

ANNEX

EUROPEAN COMMISSION

**Mid Term Review of the Country Strategy of 2007-2013 and
National Indicative Programme 2011-2013**

EL SALVADOR

List of Acronyms

AAP	Annual Action Plan
AECID	Spanish International Cooperation Agency (Agencia Española de Cooperación Internacional para el Desarrollo)
ALBA	Bolivarian Alternative for the Americas (Alternativa Bolivariana para las Américas)
APREMAT	Apoyo a la Reforma Educativa de la Educación Media en el Area Técnica (EC Project)
ARENA	Nationalist Republic Alliance (Alianza Republicana Nacionalista)
CA	Central America
CAFTA	Central-American Free Trade Agreement
CSP	Country Strategy Paper
CONADES	National Council on Local Development
EC	European Commission
EU	European Union
FISDL	Social Investment Fund for Local Development
FMLN	Farabundo Martí National Liberation Front (Frente Farabundo Martí para la Liberación Nacional)
FOMYPE	Strengthening the Competitivity of SMEs (Fortalecimiento de la Competitividad de las Micro y Pequeñas Empresas)
FORGAES	Strengthening of Environment Management in El Salvador (Fortalecimiento de la Gestión Ambiental en El Salvador)
FOSALUD	Solidarity Fund for Health (Fondo Solidario para la Salud)
GDP	Gross Domestic Product
GSP	General System of Preferences
GTZ	German Technical Cooperation (Deutsche Gesellschaft für Technische Zusammenarbeit)
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ILO	International Labour Organisation
JICA	Japan International Cooperation Agency
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
MINED	Ministry of Education
MODES	Movimiento de ONGs de Desarrollo Solidario
MTR	Mid-Term Review
NGO	Non-Government Organization
NIP	National Indicative Programme
NSA	Non-State Actor

PAREES	Economic Recovery Program for El Salvador
PAPES	Poverty relief programme for El Salvador
PDC	Christian Democratic Party (Partido Demócrata Cristiano)
PCN	National Reconciliation Party (Partido de Conciliación Nacional)
PEFA	Public Expenditure and Financial Accountability
PROARES	Reconstruction Support Programme El Salvador (Programa de Apoyo a la Reconstrucción en El Salvador)
RECODEL	Donor Network on Local Development
SICA	Central American Integration Secretariat
SMEs	Small and medium-sized enterprises
UNDP	United Nations Development Programme
USA	United States of America
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

El Salvador is going through significant political changes following the election of the first FLMN government led by Mauricio Funes, slowly moving away from a post-conflict stage, consolidating democracy in a highly polarised society. The political changes are creating a new impetus for the country development agenda now focusing more on the most crucial **social issues**. The situation of the majority of these issues such as a fragile rule of law, weak institutions, widespread poverty, lack of basic social services and deep income inequality, under- and unemployment, corruption, violence and crime, has not improved during the last few years. El Salvador has made only limited progress during the last few years to reach Millennium Development Goals as most of crucial social issues have not been adequately treated during the post civil-war period. Unless well-designed social policies integrated with the economic development strategy of the country are implemented El Salvador is unlikely to reach the MDGs by 2015. In addition, the country has to face aggravating environmental problems, greater vulnerability to natural disasters and several energy issues to be solved.

The successful implementation of these reforms depends greatly on the availability of financial resources. Although El Salvador had several years of relatively stable economic growth, the economy is now severely affected by the **global economic and financial crisis**, which resulted in significant drop of investment, production, consumption, export, thus, considerable reduction of government revenues. Therefore public revenue generation has become a key priority for El Salvador. The new government has already started to take the necessary measures in order to reform public finances to accompany the planned social reforms in the framework of the *Anti-Crisis Plan* that has laid down the basis of the *National Development Plan* ready in the first trimester of 2010. In addition to preparing new social policies which aim at targeting urban poor (*Urban Solidarity Community Programme*), providing better access to basic social services, integral approach to deal with crime and policies to revitalise the economy and generate employment that bring wider social benefits, these government strategies will guarantee and expand the existing programmes such as the *Solidarity Network Programme* and the *National Education Plans (2021 and 2009-2014)*

This is creating a stable framework for donors to align their assistance with the government policies, initiate joint programming, thus improving **aid effectiveness** which is becoming a priority on the agenda of the government in order to make better use of the international cooperation, especially under the worsening economic and financing conditions. In addition to this, the willingness of the government to implement policies based on wider social consensus creates opportunity not only to donors but also for a more active involvement of the civil society as well as local governments.

Given these circumstances, the EU cooperation could play a more important role in support of the development policy, improving our **cooperation performance**, which is not easy to evaluate for the period of 2007-2009 as the implementation of the programmes and projects of **NIP1** has just started or about to start. Nevertheless, the analysis of the current political, economic and social conditions confirms the validity of our actions (support to education and human security in Sector 1: Social Cohesion and Human Security Sector and support of national quality system and fiscal reform in Sector 2: Economic Growth, Regional Integration) that they correspond to the most important needs of the country's development agenda. There are good perspectives on meeting the objectives and the expected results. However, aid effectiveness, especially donor coordination has to improve by both the donors

and the government and improving fiscal and monetary policies will be important for successfully absorbing the budget support aid modality. The performance of the institutions involved in the implementation of state policies and international cooperation will be crucial factors for accelerating the execution of our actions.

For the implementation of the National Indicative Programme 2011-2013 €48.4 millions are allocated. As foreseen originally in the CSP all funds of NIP2 are destined to the **sector of Social Cohesion and Human Security** and there will be no new funds allocated for the second priority **sector of Economic Growth, Regional Integration and Trade**. However, this sector will remain important as most of the activities of this sector launched during NIP1 will be implemented during this period. The main objective of our sectoral intervention is to support the *Urban and Rural Solidarity Community Programmes* in order to facilitate the social inclusion of life of people living in poverty through a better provision of basic social services, the improvement of their labour capacities and employment opportunities, and to contribute to the prevention of social violence in marginal areas. In addition, resources under this sector might as well be directed towards mitigation of the impact of the latest natural disaster and prevention measures as will be proposed by the government in the "*Reconstruction Plan*". A small project of 1 million euro in form of technical assistance in **support of the electoral reform** would strengthen the social inclusion of a greater part of the society through the introduction of the residential vote.

El Salvador Cooperation during the CSP 2007-2013 (million euros)

Sector	Programme	NIP 1 (2007-2011)						NIP 2 (2011-2013)		
		2007	2008	2009	2010	Total	%	Programme	Budget	%
SECTOR 1: Fostering Social Cohesion and Human Security	Strengthening Social Cohesion in the Educational Sector (Pro-EDUCA)	0	0	25.00	0	25.00	35%	Support to Urban and Rural Anti-Poverty-Programmes	47.40	98%
	Prevention of Crime and Violence with the participation of Youth (PROJOVENES II)	0	0	11.30	0	11.30	15%			
								Support to the Electoral Reform	1.00	2%
Total Sector 1:				36.30	0	36.30	50%		48.40	100%
SECTOR 2: Economic Growth, Regional Integration and Trade	Support to the National Quality System (Pro-CALIDAD)	0	0	12.10	0	12.10	17%		0	0%
	Economic Recovery Program for El Salvador (PAREES)	0	0	0	24.20	24.20	33%			
Total Sector 2:		0	0	12.10	0	36.30	50%		0	0%
TOTAL CSP		0	0	48.40	24.20	72.60	100%		48.40	100%

I. MID-TERM REVIEW

1. Analysis of the main political, economic, social and environmental developments in the Country

1.1. Political Situation

Salvadoran politics during the last few years have been characterized by a **high degree of polarization** between the two dominant political forces, ARENA and FMLN, which has culminated in an extremely long election campaign from 2007 to early 2009. This resulted in a significant slowdown of the progress in democratization, decentralisation, improvement of transparency in public affairs, fight against corruption and poverty, and delay of the required social and economic reforms and the necessary modernization and governance.

After 20 years of ARENA rule, following the elections of Mauricio Funes, presidential candidate of the FMLN, on March 15, 2009, for the first time the left has the opportunity to govern the country. This is not only a significant change in the history of the country¹, it also indicates the consolidation of democracy and a move away from a post-conflict stage. The newly-elected president underlined national reconciliation and the importance of a social pact, assured small, medium and large business owners that he understood the need to have a vibrant economy and a government which was respectful of contract/property rights. At the same time, he indicated that his administration would act with a "preferential option for the poor" and expand public services. However, he will have to face serious challenges ranging from the weakening economy affected by the global crisis to violent crime. The support inside and outside FMLN is certainly crucial for his government to address and solve the most growing social and economic problems of the country. As FMLN does not have a legislative majority in the Congress², Funes has to rely on the votes of ARENA or other right parties, PCN and PDC, to secure the necessary legislative approval for several key decisions, in order to implement the promised social reforms. The lack of a FMLN majority Congress is likely to make legislation slow, and could create significant difficulties for President Funes to deliver on his campaign promises, therefore the government will probably have to deal with growing frustration among its constituents.

1.2. Economic developments

After several years of relatively stable economic growth, the Salvadoran economy has been severely affected by the **global economic and financial crisis** which poses a great challenge for the government. In 2009 the GDP has fallen by 2,4% as opposed to the 4,6% growth in 2007, and 2,6% in 2008 as the preferential access to US market through CAFTA cannot

¹ The elections were observed by the mission financed by the European Commission, providing valuable support to strengthening democracy in the country. Further support in liaison with other donors (UNDP) to the democratisation of the country especially to implement recommendations of this EU EOM, in line with the usual practice for the follow-up of this kind of missions is highly recommended.

² FMLN has only 35 seats in the National Assembly of 84 representatives, while the right parties such as ARENA, PNC and PDC have 32, 10 and 5 seats respectively. Only recently 13 ARENA dissidents split from the ARENA fraction; there is one independent expelled from the PCN.

cushion the falling demand for the goods of the *maquila* industry³. Economic growth has been negatively affected by the decreasing foreign direct investment⁴, drying up of accessible credit facilities, the fall of building industry output, and the lowering consumption due to the rising unemployment and the significant fall in the remittances⁵ and tax revenues. Although imports have contracted by almost 30% due to the falling oil prices, this has not been able to offset the fall of exports. As a result, the fiscal deficit has increased from 3.6% in 2008 to 5.4% in 2009 and can reach over 5% at the end of 2009, due to the increased spending of both the previous and the new government. For the latter increased liquidity is crucial to be able to meet at least some of its campaign pledges. Trade and economic recovery is expected only in 2010 depending very much on the performance of the US economy and to some extent also, on the programme that the new government is going to implement.

Shortly after the inauguration of President Funes on 1 June 2009, the government already presented its *Anti-Crisis Plan* of 587.4 million USD. The plan primarily focuses on softening the social effect of the economic crisis through a temporary employment programme, expanding social services, creating a new social development bank, providing loans to micro and small enterprises, and investing in public infrastructure. However, it also intends to address the strengthening of public finances, **fiscal reform**, income generation, rationalization of public spending and the generation of employment, universal social security, some public security measures and the development policy of the country. The *Anti-Crisis Plan* paves the way to the 5 year *National Development Plan*, which is to be presented early 2010. In the wake of the natural disaster of 8th November 2009 (Hurricane Ida) which left 198 dead, more than 14.000 evacuees as well as the devastation of houses and infrastructure in the affected municipalities of five departments, the government announced that a new "*Reconstruction Plan*" would have to be integrated as a new pillar in the *National Development Plan*. To implement both plans the government definitively needs additional funds due to the difficult fiscal situation. The previous government had already injected funds into the economy, using the 950 million USD loan granted by World Bank and IDB in late 2008, but further funds are likely to be needed and negotiations are underway with the international financial institutions. Contribution from the international donor community is also considered an important source of financing. Access to loans, however, will require rather strong fiscal discipline and reforming **public finances**. Broadening the tax base, tightening tax loopholes as well as strengthening tax collection will be needed to avoid a further increase of the fiscal deficit. In addition, subsidies have started to be focused, targeting only those social groups who really need them.

The government will have very limited room for manoeuvring with **monetary policy** in a fully dollarized economy, as interest rates and money supply are in the hands of the commercial banks currently owned by foreigners. This situation, however, can provide an incentive to the fiscal reforms. The increase of domestic interest rates has been already reflecting tighter credit conditions and the government has been soaking up liquidity available in the domestic market to the detriment of the private sector. Stricter borrowing conditions would also affect consumer spending which has already been decreasing due to increasing unemployment. Nevertheless credit conditions might ease in the second half of 2009. Inflation which peaked at 9,9% in August 2008 due mainly to the high oil and food prices, has dropped below zero as a result of the decrease of the price of these commodities, the weakening domestic demand and the fact that there is no devaluation risk in El Salvador. Also, there is

³ The increase of the export to the US in 2006 was 16%, in 2007 7.5% and in 2008 6.5%.

⁴ The decrease was about 40%.

⁵ Remittances are projected to fall by about 10 percent in 2009 compared to the 2,5% increase from 2007 to 2008.

little risk that the dollarization, adopted in 2001 and accepted across the political spectrum, will come under threat in the near future.

Although dependency of El Salvador on the USA will definitively not change in the short run⁶, El Salvador is diversifying **foreign relations**. El Salvador has withdrawn its troops from Iraq and its rather anti-communist stance is changing. Brazil is being considered now as the main partner in Latin America. Diplomatic relations have been established with Cuba, however, it seems that El Salvador will maintain a rather pragmatic relationship with the ALBA countries, so it can have access to new markets and to reduce its energy dependency. El Salvador has been one of the strongest supporters of the **Central American integration** and it has signed a Customs Union Agreement with Guatemala and Honduras to push forward the rather sluggish regional integration. The country is one of the most important supporters of the ongoing negotiations for the **Association Agreement with Europe** and it has been benefiting from the **GSP+**. Regional integration and the EU-Central American Association Agreement could create a framework for important fields of cooperation such as regional integration, social development, migration, security, democracy and government.

1.3. Social Developments

Although El Salvador initiated certain social programmes such as *Solidarity Network (Red Solidaria)* in the framework of the *Safe Country Strategy 2004–2009* there **has not been real progress in the social development**. The **absolute poverty and poverty** rates have dropped until 2007, later they started to rise from 35.1% to almost its 2004 level of 41.7% in 2008 as a result of the growing food and fuel prices and from late 2008 due to the decline in remittances. Food prices increased over 25% and the cost of food, represented in the expenditure of Salvadorans households, increased from 22% to over 30%. According to the World Food Programme, more than 100,000 people in this country of 5.8 million slipped below the poverty line between September 2007 and June 2008⁷. The increase of poverty has been especially worrying among the rural population as the increase was 8%, from 35.8 to 43.8%, between 2006 and 2007 according to the statistics of the Ministry of Economy. In urban areas the extreme poverty is around 7.9% while in rural areas around 16.3%. The current economic crisis has affected not only the poorest but also the thin middle class. It has especially hit hard young people. While at national level, 6.6% of the working population lack any job at all, the **unemployment** rate is 12.4% among the youth. As regards **underemployment** defined as lack of work sufficient to sustain a dignified life, the rate jumps to 50% among the general population and 62.4% among the youth according to the UNDP. It is also estimated by the UNDP that only 20% of the economically active population has well-paid permanent jobs, covered with all social benefits. Flexibilisation of the labour market over the years has led to creation low-productivity jobs, loss of purchasing power of salaries and deterioration of labour conditions. **Child labour** is still a great concern as about 170 000 children between 5 and 17 are engaged in some income-generating activity. Despite being a signatory of most ILO Conventions (a requisite to benefit from the GSP+), the implementation of the conventions aimed at improving employment conditions have been very weak in El Salvador. **Living and social conditions** for a large part of the population have not improved significantly. 30.4% of Salvadoran homes use firewood to cook, 22.8% of

⁶ The US is the most important **trade** partner, as 51% of its export goes and 34% of its import comes from to this country and 2.9 millions of Salvadorans working there are the main source of remittances transferring home an equivalent of 17 percent of GDP of the country.

⁷ World Food Programme study "[Alza de precios, mercados e inseguridad alimentaria y nutricional en Centroamérica](#)" (Price Rises, Markets and Food and Nutritional Security in Central America),

homes are without residential water service, and 11.6% have no electricity. According to Habitat for Humanity of El Salvador, the country has a housing deficit of some 360,000 dwellings. According to the Third Height Census, chronic **malnutrition** rate is at 15.5% for students aged between 6-9 years, only a slight, 4% improvement compared to the 2000 census. The average number of **school** years completed in El Salvador is still rather low at 7.9 years and still 13.9% of the population is **illiterate** although the *National Education Plan 2021* initiated in 2004 by the previous government meant to achieve significant improvements.

Rising unemployment and unimproved living conditions are the main reasons that around 3 millions Salvadorians have decided to leave the country; the **crime rate** is at an all-time high and the rapidly **growing drug trade** is even threatening the bases of state institutions. Murder rates have increased from 11 murders a day from 2005 to around 16 cases in mid-2009⁸, the worst in Central and Latin America. About 60% of homicides are committed by the gangs, called *maras*, which are now also involved in organised crime. Repressive anti-crime policies, called *mano dura* (“hard fist”) and *super mano dura*, failed to improve the situation. The **violence and insecurity** has become the main factor for deterring foreign investment in the country and is still estimated to cost over 11% of the GDP. **Political violence** related to the long electoral campaign has lessened after the elections and the **human rights** situation is expected to improve. The new government has shown a positive attitude towards the ratification of the Statute of Rome regarding the International Criminal Court.

1.4. Environmental developments and energy issues

One of the main challenges facing El Salvador has been how the country could pursue a sustainable development strategy that focuses on the protection of natural resources without harming economic competitiveness or deterring national and foreign investment. During the last few years, **environmental problems have further aggravated** due to the impact of the relatively high recent economic growth as well as the growing population density which is the highest in Central America.

The **deforestation** is one of the most serious problems as only less than 2% of the original forest cover remains. The impact of plantation agriculture, urban sprawl, and poverty has further reduced the natural protection to soil and wildlife provided by trees. **Water contamination** and **water shortage** is especially worrying in the San Salvador metropolitan area, threatening human consumption and productive activities as well as generating conflicts among users. **Mining activities** has contributed significantly to the deterioration of the environment, especially ruining scarce water resources. The problem of dealing with solid **waste and landfills** is challenging due to the high population density, creating also conflicts in local communities and with environmentalists. **Air pollution** remains a serious health issue in San Salvador. The continuous degradation of natural resources has led to **worsening living conditions** for a significant part of the population. Different investigations suggest that in El Salvador many diseases are linked to the deteriorating environmental quality, especially the unavailability of safe drinking water. The negative impact of climate change and the increased environmental vulnerability have worsened the food security problems of the country expressed not only by the rise of poverty but also by the situation of child malnutrition. This is especially worrying as the country is a net food importer, also a result of the privatisation schemes that resulted in diverting the country’s production to export commodities.

⁸ El Salvador has now the second highest murder rate after Iraq.

El Salvador is also vulnerable to **natural disasters** which challenge its response capacity and capability⁹. While hurricanes are affecting it less than its neighbours, floods and earthquakes are serious problems. Heavy rains which led to floods and mudslides in November 2009 caused serious damage in five departments and the government had to declare national emergency. This indicates that the country has very limited mitigation and disaster prevention capacity as little investment has been made in this field although El Salvador has developed **specific policies and strategies for environmental risk management for various areas**. **The legal and institutional framework** for environmental protection developed since late 1990s, provides a still incomplete basis for developing effective environmental policies. It lacks sufficient detail for effective implementation, and there are overlaps or contradictions with other policies, especially those related to economic activities and coordination among key players should be still improved. **Environmental priorities** were included to some extent in the *Safe Country Strategy* focusing on three areas including 1. Conservation of Natural Resources ; 2. Integrated Management of Water Resources; 3. Integrated Management of Solid Wastes. El Salvador has signed 11 **International Conventions**, including the Rio Conventions, and five Regional Agreements on Environment which define the legal and technical frameworks for the implementation of relevant thematic actions, on a local, regional and global level.

Environmental challenges have been closely linked to **energy issues**. El Salvador has to import all of its fossil fuel needs, mainly petroleum for electricity generation, for the industry as well as for the transportation sector. Therefore, the diversification of the country's energy matrix to reduce **dependence** on fossil fuel, with an **emphasis on renewable energy**, has become a focal point of its energy strategy. As regards the future of **energy security**, the previous government already laid the groundwork for the next administration by advancing a project portfolio that includes hydro plants to increase capacity. In addition, initiatives to further develop geothermal generation are underway. According to President Funes, the development and the diversification of El Salvador's energy sector are priorities.

2. New EC/EU policy objectives and commitments

2.1. Relevance of new EC/EU policy objectives

El Salvador is receiving €21 million for cooperation in the current CSP period. The EU cooperation strategy has been conceived and implemented in line with the EU policy objectives, considering especially the commitments adopted in the **2008 Lima Declaration**, such as the eradication of poverty, inequality and exclusion, sustainable development, food security, environment, climate change and energy, trade, regional integration and migration. Mitigation of the impact of the current crisis and support to recover from it has also been an objective of EC/EU policy. As the analysis of the previous chapter indicates, all these policy objectives are more and more relevant for El Salvador. Several issues such as drugs, climate change, migration, which are assumed to be better dealt with at regional level, are and will be the focus of CA regional programmes and projects and will be later incorporated under the three components of the EU-CA Association Agreement: political dialogue, cooperation and trade. Nevertheless, these issues will be integrated also into actions of the current CSP as **cross-cutting issues**: 1. human rights, democracy and good governance, gender and youth issues, and environmental sustainability as regards the priority area of Social Cohesion and

⁹ The World Bank estimates that 90 percent of the population lives in areas at high relative risk of death from two or more natural hazards.

Human Security. 2. environmental and energy aspects also formed part of the activities envisaged in the context of the NIP 1 in the priority area Economic Growth, Regional Integration and Trade.

2.2. Aid effectiveness agenda

During the last few years El Salvador has made only a limited progress towards the improvement of aid effectiveness, which was not very high on the agenda of the government. However, the new government has a commitment to apply the spirit of the *Paris Declaration* which was ratified in April 2009. Although UNDP was mandated by the previous government to initiate **donor coordination** in form of **sector tables** (*mesas de donantes*) corresponding to the MDGs, the previous Salvadorian government preferred bilateral negotiations with each donor and the meetings of the sector tables held every six months did not substantially help to focus coordination. Meetings between donors and the government remained mostly informative and did not develop into a proper forum for debating policies. In addition, donors have been rather unwilling to have **joint programming**, even if most donors have tried to align their aid to the few policies of the government of El Salvador such as *Solidarity Net* and the *National Education Plan 2021*. Most of them focused their efforts on the same sectors while certain sectors lack funds. Therefore, the impact of their actions has been less strong. In this context, coordination of EU actions with **Member States and their agencies** did not progress much further than informing them about the programmes and projects of the CSP 2007-2013. No *Code of Conduct* has been signed by donors in the past. But one significant example of donor coordination has been the *El Salvador Budget Support Group*, which with the participation of the World Bank, IDB, AECID and the Commission, jointly conducted the *PEFA* assessment, financed by the European Commission in the first quarter of 2009. Also, the signature of a Memorandum of Understanding by a group of donors (AECID, GTZ, COM, ILO, Swisscontact) as regards employment, and a similar initiative under discussion in the donor Network on Local Development (RECODEL) are encouraging steps.

The **entry of the new government in June 2009, definitely created an opportunity** to increase its ownership of international cooperation and for the donors to improve cooperation with the government, as well as to involve the civil society in policy making. The new government has already demonstrated a new openness towards international cooperation and a strong willingness to assume more ownership and to discuss and align the programmes with donors. In addition, it has set up an *Economic and Social Council* to involve all sectors of the society (civil society, representatives of employees and entrepreneurs) in the definition of both the economic and social policy of the country. **Joint programming and coordination needs to be further improved and** shall be increased. Better donor coordination and joint programming has already been strongly promoted by the European Commission through its Delegation in San Salvador which now takes full responsibilities for the implementation of EU cooperation in the country. With a view to the establishment of the new *Vice-Ministry for Development Cooperation* within the *Ministry of Foreign Affairs* which was welcomed by the Delegation and EU Member States as a step towards the strengthening of the weak institutional coordination mechanism of the government, the Delegation proposed to establish a single contact point in the government for managing cooperation and coordinating with donors. However, donors should show more willingness to go ahead aligning their programmes instead of seeking out individual advantages with the government. Also, it remains to be confirmed if the government will be able to avoid frictions in its own team and also if donor coordination could be structured by the government without overlapping of responsibility by several competent authorities such as the *Ministry of Foreign Affairs*, the *Technical Secretariat of the Presidency* and a new *Secretariat on Strategic Affairs*.

2.3. Non-State Actors (NSA), Local Authorities (LA) and National Parliaments

Civil society has played an active role in El Salvador, especially since the end of the civil war. However, its involvement in cooperation with the government has been limited, and even more limited in the shaping of the government policy due to the lack of willingness of the previous government to implement its policies with wider consensus. Nevertheless, the civil society has been regularly consulted by the EU Delegation regarding thematic projects, and on actions of the current CSP. Our Delegation in San Salvador has been advocating a “*Quadriologue model*” involving the government and its institutions (including autonomous and local authorities), civil society (in particular Non-State Actors) and interested Members of the Legislative Assembly. The first such forum took place in November 2008, a second one was on November 25, 2009. The initiative was considered innovative by participants and by October 2009 has led to efforts by Development NGOs to establish a national platform (MODES) supported by the *Vice-Ministry of Development Cooperation*. **Local authorities** have also been involved in the preparation of projects such as *PROJOVENES II*. The role of local authorities could be substantially strengthened by the *Secretariat on Strategic Affairs*, which has been established in order to coordinate the strategic issues related to decentralisation, local development and territorial aspects. A consultative National Council on Local Development (CONADES) consisting of mayors and governors was established. Contacts with the **Legislative Assembly**, in particular its Commission on External Relations, Regional Integration and Salvadorans Abroad, were established on several occasions and the CSP activities were presented. In particular, with a view to the adoption of the Draft National Quality Law to be introduced by the government in the context of the sector budget support programme *PROCALIDAD*, further contacts with the Commission on Economy and fractions will continue to be sought.

2.4. Aid modalities

Budget support has been given a greater importance during the last few years in the aid effectiveness agenda. Contrary to neighbouring countries, budget support has been used successfully in El Salvador. While during the last CSP only one programme, *PAPES*, was implemented under this modality, the actions of NIP 1, with the exception of *PROJOVENES II*, will all be budget support. The same will be envisaged for the NIP 2. The success of the budget support modality has been and will be facilitated by **well articulated policies** of both the previous and the new government. For *PAPES* it was the *Solidarity Network Programme* where the government took strong leadership. The programme was well designed through the effective coordination between several national institutions and the selection of beneficiaries took place in a transparent manner. The efficiency gains for both time and cost, promotion of harmonisation of procedures (accounting, audit, management, reporting), realised in *PAPES*, could further contribute to the use of this modality. The project also contributed to the enhancement of the management capacity at ministerial level. In addition, **macroeconomic performance, fiscal and monetary policies** in El Salvador have improved and have been a lot more stable than in the neighbouring Nicaragua and Honduras until the advent of the global economic and financial crisis. In the *PEFA exercise* on public finance management carried out during the first semester of 2009 El Salvador obtained rather positive results. It is expected that the new government will follow a prudent fiscal policy which is also necessary to obtain resources from the international financing institutions in order to implement the necessary reforms, thus contributing to the continuation of the budget support modality.

Regarding the use of the **project approach** several difficulties have been experienced such as the application of procedures, lack of capacities of the beneficiary, frequent delay with the implementation and, therefore, reduced implementation time and disbursement problems, which affected the results. This has started to be overcome by training of government officials on the new Devis Program mechanism and a near follow-up and support to project implementation. In any case, the number of classic projects has been reduced to only one (PROJOVENES II).

3. Results, Performance and Lessons Learnt

3.1. Country Performance

El Salvador is rated 106th regarding human development index, 2 places lower than in 2007. Considering the social development during the last few years, at the moment, it is unlikely that El Salvador could achieve most of the eight *Millennium Development Goals* (MDGs). Only equality and empowerment of women seems to be on good track, while achieving universal primary education, reducing child mortality and improving maternal health requires changes of the policy implementation of targets to be achieved by 2015. Regarding the eradication of extreme poverty and hunger, combating HIV/AIDS, malaria and other diseases, environmental sustainability and global partnership, it is difficult to judge whether and how these goals could be achieved, especially because UNDP has insufficient information based on the national Government reporting. At the moment, there is no national system to measure the development of the country and the fulfilment of the MDGs.

Although the country does not have a national strategy based on the MDGs, the previous government designed and implemented a few specific programmes in the framework of the *Safe Country* national strategy for 2004-2009, to meet different goals directly related to the MDGs¹⁰. The key programmes of this strategy have been 1.) *Solidarity Network*, launched in 2004, which has sought to provide relief to families living in extreme poverty in rural areas, and 2.) *National Education Plan 2021* that sets the modernization of the education as a long-term goal. These programmes have only brought limited results, as indicated previously, although demonstrated strong ownership by the government and willingness to concentrate actions in reaching the development objective of fighting poverty in the poorest municipalities. It is also welcomed that both strategies are going to be continued and used as a basis by the new government. Nevertheless, several problems were not adequately addressed such as health, water and sanitation (*Law on Water* was prepared but it is still blocked at political level), nutrition, housing, rights to basic services, especially in case of urban poor, as well as the fight against crime that requires further coordinated actions. The *Presidential Youth Programme* aimed at social integration of youth by increasing economic opportunities was hardly implemented. Fight against crime, supported by the *Law against Organised Crime*, approved in late 2006, the establishment of a *Ministry of Public Security and Justice* to coordinate the fight against crime, and the launch of the *National Commission for Citizen Security and Social Peace*, has not brought positive results as the repressive policy of *mano dura* and *super mano dura* actually resulted in more violence from the *maras*. Public policy as regards the micro, small and medium enterprises only exists since 2007. Public policy on decentralisation and environment has not been a priority.

¹⁰ UNDP has prepared the Teachers Manual: Learning about Human Development and the MDGs, to provide teachers with a general support tool for the different subjects taught in primary school.

To overcome these deficiencies and achieve certain progress on meeting the MDGs, a national consensus on structural reforms is required. The new government has already started to work in order to address these problems in its *Anti-crisis Plan*, providing a better strategic framework for a more comprehensive *5 year National Development Plan*, to be presented in early 2010, aiming at achieving some MDGs and harmonising them with its economic policy and institutional reforms.

3.2. Cooperation Performance: Evaluation of the implementation of NIP 2007-2010

For the first National Indicative Programme (NIP 1) €72.6 million were earmarked, of which €36.3 million were allocated for the priority area of Social Cohesion and Human Security and €36.3 million for the priority area of Economic Growth, Regional Integration and Trade. The start of the implementation of the projects and programmes in both sectors has suffered delays due to the late signature of the Memorandum of Understanding in October 2007, the prolonged election period and the change of government in June 2009. The Financing Agreement for **PROJOVENES II** was signed in August 2009 and for **PRO-EDUCA** in late November 2009. For both Programs, the implementation has speed up so far and execution of NIP1 should not suffer new delays.

As regards the area of Economic Growth, Regional Integration and Trade the initialisation of **PROCALIDAD** sector support programme has been delayed as the *Draft National Quality Law* has still not been presented to Parliament. Its adoption a necessary requirement for launching the programme and making a first disbursement was not possible at the end of 2009 putting the **PROCALIDAD** programme at risk. This law should establish the institutional framework of the *National Quality System*. The identification of another possibly budget support programme, the **Economic Recovery Program for El Salvador (PAREES)**, for the remaining €24.2 million of the NIP 1 in the second priority area is ongoing and remains dependent on the preparation of the *National Development Plan* that should specify the details of the fiscal reforms the programme aims to support. Despite the delays in the implementation of these activities in the two focal sectors, their preparation as well as the implementation of the previous EC programmes and projects provides some useful lessons.

3.2.1. Priority Sector 1: Strengthening Social Cohesion and Human Security

In the **education sector** the EC already implemented the **APREMAT** project 25.4 M€(1999-2005) which was aimed at improving the quality of the secondary technical education, through training, equipment, educative infrastructure and specialization of teachers. The project has been a recognised contribution of the EC to the improvement of the educational sector. Nevertheless, a replication of the 22 successful centres established during this project has not taken place, due to lack of follow-up to the project results and shortage of financial resources. As a positive result of this project technical education is more in line with the demand of the business sector and a methodology of skill-based syllabus has been introduced. **PROEDUCA** (€25 million) is expected to bring new positive results to contribute to reach the MDGs in the field of access to education, and also regarding the link between education and technology, as well as their strong impact on social cohesion. Especially, it intends to further increase the competitiveness of youth at the Secondary Education level, through the development of competencies in the use of information and communication technologies in accordance with the productive needs of the country. **PROEDUCA** intends to increase aid effectiveness through institutional strengthening of different areas of MINED (mainly related to secondary education) and the consolidation of operational capacities to implement the

Educational Plan 2021 and the five-year Program of the new government, as well. This Programme is likely to become a good example of how sector budget support programme could be successful as there are several key conditions given, especially that the *National Education Plan 2021* provides a long term strategy for the sector¹¹ and indicates a strong commitment by the government. The Plan was formulated through rather extensive consultation of the national education community led by the Ministry of Education (MINED) since 2005. The synergies created also through a thematic table, have been generating a space to articulate coordinated technical assistance and the use of financial resources to support El Salvador's education agenda by various key donors such as UNDP, World Bank, IADB, USAID/MCC, Japan and the AECID. The continuity of the implementation of a *National Education Policy* is guaranteed as there is a consensus among politicians as regards its importance and its key elements. The new government has re-confirmed its commitment to it, and announced an *Education Development Plan - 2009-2014*, which aims at linking social cohesion within the education sector and complements the *National Education Plan 2021*. Also, the new government expressed a compromise to continue with the education thematic table.

The activities of PROEDUCA will be complemented by the continuation of the project **PROJOVENES. PROJOVENES II** (€1.3 millions) is designed with special consideration for marginalized youth in the metropolitan areas of San Salvador. Vocational training and the first insertion of youths in the labour market, as well as the promotion of better structured public policy will be key elements of this project. The strengthened role of municipalities and the increased "bottom-up" participation of beneficiaries are substantial modifications introduced in the new project. The previous project, **PROJOVENES I**, demonstrated already that prevention through creating opportunities for the youth in their communities and improving the physical environment could be a very effective way to combat social violence and crime, especially when the repressive policies have failed to improve the situation. The effectiveness of such an approach has been recognised by the new government which is working out a new strategy against violence. The three key components of this new strategy will be prevention, rehabilitation and institutional coordination. PROJOVENES I has also proven that the involvement of municipalities, as the entity of the state closest to the population, plays a crucial role in guaranteeing the sustainability of such programme. PROJOVENES I has contributed to the reduction of violence in 57 supported communities although its impact is not measurable at national level and its impact on education has been insignificant. As regards PROJOVENES II the envisaged establishment of new *Municipal Councils for the Prevention of Violence* is considered a significant step forward to increase local ownership and secure sustainability. Active participation of youth at risk in the local administration will also be a key element, in order to directly include their needs in the local agendas. The PROJOVENES II project was defined after an extensive consultation with Member States, their agencies, donors and civil society, although it could be concluded that donor coordination should definitively improve to better align the substantial number of projects (UNDP/AECID, GTZ, SICA) in this field.

3.2.2. Priority Sector 2: Economic Growth, Regional Integration and Trade

¹¹ Government spending on education has also increased significantly from 1,9 of the GDP in 1994 to 3,2 in 2003 and the goal is to reach 6,3 of the GDP.

To contribute to economic Growth and job creation, which are essential factors for poverty reduction, promoting social cohesion and human security, the CSP has foreseen two main actions: 1.) actions to foster the expansion, diversification, competitiveness and productivity of domestic private sector business, particularly small and micro enterprises at local level and rural areas, and 2.) actions to enhance El Salvador's position on international market, especially in the EU and the Central America, and contribute to the effective integration in Central America, and the participation in the multilateral trade system. During the identification of the most appropriate action, **support to the development and implementation of a national quality system** has been considered as one of the best vehicles for achieving greater competitiveness and productivity, as well as promoting innovation and thus creating economic growth and employment. Unfortunately, the initiation of the **PROCALIDAD** sector support programme, which is aimed at establishing and strengthening such a quality system, has been delayed as the draft *National Quality Law* has not been presented to Legislative Assembly. This law should establish the institutional framework of the *National Quality System*. PROCALIDAD would be a direct complementary action to the operation proposed in the *Regional Program for Support to Quality Infrastructure in Central America* because the latter will deal with the same pillars at the Regional Level. The project proposed will complement the activities already implemented through the **FOMYPE** project and projects by other donors. FOMYPE was meant to contribute to the development of and the employment in micro and small enterprises, thus eventually stimulating economic growth. However, the project has not been successful for several reasons. There was no clarity on the type of enterprises it should target as even medium-size enterprises benefited. Although a blue book on the SME policy was designed with the help of the EC funds, even today the *Law on Quality*, meant to provide norms and a legal framework, still has not been approved. In addition, the sustainability of the project has not been maintained and institutional and financial strengthening was left out. Only operational strengthening was considered. Moreover, only 13,000 SMEs could benefit from the project instead of the originally targeted 56,000 SMEs. The impact of FOMYPE on employment and economic growth cannot be measured, due to the lack of monitoring tools and baselines.

It was already indicated in the CSP that insufficient budgetary resources were important risks for both 1. Fostering the expansion, diversification, competitiveness and productivity of domestic as well as for 2. Enhancing El Salvador's position on international markets, its effective integration in the Central American region, and its participation in the multilateral trade system. With the global economic and financial crisis it is considered crucial to support the country to recover its economic growth through the **implementation of fiscal reforms coupled with the modernisation of public finances**. This would help reduce the fiscal gap and the public debt allowing to generate own resources for the national economic development policy as well as for improving social cohesion. A new action, in process of identification for the AAP 2010 and tentatively called **Economic Recovery Program for El Salvador (PAREES)**, would be linked to the *Anti-Crisis Plan* which already foresees the strengthening of public finances and a fiscal reform, as well as to the future *National Development Plan*. The proposed action has been elaborated after discussion with donors such as the IMF, the World Bank, IDB, USAID and UNDP, national authorities such as the *Ministry of Finance, Ministry of Economy, the Ministry of Education* and the *Technical Secretary of the Presidency* as well as other key actors of business. The role of the IMF is especially important in the implementation of such reforms due to the recent and ongoing agreements which would temporarily ease the lack of financial resources needed for the implementation of both economic and social reforms. The programme would be implemented through general budget support and other donors (USAID, GTZ, AECID) have shown interest to contribute financially to a technical assistance package proposed by the World

Bank,;therefore it could serve as a platform for improving donor coordination and aid effectiveness.

4. Conclusions of the Mid-Term Review

On the basis of the previous analysis it can be established that the priorities of NIP1 of the CSP 2007-2013 are still valid and the programmes and projects of this period are addressing real needs of the country development agenda. During this period El Salvador has continued to face serious problems in basic social services and prevention of social violence and criminality. Progress in social development has been especially aggravated by the global economic and financial crisis. The poverty situation has actually deteriorated in the last few years and El Salvador has made only very limited progress as regards to progress to meet the MDGs by 2015. Although there have been several initiatives to establish well focused development policies, with the exception of the Solidarity Network and to some extent National Education Plan 2021, no significant results have been achieved. Aid effectiveness, especially donor coordination has demonstrated very limited progress although there are promising tendencies following the entry of the new government. However, well articulated development policies, relatively stable macroeconomic conditions and improving fiscal and monetary policies are providing the necessary conditions for successfully absorbing the budget support aid modality. As the implementation of the programmes and projects of NIP1 has suffered delays it is difficult to draw final conclusions; nevertheless, it is expected that the objectives will be met and no further delays should occur.

II. THE NATIONAL INDICATIVE PROGRAMME 2011-2013 (NIP 2)

For the implementation of the National Indicative Programme 2011-2013 €48.4 millions are allocated. As foreseen originally in the CSP all funds of NIP2 are destined to the **sector of Social Cohesion and Human Security** and there will be no funds allocated for the second priority sector of **Economic Growth, Regional Integration and Trade**. However, this sector will remain important as most of the activities of this sector launched during NIP1 will be implemented during this period.

El Salvador Cooperation during the CSP 2007-2013 (million euros)

PRIORITY SECTOR	NIP I (2007-2010)						NIP II (2011-2013)	
	PROGRAMMES	2007	2008	2009	2010	Total	PROGRAMMES	Budget
SECTOR 1: Fostering Social Cohesion and Human Security	Strengthening Social Cohesion in the Educational Sector (Pro-EDUCA)	0	0	25.00	0	25.00	Support to Urban and Rural Anti-Poverty-Programmes	47.40
	Prevention of Crime and Violence with the participation of Youth (PROJOVENES II)	0	0	11.30	0	11.30		
Total Sector 1:				36.30	0	36.30		48.40
SECTOR 2: Economic Growth, Regional Integration and Trade	Support to the National Quality System (Pro-CALIDAD)	0	0	12.10	0	12.10		0
	Economic Recovery Program for El Salvador (PAREES)	0	0	0	24.20	24.20		
Total Sector 2:		0	0	12.10	0	36.30		0
TOTAL CSP		0	0	48.40	24.20	72.60		48.40

After carefully assessing the political, economic, social and environmental context of the country, as well as considering EU/EC policy objectives, it can be established that the situation regarding social cohesion and social security will remain the greatest concern for the development of the country especially if the country wants to meet, at least partially, the MDGs. Poverty and lack of opportunities, including employment and income, have been and will remain important factors of instability, increasing migration and crime in El Salvador. The recent global financial and economic crisis as well as the natural disaster in November 2009, has increased and even further aggravated this situation. It is considered crucial that

these problems are treated in an integral manner and in close relation with other state policies of the country.

Therefore the **global Objective** is to improve the quality of life of urban and rural poor families living in extreme or severe poverty, facilitating their social inclusion through a better provision of basic social services, the improvement of social insertion for vulnerable communities and increasing their skills, labour capacities and employment opportunities, contributing to the prevention of social violence in marginal areas, and by strengthening institutional coordination between central government and municipalities.

The **specific objective** of the EC intervention in the sector is to support the *Urban and Rural Solidarity Community Programmes* in order to further strengthen social cohesion by human capital development, employment generation, improvement of basic services and strengthening institutional capacities between central government and municipalities. These new programmes represent an important continuity as they would be an extension of the existing the *Solidarity Network Programme* set up by the previous government, which so far has covered the vulnerable population only in rural areas and has been supported by the EC through the PAPES programme as regards basic social infrastructure. *Urban and Rural Solidarity Community Programmes* will be key components for social cohesion and human security of the *National Development Strategy*, which will be available in early 2010. The *National Development Strategy* will comprise many of the elements of the *Anti-crisis Plan* presented in July 2009. In addition, limited resources under the Social Cohesion and Human Security Sector might as well be directed toward the implementation of the electoral reforms recommended by the EC-EOM 2009. A *Project in Support of the Electoral Reform* of 1 million euro in form of technical assistance would contribute also to the strengthening of the social inclusion of a greater part of the society. The more specific objective of this project would be the introduction of the residential vote, which will not only reduce possibilities of electoral manipulations, but also will make possible for voters to cast their ballots close to where they live; thus contributing to social cohesion by strengthening the social fabric (?) of municipalities.

The main **expected results** of the EC interventions would be:

- Integral improvement of life conditions for urban and rural vulnerable communities.
- Improve human development indicators and social inclusion.
- Institutional building of municipalities, NGOs, community organizations and central government institutions related to anti-poverty policies.
- Introduction of residential vote

Indicators: to measure the expected results would be through the improvement of several human capital development and social inclusion indicators related to the MDGs, by including aspects of human capital development. The impact of EU cooperation will be measured through agreed indicators, which will be based in the national policies, experiences of former EU Programmes and findings in the identification-formulation phases of the Action. The set of indicators could include:

- Quality of training systems for urban and rural marginal areas.
- Access to basic services such as sanitation and waste management (increased coverage for urban and population in extreme poverty).
- Access to high quality human capital services, especially vocational training: number of technical programs, rate of enrolment, etc.

- Rate of local unemployment; rate of insertion of vulnerable population (as a link between training and employment).
- Number of coordinated anti-poverty initiatives among municipalities, central government institutions and/or local community organizations.
- Local human development indicators (MDGs oriented).
- Number of citizens to be able to cast residential votes.

Institutional-building of municipalities, NGOs, community organizations and central government institutions related to anti-poverty policies will be an important component of the programmes.

The preparation of the *Urban and Rural Solidarity Community Programmes* have been strongly supported by donors through regular meetings with the responsible government agencies, especially the *Social Investment Fund for Local Development (FISDL)*, main institution currently in charge of the execution of anti-poverty programmes. This institution has gained experience through the PAPES Programme and the PROARES Project. The latter project aimed to increase access to housing in poor communities affected by disasters and its success could provide useful lessons for actions related to prevention and natural disasters impact mitigation, especially in terms of institutional-building of national government institutions. In addition, with financing of the *Luxembourg Development Agency*, an urban poverty map has been prepared, in order to establish the basis of the new urban poverty programme and to identify there the poorest communities.

The foreseen actions in support of the Urban and Rural Solidarity Community Programmes will integrate the following **cross-cutting issues**:

- Environment: It will seek to raise awareness of local communities to sustainable use and management of natural resources and help them to protect these resources by promoting their organization or incorporation into existing local structures. Coordination will be promoted between DIPECHO action plans and EU cooperation actions; in particular to incorporate concrete measures related to environmental and risk management¹².
- *Youth and Conflict Prevention*: A strong link will be also established between new Programme actions and the prevention of social violence with youth participation; the annual programming of the PROJOVENES II Program will include concrete actions to mainstream this issue. Also, technical and vocational training should be linked with municipal facilities and rehabilitation centres, to job creation at the local level in all feasible areas.
- Gender: Gender Equality will also be mainstreamed through this cooperation strategy. It will be made through an emphasis placed on making visible and valuing the work of women and establishing a dialogue with the government to support policies reinforcing local gender equality.
- Good governance: Improvement in governance would be pursued through support to the implementation of the electoral reforms recommended by the EU-EOM 2009. The implementation of a concrete project could be a way to mainstream this governance issue.

¹² The Commission adopted in February 2009 a Communication on an EU Strategy supporting Disaster Risk Reduction in developing countries 5COM (2009) 84 final 23.02.09).

The inclusion of specific *indicators* by gender, environment considerations or governance will be a concrete instrument to mainstream cross-cutting issues, within an urban and rural poverty reduction strategy.

The success of this programme greatly depends on the existence of political consensus to consolidate *Urban and Rural Solidarity Community Programmes* so that it can remain as an agreed medium or long-term strategy and tool for social cohesion to which **donors** could also align their policy and improve their **coordination** in line with the Paris Declaration. Adequate public funding is crucial for the implementation of the Programmes but, at the moment, it is uncertain if a sufficient level of public expenditure is available. The economic and financial crisis will be an important factor to influence it.

ANNEX 1: SUMMARY TABLE FOR THE COUNTRY
("COUNTRY AT A GLANCE")

a) Macro-economic indicators

Basic data	2005	2006	2007	2008	2009	2010	2011
1 Population (in 1000)- 1992 Census projection	6,875	6,991	7,105	7,218	7,330	7,441	n.d.
- annual change in %	1.75	1.7	1.6	1.6	1.55	1.5	n.d.
2a Nominal GDP (in millions USD)	17,070.0	18,654.0	20,373.0	22,115.0	21,952.0	22,815.0	23,634.0
2b Nominal GDP per capita (in millions USD)	4,419.8	2,035.2	2,187.0	2,395.7	2,502.5	2,667.2	
2c - annual change in %	6.2	7.5	7.5	9.5	4.5	6.6	
3 Real GDP (annual change in %)	3.1	3.5	4.6	2.6	-2.4	1.0	
4 Gross fixed capital formation (in % of GDP)	5.6	6.8	6.4	3.0	-2.0	-2.0	
International transactions							
5 Exports of goods and services (in % of GDP)	20.2	20.1	19.8	20.2	17.8	17.3	
- of which the most important: ... (in % of GDP)	10.7	9.5	8.9	8.0			
6 Trade balance (in % of GDP)	-17.2	-19.0	-20.0	-19.4	-14.8	-13.2	
7 Current account balance (in % of GDP)	-3.3	-3.6	-5.5	-6.5	-3.2	-2.1	
8 Net inflows of foreign direct investment (in % of GDP)							
9 External debt (in % of GDP)	42.5	42	41.9	40.8	40.5		
10 Service of external debt (in % of exports of goods and non-factor services)	15.9	14.7	14.2	9.5			
11 Foreign exchange reserves (in months of imports of goods and non-factor services)	4.5	3.9	4.0	3.9			
Government							
12 Revenues (in % of GDP)	16.5	17.2	17.1	17.5	17.7	18.6	18.6
- of which: grants (in % of GDP)	0.3	0.2	0.3	0.5	0.5	0.8	0.3

13 Expenditure (in % of GDP)	19.5	20.1	19.0	19.8	19.9	20.0	19.6
- of which: capital expenditure (in % of GDP)	2.7	3.1	2.8	2.8	2.8	3.3	3.1
14a Deficit (in % of GDP) including grants	-3.0	-2.9	-1.9	-2.3	-2.2	-1.3	-1.1
14b Deficit (in % of GDP) excluding grants	-3.3	-3.1	-2.2	-3.6	-5.4	-2.1	-1.4
15 Debt (in % of GDP)	42.0	41.9	40.8	40.5	40.4	38.8	37.1
- of which: external (in % of total public debt)							
Other							
16 Consumer price inflation (annual average change in %)	4.3	4.9	4.9	6.6	5.5	4.5	
17 Interest rate (for money, annual rate in %)	3.4	4.9	4.4	4.1			
18 Exchange rate (annual average of national currency per 1 €)	1.18	1.32	1.47	1.29	1.30	1.31	
19 Unemployment (in % of labour force, ILO definition)	6.5	6.6	6.4	6.3	6.8	7.0	
20 Employment in agriculture (in % of total employment)	19.5	18.3					

2008, 2009: estimates (e), 2010, 2011: forecasts (f)

b) Indicators derived from the MDG

	1990b	2006	2007	2008	2010e	2015e
1. Proportion of population below 1\$/day in PPP	27 (1991)	18.6 (2005)				13.5
2. Prevalence of underweight children	11.2 (1988-1993)		8.6			5.6
3. Under 5 child mortality	52 (1991)	31 (2005)				17
4. HIV prevalence rate of women aged 15-24						
5. Proportion of births attended by skilled health personnel	51 (1988-93)					100

6. Proportion of 1 year old children immunized against measles	98	98				100
7. Net enrolment ratio in primary education	77,7 (1991)	89,4 88 (2005)	88,7			100
8. Ratio of girls to boys in primary and secondary education	101 (1991)	97 (2005)	97			100
9. Primary school completion rate		81.4	88.7			100
10. Proportion of population with sustainable access to an improved water source	63.3		86.9			80.5
11. Fixed lines and mobile telephone per 1000 inhabitants	2,5 (1991)	70	127,2			

1990b = baseline for MDGs

2010e = intermediate target / estimate

2015t = MDG target

No further indicators were available from UNDP at the time of finalizing the MTR

ANNEX 2: SUMMARY TABLE OF FOCAL/NON FOCAL AREAS AND THE FINANCIAL BREAKDOWN (AS SET-OUT IN THE ORIGINAL SP)

	PIN1				PIN2	PIN1+PIN2
PRIORITY SECTORS	2007	2008	2009	2010	2011-2013	Total
Priority Sector 1: Strengthening Social Cohesion and Human Security	0	18.15	18.15	0	48.40	84.70
Priority Sector 2: Economic Growth, Regional Integration and Trade	0	12.10	0	24.20	0	36.30
TOTAL:	0	30.25	18.15	24.20	48.40	121.00

ANNEX 3: DONOR MATRIX

Period of 2004-2009 (in million USD)

Europe							
	2004	2005	2006	2007	2008	2009	TOTAL
Luxembourg		6,05	40,00				46,05
Spain	27,90	43,60	45,20	59,70		2,90	179,30
Norway	2,50						2,50
Finland	2,90						2,90
France		0,06	0,49	0,80			1,35
Ireland			1,60	1,56			3,16
Italy	1,00	0,45		1,20			2,65
Germany	14,10	40,87			28,00	2,50	85,47
European Union	12,20	58,00		162,00			232,20
TOTAL	60,60	149,02	87,29	225,26	28,00	5,40	555,57
North America							
	2004	2005	2006	2007	2008	2009	TOTAL
CANADA	5,90	4,00		1,60			11,50
USA	42,35	41,13	40,64	37,43	53,60	75,30	290,45
TOTAL	48,25	45,13	40,64	39,03	53,60	75,30	301,95
Asia							
	2004	2005	2006	2007	2008	2009	TOTAL
Korea	0,35	0,70	1,10	1,37	2,68	2,00	8,20
China	0,83	2,32	12,09	3,92	3,02	1,42	23,60
Japan	8,27	21,98	6,76	15,86	5,42		58,29
TOTAL	9,45	25,00	19,95	21,15	11,12	3,42	90,09
International Organisations							
	2004	2005	2006	2007	2008	2009	TOTAL
UNDP	7,52	13,40	7,65	6,29	10,03	12,00	56,89
BCIE	0,20	0,41	0,21				0,82
World Bank			0,78		0,78		1,56
IDB	4,76	4,46	6,20				15,42
UNICEF	1,04	5,18	2,22				8,44
UNESCO		0,03	0,17				0,195
UNFPA	1,01	0,78					1,79
OEA	1,69	1,40	0,86	0,45	4,38	0,188	8,968
OIEA	0,16	0,21			0,37		0,74
OPS	1,83	2,73	1,81				6,37
FAO	0,36	0,74		2,5	3,42		7,02
IICA	0,71	0,59					1,3
OIRSA	2,50	3,88	0,70				7,08
UNOPS	4	1,65	7,01				12,66
OIT	1,70	1,70					3,4
PMA	2,81	3,05					5,86
ONUDI					0,25	0,8	1,05
TOTAL	30,29	40,205	27,61	9,24	19,23	12,988	139,563
TOTAL COOPERATION	2004	2005	2006	2007	2008	2009	TOTAL
	148,59	259,36	175,49	294,68	111,95	97,10	1.087,17

ANNEX 4: DESCRIPTION OF THE MTR DOCUMENT DRAFTING PROCESS

November 2008: The preparation of the Mid-Term review started with a short concept note prepared by the Delegation in San Salvador in November 2008. However, the note only outlined possible directions of the concrete proposal for actions in for the period of 2011-2013 as the dialogue with the government has become increasingly difficult due to the extremely long election campaign that paralyzed decision making and strategy planning of the administration on cooperation and cooperation related. Nevertheless dialogue with FMLN, which won the presidential elections on March 15, 2009, took place several times even during the campaign period and confirmed that the main priorities of our cooperation are relevant.

January 26, 2009: Meeting with the General Directorate of External Cooperation of the Ministry of Foreign Affairs (SETEFE) to present the MTR exercise and ask for opinion.

February 9, 2009: Meeting organized with the member states and GTZ to present the MTR exercise and ask for opinion, especially on how to strengthen the cooperation of member states and donors, and how to improve relations with the government.

February 26, 2009: Meeting with the FMLN fraction of the Assembly to present the MTR exercise and to understand the plan of a would be FMLN government.

March 2, 2009: Meeting with about 20 organisations of the civil society to present the MTR exercise and ask for opinion.

March 31, 2009: Seminar with representatives of the civil society launched through the internet with the participation of 45 ONGs which were divided into 4 thematic groups.

June 4-8, 17-19: Upon the installation of the new government intensive dialogue started with the new ministers and a mission of the RELEX Desk took place to meet discuss the country strategy. Meeting took place also with the civil society, international donors, member states as well as the Salvadorian Assembly which confirmed the relevance of the current strategy.

ANNEX 5: EL SALVADOR ENVIRONMENTAL PROFILE

El Salvador has a territorial extension of some 21,000 km² and a population of 5.732 million inhabitants (2007). With more than 300 inhabitants per km², El Salvador is the most densely populated country on the American continent. El Salvador has a tropical climate with pronounced wet and dry seasons. El Salvador's position on the Pacific Ocean also makes it subject to severe weather conditions and **natural disasters**, including heavy rainstorms and severe droughts, both of which may be made more extreme by the *El Niño* and *La Niña* effects. In the summer of 2001, a severe drought destroyed 80% of the country's crops, causing famine in the countryside. Moreover, tropical storms regularly threaten El Salvador, the latest being *Stan* in October 2005, resulting in dangerous flooding and landslides, which caused a minimum of fifty deaths. El Salvador's location in Central America also makes it vulnerable to hurricanes coming off the Caribbean, however this risk is much less than for other Central American countries. The Santa Ana Volcano in El Salvador is currently dormant, but while it was still erupting it was very dangerous. Estimates of the **environmental threats** indicate that about 9.36% of the national territory is exposed to severe and moderate floods and 19.2% to various types of landslides, while more than 47% is at risk of being affected by droughts to a severe, moderate or small extent. Most of the population of the country lives in these areas subjected to these environmental risks. El Salvador is the second most deforested country in Latin America after Haiti. Almost 95 percent of its forested cover has disappeared since 1960s, leaving about 5 percent of the land area forested. **Deforestation** in El Salvador has had serious environmental, social, and economic impacts. Today over 50 percent of El Salvador is not even suitable for food cultivation, and much of the country is plagued with severe **soil erosion**. Degraded forest areas are more susceptible to fires; fires cause more damage to forest and agricultural plots.

El Salvador's **water resources** are highly polluted, owing in part to the almost total absence of municipal wastewater treatment. In addition, the country suffers from water scarcity during the dry season and conflicts among users. It is estimated that 90 percent of the surface water bodies are contaminated. Nearly all municipal wastewater (98 percent) and 90 percent of industrial wastewater is discharged to rivers and creeks without any treatment. **Air pollution** is predominantly urban phenomenon due to the high level of concentration of vehicles and industrial activities, the high level of generation and consumption of energy, especially in the capital area.

In addition to sporadic environmental risks, the continuous degradation of natural resources leads to **worsening living conditions**. Different investigations suggest that in El Salvador many diseases are linked to the deteriorating environmental quality. Major causes of morbidity are respiratory diseases, intestinal parasitism and gastric infections, bound up with the unavailability of safe drinking water and with environmental contamination. The challenge facing the country is to pursue sustainable development strategies that focus on the protection of natural resources, without harming economic competitiveness or deterring national and foreign investment.

For **environmental risk management**, El Salvador has planned programmes for monitoring seismic, hydrological, meteorological and volcanic risks as well as systems for water quality control and an early warning system for floods. Some progress has been made over the years, however, these remain insufficient. The institutional and legislative framework is yet very young, incomplete and weak; effective implementation of environmental policies on the ground is hence still unsatisfactory. El Salvador has signed 11 **International Conventions**, including the Rio Conventions, and five Regional Agreements on Environment which define the legal and technical frameworks for the implementation of relevant thematic actions, on a local, regional and global level.

ANNEX 6.: COUNTRY MIGRATION PROFILE

The dimension and impact of migration flows in El Salvador has grown ceaselessly over the past forty years. Statistics show that during the 1970's there were around 350,000 Salvadorians living abroad, while at present it is estimated that this number has risen to 2,6 million. If the current rhythm of emigration is sustained, it is expected that the number of Salvadorians living outside their country will exceed 3 million in 2009. The vast increase in emigration over the past decades is due to the lack of opportunities in particular in the rural areas, where the slow rate of growth of the economy, the lack of support to the agricultural sector, and resulting poverty, marginalization, inequality together with the success stories of compatriots that emigrated earlier have all contributed to render emigration as the only possible solution.

Over the past four decades there has been a change in the **destination of emigration** and structure of net migration flows in El Salvador. During the 1970's only 24% of emigrants emigrated outside Central America, while during the 1990's up to 93% settled down outside Central America, the vast majority settling down in the U.S.A. At the same time, interestingly, El Salvador has become a country of destination for many citizens from Guatemala, Nicaragua and Honduras. Following the 2001 earthquakes and the U.S.A. Congress granted *Temporary Protected Status* to Salvadorans who were otherwise illegally in the US to remain and not be deported. Currently, some 229,000 Salvadorans are eligible to stay in the US until September 9, 2010. However, the estimated number of Salvadorans who daily leave the country by land and enter the US illegally has declined. The flow of migrants has been reduced from 700 to 400 per day due to the worsening US economy, the continuing raids by immigration authorities in the US to detain and deport undocumented immigrants, and increased charges by human smugglers.

As concerns **deportations**, during the years 1991-2001 it averaged at 4,033 cases annually, around 80% of this total originating from the U.S.A. From 2002 onwards however, there was a vast increase in the number of deportations emanating from the U.S.A. as well as from Mexico, the main transit country for migrants. During this period, the U.S.A. doubled the number of deportations and in 2008 the number of deported exceeded 19,000. About 8% of those returned presented a history of criminal records. 99% of these originated from the U.S.A, therefore about one-third of the deported from this country had a criminal record.

Remittances from Salvadorians living abroad account for over 18% of the country's GDP equaling to 3.8 billion USD in 2008. These remittances Salvadorans have stepped in to fill the gap in meeting daily needs that neither the government, nor the international community have managed to fulfil in the post war reconstruction process. Nearly 30 percent of adults in El Salvador depend on remittances according. Three quarters of this money was spent on direct consumer spending, much of it spent on imports. However, given the lack of policies destined to provide a framework for channeling this consumption towards the creation of domestic demand and production (and simultaneously incentivating savings and investment), the influx of remittances does not yet contribute towards the sustainable growth of the Salvadorian economy. On the contrary, and given the existing political, legal and regulatory vacuum, the constant inflow of remittances may be contributing towards the deepening of territorial inequalities at the local level.

From the **legal perspective**, El Salvador is a part of the UN and OAS systems for the protection of human rights and has subscribed to and signed major Declarations, Conventions and pieces of legislation pertaining to the rights of migrants such as the International Convention on the Protection of Migrant Workers and their Families. Nonetheless, existing national legislation such as the Law on Migration dates from 1958 and is therefore out of date and unable to respond to the complexity of the migratory phenomenon. El Salvador has signed important Cooperation Covenants with other transit

countries such as Mexico with a view to providing Salvadorians with a safe, dignified and regulated repatriation, however there are many deficiencies with regard to their implementation (reception of children, lack of basic services, transport, shelters).

ANNEX 7: GOVERNANCE PROFILE

El Salvador is a democratic republic governed by a president and an 84-member unicameral Legislative Assembly. The president is elected by universal suffrage by absolute majority vote and serves for a 5-year term. A second round runoff is required in the event that no candidate receives more than 50% of the first round vote. Members of the assembly are elected based on the number of votes that their parties obtain in each department (circumscriptive suffrage) and serve for 3-year terms. The main political parties of El Salvador are the Christian Democratic Party (PDC), the Democratic Convergence (CD), Farabundo Marti National Liberation Front (FMLN), National Conciliation party (PCN), National Republican Alliance (ARENA), . The judicial branch is led by the Supreme Court with fifteen judges. The law of the land is structured around civil and Roman law, with a few traces of common law. The judges are appointed by the legislative assembly. They are then divided amongst four Supreme Court chambers named the constitutional, civil, penal, and administrative conflict chambers. The court has yet to accept compulsory International Court of Justice jurisdiction.

El Salvador is made up of 14 departments: Ahuachapan, Cabanas, Chalatenango, Cuscatlan, La Libertad, La Paz, La Union, Morazan, San Miguel, San Salvador, San Vicente, Santa Ana, Sonsonate, Usulután, and, which, in turn, are subdivided into 262 municipalities. Mayors are selected for 3 years at the same time as the parliamentary elections are held.