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LIST OF ACRONYMS

CAIS	Central America Integration System (SICA in Spanish)
CAP	Common Agricultural Policy
CND	Comisión Nacional de Desarrollo (National Development Commission)
CONADEL	Comisión Nacional de Desarrollo Local (Local Development Commission)
CSP	Country Strategy Paper
DIGESTYC	Directorate General for Statistics and Census
EC	European Community
ECAP	Evaluation of Academic and Pedagogical Competencies
EHMP	Multi-Purpose Household Surveys
EIDHR	European Initiative for Democracy and Human Rights
ENOS	El Niño – Southern Oscillation
EU	European Union
FOMYPE	Strengthening the Competitiveness of Micro and Small Enterprises
FORGAES	Strengthening of Environmental Management
FS	Food Security
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNI	Gross National Income
GSP	Generalised System of Preferences
IADB	Inter-American Development Bank
IRAS	Acute Respiratory Infections
ISNA	Salvadorian Institute for Childhood and Adolescence
ISO	International Standards Organisation
LRRD	Linking Relief, Rehabilitation and Development
MARN	Ministry of Natural Resources
MDG	Millennium Development Goals
MIC	Middle Income Country
MoU	Memorandum of Understanding
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NSA	Non-State Actors
ODA	Official Development Assistance
OOF	Other Official Flows
PAPES	Poverty Relief Programme for El Salvador
PNM	National Policy on Women
PPP	Plan Puebla Panama
PROJOVENES	Prevention of Juvenile Delinquency
R&D	Research and Development
RSP	Regional Strategy Paper
SETEFE	Institutional Strengthening of the Technical Secretariat for External Financing
SINAMA	National Environmental Management System
SNET	National Service for Territorial Studies
STP	Secretaria Técnica de la Presidencia (Technical Secretariat of the Presidency)
SWAP	Sector-Wide Approaches
TRA	Trade-Related Assessment
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WTO	World Trade Organisation

0 EXECUTIVE SUMMARY

Although El Salvador has made significant progress on reducing poverty in recent years, an estimated 35% of households remain in extreme poverty with limited access to health services and education. The living conditions of many further deteriorated following tropical storm “Stan” in early October 2005. Combined efforts by the Government and the international community are essential if El Salvador is to achieve sustainable socio-economic development and meet the Millennium Development Goals (MDG). Progress has been made on democracy, and the human rights situation has improved; however, the political system is marked by a high degree of polarisation and there is mounting dissatisfaction with the political parties and state institutions, in particular at a time of heightened internal insecurity and social violence which is deterring investment and having a negative impact on job creation. The challenge for El Salvador remains to define and implement a long-term development model consolidating democracy and good governance, offering the prospect of more inclusive, equitable and sustainable socio-economic growth and looking to greater regional and smoother international integration. The “Safe Country Plan” (*Plan Pais Seguro*), the Government’s policy agenda for 2004-2009, includes social measures which, if implemented, could improve social conditions and reduce inequalities. However, this plan requires support if it is to be implemented successfully.

The European Commission intends to support El Salvador in its endeavours through this Country Strategy Paper (CSP) which provides a framework for EU assistance during the period 2007-2013. The CSP aims at fostering social cohesion (through social investments in health, water and sanitation, and human capital development), human security, economic growth (sustained by job creation), regional integration and trade (which will be also addressed through the EC Regional Strategy for Central America).

Cross-cutting issues which will be mainstreamed throughout the CSP include, in particular, the environment, gender equality and human rights.

The CSP is a key element in the improved programming process introduced as part of the reform of the management of EC external assistance and subscribes to the principles of the “European Consensus on Development”, which focuses in particular on reducing poverty and on the MDG. The CSP was drawn up following a multi-stakeholder consultation process involving state and non-state actors and other players in the international community to make sure that the EC cooperation is both complementary and effective. Where possible, and if the necessary conditions are met, consideration will be given to sector programme support and budget support.

An indicative allocation of € 121 million has been earmarked for El Salvador in the period 2007-2013 under the financing instrument for development cooperation (DCI). These resources can be supplemented by projects and programmes financed under the Central American and Latin American regional programmes, as well as from thematic programmes.

1 OBJECTIVES OF EUROPEAN COMMUNITY COOPERATION

1.1 Global objectives

In accordance with **Article 177 of the Treaty Establishing the European Community**, the Community’s development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community’s policy in this area shall

contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

In November 2005, the Council, the Representatives of the Governments of the Member States, the European Parliament and the Commission approved ***“The European Consensus on Development”***, which provided for the first time a common vision guiding the action by the EU, at both Member State and Community levels, on development cooperation. It states that the prime objective of Community development policy is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDG), and the promotion of democracy, good governance and respect for human rights. The Consensus also stresses the importance of partnership with the developing countries and of promoting good governance, human rights and democracy with a view to more equitable globalisation. It reaffirms the commitment to promote policy coherence for development, based on ensuring that the EU takes account of the objectives of development cooperation in all its policies which are likely to affect developing countries and that these policies support development objectives. It reiterates the principle of ownership of development strategies and programmes by partner countries and advocates enhanced political dialogue plus a more prominent role for civil society in development cooperation.

1.2 Specific objectives in Latin and Central America

On the basis of **Article 179 of the Treaty Establishing the European Community**, a new Development Cooperation Instrument (DCI) was adopted in December 2006. El Salvador is eligible to participate in cooperation programmes financed under the DCI [European Parliament and Council Regulation (EC) No 1905/2006 of 18 December 2006 establishing a financial instrument for development cooperation.]

The **2004 Guadalajara Summit** between Latin America, the Caribbean and the European Union emphasised **multilateralism**, **regional integration** and **social cohesion** (reducing poverty and combating inequalities and exclusion) which are the main priorities for policy dialogue and cooperation.

In its **December 2005 Communication on “A reinforced European Union-Latin America partnership”** the Commission restated its aim of a strategic partnership with the entire region and stressed the need for policy dialogues, targeted cooperation, promotion of trade and investment and closer alignment of cooperation with the political agendas and needs of recipient countries.

In the specific case of **Central America**, cooperation has been shaped by the **San José Dialogue**, launched in Costa Rica in 1984, which remains the principal channel for political dialogue between the two regions. This annual dialogue was originally launched to support the peace process and democracy in the region. It was confirmed in 1996 and 2002 and widened to include other issues, such as economic and social development. The **Regional Development Cooperation Framework Agreement** signed between the six Central American countries and the Commission in 1993 came into effect in 1999. This “third generation” agreement covers cooperation in a broad range of sectors and provides for the establishment of a Joint Committee to oversee its implementation along with sub-committees for detailed examination of specific sectors under the Agreement. In **December 2003** a new **Political Dialogue and Cooperation Agreement** was signed by the EU and Central America, which, once ratified, will institutionalise the San José Dialogue and expand cooperation to include areas such as migration and counter-terrorism. It also opens the door to a future Association Agreement, which has been the common strategic objective of both parties since the EU-Latin American Countries III Summit in

Guadalajara at which the two regions decided that such an Agreement shall be built on the outcome of the Doha Development Agenda and on the realisation of a sufficient level of regional economic integration. At the **Vienna Summit in May 2006**, and based on the positive outcome of a joint evaluation, the Heads of State and Government of the European Union and of Latin America and the Caribbean decided to launch negotiations in view of an Association Agreement including a free trade area.

1.3 Specific objectives in El Salvador

As a member of the Central America Integration System (CAIS), El Salvador enjoys a comprehensive relationship with the EU that encompasses political dialogue (the San José Dialogue launched in Costa Rica in 1984 and subsequently renewed in Florence in 1996 and Madrid in 2002) and a broad cooperation framework including the Generalised System of Preferences. The available instruments have allowed both partners to engage in broad-based cooperation in all areas of mutual interest. More specifically, the objectives of the bilateral cooperation between the EC and El Salvador are:

- to foster the democratisation process and the socio-economic development of the country, focusing on social cohesion (reducing poverty and combating inequalities and exclusion), good governance and human rights;
- to ensure that the results achieved so far in the process of transformation, democratisation and development of the country are not reversed and that the essential reforms remain high on the national political agenda;
- to support integration of El Salvador into the regional and world economy and to increase trade relations with the EU, mainly by means of a more consolidated regional integration process and the introduction of environment-related international standards and norms.

This implies pursuing a regular political dialogue between the EC and El Salvador coupled with new methods of partnership in the area of cooperation (budget aid), in close coordination with other donors and effective implementation of policies bound to have an impact on social cohesion such as decentralisation, fiscal reform or a consensual national policy on youth. In this respect, the European Commission has decided to enhance its presence in El Salvador by opening a fully-fledged Regionalised Delegation. This will foster bilateral relations and boost the EU's capacity in all areas, notably ahead of important political milestones such as the general election in 2009.

2 ANALYSIS OF THE POLITICAL, SOCIAL, ECONOMIC AND ENVIRONMENTAL SITUATION

2.1 Political situation

Since the signature of the Peace Accords in 1992, El Salvador has witnessed **progressive political stabilisation and democratisation**, including the establishment of democratic procedures and key institutions, such as a national police force or an office to defend human rights. However, although the demilitarisation process has been completed, the institutions responsible for ensuring the rule of law suffer from an image of inefficiency and corruption. **The political system itself is marked by a high degree of polarisation** between the two dominant forces formed by the opposing sides in the armed conflict: ARENA (Alianza Republicana Nacionalista which has controlled the executive since 1992) and the FMLN (Partido Farabundo Martí de Liberación Nacional, the main opposition party). Neither has a majority in Congress and the support of the smaller political parties is decisive for passing any legislation. This implies additional transaction costs for the Government. A clear link exists between this situation and the

social and economic challenges facing the country since a majority of two thirds is required for key Government initiatives. Rather frequent electoral cycles (legislative and local elections take place every three years, Presidential elections every five years) further exacerbate the situation. The strong polarisation of the political debate is one of the reasons for **the mounting public dissatisfaction with the political parties and State institutions**¹. The increasing social inequality and the frustrated expectations created by the peace process also contribute to this situation. The political reforms promised by the Peace Accords are one of the points on which least has been done and expectations are rising as regards the need to change the electoral and party systems. Moreover, an estimated 25% of the population lives abroad and is not represented in the political system. As for non-state actors, non-governmental organisations (NGOs) have limited possibilities to influence public policymaking and to monitor actual implementation of the resultant policies. On the other hand, in November 2005 the National Association of Private Enterprises (Asociacion Nacional de la Empresa Privada, ANEP) issued its vision for El Salvador in 2024, a document prepared after extensive consultations, including with the Government, and describing areas warranting the attention of the national authorities.

Progress on decentralisation is still limited and would require a comprehensive local development strategy underpinned by key reforms. **Transparency in public affairs is another challenge**. Good examples of municipal accountability exist at local level; however, despite significant progress, further modernisation is required to improve the efficiency and transparency of public institutions and to address and change the public's perceptions and information about public affairs. The media has been playing a decisive role in investigating and reporting several cases of corruption by state institutions and by public officials.

From the **human security** perspective, El Salvador experiences a series of challenges. The **human rights situation has undoubtedly improved**, in particular respect for human life. However, improvements are still required in the following areas: compliance with and application of labour legislation; personal security, by strengthening and achieving better interaction between security institutions (judiciary, General Prosecutor, National Police, forensic experts, penitentiary system, etc.) to enforce criminal law; dialogue with civil society about the introduction of major pieces of legislation and institutional reforms; and financing for human rights institutions, including the Human Rights Ombudsperson (PDDH). As regards labour rights, the laws governing the right to freedom of association need to be further reinforced, although the existing ones are being applied². However, the international obligations in relation to the protection and promotion of workers' (including children's) rights in the public and private sectors need to be met. The most important political challenge is **internal security and the mounting social violence**, fuelled by a proliferation of fire arms. The National Police recorded a dramatic increase in murders in recent years; 3,906 homicides were reported in 2006 (55 murders per 100 000 inhabitants or 11 per day) representing an increase of 2.4% compared to 2005. Violence committed by gangs of young delinquents ("**maras**") is a major public concern with implications not only for personal safety, but also extending beyond El Salvador's borders through links established between local bands and foreign criminal organisations. This hits foreign direct investment and local businesses hard, and the cost of violence in El Salvador is estimated at 11.5% of the GDP. The situation became so dramatic in 2006 that all segments of society (political parties, private sector, religion, media, non governmental organisations, etc.) reflected

¹ The *Latinobarometro* "democracy index" indicates a sharp downward trend in El Salvador between 1996 (41) and 2001 (23). Voter turnout has been very volatile (in the case of the Presidential elections, down from 46.2% in 1994 to 38.6% in 1999, then back up to 66.2% in 2004), and political parties are the lowest rated of all institutions, followed by the Congress, the Courts, and the Supreme Electoral Court.

² El Salvador ratified in 2006 ILO conventions No 87 (concerning freedom of association and protection of the right to organise) and No 98 (concerning the application of the principles of the right to organise and bargain collectively) which will be effectively implemented as of 2007.

on their own possible role in confronting the phenomenon. There was general consensus that the challenge had to be met at State level, by combined efforts of the Government, the Congress and the Judiciary, and in constant dialogue with civil society.

El Salvador has not yet signed or ratified the Rome Convention for the **International Criminal Court** but signed a “non-surrender agreement” with the USA in July 2004.

2.2 Social cohesion and poverty

Social cohesion remains a priority in El Salvador which is rated 104th out of a total of 173 countries in the UNDP 2005 Human Development Report, with a human development index of 0.722. In order to make progress towards achieving the MDG, a national consensus is required on the structural reforms needed in the social services (education, health and social security), and on employment, access to justice or fiscal matters. **Significant progress was made on reducing poverty** over the period 1991-2002: the share of the population living in poverty decreased from 58% to 35% and the share in extreme poverty from 33% to 14.4%. **Poverty is still falling, albeit at a slow pace, but extreme poverty rates have remained stagnant since 2001.** This phenomenon, coupled with the recent increase in the levels of inequality of income distribution (in 1992 the per capita family income of the wealthiest 20% of households was 18 times higher than that of the poorest 20%; by 2002 this factor had increased to 24) and the high level of social violence also prevalent in rural areas, poses a challenge for improving social cohesion. Moreover, Government forecasts indicate that the MDG of halving, between 1990 and 2015, the percentage of the population with an income of below one dollar a day is unlikely to be achieved in the rural areas of El Salvador. Indeed, poverty, inequality and social and economic development show a deep and widening gap between urban and rural areas on various fronts: in rural areas GDP per capita is only one third of that in urban areas, the literacy rate is almost 20% lower, life expectancy is six years shorter and the rate of chronic and global malnutrition is twice as high. It is reported that poverty rates are high amongst population of **indigenous origin**³, though the Government argues that society is homogenous (*mestizo*) and that there are no indigenous related issues as such⁴.

The **health sector** is a cause for concern: in some areas, the population suffers the illnesses associated with underdevelopment; there is little if any coordination between the public service providers; access to health services is limited; only around half of the population suffering from an illness or accident receive medical assistance; there is inappropriate allocation of resources amongst public health institutions; health spending is low and fragmented; the quality of care provided to citizens is poor. **Lack of access to drinking water and basic sanitation** together with **malnutrition**, environmental pollution and degradation are the primary causes of illnesses. The rates of maternal and infant mortality are high and the number of persons infected by HIV/AIDS has soared. Between 2002 and 2004 the number of cases detected increased from 1.5 to 6 per day. One of the most alarming facts is that 50% of those infected with HIV/AIDS are under 25 years of age, many of them women. A country programme against HIV/AIDS is being financed by the Global Fund. The situation is exacerbated by the fact that the majority of the work force is not covered by any form of health insurance. The Salvadorian Institute of Social

³ In its 2003 *Perfil de los Pueblos Indigenas en El Salvador*, the Regional Unit for Technical Assistance (sponsored by the IBRD and World Bank) reported that 61% of the indigenous families (Nahuat, Lencas, and Cecaopera communities) live in poverty and 38% in extreme poverty.

⁴ See reports of the El Salvador Government to the *International Convention on the Elimination of all Forms of Racial Discrimination*

Security provides only limited coverage for children, and youths are excluded. Overall, the coverage of children and adolescents is one of the lowest in Latin America.

In spite of substantial improvements in coverage, literacy and access over the last two decades, **education** still faces challenges: a very low level of schooling (5 years on average), high rates of over-age pupils (ages of enrolment for first grade vary from 6 to 12 years of age), high rates of repetition of school grades, high drop-out rates (the higher the grade, the lower the number of students), acute deficiencies in the quality of education offered and a wide gap between urban and rural areas. Reasons for absenteeism are the lack of classrooms and teachers in the poorest and most isolated regions and child labour in rural areas. In many rural areas, children only attend school from the age of 10. On average only 45.5% of children aged 4 and 5 attend pre-school centres and there is a strong correlation between lack of access to pre-school education and failure to complete basic education. The learning process is further complicated by the need to teach groups of children of different ages, and the education system is of poor quality due to the poor curriculum design, quantitative vision of knowledge, poor quality of academic and training centres for teachers⁵, lack of teaching resources and low percentage of the state budget assigned to this sector. In response to this situation, the Ministry of Education has designed an **Education Plan for 2004-2009** ("Plan 2021") which includes: 1) effectiveness and excellence in pre-school and basic education, 2) efficiency and quality of middle education, 3) technology, connectivity and communication for development and 4) higher education, science, research and technology.

Although advances have been observed, **development is lagging behind in the case of various social groups:**

- **Children and youth:** 61.7% of the population is under 30 years of age⁶. The country is marked by high, but decreasing, **infant mortality rates** (25 per thousand live births, rising to 30 for homes with a low socio-economic level), the **high rate of undernourished children** (20% of children under 5 suffer from chronic under-nourishment), the **short time that the average Salvadorian child spends at school**, and **child labour**. El Salvador ratified the **Convention on the Rights of the Child** in 1990 and the former administration designed a *National Policy for Integral Development of Childhood and Adolescence*. The Salvadorian Institute for Childhood and Adolescence (ISNA) initially focused on protecting abandoned children, but is now shifting to a more preventive approach aimed at working together with families and children facing problems due to drug addiction, sexual abuse, violence and abandonment. The issue of youth is being approached from various angles (rights, risks, participation in the country's political, economic and social life, etc.) by a number of institutions and bodies. To date, there has been little institutional coordination of the various parties involved and, more importantly, no consensus on a comprehensive national policy for youth. Youths are mostly associated with violence given the alarming spread of youth gangs or "*maras*" in recent years (primarily as a result of the waves of deportation and trans-culturisation which migration flows have brought). However, youths are also the principal victims of the escalating social violence. Although the Government has taken a number of initiatives (a National Plan for Youth - *Plan Nacional de Juventud* - and a Secretariat for Youth agreed with civil society), a consensual national strategy on youth containing an integral and comprehensive vision still needs to be consolidated and fully implemented in order to achieve tangible results. Diagnosis of the situation of El Salvador's youth underlines the problems of drug addiction (29% of patients who required assistance for drug

⁵ Results from the academic and pedagogical competencies examination for newly trained teachers have been extremely low for the three years in which the examination has been set in the country (2001-2003).

⁶ Data taken from the 2003 Multi-Purpose Household Survey (EHPM).

consumption in 2002 were under 20 years of age), sexual violence, armed violence (21% of cases involved adolescents), the precarious health situation among adolescent women (19% of all maternal deaths registered during 2003 were adolescents) and high drop-out rates from school (especially from the age of 15 onwards) due to the severe lack of incentives or of connection of the education system to the country's labour market. Moreover, youths experience a series of paradoxes and tensions, even more so than the rest of the population: they have, on average, greater access to education but less access to employment, they have greater access to information but less power, they have greater aptitude for changes in production processes but are more excluded from them, and they have higher expectations of autonomy but fewer options to turn their aspirations into reality. Policy-makers and politicians are therefore striving to develop a consensus and create a national policy aimed at overcoming the critical problems facing Salvadorian youth, which in turn affect society as a whole. Given the percentage that this group represents in the country's total population, resolution or attenuation of the problems affecting this group will have a considerable direct impact on the degree of social cohesion in the country as a whole.

- The **situation of women** is multidimensional: the social burden and economic conditions; the educational gap and lack of school attendance by children in general due to the obligations imposed on them from a very early age (housework); intra-family violence; lack of respect for sexual and reproductive rights; and, particularly, political non-participation. Despite numerous initiatives (such as modernisation of the legislation related to families, in particular approval of the Family Code and the Law against Intra-Family Violence, preparation of the National Policy on Women (PNM), the Action Plan for 2000-2004 and regional initiatives such as the creation of the Committee of Central American Ministers for Women), the obstacles to integration and participation by Salvadorian women at all levels have yet to be overcome.

2.3 Economic situation

El Salvador has evolved from a commodity export-based economy (mainly coffee, sugar and cotton) to a model in which “*maquila*”, services and family remittances are the most important components and the main sources of foreign currency. Agriculture accounted for 10.7% of GDP in 2005 (against 38% at the beginning of the 80s), industry for 29.9% and services for 59.5%. The **economy is stable** and more **balanced** than that of most other countries in the region in terms of public deficit, external debt and inflation as a result of the structural reforms carried out during the 90s. In 2001 the Government decided to give up its national currency and adopt the US dollar which resulted in a significant decrease in interest rates and inflation. However, a series of trends could upset the economic equilibrium in the medium to long term:

- **Slow economic growth.** The steady GDP growth during the 90s has made El Salvador a lower MIC (estimated GNI per capita has more than doubled from US\$ 950 in 1990 to US\$ 2,450 in 2005). However, GDP growth started to slow down in the second half of the 90s, and real GDP *per capita* has stagnated as a result (1% in 2005 with an estimated 1.6% for the period 2005-09) and is still 10% below the pre-war level. This stagnation is also partly reflected in: the low level of investment (16.5% of GDP), the slowdown of the world economy, the decline in coffee exports, the weak domestic demand and credit, and, finally, the effects of natural disasters (hurricane Mitch in 1998, earthquakes and droughts in 2001/2002, tropical storm Stan in 2005). On the other hand, income distribution is more and more uneven and, although poverty has decreased since the time of the conflict, extreme poverty has increased. This indicates that a large part of society, especially the population suffering from extreme poverty mostly in rural areas, has been excluded from the economic progress and still has limited access to basic services. Finally, considering that the GDP growth rate is lower than the population growth rate, real per capita income is decreasing.

This situation could worsen as emigration to the USA decreases (and consequently the flow of remittances to El Salvador).

- **Inflation** averaged about 2% per annum during 2001-2003, but increased to 4.4% in 2005 (on a year-end basis), in part reflecting the effects of higher oil prices, although some depreciation of the US\$ offset the rising inflation differentials.
- The **overall fiscal deficit of the Central Government** (before grants) rose to over 5% of GDP in 2002 on account of higher expenditure associated with the post-earthquake reconstruction and the cost of pension reform but was cut to about 4% of GDP in 2003 and to less than 3% in 2004. However, this is the result of relatively low levels of Government expenditure (16% of GDP) and low fiscal revenue (13% of GDP). The tax system depends primarily on consumption taxes and is regressive. Taxes on income and property are at extremely low levels and account for a quarter of total revenue. Import taxes represent 3% of the total value of imports. The modest increase in revenue between 2000 and 2004 was derived mainly from higher collections of value added tax.
- The **level of social expenditure is low**, even if it has risen from the extremely low levels of the 1990s. This increased from 4.3% of GDP in 1996 to 7.3% in 2003, with expenditure on education climbing from 2.2% to 3.1% of GDP over the same period. The World Bank estimates that expenditure on education should increase by about 2 points of GDP (from the 2003 level) in order to achieve the MDG and that, together with better use of resources, focusing more on primary care, health expenditure needs to increase by about 0.2% of GDP to extend minimum services to the 25% of the population still excluded. In all, **estimates suggest that the level of expenditure would need to rise gradually by the equivalent of 3.5% of GDP to meet the basic needs of the proportion of the population that currently has no access to basic services**. Implementation of a comprehensive social policy, as announced by the Government, will require, amongst other things, an ambitious **tax reform**. The country will experience a decline in import taxes, which are already low, as free trade arrangements eventually enter into force. Recent studies estimate that the tax revenue impact of CAFTA could vary considerably across countries, ranging from about 0.3% of GDP in Costa Rica and Nicaragua to 0.8% in Honduras. The tax loss for El Salvador, in a scenario of moderate economic growth, would be between 0.26% and 0.29% of GDP. The Government has taken several initiatives to reduce tax evasion and strengthen the tax collection system. These have, to some extent, increased fiscal revenue. It plans to increase tax income to 3% of GDP by 2009 in order to be able to pay the pension debts and progressively bring the public debt down to 38% by 2009. However, the electoral cycles of 2006 and 2009 will test the current Government's real commitment to its proclaimed social policies and to creating new taxes or simply increasing the rates of the existing taxes. Decentralisation will also require additional resources if it is to be implemented properly.
- **Balance of payments.** Since 2000 El Salvador has been reporting **increasing trade deficits**, reaching 18% of GDP in 2005, as a result of the combination of a sharp decrease in exports of *maquila* and coffee and parallel record oil imports (19% of GDP in 2004). The services balance has worsened as well, reflecting in part the rise in interest payments on external debt. As a result, altogether El Salvador's current account deficit before remittances has widened from an average of about 12% of GDP during the late 1990s to 20% by 2004; however, it is still moderate (4% of GDP) mainly due to the constant increase in family remittances from relatives abroad (\$ 3,3 million in 2006, 17% of GDP).

An **increase in external public debt** has been the main source of financing the current account deficit in recent years (from 27.4% of GDP in 2000 to 38.5% of GDP in 2004). Repayment of the external public debt should not be an immediate problem for the present Government since only 7% of the stock is short term (from 1 to 5 years). However, 60% of the debt is between 5 and 20 years. On the other hand, the level of foreign direct investment

has been relatively limited in recent years, on approximately US\$ 300 million or around 2% of GDP per annum during 2001-2003, mainly due to the negative security situation and the legal and regulatory impediments.

2.4 Trade and regional integration

The USA, as the main trading partner (48% of imports and exports), plays an important role in El Salvador. The savings of Salvadorians living in the USA make up the leading source of “income” of the country. In January 2001 the Economic Integration Act made the US dollar the legal tender alongside the national currency. The signature of CAFTA in May 2004 has added another new dimension to the important role played by the USA in the country. The second trading partner is the Central American region (35%). The EU accounts for 7% of overall trade: exports to the EU are dominated by agricultural products, whereas the main imports from the EU are transport equipment, machinery and chemical products. El Salvador’s share of EU trade has decreased over the past two decades even if, in absolute terms, trade volumes have increased slightly from €0.4 billion in 1980 to around €0.6 billion in 2003. The EU’s trade deficit with El Salvador turned into a surplus at the beginning of the 1990s and has not stopped expanding since. It stood at €0.5 billion in 2002. The EU’s share in Salvadorian trade has decreased sharply over the past ten years, particularly in El Salvador’s exports. In 1996 some 28% of El Salvador’s exports were bound for the EU. In 2002 only 3% of El Salvador’s exports went to the EU market. This decline is explained by the fall in coffee prices and by the substitution of European industrial goods with goods from other suppliers (especially the USA and other Central American countries). One issue in the relations between the EU and El Salvador is respect for and application in the country of the International Standards Organisation 9000 standards and norms, including the ISO 14000 international quality standards which encompass all standards, norms and regulations dealing with the environment and ecology. Non-application of these standards constitutes a barrier for effective and rapid modernisation and development of El Salvador’s key productive sectors and the country’s successful integration into the world economy. Moreover, the non-application of international standards by El Salvador erects a strong barrier to participation by European enterprises in the country’s markets and therefore has a discriminatory effect. El Salvador benefits from the Generalised System of Preferences (GSP). Virtually all the goods exported fall under the “agricultural” part of the system (principally frozen shrimps, coffee and leather). Decreasing use of the GSP (from 55.7% in 1997 to 46.9% in 2000) shows that this is still a little-known or little-used instrument in El Salvador and confirms traders’ inability to diversify their markets. In contrast to trade, European investment has increased in the last five years, both in terms of quantity and quality, concentrated above all in the services sector: telecommunications, tourism, pensions, insurance, etc. As regards GSP+, the country ratified the ILO Conventions on Freedom of Association and on Right to Collective Bargaining in August 2006 paving the way for it to continue benefiting from the improved preferences granted by the system beyond 31 December 2006.

In the new **WTO round of negotiations**, El Salvador shares the position of the majority of Central American countries, which argue for greater **liberalisation of trade in agricultural products** and have a specific interest in extension of the tax regime. In addition, El Salvador has succeeded in **prolonging the special regime** applicable to the **tax-free zones** for several years to come, which is to the benefit of the *maquila* sector. Regarding the Doha Development Agenda, El Salvador was a member of the G-20 but withdrew at the meeting in Cancun in 2003. In the context of the XXIIIrd Rio Group meeting in August 2004, it was announced that El Salvador was rejoining the G-20.

Regional and world integration are crucial for El Salvador’s development. One challenge is for the country to adapt its policies to the new global environment with the aim of capitalising on

globalisation and attenuating its negative effects. **Central America is a priority for El Salvador** which, since the 1960s, has made a clear effort to achieve greater trade liberalisation in the region in order to reduce costs, enhance competitiveness and promote exports. These efforts received institutional support at regional level in 1991 with the establishment of the Secretariat General of the SICA (Central American Integration System) based in San Salvador. Within the framework of the Central American Tariff System, which entered into force in 1993, El Salvador embarked on a gradual process of reducing tariffs on several products. However, **in practice, a preference for bilateral agreements predominates**. The country is demanding liberalisation of trade in services, improvement of road networks and port facilities, and simplification of border control procedures. In 2004 one of the first decisions taken by the new Government was to re-launch a bilateral trade facilitation process with Guatemala that will lead to freer movement of goods between the two countries. Trade between Guatemala and El Salvador is around 65% of the total intra-regional trade. This process will facilitate access to Guatemala's Caribbean ports. El Salvador is also participating in the **Plan Puebla Panama** and has been a leader among Central American countries in the negotiations for a Central America Free Trade Agreement⁷ which was ratified by Parliament in December 2004. This boosted to a certain extent the sub-regional integration but its differentiated treatment between Central American countries could make it difficult to achieve the customs union and could lead to partial substitution of intra-regional trade flows by north-south exchanges.

2.5 Environmental situation, vulnerability and poverty

El Salvador is a highly vulnerable country. Estimates of the environmental threats indicate that about 9.36% of the national territory (1 970 km²) is exposed to severe and moderate floods and 19.2% (4 040 km²) to various types of landslides, while more than 47% (10 000 km²) is at risk of being affected by droughts to a severe, moderate or small extent. Moreover, tropical storms regularly threaten El Salvador, the latest being Stan in October 2005. Environmental risk management offers a planning process to reduce the existing levels of risks to society and promote development strategies on the basis of acceptable security and sustainability. For that purpose, 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, comparing how prevention and emergency aid mechanisms have been mobilised (for example, between hurricane Adrian in May 2005 and tropical storm Stan in October 2005). Overall, however, these remain insufficient.

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.

⁷ Central American Free Trade Agreement between the USA, Central American countries and the Dominican Republic.

3 EL SALVADOR NATIONAL AGENDA

The Government's strategy is detailed in the *Plan País Seguro* (Safe Country Plan comprising 11 presidential sub-plans) for 2004-2009. It aims to: (a) strengthen and modernise state institutions; (b) generate macro-economic stability and fair participation by all in the benefits generated by economic growth; (c) raise the productivity and competitiveness of the country's economy; (d) support further development of human resources and the dignity of everyone; and (e) promote recovery of and respect for the environment. While confirming the country's commitment to healthy macro-economic management, a free and open economy and private-sector development, *Plan País Seguro* places greater emphasis than previous plans on **inclusive and pro-poor growth policies** by improving citizens' safety and reducing the country's overall vulnerability. Furthermore, it commits the Government to reducing poverty and, more generally, fulfilling the MDG.

In this context, the Government has launched a *Plan de Oportunidades* (Opportunities Plan) which is directed towards the poorest 100 municipalities in the country and addresses five priorities: 1) micro-credits for integral development – the aim of which is to bring micro-credits closer to owners of micro and small businesses, 2) *FOSALUD* – focused on increasing the range of medical services offered in local health units, 3) *CONÉCTATE* (connect yourself) – aimed at incorporating information and communication technologies in the education system, 4) the Presidential Programme for Youth – directed towards social integration of youth, *inter alia* by increasing economic opportunities, and 5) *Redes Solidarias* – which aims at improving the quality and coverage of social services in 100 municipalities classified in the extremely severe or highly severe poverty category. *Redes Solidarias* is considered a first step towards a more integral strategy on poverty alleviation and local development, an issue considered crucial by different sectors of society and currently being discussed in several fora established by the Government, such as CONADEL (Comisión Nacional de Desarrollo Local) and the CND (Comisión Nacional de Desarrollo). In May 2005 CONADEL presented a proposal for a *National Development Agenda* including reforms to the Municipal Code which clarify the powers and responsibilities of local governments and improve their accountability, but leave open the crucial question of municipal financing.

El Salvador, as a middle income country, does not have a poverty reduction strategy similar to the PRSP for HIPC countries. Public expenditure stood at 46.2% of the 2005 national budget (US\$ 1 382.7 million out of a total of US\$ 2 992.1 million) and progress has been made towards certain MDG over the past decade. In this context, *Red Solidaria* marks a significant step forward in the social policies of the state given that it will channel a significant amount of public expenditure towards the poorest municipalities. *Red Solidaria* also represents progress in terms of conceptualisation of poverty, which is no longer considered exclusively in terms of a lack of or very low level of income, but is also seen as a lack of access to basic services. The social policies and *Red Solidaria* fall under the responsibility of the Social Cabinet, which is led by the Office coordinating Social Affairs at Presidency level. This periodically organises joint meetings of the Ministries of Health, Education and Public Works and the FISDL and ANDA in order to work towards a coordinated response in the areas of concern. The strong leadership demonstrated so far by this Cabinet and efficiency of the management system established have played a role in the EC's decision to implement PAPES through budget support.

In relation to insecurity, the Government announced in December 2006 the establishment of a *Ministry for Public Security and Justice*, charged with improving the co-ordination of the fight against crime, based notably on a *Law against Organised Crime* endorsed by Congress in end 2006. At the same time, President Saca launched a *National Commission for Citizen Security and Social Peace* bringing together 15 members representing all political parties and some civil society actors to reflect on new security policies and initiatives including control of small arms.

4 OVERVIEW OF PAST AND ONGOING EC COOPERATION WITH EL SALVADOR, COORDINATION AND COHERENCE

Official Development Assistance is of relatively limited relevance to El Salvador (1.4% of GDP in 2004) compared with neighbouring Central American countries (e.g. about 16% of GDP in Nicaragua) and is gradually declining (from an average of more than US\$ 300 million/year in the early 90s to US\$ 211 million in 2004). This trend is partly explained by the fact that El Salvador has overcome the internal conflict of the 80s, has become a quite stable middle income country, and has its own, albeit limited, resources to finance its development policies. In addition, over the past few years El Salvador has been financing its rising fiscal deficit with increasing private resources (international bonds and the local capital market). In spite of these trends, a number of developments are increasing the importance of ODA flows to El Salvador and will continue to do so in the short to medium term:

- El Salvador needs to tackle its “social debt” without further increasing its fiscal deficit;
- the political and financial feasibility of increasing the external debt will decrease due to its current (high) level, in addition to the foreseeable opposition of the opposition party in Congress, especially in view of forthcoming pre-electoral campaigns;
- the inclination of donors to implement aid through sector and budget support will make international cooperation more attractive for the Government.

In this context, beyond contributing to the global macro-economic balance, the main challenge for donors will be to support the development, definition and successful implementation of long-term sector policies.

4.1 Overview of past and ongoing EC cooperation, lessons learned

Bilateral cooperation between the EC and El Salvador presently totals approximately €150 million, including funds already committed (projects in implementation phase) and funds programmed for initiatives currently being identified. Between the mid-80s and 2004 EC contributions to the development of El Salvador totalled €360 million, making the EC one of the biggest donors. In the period 2002-2004 an average of €20 million was disbursed annually⁸.

During the ‘80s, and until the signing of the Peace Accords in 1992, EC cooperation focused primarily on food aid and emergency action for refugees and the uprooted. This was a result of the *Ministerial Meetings of the San José Dialogue* between the EU and the Central American countries held since 1984. The EC became one of the principal sources of development cooperation for El Salvador, centring its operations mainly on restoration of peace and efforts to consolidate the rule of law and socio-economic stability and to rehabilitate social infrastructure. Moreover, in response to a series of natural disasters (hurricane Mitch in 1998 and the earthquakes in 2001), EC cooperation contributed considerable additional funds to reconstruction of the country⁹.

⁸ Taking into account only technical and financial cooperation and the post-Mitch PRRAC programme.

⁹ After hurricane Mitch in October 1998, the EC contributed an additional €28.5 million to rehabilitation of infrastructure to cut across the Regional Programme of Reconstruction in Central America (PRRAC), implemented in agreement with European and local NGOs and national ministries (health, education and environment), principally in the east of the country. Equally, the EC responded immediately to the post-earthquake situation at the beginning of 2001, contributing an additional €47 million and redirecting part of its cooperation package to adapt to the new reality. These funds have been channelled through Government projects, through NGOs and through the food security programme. Furthermore, the European Commission Humanitarian Aid Office (ECHO) mobilised more than €10 million.

In March 2001 a Memorandum of Understanding (MoU) mapped out a multiannual strategy between the Government and the EC for the period 2000-2006. On this basis, details of the programming of EC external aid were set out in the *EC Country Strategy Paper for El Salvador 2002-2006*. This brought greater coherence between the strategic priorities of the EC (concentration of both the number of sectors and the number of operations) and El Salvador's own development agenda. The corresponding *National Indicative Programme* allocates €60 million to the following sectors: i) democratisation and modernisation of the State, including prevention of juvenile delinquency, ii) support for integral and sustainable local development and iii) support for equitable and balanced growth of the economy and employment. Cooperation with El Salvador in 2005-2006 is concentrating on a programme to support decentralisation and local development in the context of poverty reduction (€37 million) and a programme to strengthen the competitiveness of micro and small businesses (€10 million). By the end of 2005, 100% of the total amount had been committed.

Moreover, for the period covered by the CSP for 2002-2006, El Salvador received EC aid at **regional level** and under the **measures and programmes open to all Latin American countries** (decentralised cooperation programmes such as Al-Invest for economic cooperation, ALFA for cooperation on higher education and ATIs for cooperation on the information society). El Salvador received assistance through the EC Regional Programme for the Reconstruction of Central America (PRRAC), which in El Salvador focused on health, the environment and education, and from the Regional Programme for Food and Nutritional Security in Central America (PRESANCA) to be implemented during the period 2005-2009. With regard to the €28.5 million post-hurricane Mitch PRRAC Programme for El Salvador, 63% had been disbursed by May 2005. El Salvador is also eligible for financing under **EC thematic budget lines** (Co-Financing with NGOs, Environment and Tropical Forests, Food Security, Promoting Gender Equality in Development Cooperation, European Initiative for Democracy and Human Rights, Human Rights budget lines, etc.). In all 37 projects costing a total of €40.9 million were in progress in 2005, addressing in particular human rights, food security and the environment.

In addition, El Salvador received continued support from **ECHO**, which, since 1998, has been financing projects throughout Central America to promote disaster-preparedness and reduce the vulnerability of local communities to natural disasters. ECHO has channelled over €2 million into disaster preparedness projects since 1998 and approved in excess of €10.5 million in response to the earthquakes of 2001 and some €1.7 million in 2005 in response to damage caused by hurricane Stan and the Santa Ana volcano.

Finally, El Salvador also benefits from EC/EU funds via the "EU Water Initiative" launched at the World Summit on Sustainable Development in Johannesburg in 2002. The EUWI Latin American component launched at the Environment Ministers' Forum in the Dominican Republic in July 2002 is based on forming strategic associations between governments, civil society and other stakeholders in order to prevent extreme water-related events and mitigate their consequences, as well as to promote sustainable use of water in agriculture. It is developed through regional components, one of which, headed by Spain, Mexico and Portugal, covers the Latin America area. The EUWI component for Latin America includes two general lines of action, other than Water and Sanitation and Integrated Water Resource Management (IWRM) - one on the "Prevention of Extreme Water-related Events and Mitigation of their Consequences", the other on "Sustainable Use of Water in Agriculture". Other thematic areas are mainstreamed as cross-cutting issues in all these lines of action: (i) Integration of gender issues and issues referring to the indigenous population, (ii) Intraregional cooperation and technology transfer at that level; (iii) Education and availability of know-how for the public.

Lessons learned:

The CSP for 2002-2006 is still being implemented. Therefore no full assessment of the different programmes can be carried out at this stage. Lessons can, however, be learned from individual

project evaluations and other sources (sector studies, evaluations in neighbouring countries, reports from other donors, etc.):

- There appears to be general consensus on the fact that the programmes under the 2002-2006 CSP are in line with needs and priorities of El Salvador., most of which remain unchanged for the new Government that took office in 2004.
- The relatively low level of disbursement of EC aid is due to the slow start-up and implementation of new projects, notably resulting from changes in Government in June 2004, which in turn was affected by the introduction of the Community's new Financial Regulation. Notwithstanding the substantial increase in the ownership of programmes and projects by beneficiary administrations, introduction of the new regulations caused further delays in the start-up and implementation of technical cooperation projects.
- Additionally, the natural disasters which hit El Salvador in 1998, in 2001 and again in 2005, had a considerable impact on both Government and donor resources and disrupted planning and implementation, forcing donors to design new emergency and reconstruction programmes and the Government to re-direct its priorities and resources.
- To establish a closer link between national policies and EC cooperation, a shift from the classic project approach to long-term sector programmes, implemented via budget support, should be considered.
- This approach should be accompanied by technical assistance for the preparation of sector strategies as well as institutional support and capacity-building/implementation capacity, especially in the limited number of focal sectors.
- Efforts by Government to give stronger leadership in donor coordination need to be reinforced. Given that EU assistance is delivered in the form of grants, a more substantial national contribution to EU-financed development programmes is needed.
- The level of political dialogue and coordination between the Commission departments on one side and the Government of El Salvador, EU Member States and non-EU donors on the other needs to be increased and consolidated.
- In setting priorities for each of the EC budget lines, account will have to be taken of the strategic guidelines established by the CSP with a view to reinforcing them. In the case of El Salvador, coherence between measures can also be enhanced by defining a list of "priorities" in the framework of the "decentralisation and integrated development at local level" priority area (institutional support to civil society interest groups).

4.2 EU Member States and other donors

4.2.1 EU Member States

Although El Salvador receives aid from 14 Member States, only four have Embassies in situ (France, Germany, Italy and Spain) and only two manage cooperation locally (Spain and Germany). The EC's share of the total grants for the period 2000-2003, according to DAC/OECD figures, was 10.5%, i.e. relatively modest in comparison to other donors. However, the share of the EC plus the EU Member States stood at 44% of total grants. Moreover, the combined total for Official Development Assistance (ODA) and Other Official Flows (OOFs) over the abovementioned period averaged € 339 million, out of which the EU accounted for around one third. Spain and Germany accounted for more than half of all grant flows from EU countries during 2000-2003 (Spain with about one third of the total from EU countries, with more grants than the EC). These two countries also accounted for over four fifths of ODA loan disbursements from EU countries and for nearly two thirds of ODA commitments by EU countries over the same period (Spain alone accounted for nearly half). During 2000-2003, the Netherlands came third with a total share of 3.23%, followed by Sweden (3.22%), Luxembourg (2.51%) and Italy (1.05%).

4.2.2 Other donors

USAID, the **World Bank** and the **Inter-American Development Bank (IADB)** have a programme at least partly covering the EC programming period (2007-2013). The EC strategy has been defined taking into account these programmes.

In September 2005 the **Inter-American Development Bank (IADB)** approved a strategy for the period running up to 2009. The lines of action include: reactivation of economic growth and competitiveness, poverty reduction and strengthening of human capital, modernisation of the State and governance.

The **United States Agency for International Development (USAID)** constitutes the single largest source of grants to El Salvador. The size of its programme reflects in part the special political relationship that exists between the two countries. USAID has completed its country assistance strategy for the period covering most of the term of the current Government. USAID's strategic objectives are: (i) Ruling Justly – more responsive, transparent governance; (ii) Economic Freedom – an open, diversified, expanding economy; and (iii) Investing in People: **healthier, better-educated people**. In 2006, the **US Millennium Challenge Corporation (MCC)** granted \$ **461 million** to El Salvador in support to economic growth and poverty reduction.

The UN System is preparing its new country assistance strategy based on the UN Development Assistance Framework and the Common Country Assessment. Four main areas are considered: (i) economic growth, income creation and equity; (ii) sustainable development and territorial management; (iii) good governance and democratisation; (iv) strengthening human and social capital. UNDP has been particularly successful at leveraging its programme with cost-sharing arrangements with the Government and other donors, including the EC. UNDP activities cover a wide range of areas. Moreover, the Agency plays an active role in local aid coordination and its work on the national Human Development Report, most recently for 2004, has provided valuable analysis on human development issues.

Japan has been one of the main bilateral donors in recent years, accounting, on average, for 12% of total ODA grants and 21% of total net ODA flows during 2000-2003. This in part reflects its post-emergency support, including a total of US\$ 48.2 million related to hurricane Mitch and US\$ 23.1 million in response to the 2001 earthquakes. Its current programme focuses heavily on one region, La Unión, and the main project is development of the port of Cucuto in Gulf Fonseca.

4.2.3 Sectoral breakdown of aid

As regards areas of cooperation, the picture is rather dispersed. A relatively low amount is dedicated to agriculture and (physical) infrastructure, while the rest of the aid goes to social infrastructure and services, multi-sector assistance, transport and storage, non-food emergency and distress relief, education and health. In the case of the EU, the main bilateral donors - Spain and Germany – concentrate cooperation on poverty reduction, social services, good governance (including security), and business development. Spain's programme includes funding of Spanish NGOs (over 40% of the total assigned to El Salvador), as well as national citizens' contributions to post-earthquake assistance. In the period 2007-2010, Luxembourg will allocate € 6 million to poverty reduction through support to Red Solidaria (health, education, water and sanitation), rural production, and capacity building of local and national institutions. [See also the donor matrix in **Annex 6**]

4.2.4 Coordination

Aid coordination has improved over the past two years but is still rather fragmented and limited, for reasons that are not unique to El Salvador. Under the current administration, the role and status of the Technical Secretariat of the Presidency "*Secretaría Técnica de la Presidencia*" (STP) has been greatly enhanced, making it the main contact for multilateral lending institutions.

However, the division of functions and responsibilities between the STP and the Ministry for Foreign Affairs, formerly responsible for overall aid coordination, needs to be further clarified. Moreover, there are limits to the capability of the Ministry of Foreign Affairs to ensure adequate and timely counterpart funding, provide adequate project staffing and deal with other matters critical to effective programme and project implementation. At the beginning of 2005 the Government reviewed its mechanism for coordination with the donor community on the basis of seven new thematic “round tables” on MDG, and three existing “tables” on local, rural and economic development. These thematic tables involve not only the Government (line ministries and STP) and the main donors, but also civil society, including NGOs and the private sector. The Government is leading the way in defining sectoral development and coordinating international aid. The round table working on the 8th MDG (support the creation of a global association for development) is led by the Technical Secretariat of the Presidency.

Donors and international organisations coordinate their initiatives through **RECODEL** (*Red de Cooperantes para el DEsarrollo Local*). In 2003, members reviewed the role of this forum and attempted to reinforce its impact through enhanced dialogue with state and non state actors. In the period 2007-2013, the European Commission will stimulate a further review of coordination modalities, in line with the policy commitment to enhance greater coordination, harmonisation and alignment based notably on the Paris Declaration. This will include strengthened coordination between EU Member States engaged in cooperation with El Salvador and the European Commission, also with a view to ensure a more proactive role of the government in donor coordination.

4.3 Coherence with EU policies and instruments (policy mix)

The Commission aims at ensuring coherence between EC policies and instruments (trade, agriculture, environment, health and consumer safety, internal market, competition, justice, information society, research and conflict prevention), in particular in relation to their possible impact on El Salvador¹⁰. Concerns have been voiced by officials from El Salvador in this respect, notably in relation to the GSP + mechanism, which might be too short-lived to attract long-term investment, to EC trade policy and agriculture and restrictions to trade as a result of strict consumer protection policy through sanitary and phytosanitary controls.

5 THE EC RESPONSE STRATEGY

5.1 Global objectives

As detailed in the previous CSP, **the challenge for El Salvador remains to define and implement a long-term development model consolidating democracy and good governance, offering the prospect of more inclusive, equitable and sustainable socio-economic growth and looking to greater regional and smoother international integration.**

The EC cooperation strategy will therefore be directed towards:

- **Improved social cohesion and human security** through social investment (health, including nutrition, water and sanitation, and human capital development) and support to the rule of law;
- **Economic growth** sustained by employment creation, **regional integration** and **trade promotion**.

¹⁰ A review of the coherence of EC policies and instruments can be found in **Annex 7**.

5.2 The EC intervention sectors

5.2.1 Focal sector 1: Fostering social cohesion and human security

El Salvador needs to make substantial progress on citizen security, social cohesion and the MDG. The country is aiming to establish more redistributive pro-poor mechanisms, notably as a *sine qua non* for tackling regional/local disparities and promoting sustainable development and consolidating social peace. The EC can assist in this respect by providing support for health, water/sanitation and education, and the rule of law in continuation of previous cooperation. Special efforts will be made to narrow the gap between the rural and urban areas, concentrating on the poorest rural areas. In this context, the EC will promote pro-poor strategies and the involvement of local administrations and civil society in implementing them.

- **Access to basic services (health and water & sanitation)**

EC cooperation will contribute to attaining the relevant MDG through improved access to basic social services with a focus on **health** and **water & sanitation** (coverage, equality, quality, efficiency and transparency) which will have a positive impact on extreme poverty and an indirect positive impact on food security and nutritional standards. The objective will be to improve the infant malnutrition and mortality indicators, maternal mortality rates and environmental sustainability, including access to potable water and sanitation. The latter are basic services of vital importance for advancing towards integral human development and overcoming rural poverty. In this context, considering that the high incidence of illnesses is caused to a great extent by the poor quality of drinking water and poor standards of sanitation, action on water and sanitation will have a direct impact on the health conditions of the rural population in El Salvador as well as on the environment and the sustainable development of natural resources.

- **Reduced social violence, human capital and promotion of young people**

In order to keep it consistent with the analytical part of the CSP (section 4.2), EC support will cover basic and skilled education. The EC will continue to contribute to improving basic education and creation of employment, especially in remote and isolated rural areas with high poverty rates. The creation of educational opportunities (focusing on excellence and quality), employment for the younger population and overcoming the gender gap in these areas lay the foundation for more integral human development, given the link between poverty, education and employment. EC cooperation will be directed towards increasing the efficiency and quality of the education system, reducing gender inequalities and the rate of juvenile unemployment through the creation or expansion of technical education/vocational training programmes establishing linkages with employment opportunities (in particular micro and small companies, construction, natural resources and water management, communication, etc.). The main focus will be on young people through an integrated approach with special emphasis on the prevention of juvenile delinquency and associated aspects (education, prevention, rehabilitation, vocational education and training programmes, work with family members, etc.). Support will be offered for creation of a national policy based on consensus for Salvadorian adolescents and youth. Rule of law will be consolidated through support to institutions responsible for ensuring social peace and citizen security. As such, cooperation will contribute to conflict prevention in El Salvador given the social violence created notably by the youth gangs or *maras*.

Grounds:

If El Salvador is to meet the MDG, investment in social services must be increased substantially. The **comparative advantage** of the EC in the abovementioned sectors stems from the lessons learned from experience and knowledge accumulated and the possibility of building on the results of the poverty reduction programme to be implemented during 2006-2010 (PAPES - *Programa*

de Alivio a la Pobreza en El Salvador or Poverty Relief Programme for El Salvador). The likely **impact** is expected to take the form of improved social indicators and poverty reduction, as already defined by PAPES. The current Government has given priority to increasing social expenditure in the poorest municipalities by means of a specific initiative (“Redes Solidarias”) on which there is some consensus at political level. Through cooperation in these sectors, preferably via budget support, the EC could also contribute to implementing the Government’s poverty reduction strategies, with significant participation by municipalities and the private sector. This could take the form of direct support to the decentralisation process as a tool to foster local development and reduce territorial inequalities in the country, provided political developments in El Salvador, particularly those related to the work of CONADEL, permit.

The **main political risk** is the possible increased polarisation and the possible erosion of the Government’s commitment to key social reforms (decentralisation, increase of fiscal (tax) income, etc.) or greater difficulty with gaining a majority in Congress. **Operational risks** mainly concern the problems of absorption and institutional capacity for management of large reform-based sector programmes. *Redes Solidarias*, *Plan de Oportunidades* and the possible proposals by CONADEL would need to be supplemented and consolidated in long-term policies. The success of the EC-El Salvador cooperation depends heavily on the specific counterpart authority concerned and its competence and commitment to the reform objectives in question. The recent decision to share responsibility for international cooperation between the STP and the Ministry for Foreign Affairs should be further clarified and the mechanisms for coordination with donors reinforced. There is also a systematic problem, common to all highly centralised administrations, i.e. the insufficient involvement of all key stakeholders, including civil society, in the planning and delivery of programmes.

5.2.2 Focal sector 2: Economic growth, regional integration and trade

Economic growth and job creation are essential factors in establishment of a development and poverty reduction model that is genuinely participatory and inclusive throughout El Salvador. The productive sector is the only one which can provide a growing population with the jobs, products and services it needs, create an alternative to the limits of the agricultural sector and bring about a diversification of traditional and non-traditional exports. In this respect, incorporation of El Salvador into the regional and world economies as well as improved trade flows are critical for social cohesion. Consequently, the objectives are twofold:

- To **foster the expansion, diversification, competitiveness and productivity of domestic private-sector businesses**, particularly small and micro enterprises at local level and focusing on rural areas. The EC could build on the results of the programme to support the private sector included in the CSP for 2002-06 and to be implemented in 2005-2008 (FOMYPE). One key area for the future EC action will be to reinforce the business environment in order to attract local and foreign investment. This will include support for good governance - fight against corruption – improved regulation, efficient public administration, including e-government, and legal security.
- To **enhance El Salvador’s position on international markets** (EU and Central America) and work towards its **effective integration in the Central American region and its participation in the multilateral trade system** and in the global economy. From this perspective, the **regional integration** of Central America is crucial and (in line with the EC regional strategy paper) EC cooperation will focus on: (i) supporting economic integration and completion of common regional policies; (ii) consolidating common Central American institutions and their capacity particularly with regard to customs in order to promote trade facilitation and the acceptance of international standards such as the WCO Framework of Standards to Secure and Facilitate Global Trade; (iii) reinforcing the role which civil society plays in the integration process. The environmental implications of cooperation under this

focal sector will be considered through the promotion of sustainable resource management, the development of environmental regulation and standards, the promotion of more sustainable production and consumption patterns, clean technologies and renewable energy.

Risks are linked, in particular, to the slow implementation of the current EC programme and the insufficient budgetary resources to implement the Government's plans. The main **circumstantial risks** are linked to unpredictable factors such as an unfavourable macro-economic scenario, including low growth and increasing external debt due to external factors (economic cycle in the USA and world economy, price of oil) or natural disasters. One of the main risks is big job losses in the *maquila* industry, due to replacement of exports from El Salvador to the USA by cheaper Asian products.

5.3 Principles for review and evaluation

Implementation of cooperation in El Salvador will be reviewed once a year. This will include a report on progress and compliance with the CSP guidelines and dialogue on conditionality and indicators. To this end, indicators will be specified when individual support programmes are prepared, which could include a statistical sub-module when necessary.

In 2010 at the latest, or for any major change at the request either of the Commission or of the Government of El Salvador, a mid-term review will be conducted to take stock of the cooperation under the NIP for 2007-2010 and to reflect on preparation of the NIP for 2011-2013.

5.4 Cross-cutting issues

As stipulated in article 3.3 of the Regulation establishing a financing instrument for development cooperation, the mainstreaming of the following cross-cutting issues shall be ensured:

- The **promotion of human rights**, in particular in relation to the youth component of the CSP, by means of ad-hoc monitoring and indicators.
- The **fostering of gender equality**, in particular in health, water, sanitation and youth related interventions.
- The **deepening of democracy and good governance**, notably through **conflict prevention** initiatives and the promotion of social cohesion initiatives and decentralisation. Emphasis will be placed on supporting participation at local level, including municipalities and civil society. Support should also be given to the current Government's initiative to seek consultations in different areas (justice, education, governance and decentralisation), and the population is explicitly demanding that political parties should seek coexistence, reach understandings and engage in dialogue in order to overcome the country's many challenges. Consultation with and participation of civil society will be included, including in sector wide or / and budget support operations. **Decentralisation** is a priority for the country in view of the possible impact on management of public affairs, improved access to social services and the opportunity to tackle inequalities and promote local development simultaneously. On condition that the legal framework evolves positively and that sector policies attribute clear responsibilities and resources to decentralised administrations, EC programmes should at least partially be implemented via local institutions. At the same time, cooperation aiming at improved social cohesion will aim at promoting local development, possibly in conjunction with the decentralisation process, if so decided at national level in the years ahead (CONADEL). Specific indicators will be defined during the identification process in order to support the launching of a decentralisation policy. Action will focus on families living in the municipalities classified as at extremely severe or extreme levels of poverty.

- The **protection of the rights of children, women, and other vulnerable groups (including indigenous communities)**.
- The **promotion of environmental sustainability**. Environmental degradation leads to low productivity in agriculture and is a major reason for rural poverty. Moreover, MDG health indicators largely depend on a healthier environment which is only possible by reducing pollution (of air and water). Environmental education and awareness will be promoted where possible, in particular within the youth related dimension of the CSP. Particular attention will be paid to sustainable resource management under the economic growth sector. Evaluation criteria for assessing the impact on environmental sustainability will be integrated in all relevant areas. Furthermore, specific emphasis will be placed on **food and nutritional security** (action on education, health, water and sanitation and to support production at local level).
- The **fight against HIV/AIDS**, on the basis of the government's policy agenda on HIV/AIDS and on sexual and reproductive health in particular.

6 PRESENTATION OF THE INDICATIVE PROGRAMME

An indicative allocation of **€ 121 million** has been earmarked in the period 2007-2013.

6.1 Main priorities and goals

Cooperation in the period 2007-2013 will, as far as possible, ensure the continuity of the initiatives launched during the previous programming exercise. It will be structured into **two National Indicative Programmes**, the first covering the period 2007-2010, the second 2011-13.

The EC strategy is to contribute to the reform process in El Salvador which is addressing structural deficiencies in the long term. Sector-wide approaches and budget support will be the preferred means of implementation on condition that El Salvador meets the necessary macro-economic conditions and that public finances are satisfactory [see Annex 12]. An assessment of the PAPES scheme will also be undertaken before so as to ensure that EC conditions are being met. Relevant sector policies in the medium to long term include social integration (notably health and education), local development, water management and public finances. As in the case of IMEF for education, FOMYPE for businesses, PAPES for poverty reduction and FORGAES for the environment and gender, the EC will promote the definition and/or implementation of such policies through:

- enhanced political dialogue with the Government, and closer consultations with non-state actors in El Salvador;
- closer coordination with other players in the international community to ensure coherence and complementarity, notably in relation to macro-economic indicators and those with an impact at local level.

Allocations will be available to strengthen the country's institutional capacities (monitoring system, management of public finances, etc.), facilitate information exchange to improve dialogue between all stakeholders (for example, through communication campaigns, establishment of regular consultation process with private sector and civil society and public fora on local radio), and support the coordination mechanisms as well as the Government in the design of public policies. Where necessary, Strategic Environmental Assessments will be conducted so as to make the best use of environmental opportunities and minimise any action which could damage the environment.

6.2 Specific objectives and target beneficiaries

6.2.1 Fostering social cohesion and human security

6.2.1.1 Access to basic services (health and water & sanitation)

Objectives

EC cooperation will be guided by the MDG on health and water and sanitation.

In the case of **health**, the associated investments by the Government of El Salvador will have to go beyond simple investment in infrastructure and include:

- better access to high-quality basic health services (including (re)building and equipping public health centres);
- prevention, as a method suitable to obtain a sustainable improvement in the health standards of the population;
- improved sexual and reproductive health and services (in particular in the poorest rural areas);
- reduction in illnesses due to a degraded and neglected natural environment (respiratory diseases, intestinal parasitism, gastric infections);
- improved access to drinking water, especially in rural areas with a high level of poverty.

For the purpose of this strategy, health includes nutrition, access to basic services (water and sewerage systems) and, therefore, aspects related to environmental health as well. The latter implies improvements in the supply of drinking water, refuse collection and waste disposal, as well as solid and liquid waste management systems, particularly for populations in extreme poverty in rural areas.

Cooperation in the **water sector** will focus on remote rural zones, where there is a marked deficit in access to drinking water (only 42% of the rural population is connected to a potable water distribution system), and include:

- Support for integral and sustainable management of water resources with the aim of improving and increasing collection and infiltration of rain water at local level, and promoting domestic water collection systems and sanitation systems through appropriate technologies (consolidating experience gained from the PRRAC Programmes). Particular emphasis will be placed on making visible and valuing the work of women in relation to water, sanitation and hygiene and on strengthening management capacity through awareness-raising, education and training.
- Development of a modern and harmonised legal framework for decentralisation of the management and administration of water at territorial (water basin) and local level.
- Institutional support and promotion of good governance in communities, civil society organisations, municipalities and territorial institutions to manage and administer water resources in a sustainable manner.

Cooperation will integrate cross-cutting issues, in particular gender, the environment and environmental education. They will seek to raise the awareness of local communities to the sustainable use and management of water resources and help them protect the resources by promoting their organisation or incorporation into existing local structures. In this context, a strong link will be established between the action on health, water and sanitation and the measures to promote the education of youth component. Technical and vocational education and training centres and programmes (network of local coordinators) should be established at local level and should be linked (together with municipal recreation facilities and rehabilitation and reintegration centres) to job creation at local level in all possible areas.

The basic assumptions are: i) the existence of an agreed reform of the sector – *inter alia* re-launching a strategy for local development and the decentralisation process, and consolidation of *Redes Solidarias* into a structured and consensual long-term plan, ii) approval of an annual budget with a sufficient level of public expenditure for social services, and iii) development of a mid-term expenditure framework for more effective monitoring of Government commitments on social expenditure.

The impact of EC cooperation will be measured through agreed indicators which, based notably on the precedents of PAPES and Red Solidaria, could include:

- access to high-quality basic health services;
- medical coverage;
- maternal and infant mortality rates;
- access to sexual and reproductive health and services (in particular in the poorest rural areas);
- illnesses due to a degraded and neglected natural environment (respiratory diseases, intestinal parasitism, gastric infections);
- access to drinking water, especially in rural areas with a high level of poverty (only 42% of the rural population is connected to a potable water distribution system);
- sanitation and waste management coverage for rural populations in extreme poverty.

Target beneficiaries:

- Ministry of Health.
- Red Solidaria.
- Civil society organisations.
- Small and medium-sized enterprises.
- Inhabitants of most vulnerable communities.

6.2.1.2 Reduced social violence, human capital and promotion of young people

The *Education Plan 2021* of the Ministry of Education sets clear long-term objectives, directly linked to the MDG, which facilitate budget support. The EC will encourage:

- a) A qualitative improvement in the education system by training teachers, improving curricula and teaching methods, increasing use of information technologies in the education system, stimulating education on human rights and on environmental issues at all levels (pre-school, primary and secondary education and technical and vocational education and training programmes) and diversifying the education offered by prioritising new educational opportunities directly linked to future access to the job market.
- b) Vocational education and specialised technical training with a view to creating incentives and opportunities for young Salvadorians, especially youth at risk (in both sub-urban and rural areas) and linking such programmes to existing opportunities for growth and employment in the country, without abandoning the integral human development concept, and thereby providing families, children and youth with new opportunities including local employment in the management of the water and sanitation sector.

The European Commission has gained valuable experience and insight concerning the education system in El Salvador from implementation of projects such as APREMAT, IMEF and PROJOVENES. This experience demonstrates that there is a need for further action in favour of youth at risk in both sub-urban and rural areas. An impact on the security situation of the country may be achieved by offering alternatives to the members of youth gangs (*maras*). This should be combined with continued efforts to consolidate the rule of law through an enhancement of the capacities of justice and security related institutions (curricula and teaching methods, community participation, information-gathering, awareness of rights and obligations, specialised training, sensibilisation), and improving interaction between institutions (judiciary, General Prosecutor,

National Police, forensic experts, penitentiary system, etc.)¹¹. Prevention of juvenile delinquency should be further supported through global action aimed at improving access to the appropriate level of education /training, diversifying the education offered by prioritising new educational opportunities directly linked to future access to the job market (rehabilitation and re-insertion programmes, vocational education and training, municipal centres allowing recreational and complementary educational activities, sports and arts). Finally, EC action should also target pre-school and basic school education in order to facilitate early enrolment, improve access to the education system, and ultimately, reduce school drop-out rates and the chances of young Salvadorians falling into the category of youth at risk. All these measures would have a direct impact on improving equal opportunities.

Possible indicators:

Quality of the education system: teachers (curricula, exit-exam results for newly trained teachers, i.e. Evaluation of Academic and Pedagogical Competencies), teaching methods (access to computers and internet);

Access to the education system: coverage of the education system, increased pre-school and basic-school enrolment rates, lower late enrolment rates (pupils starting school at the age of 10-12 years), repetition rates, narrower gap between rural and urban areas, narrowing the gender gap, in particular in rural areas (attendance and continued presence in schools, rate of drop-outs especially in secondary school at ages 14 to 15);

Link between training and employment: rate of technical education and vocational training graduates, number of technical education and vocational training programmes, rate of juvenile unemployment, rate of local employment contracts, rate of rehabilitation/reinsertion of former youth gang members, statistics on the number of crimes/violent acts/murders involving youth gangs.

Reduction of social violence: statistics of crime and impunity.

Target beneficiaries:

- Ministries of Education and Labour.
- Ministry for Public Security and Justice and associated institutions
- National Commission for Citizen Security and Social Peace
- Vocational training centres, etc.
- Youth organisations.
- Youth, in particular those:
 - vulnerable to joining criminal groups;
 - most affected by poverty;
 - previously gang members.

6.2.2 Economic growth, regional integration and trade

Objectives

To enhance **economic growth**, continued support will be provided to programmes such as FOMYPE which was launched by the EC in 2004 for the private sector, in particular micro and small enterprises (MYPES). FOMYPE is to strengthen the competitiveness and diversification of micro and small enterprises through business development services/strategies in order to improve

¹¹ Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

management, administration and production processes; to simplify the red tape/formalities for establishment of private companies (creation of one-stop shops) and to reform the legal and financial framework for this sector. This initiative will be consolidated so as to improve the business environment for companies, with a special focus on growth and job creation at local level, especially in rural areas, while at the same time promoting respect for labour rights and protection of the environment. This will include, on the one hand, investment in human capital (covered by the abovementioned specific focal sector) and, on the other, formulation of laws and rules that favour the creation of micro-enterprises, which is one of the aims of FOMYPE, which intends to foster local and foreign investment. Consideration will be given to the role played by remittances in relation to investments as suggested in the Communication of the Commission of 1 September 2005 on Migration and Development. The environmental implications of cooperation will be considered through the promotion of sustainable resource management, the development of environmental regulation and standards, the promotion of more sustainable production and consumption patterns, clean technologies and renewable energy. Finally, the role of consumer organisations which play a vital role in the development and effective implementation of consumer policy (based on the consumer protection law passed in September 2005) and also ensure that consumers know their rights and are able to take advantage of them in practice will be promoted.

Furthermore, continued support will be provided to the ongoing priority process of **regional integration**, as well as the reinforcement of the internal market, in particular in view of the negotiation of a future Association Agreement between Central America and the European Union which will include a free trade area. The role of CIAS will be considered in this respect. The trade / regional integration related support will be further elaborated on the basis of a **Trade Needs Assessment study** which will be carried out in 2007. Possible action in this field could include: i) trade policy (greater participation by and role for civil society and the private sector in trade negotiations, improved customs tracking of the origin of products, enhanced IPR enforceability and promotion of diversification strategies, notably for the *maquila* industries and services) and ii) trade promotion (norms and standards, institutional framework for certification, reinforcement of a “trade point” and improved intelligence on third-country markets).

Support will be provided for:

- growth and diversification policies, export promotion and job creation;
- improvement of the legal, regulatory and financial environment for micro and small businesses so that they can prosper and develop, including e-government, e-commerce and e-businesses;
- creation of fora favouring innovation, research and development in the private sector with the aim of creating employment (incentives for entrepreneurship and business skills, *inter alia* by incorporating such modules in secondary education programmes and curricula);
- efforts by El Salvador to questions related to the process of regional integration, as well as in the preparation and implementation of an Association Agreement between Central America and the EU, which will include a FTA;
- trade related assistance on the basis of a Trade Needs Assessment study.

Target beneficiaries:

- Ministry of Trade and Economy.
- Municipalities.
- Rural communities.
- Private sector operators (micro and small business, enterprise associations, financial intermediaries, exporters, etc.).
- Consumer associations.

- Civil society actors.

6.3 Expected results (outputs)

For each component of the CSP, a list of indicators based on the relevant MDG will be formalised during the programme identification phase.

6.4 Programmes to be implemented in pursuit of the objectives, types of assistance

- Where possible, the EC will promote sector-wide approaches and budget support. [See **Annex 12** on the general criteria for eligibility to budget support].
- Project support will be considered in relation to regional integration and trade related assistance with technical assistance and training.
- A comprehensive **Environmental Profile** for El Salvador will be considered so as to make best use of environmental opportunities and minimise environmentally damaging interventions.

6.5 Integration of cross-cutting issues

Democratisation and human rights: Cooperation will include a permanent dialogue with the Government and civil society as well as specific impact assessments based on defined benchmarks and indicators in the framework of activities related to SWAP and budget support. The Commission will also promote greater consistency and coherence between the EC and EU Member States' programmes through systematic open dialogue on human rights and democratisation based on internationally agreed rights standards and instruments, in particular those of the UN.

Good governance and decentralisation: On the basis of the commitments given by the Government on the recommendations of the National Commission for Local Development (CONADEL), and having regard to the *EC Programme on poverty alleviation* (PAPES), decentralisation will be advocated throughout cooperation. This could include improving efficiency and transparency in the management of public affairs (e.g. combating corruption); promoting public participation in public affairs, etc. **Conflict prevention**, which is the underlying motivation for intervening in the education-youth axis, will be reflected in the action taken for the youth.

Gender equality will be mainstreamed throughout cooperation, in particular on health, water, sanitation and youth (for example, in the form of modules on gender relations and sexual and reproductive rights in primary and secondary education curricula). Dialogue with Government will also aim at supporting policies reinforcing gender equity at national level. Particular emphasis will be placed on making visible and valuing the work of women in relation to water, sanitation and hygiene and on strengthening management capacity through awareness-raising, education and training.

Environmental sustainability and the protection of natural resources will be taken into consideration in implementation of the CSP, in particular in the form of action on water and sanitation, awareness on the part of youth and promotion of the economy (by fostering clean production technologies). EC cooperation could also include environmental indicators such as the design and implementation of municipal plans for the management and protection of water basins, and respect for the current policy and legislation on the environment, including the

obligations under the international conventions ratified by El Salvador. A Country Environment Profile, including environmental targets and indicators, will facilitate the review of environmental mainstreaming in EC cooperation. Action in rural areas will take into account the criteria set for evaluating environmental impact, sustainability and management and be consistent with EC environmental policy, the Central American regional strategy (including the Regional Environmental Profile) and future action to reduce vulnerability in Latin America. Dialogue will include awareness-raising among key players: to ensure that the principle of sustainable development and environmental protection is taken into account in public policies; to integrate new thinking on climate change and biodiversity; and to reduce vulnerability to natural disasters (in the spirit of the Kobe World Conference on Disaster Reduction). Coordination will be promoted between DIPECHO action plans and other EC action, in particular measures related to environmental and risk management (the EC PREVDA regional programme, in particular). Food and nutritional security is another cross-cutting issue since the focal sectors in the EC response strategy contribute towards creating favourable conditions for improving nutritional and food security (action on education, health, water and sanitation and to support the productive sector at local level). Moreover, the EC is implementing a major regional programme (PRESANCA) and has a specific thematic budget line under which initiatives aiming at establishing nutritional and food security can be funded. Risk management is another sector that offers good opportunities for LRRD between ECHO and other EC departments, in particular between the DIPECHO action plans and other EC action.

The fight against HIV/AIDS, on the basis of the government's policy agenda on HIV/AIDS and on sexual and reproductive health in particular.

The **cultural dimension** will be taken into account, notably under the youth component of the CSP.

6.6 Financial envelopes

An indicative allocation of € 121 million has been earmarked in the period 2007-2013 for El Salvador.

The National Indicative Programme covers financial and technical assistance and economic cooperation for which a provisional percentage is indicated for each sector in the CSP. However, the exact amount should be tailored to the needs and objectives. The work programme for El Salvador consists of two National Indicative Programmes. Before launching NIP-2, a mid-term review of the CSP, involving all relevant Commission departments as well as stakeholders in El Salvador, will be conducted. NIP-2 is therefore only tentative as the results of the mid-term review could call for changes. The final decision will be based on the outcome of detailed identification and preparatory studies carried out by the Commission.

	NIP 1				NIP 2
FOCAL SECTORS	2007	2008	2009	2010	2011-13
FOCAL SECTOR 1: Fostering social cohesion and human security		15% (€ 18.15 m)	15% (€ 18.15 m)		40% (€ 48.40 m)
FOCAL SECTOR 2: Economic growth, regional integration and trade		10% (€ 12.10 m)		20% (€ 24.20 m)	
Total		25% (€ 30.25 m)	15% (€ 18.15 m)	20% (€ 24.20 m)	40% (€ 48.40 m)

6.7 Activities under other EC budgetary instruments

In addition to funding under the financing instrument for development cooperation earmarked in support to this CSP, El Salvador also benefits from the Central American Regional Indicative Programme and from the Latin America Regional Indicative Programme, according to their respective programming. Further activities could be financed in El Salvador through specific thematic programmes to reinforce the impact of EC assistance, notably through stronger participation by civil society and effective integration of cross-cutting issues. The following thematic programmes are of relevance:

- **Investing in people**, in support to actions which directly affect people's living standards and well-being. This includes the funding to the **health related Global Fund (GFATM)**. EC contributions should fit in with the general objective of improving social cohesion. In this context, the EC health policy establishes the link between health and poverty, between health and well-being and development, including a reference to AIDS and other contaminating diseases. *Inter alia*, the EC should aim to make assistance more efficient, with greater ownership and participation by the recipient States. The outcome of Eurosocial, the EC regional programme, should also be taken into account, especially as regards institutional capacity-building for health policy.
- **Environment and the sustainable management of resources, including energy**. Action could address environmental sustainability and the protection of natural resources as well as initiatives on climate change, biodiversity or the vulnerability of the country to natural disasters. Coherence between the **EU Water Initiative** and measures under this CSP could be enhanced, including (i) gender mainstreaming, (ii) intraregional cooperation and technology transfer and (iii) education and availability of know-how for the public.
- **Non State Actors and local authorities in development**. When co-financing civil society initiatives, preference should be given to supporting processes and policies rather than financing of local projects. Priority could be given to proposals supporting the focal sectors in the CSP and the main cross-cutting issues, but preserving the independence of civil society. The aim would be to back up civil society, in particular local stakeholders, in participating in designing global, sectoral and development policies and being actively involved in the consultation processes.
- **Food Security**. Rural poverty requires a multi-dimensional approach that includes low incomes, inequity in access to production factors and basic services, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and lack of political power. Rural development strategies should tackle all these issues and incorporate rural poverty strategies, such as food security and sustainable natural resources management. At national level, the European Commission follows a policy of adapting its action to the specific national context and encouraging political and sectoral dialogue, including the private sector, civil society and NGOs.

Finally, funding under the EIDHR and ECHO are to be noted:

- **European Initiative for Democracy and Human Rights**, in particular for governance (including possible assistance for election observation), gender and ethnic equity issues.
- **Humanitarian funding (ECHO), in particular through DIPECHO in relation to disaster preparedness**. Action in this area should be targeted on reducing risks by ensuring that the most vulnerable populations in the regions affected by recurring natural disasters are prepared in advance and on increasing the response capacity by incorporating and coordinating activities at local, national and regional levels. National policies will be encouraged in order to ensure sustainability of DIPECHO actions and standardization of risk management procedures nation-wide

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ANNEXES

Annex 1: El Salvador at a glance (including map)

Annex 2: External trade

Annex 3: Millennium Development Goals; indicators

Annex 4: Gender profile

Annex 5: Environment profile

Annex 6: Official Development Assistance to El Salvador and Donor Matrix

Annex 7: Coherence with EU policies (Policy mix)

Annex 8: Summary of Regional Strategy for Central America

Annex 9: Consultation process in relation to CSP preparation

Annex 10: EC Evaluations of relevance

Annex 11: Migration profile

Annex 12: General criteria for eligibility to budget support

El Salvador at a glance

8/13/06

POVERTY and SOCIAL

2005

	El Salvador	Latin America & Carib.	Lower-middle-income
Population, mid-year (millions)	6.9	551	2,475
GNI per capita (Atlas method, US\$)	2,450	4,008	1,918
GNI (Atlas method, US\$ billions)	16.9	2,210	4,747

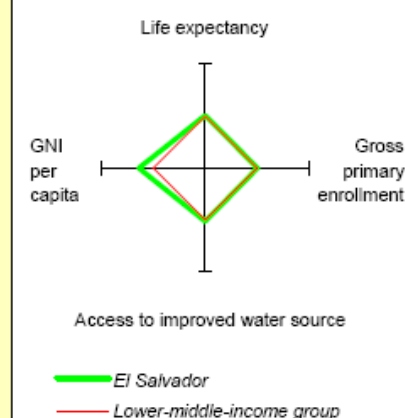
Average annual growth, 1999-05

	El Salvador	Latin America & Carib.	Lower-middle-income
Population (%)	1.9	1.4	1.0
Labor force (%)	2.0	2.2	1.4

Most recent estimate (latest year available, 1999-05)

Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	60	77	50
Life expectancy at birth (years)	71	72	70
Infant mortality (per 1,000 live births)	24	27	33
Child malnutrition (% of children under 5)	10	7	12
Access to an improved water source (% of population)	84	91	82
Literacy (% of population age 15+)	..	90	89
Gross primary enrollment (% of school-age population)	114	119	114
Male	116	121	115
Female	112	117	113

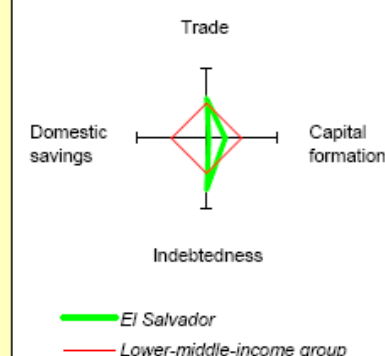
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1985	1995	2004	2005	
GDP (US\$ billions)	3.8	9.5	15.8	17.0	
Gross capital formation/GDP	10.8	20.0	15.6	15.4	
Exports of goods and services/GDP	22.3	21.6	27.2	27.2	
Gross domestic savings/GDP	3.3	3.9	-1.4	-2.2	
Gross national savings/GDP	3.8	15.5	12.0	11.5	
Current account balance/GDP	-6.3	-4.6	-3.9	-3.9	
Interest payments/GDP	2.1	1.1	1.9	..	
Total debt/GDP	48.7	27.5	45.8	..	
Total debt service/exports	24.7	8.6	8.8	..	
Present value of debt/GDP	..	..	49.5	..	
Present value of debt/exports	..	..	111.9	..	
	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	4.2	2.6	1.8	2.8	3.0
GDP per capita	2.4	0.6	0.0	1.0	1.6
Exports of goods and services	5.3	8.3	6.6	3.3	2.3

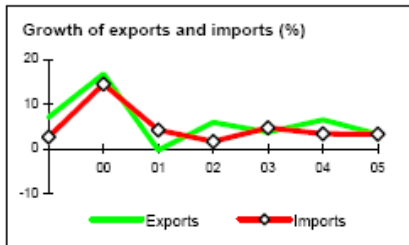
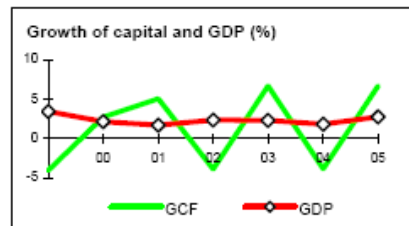
Economic ratios*



STRUCTURE of the ECONOMY

	1985	1995	2004	2005
(% of GDP)				
Agriculture	..	14.5	9.5	10.7
Industry	..	29.7	30.9	29.9
Manufacturing	..	23.1	24.1	25.0
Services	..	55.9	59.6	59.5
Household final consumption expenditure	81.2	87.4	90.9	91.6
General gov't final consumption expenditure	15.5	8.6	10.5	10.6
Imports of goods and services	29.9	37.8	44.2	44.8

	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	1.3	0.8	3.0	5.7
Industry	4.1	3.5	-1.3	1.4
Manufacturing	4.4	3.8	0.9	1.5
Services	3.7	2.4	2.8	3.0
Household final consumption expenditure	7.2	2.8	2.5	2.4
General gov't final consumption expenditure	-4.7	1.8	-2.7	-0.9
Gross capital formation	11.6	2.3	-3.8	6.7
Imports of goods and services	13.0	6.0	3.4	3.3

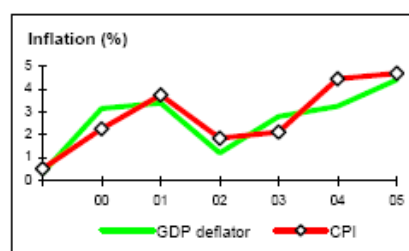


Note: 2005 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	22.3	10.0	4.5	4.7
Implicit GDP deflator	3.2	10.4	3.3	4.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	13.0	13.2	17.0
Current budget balance	..	2.6	-0.7	0.1
Overall surplus/deficit	..	-0.6	-2.9	-3.0



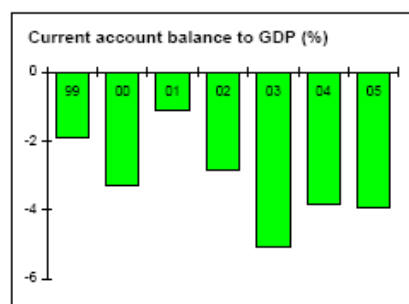
TRADE

	1985	1995	2004	2005
(US\$ millions)				
Total exports (fob)	686	1,452	3,330	3,383
Coffee	464	364	123	164
Sugar	..	38	37	67
Manufactures	183	1,024	3,164	3,149
Total imports (cif)	961	3,329	6,269	6,766
Food	211	632	1,451	1,639
Fuel and energy	133	111	226	289
Capital goods	158	843	990	1,015
Export price index (2000=100)	83	107	102	106
Import price index (2000=100)	77	91	109	115
Terms of trade (2000=100)	108	118	94	92



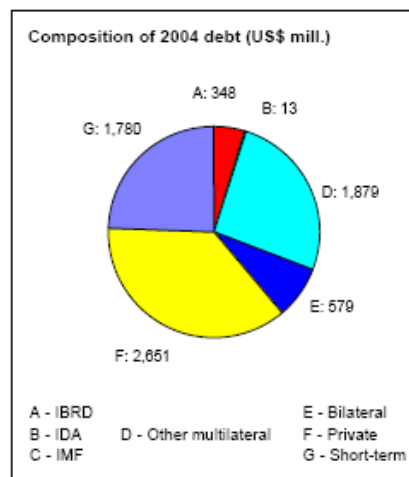
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US\$ millions)				
Exports of goods and services	930	2,056	4,301	4,609
Imports of goods and services	1,189	3,587	7,029	7,604
Resource balance	-260	-1,532	-2,728	-2,995
Net income	-117	-97	-460	-571
Net current transfers	..	..	..	..
Current account balance	-238	-433	-612	-667
Financing items (net)	196	580	572	720
Changes in net reserves	42	-147	40	-52
Memo:				
Reserves including gold (US\$ millions)	333	1,071	2,020	1,968
Conversion rate (DEC, local/US\$)	1.0	1.0	1.0	1.0

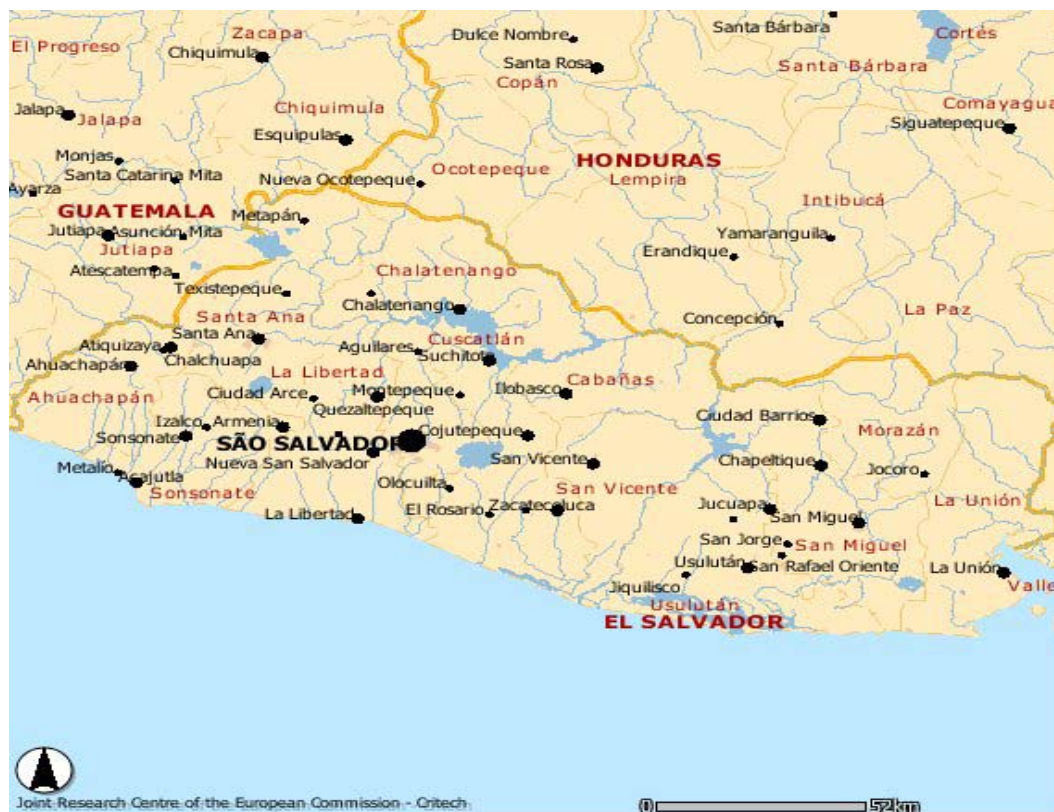


EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US\$ millions)				
Total debt outstanding and disbursed	1,851	2,610	7,250	..
IBRD	119	307	348	436
IDA	26	20	13	12
Total debt service	259	284	617	..
IBRD	16	43	53	55
IDA	0	1	1	1
Composition of net resource flows				
Official grants	203	102	113	..
Official creditors	113	66	-139	..
Private creditors	-51	-31	258	..
Foreign direct investment (net inflows)	12	38	466	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	0	34	18	..
Disbursements	14	26	16	129
Principal repayments	8	22	41	41
Net flows	6	4	-25	88
Interest payments	8	22	12	14
Net transfers	-2	-18	-37	73



ANNEX 1 - MAPS



ANNEX 2 - EXTERNAL TRADE

EXTERNAL TRADE	2000	2001	2002	2003	2004	2000-04
						%
<u>EXPORTS TOTAL</u>	<u>2,941</u>	<u>2,864</u>	<u>2,996</u>	<u>3,136</u>	<u>3,295</u>	<u>100.0</u>
CENTRAL AMERICA	737	723	740	746	822	24.7
Costa Rica	86	95	107	102	100	3.2
Guatemala	319	323	344	361	387	11.4
Honduras	225	184	177	185	206	6.4
Nicaragua	107	120	113	98	129	3.7
OTHER AMERICA	2,007	1,994	2,129	2,255	2,259	69.9
United States	1,920	1,873	2,007	2,121	2,156	66.2
Canada	6	5	4	6	14	0.2
México	13	25	32	37	36	0.9
Panamá	39	49	45	46	46	1.5
Ecuador	1	1	0	0	1	0.0
Other America and Caribbean 1/	28	42	41	44	7	1.1
EUROPEAN UNION	152	80	78	77	111	3.3
ASIA	11	8	15	14	20	0.4
Japan	10	6	6	9	8	0.2
Other Asia	2	3	9	5	12	0.2
OTHER COUNTRIES	34	59	33	44	83	1.7
<u>IMPORTS TOTAL</u>	<u>4,948</u>	<u>5,027</u>	<u>5,192</u>	<u>5,763</u>	<u>6,269</u>	<u>100.0</u>
CENTRAL AMERICA	809	820	820	867	946	15.7
Costa Rica	144	163	149	157	175	2.9
Guatemala	478	435	419	464	507	8.5
Honduras	119	134	155	135	154	2.6
Nicaragua	68	88	98	112	112	1.8
OTHER AMERICA	3,308	3,355	3,567	3,975	4,209	67.7
United States	2,451	2,462	2,577	2,869	2,903	48.8
Canada	35	37	34	49	47	0.7
México	257	314	295	316	374	5.7
Panamá	130	135	156	126	146	2.5
Ecuador	152	127	152	168	95	2.6
Other American and Caribbean 1/	283	279	352	447	740	7.7
EUROPEAN UNION	340	335	305	352	433	6.5
ASIA	180	201	210	227	462	4.7
Japan	123	125	136	133	134	2.4
Other Asia	57	76	74	95	328	2.3
OTHER COUNTRIES	311	315	290	341	219	5.4
<u>TRADE BALANCE</u>						
<u>COMERCIAL</u>	-2,006	-2,163	-2,196	-2,627	-2,974	100.0
CENTRAL AMERICA	-72	-98	-80	-121	-124	4.1
Costa Rica	-58	-69	-42	-55	-74	2.5
Guatemala	-159	-112	-75	-102	-119	4.7
Honduras	106	51	21	50	52	-2.3
Nicaragua	39	32	16	-14	17	-0.8
OTHER AMERICA	-1,301	-1,361	-1,438	-1,720	-1,950	64.9
United States	-532	-589	-570	-748	-747	26.6
Canada	-28	-32	-30	-43	-33	1.4
México	-244	-289	-263	-278	-338	11.8
Panamá	-91	-86	-111	-80	-100	3.9
Ecuador	-151	-127	-152	-168	-94	5.8
Other America and Caribbean 1/	-255	-237	-312	-403	-733	16.2
EUROPEAN UNION	-188	-255	-226	-275	-322	10.6
ASIA	-169	-193	-195	-214	-442	10.1
Japan	-113	-119	-130	-124	-127	5.1
Other Asia	-56	-74	-65	-90	-316	5.0
OTHER COUNTRIES	-277	-256	-257	-297	-136	10.2

1/ For 2004, Caribbean and Belize are included in "Other Countries"

TRADE EU	1997	1998	1999	2000	2001	2002	2003	2004
EXPORTS TOTAL	2426.1	2441.1	2510.0	2941.3	2863.8	2996.0	3136.1	3295.3
NO EU	2022.1	2210.0	2343.6	2789.4	2784.0	2917.7	3059.6	3184.3
UNION EUROPEA	404.0	231.1	166.4	151.9	79.7	78.2	76.6	111.0
Germany	239.7	140.3	105.2	94.4	48.8	36.4	31.3	34.2
Austria	0.0	0.0	0.1	0.1	0.3	0.5	0.5	0.2
Belgium-Luxemburg	61.4	24.6	18.2	13.8	4.7	5.0	6.6	8.0
Denmark	2.8	0.1	0.1	0.7	0.1	0.1	0.1	0.5
Spain	8.7	1.7	2.9	6.8	3.9	5.8	14.6	37.7
Finland	2.4	1.9	1.8	0.4	1.0	1.8	1.0	0.4
France	17.1	13.2	12.1	12.2	10.2	10.5	7.9	9.8
Greece	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1
Ireland	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Italy	10.4	6.4	4.0	3.7	2.1	7.0	4.3	4.8
Netherlands	29.2	21.9	6.7	4.2	1.1	2.9	3.2	5.5
Portugal	1.6	1.0	0.9	0.9	0.7	1.3	1.0	1.0
United Kingdom	30.4	19.8	14.1	14.5	6.5	6.4	5.5	7.0
Sweden	0.5	0.2	0.2	0.3	0.3	0.3	0.5	1.7
IMPORTS TOTAL	3744.4	3968.2	4094.7	4947.6	5026.8	5192.1	5762.7	6268.8
NO EU	3480.4	3676.1	3847.9	4608.1	4691.7	4887.5	5411.2	5836.2
UNION EUROPEA	264.0	292.2	246.8	339.5	335.1	304.6	351.6	432.6
Germany	93.6	90.3	74.5	75.9	89.0	81.0	91.6	92.7
Austria	1.6	4.3	3.8	7.3	9.8	4.2	5.4	5.5
Belgium-Luxemburg	12.7	16.6	15.3	15.5	19.4	18.6	33.1	37.0
Denmark	5.4	22.0	13.9	6.0	6.5	9.0	16.5	10.1
Spain	39.7	51.3	36.2	57.9	54.9	61.8	66.5	104.7
Finland	2.9	3.3	3.0	61.1	29.3	13.7	7.7	9.0
France	20.1	18.8	23.0	37.9	32.0	29.9	33.6	66.9
Greece	0.1	0.1	0.1	0.3	0.6	1.3	0.6	0.6
Ireland	2.4	1.9	1.2	1.2	1.3	1.6	3.2	3.9
Italy	31.2	31.6	27.6	35.3	41.7	42.7	45.8	36.2
Netherlands	18.2	27.2	13.5	10.6	13.6	11.2	10.4	6.8
Portugal	1.5	1.2	0.8	4.1	3.2	2.5	1.5	2.1
United Kingdom	26.0	18.7	12.3	13.2	14.8	15.5	24.1	20.9
Sweden	8.8	4.7	21.7	13.3	19.1	11.7	11.6	36.2
BALANCE	1318.3	1527.1	1584.7	2006.3	2163.0	2196.1	2626.6	-2973.5
NO EU	1458.3	1466.0	1504.3	1818.7	1907.6	1969.7	2351.6	-2651.9
UNION EUROPEA	140.0	-61.1	-80.4	-187.6	-255.4	-226.3	-275.0	-321.6
Germany	146.2	50.0	30.7	18.5	-40.1	-44.6	-60.3	-58.5
Austria	-1.6	-4.3	-3.7	-7.2	-9.5	-3.6	-4.9	-5.3
Belgium-Luxemburg	48.8	8.0	2.9	-1.7	-14.6	-13.6	-26.5	-29.0
Denmark	-2.6	-22.0	-13.8	-5.3	-6.5	-8.8	-16.3	-9.6
Spain	-31.0	-49.6	-33.3	-51.2	-50.9	-56.0	-52.0	-67.0
Finland	-0.5	-1.5	-1.2	-60.6	-28.3	-11.9	-6.7	-8.6
France	-3.0	-5.7	-10.9	-25.7	-21.8	-19.3	-25.7	-57.1
Greece	-0.1	0.0	0.0	-0.3	-0.5	-1.2	-0.6	-0.5
Ireland	-2.4	-1.9	-1.2	-1.2	-1.3	-1.6	-3.2	-3.9
Italy	-20.8	-25.2	-23.6	-31.6	-39.6	-35.7	-41.6	-31.5
Netherlands	10.9	-5.3	-6.8	-6.4	-12.5	-8.2	-7.3	-1.3
Portugal	0.1	-0.2	0.1	-3.2	-2.5	-1.2	-0.4	-1.1
United Kingdom	4.4	1.1	1.8	1.4	-8.3	-9.1	-18.5	-13.9
Sweden	-8.3	-4.5	-21.5	-13.0	-18.8	-11.4	-11.1	-34.5

Note: order of countries based on spelling in Spanish

External Trade US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2004/ 2003%
Exports	1,788	2,426	2,441	2,510	2,941	2,864	2,996	3,136	3,295	5.1
Coffee	340	522	326	248	301	119	109	106	123	16.0
Sugar	37	56	66	37	40	70	44	47	37	-21.3
Shrimps	39	30	33	25	16	20	9	11	5	-54.5
Others	609	763	831	867	975	1,005	1,075	1,092	1,305	19.5
Maquila	764	1,055	1,185	1,333	1,609	1,650	1,758	1,881	1,821	-3.2
Imports	3,222	3,744	3,968	4,095	4,947	5,027	5,192	5,763	6,269	8.8
Consumer Goods	792	913	930	1,005	1,218	1,275	1,368	1,594	1,787	12.1
Capital Goods	672	745	832	817	958	900	881	937	990	5.7
Intermediate Goods	1,207	1,322	1,359	1,318	1,618	1,691	1,660	1,851	2,114	14.2
Maquila	551	764	847	955	1,153	1,161	1,283	1,381	1,378	-0.2
Exports, excl. Maquila	1,024	1,371	1,256	1,177	1,332	1,214	1,238	1,255	1,474	17.5
Maquila	764	1055	1185	1333	1609	1650	1758	1881	1,821	-3.2
Maquila % of Total	42.7	43.5	48.5	53.1	54.7	57.6	58.7	60.0	55.3	
Trade Balance, w/o Maquila	-1,647	-1,609	-1,865	-1,963	-2,462	-2,652	-2,671	-3,127	-3,417	
Maquila net	213	291	338	378	456	489	475	500	443	-11.4
Trade Balance	-1,434	-1,318	-1,527	-1,585	-2,006	-2,163	-2,196	-2,627	-2,974	
Imports, excl. Maquila	2,671	2,980	3,121	3,140	3,794	3,866	3,909	4,382	4,891	11.6
Maquila	551	764	847	955	1,153	1,161	1,283	1,381	1,378	-0.2
Remittances	1,087	1,200	1,338	1,374	1,751	1,911	1,935	2,105	2,547	21.0
% trade balance	66	75	72	70	71	72	72	67	75	
% exports	61	49	55	55	60	67	65	67	77	

Imports of Crude and Products US\$ millions	1999	2000	2001	2002	2003	2003 January-June	2004
Gas Oil, gasoline, gas	123.4	166.8	158.5	149.9	184.9	95.5	89.3
Crude Oil	114.9	210.4	168.8	175.3	209.3	97.4	101.1
Fuel Oil	102.3	165.0	149.2	148.3	189.6	94.6	116.6
Total	340.6	542.2	476.5	473.5	583.8	287.5	307.0
% of total imports	8.3	11.0	9.5	9.1	10.1	10.2	10.2

ANNEX 3: MILLENIUM DEVELOPMENT GOALS

CUMPLIMIENTO DE LOS OBJETIVOS DE DESARROLLO DEL MILENIO Informe de País 2002-2005

EL SALVADOR - 2004 Objetivos y Metas propuestos	Situación Actual	Estimación de Cumplimiento	Desafíos y Prioridades	
1. Erradicar la Pobreza Extrema y el Hambre - Reducir a la mitad a la proporción de personas con ingresos menores a un dólar por día - Reducir a la mitad la proporción de personas que sufren hambre	- La pobreza extrema (\$1 PPP) se redujo de 57.8% a 38.9% entre 1991 y 2002 - Esta reducción de 19 puntos porcentuales indica que la meta podría ser alcanzada de continuar la misma tendencia - En zonas rurales la pobreza disminuyó un 13 % en el mismo lapso, por lo cual se considera que no se alcanzara la meta para zonas rurales. - La desnutrición infantil ha mostrado un relativo estancamiento entre 1993 y 2002, sin embargo existe una tendencia positiva igualmente en sectores urbanos, ya que el indicador muestra un descenso de 9.1% a 6.9%, no así en zonas rurales, donde el cambio fue de 14% a 13.2%. - De esta manera, igualmente se estima que la meta no será alcanzada en zonas rurales, aunque si es probable en zonas urbanas.	Probable en zona urbana y poco probable en zona rural	Políticas Sugeridas en el informe	Costeo de las metas
			a. Impulsar programas y políticas orientadas a mejorar las oportunidades de negocios, aumentando la competitividad de las micro y pequeñas empresas que actúan como grandes empleadoras. b. Fortalecer y facilitar las condiciones para la empresa privada en general, a fin de que aumenten la inversión y generen empleos más permanentes. c. Facilitar la inversión en el agro para mejorar oportunidades de empleo y su productividad. d. Fortalecer una red de protección social para las familias monoparentales, en especial que respalde a las mujeres jefas de hogar, brindándole apoyo a sus familias, ad hoc a sus necesidades.	na
4. Alcanzar la Educación Básica Universal Asegurar que en el año 2010, todos los niños y adolescentes puedan completar los 3 niveles de educación básica.	- Se observa una evolución positiva en el periodo 1991-2002, mostrando un cambio de 78% a 88%, con un incremento de 10 puntos porcentuales. Es necesario un aumento de 12 puntos porcentuales para alcanzar la meta. - La tasa de alfabetización de jóvenes entre 15 y 24 años aumentó de 85% en 1991 a 93% en 2002. - La repitencia y deserción constituyen un desafío, solamente el 58% de los ingresantes a primer grado acaban	Probable	Es necesario reasignar recursos y prioridades, lo cual exige un debate amplio y participativo de toda la sociedad. Las prioridades y recursos reasignados deben apuntar a:	na
			5. Revertir el proceso de segmentación social, completando el desarrollo de la oferta educativa en las provincias, municipios y zonas rezagadas. 6. Reforzar las iniciativas por mejorar la eficiencia del sistema, apuntando a reducir el desgranamiento, producto de la repitencia y del abandono. 7. Proseguir y extender el proceso de capacitación docente, para mejorar los niveles de calidad hasta ahora alcanzados. 8. Enfrentar los nuevos	

	la educación básica en 1991. En 2002 el indicador avanza 17 puntos porcentuales, lo cual indica un desafío para alcanzar el 100%.		desafíos, en particular el de la retención y reinserción al sistema de los adolescentes excluidos.	
5. Promover la igualdad entre los sexos y la autonomía de la mujer. Eliminar la disparidad de género en la educación primaria y secundaria hasta el 2005 y en todos los demás niveles hasta el 20015.	- En El Salvador no existen mayores desigualdades de equidad de género en el acceso a la educación. La relación entre niños y niñas paso de 99% a 1005 entre 1991 y 2002 respectivamente. - La tarea pendiente es realizar mayores esfuerzos por cambiar las estructuras y el modelo educativo a través de una educación de calidad y no sexista para que no se reproduzcan roles sexistas que se han manifestado en otros órdenes tales como el acceso al empleo y posiciones jerárquicas. - El número de ujeres en el parlamento nacional disminuyó de 12 a 11 durante 1991 a 2002.	Probable	- Se requiere la consolidación de los esfuerzos ya realizados para la incorporación del enfoque de género y la interculturalidad en la escuela primaria y en todos los niveles educativos. - Es necesario implementar programas de acceso de las mujeres rurales a la educación en todos sus niveles y modalidades, incluyendo alfabetización, capacitación técnica básica y apoyo a programas de acceso y retención escolar. - Se necesita una interacción mas estrecha entre el Ministerio de Educación y el Viceministerio de Asuntos de Genero, para coordinar acciones orientadas a incentivar la demanda por educación.	na
4. Reducir en 2/3 la tasa mortalidad de menores de 5 años: Reducir en 2/3 partes la tasa de mortalidad infantil	- Entre 1990 y 2002, la tasa de mortalidad infantil (menores de un año) se redujo de 41 fallecidos por cada mil nacidos vivos a 25, significando una reducción de 16 puntos. Es necesaria una reducción de 11 puntos adicionales para lograr la meta. - La tasa de mortalidad de menores de cinco años muestra igualmente una reducción de 21 puntos porcentuales. Pese a que se ha aumentado durante los 90 a inversión en salud, se necesita de esfuerzos sustanciales para cumplir la meta	Probable	- Es necesario intensificar la disminución de la desnutrición y continuar fortaleciendo los programas materno-infantiles y de inmunizaciones. - Igualmente, se requiere aumentar el acceso de las madres al sistema de salud y fortalecer la acción comunitaria por resultados. - Consolidar un modelo de atención de la salud basado en la promoción, prevención y atención primaria de la salud. - Promover mayor acceso a los servicios de salud: - Promover el cumplimiento de estándares mínimos de calidad en la atención y mejorar la disponibilidad de medicamentos para garantizar la oportuna y efectiva atención. - Garantizar la cobertura de agua y saneamiento, lo cual impacta directamente en la salud infantil. - Promover la descentralización de los servicios.	Na
5. Mejorar la salud materna Reducir la tasa de	Existen problemas de información para estimar la mortalidad materna, existiendo contradicciones entre	Poco Probable	- Se requiere el apoyo en las siguientes áreas: - Focalización de esfuerzos	Na

mortalidad materna en 3/4 partes	- indicadores. - La cifra oficial indica que la razón de mortalidad materna disminuyó de 158 a 120 muertes maternas por 100 mil nacidos vivos entre 1993 y 1998, aumentando a 172 en el 2002. - Sin embargo los propios organismos oficiales reconocen la debilidad de este último indicador por estar basado en un número de casos muy pequeño.		para lograr el incremento de partos institucionales. - Promover y apoyar el programa de extensión de coberturas a fin de lograr incorporar el sistema de salud a poblaciones rurales y alejadas. - Dotar de mayor información a las mujeres y sociedad civil en general con el objetivo de promover la detección oportuna de complicaciones y riesgos - Apoyar y promover métodos de anticoncepción para prevenir el embarazo no deseado.	
6. Combatir el VIH/SIDA, y otras enfermedades - Haber detenido e iniciado la reversión de la propagación del VIH/SIDA en el 2015. - Reducir la incidencia del paludismo y otras enfermedades graves	- La incidencia de VIH/SIDA alcanzó un número de 54 hombres y 42 mujeres en 1990, estimándose un importante sub-registro. En 2002 el número de casos ascendería a 1.002 y 595 respectivamente. - La incidencia de la Tuberculosis ha disminuido entre 1990 y 2002, con un número de casos entre 2.367 a 1,480 respectivamente - La incidencia de enfermedades como paludismo y malaria no es significativa.	Poco Probable	- Se debe privilegiar la prevención para el HIV/SIDA y enfermedades endémicas, en referencia a la difusión de información, comunicación masiva y educación. - Es prioritario garantizar el financiamiento para mejorar el equipamiento, infraestructura y fortalecimiento del sistema de salud pública. - Es necesario avanzar en la consolidación de un sistema de vigilancia epidemiológica y desarrollo de un sistema de información, educación y comunicación para la nutrición con el apoyo de medidas de medicina preventiva.	na
7. Asegurar un medio ambiente sostenible - Haber logrado en el 2015 que todas las políticas y programas del país hayan integrado los principios del desarrollo sostenible y se haya revertido la pérdida de recursos naturales (ambientales) - Reducir en 2/3 la proporción de la población sin acceso al agua potable entre 1990 y 2015	- Los indicadores en esta área registran una tendencia negativa en su evolución. La proporción de área forestal bajo de un 9,3% en 1990 a 5.8% en el 2000. La relación de áreas protegidas como porcentaje del área total bajo de 0.5% en 1995 a 0.4% en 2002. - Las emisiones de dióxido de carbono expresadas en toneladas métricas per capita aumentaron de 0.5% a 0.9% entre 1990 y 1999.	Poco Probable	- Las prioridades que se precisan llevar a cabo para el cumplimiento de los objetivos y metas son, entre otras: - Implementar la Ley de Medio Ambiente e integrar el marco legal existente. - Promover Políticas e incentivos para logros ambientales - Promover la cultura ambiental formal y no formal - Aumentar la cobertura de agua y alcantarillados en el área rural - Hacer un uso mas racional del agua - Mejorar la infraestructura de agua y saneamiento básico - Fomentar la gestión integrada del recurso agua - Reformar y/o descentralizar el sector hídrico y subsector agua y saneamiento	na

ANNEX 4 GENDER PROFILE

Source	WORLD BANK	EL SALVADOR				LATIN AMERICA & THE CARIBBEAN		LOWER INCOME MIDDLE COUNTRIES	
		1980	1990	2000	2004	1980	2004	1980	2004
GNP per capita (US\$)		760	930	2,000	2,320	2,063	3,576	800	1,686
Population									
Total (millions)		4.6	5.1	6.3	6.8	357.2	545.9	1,801.0	2,441.6
Female (% of total)		50.1	51.0	50.9	50.9	50.1	50.6	49.5	49.4
Life expectancy at birth (years)									
Male		51	62	67	68	62	69	63	68
Female		63	70	73	74	68	75	67	73
Adult literacy rate (% of people aged 15+)									
Male		...	76.1	...	...	...	91.0		93.3
Female		...	69.1	...	...	...	89.5		85.9
LABOR FORCE PARTICIPATION									
Total labor force (millions)		2	2	3	3	124	249	885	1,280
Labor force, female (% of total labor force)		33	41	38	40	29	40	41	42
Unemployment									
Total (% of total labor force)		12.9	10.0	7.0	6.9	..	9.5	4.9	5.9
Female (% of female labor force)		..	9.8	3.6	3.5	..	11.8	..	..
EDUCATION ACCESS AND ATTAINMENT									
Net primary school enrollment rate									
Male		..	...	88	91	..		..	94
Female		..	...	88	91	..		..	93
Progression to grade 5 (% of cohort)									
Male		...	56	65	67	..	..	..	..
Female		...	60	70	70	..	..	..	..
Primary completion rates (% of relevant age group)									
Male		..	56	89	85	..	96	..	98
Female		..	60	86	86	..	97		96
Youth literacy Rate (% of people aged 15-24)									
Male			85.1				96.3		97.7
Female			82.6				97.0		96.6
HEALTH									
Total fertility rate (births per woman)		4.9	3.7	3.0	2.8	4.2	2.5	3.1	2.1
Contraceptive prevalence (% of women aged 15-49)		34	47	60	67	..	72	..	76
Births attended by health staff		..	52	51	92	..	87	..	81
Maternal mortality ratio (per 100,000 live births)		..	..	150	...	..		..	
Child malnutrition prevalence, weight for age (% of children under 5)		..	15	12	10	..	9	..	11
HIV prevalence rate (% of people aged 15-24)									
Male		..	..	0.7		..	0.7	..	0.5
Female		..	..	0.3		..	0.3	..	0.8

ANNEX 5 – ENVIRONMENT PROFILE

El Salvador has a territorial extension of 21.040.79 km² and a population of 6.51 million inhabitants (2002). With more than 300 inhabitants per km², El Salvador is the **most densely populated country** on the American continent. In a tropical climate, annual precipitations vary between 1, 200 and 2.800 millimeter. The most significant climate variations are “El Niño - Southern Oscillation” (ENOS) and La Niña, generated by interactions between the atmosphere and the ocean in the Tropical Pacific. Due to its location in the Mesoamerican region, the country has a wide genetic diversity. At present, a total of 3.403 plant species have been registered.

Most of El Salvador soils ground directly on volcanic substrata or on materials deriving from these substrata. The country's forest cover is about 10 % of the national territory. A conjugation of factors such as migratory agriculture, forest fires, plagues and others, **seriously degrades forests**, causes severe negative impacts on the ecosystems and deteriorates environmental services that the latter provide. Most of the agriculturally productive land is used for staple crop production (corn and beans), without applying appropriate soil conservation practices. The current productions patterns promote water erosion and therefore predispose agricultural lands to strong degradation. In consequence, the **accelerated deterioration of soils** is increasing the level of rural poverty.

El Salvador has 360 rivers, whose catchment areas have been gathered in hydrographic regions. The National Service for Territorial Studies (SNET) has planned to establish a priority ranking of the country's hydrographic basins in order to tackle the problem of water pollution and to implement monitoring plans for water quantity and quality. At present, approximately **95% of waste waters enter rivers, lakes and other water sources without any previous treatment**. Coastal areas suffer strong environmental pressures due to the uncontrolled exploitation of some biological resources, pollution by solid, domestic, agricultural and industrial wastes and high sediments load by rivers during the rainy season.

The uncontrolled population growth, mainly in urban areas, consequently brings along a worsening of environmental problems due to overcrowding, increase of industrial activities, growing traffic, insufficient supply of safe drinking water and not adapted drainage, sewer and solid waste disposal systems. **Many health problems are associated with a bad environmental quality** and with the lack of access to basic services. Acute Respiratory Infectious Illnesses (IRAS) occupy the first place of morbidity. The second cause is intestinal parasitism followed by diarrhea and gastroenteritis of infectious origin where the majority of cases occur among children under 5 years. The fourth place of morbidity is hold by infections of the urinary tract and the fifth place by bronchitis.

The Government's policy response to environmental issues is based on the Constitution of El Salvador and the Environmental Law. During the period 2001–2002, five major national policies (Environment, Solid Wastes, Fight against Desertification, Natural Reserves and Protected Areas, Sustainability of Water Resources), were formulated, approved and published, hence becoming official instruments to direct actions and environmental programs. A national **Water Law has not yet been adopted** but is under preparation. 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.

The mandate of the National Environmental Management System (SINAMA), an initiative of the competent Ministry (MARN), is to impulse the creation of environmental units in the entities and institutions of the Public Sector and to establish environmental management co-ordination mechanisms. This effort has initiated a process of clarification and division of legal competences, the creation of public databases and the diffusion of Laws and Regulations, strengthening the institutional and municipal environmental units. The **institutional and legislative framework is yet very young, incomplete and weak**; effective implementation of environmental policies on the ground is hence still unsatisfactory.

ANNEX 6: OFFICIAL DEVELOPMENT ASSISTANCE AND DONOR MATRIX

ODA Grants (US\$million)	2000	2001	2002	2003	Average	Share (%)
EC	14.49	15.90	23.38	33.94	21.93	10.48
Austria	1.22	1.39	1.18	1.30	1.27	0.61
Belgium	0.72	3.12	1.48	1.24	1.64	0.78
Denmark	2.43	1.16	1.33	1.09	1.50	0.72
Finland	0.11	0.56	0.42	0.57	0.42	0.20
France	1.00	1.07	3.02	2.74	1.96	0.94
Germany	11.69	24.31	14.22	13.92	16.04	7.67
Greece		0.30		0.05	0.09	0.04
Ireland	0.43	1.35	1.00	1.61	1.10	0.52
Italy	0.09	3.99	4.37	0.30	2.19	1.05
Luxembourg	4.90	5.40	5.60	5.12	5.26	2.51
Netherlands	2.76	9.51	8.39	6.36	6.76	3.23
Spain	14.23	33.26	24.22	26.65	24.59	11.76
Sweden	7.89	8.27	5.29	5.49	6.74	3.22
United Kingdom	0.47	2.99	0.45	0.33	1.06	0.51
Total EC/EU	62.43	112.58	94.35	100.71	92.52	44.23
United States	52.75	69.69	81.21	92.30	73.99	35.37
Japan	29.12	35.81	21.38	15.58	25.47	12.18
Canada	1.85	5.40	3.35	5.44	4.01	1.92
IDB	2.19	3.71	3.10	3.13	3.03	1.45
UN System	4.88	6.21	3.30	3.60	4.50	2.15
Others	4.61	10.81	7.03	4.43	6.72	3.21
Total ODA Grants	157.83	239.93	213.72	225.19	209.17	100.00
Other ODA (net)	22.17	-2.41	19.76	-33.40	1.53	
Total ODA net	180.00	237.52	233.48	191.79	210.70	
% of GDP	1.37	1.72	1.63	1.28	1.50	

ODA Loans (US\$million)	2000	2001	2002	2003	Average	Share (%)
<u>Disbursements</u>	<u>60.61</u>	<u>41.34</u>	<u>66.59</u>	<u>21.20</u>	<u>47.44</u>	<u>100.0</u>
EU	17.35	15.13	45.91	3.24	20.41	43.0
Spain	8.15	12.68	31.54	0.42	13.20	27.8
United Kingdom	4.51	0.06	10.61	2.02	4.30	9.1
Germany	4.69	2.39	3.76	0.66	2.88	6.1
Other EU	0.00	0.00	0.00	0.14	0.04	0.1
USA	0.00	0.00	0.00	0.00	0.00	0.0
Japan	37.76	23.10	12.38	11.23	21.12	44.5
Other	5.50	3.11	8.30	6.73	5.91	12.5
<u>Repayments</u>	<u>-38.45</u>	<u>-40.68</u>	<u>-46.83</u>	<u>-54.59</u>	<u>-45.14</u>	
EU	-1.93	-1.05	-2.98	-2.49	-2.11	
USA	-16.11	-18.21	-19.20	-19.38	-18.23	
Japan	0.00	0.67	-1.30	-5.43	-1.52	
Other	-20.41	-22.09	-23.35	-27.29	-23.29	
<u>Net ODA loans</u>	<u>22.16</u>	<u>0.66</u>	<u>19.76</u>	<u>-33.39</u>	<u>2.30</u>	
EU	15.42	14.08	42.93	0.75	18.30	
USA	-16.11	-18.21	-19.20	-19.38	-18.23	
Japan	37.76	23.77	11.08	5.80	19.60	
Other	-14.91	-18.98	-15.05	-20.56	-17.38	

Total ODA Flows by Main Donors	2000	2001	2002	2003	Average	Share (%)
US\$ million						
Bilateral Grants and Gross ODA Loans	<u>218.44</u>	<u>285.55</u>	<u>280.31</u>	<u>246.39</u>	<u>257.67</u>	<u>100.00</u>
EC/EU	79.78	127.71	140.26	103.95	112.93	43.83
USA	52.75	69.69	81.21	92.30	73.99	28.71
Japan	66.88	58.91	33.76	26.81	46.59	18.08
Other	19.03	29.24	25.08	23.33	24.17	9.38
Bilateral Grants and Net ODA Loans	<u>179.99</u>	<u>244.87</u>	<u>233.48</u>	<u>191.80</u>	<u>212.54</u>	<u>100.00</u>
EC/EU	77.85	126.66	137.28	101.46	110.81	52.14
USA	36.64	51.48	62.01	72.92	55.76	26.24
Japan	66.88	59.58	32.46	21.38	45.08	21.21
Other	-1.38	7.15	1.73	-3.96	0.89	0.42
Other Official Flows (non-ODA)						
Multilateral Gross	162.63	249.82	206.84	160.45	194.94	
Multilateral Net	117.2	178.69	132.72	65.95	123.64	
Other OOF Net	-13.46	14.91	-13.21	23.41	2.91	
EU	1.20	-2.04	-0.45	14.68	3.35	
Other	-14.66	16.95	-12.76	8.73	-0.44	
Total Net OOF	<u>103.74</u>	<u>193.6</u>	<u>119.51</u>	<u>89.36</u>	<u>126.55</u>	
Total Net ODA (see table above)	179.99	244.87	233.48	191.80	212.54	
Total Net ODA and Net OOF	283.73	438.47	352.99	281.16	339.09	

ODA Commitments (Source DAC)	2000	2001	2002	2003	Average	Share (%)
Grants	118.97	294.30	234.10	137.50	196.22	
Other	14.86	163.57	47.97	6.78	58.30	
Total	<u>133.83</u>	<u>457.87</u>	<u>282.07</u>	<u>144.28</u>	<u>254.51</u>	<u>100.00</u>
EC/EU Countries	59.44	154.94	117.47	71.63	100.87	39.63
EC	8.84	49.54	16.55	1.56	19.12	7.51
Spain	22.38	45.93	55.76	27.07	37.79	14.85
Germany	2.47	30.74	12.13	13.56	14.73	5.79
United Kingdom	4.98	3.05	11.06	2.35	5.36	2.11
Other EU	20.77	25.68	21.97	27.09	23.88	9.38
USA	41.38	108.91	135.67	55.21	85.29	33.51
Japan 1/	26.40	127.47	14.60	12.38	45.21	17.76
Others	6.61	66.55	14.33	5.06	23.14	9.09
1/ 2001 includes US\$92.45 million ODA loans						
Commitments (Min. Rel. Ext)	2000	2001	2002	2003	Average	2004
Total	<u>132.4</u>	<u>351.3</u>	<u>371.0</u>	<u>171.4</u>	<u>256.53</u>	<u>137.2</u>
EC/EU countries	31.3	139.3	87.1	60.0	79.41	36.6
EC	12.8	63.7	31.5	18.3	31.58	12.2
Spain	16.0	25.6	13.1	8.0	15.67	8.0
Germany	0.0	40.4	0.0	24.2	16.16	0.8
United Kingdom	0.2	2.7	0.2	0.2	0.82	0.0
Other EU	2.2	7.0	42.3	9.3	15.2	15.6
USA	34.5	97.9	128.6	37.7	74.66	40.1
Japan	26.6	36.8	102.7	7.0	43.30	8.4
Other	40.0	77.3	52.7	66.7	59.17	52.1
Bilateral	15.9	30.2	7.2	6.2	14.85	9.3
Multilateral	24.2	47.0	45.5	60.5	44.32	42.8
(UNDP)	13.9	16.8	21.0	39.7	22.84	33.3
(Other Multilateral)	10.2	30.3	24.6	20.8	21.48	9.5

Spain 2002-2005	Euro M	Germany 2003-2004	Euro M
Justice	0.80	<u>Technical Cooperation</u>	8.00
Education	1.21	Economy and Employment	4.00
Health	1.58	Municipal and Descentr.	0.50
Environment	2.17	Land Planning	0.50
Local Development	3.86	Health	1.20
Heritage	0.65	Disaster Prevention	1.00
Gender	0.18	Studies and Experts	0.80
Humanitarian/Food	0.72	<u>Financial Cooperation</u>	12.44
Earthquake Funds	9.50	Local Development FSDL	6.16
Microcredit Funds	13.54	Vocational Training	5.50
Spanish NGOs	26.04	Reconstruction Housing	0.77
Total	60.15	Total	20.44

DONOR MATRIX: MAJOR DONORS OTHER THAN EC--BY SECTOR 2001-2003 1/(COMMITMENTS US\$ MILLIONS)

	Education	Health	Population	Water Supply & Sanitation	Government & Civil Society	Other Social Infrastr.& Services	Transport & Storage	Energy	Business & Other Services	Agriculture - Forestry - Fishing	Industry - Mining - Construction	General Environment Protection	Other Multisector	Structural Adjustment	Food Aid excl. Relief Food Aid	Action Relating to Debt	Relief Food Aid	Non-Food Emergency & Distress Relief	Other	TOTAL
TOTAL 2001	12.393	11.504	5.741	25.401	18.985	223.996	98.471	0.235	4.605	4.272	28.138	32.596	159.979	8.230	20.797	7.330	0.980	39.624	4.691	707.966
TOTAL 2002	13.836	16.065	4.101	7.925	28.336	153.681	0.000	0.017	0.642	7.392	1.501	0.532	77.684	0.000	4.946	3.153	2.010	3.107	3.355	328.284
TOTAL 2003	8.659	9.175	6.481	7.037	15.876	10.641	1.121	31.063	5.346	10.975	0.807	1.930	24.917	0.000	6.611	2.453	1.843	3.152	4.579	152.664
TOTAL 2001-2003	34.887	36.744	16.323	40.362	63.197	388.318	99.592	31.314	10.592	22.639	30.446	35.058	262.580	8.230	32.354	12.936	4.833	45.883	12.625	1188.915
DONORS																				
IDB						40.000		30.000			25.000	29.847	198.000							322.847
USA	13.156	18.823	13.504	16.900	21.723	116.998			3.348	13.520			19.811		28.904	12.936	3.853	14.056		310.089
IBRD					18.200	142.600														160.800
Japan							99.549			2.265			3.708	8.230				2.278		123.246
Spain	9.961	4.649		7.149	7.009	58.085				4.525		2.842	8.203					3.698		113.066
Germany	1.754	1.793		9.158	5.165	18.765			6.559	1.844					1.290		0.916	4.672		56.421
IFAD													20.000							20.000
Luxemburg	7.342	5.623										-								18.575
Italy													4.874		1.460			3.622		10.755
Switzerland				2.727							1.932							2.451		9.235
Sweden																		3.827		6.931
Belgium																	-	1.904		6.371
Netherlands					2.941															5.662
Finland				2.737																4.279
UK																		2.770		2.770
Others 2/	2.675	5.856	2.819	1.692	8.158	11.869	0.043	1.314	0.685	0.485	3.514	2.369	7.984	0.000	0.700	0.000	0.065	6.604		17.918

1/ Sectors with less than 0.3% of total commitments are included in "other"

2/ Others are donors (in donors list shown) with less than 2% of commitments in the sector

EL SALVADOR DONOR MATRIX: FUTURE ACTIVITIES

Inter-American Development Bank	Strategic Objectives	Ongoing Projects	Planned Projects	Comments
	Reactivation of Growth and Competitiveness Poverty Reduction and Human Capital Development Modernization of the State and Governance	Reform Water and Wastewater Sector (\$38m undisbursed) Reform Financial Sector Pollution Control Rural Roads Agroindustry Environment Cuenca Alto Rio Lempa Interconnexion Power Central America Sector Reforms Competitiveness (budgetary support \$100m) Educational Technology Health Sector Modernization Local Development Housing Phase I (\$62m undibursed) Modernization Parliament	Public Transport San Salvador Environment Cuenca Alto Rio Lempa Basic Education (\$100 m) Higher Education Social ProtectionNetwork (\$50m)	Total undisbursed balances as of October 2004 are US\$372 million. Ongoing projects include only projects with more than 25% undisbursed New country strategy is under preparation
World Bank				
	Accelerate broad -based, equitable economic growth and increase employment Improve equity through building human capital and expanding access to socioeconomic infrastructure, assets and markets; Enhance Security and Reduce vulnerability.	Secondary Education Education Reform Health Land Aministration Public Sector Modernization Judicial Sector Reform	Development Policy Loans (budget support). Up to four loans of \$100 million each during 2005-2008. Support for SMEs Education Land Adminstration Environmental management Social Protection Modernization of State	Country Assistance Strategy was approved February 2005, with lending (new commitments) of up to US\$585 million during 2005-2008 (high case). Performance under Development Policy Loans will determine low, base or high case

Luxembourg			Consolidation Programme for 2007-2010 (signed in November 2006). Allocation of € 6 million. Focuss on poverty reduction through support to Red Solidaria – health, education, water and sanitation. Support to rural production. Capacity building of local and national institutions.	
Spain			Poverty reduction through Red Solidaria and security related cooperation.	
Germany			1. Decentralization and community development: - Strengthening Community development and decentralization (PROMUDE), € 6,24 Mio. - Strengthening local development and good governance (FISDL IV), € 14 Mio. (loan) - Participatory territorial Planning (PROA), € 3 Mio. - Participatory local risk prevention in the Río Trifinio region, € 2 Mio. 2. Sustainable economic development - Professional training, € 5,5 Mio. (loan) - Programme for sustainable economic development at local level (FORTALECE), € 7 Mio. 3. Social Housing - Slum-Rehabilitation via FUNDASAL (€ 8 Mio. loan)	

USAID				
	Ruling Justly— More Responsive, Tranparent Government Economic Freedom— Open, Diversified, Expanding Economy Investing in People— Healthier, Better-Educated People	Strengthen rule of law Government Transparency and Accountability Fiscal policies Private Sector Development Investment and Trade SME Development Imrpove social sector investment Basic Education Health services	Improving juidicial system Alternative conflict resolution Corruption control Enhance public revenues Improve competitiveness Remove barriers to trade and investment Implement CAFTA Improve access to technology, innovation and business skills, and financial services Planning, management, accountability Rural education Decentralization Improve health and nutrition practices Primary healthcare HIV/AIDS	Total programme of US\$139.5 million for 2005- 2009 Cross-Cutting Themes: Water and good governance
Japan		Construction of Port of Cucuto—Golf of Fonseca (loan approved) Regional development (Eastern region)	Transport connection between Pacific Coast (El Salavador) and Atlantic Coast (Honduras)	Construction of port has not yet started

ANNEX 7 – COHERENCE WITH EU POLICIES (POLICY MIX)

To assess the coherence of the CSP for El Salvador, this annex presents relevant EU policies and guidelines affecting the country. All these policies have a link with the past and future EC development policy towards El Salvador. For each, different categories and levels of EU interventions are addressed, assessing the complementary and coherence:

- cooperation instruments: bilateral, sub-regional and regional, with a special focus on the complementarity of horizontal programmes and other financial instruments such as thematic budget lines;
- regulatory instruments and international agreements;
- policy and political dialogue (bilateral and regional).

Trade & development

Article 133 of the EU Treaty constitutes the legal basis for the EU's trade policy. It states that the objective of this policy is *«to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers»*. It covers all the main aspects of trade in agricultural and non-agricultural goods, services as well as key aspects of trade related aspects of intellectual property, investment and competition. Its main objectives in the case of Central America are:

- to strengthen and expand bilateral trade relations between the EU and Central American countries on the basis of transparent and non-discriminatory multilateral rules, and notably by means of strengthening cooperation throughout the WTO negotiations launched at Doha.
- to support the regional trade and economic integration process in Central America.
- to support Central America in completing its international commitments, in particular fight against drug trafficking, international labour standard, human rights and environment, through autonomously granting market access to EU markets via the GSP scheme.
- to support the integration of the Central American countries into the world economy by implementing their existing WTO commitments and to assist them in the negotiations and implementation of new commitments resulting from the new WTO round (Doha Development Agenda).

The strategy set out in this CSP, in particular with regard to economic co-operation, is fully in line with the achievement of these objectives. However, for the third item, Central America, including El Salvador, is seeking a deeper relation notably through an association agreement, since El Salvadoran authorities consider this to be a much more powerful tool to attract FDI.

Support in trade-related matters is provided through the CSP and by the RSP for Central America and Latin America.

Common Agriculture Policy (CAP)

The "Common Agricultural Policy" (CAP), created by the Treaty of Rome, sought to increase the productivity of European agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers. Since then, many changes to the CAP have been made, modifying price policy (reduction of prices support), restricting market interventions, regulating output, and introducing a system to control spending on agriculture involving an adjustment of

market management to restore market balance; furthermore, more assistance is provided for social and environmental measures to stimulate development in rural areas. Those changes focussed on the evolution of the global economy and the need to implement WTO commitments to reduce market distortions.

Few agricultural commodities covered by the CAP enter into competition with Central American products. A notable exception is bananas and since the EU is an important destination for Central American products, Central American banana producers have voiced significant grievance concerning the impact Community policy in this field has had on their market access.

Sanitary and phytosanitary control Policy – consumers protection

The external dimension of the Community policy in this sector aims to ensure a high level of protection of health, safety and economic interests of the consumers, as well as the protection of public health in the EU. The implementation of this principle is sometimes perceived as a measure of non-tariff trade protection that prevents the access of some products – mainly agricultural, but also meat - to the European markets even if the same principle is applied to European-made products.

At the same time, some Central American countries have raised concerns about what they consider as a non-reciprocal treatment by the EC in the implementation of certain Community principles of health inspection, such as that of regionalisation but also agreement of control institutions. Confusion is also added by the fact that the US and the European SPS systems are different.

This sector is of utmost importance for both regions. This strategy, as the previous one, is therefore in total accordance with those important preoccupations, since they provide specific supports for El Salvador exporters in order for them to be able to fulfil EU requirements in this respect.

In addition, a specific effort is associated to SPS (Sanitary and Phytosanitary Measures); El Salvador experts are benefiting, like other developing countries, from a specific training system to SPS requirements by the EU.

Internal market

The principal aim of this policy is to strengthen the process of economic integration for a liberalisation of the markets as well as the development of a legislative framework compatible with that of the EC in order to:

- assure a suitable level of protection of industrial and intellectual property,
- prevent money laundering,
- protect personal data,
- guarantee minimum standards for public calls for tender, avoiding any kind of restrictive measure of the markets.

Regulatory convergence is a factor of mutual benefits, by supplying trade and investments and favouring the investments of the EU companies abroad.

Competition policy

The interest of introducing competition policy in the EU relations with third countries, mainly in the negotiation of trade agreements, is based on the establishment of a stable and clear legal framework for the relations between economic operators in order to prevent commercial conflicts.

At the same time, the discriminatory treatment between companies of both parties is avoided with respect to direct investments or access to the services market. Likewise, the EU takes part in multilateral co-operation in this sector in the framework of the World Trade Organisation (WTO). The WTO working group on "trade and competence" examines the possibility of strengthening the convergence of policies for which a multilateral horizontal action might be explored by the EC.

The EU competition policy and the CSP are in accordance since interventions promoting competition policies are included, in particular in the regional context.

Research and development policy

In the EU, international co-operation in this area is covered by the Research Framework Programmes through two principal axes:

- An international co-operation dimension for each thematic research programme and,
- a specific international S&T Co-operation programme that contributes to the solution of common or sustainable development problems in third countries and regions,

It should be noted that specific instruments of the EU Research Framework Programmes, that will be continued further under the 7th Research Framework Programme (2007-2013) also support research collaboration:

- Exchanges of researchers from third countries are highly encouraged at all stages of research careers in FP6 under the Marie Curie activities,
- under the ERA-NET scheme the coordination of the bi-lateral cooperation programmes between EU Member States and Third Countries will be further reinforced.

Moreover S&T Promotion Platforms recently launched with Latin-America will further develop other possibilities for El Salvador widening our partnerships from a predominately bilateral to a bi-regional context

Governance, capacity building, rule of Law

This is one of the decisive components for policies and reforms toward social cohesion. The level of social cohesion, economic development, environmental sustainability and human rights, all depend on the quality of governance. Good governance is a critical factor to reach the Millennium Development Goals even though no specific indicator relates to it. The 2002 White Book and the 2003 Communication on governance identify a set of recommendations for action:

- The building of capacities to support developing countries design pertinent reform programmes,
- The strengthening of synergies and coherence between the different instruments and policies of the European Commission and the European Union,
- The reinforcement of national and regional partnerships to coordinate the donor community and to ensure complementarity between individual donors,
- The support to human rights and democracy, governance and rule of law.

The present strategy takes into account these recommendations. In the case of human rights and democracy, the EC mobilises support through the European Initiative for Democracy and Human Rights IEDDH budget line ([see below](#)).

Human rights, democracy, indigenous people and democracy

Democracy, the rule of law, human rights and fundamental freedom are basic principles of the European Union, independently of the fact that national Governments are responsible for these to be respected. In support to the promotion of these principles, the EC has developed different instruments and priorities for action. In doing so, it has been guided by the following:

- The stimulation of coherent support policies, looking for a better coherence between cooperation and external relations, complementarity between the EC and Member States, and the integration of these issues as cross-cutting within other policies and actions of the EU.
- Give a greater priority to human rights and democracy in the relations with third countries,
- Have a more strategic focus when addressing programmes and projects in the areas concerned.

This is of particular relevance for El Salvador and therefore reflected in the CSP. The European Initiative for Democracy and Human Rights (IEDDH) budget line addresses the promotion of democracy and human rights through support to Civil Society, universities, regional and international organisations. In recent years, El Salvador has benefited from some regional financing in the area of promotion of a culture of human rights, equity, tolerance and peace. For the future, social cohesion should be added as a focal sector within the IEDDH and additional attention would be given to supporting democracy, gender and ethnic equity.

In addition, the Andean and Central American countries received a special treatment within the framework of the Generalised System of Preferences linked to their international commitment in relation to Human Rights.

Environmental policy

The priorities for EC environmental cooperation with Central America are based on the following:

- The objectives and principles included in the 6th Community Environment Action Programme (6 EAP, 2002-2011), in particular those related to climate change, biodiversity, health and quality of life, natural resources and waste.
- The mainstreaming of the environmental dimension into development policy, stressing the links between environment and poverty, and between environment policy and management of disasters;
- The encouragement of Central America to implement its international commitments under the different multilateral environmental agreements.

The above imply major changes which lay beyond the competence of environmental organizations and which are to address governance, education, economic policy and other sector policies. The integration of the environmental dimension in social cohesion is a fundament the EC is aiming to raise through policy dialogue. In this context, the Andean and Central American countries received a special treatment within the framework of the Generalised System of Preferences linked to their international environmental commitments.

A specific assessment has been carried out at the level of Central America to determine the environmental profile of the region. One of the main conclusions is that environmental issues have to be better addressed by a global mainstreaming through all sectors rather than by specific financing. Environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL).

The EC Communication on Water Management stresses the need to address the issue in close conjunction with social cohesion, regional integration, food security, and other crosscutting issues. The Communication suggests providing a framework for water security, both in terms of quality and quantity, for all developing countries, so as to achieve sustainable development. The water management policy is linked to other policies: land use management, social policy such as health, disaster prevention, economic development, food security agriculture and rural development, regional integration and cooperation, good governance, trade, transport, gender equity. Finally, the Communication invites donors to join their efforts to assist partner countries by raising the issue on the political agenda and promoting a shift in thinking in order to apply an authentic integrated approach. It is in this spirit that the EC has been involved in water issues in El Salvador over recent years, financing different projects, in particular in rural areas.

Two specific EC horizontal budget lines for the environment have been mobilised over the years to provide funding for environment related interventions in Central America. A recent evaluation of these budget lines stressed the need for these to better reflect the principles described above. More specifically, concerns were raised in relation to the sustainability of the financed projects, their coherence with the national policies and, overall, preoccupations about the pertinence of project selection with regards to the needs of the country and the sub-region. The evaluation noted that the environment could be better addressed by these financial instruments and be considered in a long-term perspective, notably if country-specific terms of references coherent with the political priorities of the EC vis à vis the benefiting countries were drafted for the calls for proposals.

Health and poverty

If social cohesion is set at the centre of the EU-LA relations, the EC health policy establishes the link between health and poverty, between health and well-being and development, including a reference to AIDS and other contaminating diseases. There is a consensus to make assistance more efficient with more ownership and participation of the recipient States.

Assistance related to AIDS, tuberculosis and malaria is financed through the Global Fund using parallel administration, and often subcontracting activities to the national authorities. Some organisations are voicing the incoherence between the way the Global Fund is acting and the objective of reinforcing ownership.

The regional programme Eurosocal includes a provision for institutional capacity building in health policy and is open to the participation of El Salvador.

Conflict prevention

In its Communication on conflict prevention, the Commission announced its intention to focus its co-operation programmes more clearly on addressing the root causes of conflict in an integrated manner. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sectoral programmes.

A first analysis of potential sources of conflict in El Salvador puts in evidence several issues of concern: the high degree of polarisation of the political system and corresponding public dissatisfaction, limited transparency in public affairs, corruption, relative weakness and politicisation of the judicial system, juridical insecurity, lack of social cohesion (also at regional level), the over-dependence on a reduced number of commodities as well as the phenomenon of the “*maras*” (young delinquents). Addressing the agenda of social cohesion directly contributes to conflict prevention. In this respect, and though El Salvador has not benefited from the specific EC budget line for conflict-prevention, the CSP is compatible with the conflict prevention policy.

Linking emergency, rehabilitation and development (LRRD)

Emergency aid addresses the immediate needs of populations affected by crisis. Rehabilitation is designed to support - in the mid-term - the building of development capacities of the affected populations. There is no standardised model for linking emergency to rehabilitation and rehabilitation to development.

This link has been of particular relevance for El Salvador and Central America after the conflicts of the eighties and, more recently, after hurricane Mitch (through the Regional Programme for Rehabilitation and Reconstruction of Central America). Regional mechanisms of preparedness are under way, but at national level, El Salvador is back in the phase of development after having experienced the previous phases.

In addition, ECHO’s disaster preparedness programme (DIPECHO) targets vulnerable communities living in the main disaster-prone regions of the world, of which Central America. DIPECHO is to reduce risks by ensuring prior preparedness for the most vulnerable populations in the regions affected by recurring natural disaster. It increases the response capacity by incorporating and coordinating activities at local, national, and regional levels.

Migration, justice and home affairs:

The current policy concerning immigration could have an impact on the development of El Salvador and some Central American countries due to the extreme importance of remittances from immigrants in hosting countries in the macro-economic equilibrium (remittances represent near 15% of the GDP). For the moment, given the fact that the emigration flow from El Salvador is directed to the USA, the impact above mentioned is very limited. However, migration within Central America is a factor to take into account when addressing national and regional problems.

Information Society

The main co-operation objectives pursued with Latin America in the Information Society field are the following:

- Promoting social cohesion through the development of an inclusive Information Society and fighting the digital divide within and between countries and regions and, in such, contributing to governance and to the economic and social development of Latin American countries;
- Fostering regional integration and the integration of Latin American countries in the global Information Society;
- Promoting investment and reinforcing commercial exchange with Latin America by creating a favourable environment in the region, notably by promoting efficient regulatory and policy frameworks, as well as open and global standards;

These objectives are specifically addressed by the Latin American regional strategy and the @lis programme which includes a high level regular policy dialogue between Latin America and the European Union.

Food security, rural development and sustainable resource management

The European Commission recognises that rural poverty is a multi-dimensional problem that includes low incomes, inequity in access to the production factors, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and little political power. Rural development strategies should tackle all these issues and incorporate rural poverty strategies such as food security and sustainable natural resources management.

At national level, the European Commission sets out a policy of adapting its actions to the specific national context and to encourage political and sectoral dialogue including the private sector, civil society and NGOs.

The CSP is in line with this policy, in particular with respect to the multi-dimensional aspect of rural development. El Salvador has benefited from the thematic food security budget line in addition to the regular cooperation instruments. This combination of a thematic budget line and development cooperation has been very positive and introduced cohesion in the EC assistance.

Integration of the gender factor

The Community's strategy on gender equity lays out a global framework to promote equality between men and women in five areas: economic life, equality of participation and representation, social rights, civil life and roles, gender stereotypes.

Gender issues are an important concern in El Salvador. A gender profile can be found in Annex 2. It is one of the main crosscutting issues of the present CSP.

Although a specific gender budget line exists, it is not active in Latin America.

Participation of Non State Actors (NSA) in development

The European Commission's policy is based on the recognition that ownership of strategy is the key to the success of development policies. Therefore, the most wide-ranging participation of all segments of the society must be encouraged and implemented, respecting both the particular situation of each partner country and the central role of the Government complemented by decentralized authorities. Beside the implication of NSA in the present strategy, the Commission is committing direct financing to NSA through horizontal/thematic budget lines.

Besides sector budget lines detailed in other chapters, the Commission has been co-financing development activities proposed by NGO for many years. Progressively, priority has been given to activities initiated by partner organisations and to larger projects. This financing is concentrated in two budget lines: the Co-Financing budget line and the Decentralised Co-operation budget line. The aim of these budget lines is to add a specific dimension to the EU development co-operation. Such financing has been particularly active in El Salvador.

When co-financing the Civil Society and NGO in particular, a strong preference should be given to support processes and policies rather than financing local projects. Priority should be given to proposals complementing the focal sectors of the CSP and their main crosscutting issues, but preserving the independence of Civil Society. The aim is to back

up Civil Society, in particular its local actors, in participating to the design of global, sectoral and development policies, and in being active in the consultation processes, in particular in the Harmonization and Alignment process.

The EU drug strategy

At the external level, the EU drug strategy is based on strengthening coordination in the fight against drugs and on supporting the development of relations with third countries. The EU action is guided by the principle of **shared responsibility**: partnerships with third countries that address their overall social and economic development. This has been concretised by the EU-Latin American Action Plan of Panama adopted and ratified in 1999.

One should recall the special treatment received by the Andean and Central American countries, within the framework of the Generalised System of Preferences, in support to their efforts in combating drugs.

The objectives of the present CSP are coherent with the instruments put into place by the EC in its relations with Central America to fight drug trafficking. The Latin American regional strategy includes a new specific provision between the EU and Latin America to take place in addition to the *ad hoc* policy dialogue.

Education and training

The European Commission recognizes the vital importance of education in reducing poverty, and as such, this CSP is fully coherent with the EU education policy. Education priorities for the EC are:

- basic education, in particular primary education and teacher training,
- work-related training,
- higher education, especially at regional level.

At the level of primary education, the Commission is participating in the “Education-for-All” initiative (EFA-FTI). It is committed to improve the efficiency of the education system, stressing as much quality and quantity of education. At the level of higher education, the focus is on institutionalizing networks, exchanges of students, teachers and professors between Europe and the rest of the world. El Salvador is participating to the regional projects ALβAN and ALFA, and to different initiatives of networking and exchange of students and teachers. Those initiatives are considered positive and should continue.

Economic and financial affairs

In its international policy on economic and financial affairs towards Latin America, the Commission has two main priorities supporting the global agenda towards Latin America:

- to foster macro-economic stability and convergence;
- to promote social cohesion.

In matter of macro-economic convergence, the Commission participates in the policy dialogue amongst policy makers of Latin America, transmitting its own experience. This exchange of experience is crucial for supporting regional economic integration, and is significant in helping the Central American integration agenda. Activities are financed and to be financed at the level the Latin American RES. Among other actions, the Commission contributes is supporting activities of the Economic Commission for Latin America and the Caribbean (ECLAC).

Fisheries and Maritime Affairs

The common fishery policy has the objective to protect fish resources by regulating the amount of fish taken from the sea, to help the fishing and aquaculture industries to adapt themselves to the constraints of the market, and to maintain a common organisation of the market.

Regarding third countries, the objectives are to set up fisheries agreements and to negotiate for common conservation measures in deep-sea fisheries, in order to guarantee both conservation and sustainable exploitation of fish resources. This includes close collaboration with developing countries to help them become more effective in fisheries matters, and support to the efforts to combat illegal and unregulated fisheries. In the case of El Salvador, there is a common objective on Atlantic tuna. Both the EU and El Salvador are members of the Western Central Atlantic Fishery Commission and the Inter-American Tropical Tuna Convention and closely collaborate within these bodies, looking for the respect of international practices (management of fish resources, dolphin-safe catching). There is no restriction to the import of El Salvador fish products to the European Union.

Employment and social affairs

In its 12 April 2005 Communication on **Policy Coherence for Development**, the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Community proposed an integrated social and economic approach that regards economic, employment and social cohesion as interdependent elements with a view to fighting inequalities.

Employment is a crucial factor to achieve a high level of social cohesion. The Community will promote investments that generate employment and that support human resources development. The respect of fundamental labour rights (core labour standards), as defined by the International Labour Organisation, is a key element of the EU policy.

The Declaration of Guadalajara of May 2004, specifically underscores the commitment *"to the principles of decent work proclaimed by the International Labour Organisation, in the belief that respect for workers' rights and dignity is vital for achieving poverty reduction and sustainable social and economic development for our peoples"*.

In this respect, the Community will promote decent work for all in line with the ILO agenda. Special emphasis will be given to the progressive integration of the informal sector into formal economy, on social dialogue and on corporate social responsibility.

In the field of employment policy, Central America has reaffirmed its commitments to the ILO principles and core labour standards through a Declaration made on 30 June 2005 by Labour ministries and representatives of employers and unions in support of employment and decent work. The objective of this programme includes promotion of international labour norms, employment creation, expansions of social protection and strengthening social dialogue.

ANNEX 8 – REGIONAL STRATEGY FOR CENTRAL AMERICA

The guiding principles that will underpin the 2007-2013 regional strategy for Central America can be set out as follows:

- ***Strengthening political and economic relations between the EU and Central America***, which is the main instrument for facilitating the negotiation and implementation of an Association Agreement based on the mutual interest of both regions;
- ***Contributing to the sustainable socio-economic development of Central America***, which would be the key instrument for developing classical development cooperation activities as set out in the 1993 Framework Cooperation Agreement and the Cooperation Chapter of the 2002 Political Dialogue and Cooperation Agreement signed between the EU and Central America;
- ***Supporting the consolidation of the process of regional integration in Central America***, for which the Commission would provide support to the Central American integration agenda, building on the current regional cooperation programme channelled through the SG-SICA, SIECA and other regional institutions and taking advantage of the comparative advantages and specialised knowledge of the Commission in the area of regional integration.

Regional integration is not only a means of promoting political stability and sustainable development, but also constitutes a fundamental element of the EU and Central America's common strategic objective, the negotiation of an Association Agreement including a Free Trade Agreement. In this context, focusing cooperation on supporting the process of regional integration in Central America is fully in line with the Commission's priorities, reiterated in Guadalajara and will enable the Commission to capitalise on the solid basis established under the current regional strategy. It is underlined that the Commission is essentially the key actor in supporting with grant funds the process of establishing a customs union, developing and implementing common policies and strengthening regional institutions.

In principle, support for increasing social cohesion, the other key challenge that confronts the Central American region, will be provided through the country-level strategies, as will also be the case for sectoral initiatives including areas such as education, health, rural development and decentralisation.

Thus the main objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of the preparation of an Association Agreement with the EU. Within this objective, three groups of potential interventions can be considered.

The first group will include the **strengthening of the institutional system of the process of Central American integration**. In this context, cooperation may be directed to regional institutions, inter-governmental systems of coordination and national entities involved in the integration process. It is underlined that this support will be limited to the involvement of these institutions in questions strictly related to regional integration. Specific provision will be made to include the participation of civil society in the preparation and implementation of programmes in support of the regional integration process.

The second group will focus on: the **consolidation of the Central American customs union**; support for specific aspects of the economic integration process such as trade facilitation, services and investment and intellectual property rights; and the development and implementation of other

harmonised and common policies and legislation within the Central American region that will contribute to the creation of a common market. For the latter, initiatives that could be considered may range from fiscal policy and labour legislation to environmental measures, inter alia.

The third group of measures will cover aspects of **strengthening regional governance security** in the context of mitigating the impact of the free movement of goods, capital and persons due to increasing regional integration, in particular in the process of the creation of a Custom Union and the development of an internal market.

With regard to the orientation of support to the economic integration process, the Joint Assessment of regional economic integration in Central America that is being carried out by the Ad hoc Joint Working Group is expected to provide a clear picture of the region's shortcomings in order to reach a sufficient level of economic integration that will permit the negotiation of an Association Agreement. In addition, further needs arising from the process of negotiating and implementing an Association Agreement will be systematically taken into consideration in the design of support programmes under this strategy.

Finally, the coherence of the regional strategy for Central America with both the Regional Strategy for Latin America and the Country Strategies for the individual Central American Republics is assured through its fundamental regional integration focus. This approach permits: a) the Regional Strategy for Latin America to concentrate on horizontal issues and areas where the transfer of knowledge between the EU and Latin America is of critical importance; and b) the Central American country strategies to focus on nation-building policies such as governance, rule of law, social cohesion and sectoral programmes including decentralisation and local development.

ANNEX 9 - CONSULTATION PROCESS FOR THE EL SALVADOR CSP 2007-2013

The preparation of the CSP El Salvador in the period 2007-2013 has unfolded through several stages:

1. Under the guidance of the Commission services, a **pre-programming mission** was launched in **November 2004** with the aim of updating the Commission's analysis of the national policy agenda, the political, economic and social situation, the areas of intervention of major donors as well as providing an assessment of the implementation of the on-going CSP 2002-2006.
2. On the basis of the initial analysis, a **Concept Note** was prepared and used as a basis for the consultation process with state and non state actors. This was published on the **website** of the Regional EC Delegation (Nicaragua) on **6 April 2005**. Between 8 and 15 April, comments could be posted directly on the EC website.
3. Three separate events took place between **11 and 13 April 2005**. The views of all parties on the Concept Note were sought and many of the suggestions were integrated into the drafting of the CSP. Meetings were as follows:
 - a. **11 April / EU Member States** represented in El Salvador (Spain, Italy, Germany, France).
 - b. **12 April / Government of El Salvador**, organised jointly with the Secretaria Técnica de la Presidencia (STP).
 - c. **13 April / Civil society**. Following an **invitation issued on 1 April** (which made reference to the publication of the Concept Note on the EC website), **55 representatives belonging to 65 organizations took part**. These had been selected for their relevance to the issues identified in the Concept Note and included notably:
 - i. the **private sector** (*Asociación Nacional de la Empresa Privada-ANEP*; *Corporación de Exportadores de El Salvador – COEXPORT*, etc.) and the **Trade Chamber**.
 - ii. **think tanks** (FUSADES and FUNDE);
 - iii. the President of the ***Corporación de Municipalidades de El Salvador (COMURES)*** which represents the 262 local governments in a non partisan basis.
 - iv. **organisations involved with local government** such as the *Fundación de Apoyo a Municipios de El Salvador (FUNDAMUNI)* and the *Fundación para la Cooperación y el Desarrollo Comunal de El Salvador (CORDES)*
 - v. **NGO thematic networks** (human rights, civic education, etc.).
 - vi. **NGOs with direct relevance to the themes discussed in the Concept Note**.
 - vii. the **Consortium of European NGOs**.

Organised around three working groups (a. Social cohesion, MDG; b. Governance, decentralisation, human rights; c. Economic growth, trade regional integration), the workshop sought to obtain the views of El Salvador's civil society about the challenges facing the country and the role the EC should play in addressing them. The initiative to consult civil society was welcomed and

provided a valuable starting point for a continued dialogue between the two parties.

4. In **May 2005**, the Commission met with representatives of **international financing institutions and other international partners with a presence in the country** (UNDP etc) to discuss its **Concept Note** and exchange views on future cooperation in the case of El Salvador.
5. On **14 June 2005**, civil society representatives from El Salvador took part in the seminar organised in San Salvador in relation to the development of the Regional Strategy Paper for Central America. This was to some extent of relevance to the development of the national El Salvador CSP, in particular when discussing the process of regional integration and possible EC cooperation in this respect both at national and regional levels.
6. In **December 2005**, the Commission (Chargé d’Affaires and EC RELEX Desk) held meetings to present the initial orientations proposed in the draft CSP to:
 - a. The Government
 - b. Civil society
 - c. EU Member states.
 - d. Other international partners.
7. On **22 March 2006**, the Commission (Chargé d’Affaires and EC RELEX Desk) met with representatives of **the 5 main political parties** [mostly **members of Congress** with 3 out 5 meetings taking place in the **Congress premises**]:
 - a. Alianza Republicana Nacionalista (ARENA) – 5 members, in Congress
 - b. Partido Farabundo Marti para la Liberacion Nacional (FMLN) – 2 members at party office.
 - c. Partido de Conciliacion Nacional (PCN) – 2 members, in Congress
 - d. Partido Democrato Cristiano (PDC) – 2 members, in Congress
 - e. Cambio Democratico (CD) – 2 members, at EC premises.

On this occasion, the CSP process - from the elaboration of the Concept Note to the definition of possible strategic orientations for the period 2007-2013 - was explained. This was positively received.

ANNEX 10 – EVALUATIONS

Fight against Drug trafficking

- Evaluation de la coopération Nord-Sud dans la lutte contre les drogues et la toxicomanie - 05-2002 - ref. 951570 ev

Economic Cooperation

- Evaluation of Economic Cooperation between the European Community and partner states in Asia and Latin America - 08-2001 - ref. 951595 ev
- Clarifying the definitions of EC economic co-operation with third countries - 08-2002 - ref. 951636 ev

Education

- Evaluation of EU Mobility Grant-Awarding Programmes - 04-2002 - ref. 951632 ev

Environment

- Evaluation of the Environment and Forests Regulations 2493-2000 and 2494-2000 - 11-2004 - ref. 951660_exec_sum_es
- Ambiente Regional - Tribunal de de Cuentas (2005)

Food Aid

- Thematic Evaluation of Food Aid Policy and Food Aid Management and special operation in support of Food Security - 07-2004 - ref. 951657

Gender

- Evaluation of the integration of Gender in EC development co-operation with third countries - 03-2003 - ref. 951644_ev

Human rights – Democracy - Governance

- Synthesis report on EC activities in the field of Human Rights, Democracy and Good Governance - 08-2001 - ref. 951613 ev
- Voter education in the context of electoral support - 09-2001 - ref. 951598 ev

Regional cooperation

- Evaluation de la Stratégie régionale de la Commission Européenne en Amérique Latine - 7-2005 - ref. 951661_vol1_es (ver paginas 7, 8, 9 = 15,16,17 en el pdf)

ANNEX 11 - MIGRATION PROFILE¹²

The dimension and impact of migration flows in El Salvador has grown ceaselessly over the past forty years. Migration is a complex phenomenon, the consequences of which are felt at the economic, social, political and cultural spheres. Recent 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. According to the 2005 HDP, the rhythm at which emigration has grown over the past decade is much higher than during the armed conflict; it took 48 years for the number of Salvadorians living abroad to reach 1 million, but only four additional years to reach the figure of 2 million. If the current rhythm of emigration is sustained, it is expected that the number of Salvadorians living outside their country will reach 3 million in mid-2006.

Moreover, 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. El Salvador has become a net exporter of Salvadorians (with a vast majority settling down in the U.S.A.), while simultaneously it has become a country of destination for many citizens from Guatemala, Nicaragua and Honduras. As concerns deportations, here too there has been an important change in terms of numbers and origin. During the years 1991-2001 deportations averaged 4,033 annually, equivalent to 1.6% of the net migration flows for this period. Around 80% of this total originated from the U.S.A. From 2002 onwards however, there was a vast increase in the number of deportations emanating from Mexico (over 85% of total deportations). During this period, the U.S.A. doubled the number of deportations to El Salvador per year making the volume of deportations rise to 15% of net migration flows. It is estimated that out of the total percentage of Salvadorians having been returned to El Salvador only 8% presented a history of criminal records, however 99% of these originated from the U.S.A.¹³.

The causes and economic repercussion of emigration in El Salvador are leaving their mark in the country. 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. At present, the remittances from Salvadorians living abroad account for over 16% of the country's GDP. Most of these funds are destined to the consumption of goods and services, and it can be argued, have a considerable impact in alleviating the levels of poverty in rural areas. However, given the lack of policies destined to provide a framework for channelling 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

¹² The present document is based on the 2005 Human Development Report edited by UNDP and the National Council for Sustainable Development and the report of the Commission for Human Rights of El Salvador.

¹³ Note should be taken of the fact that there are important differences in statistics from one country to another and that the accounting of entries and exits of persons at the borders is to date deficient.

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. The Law on Migration and Foreign Persons contains provisions which contravene fundamental rights of refugees and migrants in general and also needs to be amended. 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 12 - GENERAL CRITERIA FOR ELIGIBILITY TO BUDGET SUPPORT

The following, prepared as a standard text for CSPs in the region of Central America, is of certain relevance to El Salvador though it needs to be read taking into account the realities of this country.

Article 25 of the DCI Regulation provides for the possibility of using budget support a type of financing for the implementation of EC cooperation.

Budget support is direct or indirect support to the budget of the beneficiary state, managed in accordance with that state's budget procedures. All kinds of budget support represent a support to the balance of payments and a financing of the budget deficit for the beneficiary country.

- Macroeconomic budget support has also been called support for structural adjustment, support for economic reforms and budget support for poverty reduction. It covers the overall macroeconomic and budget framework of the beneficiary country.
- Budget support to sectoral policies includes budget support provided within a specific sectoral framework (e.g. food security, health, education, transport, etc ...). It does not imply targeting of aid funds towards the sector, since the previous experiences in this respect have produced distortions in the budgetary process and narrow impacts within the sector. Besides, fungibility of resources renders targeting as a virtual exercise.

Countries eligible for macroeconomic budget support must have a viable medium-term macroeconomic framework (or a PRSP in the case of IDA countries) supported, but not necessarily financed by the Bretton Woods Institutions. In general, where such a country needs to finance its external financing gap, this type of support can be justified. At the same time other needs of budgetary nature, such as those caused by the need to finance any economic or social policies agreed with donors, will also be considered.

Budget support for implementing coherent sectoral policies agreed with donors (e.g. the World Bank, EU Member States, etc), may be provided as sectoral budget support separate from - or in parallel with - macroeconomic programmes. Generally the sector budget support will be complementary to macroeconomic budget support. In practice, it is difficult to conceive of providing sectoral budget support in the absence of a macroeconomic support programme.

Work has been done on defining what a sectoral programme is and what minimum conditions it should fulfil. The general view within the donor community is that a sectoral programme should meet at least three criteria if it is to qualify for budget support. The criteria are:

- there must be a sectoral policy document and an overall strategic framework, designed after consultation of the stake-holders;
- there must be an annual budget, and a perspective of sectoral medium-term expenditure framework; the sectoral support programme can be an accelerator in the production of an MTEF;
- there must be a sufficient degree of coordination among donors within the sector, under the umbrella of the government.

Transparent, accountable and effective management of public expenditure and publicly open and transparent rules on public procurement are of paramount importance. In the absence of internationally agreed standard for Public Finance Management (PFM), the Commission is adopting a dynamic concept of PFM improvement within a medium term perspective. Recent work in the field of PFM by the Public Expenditure Accountability Programme (PEFA, www.pefa.org) financed by several donors, has been instrumental in setting benchmarks in order to appreciate PFM.

The assessment of the public finances of a beneficiary country is one of the fundamental pillars for the implementation of EC budget support. It is important to ensure both beforehand and in the course of implementing any support, that the direction of public finances management is improving satisfactorily. Improvement in the quality/effectiveness of public expenditure is one of the most important elements to be addressed in the analysis

The Commission may co-finance all support programmes together with other interested donors, such as the World Bank or the EU Member States. This should be reflected in the negotiation between Government and donors of a single framework of support in which the same objectives, disbursement schedule, conditions / verification indicators will apply, whilst leaving each donor free to make its own financing decisions. The arrangement could be formally embodied in a memorandum of understanding and a code of conduct applicable to all donors.

Analysis of medium-term macroeconomic framework and poverty reduction policies (for IDA countries) is an essential part of appraising support programmes. This is a continuous analysis process method.