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CHALLENGE CORPORATION  
UNITED STATES OF AMERICA



**COUNTRY**  
**BRIEF**  
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# El Salvador: Opening Opportunities for Growth

## Compact Overview

In November 2006, the Government of El Salvador signed a five-year, \$460.94 million compact with the Millennium Challenge Corporation to increase economic growth and reduce poverty through targeted investments. The Government of El Salvador collaborated with key stakeholders to identify country-led priorities for MCC investments and country-specific constraints to economic growth. As a result of this process, the Government of El Salvador developed a compact plan focused on strategic investments in education, public services, agricultural production, rural business development, and transportation infrastructure. Ultimately, the final compact's three projects were:

- ★ **Connectivity Project:** to reduce travel cost and time within the Northern Zone by designing, constructing and rehabilitating a two-lane secondary road, forming a transportation corridor from Guatemala to Honduras to serve as a national transport artery and augment El Salvador's connectivity.
- ★ **Human Development Project:** to provide formal and non-formal education, improved access to potable water systems and basic sanitation services, electricity coverage and improved community infrastructure, and to increase the human and physical capital of residents of the Northern Zone, allowing them to take advantage of employment and business opportunities.
- ★ **Productive Development Project:** to increase production and employment in the Northern Zone through technical assistance to farmers and small businesses, capital investment in competitively selected commercial projects, credit guarantees for micro-, small- and medium-sized enterprises, and technical assistance to financial institutions.

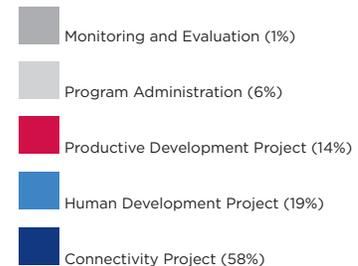
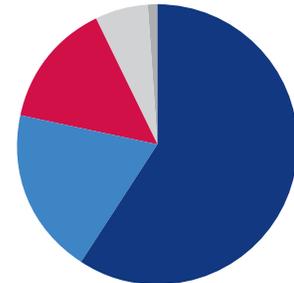
### El Salvador Compact at a Glance

Signed ..... Nov. 29, 2006

Entry into Force.....Sep. 20, 2007

Compact End Date.....Sep. 20, 2012

Compact Total ..... \$460,940,000



## Summary of Expected Outcomes

- **Connectivity:** More than 138 miles of road (roughly equivalent to the distance between Washington and Philadelphia), three large bridges and 20 smaller bridges have been rehabilitated or constructed in northern El Salvador to help improve connectivity with the rest of the country. This east-west road in the north stretches close to the borders with Guatemala in the west and Honduras to the east and the improvements are anticipated to reduce travel time by 50 percent (12 hours to 6 hours).
- **Electrification:** An estimated 35,412 families (households) now have electricity in their homes, thanks to the installation of new power lines and solar power systems. In addition to MCC's investment, the Government of El Salvador and other organizations have provided electricity to families in the Northern Zone to increase the percentage of households with electricity connections from 78 percent in 2007 to 90 percent in 2011. MCC investment in new power lines and household connections for the thousands of Salvadoran households in the Northern Zone was a result of a public-private partnership signed in 2009 with the U.S.-based AES Corporation.
- **Water and Sanitation:** MCC funded almost 170 miles of pipes—equivalent to the length of El Salvador—as part of MCC's investment in water and basic sanitation that helped connect 7,634 households to potable water.
- **Education:** MCC funded construction of a new technical community college, improvements to a teacher training center and expanded and rehabilitated 20 high schools. The rehabilitation of the high schools alone is expected to benefit more than 9,700 students every year. An estimated 12,000 people (60 percent women) received vocational training in areas such as electricity installation and bread-making.
- **Productive Development:** MCC funding assisted an estimated 17,500 producers through the provision of training, seeds, equipment, and technical assistance. MCC funding has supported work to improve almost 23,500 hectares on which producers have planted short-season vegetables and fruits and improved pasture lands. The FIDENORTE investment program has provided 30 loans to small- and medium-sized businesses in the Northern Zone to develop new or expand investments in the agriculture, tourism and handicrafts value chains. These loans totaled \$4.6 million, of which about 20 percent went to women-owned businesses.

Based on the preliminary findings of an impact evaluation, within one year of receiving assistance, dairy farmers increased their annual productive income by an estimated \$1,850 on average compared to those who did not receive assistance. These farmers sold a larger volume of milk and more secondary dairy products than farmers who did not receive assistance, even when controlling for their baseline sales. Handicrafts producers did not realize an increase in income compared to producers who did not receive assistance. However, on average, each artisan receiving assistance employed over one month of additional full-time labor relative to those who did not receive assistance.

## Context

In 1992, El Salvador entered into the peace accord that ended a decade of civil conflict. The conflict left nearly two-thirds of the country's population in poverty. During the war, human capital formation lagged and public investment was deferred. The Northern Zone fared the worst; its mountainous territory served as a primary staging ground for the conflict, thereby increasing violence and instability in the area and causing an exodus of large numbers of the region's inhabitants. Despite the significant national economic growth that followed the peace accord, progress stagnated and the poverty rate in the Northern Zone was significantly higher than the national average. Overcoming these obstacles and unifying the Northern Zone with the rest of the country became a national priority. Ensuring more sustainable approaches to economic development comprised a strategic goal. The population of the Northern Zone required a comprehensive development program to enable it to fully participate in El Salvador's growth, the benefits of regional integration and the economic opportunities brought about by free trade agreements. The five-year MCC compact provided a historic opportunity to fulfill these goals and transform El Salvador's economic development.

## Connectivity Project

The \$269 million Connectivity Project sought to reduce travel cost and time within the Northern Zone by designing and constructing a two-lane secondary road that will serve as a national transport artery and augment El Salvador’s international connectivity with Guatemala and Honduras. The isolation of the Northern Zone was an impediment to its development, contributing to the widespread poverty that affects more than half the region’s families.

Project Activity	Outputs	Expected Outcomes
Northern Transnational Highway	138.8 miles of roads completed.	Increased traffic. Reduced travel time.



## Human Development Project

The \$89 million Human Development Project promoted increased physical and social infrastructure in the Northern Zone through education and investment in vital community infrastructure. In 2007, the average Northern Zone student attended school for approximately four years—two years less than their peers in the rest of the country. Fewer than one in 10 children completed high school, and the quality of that education was poor. Many young people chose to emigrate to other countries or major urban centers, where a lack of skills trapped them into poverty. Before the project began, about 21 percent of the population lacked access to an improved water source and 22 percent of the population had no electricity. The poor community infrastructure hindered many of the rural poor's access to educational opportunities, health care and employment, making it hard for them to improve their livelihood. Following the project, only 17 percent lacked access to improved water and only 10 percent were without electricity as a result of investments in the region, including by MCC.

Project Activity	Outputs	Expected outcome
Education and Training	566 instructors trained or certified through MCC-supported activities.	Increased employment. Increased wages/income.
	22 educational facilities constructed/rehabilitated and/or equipped through MCC-supported activities.	
	30,672 students participated in MCC-supported activities.	
Community Development	81,699 residents benefited from strategic infrastructure.	Improved access of rural households to schools and health centers.
	35,412 households benefited from a connection to the electricity network.	Reduced energy costs. Increased energy consumption. Increased household income.
	1,950 households benefitted from the installation of isolated solar systems.	
	7,634 households gained access to improved water supply.	Reduced water costs. Increased water consumption. Increased household income.
	7,169 households gained access to improved sanitation.	
	2,406 people trained in hygiene and sanitary best practices.	



## Productive Development Project

The \$68 million Productive Development Project included the provision of technical assistance, training and financial services, focused primarily on helping farmers make the shift from basic grains to higher value crops and to micro-, small- and medium-sized businesses to make efficient improvements to productivity through good investments. Business development and financial services also targeted micro-, small- and medium-sized businesses in priority value chains and rural business.

Project Activity	Outputs	Expected Outcomes
Production and Business Services	58,000 acres under production with MCC support.	Increased investment. Increased employment. Increased farm income.
	17,467 beneficiaries of technical assistance and training.	
Investment Support	\$4,598,748 of investment support fund.	
	30 loans provided by the investment support fund.	
Financial Services	\$12,573,984 worth of loan guarantees.	
	5,540 loan guarantees granted.	

★ Based on the preliminary findings of an impact evaluation, within one year of receiving assistance, dairy farmers increased their annual productive income by an estimated \$1,850 on average compared to those who did not receive assistance. These farmers sold a larger volume of milk and more secondary dairy products than farmers who did not receive assistance, even when controlling for their baseline sales. Handicrafts producers did not realize an increase in income compared to producers who did not receive assistance. However on average, each artisan receiving assistance employed over one month of additional full-time labor relative to those who did not receive assistance. The final evaluation for the Productive Development Project is expected to be released to the public in mid-2014.



## Principles into Practice: Policy Reform

MCC investments seek to address fundamental and proximate barriers to growth and sustain significantly increased levels of income generation for beneficiaries long after compact programs end. To achieve this goal, the compact must be implemented in tandem with a broader development strategy. During the compact development process, MCC and the Government of El Salvador partnered to examine conditions surrounding the proposed compact investments and develop a plan for policy reform to maximize compact impact and sustainability. The Government of El Salvador succeeded in making crucial policy changes before funding was released and in sustaining the changes throughout the compact period, ultimately supporting the conditions necessary for continued growth and investment. Key policy reform achievements by project are highlighted below.

During the compact, in part as a result of MCC's work with the Government of El Salvador on sustainable road maintenance, the Salvadoran legislature passed two decrees that significantly increased road maintenance funding and improved prospects for sustainability of the road system through appropriate road maintenance. The first decree enables the transfer of traffic fines, license plates and other road user fees directly to the FOVIAL road maintenance fund with a second decree that enables the use of bonds to finance FOVIAL. As of the close of the compact, two additional reforms aimed at further strengthening FOVIAL's financial position were under consideration in the National Assembly. This is a prime example on MCC's positive impact in affecting policy changes necessary for sustainable economic growth in a partner country.

## Insight into Implementation

During the implementation process, FOMILENIO (the Government of El Salvador's Fondo del Milenio, or Millennium Fund) and MCC compiled key lessons regarding best practices for compact implementation, facilitated reallocation, re-scoping and restructuring of funds as necessary and coordinated with the broader development community.

## Coordination in the Development Community

Close coordination with other U.S. Government (USG) agencies, the private sector and international donors and development agencies is critical to the success of MCC compacts. Coordination saves time and money by avoiding costly duplication and unsuccessful approaches and by building upon ongoing efforts; minimizes transaction costs for partner countries; and leverages MCC investments by enabling co-funding, complementary programs and use of joint structures.

## Coordinating with Other U.S. Government Agencies

Careful coordination of USG assistance helps MCC better serve the U.S. taxpayer and its country partners.

- ★ Three technical assistance grant agreements with the U.S. Trade and Development Agency, totaling over \$1.3 million and building upon MCC's \$461 million compact with El Salvador, sought to improve highways, connecting roads, electricity, water, communications, and business support services.

- ★ The U.S. Agency for International Development (USAID) signed a Global Development Alliance grant for \$500,000 in alliance with Super Selectos, a national chain of grocery stores, to assist El Salvador Produce, a commercial cooperative society composed of 20 fruit and vegetable producer organizations established within the Productive Development Project. The USAID grant built the complete cold-storage chain for the commercialization activities of El Salvador Produce.
- ★ In an effort to capitalize on the Memorandum of Agreement between MCC and Peace Corps, Peace Corps and FOMILENIO (and MCC as a witness) signed an MOA to capitalize on this collaborative engagement platform.

## Coordinating with International Donors and Development Agencies

In addition to working with U.S. Government agencies and the private sector, MCC is committed to working with other donors and international institutions to leverage resources and expertise in alleviating global poverty and creating opportunities for long-term growth.

## Sustainability of Impacts

In order to ensure that the people of El Salvador benefit from MCC investments in the long run, each compact is equipped with measures to ensure sustainability. MCC and FOMILENIO worked together to assess and mitigate compact-specific obstacles to environmental, social and institutional sustainability.

- ★ A public-private partnership (PPP) was established between FOMILENIO and power firm AES to ensure continuity after the compact electrification activity ended. The contract also required AES to ensure all operations and ongoing maintenance of the transmission lines in accordance with local law and industry best practice.

## Gender Integration

The program included training on gender issues for contractors, consultants, staff, and implementing partners. In addition, a grant was awarded to a local NGO designed for entrepreneurial women, benefiting 298 women and developing and implementing a total of 82 business plans.

## Environment and Resettlement

All sections of the road have been subjected to rigorous studies and evaluations for potential environmental impacts that may occur during construction. These studies led to individual environmental management plans that included conservation works and environmental mitigation. Resettlement activities largely centered on the acquisition of land and fixed property along the right-of-way, with a successful program covering some 2,500 cases of land acquisition adhering to international best practices. As part of this program, FOMILENIO also established a number of best practices of its own, including monitoring of vulnerable properties immediately outside the right-of-way and creating incentives for rehousing or construction upgrades for families living in unsafe adobe dwellings. MCC and FOMILENIO provided training on environmental assessment and resettlement across government agencies and among contractors.

## MCC Core Principles

MCC's mandate is to reduce poverty through economic growth by partnering with countries committed to economic freedom and investment in their citizens. As a result, the El Salvador Compact was developed, implemented and evaluated with attention to MCC core principles of good governance, country ownership, transparency, and a focus on results.

### Country Ownership

The Salvadoran government established FOMILENIO to implement the MCC compact funding. FOMILENIO is an autonomous public entity with technical character and of public interest. In July 2012, El Salvador entered a constitutional crisis between the Supreme Court and the National Assembly over the election of judicial officials; the crisis threatened the continuation of the El Salvador Compact and its eligibility for subsequent compacts. However, the crisis was resolved by the government and a new president was named to the Supreme Court.

### Transparency

FOMILENIO was consistent in pursuing the objectives agreed upon in the compact and was a responsive and transparent partner with MCC. For the duration of the program, more than 10,000 people participated in consultations as part of MCC's commitment to transparency and accountability to stakeholders. Forty-five percent of the participants were women.

### Focus on Results

MCC is committed to achieving results in practice, not just in principle. Across its entire investment portfolio, MCC's results are collected, measured and reported throughout the lifecycle of a compact and in the post-compact period. Monitoring and evaluation (M&E) starts at compact development, with the creation of a formal M&E plan and an indicator-tracking table on program data. Data collection and analysis continues during compact implementation, and independent post-compact performance and impact evaluations are carried out to measure long-term effects of MCC investments.

### Monitoring Activities

As with all MCC compacts, monitoring of the El Salvador Compact was carried out using objective and reliable data to assess four elements of the compact: impact on direct beneficiaries' income, achievement of objectives, intermediate and projected compact outcomes, and timely delivery of compact-related goods and services. Data quality reviews were conducted intermittently by independent third parties to verify data consistency and quality.

## Performance Evaluation Activities

The El Salvador Compact was assessed through ongoing evaluations. Selected project activities will undergo final independent performance evaluations to address questions pertinent to program design, management and operational decisions such as what the project achieved, how it was implemented and how it was perceived and valued. The performance evaluations planned for the El Salvador Compact are listed below.

Selection of Planned Performance Evaluations	
Activity (Project)	Expected Dissemination of Independent Evaluation Results
Investment Support Activity (Productive Development Project)	2014
Production and Business Services Activity (Productive Development Project)	2014
ITCHA Sub-Activity (Human Development Project)	2014
Non-Formal Training Sub-Activity (Human Development Project)	2014

## Impact Evaluation Activities

MCC funds independent impact evaluations to determine whether an MCC compact investment was fundamentally successful in raising income levels for El Salvador program beneficiaries in a cost-effective way. These evaluations are conducted upon program completion and generally take at least one year to execute. While M&E plans help identify results during implementation and signal whether programs are on track to meet their goals, only impact evaluation results can confirm income gains attributable to MCC investments. The impact evaluations planned for the El Salvador Compact are listed below.

Selection of Planned Impact Evaluations	
Activity (Project)	Expected Dissemination of Impact Evaluation Results
Production and Business Services Activity (Productive Development Project)	2014
Scholarships Sub-Activity (Human Development Project)	2014
Technical Middle Schools Sub-Activity (Human Development Project)	2014

## Success Story: “A New Northern Zone” with Greater Opportunities for Salvadoran Dairy Farmers

Fifty years ago, Salvadorans envisioned a highway that would connect northern El Salvador with the rest of the country and help create opportunities for the region’s residents. The Northern Zone was considered a forgotten area and had been largely cut off from the rest of the country, partly because of the civil war, which lasted more than 12 years until the peace accords of 1992.

This dream has become reality. More than 220 kilometers of road and 23 bridges have been rehabilitated or constructed in northern El Salvador as part of the country’s five-year, \$461 million compact with MCC. The east-west highway connects to major border crossings with Guatemala and Honduras, and the improvements are expected to reduce travel time along this route from 12 hours to six hours.



Raúl Armando Vaquero

MCC has also helped some 17,500 producers out of a total of 32,000 in selected value chains in the Northern Zone by providing training, seeds, equipment, and technical assistance. MCC’s investments have strengthened eight value chains through training, promoting new technologies and strengthening product commercialization and marketing through partnerships with the private sector. The value chains supported include dairy, horticulture, crafts, tourism, coffee, aquaculture, beekeeping, and forestry.

“To me, this seemed an impossible dream,” said Raúl Armando Vaquero, a dairy farmer from the small town of Cuyuiscat who received MCC-funded training.

For 35 years Vaquero needed a horse and carriage to transport the cheese and milk he sold to customers around Metapán. In the winter season, swollen rivers prevented Vaquero and his employees from even reaching markets. The Northern Transnational Highway project has made markets accessible for Vaquero in the winter and significantly reduced delivery time in all four seasons. He can now drive to Nueva Concepción, a larger city with bigger markets, and deliver a fresher, higher-quality product. Raul Armando Vaquero, like many other dairy producers, doubled his income after one year of receiving training funded by MCC.

Based on the preliminary findings of an impact evaluation, dairy farmers who participated in the project increased their annual productive income by an estimated \$1,850 on average within one year of receiving assistance compared with those who received no assistance. The trained farmers sold a larger volume of milk and other dairy products.

The people of the Northern Zone now have the foundation in place for a more prosperous future: roads, bridges, water, power, sanitation, and a trained workforce.

“We now live in a new Northern Zone,” Vaquero said. “We are now living in a land of opportunity.”