) includes a Directorate for Territorial Development and Spatial Planning, a Directorate for Departmental Governments, and the Administration of Centres of Government.
- The **Ministry of Finance** (*Ministerio de Hacienda*) is the CoG institution in charge of leading and managing the public finances in order to guarantee fiscal sustainability in El Salvador, while promoting inclusive economic and social development. Its mandate includes functions relating to: financial administration and innovation; customs; internal taxes; treasury; financial management; economic and fiscal policy; budget; investment; and public credit.

Figure 8.1. Organigram of the Presidency in El Salvador



Source: Gobierno de El Salvador (2020[13]), *Organigrama General de la Presidencia de la República 2019-2024*, Gobierno de El Salvador, San Salvador, https://www.transparencia.gob.sv/institutions/capres/documents/352096/download.

The pervasiveness of multi-dimensional policy challenges, and the atomisation of administrative structures, have brought co-ordination to the forefront of the public-governance challenges that El Salvador faces. Addressing the pressing challenges of climate change, urbanisation, insecurity, and the vicious cycle of limited revenues and capacity, depends upon robust mechanisms of co-ordination. Through the creation of sectoral cabinets (*Gabinetes de Gestión*) as co-ordination entities, and of the Presidential Commissioners, El Salvador has made great strides in this regard. Two additional key areas of opportunity can be identified in El Salvador. The first of these is improving clarity and promoting co-ordination efforts in practice. Correspondingly, the second is the development of clear procedures, tools and methodologies to support decision making, and to align government priorities.

The centre of government could benefit from greater clarity regarding functions and responsibilities

By nature, the co-ordination of public policy requires the participation of multiple stakeholders and can benefit from robust institutional arrangements. Clear functions and responsibilities, both in the centre of government and in line ministries, can improve certainty and legitimacy. In turn, this may implicitly create incentives for other stakeholders to collaborate with the co-ordinating body, thus promoting synergies, and avoiding the duplication of efforts

The Salvadoran government has at its disposal a number of means of co-ordination. The Internal Regulation of the Executive Body (Consejo de Ministros, 1989[12]) broadly states that the President of the Republic is responsible for co-ordinating the actions of government ministries. Within the centre-of-

government units, the Presidential Commissioner for Operations and Government Cabinet is the body that is assigned to promote inter-institutional co-ordination. The Presidency's CoG units not only lead, but also participate in, some of the institutionalised co-ordination mechanisms. These include the Inter-institutional Communications Committee, which is co-ordinated by the Secretariat of Communications. Moreover, co-ordination is also led by other Secretariats of the Presidency, notably the Secretariats of Commerce and Investment, and Innovation. These co-ordinate multiple line ministries around specific priority lines. For instance, the Secretariat of Innovation is in charge of co-ordinating the recently created National Cybersecurity Committee. Among the attributions of the Legal Secretariat, meanwhile, is to carry out co-ordination efforts and activities with all public institutions, in order to promote transparency, accountability, and the participation of citizens in governmental management.

In specific policy areas, permanent and institutionalised mechanisms exist, such as the sectoral cabinets (*gabinetes de gestión*). These cabinets are constituted as entities of institutional co-ordination and strategic management in areas of public policy that have a key role to play in the country's development. To that end, they carry out all the necessary co-ordination actions to fulfil the objectives, goals and priorities of the government's General Plan. Article 2 of the Regulation that creates the sectoral cabinets (*Reglamento de Creacion de los Gabinetes de Gestión*) (Presidencia de la República de El Salvador, 2019[16]) establishes twelve cabinets. Eight of these correspond to the government teams that were initially identified in *Plan Cuscatlán* (as is detailed below). To these were added four specialised cabinets for tourism, energy, territorial control, and health.

Additionally, a key mechanism that fosters vertical co-ordination (i.e. between the national government and departmental/local governments) in El Salvador is the National Council of Spatial Planning and Territorial Development (*Consejo Nacional de Ordenación y Desarrollo Territorial*, or CNODT). It is an autonomous public entity created by Article 14 of the Law for Spatial Planning and Territorial Development (Asamblea Legislativa, 2011[17]). It comprises representatives from the Presidency, several line ministries, and local governments. The work of the CNODT is supported and complemented at the sub-national level by the Departmental Councils for Spatial Planning and Territorial Development. These also comprise representatives from the Presidency, several line ministries, municipal governments, and other public entities. It is also supported and complemented by the municipal councils, and associations of municipalities. These may be formed on an ad hoc basis.

Despite the multiplication of bodies and instruments that are meant to lead the co-ordination of governmental action, the efficiency of existing formal co-ordination mechanisms could be improved though the operationalisation of certain functions. In particular, this includes the functions of the unit for the co-ordination of strategic planning, follow-up, monitoring, and evaluation of inter-sectoral public policies, as well as the unit that takes care of the co-ordination and monitoring of public investment, quality of services, and flagship projects – as defined in its organigramme (Gobierno de El Salvador, n.d.[18]). These units are intended to complement the Direction of Projects, and the Direction of Analysis, of the Presidential Commission of Strategic Projects (Gobierno de El Salvador, 2019[19]). The Directorate for Projects is in charge of the design, supervision and execution of the projects that the Presidency has defined as strategic. It is also in charge of providing strategic support to responsible entities during their execution. Meanwhile, the Direction of Analysis is tasked with evaluating the technical and financial viability of the projects that the Presidency has defined as strategic. The exception to this is infrastructure projects, and the identification of funding options for them. In this sense, the Presidential Commission of Strategic Projects would operate more as a delivery unit designing and monitoring the implementation of projects, rather than intervening in their execution.

El Salvador could establish a periodic review of the composition and mandates of the bodies that perform CoG functions following each transition of government, in order to continue strengthening the strategic role of the CoG. The mandates of both of the Presidential Commissioners are formally set out in their respective Executive Decrees. This facilitates the necessary co-operation from other institutions. It also legitimises them in their challenge function (ensuring that ministerial priorities are aligned with Presidential priorities).

While clarity is of primordial importance, CoGs are characterised by a need to balance stability and agility. Some CoG units or assignments can thus be time-limited, or meant to provide advice that is in line with the head of government's political perspective. Periodic reviews would aim to identify overlaps, gaps, and duplication, as well as units or assignments that need a more permanent footing outside of the CoG, or that can be eliminated. Any reform should ensure that institutions in the CoG that carry out essential functions receive the appropriate human and financial resources. Essential CoG functions include supporting decision making by the head of state, strategic planning, co-ordination of whole-of-government policies, performance monitoring, and strategic communication (OECD, 2018[5]). Bodies that perform these key CoG functions could be maintained across successive governments in order to "retain institutional memory, ensure continuity of process, and develop strategy for long-term challenges". This also implies a certain degree of continuity among civil servants and professional technical staff (European Commission, 2017[20]).

Finally, the government could improve and foster the use of co-ordination and conflict resolution mechanisms between line ministries. OECD countries have developed a number of solutions to facilitate this process, each of which have potential drawbacks (Box 8.3).

Box 8.3. Alignment tools in OECD countries

Given the increasing need to deal with complex challenges such as climate change, aging, competitiveness and global risks, governments have tried numerous solutions, each of which have unique drawbacks that the government must contend with. These include:

- Creation of "super ministers" with responsibility for more than one department, or for a portfolio that spans departments. Success depends on the status of the individual and might not lead to effective integration at the policy level. Moreover, internal silos often remain. Merging two departments might not solve a problem in cases where policy has multiple dimensions.
- Policy "tsars". Success depends on the status/personality of an individual.
- Inter-ministerial committees (ad hoc or standing) are the most typical mechanism for "routine" co-ordination, but they are less well suited for ambitious, game-changing initiatives.
- Independent policy units. These may face challenges in establishing legitimacy across departments.
- Inter-ministerial policy teams. These can work if departmental priorities and approaches are aligned. It is more difficult for them to succeed if inherent trade-offs are involved.

Source: OECD (2015[21]), "Effective coordination from the centre: Co-ordinating policies to promote the transition to a low-carbon economy", *Briefing Note*, https://www.oecd.org/gov/Coordination-policies-to-promote-a-low-carbon-economy.pdf.

The government could consider the development of tools to support decision-making procedures, and to ensure that proposals align with government priorities

In the vast majority of OECD countries, the centre of government is tasked with reviewing items that have been submitted to the head of government (OECD, 2018[5])**.** This review role focuses on "assessing whether proper processes and procedures, as well as presentational requirements, have been followed, ensuring that the item is aligned with the overall government programme, that the item conforms to legal, regulatory and financial criteria, and that adequate consultation has occurred" (OECD, 2018[5]). A second, stronger, feature of this function is the authority to return proposals to the responsible entity if these criteria are not satisfactorily fulfilled. By design, setting out to test items for conformity requires well codified and communicated standards, which are accessible to line ministries and public organisations.

In El Salvador, the main role of the CoG in reviewing proposals focuses on the legal, technical and procedural aspects, rather than on the substance of the proposal. The government has recently introduced ex-ante Regulatory Impact Assessments (RIAs). These features of the Salvadoran decision-making process are hugely beneficial, as RIA often increases policy coherence by revealing trade-offs and potential beneficiaries. However, despite a sound legal framework and the existence of co-ordination bodies, they are not sufficient to ensure that the CoG fulfils its co-ordination functions on a technical level. In this sense, the CoG in El Salvador could introduce tools to ensure that items for proposals that are developed by line ministries are aligned with government priorities, and that they meet certain governance standards (quality of decision making, stakeholder engagement, monitoring and evaluation provisions, etc). This is a critical gap, as exercising the challenge function vis-à-vis line ministries is one of the most crucial roles that the centre of government plays in order to promote co-ordination. In this respect, El Salvador would benefit from developing more upstream policy requirements.

El Salvador could develop clear guidelines for the submission of policy proposals, through tools such as manuals or templates (Box 8.4). In particular, guidelines on how to align the content of proposals with government priorities would be particularly beneficial.

Box 8.4. Clear guidelines for policy proposals in OECD countries

The use of templates to standardise policy proposals and items for approval

In the Netherlands, "fixed e-forms" were introduced for submissions to ministers. In Canada, the Canadian Privy Council Office provides templates to government bodies to standardise how memoranda to cabinet should be submitted. In addition to the template, corresponding courses are offered by the Canada School of Public Service.

Norway's Instructions for Official Studies

On 19 February 2016, Norway adopted the Instructions for the Preparation of Central Government Measures ("Instructions for Official Studies"). The Instructions govern a broad range of central government measures and regulate, among other things, the timing of the policy development process, stakeholder co-ordination, impact analyses, public hearings, and proposals for alternatives. The Instructions, and the associated guidelines. aim to promote sound decision-making requirements for central government measures. This implies that the rationale for decisions is established prior to deciding which measure should be implemented.

Source: OECD (2018[5]), *Center Stage 2: the organisation and functions of the center of government*, https://www.oecd.org/gov/centre-stage-2.pdf.

Recommendations for a more strategic Centre of Government in El Salvador

Table 8.1. Recommendations for a more strategic Centre of Government

Recommendations	Detailed recommendations
1.1 Continue clarifying the mandates of Centre of Government institutions.	• Establish periodic reviews of the mandate and the composition of the institutions of the Presidency, in order to identify gaps and overlaps, and to determine units or attributions that can be placed outside of the CoG, or eliminated outright. • Ensure that institutions in the CoG are assigned with the appropriate human and financial resources to grant them the capacity to carry out essential functions of the CoG, such as supporting decision making by the head of state, strategic planning, co-ordination of whole-of-government policies, performance monitoring, and strategic communication.
1.2 Review and continue improving mechanisms and tools for whole-of-government co-ordination led by the CoG.	• Review and update the mandates and composition of co-ordination mechanisms to ensure that the units of the Presidency that are involved in whole-of-government co-ordination, as well as the relevant ministries, institutions of sub-national government, public institutions, and civil society take active part in the planning, co-ordination and monitoring of public policy priorities. This should include reviewing and updating the composition of sectoral cabinets. • Develop co-ordination mechanisms in policy areas where whole-of-government co-operation has not been broadly implemented, and could be strengthened, such as open government. • Codify and communicate widely to line ministries and other public institutions the criteria and standards that policy proposals must meet when submitted to the CoG for review. El Salvador could consider developing clear guidelines, through tools such as manuals or templates. • Foster the use of formal channels for conflict resolution between institutions of the Presidency, line ministries, and other public institutions.

Strengthening strategic planning in El Salvador

Well-embedded planning practice plays an important role in translating political commitments into both long and medium-term strategies and operational action plans, in order to guide the work of government (OECD, 2020[2]). In Latin America, there is a strong culture of strategic planning, and many countries from the region have started to develop instruments to help them pursue their strategic objectives in the long and medium term. These instruments, which have a wide variety of names in the region (National Development Plans, National Development Strategies, Government Plans, Country Visions, etc.), should ideally contain elements such as a regulatory framework, a budget, an action plan, indicators of achievement, provisions for monitoring and evaluation, and provisions for stakeholder engagement.

Plan Cuscatlán: Electoral commitments as strategic priorities

Up until 2019, El Salvador implemented five-year development plans, the latest of which was the *Plan Quinquenal de Desarrollo 2014-2019* (Gobierno de El Salvador, 2014[22]). These five-year plans were customarily developed by the Technical Secretariat of Planning (*Secretaría Técnica de Planificación*, or SETEPLAN). This was an institution within the Presidency of El Salvador that disappeared in 2019. The *Plan Quinquenal de Desarrollo 2014-2019* was designed with an ambitious citizen-participation process that involved over 13 000 people. It also established a monitoring and evaluation system for its implementation. The Plan identified three priority objectives:

- Productive employment generated through a model of sustainable economic growth
- Equitable and inclusive education
- Effective security for citizens.

In 2019, the *Plan Quinquenal* was eschewed in favour of *Plan Cuscatlán*, President Bukele's election platform (Bukele, 2019[23]). According to President Bukele, *Plan Cuscatlán* is the product of contributions from the population as a whole, collected by his campaign platform (Redacción Equilibrium, 2019[24]). The

resulting platform strives to be multi-dimensional, cross-cutting, and aims to obviate governmental silos and personal chiefdoms in public policy. While this instrument provides a series of general guidelines, objectives and action proposals for the government, it does not contain references to a timeline, a budget, or a monitoring and evaluation system. Although it is an electoral programme rather than a strategic plan produced by government agencies, the *Plan Cuscatlán* has emerged as the main strategic document used by agencies to identify government priorities.

Plan Cuscatlán can be accessed through its website[2] and presents eight government teams, each of which oversees several components. These are: social welfare (nine components); migration and labour (five components); international affairs (five components); security (seven components); industry, production and technology (seven components); the economy, social benefits and finance (three components); development and infrastructure (four components); and territorial development (four components). In an effort to tackle the multi-dimensional nature of these components, some are overseen by multiple government teams. For instance, the public health component is co-ordinated by the social welfare team, the security team, and the development and infrastructure team. Each component is driven by a plan. These vary widely both in length and in structure. Figure 8.2. provides a general overview of the structure of the *Plan Cuscatlán*.

Figure 8.2. Plan Cuscatlán: Components and government teams

	Government Teams							
Components	**SW**	**SC**	**ML**	**IA**	**IPT**	**ESF**	**DI**	**TD**
Health	√	√					√	
Youth	√	√						
Environment	√				√			
Education	√	√	√				√	
Gender	√							
Security	√	√						√
Human Rights	√		√					
Sports	√	√					√	√
Culture	√	√					√	√
Infrastructure		√			√	√	√	√
Innovation and Technology		√	√		√			
Transparency and Anticorruption		√						
Economy			√	√	√	√		
Foreign Policy			√	√				
Tourism				√	√			
Fiscal Affairs				√	√	√		
State Modernisation				√				
Agriculture					√			

Legend:
SW Social Welfare
SC Security
ML Migration and Labour
IA International Affairs
IPT Industry, Production and Technology
ESF Economy, Social Benefits and Finance
DI Development and Infrastructure
TD Territorial Development

Source: Authors' elaboration, based on data from Gobierno de El Salvador (2019[23]), *Plan Cuscatlán*, Gobierno de El Salvador, San Salvador, https://www.plancuscatlan.com/.

The *Plan Cuscatlán* also contains thirteen flagship projects (*Proyectos Insignia*) which can be construed as high-impact priority projects for the government. While all projects are relevant to the themes and components identified in the plan, they are not explicitly linked to any of them. The flagship projects are the following:

- The *Proyecto Dalton*, a government strategy to obtain a total of 20 000 scholarships for university degrees abroad
- *"Mi Nueva Escuela"*, a project to reassess the design of educational facilities
- The initiative *Franja del Norte* – a modernisation of agriculture in the northern strip of the country
- The initiative *Franja del Pacífico* – a coalition of infrastructure projects in the country's pacific strip, aiming to boost social and economic development
- The creation of the International Commission against Impunity in El Salvador (*Comisión Internacional Contra la Impunidad en El Salvador,* or CICIES*)*

- *"Nacer Crecer"*, the epicentre of citizen-led and institutional initiatives that promote nursing schools and pre-natal and early-education centres
- *"Inclusión Social para prevenir la violencia"*, a system of community-based prevention programmes
- *"Iluminación 100% del país"* – delivering lighting infrastructure across all municipalities, regardless of political affiliation
- Elimination of the FOVIAL (*Fondo de Conservación Vial*) tax for fishermen
- Increase in the Fund for the Economic and Social Development of El Salvador (the *Fondo para el Desarollo Económico y Social*, or FODES) from 8% to 10% of the country's general budget
- Tax exemptions for the 100 000 most vulnerable families in the country, in the context of the fight against tax evasion
- Creation of sports schools (*escuelas deportivas*) across the country, through the alliance with national sporting federations
- The *"20 obras por día"* commitment to carry out 20 infrastructure projects per day.

While the *Plan Cuscatlán* has emerged as the main strategic document used by agencies, its roots as an electoral programme generate a number of issues. Firstly, due to its origin as an electoral programme, very little information is available regarding the methodology that was used to identify and develop the plan. Secondly, it reflects voters' pre-occupations, which do not necessarily harness the government's existing strategic-planning capacity and data, or indeed reflect the longer-term strategic priorities of the country.

With regard to strategic planning, two key areas of opportunity in El Salvador can be identified. The first of these is to foster pathways for implementation. The second is to lay the foundations for the monitoring and evaluation of key priorities.

Identifying pathways for implementation: A crucial factor for success

A solid whole-of-government planning framework should help governments to articulate priorities clearly; cluster policy initiatives around a small number of policy priorities; steer implementation across administrative units and departments; and enhance policy coherence through effective sequencing (OECD, 2016[25]). Common hurdles in strategic planning tend to include a limited prioritisation and sequencing of activities and objectives. They also tend to include a limited coherence between strategic plans, and limited links between the strategic plans themselves and the specific actions that are designed to implement the strategies (OECD, 2012[26]). This can lead to a fragmentation of approaches. It can also complicate co-ordination. In addition, it can undermine collective priority-setting and resource allocation, as well as alignment with government-led processes (OECD, 2012[26]).

Although *Plan Cuscatlán* can be understood as the framework that articulates the vision for El Salvador for the medium/long term, it lacks clear guidelines for implementation or prioritisation. To be sure, component plans often provide a list of objectives and associated projects. However, the plans are not harmonised, and initiatives are rarely ever linked to the use of inputs (human, financial or material) with clear responsibility for their implementation. In the absence of another instrument that may provide more specific timelines, sequencing information such as action plans, and the implementation of the various strategic projects, remains subject to the political will of government leaders. Additionally, the *Plan Cuscatlán* and its components are not anchored to the budget. Costing out a strategy, and linking it to specific funding sources, is important to ensure its implementation, and to avoid fragmentation. Indeed, understanding the flow of resources and funding instruments that are available could allow the government to identify objectives within severe budgetary constraints, thus reducing the risk of not achieving the expected goals.

Government action in El Salvador is led by a multitude of strategic and operational plans, which do not appear to be explicitly linked or aligned. In addition to the *Plan Cuscatlán*, the Presidency has also

launched the “Territorial Control Plan”. This is a multi-step initiative to tackle gang violence and improve security. The Presidency has also launched the “Economic take-off plan”, which aims to create conditions for 3.5% growth. Likewise, ministries have their own operational and strategic plans, although their links to CoG priorities, or to the *Plan Cuscatlán*, are not always clear.

When a country has such a plethora of strategic documents whose themes overlap, and whose timescales are inconsistent with each other, there is a risk that the rationalisation of resources will be sub-optimal (European Commission, 2017[20]). In this sense, the process of developing the Social Development Plan constitutes a step forward in articulating strategic planning in the country. El Salvador has been working on the elaboration of a Social Development Plan, with a horizon of 2024 as an instrument for planning and co-ordinating the work of the government, and to which other institutional strategic plans will be aligned. According to the interviews that were conducted during the data collection mission, the process of drafting the plan began in 2019, led by the Social Welfare Cabinet. It involved a broad participatory process, with input from key actors from each government portfolio, as well as from civil society organisations, think tanks and academia. It also included a territorial consultation. Furthermore, participatory workshops were organised to define the ten main development problems in El Salvador. These problems were then analysed by inter-institutional teams in order to identify their causes, and to determine what the public administration could do about them. The desired outcomes were then formulated, including intermediate outcomes. Indicators were defined for each outcome, and it was determined which institutions would take the lead in the pursuit of each outcome.

To bolster government effort, and to help to ensure that objectives are attained, El Salvador could consider enhancing its institutional capacity for planning at the centre, developing action plans, and linking the strategic plan to the state budget. Potential actions include the following:

- **The government could assess the quality and internal consistency of individual strategies** in order to provide a more coherent framework for action. In this regard, the European Commission suggests seven criteria for evaluation (see Box 8.5).
- **El Salvador could consider bolstering its institutional capacity for planning at the centre of government.** To perform its mandate, the CoG in El Salvador needs to be able to focus on medium-term horizons of policy development, and long-term challenges, such as demographic changes due to migration patterns, urbanisation, security and political violence, and climate change. For example, establishing a dedicated strategy unit would create the time and capacity for this type of medium-term reflexion, utilising the best available means and data, and engaging with stakeholders to understand the challenges of implementation. A **dedicated strategy unit** could help to align sectoral plans with whole-of-government plans by providing guidance on how to develop sectoral strategies and action plans. The Agency for Development and Nation Design was created in 2021, with powers both to design and co-ordinate cross-cutting plans, and to co-ordinate and support sector-level efforts led by other institutions. However, at the date of writing of this report, the scope of this Agency’s action was limited. As such, it was focused on establishing a conceptual framework and supporting specific actions, and it had not participated in the elaboration of major programming instruments. This function within the centre of government should consider the following aspects:
    - Structuring work and decision-making processes though an appropriate mandate, so that the unit can engage actively with ministries and territorial entities.
    - Linking planning with policy and programme monitoring, in order to enable true results-based management.
    - Allocate appropriate human resources to the unit (for example, with capacities in planning, budgeting, etc.), as well as the necessary technological resources, for example for policy and programme monitoring.
    - Establishing avenues for the participation of stakeholders and civil society in strategic planning processes.

- **El Salvador could develop action plans** that would be associated with the component plans that make up the *Plan Cuscatlán*. Good practices that have been identified by the OECD recommend that action plans be prepared in concert with any strategy to clarify and identify inputs and process that are used for implementation (OECD, 2018[27]). In other words, while the government does not need to propose new actions or activities (as the activities can already be reflected in sectoral annual plans), it should seek to explain how and when government action and resources will achieve the output objectives. Actions contained in the plans should be limited in number in order to enable focused efforts in pursuing a small number of high-priority strategic initiatives. More information on the creation of action plans can be found in Box 8.6. Additionally, since an action plan can easily be updated, such a plan would enhance the robustness of the *Plan Cuscatlán*.
- In parallel to the development of action plans, El Salvador could consider **clarifying the linkages between strategic plans and the budget**. It is important to clarify the ways in which the budget supports the strategic plan by including information demonstrating the alignment of sectoral and whole-of-government plans with budgetary programmes. In recent years, El Salvador has developed a number of tools that link medium-term planning and budgeting. These include El Salvador's medium and long-term fiscal framework, its medium-term expenditure framework, and its medium-term institutional frameworks (European Commission, 2019[28]). The government is also piloting results-based budgeting in key areas of policy (health, education, finance). The government should apply and incorporate these tools during the planning process. The OECD's Recommendation on Budgetary Governance (OECD, 2015[29]) states that budgets should be closely aligned with the medium-term strategic priorities of government, by organising and structuring budget allocations in a way that corresponds readily with national objectives. Strengthening these links can be a means of assuring policy planners of the availability of resources, and identifying the appropriate medium-term goals against which resources should be aligned (OECD, 2018[30]) Multiple approaches to achieve this are possible (see Box 8.7).

Box 8.5. Criteria for the assessment of individual strategies

- Scope
  - Does the strategy set out its boundaries, and is it explicit about its coverage (what falls inside and outside its scope)?
  - Are the meanings of key terms clearly defined, avoiding any ambiguity, and are they consistent with other documents from the public administration?
  - Does the strategy describe links to any other national, regional or local strategies that are relevant to its performance?
  - Does the document refer to existing laws or treaties, or to any other international obligations, institutions or stakeholders that provide the context for the strategy, or that might be affected by it?
- Analysis
  - Does the strategy set out the evidence base clearly and comprehensively, and does it present a rounded picture of the challenges facing the sector, as well as any contextual factors?
  - Are any statistics that are used the most recent ones available (relevance deteriorates with time)? Are they qualified by definitions, sources and interpretation? Do they include data series, to discount any one-off blips or irregularities? Do they use projections (where this is both feasible and credible) all of the underpinning assumptions and caveats?

- Are trends and patterns assessed and placed in the context of wider socio-economic and contingent factors, including international comparisons where they are relevant, and do they provide useful benchmarks?
- Does qualitative information include stakeholder consultations and the views of independent commentators, if these are available?

- Vision
  - Does the strategy set out an achievable vision of the desired future state at the end of the period, in the form of the ultimate outcomes for beneficiaries (rather than inputs, processes or intermediate steps)?
  - Is this vision articulated as a set of complementary objectives that are unambiguous, that follow logically from the analysis, and that can be achieved with the resources that are available?
  - Do the objectives form a balanced and cohesive whole (the sum of their effects should contribute jointly to accomplishing the vision)?
- Measures
  - Are the objectives translated into shorter-term operational solutions, and in the form of measures that each have their own distinct rationale?
  - Does the choice of measures reflect lessons that have been learned from past practice, including interventions that should be built upon, and mistakes that should be learned from? In designing measures, does the strategy consider all appropriate instruments of public policy? Have the pros and cons of different options been assessed for their likely costs and consequences, especially in terms of their impact and sustainability?
  - Does the strategy describe the underlying assumptions, pre-conditions, and risks that affect the prospects for its measures?
- Adaptability
  - If the strategy is a 'road map', is it clear about the direction of travel, the ultimate destination, and the milestones that can be used to measure progress?
  - Do monitoring indicators avoid being captured by 'quantification' (counting what can most easily be counted)?
  - Is the strategy flexible enough to adapt to evolving circumstances that cannot reasonably be anticipated?
- Ownership
  - Does the strategy demonstrate that it is widely accepted by the parties that it affects (public bodies, citizens, businesses, socio-economic partners, and civil society)? In doing so, does it summarise the consultation process (possibly as an annex)?
  - Since a strategy might outlast one electoral cycle, is there a cross-party political consensus around the systemic problems that are being addressed, and the selected solutions, which crosses party boundaries?
- Presentation
  - Is the strategy as succinct as possible, clear in its use of language, and easy to read?
  - Does the document flow logically from analysis to vision, and from objectives into measures and then implementation?

Source: European Commission (2017[20]), *Quality of Public Administration A Toolbox for Practitioners*, https://doi.org/10.2767/443947.

Box 8.6. Developing an action plan – Support for Improvement in Governance and Management (SIGMA) toolkit

Definition of an action

An action is a tangible activity, or set of activities and measures, which is directly linked to the use of inputs (human, financial or material resources) in order to produce certain pre-defined deliverables, or to reach specific policy goals. An action can only be considered to be tangible if responsibility for its implementation is clearly set out. This responsibility can be addressed at both the institutional and individual-managerial levels. Ideally, both the institution and the manager or unit within the institution will be specified. Each action should also be supported by the resources that are necessary for its delivery.

Types of actions

Very often, objectives can be achieved through a combination of several policy instruments. Actions can also be inter-linked, in the sense that for one to be generated, another needs to come first. The policy instruments that can be used to deliver actions include:

- Regulatory instruments;
- Administrative instruments;
- Informative instruments;
- Institutional instruments;
- Financial instruments.

The drafters of actions should always verify that the proposed actions address the identified problem(s), that they truly are essential, and that they are realistically implementable. One of the challenges in action planning is to define clear, concise and well-written actions that are understandable to all external readers. The formulation of an action is often long, clumsy and technical. The action should not be formulated as a legal act or a scientific work.

The action plan document

The action plan is usually prepared in the form of a table reflecting the core policy elements of the public administration reform (PAR) strategy (i.e. the various levels of objectives, and their respective indicators). It should include all of the information that is necessary for efficient implementation, monitoring and reporting, and this should be clearly linked to the objectives that it is intended to support. This includes:

- a brief description of the action
- the deadline(s) for implementation (possibly multiple or phased and, if close monitoring and accountability are required, specified by quarter or month)
- the required financial and human resources for implementation, and sources of funding
- responsibility for implementation in terms of the entities/units that will be in charge, plus any other institutions contributing to the implementation
- Output or process-level indicators for each action.

An action plan may be supplemented by additional internal documents listing the series of steps for the implementation of each action. The development of an action plan is an iterative, process which will require several rounds of discussions and adjustments.

Source: OECD (2018[27]), "Toolkit for the preparation, implementation, monitoring, reporting and evaluation of public administration reform and sector strategies: Guidance for SIGMA partners", *SIGMA Papers*, No. 57, https://www.oecd-ilibrary.org/docserver/37e212e6-en.pdf?expires=1680000142&id=id&accname=ocid84004878&checksum=A7F05D319DA965BD6F7AE46CA8B3D66B.

Box 8.7. International models of performance budgeting

Different models and approaches to performance budgeting are observed across the OECD. Even when countries have adopted similar models, they have taken diverse approaches to implementing these, and they have adapted them to national capacities, cultures and priorities. In this context, the OECD has identified three broad categories of performance-budgeting systems. These are:

- Presentational performance budgeting, which involves the provision of performance information in parallel with the annual budget. For example, this can be as a transparency exercise, or for the background information of policy makers, with no necessary expectation that the information will be taken into account in deciding budget allocations.
- Performance-informed budgeting presents performance information in a systematic manner alongside financial allocations, in order to facilitate policy makers' task in taking this information into account when deciding budget allocations, to the extent that they may deem this appropriate.
- Direct performance budgeting (or performance-based budgeting), where performance information is provided along with financial information, and where there is an expectation that performance, relative to previously stated objectives, will have direct consequences for budget allocations.

More recently, the OECD has identified a fourth broad category:

- Managerial performance budgeting, in which performance information is generated and used for internal managerial purposes, and for organisational and/or managerial accountability, with a lesser focus upon the linkages with budget allocations.

Across OECD countries more generally, performance budgeting practices tend to fall into the first and second categories. Only a few tend to fall into the third category (direct performance budgeting), and this tends to be for select types of expenditures (e.g. funding of higher education or hospitals).

Source: OECD (2018[30]), "Paraguay: Pursuing National Development through Integrated Public Governance", *OECD Public Governance Reviews*, https://dx.doi.org/10.1787/9789264301856-en.

Developing a more robust framework to monitor strategic priorities

The two key institutions of the Salvadoran CoG that are tasked with monitoring and evaluating the implementation of strategic projects at the national level are the Presidential Commission for Operations and Government Cabinet, and the Presidential Commission of Strategic Projects. As the institution that possess the technical knowledge and capacity to design the monitoring and evaluation systems that are used by all institutions across the Salvadoran administration, the Secretariat of Innovation also plays a

significant role. Indeed, the Internal Regulation of the Executive Body (Consejo de Ministros, 1989[12]) stipulates that the Secretariat of Innovation is in charge of the implementation of a national monitoring system.

Under previous administrations, SETEPLAN led the monitoring and evaluation systems of El Salvador, monitoring indicators for the five-year plan (the Plan Quinquenal), as well as for multi-dimensional poverty, and public investment (European Commission, 2019[28]). SETEPLAN also collaborated with the General Directorate of Statistics and Censuses (the Dirección General de Estadística y Censos, or DIGESTYC), by using multi-purpose household surveys in order to develop tools, and to analyse programmes. Following the change in administration in 2019, the extent to which the monitoring architecture that was designed and led by SETEPLAN has remained in place is unclear.

The development of performance indicators, baselines and targets is often considered to be an important aspect of the strategy-development process (OECD, 2018[27]). Indicators here are understood as qualitative or quantitative tools, by which an objective can be assessed as having been achieved. They are, therefore, tied to the objectives and actions that constitute the strategy (OECD, 2018[27]). Without indicators, strategies can remain merely a vague aspirational document that do not properly guide implementers. Likewise, they can lack a clear, measurable and traceable definition of success. A great variety of indicator types exists (see Box 8.8).

Box 8.8. Indicator types

Input indicators:

- The value of resources that are used to produce an output.
- Include finances, personnel, equipment and buildings – everything that comes under the rubric of "what we invest to do the work". It can also include political commitments, or technical know-how.
- Input indicators are usually not part of the core strategy text, but they are provided in the budget documents, for example, the annual budget or the medium-term expenditure framework.

Output indicators:

- Products or goods and services that are produced through the activities in question
- Activity-oriented, measurable, and usually under managerial control
- "What we produce or deliver".

Outcome indicators:

- Intended or achieved short-term and medium-term effects of an action's outputs
- Changes in institutional performance, or the behaviour of individuals or groups, that are triggered by the outputs of an action
- Should clearly relate to a given objective of the strategy
- External forces may limit managerial control over the attainment of outcomes, but managers are still responsible for their overall attainment
- "The results we intend to achieve".

Impact indicators:

- Overall and long-term effect of achieving specific outcomes
- Express the ultimate improvement or change in the quality of people's lives and services

- Usually have a direct influence on user satisfaction (as a consequence of the reforms, among other things)
- Can also be developed using international indexes, such as the World Bank Worldwide Governance Indicators, or the Global Competitiveness Report.

Source: (OECD, 2018[27]), "Toolkit for the preparation, implementation, monitoring, reporting and evaluation of public administration reform and sector strategies: Guidance for SIGMA partners", *SIGMA Papers*, No. 57, https://www.oecd-ilibrary.org/docserver/37e212e6-en.pdf?expires=1680000142&id=id&accname=ocid84004878&checksum=A7F05D319DA965BD6F7AE46CA8B3D66B.

In El Salvador, the *Plan Cuscatlán* was meant to be launched in co-ordination with a technological resource called *Sistema BUHO*, which aims to monitor the work being done by the different government teams, as well as the progress of flagship projects. This monitoring system was said to focus on the areas of education, health, infrastructure, security, social projects, and employment (Bukele, 2019[31]). As of yet, it is unclear when this programme will be launched in full, and how it will collect data for these various areas of policy. Should the programme be launched, the government could nevertheless benefit from developing clear baseline and target indicators in order for the data to be used efficiently and with purpose. Such work could be developed on the basis – duly adapted and updated – of the database and indicators that have been used in the past to monitor the five-year plan (*Plan Quinquenal de Desarrollo*).

To better monitor the strategic priorities outlined in the government platform, and to lay the foundation for a solid monitoring and evaluation system, El Salvador should consider strengthening its burgeoning monitoring system, and developing indicators associated to the *Plan Cuscatlán*.

- The government could strengthen efforts to increase and improve data production. In this connection it could:
  - Harmonise and integrate various sources of data, including those used for the monitoring system for the five-year plan
  - Improve the capacity to plan and carry out data collection in line ministries, and in agencies themselves.
- El Salvador might also wish to **develop indicators** linked to the *Plan Cuscatlán*, as a means of establishing it as a whole-of-government plan, rather than an electoral programme. In this connection:
  - Each axis or objective within the component plans could be associated with one or several outcome-level indicators
  - Multiple indicators could also be used to capture the various dimensions of each objective: from a service delivery standpoint, efficiency standpoint, etc.
  - Every indicator should include a baseline and a target value
  - Finally, indicators should include some background information, and should be assessed against the RACER (Relevant, Accepted, Credible, Easy, Robust) model (see Box 8.9).

Box 8.9. RACER model

The quality of an indicator will depend upon the purpose that it serves, the nature of the policy or programme that it seeks to monitor, and the development and maturity of the overall performance-monitoring system. There are, therefore, no universal principles to be followed when defining indicators. One example of a quality framework for the assessment of indicators is the RACER approach, used amongst others by the Better Regulation Index. According to this approach, indicators should be:

- **Relevant**: closely linked to the objectives to be reached. Indicators should not be overambitious and should measure the right variable.
- **Accepted** by staff, stakeholders. The role and responsibilities for indicators need to be well defined.
- **Credible** for non-experts, unambiguous, and easy to interpret: indicators should be simple and robust as possible. If necessary, composite indicators might need to be used instead –such as country ratings, well-being indicators, and also ratings of financial institutions and instruments. These often consist of aggregated data that use pre-determined, fixed-weight values. As they may be difficult to interpret, they should only be used to assess the broad context.
- **Easy** to monitor (e.g. data collection should be possible, at low cost). Indicators should be built, as far as practicable, on available underlying data. Their measurement should not impose too large a burden on beneficiaries, enterprises, or citizens.
- **Robust** against manipulation (e.g. administrative burden: if the target is to reduce administrative burdens to businesses, the burdens might not be reduced, but just shifted from businesses to public administration). Reliable, statistically and analytically validated, and, as far as practicable, complying with internationally recognised standards and methodologies.

Source: European Commission (2016[32]), *DG NEAR Guidelines on linking planning/programming, monitoring and evaluation*, http://www.eui-zzh.ba/images/PDF/Upravljanje%20razvojem/Korisne%20publikacije/20160831-dg-near-guidelines-on-linking-planning-progrming-vol-1-v-0-4.pdf.

"Policy memory" can also inform and contribute to better policy design through an understanding of the challenges that have been experienced in the past, and what previous good practices could be incorporated into current reform efforts. This underlines the importance of taking stock thoroughly of the existing evidence (OECD, 2020[33]). In this regard, undertaking changes to improve the use of evidence requires a reflection on where evidence advice can enter the system, and on how strong or well-integrated evidence structures should be (Parkhurst, 2017[34]). Box 8.10 presents a summary of initiatives that El Salvador could consider undertaking in order to build organisational capacities for evidence-informed policy making.

Box 8.10. Organisational initiatives to facilitate the use of evidence

Governments can consider undertaking a series of initiatives in order to build organisational capacities for evidence-informed policy making. These are as follows:

- Improving organisational tools and processes.
  - Developing and implementing whole-of-government and ministry-level strategies for evidence-informed policy making, e.g. Ireland's "Evidence into Policy Project".
  - Elaborating and disseminating toolkits to support the use of evidence. An example of this is the evidence-informed policy making toolkit developed by the International Network for the Availability of Scientific Publications.
- Improving organisational infrastructure. In the United States, one example of this is the Foundations for Evidence-Based Policy Making Act of 2018. It requires that all agencies develop evidence-based policy and evaluation plans as part of regular business.
- Establishing strategic units to support an evidence-informed approach to policy making.
  - Creating cross-government units focusing on what works, on experimentation, and on evaluation, e.g. Austria's Federal Performance Management Office
  - Establishing dedicated analytical positions and units within ministries and agencies, e.g. Chile's dedicated technical support for performance management.

Note: Full details of the initiatives available in the Appendix of the OECD report "Building Capacity for Evidence-Informed Policy Making, Lessons from Country Experiences".
Source: OECD (2020[33]), "Building Capacity for Evidence-Informed Policy-Making: Lessons from Country Experiences", *OECD Public Governance Reviews,* https://dx.doi.org/10.1787/86331250-en.

Recommendations to strengthen strategic planning in El Salvador

Table 8.2. Recommendations to strengthen strategic planning

Recommendations	Detailed recommendations
2.1 Institutionalise strategic planning and develop associated tools.	• Establish a strategy body dedicated to strengthening and co-ordinating medium- and long-term strategic planning. • Ensure the availability of appropriate human and financial resources in the CoG that are dedicated to strategic planning. • Establish clear guidelines for the prioritisation and implementation of whole-of-government initiatives and sectoral plans, including tighter linkages between strategic plans and the budget, and the development of more detailed timelines for implementation and indicators for monitoring. • Assess the quality and internal coherence of multi-sectoral strategies and plans, including the identification of appropriate resources (human, financial and material) that are necessary for implementation. • Identify possible synergies between initiatives, especially by aligning sectoral plans with whole-of-government plans, in order to optimise the use of resources, and to avoid overlaps.
2.2. Develop a robust monitoring framework.	• Elaborate detailed action plans for whole-of-government initiatives and sectoral plans. These should include: baseline, targets, indicators, and criteria to monitor and evaluate performance in implementation. For instance, El Salvador could consider developing multiple indicators associated with each axis or objective within the components of the *Plan Cuscatlán*. Each of these would include a baseline and a target value and should be assessed against the RACER model. • Enhance institutional capacity to plan and carry out data collection, processing and analysis across the Salvadoran administration, and systematically perform these functions. • Harmonise existing systems for data collection across the Salvadoran administration, in line with the information requirements for the future national monitoring system. Develop mechanisms to use this data in the decision-making process.

Box 8.11. An action plan to strengthen strategic planning in El Salvador

As part of the implementation of the MDCR of El Salvador, a public policy workshop entitled "From Analysis to Action: Towards Sound Public Governance in El Salvador" was carried out on line, on 28 and 29 October 2021. The workshop brought together 55 participants from the public and private sectors, civil society, and the international co-operation community. One of the outputs of the workshop was a proposed action plan to strengthen strategic planning in El Salvador.

Table 8.3. Action plan for strategic planning in El Salvador

Selected recommendations	Actions for implementation	Main actors
Establish a dedicated strategic planning body dedicated to strengthening and co-ordinating medium- and long-term strategic planning.	• Share experiences with other countries. Explore the national planning model of Colombia, and specifically its: (1) sectoral, and (2) territorial aspects. • Provide the body with administrative and political power, which could be done by giving it the rank of a Secretariat. • Establish a concrete incidence plan that will determine how it will interact with other areas, what its budget will be, and the expected impact. It should also detail dedicated resources and diagnose overlaps with other areas. • Identify normative actions that are necessary for the creation of this body. In the short run, consider an executive decree. In the long run, move towards the adoption of a legislative basis. • Create a technical and independent team for staffing this body. • Anchor this body to the laws and regulations that frame national planning.	• Presidency of the Republic. • Ministry of Finance. • Secretariat for Innovation. • Secretariat for Commerce and Investment.
Ensure the availability of appropriate human and financial resources in the CoG institutions that are dedicated to strategic planning.	• Map human resources in the public administration, with relevant experience in strategic planning in order to convene them. • Invest in the technical knowledge of staff involved. • Mobilise resources through partnerships and international co-operation. • Develop mechanisms for dialogue between stakeholders, and alliances with universities and other external actors. • Identify communication technologies to improve communication between public institutions.	• Ministry of Finance. • ESCO. • The National School for Public Training (*Escuela Nacional de Formación Publica*, or ENAFOP). • International centres.
Establish clear guidelines for the prioritisation and implementation of whole-of-government initiatives and sectoral plans, including tighter linkages between strategic plans and the budget, and the development of more detailed timelines for implementation, and indicators for monitoring.	• Form a working group to establish the guidelines. • Determine which institution will lead the working group. • Identify priority sectors to be analysed and establish clear goals and time horizons for evaluation.	• Presidential Commission for Operations and Government Cabinet. • Presidential Commission for Strategic Projects. • Directorate for Municipal Projects. • Secretariat for Innovation. • Secretariat of Commerce and Industry. • ESCO.
Assess the quality and internal coherence of multi-sectoral strategies and plans, including the appropriate identification of resources (human, financial and material) that are necessary for implementation.	• In order to carry out this analysis, create a working group to bring together international research centres, external actors (such as agencies of the United Nations), and civil society. • Make sure that information and data sustain the rationale for each strategy. • Focus on establishing more robust indicators.	• Ministry of Finance. • Presidential Commission for Operations and Government Cabinet. • Agency for Development and Nation Design.
Identify possible synergies across initiatives, particularly through the alignment of sectoral	• Survey existing plans and carry out a national diagnosis and prioritisation. • Create a platform to map out existing initiatives.	• Presidential Commission for Operations and Government Cabinet.

plans with whole-of-government plans, in order to optimise the use of resources, and to avoid overlaps.	• Establish long-term scenarios of the future by using foresight in order to improve the alignment of plans. • Encourage more transparent reporting on plans, their implementation, and the resources that have been mobilised. Link this to a policy of open government and open data. El Salvador's Health Plan can be taken as an example of this. • Achieve this in the form of a platform on government plans, open to the public.	• Planning body to be created.

Box 8.12. An action plan to strengthen monitoring in El Salvador

One of the results of the workshop mentioned in Box 8.1 is a proposed action plan to strengthen monitoring in El Salvador.

Table 8.4. Action plan for strengthening monitoring in El Salvador

Selected recommendations	Actions for implementation	Main actors
Elaborate detailed action plans for whole-of-government initiatives and sectoral plans, including baseline, targets, indicators and criteria to monitor and evaluate performance in their implementation. For instance, El Salvador could consider developing multiple indicators associated with each axis or objective within the components of the *Plan Cuscatlán*. Each of these would include a baseline and a target value, and should be assessed against the RACER model.	• Create a dedicated unit for planning co-ordination in the centre of government (see recommendations on strategic planning). • Develop work patterns for the formulation of action plans, in particular a model to co-ordinate internal and external inter-institutional communication. • For the use of public institutions, establish a legal framework and work guidelines for the monitoring of government initiatives. • Apply the methodology of the Ministry of Finance for the establishment of action plans. Based on that methodology, develop dashboards of indicators, products, and impact. • Link impact indicators with the SDGs. • Update the national census and register. • Involve the national statistical system, and the national planning system. • Develop clear baselines.	• Presidency of the Republic. • Presidential Commission for Operations and Government Cabinet. • National Council for Sustainable Development. • Planning body in the centre of government (to be created). • Ministry of Finance.
Enhance institutional capacity to plan and carry out the collection, processing and analysis of data across the Salvadoran administration, and perform these functions systematically.	• Create a unit in the CoG to be in charge of promoting a culture of monitoring in the public administration (or assign that responsibility to an existing unit). • Obtain funding for the development of monitoring systems, with the BUHO approach of the Secretariat for Innovation, and for capacity building in the various areas. • Create a capacity-building plan for monitoring public policy, in co-operation with ENAFOP and academic centres. • Establish mechanisms to share experiences between institutions, and in the international arena.	• Presidency of the Republic. • Secretariat for Innovation. • DIGESTYC. • National Geographic Centre. • Ministry of Finance. • Secretariat for Innovation.
Harmonise the systems for data collection that already exist across the Salvadoran administration, in line with the information requirements for the future national monitoring system. Develop mechanisms to use this data in the decision-making process.	• Establish a working group to develop a national monitoring system. • Seek international funding to carry out this process. • Assess the effectiveness and complementarity of existing monitoring systems. • Establish a prioritisation mechanism to determine which policies should be monitored (see recommendations on strategic planning), in order to optimise the system. • Implement a strategy to improve governance and inter-operability in data, as a foundation for improving the efficiency of monitoring systems.	• Presidency of the Republic. • Presidential Commission for Operations and Government Cabinet. • National Council for Sustainable Development. • Planning body in the centre of government (to be created). • Ministry of Finance. • Secretariat for Innovation.

Modernising the Salvadoran State

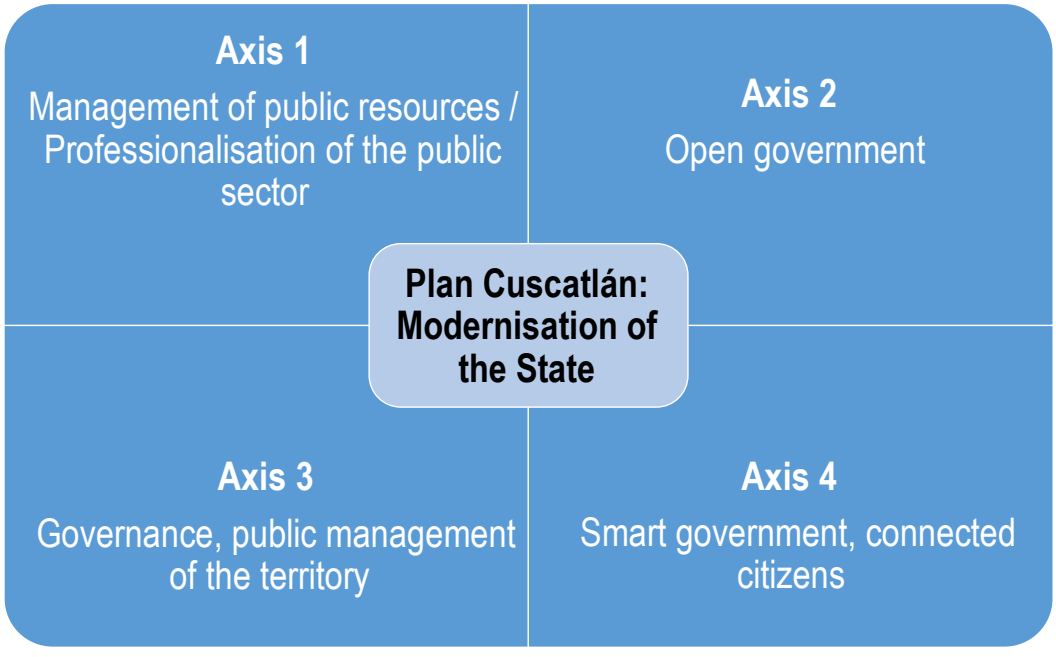
State modernisation is the process of designing and executing government reforms in order to improve the efficiency, agility, transparency, accountability, and integrity of the public administration. This process goes beyond enacting laws. The design, adoption, implementation and sustainability of reforms need to be part of a coherent and continuous process that takes into account structural elements, trade-offs, and the sequencing of reforms (OECD, 2010[35]).

The OECD report *Government at a Glance in Latin America and the Caribbean 2020* stresses that, in order to achieve a more effective implementation of reforms, and among other issues, LAC governments need to continue working on key aspects such as promoting a merit-based civil service with robust values, simplifying administrative processes in service delivery, ensuring internal and external accountability, and reinforcing administrative capacity and skills (OECD, 2020[36]).

Public administration reforms are often more delicate, politically sensitive, and difficult to implement than other reforms. Government leaders usually struggle to build the "business case" for engaging stakeholders in comprehensive reforms, given that they are not always perceived as a means of addressing policy challenges, but rather of cutting expenditures (OECD, 2020[2]). In addition, given that major administrative reform represents a break from the past and an acknowledgement that current practices, policies and processes must be changed, having a newly elected government with a clear mandate for reform often helps to move forward with implementation (OECD, 2010[35]).

In El Salvador, the *Plan Cuscatlán* (Bukele, 2019[23]) has a whole component that is dedicated to state modernisation, whose main objective is the construction of a modern, efficient and transparent state, at the service of its citizens. This would allow for the implementation of structural reforms. The *Plan Cuscatlán* establishes four main axes, or lines of action, in this area (see Figure 8.3), along with a series of more specific associated proposals (Bukele, 2019[31]).

Figure 8.3. *Plan Cuscatlán*: State Modernisation



Source: Bukele (2019[31]), *Plan Cuscatlán: Modernización del Estado*, Nayib Bukele, San Salvador, https://www.plancuscatlan.com/documentos/plancuscatlan_modernizacion_del_estado.pdf.

State modernisation processes are long-term endeavours that can sometimes speed up or slow down due to external circumstances, such as an economic crisis or, to mention a present-day example, a global pandemic. Consequently, the components that integrate a modernisation plan might not all progress at the same speed. While the Salvadoran government has started implementing certain initiatives of the *Plan Cuscatlán*, especially those that relate to digitalisation, connectivity, and administrative simplification, there is still some important work that can be done in the area of civil-service workforce management, or the wider application of open-government principles.

The following sections of this chapter will assess the progress that El Salvador has made in some of the key areas of action for state modernisation that are established in the *Plan Cuscatlán*, and will identify some areas of opportunity.

The harmonisation of the human-resources management strategy across the Salvadoran administration: An ongoing challenge

A well-designed human-resources management strategy enables governments to align their workforce with their goals. Having the right number of people, with the right skills and at the right place, helps governments to increase efficiency, responsiveness and quality in the delivery of service (OECD, 2019[37]). Axis 1 of the state modernisation component of the *Plan Cuscatlán* (Bukele, 2019[31]) identifies three proposals that relate to the management of public resources and the professionalisation of the public sector. These are:

- Proposal 1: Create a real entity for training and regulation of human resources in the public sector.
- Proposal 2: Harmonise functions.
- Proposal 3: Standardise positions and posts.

The *Plan Cuscatlán* also proposes a review of the current Civil Service Law, which dates from 1961. The adoption of a new law would provide El Salvador with the necessary legal framework to legitimise the reform of its civil-service management strategy. To this end, the Vice-presidency of El Salvador established a tripartite discussion group, convened by the Promotion Team for Civil Service Reform (the *Equipo Impulsor de la Reforma de la Función Pública)*. The group is made up of representatives from civil society and academia, state workers' movements, and the Ministry of Labour and Social Security.

According to interviews held during the fact-finding mission, one of the main challenges hindering the design and adoption of a national strategy is the lack of institutionalisation. Indeed, no specific institution in El Salvador is in charge of leading and overseeing the design and implementation of a human-resources strategy of this kind. Based on the advice of the *OECD Recommendation on Public Service Leadership and Capability* (OECD, 2019[37]), El Salvador could consider clarifying institutional responsibilities by:

- Making sure that each institutional actor in the public employment system has the appropriate mandate and resources to function effectively
- Establishing institutional authority to set and oversee common minimum standards for merit-based people-management
- Delegating an appropriate level of autonomy to individual ministries or managers, along with clear responsibilities, supervision, and appropriate incentives, in order to align people-management with their strategic business objectives
- Ensuring appropriate mechanisms for communication and information-sharing among institutional actors in the public-employment system.

In line with Proposal 1 of the *Plan Cuscatlán*, which relates to the creation of a training and regulatory entity for human resources in the public sector, the *OECD Recommendation on Public Service Leadership and Capability* advises government administrations to "develop the necessary skills and competencies by creating a learning culture and environment in the public service". According to interviews that were held

during the fact-finding mission, the lack of an effective and functional training facility for civil servants is one of the main obstacles to the professionalisation of the public-service workforce in El Salvador. Such facilities do exist in certain domains. One example is the Diplomatic Institute "Doctor José Gustavo Guerrero" (formerly known as Specialised Higher Education Institute for Diplomatic Training [*Instituto Especializado de Educación Superior para la Formación Diplomática*, or IEESFORD]). Attached to the Ministry of Foreign Affairs, it provides training for diplomatic and consular staff. However, there is still room to extend the supply of training to all areas of the administration.

During 2020, certain institutions organised capacity-building activities in a decentralised manner. For instance, the Secretariat of Innovation provided training courses to selected civil servants in the use of new digital tools. The Organism for Better Regulation also provided training in obligatory subjects in the development and application of regulatory-improvement tools. In order to ensure a harmonised and centralised offering of training for all civil servants, El Salvador could consider strengthening the role of its training institutes (such as the School of Innovation in Public Administration (the *Escuela Superior de Innovación en la Administración Pública*, or ESIAP), which was created in 2021. In addition, El Salvador could also try to promote a learning culture across the public administration, by embedding it into its day-to-day work. For instance, it could do this through on-the-job mentoring and coaching, or by further developing mobility programmes.

Another key challenge that El Salvador is facing is civil servants' lack of mobility to move to new positions. One of the most recent initiatives that the government has implemented in order to tackle this problem has been the creation of a competencies centre in Information and Communications Technologies (ICT). Led by the Secretariat of Innovation of the Presidency, this initiative aims to support all line ministries to identify existing specialised qualified personnel who are already part of the Salvadoran administration, and who could potentially be assigned to specific projects as the need may arise. In this context, El Salvador could consider enabling and encouraging short- and medium-term assignments, in order to promote learning and exchange or occasionally to address short-term labour demands. Moreover, ESIAP could also become an important tool to broaden the career horizons of civil servants, by providing them with the skills that they would require to perform functions across different institutions of the public administration.

In order to successfully implement these initiatives, it would, first of all, be crucial to know what competencies and skills are needed or missing across the public administration. Based on the advice of the *OECD Recommendation on Public Service Leadership and Capability*, El Salvador could thus consider strengthening its capacity to identify needs, by periodically reviewing and updating required competencies and skills based on inputs from civil servants and citizens. Thus, it would be able to keep pace with changing technologies, and the needs of the society that they serve. This would make it possible not only to respond quickly to fast-changing environments in the face of uncertainty, but also to have a better-adapted civil-service system. This would include a better-informed, transparent, merit-based, and tailored process of recruitment, plus training and mobility schemes, among other.

Another challenge that El Salvador is facing is the harmonisation of functions and tasks, as expressed in Proposal 2 of the *Plan Cuscatlán*. In order to solve this issue, the government is currently undertaking an integral review of all existing positions across the Salvadoran administration, with the purpose of redefining and harmonising all profiles and functions. In addition, El Salvador could consider establishing common frameworks and/or vocabulary in order to identify transversal job requirements and competencies. It could do this, for example, through common competency frameworks and/or standardised job profiles.

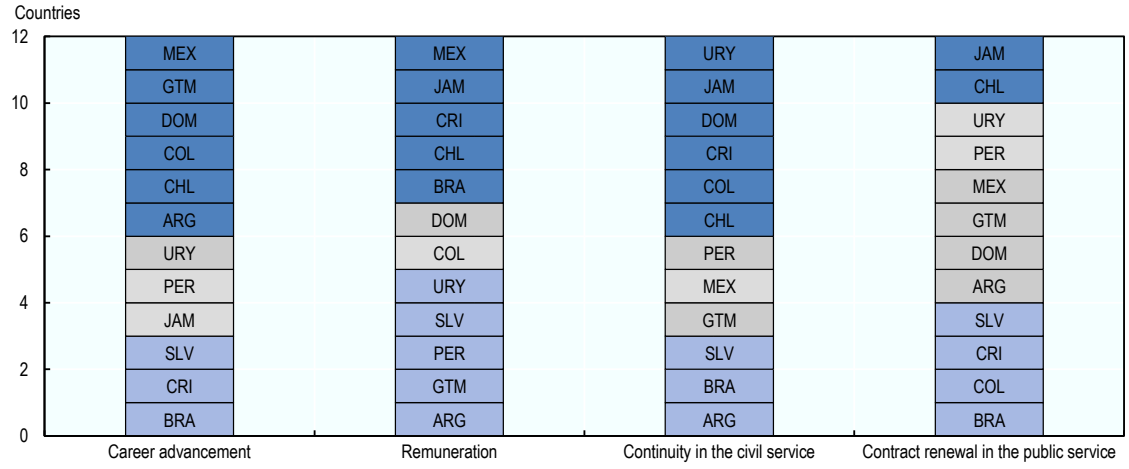
This would also contribute to Proposal 3 of the *Plan Cuscatlán*, which relates to the standardisation of positions and posts. In this connection, the *OECD Recommendation on Public Service Leadership and Capability* advises governments to determine and offer transparent terms and conditions of employment (e.g. compensation, term length, job security, rights and obligations) that appropriately match the functions of individual positions. In particular, it advises governments to do this by:

- Clearly defining the categories of civil-service employment, based on transparent and objective criteria

- Clearly defining the terms and conditions of employment, based on factors such as the nature of the work, labour-market considerations, and needs in terms of developing the capabilities of public service
- Engaging representatives of public employees in legitimate consultation procedures, negotiating through open and fair processes, and setting procedures for monitoring the implementation of agreements.

While 75% of countries in Latin America and the Caribbean consider that performance appraisal has medium or high importance in defining career advancement and continuity in the civil service, only 58% of the countries report that performance is important to define remuneration. These figures become even lower when we look at the importance given to performance in El Salvador, which is below the average for Latin America and the Caribbean (Figure 8.4).

Figure 8.4. Level of relevance of good performance for career development



	Career advancement		Reumuneration		Continuity in the civil service		Contract renewal in the public service	
	LAC	OECD	LAC	OECD	LAC	OECD	LAC	OECD
High	6	17	5	17	6	4	2	4
Medium	3	9	2	10	3	15	6	12
Low	3	10	5	9	3	17	4	20

Note: Original data from OECD/IDB (2018[38]), Survey on Strategic Human Resources Management in Central/Federal Governments of Latin American and Caribbean Countries; and OECD (2016[39]), *2016 Survey on Strategic Human Resources Management,* https://qdd.oecd.org/subject.aspx?Subject=GOV_SHRM.
Source: OECD (2020[36]), *Government at a Glance: Latin America and the Caribbean 2020*, https://dx.doi.org/10.1787/13130fbb-en.

El Salvador could consider assessing, rewarding and recognising performance by developing indicators and criteria that would regularly be discussed and reviewed. Based on the advice from the *OECD Recommendation on Public Service Leadership and Capability*, the performance of employees would thus be rewarded by appropriate means, while underperformance would also be addressed. Managers would be entrusted with ensuring the capabilities and support that are necessary to carry out performance management. In this regard, it would be crucial to ensure that the required human-resources management tools and systems that make it possible to monitor and evaluate performance are developed and put in place, and that they are made easily accessible to managers. Once the right systems are in place, and the criteria to assess employees' performance are defined, El Salvador could then consider introducing performance bonuses, or another type of benefits, in order to reward and recognise good performance.

Although El Salvador does publish most of its vacancies for civil servants, and opens them to external recruitment (OECD, 2020[36]), interviews during the fact-finding mission showed that there are still some opportunities for improvement in this area. In 2017, El Salvador took a big step forward by creating its own Public Employment portal (http://www.empleospublicos.gob.sv/). This is an online platform on which the institutions of the Salvadoran administration can publish vacancies in the public administration. The portal can also include information on all stages of the various selection processes, helping to guarantee fairer and more equal treatment for candidates.

Although this is an important initiative, the vacancies that have been published on the portal have focused mostly on positions that require specific technical expertise, or that need to be filled in sub-national administrations. In practice, it is still the case that many civil servants are not recruited and appointed to their positions through this system, or indeed through other competitive processes. Instead, they are appointed directly, as a result of discretionary decisions. El Salvador could, therefore, consider strengthening the role of this platform in order to ensure that all processes are transparent, open, and based on merit. In order to achieve this, El Salvador could also organise and promote capacity-building activities for employees of human resources departments, and also for hiring managers. This would raise awareness of the existence of this platform, presenting its use and functionalities.

Better regulation in El Salvador: Ensuring effective engagement with stakeholders, and enhancing the practice of regulatory impact assessments (RIAs)

Administrative burden, which is also known as red tape, reduces the efficiency of public-service delivery, and contributes to distrust in governments among citizens and businesses. Most countries in Latin America and the Caribbean have taken steps to simplify and improve their administrative processes. However, their programmes often do not systematically target the most burdensome areas of regulation (OECD, 2020[36]).

According to the World Bank's *Doing Business 2020* report (World Bank, 2020[40]), no country from Latin America and the Caribbean ranks among the world's top 50 economies on the ease of doing business indicator (out of the 190 measured). El Salvador ranks 91st.

Axis 3 of the state modernisation component of the *Plan Cuscatlán* (Bukele, 2019[31]), which refers to governance and public management of the territory, stresses in its seventh proposal the need to regulate public services. Moreover, it establishes that it is necessary to create a regulatory entity that will ensure the efficient provision of public services.

Following the adoption of the Law for Better Regulation (*Ley de Mejora Regulatoria*) in 2019 (Asamblea Legislativa, 2019[14]), the Organism for Better Regulation (*Organismo de Mejora Regulatoria*, or OMR) became the co-ordination and oversight body in charge of promoting, dictating and overseeing the enforcement of El Salvador's better-regulation policy. The OMR was originally created in 2015, as part of El Salvador's commitments to improve the business environment through better regulation. These were adopted within the framework of the US-funded FOMILENIO II programme (FOMILENIO II, 2014[41]).

El Salvador has made significant progress in recent years towards adopting strategies of administrative simplification, as articulated through the Law for Better Regulation (Asamblea Legislativa, 2019[14]), and the Law for Administrative Procedures (Asamblea Legislativa, 2018[42]), the activity of the Organism for Better Regulation remains strongly focused on improving the business environment, competitiveness, and foreign trade, and on attracting overseas investment. El Salvador could, therefore, consider broadening the OMR's scope in order to cover other key areas that encompass day-to-day formalities and procedures based on life events, which are vital for instance to access the health and education systems (birth certificate, identity card, etc.), or to participate in the labour market (e.g. social security/fiscal numbers).

The OMR is also tasked with creating and managing the National Registry of Administrative Formalities (the *Registro Nacional de Trámites*). This registry includes procedures that have been registered by public institutions according to guidelines issued by the OMR. The OMR has its own technological platform to fulfil

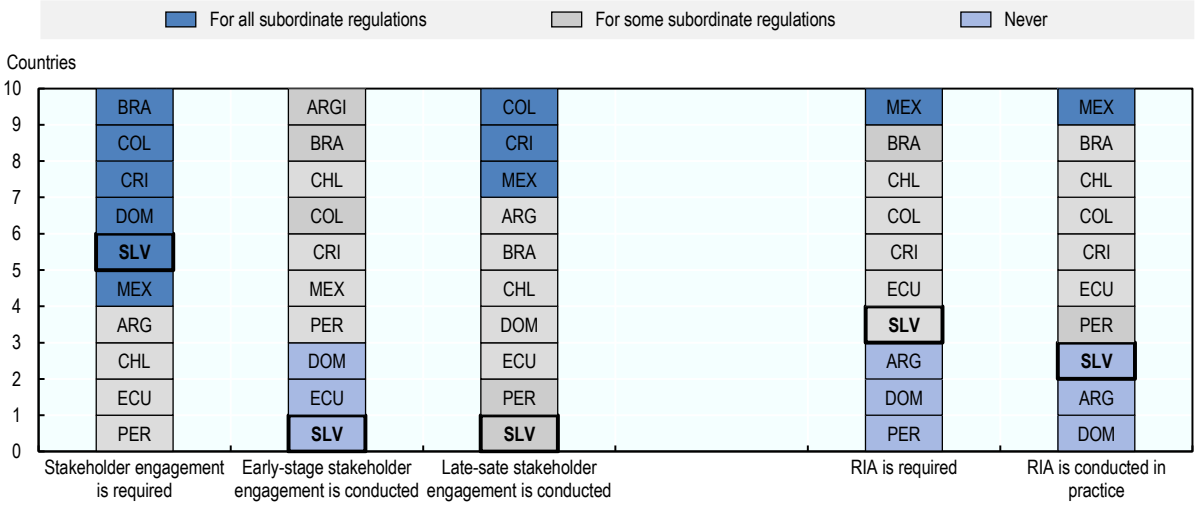
this obligation. It allows data entry for procedures and their particulars from all institutions in the public administration. As this chapter was being completed, the OMR had evaluated 672 procedures and their components, for 10 institutions. This initiative might, however, be delayed, as it currently lacks sufficient human and financial resources to be finalised. This reflects once again, and as previously mentioned in this chapter, the importance of strengthening strategic-planning instruments by developing more comprehensive action plans. These should contain specific objectives, an estimated necessary budget, identified resources, a realistic timeline, and a system that would monitor and evaluate the implementation of the plan.

The OECD's *Indicators of Regulatory Policy and Governance (iREG) for Latin America* (OECD, 2019[43]) partially cover three of the principles of the *OECD Recommendation on Regulatory Policy and Governance* (OECD, 2012[44]). These are:

1. Stakeholder engagement
2. Regulatory impact assessment
3. Ex post evaluation, and administrative simplification.

With regard to the first indicator, Figure 8.5. shows that, although the Salvadoran public administration is required to engage with stakeholders during the development of all subordinate regulations, this only happens in practice for some subordinate regulations, and often at a late stage. El Salvador could benefit from engaging with stakeholders at an earlier stage, in order to understand better the nature of the problems that require regulation, and to discuss potential policy solutions in greater depth.

Figure 8.5. Stakeholder engagement and RIA during the development of subordinate regulations



Source: OECD (2019[43]), *OECD Indicators of Regulatory Policy and Governance for Latin America 2019*, https://www.oecd.org/gov/regulatory-policy/ireg-lac.htm.

El Salvador's Law for Better Regulation establishes, in Article 10, a legal framework for engagement with stakeholders. It stipulates the creation of a consultative body that would include representatives of the private sector. Adopted on 15 May 2019, Article 12 of Decree 25 of the Council of Ministers (Consejo de Ministros, 2019[45]) states that this Consultative Council (*Consejo Consultivo*) will also include representatives of academia, civil society and consumer associations. Its main function will be to oversee progress in the implementation of regulatory policy in El Salvador. It will also formulate recommendations for improvement where it may deem this to be necessary.

According to the discussions that were held during the fact-finding mission, the creation of the Consultative Council was still pending, and was to be operational in 2021. In line with the *OECD Recommendation on*

Regulatory Policy and Governance, which advises that governments "should co-operate with stakeholders on reviewing existing and developing new regulations", the creation of this council could be a significant step towards ensuring that the private sector, academia, civil society, and other concerned stakeholders can engage effectively in discussions about regulatory policy reform in El Salvador.

With the adoption of the Law for Better Regulation, El Salvador also established its first ever obligation to conduct RIAs for regulation (primary and secondary legislation, regulations, and norms). There are exceptions to this obligation for regulations relating to the budget, the regulation of the financial system, international treaties, emergency situations, public security, and the national defence of state intelligence. The OMR has the responsibility to scrutinise the quality of RIAs according to the standards that are established by law, and of approving the exemption to perform RIA for proposed regulations that do not generate compliance costs (OECD, 2019[43]).

In practice, RIAs have barely been conducted in El Salvador (Figure 8.5). At the date of closing this chapter, 31 regulations had been analysed (including actual RIAs, and resolutions on exemptions from RIA). According to interviews held during the fact-finding mission, this is due to the fact that RIA is a recent requirement that has not been interiorised yet by the Salvadoran public administration. Based on the advice of the *OECD Recommendation on Regulatory Policy and Governance*, El Salvador could consider supporting RIA with clear policies, training programmes, guidance, and quality-control mechanisms for data collection and use. This could assure that RIA is performed homogenously throughout the administration. The OMR carries out training events on tools for improving regulation, in order to encourage their use in the public administration.

In order to ensure that regulations are effective and efficient, it is necessary to evaluate existing policies through ex post impact analysis. Article 21 of the Law for Better Regulation establishes that ex post evaluation is required for existing subordinate regulations ten years after their enactment, and for all regulations that were older than seven years by 2018, in order to determine whether they are achieving their objectives (OECD, 2019[43]).

In order to make sure that ex post evaluation is performed in an effective manner, El Salvador would benefit from giving early consideration in the policy cycle to the performance criteria for ex post evaluation. This would include whether the objectives of the regulation are clear, what data will be used to measure performance, and the allocation of institutional resources.

Digital transformation in El Salvador: An ambitious agenda

Measures to contain the COVID-19 pandemic have profoundly affected governments' relationship with digital technologies (OECD, 2020[46]). This has resulted in the acceleration of existing processes of digital transformation, in order to ensure that services are well adapted to the new reality, and that they can still be delivered under the new circumstances. These internet-based activities require reliable connectivity, and the need for an inclusive approach to digital transformation that tackles digital divides. This would ensure that all citizens can access and benefit from the digital services that the government provides.

In 2019, the government of El Salvador decided to entrust the Secretariat of Innovation of the Presidency with the task of leading the country's digital transformation. The Secretariat's main project in this regard is the ambitious Digital Agenda 2020-2030 (Secretaría de Innovación de la Presidencia, 2020[47]). During its six-month elaboration process, this project involved not only all government entities, but also academia, non-governmental organisations (NGOs), the private sector, and other interested stakeholders, in the discussions concerning the definition of its key axes.

The Digital Agenda presents four key axes of activity: digital identity, innovation, education and competitiveness, the modernisation of the state, and digital governance. Each of these axes includes a series of actions that aim to strengthen processes, to streamline and provide access to public services, and to build and consolidate an institutional framework for digital government. All of these aspects are

definitely relevant for a digital-transformation process. Still, a broader and more holistic approach to state modernisation could, among other potential measures, also benefit from including lines of action dedicated to fighting corruption, and from ensuring greater transparency and accountability.

As part of its Digital Agenda, El Salvador is taking concrete steps to solve its limited connectivity. The *OECD Recommendation on Digital Government Strategies* (OECD, 2014[48]) advises that governments should take steps to "address existing digital divides […] and avoid the emergence of new forms of digital exclusion". In this regard, El Salvador has started developing a National Connectivity Network (*Red de Conectividad Nacional*), whose main purpose will be to connect all government institutions, and to bring a free connection to those who have never been connected, via a state-owned fibre-optic network. In order to accomplish this, a public company was merged with a private one. This resulted in a new company, which is now in charge of developing the National Connectivity Network. This initiative will be a key factor in carrying out some of the projects that are planned. It will start with a pilot project to connect 300 schools in the coastal area. It will then be replicated across the country, and extended to hospitals, police stations and prisons, among other institutions, in order to ensure that digital services provided by the government can reach all citizens.

An initiative on such a large scale would require significant investment efforts from the government. Based on the advice contained in the *OECD Recommendation on Digital Government Strategies*, El Salvador could consider developing clear business cases to sustain funding for, and the focused implementation of, digital-technology projects in the country, as part of its Policy for Commerce and Investment for 2020-2050. The Salvadoran government could also benefit from carrying out thorough assessments of digital-technology needs against existing assets (including ongoing contracts and inter-agency agreements). This would increase efficiency, while supporting innovation and doing a better job of sustaining the objectives stated in the overall public sector modernisation agenda.

Although El Salvador is making progress in the area of cybersecurity, trust in online privacy and the Global Cybersecurity Index are still below the averages for Latin America and the Caribbean and the OECD (OECD et al., 2020[49]). The *OECD Recommendation on Digital Government Strategies* recommends reflecting a risk-management approach to addressing digital security and privacy issues. It also recommends including the adoption of security measures, in order to increase confidence in government services. Approved in May 2022, the cybersecurity policy includes, among the strategies that it slates for implementation, the promotion of the risk-management approach and provides a framework with a risk-management focus, to be implemented in public institutions.

In this connection, El Salvador created a National Cybersecurity Committee (*Comité Nacional de Ciberseguridad*) in 2020. It includes several line ministries (Security, Governance, Defence, Finance, Economy, Health, Public Works), the River Lempa Executive Hydroelectric Commission (*Comisión Ejecutiva Hidroeléctrica del Río Lempa*, or CEL), and the Electricity and Communications Superintendency (*Superintendencia General de Electricidad y Comunicaciones*, or SIGET). The Committee's first contribution was to elaborate a national cybersecurity policy that establishes strategies in matters of cybersecurity for all institutions of the Salvadoran administration. The Committee is expected to develop a cybersecurity bill to establish the legal and institutional framework for cybersecurity, the regulatory framework for operators of critical infrastructure, and regulations for the creation and operation of incident-response teams. The Committee could become a key element in securing leadership for, and political commitment to, this new cybersecurity policy. It could be used as a vehicle to promote inter-ministerial co-ordination and collaboration, and to facilitate the engagement of the relevant institutions across different levels of government in El Salvador.

There has also been some significant progress in the development of El Salvador's own one-stop shop (the *ventanilla única de trámites)*. It is one of the main initiatives led by the Secretariat of Innovation, in collaboration with the OMR. The *Ventanilla Unica Ciudadana* (VUC, simple.sv) has been operational since August 2022. Alongside this body, a national office for procedures and the verification of one-stop shop

portals (the *Oficina Nacional de Trámites y Verificación de Ventanillas de Atención*) was created within the Presidency. Its objective is to support and co-ordinate the efforts of public institutions to comply with, and improve, the implementation of procedures, and to achieve the highest standards in attending to the public (Gobierno de El Salvador, 2020[50]).

One-stop shops are online platforms that generally provide information and/or serve as a transaction centre (OECD, 2020[51]). The *OECD Recommendation on Regulatory Policy and Governance* (OECD, 2012[44]) advises governments to "employ the opportunities of information technology and one-stop shops for licences, permits, and other procedural requirements to make service delivery more streamlined and user-focused". Indeed, one-stop shops allow countries to improve regulatory delivery to citizens and business, while also reducing government resource requirements.

The one-stop shop has been in operation since 2022. Prior to the implementation of this portal, there were 15 different platforms from as many institutions. The VUC includes nearly 2 000 procedures from several institutions. It is expected that the number of procedures will increase progressively as the various institutions from El Salvador complete their migration from their current platforms to the integrated VUC. The OECD report *One-Stop Shops for Citizens and Business* (OECD, 2020[51]) advises that virtual, transaction-based one-stop shops should form part of broader administrative simplification strategies. It also recommends that they should be user-centred and based on life events.

One of the key elements for implementing the VUC will be the creation of a functional interoperability platform between government services, across the Salvadoran administration. The purpose of this initiative is that when the Salvadoran one-stop shop receives information relating to a citizen or a business, the system can then pass this on, sharing the received information with the other institutions of government that are connected to the platform. Thus, data common to several procedures (general information) is required from the user only once.

In El Salvador, although some institutions have already joined the interoperability platform, its implementation process has not been exempt from obstacles. For instance, one of the main challenges has been the reluctance of some actors to change the working methods and procedures that had been in place in their institutions for years. They argued that they did not understand the need to do things differently.

Resistance to change is not an unusual reaction to a process of government reform. At times, changes and reforms can be unpopular. Indeed, since the modernisation of government seeks to change behaviour and culture by changing rules, incentives, norms, values, and structures, civil servants may feel threatened by changes that challenge their psychological profile (e.g. risk aversion), their personal values, or that may render their specific skills obsolete (OECD, 2010[35]). Sometimes, changes may even imply that decision-making power shifts from one part of the administration to another.

In order to generate support for reform, or at least to curtail opposition from potential losers, compensation tools could be put in place. These tools do not necessarily have to be financial. For instance, altering the scope, tasks and responsibilities of a job position to make it more interesting for the civil servants, thus increasing their job satisfaction, could replace monetary compensation (OECD, 2010[35]). In addition, the availability of information may help to smooth out processes of reform, as it allows stakeholders to understand the need for change, its rationale, and the ways to achieve it.

Governments have also begun to move away from top-down processes of managing change, to processes that integrate both bottom-up and top-down activities, while also including systematic problem identification, the generation of ideas, and a filtering of alternative solutions and their implementation (OECD, 2020[2]). El Salvador could consider adopting this approach to the management of change, as this may help to smooth out reform processes in a structural manner.

Open government in El Salvador: Defining clear mandates, and developing tools to increase transparency, integrity, accountability and stakeholder participation

Governments around the world have started to adopt principles and practices of open government, with the aim of developing innovative solutions to pressing challenges. These include low levels of trust, the rise of populism, and high levels of inequality (OECD, 2020[52]). Evidence collected by the OECD shows that the implementation of open-government strategies and initiatives also entails numerous benefits for citizens. This is because it may lead to improving citizens' living conditions, and to better performance of the services provided by governments (OECD, 2016[53]).

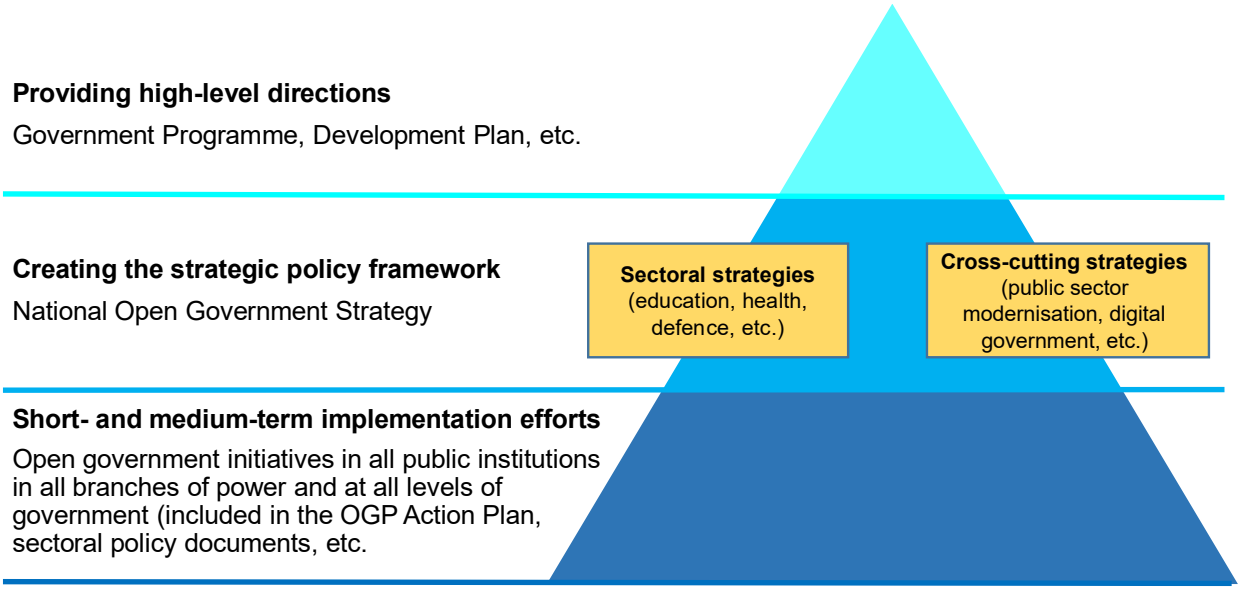
The OECD defines open government as "a culture of governance that promotes the principles of transparency, integrity, accountability and stakeholder participation in support of democracy and inclusive growth" (OECD, 2017[54]). The wide adoption of these principles by a government can progressively change the relationship between public officials and citizens, making it more dynamic, mutually beneficial, and based on reciprocal trust.

Most countries in Latin America and the Caribbean have open-government agendas in place (OECD, 2020[55]). Moreover, 16 countries in the region are members of the Open Government Partnership (OGP). In this connection, Axis 2 of the state-modernisation component of the *Plan Cuscatlán* (Bukele, 2019[31]) stipulates that El Salvador's policy of open government should be based on the international standards and commitments established in the OGP (OGP, 2020[56]).

El Salvador has been a member of the OGP since 2011, but has, since March 2022, been an inactive member. At least until 2019, the country was implementing its fourth OGP Action Plan, for 2018-20 (Gobierno de El Salvador, 2018[57]). This plan, whose co-creation process entailed a broad open consultation with civil-society organisations, featured commitments relating to fiscal transparency, environmental inclusion, human rights, and integrity. However, given the lack of implementation of the fifth OGP Action Plan 2018-20, and also due to the dismantling of the participatory and reporting structure linked to OGP participation, and to the country not elaborating a sixth Action Plan, the OGP decided to designate El Salvador as inactive member in March 2022. This status gives the country a year to present a new action plan in order to maintain its membership of the OGP. Despite the importance of this kind of initiative, an OGP Action Plan is only one out of many policy tools that El Salvador can develop and put in place in order to foster principles of open government.

Taking a more holistic and integrated approach, El Salvador could benefit from adopting a whole-of-government Open Government Strategy (OGS). This would enhance the implementation of the principles of transparency, integrity, accountability and stakeholder participation, across the whole of the Salvadoran administration. An OGS constitutes the missing strategic link between a country's high-level political direction, and individual open-government initiatives that are implemented by different public institutions (OECD, 2020[52]) (see Figure 8.6).

Figure 8.6. Situating an Open Government Strategy in the wider policy framework



Source: OECD (2020[52]), *Taking an integrated approach to the promotion of transparency, integrity, accountability and stakeholders' participation: Towards an Open Government Strategy*, https://www.oecd.org/gov/open-government/open-government-an-integrated-approach-promotion-transparency-integrity-accountability-and-stakeholders-participation.pdf.

In the case of El Salvador, for instance, an OGP Action Plan would constitute an implementation effort for the short to medium term, thus being at the lowest level of the pyramid in Figure 8.6. The *Plan Cuscatlán*, which only provides high-level directions, would be at the top level. An intermediate OGS could, therefore, be beneficial for El Salvador. It would provide an umbrella for all open-government initiatives, while ensuring that they follow similar methodological guidelines, and that they contribute to a shared vision of openness. This would enhance the coherence of whole-of-government policy (OECD, 2020[52]).

Up until 2019, the erstwhile Secretariat of Transparency and Anti-corruption of the Presidency was the body in charge of promoting open-government initiatives across the Salvadoran administration. Following the change of government in 2019, however, this Secretariat was dissolved. At the time of the interviews that were held during the fact-finding mission, no Salvadoran institution had yet been identified to take the lead in this area of policy. Based on the advice contained in the *OECD Recommendation on Open Government* (OECD, 2017[54]), El Salvador could, therefore, consider providing an institution with the mandate to design and implement an open-government strategy. In so doing, it should make sure that it possesses the adequate human, financial, and technical resources that are required to perform its functions. Given its positioning, and its capacity to develop and oversee policies across government, anchoring this function in the centre of government can help to link open-government initiatives (across different sectors, levels of government, and non-state actors) to foster a shared vision, and to push the agenda forward (OECD, 2016[53]).

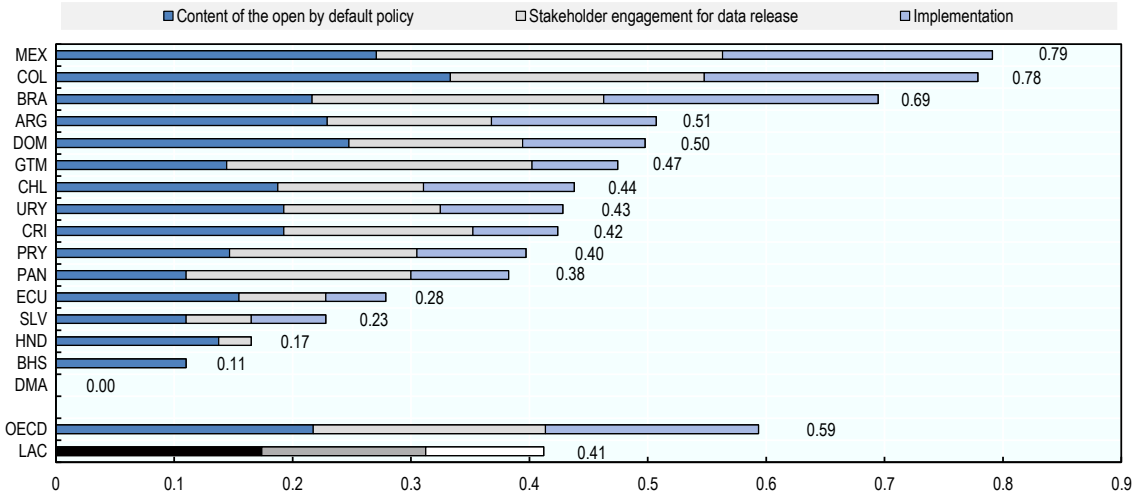
With regard to the level of implementation of open-government initiatives, for instance, El Salvador adopted a Law of Access to Public Information in 2011 (Asamblea Legislativa, 2011[58]). Although enacting a law is a good first step forward, it is important to assess whether the law is up to the required standards, and to make sure that the appropriate institutional arrangements are put in place. The major challenge usually comes with its implementation. In a similar vein, the Institute of Access to Public Information (*Instituto de Acceso a la Información Pública*), which was created as an independent institution with legal, administrative and financial autonomy, can play a crucial role in overseeing the implementation of the Law

of Access to Public Information. Examples of good practices in this area are, for instance, the cases of Chile and Mexico.

More recently, in 2018, a National Policy on Open Data, and an open-data portal (datos.gob.sv), were also introduced, as part of an initiative to promote transparency and fight corruption (OECD et al., 2020[49]). However, following the change of government in 2019, these initiatives were no longer pursued. Indeed, El Salvador is still among the few LAC countries that have not yet established a single point of access (open data portal) for government datasets.

In addition, according to the OECD report *Government at a Glance in Latin America and the Caribbean 2020* (OECD, 2020[36]), El Salvador only scores 0.06 on the sub-indicator of stakeholder engagement for data release, which is significantly lower than the LAC average (0.14) (Figure 8.7). This indicator assesses the existence of formal requirements for public sector entities to consult open data users to inform open data plans, the availability of guidance on how to conduct consultations, and the frequency of consultations, Overall, El Salvador could consider making more efforts both towards the development of a national open data policy, and towards stakeholder engagement in the process of open data planning, data production and release.

Figure 8.7. Open data availability in Latin American and Caribbean countries

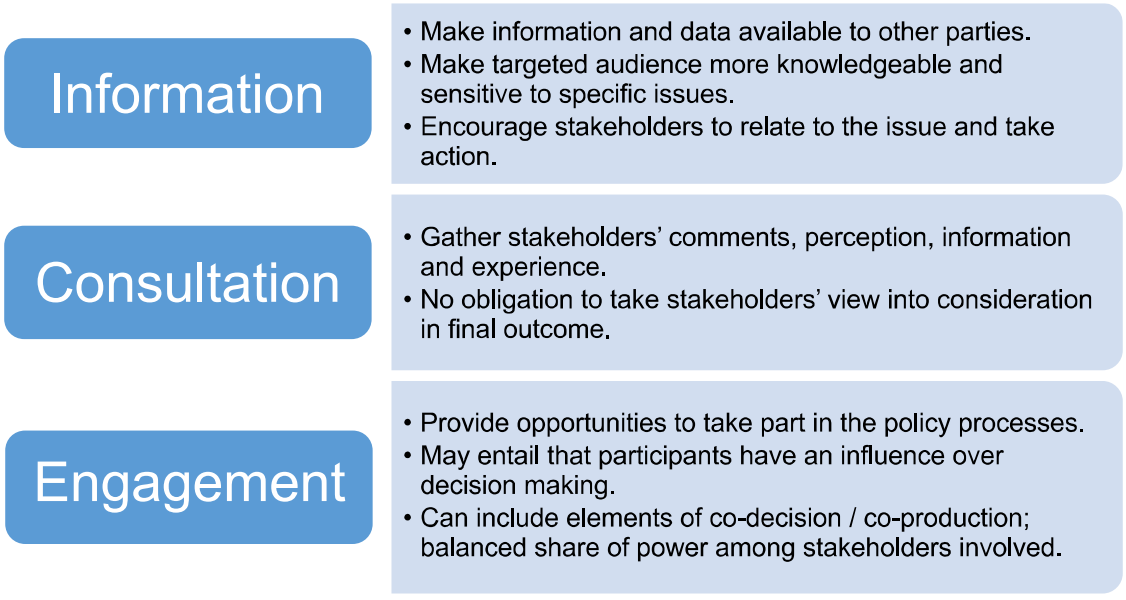


Note: Assessment of open data availability from 0 (minimum) to 1 (maximum).
Source: OECD (2020[36]), *Government at a Glance: Latin America and the Caribbean 2020*, https://dx.doi.org/10.1787/13130fbb-en.

StatLink https://stat.link/j2zw08

With regard to the participation of citizens and stakeholders more broadly, the *OECD Recommendation on Open Government* (OECD, 2017[54]) advises public authorities to "grant all stakeholders equal and fair opportunities to be informed and consulted, and actively engage them in all phases of the policy-cycle and service design and delivery". The OECD recognises that many intermediary forms of participation exist. It has also developed a typology to map out the different relationships that exist between stakeholders and governments (OECD, 2016[53]) (see Figure 8.8).

Figure 8.8. Levels of stakeholder participation



Note: Adapted from OECD (2015[59]), "Policy shaping and policy making: The governance of inclusive growth", *Background report to the Public Governance Ministerial Meeting*, 28 October, www.oecd.org/governance/ministerial/the-governance-of-inclusive-growth.pdf.
Source: OECD (2016[53]), *Open Government: The Global Context and the Way Forward*, https://dx.doi.org/10.1787/9789264268104-en.

In line with this recommendation, Axis 2 of the *Plan Cuscatlán*'s state-modernisation component (Bukele, 2019[31]) includes, in its first proposal, the creation of a platform for citizen participation. However, at the time of the interviews that were held during the fact-finding mission, this platform was not yet operational, and it seemed to be uncertain when it would be introduced.

Nevertheless, El Salvador has started implementing some initiatives on citizen and stakeholder participation for more accountability. For instance, at the national level, the Law of Environment (*Ley del Medio Ambiente*) (Asamblea Legislativa, 1998[60]) established that the Ministry of Environment has to develop guidelines for the use of public consultation mechanisms during the elaboration phase of policies, strategies, plans, and environmental impact studies, among others. So far, only the procedures for public consultation on environmental impact studies for projects have been defined. Moreover, according to data gathered during the elaboration phase of El Salvador's fourth OGP Action Plan (Gobierno de El Salvador, 2018[57]), although some consultation processes have been carried out prior to the approval of certain policies and plans, these do not necessarily have the same depth or scope. This results in a heterogeneous application of citizen-consultation processes. At the subnational level, programmes such as Governing with the People (*Gobernando con la Gente*), The Good Living Festival (*Festival del Buen Vivir*), and Open House (*Casa Abierta)*, which are held twice a month in different municipalities of El Salvador, allow direct contact with communities across the country to learn about their proposals and needs. In addition, the Houses of Culture and Communal Living (*Casas de la Cultura y la Convivencia*) operate as centres for encounter and community participation in 162 municipalities.

Although these initiatives show that efforts have been made towards the involvement of citizens in El Salvador, it seems that these initiatives are still scarce, particularly at the national level. It also seems that they mostly take place only during the design phase of policies or initiatives. This is line with results that have previously been presented in this chapter, concerning stakeholder engagement during the development of subordinate regulations, which showed that consultations are conducted only for some subordinate regulations, and often at a late stage. El Salvador could consider developing further mechanisms to strengthen the engagement of citizens and stakeholders during all phases of the policy

cycle, including not only the design and development of strategies and plans, but also their implementation, monitoring, and evaluation. For instance, Box 8.13 presents the initiatives that Lithuania and Spain have developed in order to involve citizens during phases of implementation and monitoring. The objectives of increasing the participation of citizens and stakeholders could then be included in the Open Government Strategy, in order to ensure that it applies to all levels of government, and to all public institutions of the Salvadoran administration.

Box 8.13. Initiatives for citizen participation during the implementation and monitoring phases of projects

Lithuania 2030: Important steps towards co-implementation

In Lithuania, the most important policy document is the state progress strategy "Lithuania 2030", which provides long-term goals to be achieved by 2030. It gives great importance to the systematic and effective engagement of citizens in the political process. It also states that transparency and openness are important values that government should seek to promote.

The development and implementation of Lithuania 2030 illustrates the effective use of the results of public participation in the process of making and implementing policy. Civil society played a crucial and active role in drafting the strategy by engaging in public discussions, participating in the National Day of Ideas across the country, in an "idea week" in schools, and in online consultations. In total, more than 100 discussions, and more than 1 000 proposals, fed into the final draft of the Lithuania 2030 strategy.

The State Progress Council and the Open Progress Forum are two key platforms that have been established through Lithuania 2030. They bring together a variety of different stakeholders, including academics and civil-society organisations, in order to ensure an inclusive process for drafting and implementing this key strategic document.

The Office of the Government co-ordinates the implementation process of the Lithuania 2030 strategy and the activities of the State Progress Council, which is now responsible for the monitoring of the results. To date, six Open Progress Forums have been organised, with broad participation from civil society (more than 2 500 participants). Proposals for improvements to policy were developed in areas such as education (children's creativity), lifelong learning, the strengthening of local communities, innovative public governance, etc.

Social media (Facebook), and the website www.lietuva2030.lt, have also been used as channels for two-way communication with citizens. The Lietuva2030 platform uses several tools to engage citizens, such as questionnaires, the possibility to ask questions, registering for an event, subscribing to a newsletter, and commenting, among others.

Spain: Monitoring Agenda 2030 activity in national parliaments

Public institutions often do not proactively make accessible the data that they produce in an open, non-proprietary, machine-readable, and reusable format. "Parlamento 2030" is an innovative online tool developed by Political Watch (a civil-society platform of engineers, economic experts and journalists), which transforms massive amounts of public data into accessible information, thanks to a combination of scrapping technology and a broad knowledge base.

In order to promote a transparent implementation of Agenda 2030, the Spanish Government has established a partnership to include "Parlamento 2030" as one of the tools of its Agenda 2030 National Plan. This tool will provide open access to the Spanish Parliament's activity with regard to the implementation of Agenda 2030. It will allow policy makers, civil society and the media to monitor political proposals.

Given that this tool was developed in open source and code, it can easily be replicated and adapted to be implemented in other countries. Indeed, Andorra, Peru, Dominican Republic and Paraguay have made requests to adapt the tool for their national parliaments.

Sources: OECD (2016[53]), *Open Government: The Global Context and the Way Forward*, https://dx.doi.org/10.1787/9789264268104-en; OECD (2016[61]), *The Governance of Inclusive Growth: An Overview of Country Initiatives*, https://dx.doi.org/10.1787/9789264265189-en; OECD (2020[62]), *OECD Toolkit and Case Navigator for Open Government, Case-studies*, https://oecd-opsi.org/case_type/opsi/; Fundación Salvador Soler (n.d.[63]), *Political Watch, Fundación Salvador Soler*, https://politicalwatch.es/?utm_source=ciecode&utm_medium=web&utm_campaign=cambio_identidad.

Overall, while some scattered initiatives, have been developed to strengthen participation and access to information, such as the creation of an Access to Information Law (the *Ley de Acceso a la Información Pública*), El Salvador still has a long road ahead of it when it comes to open government. The country would benefit from taking a more holistic and integrated approach towards open government. The principles of transparency, accountability, integrity and stakeholder participation should become part of every aspect of public governance.

Recommendations for a more modern state in El Salvador

Table 8.5. Recommendations for a more modern state

Recommendations	Detailed recommendations
3.1 Harmonise the civil-service workforce-management strategy.	• Adopt a new Civil Service Law to provide the legal framework required for the effective design and implementation of a civil-service reform, along with a reform of the Labour Code. • Establish an institutional authority with a clear mandate, and with the appropriate resources to set and oversee the national civil-service workforce-management strategy, across the Salvadoran administration. • Harmonise job profiles, functions, terms and employment conditions (for example compensation, contract duration, job security, rights and obligations), across the Salvadoran administration. • Periodically review and update required competencies and skills, based on inputs from civil servants and citizens, in order to keep pace with changing technologies, and with the needs of the society that they serve. • Rely on the recently created ESIAP to develop training programmes to provide civil servants with the skills that they require to perform functions across different institutions of the public administration. • Develop tools for the management of human resources, and systems that allow the monitoring and evaluation of performance. Assess, reward and recognise performance, by developing indicators and criteria for each standardised position. • Strengthen the role, and systematic use, of the Public Employment Portal (http://www.empleospublicos.gob.sv/), in order to ensure that all recruitment processes are transparent, open and based on merit.
3.2 Enhance the use of best practices in regulatory policy.	• Broaden the scope of regulatory policy in El Salvador to cover other key areas that encompass day-to-day formalities and procedures based on life events, which are vital, for instance, to access the health and education systems (birth certificate, ID card, etc.), or to participate in the labour market (e.g. social security/fiscal numbers). • Ensure effective engagement with stakeholders through the implementation of the Consultative Council of the OMR, and by systematically involving stakeholders in earlier stages of the development of subordinate regulations. • Support RIA practice with clear guidance, training programmes, and quality-control mechanisms, in order to raise awareness, and to ensure that RIA is performed homogenously throughout the administration. • Give early consideration in the policy cycle to the performance criteria for ex post evaluation, including whether the objectives of the regulation are clear, what data will be used to measure performance, and the allocation of institutional resources.
3.3 Pursue efforts towards digital transformation.	• Continue efforts towards the design and implementation of projects whose goal is to reduce digital divides, and to ensure connectivity and access across all the territory of El Salvador, including by developing clear business cases in order to sustain the funding, and the focused implementation, of the various digital technology projects in El Salvador. • Strengthen the role of the National Cybersecurity Committee in order to promote inter-ministerial co-ordination and collaboration, and pursue efforts in the implementation of El Salvador's national cybersecurity policy. • Pursue efforts in the unification and integration of all existing platforms (one-stop shops) across the Salvadoran administration into the VUC – the *ventanilla única ciudadana*. • Develop and put in place systems that support the management of change within the public administration. El Salvador could start by working with specific ministries on pilot projects, to give those processes visibility, and to demonstrate the advantages that digital transformation can herald for the public administration and for civil servants.
3.4 Define clear mandates, and develop tools to increase transparency, integrity, accountability, and stakeholder participation.	• Develop a national Open Government Strategy that would provide an umbrella for all open-government initiatives, while also ensuring that they follow similar methodological guidelines, and that they contribute to a shared vision of transparency, integrity, accountability and stakeholder participation. • Identify, and assign with a clear mandate, a unit to take the lead in steering and guiding the design and implementation of a national open-government strategy, as well as promoting the development of a culture of open government across the Salvadoran administration. • Develop co-ordination mechanisms for open government (e.g. an inter-ministerial group, or working groups). • Perform regular independent assessments on the standards and advancements in the implementation of the Law of Access to Public Information, and on the effectiveness of the current institutional arrangements, in order to oversee their implementation. Involve civil society in these evaluations. • Take measures to ensure that citizens and stakeholders are actively involved in all phases of the policy cycle (design, implementation, monitoring, evaluation, etc.), by establishing or strengthening effective information, consultation, and engagement mechanisms.

Box 8.14. An action plan for improving the civil service in El Salvador

As part of the implementation of the MDCR of El Salvador, a public policy workshop entitled "From Analysis to Action: Towards Sound Public Governance in El Salvador" was carried out online on 28 and 29 October 2021. The workshop brought together 55 participants from the public sector, the private sector, civil society, and the international co-operation community. One of the outputs of the workshop was a proposed plan of action to strengthen the civil service in El Salvador.

Table 8.6. Action plan to improve the civil service

Selected recommendations	Actions for implementation	Main actors
Adopt a new Civil Service Law to provide the legal framework required for the effective design and implementation of a reform of the civil service, along with a reform of the Labour Code.	• Create a multi-disciplinary working group. • Revise all labour legislation for the public sector to ensure consistency.	• Presidency of the Republic. • Ministry of Labour. • Ministry of Finance.
Establish an institutional authority with a clear mandate and appropriate resources to set and oversee the national civil service workforce management strategy across the Salvadoran administration.	• Identify international best practice in terms of oversight of human-resource management. • Determine the legal framework and financing that is necessary for the establishment of such an institution (or adapt an existing body). • Provide this body with the necessary mandate to carry out its functions.	• Presidency of the Republic. • Ministry of Labour.
Harmonise job profiles, functions, terms, and employment conditions (for example compensation, contract duration, job security, rights and obligations), across the Salvadoran administration.	• Delegate authority from the Presidency of the Republic to a Secretariat or Ministry in order to co-ordinate the process for the executive branch. • Promote networking among human-resource management units, across central government. • Update job profiles and classifications, and the 2014 job classification manual.	• Presidency of the Republic. • Ministry of Finance. • Human-resource management units across central government.
Periodically review and update required competencies and skills based on inputs from civil servants and citizens, in order to keep pace with changing technologies, and with the needs of the society that they serve.	• Update the dictionary of competencies and complete it by establishing technical competencies in each institution. • Encourage international exchange in order to identify good practices in this domain. • Secure international funding to carry out these activities.	• Presidency of the Republic. • Institution in charge of human-resource management. • Ministry of Finance.
Rely on the recently created ESIAP to develop training programmes in order to provide civil servants with the skills that they require to perform functions across different institutions of the public administration.	• Define curricula in co-operation with universities. • Analyse training programmes in countries that are similar to El Salvador.	• Presidency of the Republic. • Institution in charge of human-resource management. • Ministry of Finance.
Develop tools for the management of human resources and systems that allow monitoring and evaluating performance. Assess, reward, and recognise performance, by developing indicators and criteria for each standardised position.	• Analyse international practice in performance-evaluation systems. • Establish a working mechanism to align government goals and the performance of civil servants. • Explore funding sources. • Carry out a pilot project, focused on one or two ministries, to test the system.	• Presidency of the Republic. • Institution in charge of human-resource management. • Institution in charge of strategic planning. • Ministry of Finance.
Strengthen the role and systematic use of the Public Employment portal (http://www.empleospublicos.gob.sv/) to ensure that all recruitment processes are transparent, open and based on merit.	• Publicise the existence of the portal throughout the administration. • Ensure ongoing maintenance of the website.	• Institution in charge of human-resource management.

Box 8.15. An action plan for transparency and open government in El Salvador

The outputs of the public policy workshop "From Analysis to Action: Towards sound public governance in El Salvador" (held in October 2021) also included a proposed action plan to strengthen transparency and open government in El Salvador.

Table 8.7. Action plan for transparency and open government

Selected recommendations	Actions for implementation	Main actors
Develop a national Open Government Strategy that would provide an umbrella for all open-government initiatives, while ensuring that they follow similar methodological guidelines, and that they contribute to a shared vision of transparency, integrity, accountability, and stakeholder participation.	• Conduct stakeholder mapping, in order to make the design of the strategy as inclusive as possible. • Establish a working group that involves all stakeholders. • Establish a timeline, and clear criteria, for the design of the strategy. • Agree on a definition, and criteria, for transparency, citizen participation,] and integrity, for all sectors of government. • Determine key aspects to be discussed in the elaboration of the strategy, such as: ○ Digital processes, such as digital signature, to validate data before it is published ○ Internet connectivity, to ensure free access to electronic processes ○ Institutional and legal framework regarding access to information/transparency.	• Government. • Academia. • Civil Society. • Private sector. • Trade associations • Municipalities and local government. • Local media. • NGOs and international co-operation entities. • Informal sector.
Identify a unit and assign it with a clear mandate to take the lead in steering and guiding the design and implementation of a national open-government strategy, as well as promoting the development of a culture of open government across the Salvadoran administration.	• Establish a dialogue with stakeholders in order to develop the strategy, as well as mapping out the transparency needs of different sectors of the population, and the legal framework. • Define the unit's agenda, with the participation of all sectors. • Design a process to monitor open-government actions. • Build partnerships with information providers, the media, organisations that promote transparency, and international organisations. Be aware of international organisations' assessments. • Make sure that this unit leads co-creation projects, and that it creates an innovation lab to design concrete measures.	• Presidency of the Republic.
Develop co-ordination mechanisms for open government (e.g. an inter-ministerial group, or working groups).	• Establish guidelines for this mechanism, making it as bureaucratically light as possible, so that quorum is not a problem, and ministers only need to meet once • Establish procedures so that technical meetings can be more frequent (once a month), and that reports are sent to ministers. • Determine clearly who will take part, with ministers and heads of agencies agreeing on actions, and prioritising, twice a year. • Develop a manual with guidelines on when to do what, and stipulations for quorum, workplans, codes of conduct, among other elements.	• Presidency of the Republic. • Institution in charge of co-ordinating open-government policy. • Bodies in charge of evaluation in El Salvador.
Perform regular independent assessments on the standards and advancements in the implementation of the Law of Access to Public Information, and on the effectiveness of the current institutional arrangements, in order to oversee their implementations. Involve civil society in these evaluations.	• Set up an evaluation plan, determining what is to be evaluated, the frequency, and the methodology. • Establish clear rules to commission evaluations. • Plan and carry out necessary actions to obtain financing for the implementation of evaluations.	• Presidency of the Republic. • Institution in charge of co-ordinating open-government policy. • Bodies in charge of evaluation in El Salvador.
Take measures to ensure that citizens and stakeholders are actively involved in all phases of the policy-cycle (design, implementation, monitoring, evaluation, etc.), by establishing, or strengthening, effective information, consultation, and engagement mechanisms.	• Conduct an awareness-raising campaign, to disseminate and explain the concept of open government, its benefits, and outcomes. • Establish simple participation mechanisms, with a proactive approach to ensuring the participation of the most vulnerable sectors. • Emphasise transparency in the school curriculum. • Develop a strategy that includes user-friendly technical solutions and tools for participation.	• Institution in charge of co-ordinating open-government policy.

Notes

[1] Until February 2022, these functions were fulfilled by the Legal Secretariat.

[2] https://www.plancuscatlan.com/home.php.

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OECD Development Pathways

Multi-dimensional Review of El Salvador

STRATEGIC PRIORITIES FOR ROBUST, INCLUSIVE AND SUSTAINABLE DEVELOPMENT

El Salvador has made significant development progress in the past 30 years. The end of the civil war in 1992 marked the establishment of a liberal democracy and an open export-led development model, which led to a reduction in poverty and inequality. However, with economic growth averaging a modest 2.4% in the years before the COVID-19 pandemic, and productivity growth of 0.1% over the past decade, the post-war model has not generated the economic momentum or the jobs that the country needs. Decisive action is necessary to kickstart more robust, inclusive and sustainable development. Based on a multi-dimensional analysis of development in El Salvador, this report makes four priority recommendations: 1) build the conditions for a productive transformation and modernisation of the economy; 2) increase the quantity, quality and relevance of education; 3) manage water resources better to deliver water and sanitation for all in a sustainable manner; and 4) modernise the State so it can effectively deliver key public goods, from security to education to health, and successfully steer the next stage in the country's development.

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