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# El Salvador Poverty Assessment Strengthening Social Policy

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## ACRONYMS

ACE	Asociaciones Comunes para la Educación
ANDA	Administración Nacional de Acueductos y Alcantarillados
ANDAR	Asociación Nacional para la Defensa, Desarrollo y Distribución de Agua a Nivel Rural
CABEI	Central American Bank for Economic Integration
CAFTA	Central America Free Trade Agreement
CDE	Consejo Directivo Escolar
CEM	Country Economic Memorandum
CIDEP	Asociación Intersectorial para el Desarrollo Económico y el Progreso Social
CONIAPOS	National Committee of Water and Sanitation Institution (Comité Nacional de Agua Potable y Saneamiento)
CPI	Consumer Price Index
DIGESTYC	Dirección General de Estadísticas y Censos
ECLAC	Economic Commission for Latin America and the Caribbean
EHPM	Encuestas de Hogares de Propósitos Múltiples
FEPADE	Fundación Empresarial para el Desarrollo Educativo
FESAL	National Family Health Survey (Encuesta Nacional de Salud Familiar)
FISDL	Social Investment Fund and Local Development (Fondo de Inversión Social para el Desarrollo Local)
FONAVIPO	Fondo Nacional de Vivienda Popular
FOVIAL	Fondo de Conservación Vial
GOES	Government of El Salvador (Gobierno de El Salvador)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDB	International Development Bank
ISSS	Salvadoran Social Security Institute (Instituto Salvadoreño de Seguridad Social)
LSMS	Living Standards Measurement Studies
MDG	Millennium Development Goal
MEA	Programa de Municipalidades en Acción
MOP	Ministry of Public Works
MSPAS	Ministry of Public Health and Social Assistance (Ministerio de Salud Pública y Asistencia Social)
NGO	Nongovernmental Organization
OECD	Organization for Economic Co-operation and Development
PAE	Annual School Plan (Plan Anual de Escolaridad)
PAHO	Pan American Health Organization
PEI	Institutional Education Program (Programa de Educación Institucional)
PHRD	Special Fund for Policy and Human Resources Development
PLANSABAR	Plan Nacional de Saneamiento Básico Rural
PROGRESA	Programa de Educación, Salud y Alimentación
SIBASI	Basic System of Integral Health Attention (Sistemas Básicos de Salud Integral)
SRN	Secretaría de Reconstrucción Nacional
UNDP	The United Nations Development Program

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# EL SALVADOR

## Poverty Assessment Toward a National Social Policy

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## PREFACE

This Poverty Assessment is part of an ongoing analytical and advisory program developed by the World Bank in response to a request from the Government of El Salvador (GOES) for advice and assistance on poverty reduction, social sector policy and poverty monitoring. The request grew out of the Government's interest in examining the poverty and social situation in the aftermath of the 2001 earthquakes. The Poverty Assessment fits into a broader program of work that has included both analytical and technical support. Together, these activities have helped set the stage to support the Government's flagship poverty reduction program, the *Red Solidaria*, a multi-sectoral program launched by President Saca earlier this year to strengthen the human capital and productive capacity of the poorest Salvadorans.

The first phase of the Bank's programmatic support on poverty and social policy began in 2001 and included three main elements:

- Analysis of the poverty situation in El Salvador and policy advice on how to improve the poverty impact of social policy and social sector spending;
- Analysis of vulnerable groups in El Salvador and of existing programs to confront vulnerability, along with recommendations on how to strengthen the country's social safety net; and
- Technical assistance on data collection to enable analysis of the poverty impacts of the earthquakes.

Phase I culminated in June 2002 with the delivery to the GOES of two documents – *Policy Note on Poverty and Social Expenditures* and *Policy Note on Elements to Strengthen the Social Safety Net* and follow-up discussions with members of El Salvador's Economic and Social Cabinets. The analytical work was accompanied by technical assistance to the Salvadoran statistical agency, DIGESTYC, designed to enable analysis of the poverty impacts of the 2001 earthquakes and other poverty-related issues at the municipal level – a more geographically disaggregated level than had been available in the past. This first phase provided an important analytical foundation, and generated further demand from the Government for poverty analysis and dialogue focused on strengthening the impact of El Salvador's policies and programs addressing poverty and social sector outcomes.

The second phase of the program was carried out in response to a request from the GOES in late 2002 for more in-depth analysis on selected themes and led to the preparation of this Poverty Assessment, *Strengthening Social Policy*. Specifically, the Government asked that the Bank: (i) update the poverty profile with special emphasis on the poverty impact of the 2001 earthquakes; (ii) undertake a detailed and up-to-date analysis of social sector spending and its impact on the poor; and (iii) examine the likely fiscal costs of achieving further poverty reduction and socio-economic progress. For this phase of the work, the GOES also requested that the Bank broaden its definition of "social sector" spending to include public spending on rural water and rural roads, to make the work consistent with the Government of El Salvador's own definition of the social sectors. In line with the availability of household survey data during the preparation phase of this report, most of the quantitative analysis focuses on the 1991-2002 period; analysis of policies generally extends until mid-2004, the end of the sitting government's term of office.

Alongside the analytical efforts, the Bank's Poverty Assessment team provided technical assistance and support in other areas, including:

- Technical assistance to DIGESTYC, as part of broader GOES efforts to construct a municipal-level Poverty Map;
- Technical support in the production of a 2004 study of the Millennium Development Goals (MDGs) in El Salvador. This report was initiated by the country's Commissioner for the Coordination of the Social Areas, and included a wide range of national and international stakeholders, including the World Bank, UNDP, IDB, and several think tanks and NGOs in El Salvador. The Bank provided a range of technical inputs and guidance to the analytical exercise which culminated in the launching of a report in May 2004 in San Salvador; and
- At the request of counterparts in the Secretariat of the Presidency and in the Social Investment Fund for Local Development (FISDL), the Bank team initiated efforts to support the strengthening of El Salvador's social safety net.

Phase II of the Bank's programmatic support also included consultations on the key findings of the Poverty Assessment with a range of governmental and non-government stakeholders in May, 2004, including as part of a national workshop on growth and poverty reduction co-sponsored by the Bank and FUSADES, a well-known Salvadoran think tank. This workshop provided an important opportunity to discuss and receive feedback on the main findings and messages of the report which, in turn, contributed to the study's further development and refinement.

A third phase of the Bank's programmatic support on poverty and social policy is currently underway. The current Government of El Salvador came to office in June 2004 with a strong commitment to further poverty reduction and social progress. As part of this commitment, the Government has launched *Plan Oportunidades*, a new multi-faceted social strategy with five components: (i) *Fosalud*, focused on extending basic medical services, (ii) *Programa JovenES*, focused on youth development; (iii) *Red Solidaria*, focused on increasing access to basic education, health, and nutrition services to the poorest Salvadorans; (iv) *Conectate*, focused on improving education quality through the harnessing of information and communication technologies; and (v) *Tu Crédito*, focused on the strengthening micro-credit as a tool for poverty reduction.

As part of these current efforts, the GOES has sought the collaboration of the World Bank and the Inter-American Development Bank on the development of the *Red Solidaria* and related education initiatives, among other things, to assist the Government in applying the lessons of recent analytical work and international operational experience. In many ways, this current work represents a culmination of these recent years of collaboration and partnership with the GOES on poverty and social policy issues. The World Bank looks forward to continued collaboration on the country's efforts to reduce poverty and to improve the well-being of the Salvadoran people more generally.

# EL SALVADOR

## Poverty Assessment Toward a National Social Policy

### Executive Summary

#### I. Introduction

##### *More than a decade of progress—*

El Salvador experienced a major political, economic, and social transition during the 1990s. The civil war of the 1980s came to end in 1991, and since that time regular, broad-based elections – most recently in March, 2004 – have helped lay the foundations for a stable democracy. This political transformation was accompanied in the 1990s by structural economic reforms and stable macro policies, which in turn paved the way for the dollarization of the economy, and for El Salvador's participation in the Central America Free Trade Agreement (CAFTA), signed in late 2003.

El Salvador has registered a number of important socio-economic gains in the decade-plus since the return to peace. The economy grew by an impressive 6 percent per year from 1990-1995 and, then, by an average rate of 2.8 percent from 1996-2002. Moreover, economic growth, coupled with reforms in some key sectors and increases in social sector spending in the second half of the decade, has contributed to substantial reductions in poverty and improvements in basic socio-economic indicators over the period. Indeed, the poverty headcount has fallen by more than one-third; education levels have risen; access to basic services, such as safe water, has increased; and basic health outcomes, such as life expectancy, infant and child mortality, and child nutrition have all improved. In several areas, including in basic education, infant mortality, and access to potable water, the gaps between the poor and the non-poor have also declined over the period.

##### *—but challenges remain—*

Notwithstanding its achievements, El Salvador faces important challenges as it looks toward consolidating and extending these gains. For example, despite important gains, a number of key social indicators in El Salvador – especially in education and in access to safe water – are still poorer than the average for the Latin America region and for Lower Middle Income Countries. Moreover, growth will continue to be a cornerstone of poverty reduction in the country. Yet, slower growth in the second half of the 1990s and the early 2000s has meant that average per capita incomes have barely grown over the last several years, observably slowing poverty reduction and socio-economic progress since 2000. While social sector spending can help to catalyze progress, low overall spending levels and tight a fiscal situation limit the scope for action in the near term. Moreover, efforts to reinvigorate growth, poverty reduction, and socio-economic progress have been complicated by several external factors – two powerful earthquakes in 2001, the region's "coffee crisis," and the slowdown in the U.S. and global economies.

##### *—highlighting the need to strengthen social policies—*

The country's recent achievements in reducing poverty and raising social indicators have also spawned a new set of challenges for the future. For example, while growth in the 1990s was relatively broad-based – i.e., incomes of the moderate poor grew roughly at the same rate of that

of average incomes – the incomes of the poorest 20 percent of the population grew relatively little, leading to a moderate increase in income inequality in El Salvador. The fact that the poorest Salvadorans have not been able to take advantage of broad socio-economic progress over the last decade highlights the need for active measures oriented toward reaching the country's most vulnerable groups to support them in escaping from poverty. Because poverty is less widespread, continuing to make social gains will require more refined and targeted measures than those that have increased education, improved health, and raised access to basic services in the past.

This study examines the recent evolution of poverty and social indicators in the country, the key factors explaining recent progress, including domestic factors and the effects of exogenous shocks, such as the 2001 earthquakes and the coffee crisis. Special emphasis is placed on the role of the social sectors – which in El Salvador is taken to include rural water and roads, as well as the traditional human development sectors (education, health, and social protection). Based on the diagnosis, the study outlines an approach for increasing the effectiveness of El Salvador's poverty reduction efforts – through the development of a coherent national social policy. Indeed, the collection of the evidence suggests that to be most effective in reducing poverty in the coming years, it will be important for El Salvador to craft a social policy – based on a broad national consensus – that

- Develops the human capital of all Salvadorans
- Strengthens people's access to markets and basic services, and
- Provides support and protection to the poorest, most vulnerable Salvadoran families.

***—and increase investment in the social sectors***

The evidence also shows that in spite of recent increases, social sector spending in El Salvador remains low. By enabling the poor to participate more fully in the opportunities created by development, social sector investments are critical to poverty reduction (as well as to the growth agenda). Thus, the country needs to continue strengthening the social sectors and increasing the levels and effectiveness of social sector spending if it is to build successfully on recent accomplishments. This, itself, raises a challenge for which developing a national consensus will be critical: how to finance the country's commitment to poverty reduction and broader improvement in social indicators.

## **II. Recent Achievements, Current Challenges**

### ***Substantial poverty reduction, but a slowing trend***

Income poverty declined significantly in El Salvador during the 1990s – although progress has slowed considerably in the 2000s in the face of the coffee crisis, the earthquakes of 2001, and the slowdowns in the global and domestic economies. The share of the population whose income falls below the poverty line declined by 27 percentage points from 64.4 percent in 1991 to 37.2 percent in 2002, while the fraction living in extreme poverty declined by almost 16 percentage points from 31.2 percent to 15.4 percent during the period—although poverty fell fastest in the first half of the decade. Since 2000 total poverty has declined more slowly, while extreme poverty has barely changed. Moreover, income inequality increased slightly since the mid-1990s.

Poverty continues to be disproportionately rural. About half of Salvadorians living in rural areas are poor, a quarter of which live in mere subsistence, while 28.5 percent of the urban population is poor and only 9 percent extremely poor. In terms of numbers of poor people, the rural poor made up about 55 percent of all El Salvador's poor in 2002, while urban poor made up 45 percent



of the poor. Extreme poverty is particularly concentrated in rural areas. In 2002 there were nearly two extreme poor living in rural areas (1.87) for every one extreme poor living in urban areas.

***Progress in education and health has narrowed gaps—***

Substantial progress was also made in human development over the period. In education, not only have enrollment rates for the population as a whole increased, but the gaps between the poor and non-poor have narrowed in net enrollment rates, in primary graduation rates and in average years of schooling. Moreover, gender gaps in schooling have essentially been eliminated at the primary and secondary levels.

There has been considerable progress in health as well – in life expectancy, infant and child mortality, child nutrition, and health service access. While more limited data exist on how health outcomes changed among the poor relative to the non-poor, there is some evidence that the gap may have closed, at least for some indicators. Data from the National Survey of Family Health (FESAL) indicate, for instance, that the poor have made relative gains with respect to infant mortality.

***—and highlighted new challenges***

Despite recent achievements, twenty-two percent of 7-15 year-olds from the poorest families still did not attend school in 2002. Access to secondary schooling remains low and the gap between poor and non-poor remains large; secondary enrollment rates are only about 20 percent among the poor (compared with 36 percent among the non-poor). In addition, when the poor do enroll, in school, they are less likely to continue to completion. And while the quality of education is a system-side challenge in El Salvador, education quality appears to be particularly low among the poor.

Important challenges remain with respect to improving the health and nutritional status of the poor as well. Basic indicators are still significantly lower among the poor than the non-poor, in spite of advances. The poor also continue to have less access to quality health and reproductive healthcare. For example, while 80 percent of the wealthy mothers deliver in a hospital, only 4 of 10 low-income mothers have institutional deliveries. Moreover, problems of access have been exacerbated by un-repaired earthquake damage to hospitals and other health facilities.

***Despite progress, gaps remain in access to basic services and to markets***

Access to basic services also improved over the period, with increased access to safe water, sanitary installations, and electricity. Important gains were also made in reducing the isolation of poor, rural households. Indeed, data collected as part of a unique panel of rural households (called BASIS) indicates that average distances and travel times to paved roads and to markets declined substantially for all rural households, and most dramatically for the poorest families.

Still, further progress is needed. About half the poorest households still lack access to safe water, particularly in rural areas. In addition, over 20 percent of the poorest households lack adequate sanitation facilities – with potentially important impacts on family and environmental health – and about 4 out of 10 lack access to electricity. In spite of significant progress in developing road and transport infrastructure, the poor still face greater distances and costs associated with accessing services or markets. Average distances to paved roads are still 80-90 percent higher among the extreme poor than the non-poor in rural areas, whereas average distances to the nearest market are roughly one-third higher among the extreme poor than the non-poor.

### III. Explaining Recent Progress

What have been the key factors responsible for the broad improvements in poverty and social indicators since the early 1990s? A few factors stand out:

#### *The poor have benefited from growth—*

There is now a global empirical literature showing the importance of economic growth for poverty reduction, and the same can be seen in El Salvador. The elasticity of total poverty with respect to growth was -1.3 over the 1991-2002 period, indicating that a one percent increase in per capita income was associated with decline in the poverty headcount of 1.3 percent, holding the distribution of income constant. For the 1991-2002 period, average incomes of the poor grew by 3.1 percent a year, just below the nationwide average of 3.7 percent. But there were important differences in income growth among the poor during the period. Per capita incomes of the poorest Salvadorans lagged during much of the period, averaging only 1.3 percent per annum. These differences in income growth between the moderate poor and the extreme poor contributed to increases in aggregate income inequality, particularly since 2000, when the poorest Salvadoran experienced real declines in their per capita incomes.

#### *—a reduced reliance on agricultural incomes—*

Structural changes in employment and household earnings also affected poverty reduction over the period. Most households have multiple sources of income, but the share of the people whose households relied on agriculture as their *main source* of income dropped dramatically – from 38.9 percent to 18.1 percent – over the 1991-2002 period. This structural shift in households' sources of income had an important effect on poverty reduction. The incidence of poverty among households whose main income source was agriculture declined very little between 1991 and 2002 – just over 1 percentage point, from 75.3 to 74.1. In contrast, households who found other main income sources increased their well-being significantly. In fact, shifts away from agricultural earnings contributed to over 12 percent of national poverty reduction over the period. In spite of the large structural changes, agricultural households still make up the largest single poverty group. More than one-third of El Salvador's poor still count agriculture as their main income source, although less than one-fifth of all households now depend on agriculture as their primary source of earnings.

In addition to households' earned incomes, remittances also played an important role in poverty reduction over the period. Receipt of remittances grew during the period, and the EHPM data indicate that households that receive remittances have per capita incomes that are 50 percent higher than otherwise identical households. Yet, only a minority of poor households receive remittances – e.g., only 11 percent of households in the poorest quintile in 2002. In fact, while remittances have been vital to those who have received them, simulation analysis suggests that their aggregate impact on poverty reduction appears to have been relatively modest compared to growth in households' earned incomes.

#### *—and increased attention to the social sectors—*

Recent improvements in poverty and social indicators can also be attributed, in part, to increased attention to the social sectors in El Salvador. Recent progress in education, for example, is related to a series of education reforms designed to increase access to schooling, particularly among the poor in rural areas. In addition, there have been important increases in social sector spending. Historically, public spending on the social sectors has been very low by regional standards and in relation to El Salvador's income level. But recent efforts have brought spending levels – and sector outcomes – closer to international benchmarks. Moreover, patterns of public spending have tended to be pro-poor, contributing to closing of gaps in basic education, health and access to safe water. While there still is clear scope for strengthening the social sectors as

part of a national social policy – including through further increases in spending – progress in education, health, water and rural road access has been noteworthy.

***—but lost ground, at least temporarily, due to recent shocks***

In January and February, 2001, El Salvador was hit by two powerful *earthquakes* that resulted in over 1,000 casualties and left more than 300,000 families homeless. The EHPM data indicate that the earthquakes did not result in an increase in income poverty at the national level – although they did have important short-term impacts in most-affected localities.

Affected households' incomes rebounded quickly, however – thanks in part to relief, rehabilitation, and reconstruction activities – and by 2002 poverty in the affected areas had generally declined to their pre-earthquake levels. The earthquakes appear to have adversely affected basic education outcomes as well in affected areas (e.g., Usulután, Cuscatlán). Nearly 4 percent of children left school between 2000 and 2001 – at least temporarily. While enrollment levels have recovered somewhat, they have not rebounded as quickly as household incomes. In 2002 only about half the affected areas had attained enrollment rates at or above their pre-quake levels.

Likewise, households involved in the coffee sector have been negatively affected by the *coffee crisis*. Although coffee households have not experienced absolute declines in their incomes (many of them have been able to reduce their reliance on agriculture) they have experienced slower real income growth than non-coffee households. Moreover, there is some evidence to suggest that the crisis has adversely affected child nutrition in coffee growing departments (e.g., Ahuachapán). In contrast to the earthquakes, the coffee crisis does not appear to have had a systematic effect on children's schooling – although it may have negatively affected schooling in specific localities.

***Many poor are still unable to take advantage of economic opportunity***

Why were some households better able than others to take advantage of growth and emerging economic opportunities over the past decade? Analysis of the EHPM and BASIS surveys indicate that education, ownership of land or other physical assets, and access to markets and basic services (via proximity to all-weather roads and transportation) were all key factors in households' ability (or not) to participate in recent economic progress. Households' involvement in formal-sector salaried employment, in non-agricultural enterprises, and their ability to diversify their income portfolio – related, in part, to education, assets, and access to markets – were also important. Indeed, the evidence suggests that many of the poorest, most vulnerable Salvadorans still lack sufficient human capital, as well as access to markets and basic services, to be able to advantage of new and emerging opportunities. Ensuring that the poorest, most vulnerable citizens are equipped to participate in future economic progress will, thus, need to be at the core of a forward-looking strategy for reducing poverty in El Salvador.

#### **IV. Elements of a National Social Policy**

***Growth will remain an important engine of poverty reduction—***

Economic growth will continue to be a key feature of El Salvador's accomplishments in reducing poverty. There will thus be high returns in terms of poverty reduction to Government of El Salvador taking the necessary measure to reinvigorate growth in the 2000s. In this context, the recent World Bank Country Economic Memorandum for El Salvador (2003) identifies four priority areas that will, if addressed, help to promote faster growth in the country. These include: (i) increasing the education levels of the Salvadoran population; (ii) developing the country's economic infrastructure; (iii) fostering greater technology adoption and local innovation; and (iv) improving the investment climate, including efforts to reduce violence and increase the rule of

law. Through their impact on growth, these measures will be critical to further poverty reduction as well.

***—but enabling all Salvadorans to benefit from growth calls for a national social policy that—***

Nonetheless, the fact that the many of the poorest Salvadorans have not participated fully in recent economic progress highlights the importance of implementing a coherent and strategic social policy as part of a poverty reduction strategy. Building on El Salvador's impressive achievements since the early 1990s, an effective social policy would focus on

- strengthening the human capital of all Salvadorans, and
- improving people's access to markets and basic services.

Because there are some among the very poor who still lack the capacity to participate in and benefit from traditional sector programs, an effective social policy would also

- put in place programs to support and protect the poorest, most vulnerable families.

***—strengthens the human capital of all Salvadorans—***

*Education.* A key element of building the human capital of all Salvadorans involves ensuring that all people have access to education with quality. Strengthening the human capital and, thus, the capabilities of the poor will be critical to ensuring that they are prepared to take advantage of emerging economic opportunities in El Salvador. Increasing the education levels of all Salvadorans, including the poor, will also be important to fulfilling the growth agenda elaborated in the Country Economic Memorandum. Indeed, there are significant complementarities between the growth and poverty reduction agendas with respect to education. It will be important for the government to focus on measures to:

- continue to improve access to basic education among the poor
- reduce grade repetition and drop-outs and increase completion rates at the basic level
- introduce efforts to induce more poor grade 9 graduates into secondary schooling (as part of a broader effort to increase secondary enrollments and achievement for all Salvadorans), and
- improve education quality at all levels of education.

In light of the broad national consensus on education and the ongoing reform process in the sector, efforts should focus on building on recent progress. Special emphasis should be placed on addressing the constraints and challenges faced by the poor – among the most important of which continue to be the direct and indirect costs of schooling.

*Health.* Good health is a fundamental part of people's well-being and is valued for its own sake. Sound health is also essential for people to participate fully and productively in society and in the economy. A second key element of building the human capital of all Salvadorans thus involves ensuring that all people have access to quality healthcare.

Fewer than 20 percent of all Salvadorans have access to medical insurance either through the Salvadoran Social Security Institute (ISSS) or through private sources. Less than 10 percent and 3 percent of the moderate and extreme poor, respectively, are insured. A major responsibility of El Salvador's Ministry of Public Health (MSPAS) is therefore to cover the population without

insurance. And while there have been important advances in recent years, it is estimated that nearly one-quarter of the population, mostly the poor, still has limited or no access to public health services.

Continuing to improve basic health outcomes among the poor will thus require enhanced efforts to ensure access to affordable healthcare among those who lack it, as well as building greater trust in the public healthcare system through enhancing the quality of services. This will involve:

- ensuring that health fee waivers are made available to those who cannot afford to pay
- assessing ongoing institutional reform and decentralization efforts to identify ways of strengthening the outreach and quality of the public health system – particularly at the primary level
- reforming the health sector’s human resource policy to ensure a sufficient supply of well-trained health care professionals and quality care, particularly in poor, rural areas, and
- completing rehabilitation of the hospitals damaged by the 2001 earthquakes to ensure adequate supply of secondary and tertiary health services, and

Continuing to make progress in improving health outcomes, particularly among the poor, will require efforts on several fronts. In contrast to education, there is still no broad consensus on the direction of health sector reforms. As such, a critical element in making sustainable progress in health will be building a national consensus on the way forward.

*—improves access to markets and services—*

Basic infrastructure, such as rural water and rural roads, provide both direct and indirect benefits in the fight against poverty – benefits that complement and reinforce investments in human capital development. Access to potable water and suitable sanitation facilities in rural areas is increasingly recognized as an important health input, one that critically affects the incidence of disease and infant and child mortality. Improved access to all weather roads translates into reduces isolation, lowers the costs for goods and services (including accessing education and health facilities), and increases access to markets, enabling people to better take advantage of emerging economic opportunities. And, as with education, road investments make potentially important contributions to both the poverty reduction and the growth agendas. Investments to increase both access to safe water and to rural roads, will thus continue to be a key element in El Salvador’s fight against poverty.

*Rural water.* The challenge of ensuring universal access to safe water and sanitation is made more complex by a complex institutional and regulatory environment in the sector. While the decentralized nature of rural water provision has potential benefits, the current regulatory environment provides uneven “rules of the game” across water sector institutions, leading to inefficiencies in the system, considerably variability in the quality of water systems, and at times, exorbitant water costs to the poor who access water through gray market purchases. As such, a key policy challenge in the water sector will be to reinitiate and complete water sector reforms.

Reform efforts were initiated in the late 1990s and then set aside, in part, because the earthquakes temporarily shifted the sectors focus to system reconstruction. Many technical inputs to a reform are already reasonably developed. The incoming administration thus has the opportunity to build on these inputs to complete the reform and put the water sector on a sound footing to improve access to potable water among the poor.

*Rural roads.* Recent progress has been impressive and provides useful lessons for the way forward, particularly with respect to the importance of road maintenance. Indeed, by ensuring longevity of recent rural road investments, returns to rural roads maintenance are extremely high and should be considered a priority along with continued investments in road expansion. In this context, efforts to ensure that the poor benefit from rural road investments should focus on:

- continuing expansion and improvement of the rural road network
- developing a program for the maintenance of secondary and tertiary road networks to ensure the sustainability of recent investments in rural roads, and
- continuing development of local and municipal capacity to build and maintain rural road infrastructure.

— *and supports and protects society's poorest, most vulnerable households*

*Building a Social Safety Net.* The idea of developing a coherent social safety net is a relatively new one in El Salvador – yet there is growing awareness of the issue and it is now a core element in the platform of the newly elected government. Social safety programs have an important role to play in El Salvador's poverty reduction efforts for several reasons.

- In spite of broad socio-economic advance, the poorest, most vulnerable Salvadorans have largely not participated in or been able to take advantage of recent progress. Continuing lack of access to education, health, and other basic services raises the risk that these poor will be further left behind and that their weak capacity to take advantage of emerging economic opportunities will be passed on to their children via weak human capital.
- El Salvador is a shock-prone country. While all Salvadorans are potentially vulnerable to shocks, as the recent earthquakes showed, the extreme poor tend to be most vulnerable, both regarding income and basic education, health, and nutritional outcomes.
- While most households have their own “private” safety nets – most notably migration and remittances – they tend not be sufficient, particular among the poor. Private risk management strategies only *partially* insure families against risk/shocks and, in the case of remittances, only a fraction of those that need support most receive them.

Given its combination of chronic extreme poverty and vulnerability to shocks El Salvador would benefit from a safety net that focuses on: (i) improving service access to the poorest, most vulnerable groups who have been outside the reach of traditional line ministry interventions; and (ii) protecting the poorest from the most harmful impacts of natural and economic shocks.

While existing safety net-type programs are generally pertinent, focusing on key risks faced by the poorest, most vulnerable Salvadorans, their impact is modest. Coverage is low, due to low levels of public spending. Moreover, within the existing budget envelop, resources tend to be under-allocated to priority risk groups. Insufficient information on which to target programs and on program impact, coupled with lack of a strategic vision for the sector and coordination across numerous atomized programs, further constrains the impact of existing programs, reducing the cost effectiveness and impact of the El Salvador's safety net.

To ensure that El Salvador's safety net contributes appropriately to sustainable poverty reduction, it will be important to

- Develop a coherent, strategic vision for the sector

- Establish an institutional mechanism for coordinating programs, that would support
  - greater emphasis on high priority, high return areas (e.g., early childhood interventions), and
  - identification and scaling up of cost-effective models, and
- Continue recent efforts to strengthen the information base for program targeting and programs' abilities to monitor and evaluate their impact.

To be effective, it will be important that any institutional mechanism have a strong mandate, the authority to coordinate across traditional ministerial boundaries (since the safety net would need to address a number of cross-cutting issues), and command sufficient resources and technical capacity to effectively play a role.

## V. Strengthening Social Policy – The Way Forward

### *A need for increased resources—*

The evidence suggests there are potentially important gains – in terms of poverty reduction and increased economic participation of the poor – available through strengthening national social policy. Greater productivity among the poor would also contribute to enhanced economic growth and development. To have an impact on remaining poverty will require additional resources, however – significantly so in some cases. Given that the fiscal space for increased spending is limited in El Salvador, it will be important to make strategic about next steps and priority areas for action.

### *—most notably for education and a social safety net*

The largest commitments of additional resources are associated with improvements in education and in the development of a social safety net. It is estimated that achieving universal basic education and 70 percent net enrollments in secondary schooling, while ensuring quality improvements, would require an additional 1.8 percent of GDP in education sector spending; developing an adequate safety net would require spending of an additional 1 percentage point of GDP over time. Only spending on road investments, which essentially doubled between 1999 and 2003, would not require noticeable increases.

While commitment of additional resources in any single sector may appear within reach, the joint costs of implementing the proposed elements of a national social policy pose a greater challenge – an implied spending increase of between 3.2 and 3.6 percent of GDP. In this context, serious consideration should be given to measures that would increase government revenues. But with or without additional revenue measures, some effort to consider relative priorities and phasing of policies and investments are warranted.

### *Education and rural roads sectors are poised for high-return investments—*

Given that additional investments in education and roads will likely contribute both the poverty reduction and economic growth agendas, these are likely to be particularly high return investments. In addition, recent developments in both sectors – progress on the reform agenda in education, the success of *Caminos Rurales Sostenibles* – suggest the sectors are poised to use additional resources productively.

### *—while other sectors would benefit from stronger strategic direction*

With respect to health and water and sanitation, there is less consensus about direction of sectors or about sectoral reforms. In this sense, it will be important to build a national consensus on the ways forward, before committing substantial additional resources. Indeed, reforms that define a

strategic direction, including the appropriate roles for the private as well as the public sector, could pave the way to significant efficiency gains and, thus, a greater leveraging of available resources.

In the case of development of a social safety net, since this is a relatively new policy area in El Salvador, it will be important to resource programs sufficiently to ensure an impact. At the same time, it may make sense to increase public resources incrementally, to ensure that an appropriate institutional framework is developed and cost-effective service models and delivery mechanisms are identified. Indeed, phasing-in of spending increases – to provide the Government of El Salvador a clear and predictable time horizon for increasing its revenue base – may be a pragmatic approach to implementing multiple elements of the country’s social policy.

#### ***Leveraging resources***

Independent of spending levels adopted, ongoing efforts should also be made to leverage resources through creative partnerships – between public-private entities, between the Central and Local Governments, and between Salvadoran emigrants and their communities, friends and families who remain in the country. While El Salvador has made important advances in this area recently, there remains considerable potential through such partnerships to enhance poverty reduction efforts and national development as a whole.

#### ***Improving data for enhanced poverty monitoring and program targeting***

Finally, reaching the poorest, most vulnerable Salvadorans will require improved data and information with which to monitor poverty and target programs to at-risk groups. Several priorities stand out, including:

- collection of a new population census to ensure that El Salvador’s poverty profile fully reflects recent demographic and geographic changes due to migration as well as other factors
- further strengthening of the national household survey (EHPM), which together with a new census will enable more accurate identification of the poor and better targeting of poverty-related interventions, and
- improving program monitoring and evaluation to identify effective service delivery models and enable adjustment of program design (when necessary) to enhance program effectiveness.

Indeed, enhancing the Government’s ability to target poverty reduction programs will be central to El Salvador meeting its emerging and future poverty challenging, and will help to ensure that the country is making the most effective use of its scarce fiscal resources in the fight against poverty.



## EL SALVADOR

### Poverty Assessment Toward a National Social Policy

#### PART 1: POVERTY AND VULNERABILITY IN EL SALVADOR, 1991-2002

##### I. INTRODUCTION

###### *A return to peace, coupled with economic reforms—*

1.1 El Salvador experienced a major political, economic and social transition during the 1990s. The civil war of the 1980s came to end in 1991, and since that time, regular, broad-based elections – most recently in March, 2004 – have helped lay the foundations for a stable democracy. A process of structural reforms implemented during the 1990s also transformed the Salvadoran economy by liberalizing trade, strengthening the private sector, privatizing several state enterprises, reforming the pension system and introducing improvements in the competitiveness environment for private investment. Stable macro policies, coupled with these structural reforms, paved the way for the Monetary Integration Law approved in 2000 that established the base for the dollarization of the economy, and for El Salvador's participation in the Central America Free Trade Agreement (CAFTA), signed in late 2003.

###### *—has helped spur growth and reduce poverty since the early 1990s—*

1.2 El Salvador has registered a number of important socio-economic gains in the decade-plus since the return to peace. The economy grew by an impressive 6 percent per year from 1990-1995 and, then, by an average rate of 2.8 percent from 1996-2002. Moreover, economic growth, coupled with reforms in some key social sectors and increases in social spending in the second half of the decade, has contributed to substantial reductions in poverty and improvements in basic socio-economic indicators over the period (Table 1.1). Indeed, the poverty headcount has fallen by more than one-third; education levels have risen; access to basic services, such as safe water, has increased; and basic health outcomes, such as life expectancy, infant and child mortality, and child nutrition have all improved. In several areas, including in basic education, infant mortality, and access to potable water, the gaps between the poor and the non-poor have also declined over the period.

**Table 1.1: Key Socio-economic Indicators in El Salvador, Early 1990s to Early 2000s<sup>1</sup>**

Indicator	1990-93	2000-02	Change
GDP per capita, 1990-2002 (1995 Constant US \$)	1,376	1,763	28% increase
Poverty Headcount, 1990/91-2002 (Total, %)	66% (DIGESTYC) 64% (WB)	43% (DIGESTYC) 37% (WB)	35% decline 42% decline
Poverty Headcount, 1990/91-2002 (Extreme, %)	33% (DIGESTYC) 31% (WB)	19% (DIGESTYC) 15% (WB)	42% decline 51% decline
Net Basic Enrollment Rate, 1990/91-2002, EHPM (%)	74%	85%	15% increase
Net Secondary Enrollment Rate, 1990/91-2002, EHPM (%)	19%	30%	61% increase
Life Expectancy, 1990-2002 (years at birth)	66	70	7% increase
Infant Mortality Rate (deaths per 1,000 live births)	41 (FESAL 1993) 46 (WDI 1990)	25 (FESAL 2002) 33 (WDI 2002)	39% decline 32% decline
Under-5 Mortality Rate (deaths per 1,000 live births)	52 (FESAL 1993) 60 (WDI 1990)	31 (FESAL 2002) 39 (WDI 2002)	40% decline 35% decline
Chronic Malnutrition (height for age, children under 5), 1993-2002 (%)	23.3	19.6	16% decline
Access to Safe Water, 1990-2002 (%)	55%	76%	38% increase

<sup>1</sup>Precise years, which differ by indicator and data source, are noted alongside each indicator.

Sources: *World Development Indicators* (WDI, various years); DIGESTYC (using EHPM data, various years); World Bank (WB) staff estimates (using EHPM data, various years); El Salvador *Encuesta Nacional de Salud Familiar*/National Family Health Survey (FESAL, various years).

1.3 Notwithstanding its achievements, El Salvador faces important challenges as it looks toward consolidating and extending these gains. As can be seen in Table 1.2, despite important gains, a number of key social indicators in El Salvador – especially in education and in access to safe water – are still poorer than the average for the Latin America region and for Lower Middle Income Countries.

**—but progress has slowed in recent years, highlighting key challenges.**

1.4 Moreover, growth will continue to be a cornerstone of poverty reduction in the country. Yet, slower growth in the second half of the 1990s and the early 2000s has meant that average per capita incomes have barely grown over the last several years, observably slowing poverty reduction and socio-economic progress since 2000. While social sector spending can help to catalyze progress, low overall spending levels and tight a fiscal situation limit the scope for action in the near term. In addition, efforts to reinvigorate growth, poverty reduction, and socio-economic progress have been complicated by several external factors – two powerful earthquakes in 2001, the region’s “coffee crisis,” and the slowdown in the U.S. and global economies. The earthquakes alone caused more than 1,000 casualties, left more than 300,000 families homeless,

destroyed infrastructure and had considerable short-term impacts on family incomes and access to basic services in affected areas.

**Table 1.2: Socio-economic Indicators – How El Salvador Compares with Latin America and Lower-Middle Income Countries, 2000-2002<sup>1</sup>**

Indicator	El Salvador	Latin America and the Caribbean	Lower Middle Income Countries
Net Primary Enrollment Rate, 2001 (%)	89	94	91
Net Secondary Enrollment Rate, 2001 (%)	46	65	n/a
Life Expectancy, 2002 (years at birth)	70	71	69
Infant Mortality Rate, 2002 (deaths per 1,000 live births)	33	28	32
Under-5 Mortality Rate, 2002 (deaths per 1,000 live births)	39	34	40
Access to Safe Water, 2000 (%)	76	86	81

<sup>1</sup>Precise year, which differs by indicator, is noted alongside each indicator.

Source: *World Development Indicators* (2003).

***The poorest Salvadorans have not benefited proportionately from recent gains—***

1.5 The country's recent achievements in poverty reduction have also spawned a new set of challenges for the future. For example, while growth in the 1990s was relatively broad-based – i.e., incomes of the moderate poor grew roughly at the same rate of that of average incomes – the incomes of the poorest 20 percent of the population grew relatively little. These differences in income growth among the 1990's poor have fueled a moderate increase in income inequality in El Salvador. Perhaps more importantly, from a policy perspective, the fact that the poorest Salvadorans have not been able to take advantage of broad socio-economic progress over the last decade highlights the need for proactive measures oriented toward reaching the country's most vulnerable groups to support them in escaping from poverty.

***—and future success will require focused efforts.***

1.6 In addition, recent social gains have brought to the forefront more persistent, more difficult-to-address challenges. For example, the considerable declines in child mortality over the last decade have come largely through declines in so-called “soft” mortality, that is, through reductions in post-neonatal and 1-4 year old mortality. This has resulted in an increasing share of the persistent “hard” – or neonatal – mortality, a more difficult health sector challenge.<sup>1</sup> Similarly, bringing and keeping children from the poorest, most vulnerable households in the education system will likely require more refined and targeted measures than those that have succeeded in increasing enrollments in the past. In sum, recent progress in reducing poverty and improving social indicators has created new challenges that will require increased and deliberate efforts – and creativity – to ensure ongoing success.

***This report uses a multi-dimensional approach to analyzing poverty—***

1.7 This Poverty Assessment focuses on poverty, in its multi-dimensions, and on how social policy along with increased investments in the social sectors can be used by the Government of El Salvador (GOES) to accelerate poverty reduction in the coming years. To do so, this study brings

<sup>1</sup> This is true not only in El Salvador, but throughout Central America.

together several newly commissioned background studies along with a rich body of recent empirical analysis on poverty and social policy in El Salvador. This work has also benefited immensely from ongoing discussion and consultations with government counterparts, members of non-governmental think tanks, and civil society groups.

*—highlighting the roles of social policy—*

1.8 This study examines the recent evolution of poverty and social indicators in the country, the key factors explaining recent progress, including domestic factors and the effects of exogenous shocks, such as the 2001 earthquakes and the coffee crisis. Special emphasis is placed on the role of the social sectors – which in El Salvador is taken to include rural water and roads, as well as the traditional human development sectors (education, health, and social protection). Based on the diagnosis, the study outlines an approach for increasing the effectiveness of El Salvador's poverty reduction efforts – through the development of a coherent national social policy. Indeed, the collection of the evidence suggests that to be most effective in reducing poverty in the coming years, it will be important for El Salvador to craft a social policy – based on a broad national consensus – that:

- Develops the human capital of all Salvadorans
- Strengthens people's access to markets and basic services, and
- Provides support and protection to the poorest, most vulnerable Salvadoran families.

*—and public spending—*

1.9 The evidence also shows that in spite of recent increases, social sector spending in El Salvador remains low. By enabling the poor to participate more fully in the opportunities created by development, social sector investments are critical to poverty reduction (as well as to the growth agenda). Thus, the country needs to continue strengthening the social sectors and increasing the levels and effectiveness of social sector spending if it is to build successfully on recent accomplishments. This, itself, raises a challenge for the country about which developing a national consensus will be important: that is, how to finance the country's commitment to poverty reduction and broader improvement in social indicators as part of its development strategy.

*—as well as the need for better data.*

1.10 Finally, meeting the challenges associated with further reducing poverty and improving social indicators will require an improved database upon which to base policy decision. This includes collection of a new population census and continued improvements in the national household survey instrument, steps that will be vital to identifying the poor, targeting poverty reduction policies and investments, and ensuring that they are effective. Sharpening the Government's ability to target anti-poverty programs is particularly important to ensuring that El Salvador is able to make the most of its scarce fiscal resources.

1.11 This study is organized as follows. Chapter 2 analyzes the evolution of poverty and vulnerability in El Salvador from 1991-2002. Chapter 3 examines the factors that help to explain the evolution of poverty and other socio-economic indicators, including economic growth, recent structural changes in the economy, shocks such as the 2001 earthquakes and the coffee crisis, as well as other factors, such as recent increases in remittances. Chapters 4-8 examine, in turn, key social investments – in education, health, rural infrastructure, such as water and roads, and social protection – their prospective roles in attacking poverty in the coming years, and the likely fiscal costs of the requisite investments. Chapter 9 summarizes the lessons of the analysis for crafting a national social policy to accelerate poverty reduction and social progress in El Salvador.

## II. RECENT ACHIEVEMENTS, CURRENT CHALLENGES

2.1 This chapter focuses on the evolution of poverty, in its multi-dimensions, from 1991-2002, on vulnerability, and on the key remaining challenges facing El Salvador in its poverty reduction agenda. Several key messages emerge from the chapter. First, El Salvador experienced significant declines in poverty during the 1990s – although progress has stalled in the 2000s in the face of the coffee crisis, the earthquakes of 2001, and the slowdowns in global and domestic economies. The finding of significant poverty reduction is robust to different the use of different data sets and different methodological approaches. Second, despite broad socio-economic gains for the “moderate” poor, the poorest Salvadorans tended not to share fully in the income and socio-economic gains of other groups. Enabling this group to escape poverty thus remains a critical challenge for poverty reduction in El Salvador. Third, in spite of broad socio-economic gains, many Salvadoran households remain vulnerable to at least temporary spells of poverty, due to a number of factors, including the prevalence of economic and natural shocks. This vulnerability, again, frames an important policy challenge for El Salvador moving forward.

### *The evolution of poverty*

#### *A significant reduction in poverty in the 1990s—*

2.2 An analysis of El Salvador’s national household survey in 1991, 1995, 2000, 2001 and 2002 indicate that poverty declined significantly in El Salvador during the 1990s – although progress has slowed considerably in the 2000s in the face of the coffee crisis, the earthquakes of 2001 and the slowdowns in global and domestic economies (Box 2.1).

#### **Box 2.1: Challenges of Poverty Measurement in El Salvador**

A key objective of this Poverty Assessment is to generate a consistent poverty profile for El Salvador over the 1991-2002 period, using the country’s national household survey (EHPM), and income and expenditure survey. The EHPM surveys have national coverage and are statistically representative for urban and rural areas as well as at the Department level. The 2001 survey included an over-sampling of households in the municipalities most affected by the earthquakes, and over-sampled departments are statistically representative. The EHPM sample sizes are generally around 13,000 households (except for the 2001 over-sample, which is almost twice that).

The EHPM collects detailed data on household incomes but not on household consumption (now considered international best practice for poverty measurement). In the absence of detailed consumption data with which to build a welfare aggregate, the analysis here relies on household income estimates generated from the EHPM data. The analysis also uses the Government of El Salvador’s official poverty lines, based on the standard methodology of minimum caloric intake. The extreme poverty lines correspond to the estimated monthly cost of basic food baskets that provide a minimum caloric requirement (about 2,200 Kcal/day) for a family of four. The total poverty lines are obtained by multiplying the extreme lines by a factor of two (the inverse of a long-standing estimate of the share of non-food consumption) to allow for non-food expenditures. The official poverty lines use different consumption baskets for urban and rural areas to achieve the same minimum caloric requirement. The cost of these food baskets is updated yearly. In 2002, the value of the per capita extreme poverty line was estimated at \$277.9 and \$173.6 colones per month for urban and rural areas, respectively, up from an estimated \$202.2 and \$119.1 colones per month in 1991.

Official poverty numbers published by DIGESTYC, the Salvadoran statistical agency, are household level figures. A household is considered poor if its total per capita monthly income is below the total poverty line, and extremely poor if its per capita income is below the extreme poverty line. The analysis presented here departs from the official approach in two ways. First, the poverty measures reported here are for individuals rather than households, consistent with international good practice. Second, the income aggregates used here are more comprehensive than the ones used by DIGESYTC. This is because they

include in-kind income and other components of household non-monetary income that are particularly important for rural agricultural households; when necessary, standard imputations are also performed to enhance the comparability of the poverty estimates over time. The income aggregates used in this Poverty Assessment bring the income measures closer to per capita consumption, approximating to the extent possible the preferred measure of well being.

While methodological differences yield poverty estimates that differ slightly from official figures, observed poverty trends are similar. Nonetheless, some caution is warranted in interpreting the poverty numbers, as consistent poverty measurement in El Salvador faces significant data challenges. First, since the most recent census dates from 1992, recent household surveys may not reflect accurately the changing demographic and geographic composition of the population, especially given the substantial internal and international migration over the last decade. This problem is hard to address *ex-post* and could potentially bias the estimates of poverty and social indicators.

Second, there are important differences in the survey instruments from the beginning to the end of the 1990s that make decade comparisons of poverty and inequality figures difficult. Specifically, non-monetary income is not captured in the early 1990s surveys, so survey income measures tend to overstate the true level of poverty at the beginning of the period as well as overstate actual declines over the 1990s. Systematic income data adjustments are thus performed on the earlier surveys to enhance comparability.<sup>2</sup>

Finally, the official poverty lines used in El Salvador are not based on a detailed consumption aggregate and keep the value of the non-food portion of the general poverty line fixed relative to the food basket. At any point in time these may not reflect accurately the consumption basket (food and non-food expenditure) of a meaningful minimum subsistence level. Indeed, the real value of the official poverty lines have declined in recent years, although there is not obvious upward tendency in households purchasing power. While the extreme urban and rural poverty lines increased by 36.3 and 44.7 percent during 1992-2002, the food and non-food components of the consumer price index (CPI) rose by 72 and 62 percent, respectively. Moreover, while it is common practice to have poverty lines cross-regional price variation, especially in large countries, the use of different food baskets for urban and rural areas is harder to justify on welfare grounds. The value of the urban basket is about 60 percent higher than the value of the rural basket (down from 70 percent in 1991), essentially reflecting consumption of higher quality foods in urban areas. This may lead to inaccurate estimates of national poverty and overstate the gap between poverty in urban and rural areas.

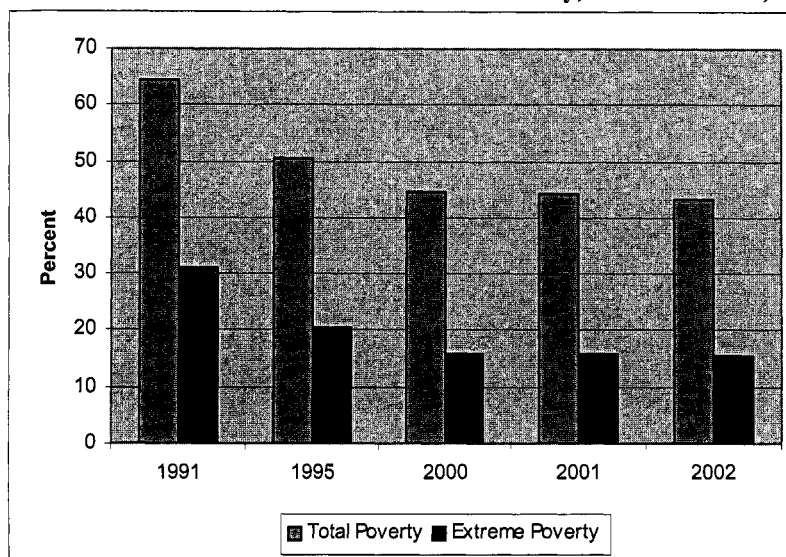
A variety of adjustments and simulations have been carried out to ensure the robustness of the analysis to these problems. In this context, it is important to note that while specific point estimates of poverty are sensitive to the measurement issues described above, the finding of a significant poverty reduction in El Salvador between 1991-2002 remains robust.

2.3 The share of the population whose income falls below the poverty line declined by 27 percentage points from 64.4 percent in 1991 to 37.2 percent in 2002 (Figure 2.1). The share of people living in extreme poverty declined by almost 16 percentage points, from 31.2 percent to 15.4 percent, during this period. The incidence of poverty and extreme poverty declined by 13 and 5 percentage points, respectively, between 1995 and 2002 due to the slowdown in economic growth and the adverse shocks that hit the country.

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<sup>2</sup> Specifically, non-monetary incomes are imputed based on hedonic regression models estimated for 2002 and applied to household characteristics in the 1991 survey.

**Figure 2.1: The Evolution of Total and Extreme Poverty, National Level, 1991-2002**



***—but the rate of progress has slowed—***

2.4 Poverty continued to decline during the early 2000s – although by only two percentage points, while extreme poverty remained unchanged. This is remarkable in light of the slowdown in domestic and world economic growth, the 2001 earthquakes and the steep decline in world coffee prices. These results are in line with other studies with poverty estimates for El Salvador covering the 1990s.<sup>3</sup>

2.5 Overall, poverty reduction has been larger in urban than in rural areas (Table 2.1). The incidence of total urban poverty fell by 30 percentage points (16 for extreme urban poverty) during 1991-2002, while total rural poverty declined by 20 points (12 for extreme rural poverty). About two thirds of the decline in urban poverty occurred in the first half of the 1990s. Extreme urban poverty has changed little since the mid-1990s. In contrast, after the mid-1990s poverty has fallen more rapidly in rural than in urban areas. Total rural poverty fell by 15 percentage points between 1995 and 2002.

***—and, despite progress, poverty remains more pronounced in rural areas.***

2.6 By 2002, about 37 percent of Salvadorans were poor and 15 percent were extremely poor. Poverty continues to be disproportionately rural. About half of Salvadorans living in rural areas are poor, a quarter of whom live in mere subsistence, while 28.5 percent of the urban population is poor and only 9 percent extremely poor. In terms of numbers of poor people, the rural poor made up about 55 percent of all El Salvador's poor in 2002, while urban poor made up 45 percent of the poor. Moreover, extreme poverty remains concentrated in rural areas. Indeed, in 2002 there were nearly two extreme poor living in rural areas (1.87) for every one extreme poor living in urban areas.

<sup>3</sup> For example, a recent Government of El Salvador initiated review of progress toward the Millennium Development Goals (MDGs) finds similar patterns of poverty reduction, using both the official, national poverty line and US \$1/day poverty measures (Gobierno de El Salvador 2004). See also ECLAC (2003), Szekely et al (2002), Wodon et al (2002), Segovia and Larde (2000).

**Table 2.1: The Evolution of Poverty, National, Urban, and Rural, 1991-2002**

	1991	1995	2000	2001	2002
Total Poverty					
National	64.4	50.6	39.6	38.9	37.2
Urban	58.7	38.9	28.5	29.3	28.5
Rural	69.5	64.8	55.2	52.4	49.8
Extreme Poverty					
National	31.2	20.5	15.9	15.7	15.4
Urban	25.1	11.6	8.1	9.1	9.1
Rural	36.6	31.2	26.8	25.1	24.5

Source: World Bank staff calculations, using EHPM data (various years)

2.7 Overall, other income poverty measures show similar trends (Table 2.2). Both the *poverty gap* ( $P_1$ ), which measures the average distance of the poor from the poverty line, and the *severity of poverty* measure ( $P_2$ ), which puts higher weights on the extremely poor, declined by almost half during 1991-2002. The depth and severity of rural poverty has improved much less than that of urban poverty over the same period. Moreover, progress in reducing the depth and severity of poverty has slowed considerably since 2000; whereas the national poverty gap declined from 17.0 to 16.5 between 2000 and 2002, the severity of poverty measure remained unchanged.

**Table 2.2: The Depth and Severity of Poverty, National, Urban, and Rural, 1991-2002**

	1991	1995	2000	2001	2002
Poverty Gap ( $P_1$ )					
National	29.8	22.5	17.0	17.0	16.5
Urban	25.7	14.6	10.2	11.1	11.1
Rural	33.7	32.0	26.6	25.3	24.2
Severity of Poverty ( $P_2$ )					
National	17.7	13.6	10.0	10.2	10.0
Urban	14.7	7.7	5.3	6.1	6.2
Rural	20.5	20.6	16.6	16.0	15.5

Source: World Bank staff calculations, using EHPM data (various years).

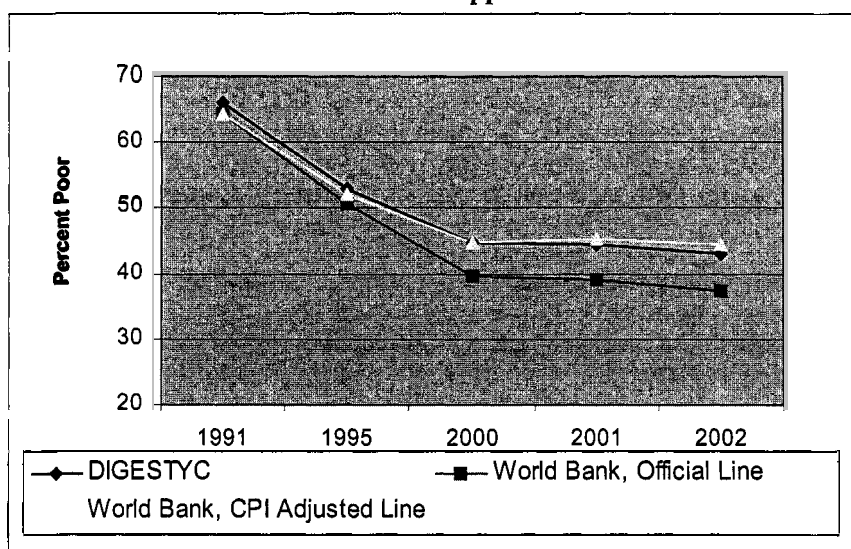


### ***Measured trends in poverty reduction appear robust***

2.8 There has been some discussion recently within El Salvador about whether observed declines in poverty are robust to changes in the underlying assumptions of poverty measurement.<sup>4</sup> Of particular concern is the fact that the real poverty line has grown more slowly than the CPI, apparently reflecting differences in price changes in the basic consumption basket of the poor relative to the average Salvadoran's consumption basket. Yet, comparison of poverty trends using different methodological approaches, as well as different data sources, suggest that the observed declines in poverty are indeed real.

2.9 Sensitivity analysis of the poverty estimates were undertaken using EHPM data from 1991, 1995, 2000, 2001 and 2002, using alternative measures of household income and different methods of inflating the poverty line over time. As a way of summarizing this analysis Figure 2.2 shows alternative poverty trends for El Salvador using: (1) DIGESTYC's poverty estimates, using their traditional income aggregate and the official poverty line; (2) the poverty estimates presented above, using an enhanced income aggregate and the official poverty line (see Box 2.1); and (3) poverty estimates using the enhanced income aggregate and the 1991 official poverty line inflated using the general consumer price index (CPI). As can be seen from the figure, while there are differences in the point estimates of poverty, the declining trends in poverty are generally similar across measures.

**Figure 2.2: Sensitivity of the 1991-2002 Poverty Decline to Different Measurement Approaches**



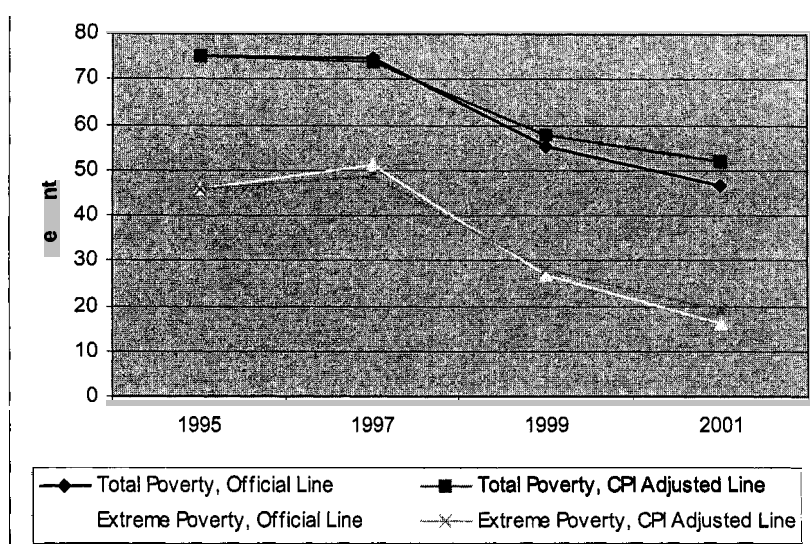
2.10 Indeed, analysis of rural poverty using an independent data set suggests that declines in rural poverty may have been even greater than those measured by the EHPM. Researchers at FUSADES have analyzed a unique panel data set called BASIS that tracks incomes of the same rural households in 1995, 1997, 1999 and 2001.<sup>5</sup> The BASIS data collect information on the incomes of rural households in greater detail, and thus likely with greater precision, than the EHPM in the sense that it better captures in-kind and other forms self-employed and/or

<sup>4</sup> See, for example, UNDP 2003.

<sup>5</sup> See Beneke de Sanfeliú and Shi (2004).

agricultural income. The FUSADES researchers found that between 1995 and 2001 rural poverty declined by between 23.1 and 28.6 percentage points depending on how the poverty line was deflated (Figure 2.3); extreme poverty was found to decline by similar magnitudes.

**Figure 2.3: Rural Poverty Trends, 1995-2001,  
Using BASIS Panel Data and Alternative Poverty Lines**



Source: Beneke de Sanfeliú and Shi 2004

### Progress in human development

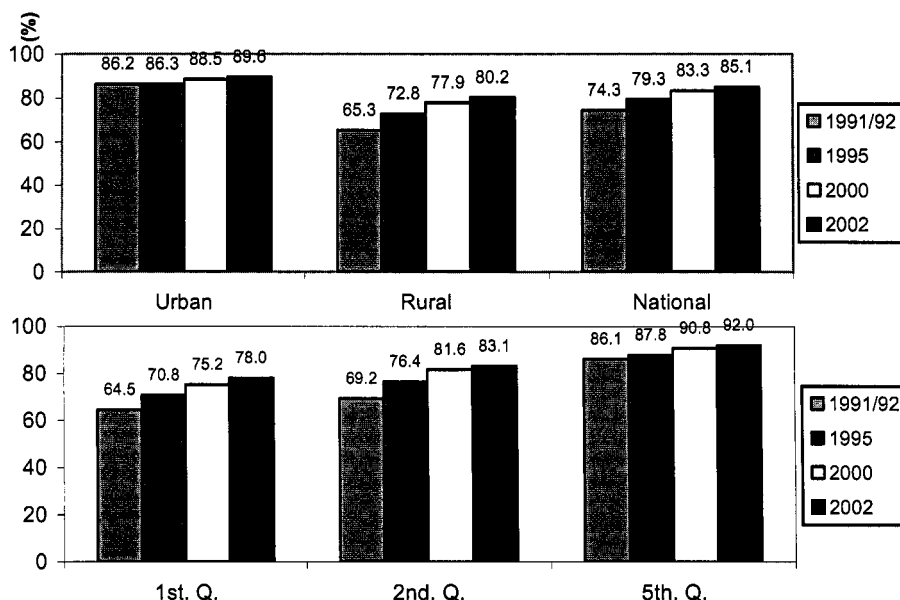
#### ***Improving education outcomes—***

2.11 Substantial progress was also made in human development over the period. For example, net enrollment rates in basic education of 7-15 year old children rose from about 74.3 percent in the 1991 to 85.1 percent by 2002 (Figure 2.4). The improvement in basic net enrollment rates has been faster in the worst-off regions and income groups, demonstrating some convergence in basic education enrollments across localities and across poor and non-poor households. Indeed, the gap in enrollments between children in the poorest families and those in the top income quintile has narrowed from 22 percentage points in 1991 to 14 percentage points in 2002. Moreover, El Salvador has essentially succeeded in attaining gender equality in education at the basic and secondary levels.<sup>6</sup>

2.12 Nonetheless, several important challenges exist with respect to education. For example, 22 percent of 7-15 year-olds from the poorest families still did not attend school in 2002. Access to secondary schooling remains low and the gap between the poor and non-poor remains large. At all levels of education, when the poor do enroll in school, they are less likely to continue until completion. Moreover, the quality of education in El Salvador remains a challenge, particularly with respect to education among the poor.

<sup>6</sup> EHPM data indicate that though 22 percent of women had no schooling compared to 20 percent of men in 2001, for girls age 6-14 years, 31 percent had no schooling compared to 32 percent of boys of the same age. Also, the same proportion of men and women, 21.4 percent, had completed the first 6 grades of schooling in 2001.

**Figure 2.4: Net Enrollment Rates in Basic Education in El Salvador, by Area and Income Quintiles (% children, cohort 7-15 years)**



Source: World Bank staff based on EHPM survey data.

2.13 As in education, there was considerable progress in health since the early 1990s. Life expectancy increased from 65.6 years in 1990 to 70 years in 2002.<sup>7</sup> And as shown in Table 1.1, infant mortality declined and under-5 mortality declined substantially during the period. Chronic malnutrition (“stunting”) also declined, albeit more slowly, during the period; and marginal improvements were seen in the incidence of underweight children under 5.

2.14 Although data suggest that access to reproductive health care, as measured by the proportion of births attended by trained healthcare personnel grew from 51 to 69 percent between the 1988-1993 to 1997-2002 period, trends in maternal mortality are not clear.<sup>8</sup> According to data from the National Survey of Family Health (FESAL), the maternal mortality rate declined from 158 to 120 (deaths per 100,000 live births) between the 1983-1993 and 1988-1998 periods, but then rose again to 172 during the 1993-2002 period. But special care needs to be taken in interpreting this data, as the maternal deaths are relatively rare events and the confidence intervals for these statistics makes it unclear whether real trends can be observed from the data. Data suggest that in 2003 HIV/AIDS affected about 0.7 percent of the population.<sup>9</sup>

**—and gains in health—**

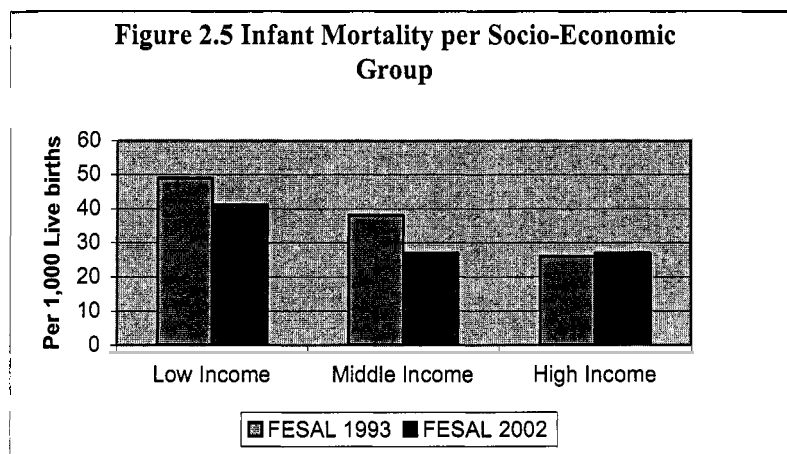
2.15 While detailed data on health outcomes are not available from the EHPM surveys, the FESAL surveys suggest that the poor made relative, as well as absolute, gains in at least some health indicators. In the case of infant mortality, for example, the gap between the poor and non-

<sup>7</sup> World Development Indicators (WDI) database.

<sup>8</sup> National Survey of Family Health, or *La Encuesta Nacional de Salud Familiar* (FESAL), various years.

<sup>9</sup> World Development Indicators (WDI) database.

poor has declined somewhat (Figure 2.5).<sup>10</sup>



Source: Marques (2004).

*—but challenges remain, both in terms of service access and quality.*

2.16 Nonetheless, as in education, important challenges remain with respect to improving the health and nutritional status of the poor. Important gaps still remain in health status between the poor and the non-poor. The reported incidence of illness is higher among the poor than the non-poor. And the poor continue to have inferior access to quality health care than the non-poor. Indeed, addressing the challenges of human development – both education and health – for the poor will be a critical part of a national strategy to reduce poverty. These challenges are addressed in more detail in Part 2 of this report.

#### Improvements in access to basic services

*The poor have benefited from increased access to basic services—*

2.17 The EHPM data suggest notable improvements in access to basic services (Figure 2.6). Water access reached 76 percent of households in 2002 up from 55 percent in 1991, including an increase of 3 percentage points in the last 3 years. Water access has almost doubled in rural areas (almost half of the population now has access), and again has been relatively larger for the worst-off localities and the poorest families. Access to sanitary installations has also expanded consistently to reach 93 percent of households in 2002 up from 78.1 percent in 1991, particularly in the rural areas (from 59.2 to 84.3 percent). Almost all urban households have access to some form of sanitary installation. Progress is also quite visible in the access to electricity that now reaches 87.5 percent of households (18 percentage points gain over the period). While access is almost universal in urban areas, three out of ten rural households still lack electricity.

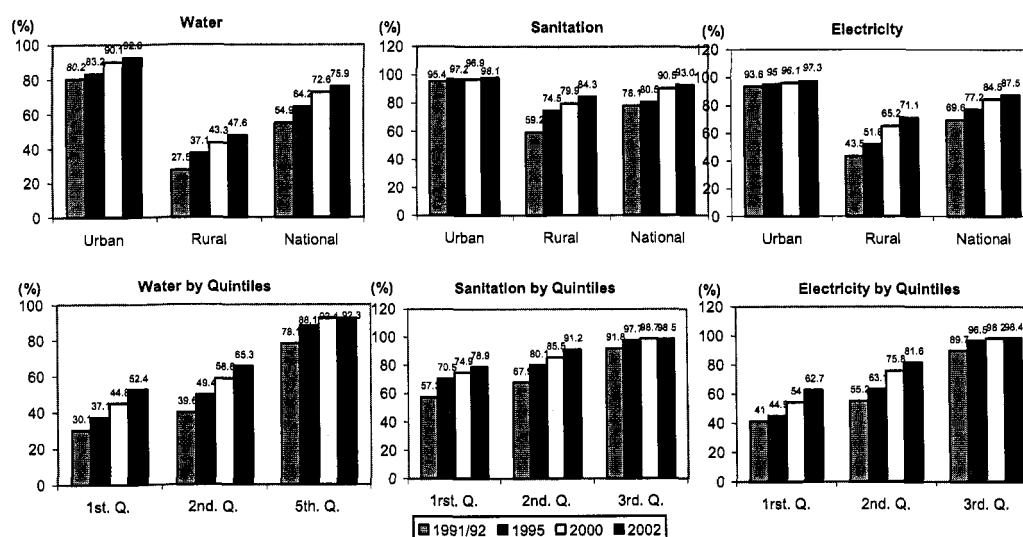
*—but significant numbers still lack water, electricity and adequate sanitation.*

2.18 At the same time, there is still much room for improving access of the worst-off population

<sup>10</sup> It is important to note that the FESAL publications (and website) use a different methodology for analyzing health outcomes across different socio-economic groups than is used in the analysis of the EHPM data. Analysis of the EHPM data generally focuses either on comparing outcomes across the poor and non-poor, measured against the official Salvadoran poverty line, or on examining outcomes across the five income quintiles of the population. In the case of the FESAL, outcomes are differentiated across three different socio-economic levels: “low”, “medium”, and “high”.

to these basic services, particularly with regards to quality and reliability. By 2002 about half of the households in the poorest quintile lacked access to water compared to access rates of over 90 percent among those in the richest quintile (Figure 2.6). Over 20 percent of families in the poorest quintile lack adequate sanitation facilities, while about 4 out of 10 in the poorest quintile still lack access to electricity. It should also be kept in mind that these figures mask significant differences in the quality of access.

**Figure 2.6: Access to Basic Services in El Salvador, 1991-  
(% households)**



Source: World Bank staff based on EHPM survey data.

2.19 In 2002 about 15 percent of households got their water from a non-private source (e.g., a public tap/well or neighbors) and 45 percent (78 percent in rural areas) used latrines, some of which are not hygienically adequate.

***While quality of housing has improved, the challenges in rural areas remain significant.***

2.20 Finally, with economic progress there has been an upgrade in the quality of housing. About one-fifth of homes have seen an improvement in the quality of walls or floors in the last ten years. The fraction of dirt floor homes, for example, has declined to 23 percent. Roughly 68 percent of homes are built with pure or mixed concrete (no *adobe* or *bahareque*). The biggest needs remain in rural areas where still between 40 and 50 percent of homes has dirt floors or are built with unreliable materials.

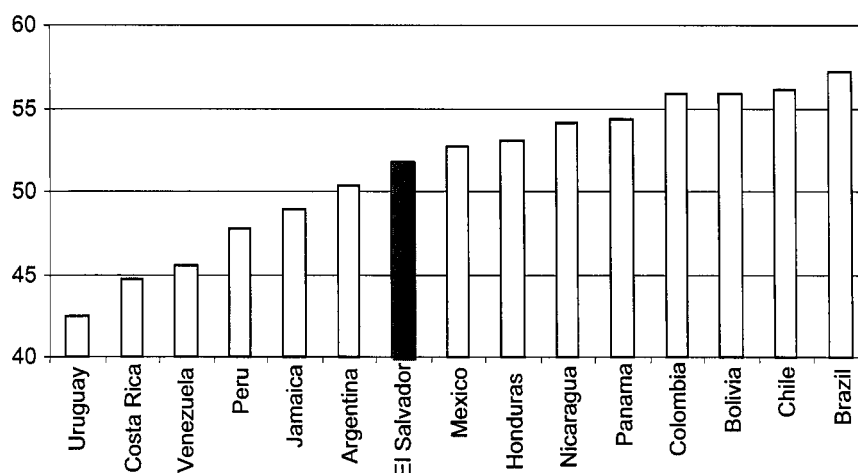
2.21 As in the case of human development, access to basic services, like water and sanitation, as well as the presence of critical socio-economic infrastructure, like roads (that connect the poor to markets, services and economic opportunity) will also play an important part of a strategy to reduce poverty in El Salvador. Like the challenges of human development, issues of basic socio-economic infrastructure, specifically related to rural water and roads, are discussed in greater detail in Part 2 of the report.

### Income inequality in El Salvador

#### ***Income inequality appears to have increased between 1991 and 2002—***

2.22 The data presented above on human capital and on access to services indicate that there has been some convergence between the poor and non-poor in a number of non-monetary indicators of well-being between 1991 and 2002. The same does not appear to be true, however, in the case of income. Indeed, El Salvador is among several LAC countries where income inequality appears to have increased during the last decade (Gasparini 2003). On average, income inequality is higher in Latin America than in other regions of the world. And income inequality in El Salvador is now close to the regional average (Figure 2.7).

**Figure 2.7: Gini Coefficients in LAC**  
(Distribution of equivalized household income circa 2000)

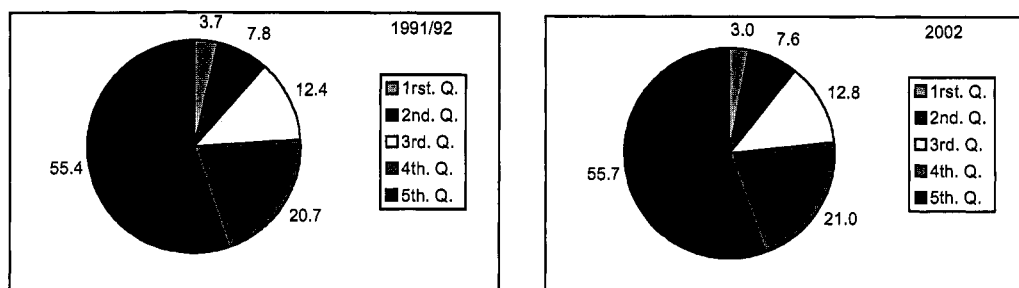


Source: Gasparini (2003).

2.23 In 2002 the poorest 20 percent of households received 3 percent of income down from 3.7 percent in 1991, while the middle (third) quintile increased its participation slightly (from 12.4 to 12.8 percent) and the other quintiles saw little change in their income shares (Figure 2.8).<sup>11</sup>

<sup>11</sup> Government of El Salvador estimates of the quintile shares of income suggest that, in general, the share of income going to the poorest 20 percent of the population has tended to be relatively stable, ranging from 2.68 to 3.69, and averaging roughly 3.0 over the 1991-2004 period. These estimates suggest that the income share going to the poorest 20 percent has rebounded slightly since 2002, reaching 3.4 in 2004 (data from *Secretaría Técnica de la Presidencia*, Government of El Salvador).

**Figure 2.8: Distribution of Household Per Capita Income in El Salvador, 1991-2002**  
(% Shares of Income Quintiles)



Note: 1991 figures include non-monetary income estimations.

Source: World Bank staff based on EHPM survey data.

2.24 Inequality, measured by the gini coefficient, also increased from 1991 to 2002 (Table 2.3). The gini coefficient of the distribution of household per capita income went up from about 0.51 to 0.52 while the gini for monetary incomes (i.e., excluding self-consumption and in-kind income) increased from 0.503 to 0.52 over this period.<sup>12</sup>

**Table 2.3: Income inequality in El Salvador**  
**Gini coefficients of Household Per Capita Income, 1991 – 2002**

	1991/92	1995	1999	2000	2001	2002
<b>All income*</b>						
National	0.509	0.518	0.507	0.523	0.519	0.519
Urban	0.474	0.463	0.454	0.473	0.471	0.473
Rural	0.476	0.444	0.441	0.449	0.466	0.464
<b>Monetary income</b>						
WB PA	0.503	0.493	0.499	0.510	0.505	0.520
LAC Flagship inequality report	0.537	0.512	0.524	0.532	0.529	0.525
Labor income	0.536	0.509	0.517	0.524	0.524	0.530

\*1991/92 figures include non monetary income estimations

Note: See Annex 1 for the different components included in monetary income.

The Flagship definition of monetary income includes: labor income (salary and extra hours from primary and secondary jobs), income from independent job (excluding agricultural profits, national remittances, rents and pensions).

Labor income: includes salary and extra-hours from primary and secondary jobs, and income from independent jobs.

Source: World Bank staff based on EHPM survey data.

—driven by changes since 1995.

2.25 This rise in income inequality was not uniform throughout the decade. Economic growth in the first half of the 1990s was accompanied by lower income inequality, while growth during the second half of the decade was inequality-increasing. The gini of per capita monetary income

<sup>12</sup> The distribution of per capita household income deteriorated in the early 1990s and remained stable thereafter. However, changes in the inequality of household per capita income should be viewed with caution due to the imputation of non-monetary incomes in the early 1990s surveys.

declined in 1995 but then increased in 2002. Labor income inequality shows a similar trend. The rise in monetary income inequality during the 1990s mainly results from greater urban-rural income disparities over time, since overall the gini coefficients in urban and rural areas were generally the same at the beginning and end of the period. As with inequality at the national level, however, both urban and rural income inequality (for all income) first declined and then increased over the course of 1991-2002.<sup>13</sup>

### Vulnerability to poverty

#### ***Most rural Salvadorans face considerable income volatility and at least temporary poverty—***

2.26 The existence of the BASIS data enables analysis of the volatility of household income, which is not possible using repeated cross-sections from the EHMP. In their analysis of the BASIS data, Beneke de Sanfeliú and Shi (2004) find considerable income volatility in rural El Salvador. For example, over the 1995-1997-1999-2001 period, about 80-85 percent of households in the BASIS survey moved at least one decile upward or downward from period to period. And between 30 and 45 percent of households moved at least more than 2 deciles from one period to another. In terms of magnitudes of income changes, roughly two-thirds of the rural households in the sample and nearly three-quarters of the poor experienced a fall of more than 30 percent of their real income from one period to the next over the entire period (Beneke de Sanfeliú and Shi 2004).

#### ***—and one in four was chronically poor between 1995 and 2001.***

2.27 This income volatility has led to considerable movement in and out of poverty over time, although there is a significant core of rural households – about 25 percent – that are chronically poor. At the same time, roughly 62 percent of households in the BASIS survey experience temporary bouts of poverty (Table 2.4). Only 13 percent of the sample did not have incomes that fell below the poverty line during the entire 1995-2001 period. In fact, the analysis suggests that during the 1999-2001 nearly 89 percent of the rural sample had a greater than 50 percent chance of being poor for at least one period over the subsequent five years – although the analysis also shows that the percentage of households that are vulnerable to poverty has declined since 1995 (Beneke de Sanfeliú and Shi 2004).

**Table 2.4: Chronic and Transient Poverty in Rural El Salvador, 1995-2001**

<b>Classification</b>	<b>Percent of Households</b>	<b>Percent with Average Per Capita Incomes Below the Poverty Line</b>	<b>Percent with Average Per Capita Incomes Below the Poverty Line</b>
<b>Chronic Poor</b>	<b>25.1</b>	<b>25.1</b>	<b>-</b>
<b>Transient Poor</b>	<b>61.9</b>	<b>27.9</b>	<b>33.9</b>
Poor 3 of 4 Periods	24.8	21.1	3.8
Poor 2 of 4 Periods	19.7	6.0	13.8
Poor 1 of 4 Periods	17.2	0.9	16.4
<b>Non-Poor</b>	<b>13.1</b>	<b>-</b>	<b>13.1</b>
<b>Percent of Households</b>	<b>100</b>	<b>53.0</b>	<b>47.0</b>

Source: Beneke de Sanfeliú and Shi 2004.

<sup>13</sup> Both Beneke de Sanfeliú and Shi (2004) and Rodriguez-Meza and Gonzalez-Vega (2004) estimate gini coefficients for rural El Salvador, using the BASIS data and “full” income definitions that are very close to those estimated using the EHPM. For example, for 2001 Beneke de Sanfeliú and Shi find a rural gini of 0.467, while Rodriguez-Meza and Gonzalez-Vega find a rural gini of 0.478. In both studies, inequality is found to rise slightly between 1995 and 1997, declining slightly thereafter.



***Moreover, the poor are most vulnerable to income shocks.***

2.28 Moreover, Rodriguez-Meza and Gonzalez-Vega (2004) find, analyzing the BASIS data, that although the rich in rural areas recover very quickly from an income shock, it takes the poor a much longer time to recover. This is consistent with a broad empirical literature on household consumption and income smoothing, including evidence from other Central American countries, that shows that the poor have a more difficult time protecting (or “self-insuring”) themselves from income shocks.<sup>14</sup> This is not completely surprising. On one hand, the rural poor do not have extensive access to formal insurance mechanisms in El Salvador. And while remittances are important, the high volatility of income and the presence of considerable transient poverty suggest that *informal* insurance arrangements are insufficient to protect the rural poor from shocks. This suggests the need to strengthen the country’s social safety net, both to protect the poor from shocks and to enable them to pull themselves out of poverty.

### Conclusion

2.29 This chapter has examined the evolution of poverty, in its multi-dimensions, from 1991-2002. Review of the recent trends in poverty and social indicators highlight several things.

- El Salvador experienced significant declines in poverty during the 1990s – although progress has stalled in the 2000s in the face of the coffee crisis, the earthquakes of 2001, and the slowdowns in global and domestic economies.
- Despite broad socio-economic gains for the “moderate” poor, the poorest Salvadorans have not shared fully in the income and socio-economic gains of other groups.
- Moreover, even if they are not chronically poor, a significant proportion of Salvadoran households remain vulnerable to at least temporary spells of poverty.

2.30 Enabling the poorest and most vulnerable Salvadorans to participate in economic progress, and through this, to escape poverty thus remains a critical challenge in El Salvador in spite of recent progress.<sup>15</sup> To effectively address this challenge, it is important to understand the main factors that affect poverty reduction – factors such as economic growth, structural change in the economy, investments in human capital, and measures that increase people’s access to markets and basic services. These issues are explored in detail in the chapter that follows.

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<sup>14</sup> For evidence on household “self-insurance” (consumption smoothing) in Latin America, see Skoufias (2002) on Mexico; Klugman, Kruger, and Wither (2003) and Kruger, Mason, and Vakis (2003) on Nicaragua; and Glewwe and Hall (1998) on Peru. For global evidence, see Skoufias and Quisumbing (2002, various), Morduch (1999, various), Jalan and Ravallion (1999, China), Ravallion and Chaudhuri (1997, India).

<sup>15</sup> The recent Government of El Salvador sponsored review of the Millennium Development Goals (MDGs) similarly highlights that while there has been significant poverty reduction and socio-economic progress in El Salvador since the early 1990s, the country continues to face important challenges in raising the welfare of *all* Salvadorans (Gobierno de El Salvador 2004).

### III. EXPLAINING RECENT POVERTY REDUCTION

3.1 What has been responsible for the broad improvements in poverty and social indicators since the early 1990s? This chapter uses new empirical analysis from the EHPM and BASIS data sets to try to explain the key factors that influenced poverty reduction since 1991. The chapter investigates several main areas, including: (1) the effects of economic growth; (2) the effects of structural changes in the economy over the period; (3) the factors that affect household incomes and income growth; and (4) the role of growth of households' own-earned income vs. receipt of remittances. This chapter also examines the impact of recent shocks, such as the earthquakes of 2001 and the coffee crisis, on poverty and key social indicators in education and health.

3.2 Several key messages emerge from this chapter. First, growth was an important force for poverty reduction in the 1990s, as were structural changes in the economy. Indeed, growth was reasonably broad-based and effective in reducing poverty. Nonetheless, not all households benefited equally from growth during the period. While the incomes of the moderately poor grew roughly at the rate of average per capita income growth, the poorest Salvadorans experienced relatively little growth. Why were some households better able than others to take advantage of growth and emerging economic opportunities over the past decade? The analysis suggests that education, ownership of land or other physical assets, and access to markets and basic services (via proximity to all-weather roads and transportation) were all key factors in households' ability (or not) to participate in recent economic progress. Yet, many of the poorest, most vulnerable Salvadorans still lack sufficient human capital, as well as access to markets and basic services, to be able to advantage of new and emerging opportunities. The collection of evidence thus suggests that ensuring that the poorest citizens are equipped to participate in future economic progress will be important to a forward-looking strategy for reducing poverty in El Salvador.

#### Growth and poverty reduction

##### ***Economic growth has been an important driver in poverty reduction—***

3.3 There is now a large global empirical literature showing the importance of economic growth for sustained poverty reduction (e.g., Dollar and Kraay 2002; Shorrocks and van der Hoeven 2004). The same is demonstrably true in El Salvador. Indeed, new analysis of the EHPM data indicates that both per capita income growth, and its distribution, has been important to progress in the country between 1991 and 2002. Table 3.1 reports the empirical estimates of: (1) the elasticities of extreme and total poverty with respect to income and (2) the elasticities of extreme and total poverty with respect to inequality as measured by the Gini coefficient.

**Table 3.1: Elasticities of Poverty Reduction with Respect to Per Capita Income Growth and to Changes in Income Inequality, 1991-2002**

Elasticity with respect to:	Extreme Poverty	Moderate Poverty	Total Poverty
Per Capita Income	-1.5	-1.1	-1.3
Inequality (i.e., gini coefficient)	2.8	1.1	1.9

Source: World Bank staff calculations, using EHPM data, 1991-2002

3.4 As can be seen from the table, the elasticity of extreme poverty with respect to growth was -1.5 over the period, indicating that a one percent increase in per capita income was associated with a decline in the extreme poverty headcount of 1.5 percent, holding the distribution of income

constant. In the case of total poverty the elasticity was  $-1.3$ , meaning that a one percent increase in per capita income was associated with a 1.3 percent decline in the total poverty headcount (again holding the distribution of income constant).

*—but the distribution of the benefits of growth has also mattered—*

3.5 The pattern of growth clearly also matters. This can be seen by the fact that the elasticity of extreme poverty with respect to inequality was 2.8, indicating that a one percent increase in the gini coefficient (i.e., an increase in income inequality), holding income levels constant, was associated with an increase in the extreme poverty headcount of 2.8 percent. At the same time, the elasticity of total poverty with respect to inequality was 1.9. In other words, a one percent increase in the gini coefficient was associated with a 1.9 percent increase in the total poverty headcount.

3.6 More detailed analysis of household income growth over the period, using the EHPM data, indicates that growth was reasonably broad-based during the period, contributing to El Salvador's decline in poverty. As can be seen in Table 3.2, the per capita incomes of the poor grew on average by 4.6 percent from 1991-1995 and by 3.8 percent between 1995 and 2000. For the entire 1991-2002 period, average incomes of the poor grew by 3.1 percent a year, just below the nationwide average of 3.7 percent.

3.7 High per capita income growth among the poor during the 1991-1995 period contributed not only to poverty reduction in the first half of the 1990s, but to poverty reduction in the second half of the decade as well. This is because while income growth among some of the moderate poor was insufficient to push them over the poverty line in the first part of the 1990s, it moved them close enough to the poverty line that slower growth post-1995 was sufficient to push them over the poverty line in the latter half of the decade. This fact points to the importance of sustained growth in achieving significant reductions in poverty over time.

**Table 3.2: Patterns of Per Capita Household Income Growth, 1991-2002**

	1991-1995	1995-2000	2000-2002	1991-2002
Growth in Mean p/c Income				
National Average	5.8	3.9	-1.0	3.7
The Poor (total)	4.6	3.8	-2.0	3.1
Lowest Quintile	0.2	4.3	-3.6	1.3
Growth in Median p/c/ Incomes				
National	7.0	3.8	-0.2	4.2
Urban	8.1	2.5	-0.2	4.0
Rural	1.5	2.8	1.6	2.1

Source: World Bank staff estimates, using the EHPM data, 1991-2002.

*—and income growth of the poorest Salvadorans has lagged—*

3.8 There were important differences in income growth among the poor, however, during the period. While per capita incomes of the moderate poor grew at roughly the same rates as average

incomes during the 1990s, average incomes of the poorest Salvadorans lagged during much of the period. These differences in income growth between the moderate poor and the extreme poor account in part for the increase in aggregate income inequality, particularly since 2000, when the poorest Salvadoran experienced significant declines in real per capita incomes.

3.9 Patterns of household income growth, across rural and urban areas, also conform largely to the patterns of poverty reduction seen during, before and after 1995. As can be seen from Table 3.2, per capita incomes of urban households grew considerably faster than those of rural households during the 1991-1995 period, whereas income growth was much more balanced during the 1995-2000 period. Moreover, although urban per capita income growth has essentially stalled since 2000, rural incomes have continued to grow, leading to continued – albeit much slower – poverty declines.

### *Structural shifts in the economy*

#### *There was a striking shift away from agricultural activities from 1991 to 2002—*

3.10 Analysis of the sectoral changes in earnings, incomes, and poverty provides further insights into the sources of poverty reduction over the period. For example, there was a striking shift in the sectoral sources of incomes for households between 1991 and 2002 (Table 3.3). Specifically, the share of people whose households relied on agriculture as their main source of income dropped dramatically – indeed, more than halved – over the decade, from 38.9 percent to 18.1 percent.<sup>16</sup> This shift was accompanied by an increasing reliance on incomes from other sectors, most notably from the services sector. The proportion of households who obtained their main income from services grew by over 40 percent, from 23.3 to 33.2 percent of the population. Several other sectors increased by 1-2 percentage points over the period, including construction and social and community services. The share whose households earned their main income from industry (including manufacturing) remained remarkably stable over the period, at about 15.5 percent.

**Table 3.3: Changes in the Sectoral Structure of Poverty Between, 1991/92-2000**

	Population Shares		Average Per Capita Income <sup>1</sup>		Headcount Index		Contribution to National Poverty		Percent Reduction in Poverty due to	
	1991	2002	1991	2002	1991	2002	1991	2002	Intra-sectoral Gains	Population Shifts
Agriculture and Mining	38.9	18.1	248,709	242,743	75.3	74.1	45.5	36.2	1.7	57.3
Industry, Manufacturing	15.6	15.6	415,209	541,340	61.1	35.2	14.8	14.7	14.8	0.2
Services	23.3	33.2	518,061	719,685	53.6	25.3	19.4	22.7	24.2	-19.3
Construction	5.8	6.9	333,128	477,727	68.9	36.7	6.2	6.8	6.9	-2.7
Public Administration	5.8	5.2	479,938	834,551	52.1	12.5	4.7	1.7	8.4	1.2
Social, Community Services	7.0	9.8	555,673	899,834	47.3	22.9	5.2	6.1	6.3	-4.7
Other	2.3	4.2	262,010	402,461	79.5	32.1	2.8	3.6	4.0	-5.5
Undesignated	1.2	7.2	333,439	510,693	68.0	41.8	1.3	8.1	1.2	-14.9
Total	100.0	100.0	378,811	584,291	64.4	37.2	100.0	100.0	67.4	11.6

Note: Annual per capita income, in Colones.

<sup>16</sup> Because of the lack of recent census data with which to re-weight the survey samples over time, care should be taken in interpreting the sectoral labor shares and their changes over time. At best, they should be taken as indicative.

Source: World Bank staff estimates, using EHPM data (1991, 2002)

*—with benefits for those who found employment in other sectors.*

3.11 As can also be seen from the table, households whose main income source came from outside of agriculture experienced significant per capita income growth over the period – between 30 and 74 percent, depending on the sector. In contrast, households whose main source of income came from agriculture had marginally lower per capita incomes on average in 2002 than in 1991. This suggests that households whose main source of income remained agriculture over the period lost considerable ground over the period.<sup>17</sup>

*Indeed, while poverty declined among households in every sector—*

3.12 The incidence of poverty declined in every sector over the period – although the pattern across sectors is striking (and consistent with income changes over the period). Nearly all sectors registered significant declines in poverty rates between 1991 and 2001. The only exception is among those who continued to earn the majority of their incomes from agriculture. Among those households, the incidence of poverty only declined marginally, from 75.3 to 74.1 percent. All other sectors experienced double-digit declines in their poverty rates.

3.13 Decomposition analysis can provide a clearer sense of how important within-sector increases in incomes and population shifts across sectors have been to poverty reduction in El Salvador between 1991 and 2002. This can be done using a simple formula that enables one to decompose reductions in aggregate poverty into: (i) declines in poverty due to within-sector improvements in incomes over the period; (ii) shifts in the main source of household earnings from one sector to another over the period; and (iii) interactions between within-sector improvements and inter-sectoral shifts.<sup>18</sup>

3.14 Decomposition indicates that roughly two-thirds of the decline in poverty over the decade came as a result of within-sector increases in income, that is, among households whose main income source remained the same in 1991/92 and 2000 (Table 3.3). Indeed, the largest declines in national poverty came from improvements in living standards among households who continued to earn in the services sector (24.2% of all poverty reduction) and from improvement in living standards of those whose main income source came from industry and manufacturing (14.8%). In contrast, only 1.7 percent of the decline in poverty came from within-sector improvements among households that continued to rely primarily on agriculture.

*—there were only limited gains to those whose main incomes remained in agriculture.*

3.15 Nearly 12 percent of the reduction in national poverty came from shifts in household earnings from one sector to another.<sup>19</sup> By far, the most important example of this was the large shift away from agriculture as the main earning source of households. This substantial change in the structure of household incomes contributed to over half of the “gross” decline in poverty over the 1990s – although these gains were offset somewhat by the fact that some poor households that shifted their main source of income away from agriculture to other sectors remained poor. Nonetheless, this latter phenomenon was much smaller than the poverty reduction associated with within-sector improvements in incomes or with shifts away from agricultural earnings over the period.

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<sup>17</sup> Some caution is needed in interpreting how this relates to individual households’ incomes. The EHPM data are repeated cross sections and, so, changes in specific households’ incomes can not be traced.

<sup>18</sup> For details on the methodology see Ravallion and Huppi (1991).

<sup>19</sup> The remaining 21% of national poverty reduction between 1991 and 2002 came from interactions between within-sector gains and shifts across sectors.

3.16 It is important to note that even with the large shifts away from agricultural earnings from 1991-2002, agricultural households are still disproportionately represented among the poor. More than one-third of El Salvador's poor still count on agriculture as their main income source, although only about 18 percent of all households depend primarily on income or earnings from agriculture.

#### Household determinants of income

3.17 What are the key factors driving household income growth and, thus, poverty reduction during the period? To get at this question, several statistical analyses were undertaken using the EHPM and BASIS data sets to better understand how different factors affect households per capita income and per capita income growth.

#### ***The main factors associated with households being poor are:***

3.18 In the case of the EHPM data, reduced form equations where (the log of) household income per capita is estimated as a function of household and regional characteristics, including family demographics, human capital, employment status, type of job, sector of employment, gender, region of residence, and migration (as proxied by the receipt of remittances). Quantile regressions were used to assess the extent to which different factors might affect households differently across the conditional income distribution. Estimations were performed both for 1991 and 2002 to identify possible changes over time in the returns to specific factors, such as education or sector of employment. The analysis can thus provide some insights into which groups of households benefited more or less from the recent growth and economic change that has taken place in El Salvador.

3.19 Overall, income per capita is found to be higher among households with a well educated head, who are employed in high productivity services (e.g., financial, real estate), live in Metropolitan San Salvador, and who receive remittances, holding constant all other factors. In contrast, per capita income is lower – and thus the probability of being poor higher – among families where the household head is employed in agriculture, works in the informal sector or is unemployed, has high dependency ratios, large numbers of old adults and children, or lives in relatively poor administrative departments. In many cases, the returns to particular factors have changed over time and differ according to a household's place in the conditional income distribution. For example:

#### ***a low level of educational achievement;***

3.20 *Education.* In 2002, the per capita income of a household with a primary-educated head was 13 percent higher, on average, than for a household with an uneducated head, up slightly from 1991 (Table 3.4). The gain from having a high-school-educated head relative to having a primary educated head was about 26 percent in 2002, up from about 20 percent in 1991, while the average gain from a household head having a university education increased from 26 to 38 percent over the period.

**Table 3.4: Marginal Contribution of Education to Household Per Capita Income, 1991-2002**

Percentage increase in household per capita income associated with the household head (or spouse) having attained the next higher education level						
		Quantile				
	Year	0.1	0.25	0.5 (median)	0.75	0.9
<b>Head of Household</b>						
Primary Schooling	1991	12.9	11.8	9.8	12.9	16.4
	2002	21.3	19.1	13.4	12.3	11.8
Secondary Schooling	1991	15.7	20.0	19.5	21.9	32.0
	2002	16.5	26.5	25.8	24.7	20.3
University	1991	20.0	22.5	26.5	36.3	47.9
	2002	29.6	31.6	37.9	44.8	61.4
<b>Spouse</b>						
Primary Schooling	1991	5.1	5.7	5.6	6.4	8.7
	2002	6.1*	8.8	7.6	11.0	7.0
Secondary Schooling	1991	13.3	17.4	21.1	27.4	23.7
	2002	9.1	10.6	13.9	18.1	25.8
University	1999	11.5	14.8	17.3	21.7	26.3
	2002	35.6	31.3	30.2	36.0	21.3

Note: All figures are significant at the 1% or 5% levels, except where noted by an \*, which designates significant at the 10% level.

Source: World Bank staff estimates.

3.21 Having a well-educated spouse brings additional income gains, controlling for other factors. While the average income gains from a spouse's primary education remained below 10 percent over the period, having a high school-educated spouse contributed an additional 14 percent to per capita income in 2002 (down from 21 percent in 1991). The marginal contribution of a spouse's college education to household per capita income, relative to secondary education, reached 30 percent in 2002, up from 17 percent earlier in the decade.

3.22 These averages mask substantial differences in the premia from education across the income distribution, however. Among households in the lowest quantiles, the per capita income gain associated with a primary educated head grew during the period, and by 2002 exceeded the gains to primary educated heads among households in the upper quantiles. However, for higher levels of education, the income premia from the household head's education was generally lower and grew less quickly at the bottom of the conditional income distribution. This is most dramatic

at the university levels where returns to university education grew from roughly 20 to 30 percent from 1991-2002 among those in the lowest quantiles, but from 36-48 percent to 45-61 percent among those in the highest quintiles during the period.

***working in agriculture—***

3.23 *Economic activity.* Working in industry or services rather than in the agricultural sector is associated with higher per capita income – and increasingly so. The income penalty associated with a household head working in agriculture or mining (compared to white collar services) was roughly 40 percent lower in 2002, up from 33 percent in 1991. Moreover, the affect is strongest among the lowest quantiles, where the penalty is as high as 45-46 percent in 2002. The econometric analysis confirms that relative incomes grew comparatively faster outside of agriculture.

***—the informal sector—***

3.24 *Informal employment.* Informal sector employment of a household head yields lower per capita income than salaried employment. In 2002, households with self-employed heads, for example, had per capita incomes 43 percent lower, on average, than those with salaried jobs, a gap that had grown from roughly 28 percent in 1991. Self-employment appears to carry a slightly lower income penalty for households in the bottom than in the top quantiles, however. Social security affiliation, a proxy for formal sector salary employment, is associated with an approximately 24 percent income premium, on average. This premium has been roughly constant over the period, although the premium has increased somewhat among the upper quantiles.

***—or not at all;***

3.25 *Unemployment.* Having a head who is unemployed reduced expected per capita income by 19 to 23 percent, on average, in both 1991 and 2002. The relative impact of unemployment on households at the bottom and top of the conditional income distribution changed considerably over the period, however. In 1991, households at the top of the distribution experienced a greater than average income penalty from unemployment of a household head, but those at the bottom of the distribution bore the greatest penalty in 2002.

***and living outside of San Salvador;***

3.26 *Region of residence.* There has been some convergence in income levels across El Salvador's administrative regions over time. That is, the income penalties associated with living in regions outside of Metropolitan San Salvador have declined since 1991. While the income disadvantage associated with living outside of Metropolitan San Salvador ranged from 14 to 21 percent in 1991, depending on the region, it had fallen to about 7 percent by 2002.

3.27 *Gender of the household head.* In general, the income penalty associated with living in a female-headed household in 1991 had disappeared by 2002. An exception was among households in the upper quantiles, who experienced a smaller, but still significant income penalty (5-9 percent) in 2002, compared to identical male-headed households.

***Receiving remittances from relatives abroad reduces the risk of poverty—***

3.28 *Remittances.* Receipt of remittances, proxied by migration of a household member, gave a solid, positive boost to per capita household income in both periods. Indeed, households that receive remittances have per capita incomes 50 percent higher than otherwise identical households. This effect is strikingly similar across quantiles of the distribution and did not vary significantly over time. This 50 percent boost to income, other factors held constant, clearly has a critical impact for those who receive remittances. As is discussed in greater detail below, remittances have played an important – albeit not the dominant role – in El Salvador's decline in poverty between 1991 and 2002.



*—as does greater control of assets, access to road and transport infrastructure—*

3.29 Analysis of the correlates of per capita income was also done using the BASIS rural panel data (Beneke de Sanfeliú and Shi 2004). Analysis of the BASIS data was done using a slightly different set of explanatory variables, as the BASIS dataset contains more detailed information in some areas, such as on household assets and on households proximity to all-weather roads and markets. Consistent with the EHPM findings, the BASIS analysis indicates that between 1995 and 2001 rural per capita household incomes were consistently higher in households with higher education levels and who received remittances, while they were lower among those households with a greater number of dependents. The analysis also finds that households tend to have higher incomes when they control for more assets (e.g., land) and when they have greater access to road and transport infrastructure (e.g., buses). Consistent with the findings above, rural households engaged in the production of basic grains tend to have lower per capita incomes, while those engaged in a greater number of non-agricultural enterprises and (in the latter part of the period) non-traditional agricultural products, tend to have higher per capita incomes (controlling for other factors).

3.30 The BASIS data was also used to analyze the determinants of household income *growth*, taking advantage of the fact that the BASIS has data on the same households at 4 different periods of time. The analysis of household income growth reinforces the cross-sectional findings. Specifically, average levels of education in the household in 1995 had a strong positive impact on household income growth over the period, as did families' control of assets.<sup>20</sup> Consistent with the cross-sectional findings, households who lived greater distances from paved roads or from transportation infrastructure (e.g., bus stops) in 1995 experienced slower income growth during the 1995-97 period, perhaps due to higher transaction costs (in terms of time and money) associated with engaging in the market economy. Moreover, reductions in the distances of households to paved roads and bus stops – i.e., improvements in access to market services – was associated with faster income growth, particularly from 1995-1999.

*—and having more diversified sources of income.*

3.31 Households producing basic grains in 1995 tended to increase their income more slowly over the period, while those with micro-enterprises tended to rise more quickly. Indeed, diversification of income sources – for example, via an increase in the number of a household's non-agricultural enterprises or in the cultivation of non-traditional agricultural products – was strongly related to income growth between 1995 and 2001. Increases in cultivation of non-traditional agricultural products was also associated with positive income growth from 1995 to 2001, albeit less strongly than in the case of undertaking new non-agricultural enterprises. Finally, households that received remittances at the beginning of the period – as well as those that received increases in remittances over time – also experienced faster growth.

3.32 It is worth noting that according to the analysis of the BASIS data, access to credit, either formal or informal, did not show up as a major correlate or determinant of household per capita income over the 1995-2001 period. It is not completely clear why this is the case. But one possibility might be that income from remittances provided a measure of liquidity and/or working capital to support households' efforts to develop micro-enterprises and diversify into non-agricultural enterprises. This issue deserves further investigation.

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<sup>20</sup> Analysis of the BASIS data also shows that higher education reduces households' vulnerability to poverty (Beneke de Sanfeliú and Shi 2004). Households with low average levels of education are more likely to be chronically poor, controlling for other factors. In contrast, households with higher levels of education are less likely ever to be poor. Education also helps families to manage economic risk and shocks more effectively; for example, households with more educated members are likely to be poor only temporarily, if they get hit by a negative income shock due to family, environmental or economic reasons.

*The role of remittances in reducing poverty, 1991-2002*

***Remittances can give a significant boost to household income—***

3.33 Analysis of both the EHPM and BASIS data indicate that remittances have made an important contribution to household income and recent household income growth. As analysis of the EHPM indicated, households that received remittances in 2002 had per capita incomes 50 percent higher than other households, controlling for other factors. But just how important have remittances been to the overall poverty reduction story in El Salvador?

***—and their importance has increased in recent years***

3.34 The EHPM data indicates that the contribution of remittances has indeed increased in recent years. For example, they comprised 5 percent of per capita income in 1999 and 7 percent in 2002, on average, and about 10 percent of per capita income among households in the second and third quintiles of the income distribution. The BASIS data show slightly higher figures – although in the same order of magnitude. Remittances and “other family assistance” grew from 8 percent of average family income to about 16 percent between 1995 and 2001, while remittances from outside El Salvador comprised 6 and 13 percent of family income in 1995 and 2001, respectively.<sup>21</sup> Thus, labor earnings and self-employed incomes still make up the vast majority of Salvadoran’s incomes, on average.

***Nonetheless, relatively few of the poorest Salvadorans receive remittances—***

3.35 Moreover, the data suggest that the proportion of households that receive remittances has increased since the 1990s as well. The EHPM indicate, for example, that 22 percent of the population receives at least some remittances (although only 11 percent of the poorest Salvadoran households received remittances in 2002). Similarly, the BASIS data indicate the proportion of rural panel households receiving remittances increased from 13 to 30 percent between 1995 and 2001. As in the case of the national survey, the BASIS data show that a relatively small percentage of very poor households (19 percent) receive remittances.

***—and their role in aggregate poverty reduction, while important, does not appear dominant.***

3.36 The dynamics of income and poverty reduction are difficult to capture with precision. Nonetheless, to assess the order of magnitude of the impact of remittances on poverty reduction, poverty rates were recalculated (using both the EHPM and BASIS surveys) using an income aggregate calculated with and without remittances. As can be seen from Figure 3.1, in the absence of remittances, the decline in total poverty between 1991 and 2002, estimated using the EHPM data and the World Bank income aggregate, would have been 23.9 percentage points (from 66.8 to 42.9 percent) rather than 27.2 percentage points (from 64.4 to 37.2 percent), a difference of 3.4 percentage points. The decline in extreme poverty from 1991-2002 would have been 13.2 percentage points (33.7 to 20.5 percent) as opposed to 15.8 percentage points (31.2 to 15.4 percent), a difference of 2.6 percentage points.

3.37 Estimates of rural poverty, using the BASIS data indicate a similar order of magnitude changes. In the absence of remittances, the decline of rural poverty from 1995-2001 would have been 24.5 percentage points (77.8 to 53.3 percent) rather than 28 percentage points (74.6 to 46.6 percent), a difference of about 3.5 percentage points.

3.38 Interpreting these numbers should be done with some caution. On one hand, in the absence of out-migration and remittances, families probably would have increased their labor supply and, thus, their earnings (perhaps through the entrance of the out-migrant into the domestic labor

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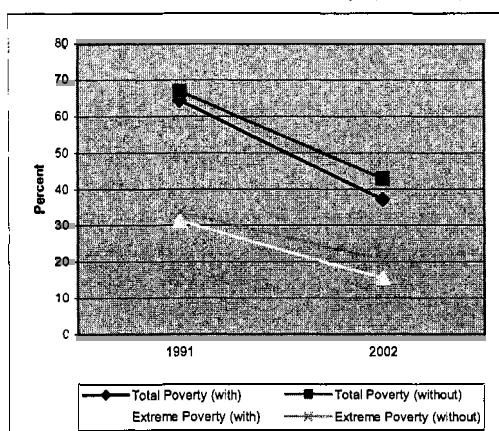
<sup>21</sup> These household survey-based figures are roughly in line with the macro-economic figures for El Salvador which suggest that worker remittances from abroad grew from an average of 2.6 percent of GDP during the 1980s to over 11 percent during the 1990s (World Bank 2003).

market). This would mean that the incomes of those receiving remittances would be higher than suggested by a calculation without remittances. This would mean correspondingly lower poverty rates. On the other hand, the existence of additional income via remittances has likely led to domestic demand for goods and services that would not have existed in the absence of those remittances. This increased demand for goods and services resulted in higher incomes (and perhaps less poverty) for some number of families that did not receive remittances. Just how those two (opposing) impacts net out is difficult to assess with certainty.

3.39 Nonetheless, these simulations suggest that while remittances have made an important contribution to poverty reduction in recent years, they have not played the dominant role in recent achievements.

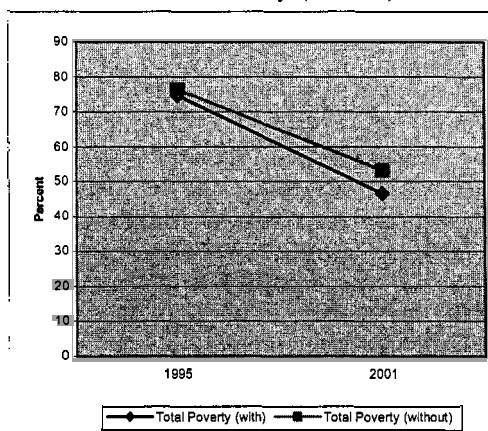
**Figure 3.1: Trends in Poverty With and Without Remittances, using EHPM and BASIS Data<sup>22</sup>**

**a. National Poverty Trends, 1991-2002, Total and Extreme Poverty (EHPM)**



Source: World Bank staff calculations

**b. Rural Poverty Trends, 1995-2001 Total Poverty (BASIS)**



Source: Beneke de Sanfeliú and Shi 2004

***Natural and economic shocks***

3.40 *The 2001 earthquakes.* In January, 2001, El Salvador was hit by two powerful earthquakes that resulted in over 1,000 casualties and left more than 300,000 families homeless. As many as 85 percent of rural households in the main earthquake-affected areas experienced some damage to their homes and as much as 40 percent of households in affected areas experienced damage severe enough to make their homes uninhabitable (Beneke de Sanfeliú and Shi 2004).

***Data limitations make accurate assessment of the effects of the 2001 earthquakes difficult—***

3.41 Making an accurate estimate of the poverty impacts of the earthquakes is complicated by the lack of sufficient data to perform careful before-and-after analysis. Nonetheless, a reasonable assessment can be based on a comparison of poverty trends during 1999-2002 between localities hardest hit by the quakes and those that were less affected, using the 2000 and 2001 EHPM surveys, the latter of which includes an over-sampling in the most affected municipalities. Most affected municipalities are defined as those with at least 30 percent of homes damaged (the cutoff

<sup>22</sup> Estimates using official DIGESTYC poverty line.

used to identify the municipalities of the 2001 EHPM over-sample.

3.42 Table 3.5 presents data on the most affected departments and municipalities, along with the poverty rates, by department, over the 1999-2002 period. The most affected municipalities in these departments house almost a million people (16 percent of the country's population extrapolated from the 1992 census) and comprise a majority of the departments' populations (except in La Libertad).

**Table 3.5: Municipalities and Population most affected by the 2001 Earthquakes in El Salvador, 1999 – 2002**

Departments	Total		The worst affected				Poverty Rates			
	Municipal.	Pop.	Municipal.	%	Pop.	%	1999	2000	2001*	2002
La Libertad	22	707,406	10	45.5	153,595	21.7	32.7	28.6	31.5	26.2
Cuscatlan	16	205,372	10	62.5	159,032	77.4	38.6	32.9	44.3	35.9
La Paz	22	298,977	18	81.8	233,484	78.1	49.7	43.1	42.9	42.7
San Vicente	13	163,462	10	76.9	140,902	86.2	59.2	54.3	52.6	52.7
Usulután	23	340,576	16	69.6	206,866	60.7	55.2	49.2	54.1	46.1
Total	96	1,715,793	64	66.7	893,879	52.1	43.6	38.3	41.5	36.7

\*Estimations include the survey over simple of most affected municipalities, defined as those with at least 30 percent of the dwellings affected.

Source: World Bank staff based on EHPM survey data.

***—nonetheless, their impacts on poverty appear to have been short-term and localized—***

3.43 Examination of national poverty data makes clear that the earthquakes did not reverse progress in reducing poverty at the national level (Figure 2.1, Table 2.1). Nonetheless, they did have important local impacts in the short-term. Significant poverty impacts can be observed *only* in those departments comprised of most localities hardest hit by the quakes. Indeed, while the incidence of poverty continued to decline in most departments in 2001, about 3 percent of the population in the most affected departments fell into poverty following the earthquakes. Poverty rates increased the most in Cuscatlan followed by Usulután and La Libertad, while La Paz and San Vicente experienced little change up or down. (Similar patterns are observed, albeit in smaller magnitudes, with respect to extreme poverty.)

3.44 Taking the less affected localities as a control group to estimate the counterfactual poverty decline that would have been observed in the absence of the quakes, it is possible to obtain a basic difference-in-difference estimate of a 5 percentage point poverty increase in the most affected departments possibly due to the earthquakes. In reality, this should be taken as a lower bound estimate of the local impacts of the quakes on income poverty for at least two reasons. First, the definition of most affected localities used for the over sample survey (30 percent of damaged homes) is ultimately arbitrary and does not capture the plausible continuum of impacts. Second, negative spillover effects to neighboring municipalities or departments could have affected poverty reduction in the control group.<sup>23</sup> Both these effects are likely to lead to an upward bias in the counterfactual estimate.

***—as reconstruction efforts provided a boost to affected local economies***

3.45 Nonetheless, household incomes rebounded quickly in these localities, and poverty in these locations generally declined to pre-earthquake levels again in 2002. In fact, the declines in

<sup>23</sup> Only 2 departments that had relatively few affected municipalities registered small increases in poverty after the earthquakes: Chalatenango and San Salvador.

poverty in these localities during 2002 were much higher than in the rest of the country, so that the gap in poverty rates between the two groups reverted to nearly pre-earthquake levels. The negative impacts of the earthquakes on poverty thus appear to have been quite temporary with, among other things, rehabilitation activities providing a boost to the economies in the most affected areas.<sup>24</sup>

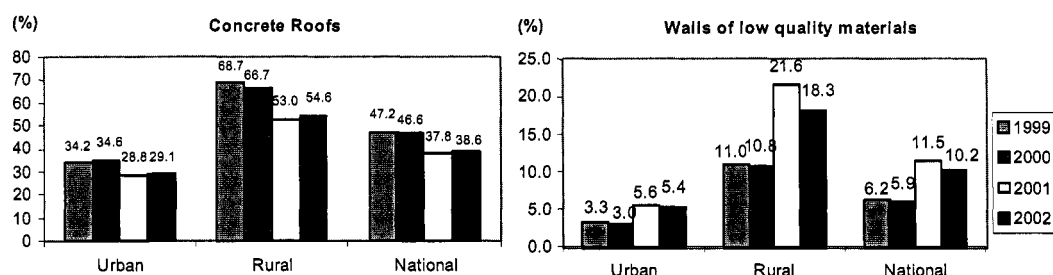
***There may be a longer-term impacts on school enrollments—***

3.46 However, the earthquakes appear to be responsible, in part, for some declines in school enrollments in basic education. Almost 4 percent of children left school between 2000 and 2001 – at least temporarily.<sup>25</sup> While school enrollments have slowed nationwide in the 2000s, enrollments tended to decline in the departments with most-affected localities. For example, net enrollment rates in Usulután and Cuscatlán declined by 4 and 6 percentage points, respectively, after the quakes. And while enrollment levels have since rebounded, in 2002 only about half the affected localities achieved enrollment rates at or above their pre-earthquake levels.

***—and on housing stock in quake-affected areas.***

3.47 Perhaps the most lasting impacts of the earthquakes have been in the deterioration of housing quality in the worst affected localities. The quality of roofs declined in about 9 percent of houses nationwide (4 percent in rural areas) and the percentage of houses built with low quality (improvised) material doubled following the quakes (Figure 3.2). The collapse of housing infrastructure was substantially higher in the most affected localities. As can be seen in the figure, housing stock showed a slight improvement in 2002.<sup>26</sup>

**Figure 3.2: Quality of Housing in El Salvador, 1999-2002**



Source: World Bank staff based on EHPM survey data.

***A dramatic drop in world coffee prices since 1997—***

3.48 *The coffee crisis.* Until recently, coffee was the main export crop of El Salvador; it is still important in some regions of the country, generating employment and income for several thousand families. While a declining share of El Salvador's labor force is involved in the nation's coffee economy, declining world coffee prices have dampened demand for labor on large coffee

<sup>24</sup> Beneke de Sanfeliú and Shi (2004) find that most rural households experienced only temporary dislocation from their productive activities as a result of the earthquakes. The average work interruption reported by rural households was about 40 days.

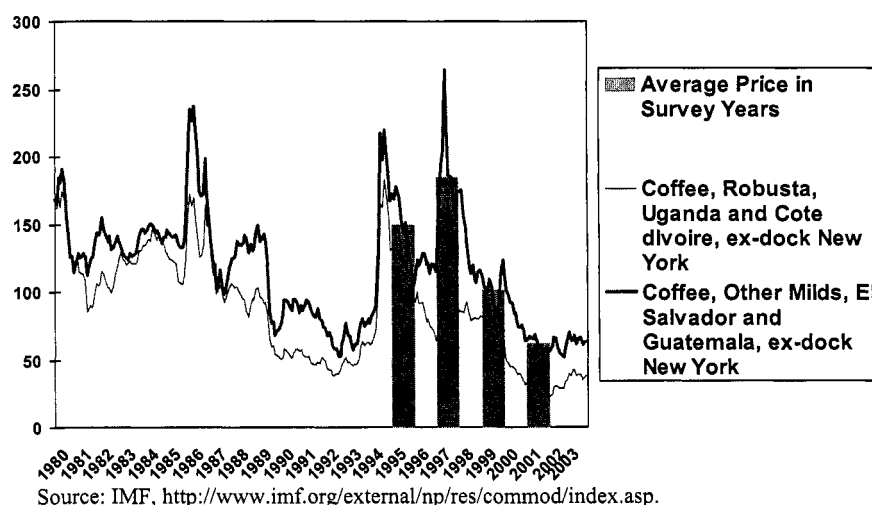
<sup>25</sup> In the rural areas most affected by the earthquakes, about 40 percent of students reported stopping school temporarily (Beneke de Sanfeliú and Shi 2004). School-leavers reported an average of 37 days out of school as a result of the earthquakes.

<sup>26</sup> The impact on basic services infrastructure was less significant. Cuscatlán and La Paz are the only departments where water access was interrupted for about 4 percent of households. By 2002, however, water access rates in the most affected departments were significantly above pre-earthquake levels. There were no significant negative impacts on access rates to sanitation and only a marginal deterioration of electricity access in La Paz.

farms, forcing workers to seek alternative sources of income, and have adversely affected the incomes of smallholder farmers who cultivate coffee as part of their families' income portfolio.

3.49 World coffee prices have a history of volatility, but the current price drop was significantly larger than usual. Indeed, since reaching their peak in May 1997, prices for Salvadoran and Guatemalan coffee have declined to among their lowest real values in the last 50 years (Figure 3.3).<sup>27</sup>

**Figure 3.3: Coffee Prices in US\$ Per Pound (January/1980-August/2003)**



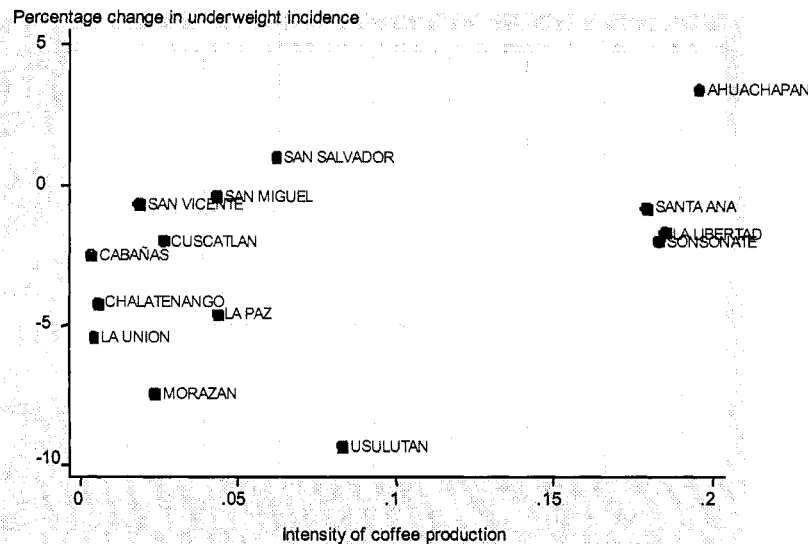
**—slowed income growth, and increased income volatility, among workers in the coffee sector.**

3.50 Recent analyses of the impacts of the coffee crisis, using BASIS data from 1995, 1997, 1999, and 2001 (Trigueros and Avalos 2003; Beneke de Sanfeliú and Shi 2004) reveal that:

- Households who had at least some members working in the coffee sector have seen their incomes negatively affected by the coffee crisis. This has not manifested itself as a decline in real income since 1997 (the height of recent coffee prices), but rather as slower real income growth than that of otherwise equivalent rural households outside the coffee sector.
- Coffee sector households have also experienced considerably more volatile incomes than non-coffee sector households since the mid-1990s, but have managed to preserve and grow their incomes through shifts out of coffee into non-agricultural enterprises.
- There is suggestive evidence that the coffee crisis has also adversely affected child nutrition. Specifically, between 1998 and 2002, the incidence of underweight children declined more rapidly in non-coffee growing regions of El Salvador than in coffee-growing regions (Figure 3.4). In the case of Ahuachapan, the department with the highest land intensity of coffee production, the incidence of underweight children actually increased over the period.

<sup>27</sup> For a detailed analysis of the current situation and crisis in international coffee markets see Lewin and Giovannucci (2002).

**Figure 3.4: Change in Percentage of Underweight Children, 1998-2002, by Department and Intensity of Coffee Cultivation**



Source: Trigueros and Avalos 2003, based on FESAL and PROCAFE data.

- There is no systematic evidence that the coffee crisis (or participation in the coffee economy more broadly) has negatively affected children's school participation; however there may have been adverse impacts in specific locations.

#### *Implications for poverty reduction policy*

##### ***Focus on enabling the most vulnerable to participate in future economic progress***

3.51 This chapter has examined key factors that have influenced poverty reduction since the early 1990s, including economic growth, recent structural changes in the economy, and the factors affecting household income growth (both own-earned income and the role of remittances). The chapter has also examined the impact of recent shocks – the earthquakes of 2001 and the coffee crisis – on recent socio-economic progress. The collection of evidence highlights the following:

- Growth was an important force for poverty reduction in the 1990s, as were structural changes in the economy. Indeed, growth was reasonably broad-based and effective in reducing poverty.
- Nonetheless, not all households benefited equally from growth during the period. While the incomes of the moderately poor grew roughly at the rate of average per capita income growth, the poorest Salvadorans experienced relatively little growth.
- Analysis of the EHPM and BASIS surveys indicate that education, ownership of land or other physical assets, and access to markets and basic services (via proximity to all-weather roads and transportation) were all key factors in households' ability (or not) to participate in recent economic progress. Households' involvement in formal-sector salaried employment, in non-agricultural enterprises, and their ability to diversify their

income portfolio – related, in part, to education, assets, and access to markets – were also important.

- The evidence suggests that many of the poorest, most vulnerable Salvadorans still lack sufficient human capital, as well as access to markets and basic services, to be able to advantage of new and emerging opportunities. Ensuring that the poorest, most vulnerable citizens are equipped to participate in future economic progress will, thus, need to be at the core of a forward-looking strategy for reducing poverty in El Salvador.
- In the chapters that follow, these possible elements of a national social policy to reduce poverty in El Salvador are explored in greater detail, including approaches to
  - strengthening the human capital of all Salvadorans
  - improving people's access to markets and basic services, and
  - supporting and protecting the poorest, most vulnerable families.



## PART 2: CRAFTING A NATIONAL SOCIAL POLICY

### IV. ELEMENTS OF A POVERTY REDUCTION STRATEGY

#### *Growth will remain an important engine of poverty reduction—*

4.1 As noted in the previous section, during the 1990s growth was relatively effective in reducing poverty. The evidence suggests that economic growth will continue to be a critical element of El Salvador's efforts to reduce poverty in the coming years as well. Thus, there will be high returns in terms of poverty reduction to the Government of El Salvador taking the necessary measures to reinvigorate growth in the 2000s. In this context, the recent World Bank Country Economic Memorandum (CEM) for El Salvador (2003) highlights several key areas for policy and investment to enhance growth (Box 4.1).

#### **Box 4.1: Promoting Economic Growth for Poverty Reduction in El Salvador**

The World Bank's recent Country Economic Memorandum for El Salvador (2003) examines both the macro- and micro-economic underpinnings of El Salvador's recent growth performance to identify the key policy levers for promoting rapid and sustainable growth in El Salvador. The report presents the results of cross-country data analysis on the macro and structural determinants of growth, as well as analyses of microeconomic foundations of economic development related to such factors as the quality of inputs, infrastructure, institutions, and the array of regulatory and other policies that shape the business environment. The study identifies four priority areas that will, if addressed, will lay the foundation for increased economic growth in El Salvador over the next decade:

- *Increasing the education levels of the population.* Education provides a critical foundation for future productivity growth in the Salvadoran economy. Indeed, macro-economic analysis indicates that concerted efforts to improve the education levels of the Salvadoran population, along with the quality of education, hold the highest potential to increase economic growth rates in the medium-to-long term.<sup>28</sup>
- *Developing the country's economic infrastructure.* As with education, development of the country's economic infrastructure, such as roads, ports, and telecommunications infrastructure will go far toward increasing its economic competitiveness and, hence, future growth.
- *Fostering greater technology adoption and local innovation.* Closely tied to the education agenda, the ability to adopt technology and to innovate locally will be critical in the coming years to El Salvador's attracting foreign investment and increasing domestic economic productivity. In addition to gains from higher levels of better quality education, there appear to be gains associated with greater levels of domestic research and development to promote production innovations.
- *Improving the investment climate, including efforts to reduce violence and increase the rule of law.* El Salvador has one of the highest crime rates of the Western Hemisphere and this is perceived as a significant cost on business; there is also a perception of judicial insecurity for businesses which adversely affect investments, economic productivity, and growth.

The diagnosis of poverty presented in chapters 2 and 3 of this report suggest important complementarities between the growth and poverty reduction agendas in El Salvador. Specifically, the analysis suggests strong complementarities growth and poverty reduction with respect to investments in education and in economic infrastructure, both of which demonstrate strong impacts of incomes and the household (micro) and national (macro) levels.

<sup>28</sup> See also Loayza, Fajnzylber, and Calderón, 2002.

***—but enabling all Salvadorans to benefit from growth calls for a national social policy***

4.2 Given the nature of the remaining poor, however, and the fact that many of the poorest, most vulnerable Salvadorans have been unable to take advantage of recent economic progress, it will become increasingly important that El Salvador put in place a deliberate and strategically designed set of policies and investments to ensure that the remaining poor are better positioned to benefit from future socio-economic progress. The analysis presented so far suggests several broad areas where increased and strengthened government attention appears warranted:

- in strengthening education – or more broadly stated – in *developing the human capital of all Salvadorans*;
- in *strengthening people's access to markets and basic services*, especially among the poor; and
- *providing support and protection to the poorest and most vulnerable Salvadorans* to ensure that they are better prepared to take advantage of future growth and development.

4.3 In the chapters that follow, the possible strategic elements of a National Social Policy to reduce poverty are explored. Opportunities and challenges in education, health, socio-economic infrastructure, and development of a social safety net are examined in turn.

## V. EDUCATION

***Education increases incomes and reduces people's vulnerability to poverty***

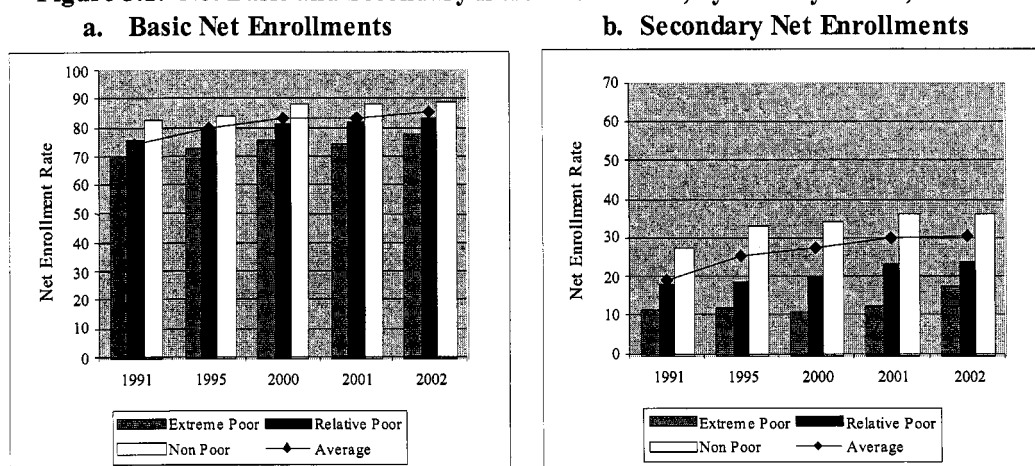
5.1 Education contributes to poverty reduction in a number of critical ways – through its impact both on economic growth, and on household incomes and income growth, by reducing vulnerability to poverty and increasing economic mobility of individuals and families. Building on the discussion in the previous section, this chapter focuses on: (1) recent advances in extending education to the poor; (2) the role that public actions have played in recent progress, with special emphasis on public education spending; (3) key education challenges for El Salvador, moving forward; and (4) policy directions for ensuring that education works for all Salvadorans.

### *Recent progress*

***Significant progress in providing access to education among the poor—***

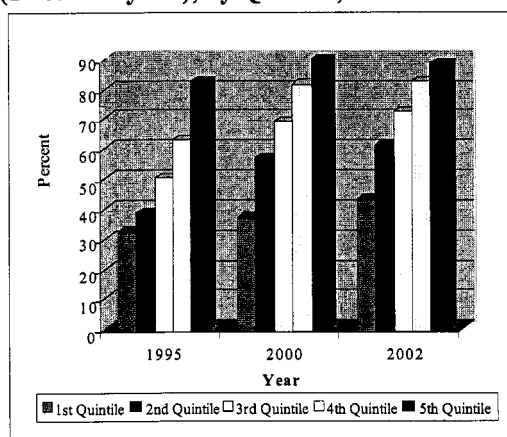
5.2 El Salvador has made considerable progress in raising enrollment and completion levels since the early 1990s, especially in rural areas. These gains have translated into considerable progress in access to education among the poor. As noted in Chapter 2, the enrollment gap between the poor and non-poor for basic education has closed between 1991 and 2002 – both in absolute and relative terms (Figure 5.1a). Access to secondary education by the poor has also begun to increase in recent years – although gains have been larger among the non-poor (Figure 5.1b). In addition, more children from poor households are completing the first two cycles of basic education, and this had led to some narrowing of the gap in completion rates (Figure 5.2). All of this has added up to an increase in the average years of schooling among the poor (Figure 5.3), and a narrowing of the education gap in El Salvador.

**Figure 5.1: Net Basic and Secondary Enrollment Rates, by Poverty Status, 1991-2002**



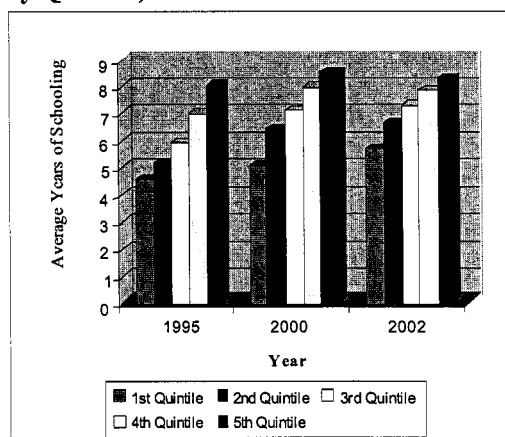
Source: World Bank staff calculations, using EHPM data (various years).

**Figure 5.2: Basic Completion Rates (1<sup>st</sup> & 2<sup>nd</sup> cycles), by Quintile, 1995-2002**



Source: di Gropello (2004)

**Figure 5.3: Average Years of Schooling, by Quintile, 1995-2002**



Source: di Gropello (2004)

*—although gaps remain wide in school completion and at secondary enrollment*

5.3 These accomplishments have – and will continue to be – important to raising the capacities of the poor to increase their incomes, to better protect themselves from shocks, and to take better advantage of emerging economic opportunities. Nonetheless, recent accomplishments frame future challenges for the sector with respect to El Salvador's poverty reduction efforts. For example, in 2002, 22 percent of 7-15 year-olds from the poorest families still did not attend school; access to secondary schooling also remains low among the poor; large gaps in completion rates exist between the poor and the non-poor; and, as will be discussed in greater detail below, raising education quality, particularly for the poor, remains an important challenge.

### Recent public action

5.4 The public education system in El Salvador is divided into four levels: three years of pre-primary education usually for children aged 4-6; nine years of basic education for children 7-15, which in turn is divided in three cycles of three years each; two or three years of secondary education depending of the modality: general studies two years and technical-vocational education three years; and the higher level of education which includes university and technological education. Most students attend public institutions up to and including the secondary level – although the importance of private education increases as the level of education increases. Specifically, in terms of enrollments, the public sector covers 81 percent of pre-primary, 89 percent of basic, and 68 percent of secondary. The private sector plays the dominant role at the university level.

### Education reforms in the 1990s—

5.5 Recent progress in raising education outcomes for the poor are very much connected to recent education reforms, which grew out of a broad-based consensus in the country. During the 1990s, the administration of the public education system was substantially decentralized.<sup>29</sup> In the early 1990s, MINED established EDUCO, a community-based school program managed through community associations, ACEs, which has been the main instrument to expand pre-primary and basic education in rural areas.<sup>30</sup> The ACEs have the responsibility for managing school resources including the hiring and firing of teachers. In the mid-1990s the authorities began transferring the positive experience of the ACEs to the traditional system where School Councils (CDE) were created with the responsibility for: i) planning and implementing school activities; ii) managing the resources transferred to schools; and iii) raising additional funds to support school activities. Other instruments were developed at the school level to empower the schools, such as the Institutional Education Project (PEI), which sets forth the school's medium term objectives and the associated Annual School Plan (PAE).

### —with an emphasis on improving access and increasing quality—

5.6 MINED's strategic objectives and targets are set forth in the Government's Ten Year Education Plan (1995-2005), which has received broad based support from the various sectors of Salvadoran society. The Plan calls for: i) increasing coverage at all levels, but with emphasis on the third cycle of basic education and secondary education, particularly in rural and peri-urban areas; ii) creating and strengthening the different programs that facilitate access to education and permanence in school of the poor; iii) improving the curriculum content and teaching-learning methods; iv) establishing learning evaluation systems as an instrument to improve continuously the quality of education; v) establishing monitoring, evaluation and incentive systems for teacher performance; and vi) strengthening school autonomy over resource management.

5.7 In 2000, MINED authorities reviewed the progress made with the implementation of the Plan and prepared their strategic program – *Education Challenges in the New Millennium*, which details the challenges faced by education in each key area, the objectives to be accomplished and the strategic guidelines. The program's principal objectives are to increase education quality, strengthen community participation, facilitate access to education and promote values and

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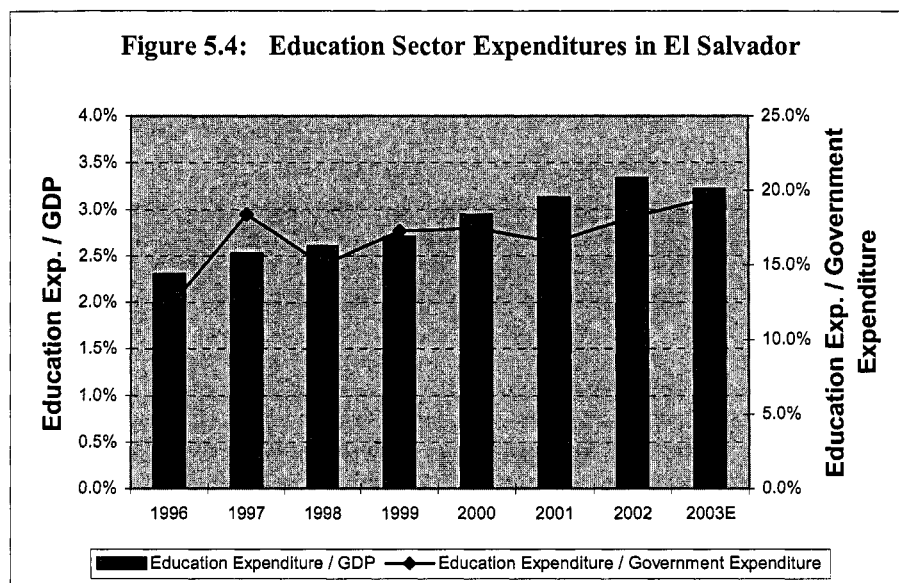
<sup>29</sup> For a review of the sector reform effort during the 1990s see Marques, José Silvério and Ian Bannon. 2003. "Central America: Education Reform in a Post-Conflict Setting, Opportunities and Challenges," World Bank, Conflict Prevention and Reconstruction Unit, Working Paper 4, April.

<sup>30</sup> The number of EDUCO students in pre-primary and basic education increased from 10,721 and 42,851, respectively, in 1993 to 47,551 and 202,719 in 2002. Currently, EDUCO students represent about 16 percent of pre-primary and 18 percent of basic education students in public schools nationwide, and 44 percent of all basic-level students in rural public schools.

personal development. It details the programs, targets and financial requirements to achieve these objectives.<sup>31</sup>

**—and increased public spending**

5.8 Along with education reforms, El Salvador has significantly increased its public spending on education in the last several years. For example, the Government increased education sector spending from 1.9 percent of GDP in 1992 to 2.3 percent in 1996 and to 3.2 percent in 2003 (Figure 5.4). Education's share of the overall Central Government budget was also raised by over 7 percentage points in the second half of the 1990s – from 12.4 percent in 1996 to 19.5 percent in 2003. Consistent with its strategy of giving autonomy to the schools, in 1996 MINED established an Education Quality voucher (or *bono*) that transfers resources to the schools (pre-primary, basic and secondary) to buy key goods and services to improve education quality. The voucher system was accompanied by a series of other reforms that were gradually implemented, including: i) a teacher training/development program that is administered in a decentralized manner with strong school participation and the support of Pedagogic Advisors, who replaced the previous school supervisors; ii) a decentralized system of administrative support to the schools; iii) incentives for teachers in rural areas; and iv) a performance-based incentive system for all teachers. At the same time, MINED strengthened the capacity of its Departmental Offices to support the schools.



Source: di Gropello (2004).

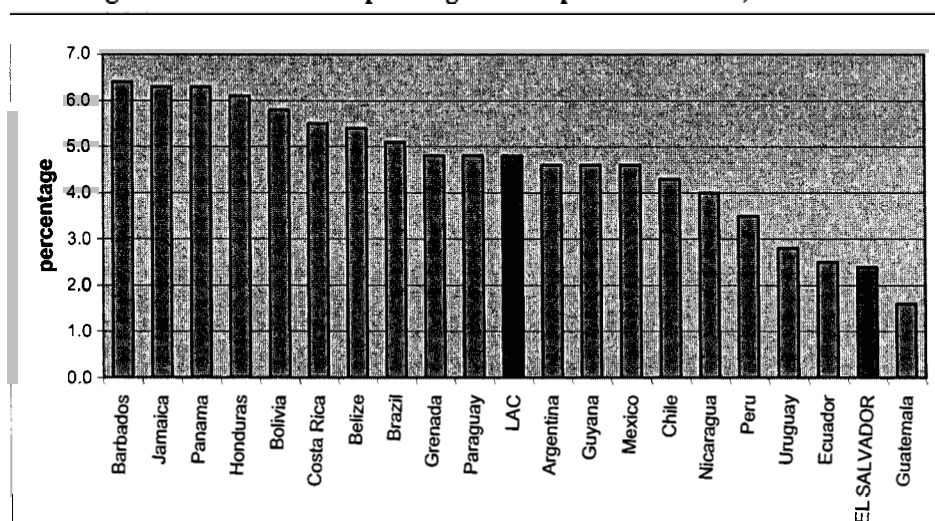
**But public spending remains low by international norms—**

5.9 Nonetheless, international comparisons indicate that public education spending is still low by international standards. As a percentage of GDP, El Salvador still remains near the bottom of

<sup>31</sup> Since initial preparation of and in-country consultations on this report, the Government in El Salvador has developed and launched a new national education plan, *Plan 2021*. This plan builds on and expands the Government's existing vision for educational development. *Plan 2021* focuses on achieving universal access to basic education of quality, beginning at the pre-school level. It focuses, as well, on promoting higher levels of education, often through non-traditional education and outreach modalities, and strengthening education in science and technology (Ministry of Education, Government of El Salvador).

a list of Latin American and Caribbean countries and well below the regional average (Figure 5.5). Spending is also low relative to El Salvador's per capita income level. Moreover, a recent analysis by FUSADES of public education spending (in PPP dollars) also indicates that per student spending is low by international standards (FUSADES 2002; Table 5.1). In 2000, of those countries studied, only the Philippines, Honduras and India spent less per student on pre-primary education, while only Honduras and India spent less per student on primary education. Moreover, at the secondary level, El Salvador ranked the lowest among the countries studied for per student spending.

**Figure 5.5: Education Spending as a Proportion of GNP, 1999/2000**



Source: di Gropello (2004).

	US\$ PPP			% of GNP per capita		
	Pre-Primary	Primary	Secondary	Pre-Primary	Primary	Secondary
Argentina	1054	1307	1781	10	13	17
Brazil	820	880	1087	13	13	17
Chile	1929	2151	2337	15	17	18
<b>El Salvador*</b>	174	220 (**)	260	9	11 (**)	13
Philippines	74	440	570	2	13	16
Honduras*	89	124	373			
India	28	182	334	2	11	20
Jordan	528	690	1176	15	20	34
Malaysia	332	820	1334	4	10	16
México	979	1108	2320	13	14	30
Paraguay		482	690		12	17
Uruguay	1104	974	1536	12	11	17
Zimbabwe		353	647		15	28
Average OECD	3788	3907	5312	17	20	29

5.10 To put these figures in perspective, it is also useful to compare public per student spending with private – i.e., household – spending on education in El Salvador. Matching data on household education spending with data on public per student spending in 2000 suggests that at the basic level, households spend on average 3.0 times more per student than the Government of El Salvador (Mason, Torres, and Aterido 2004). The lion's share of household spending per student goes to indirect costs of schooling, such as textbooks, materials, transportation and so on.

*—and private costs are high, especially for poor households.*

5.11 Poor households spend between 1.8 and 2.7 times, on average, what the government spends per student at the basic level. While the poor tend to spend less per student in absolute terms than the non-poor, the poor tend to spend more as a proportion of their per capita income.

5.12 Household spending per student at the secondary level is even larger relative to public spending than at the basic level, due to both the higher indirect costs of schooling as well as to the costs of tuition. At the secondary level, households spend about 4.3 times more per student than the government on average, while the poor spend between 3.0-3.6 times as much.

*Public spending has emphasized basic education—*

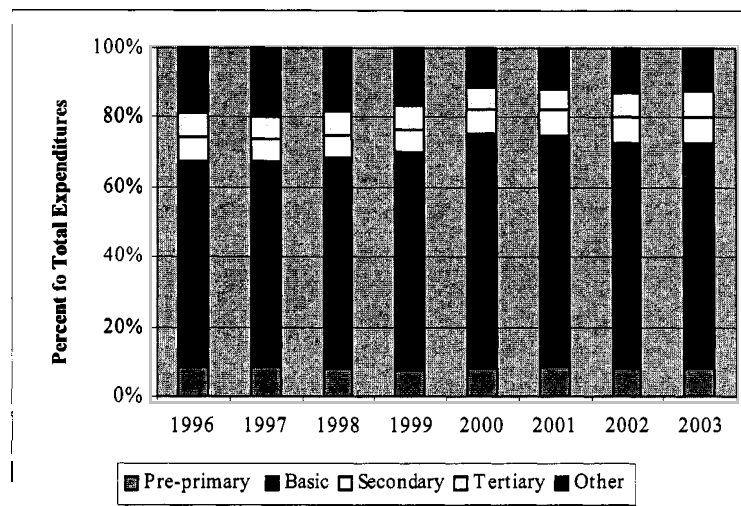
5.13 The largest share of public expenditures on education has gone – and continues to go – to basic education (Figure 5.6). From 1996-2003, the share of the total education budget going to basic education has hovered around 60-65 percent – although its share has tended to increase slightly over time. This share is high by Latin American and international standards – but is generally consistent with the Government's commitment to broaden basic education coverage, especially in rural areas and among the poor (di Gropello 2004).<sup>32</sup> The share of secondary education is about 7 percent of the recurrent budget, which is low by Latin American standards, and reflects the relatively low priority El Salvador has given this level in the past. The tertiary education share is similar to that of secondary education and, again, is low by Latin American standards.<sup>33</sup>

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<sup>32</sup> This is true even correcting for differences in the length of El Salvador's basic education cycle and the primary education cycle of other countries in the region.

<sup>33</sup> Over the 1990-96 period, selected Latin American and Caribbean countries directed more than 21 percent of their education expenditures toward tertiary education (di Gropello 2004).

**Figure 5.6: Allocation of Recurrent Spending across Educational Levels<sup>34</sup>**



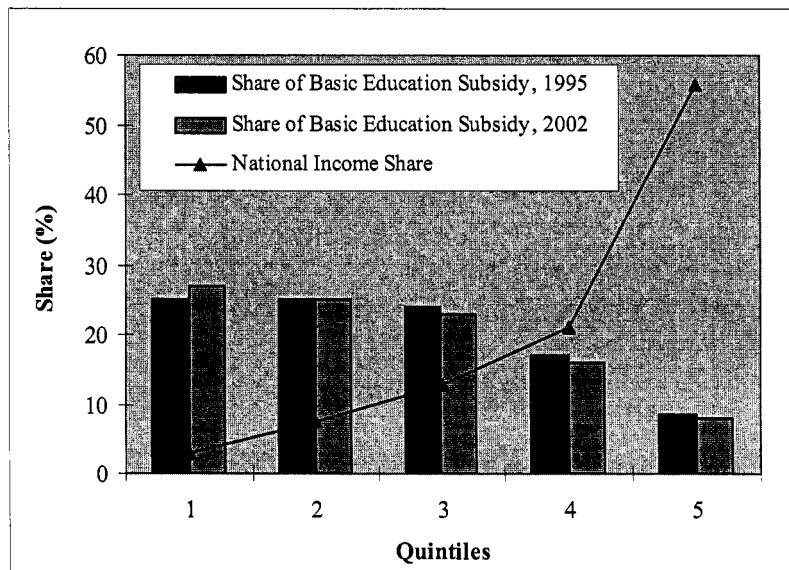
Source: di Gropello (2004).

5.14 Patterns of public education spending, along with the sector reforms focused on expanding basic education coverage in rural areas, have contributed to recent education gains among the poor. In addition to the overall focus of public spending on basic education, analysis of the benefit incidence of public spending on basic education indicates that spending is “pro-poor”, where pro-poor is defined as the poor receiving a greater share of the benefits of public spending than their share of the population. This can be seen from Figure 5.7, where the benefit incidence of public spending on basic education in 1995 and 2002 is broken down by quintile. In both years, the poorest quintiles clearly receive the largest share of the benefits of public spending and more than their quintile population share (of 20 percent). Moreover, comparison of the benefit incidence in 1995 and 2002 indicates that public spending on basic education has become slightly more pro-poor over time.

<sup>34</sup> Only recurrent costs are disaggregated across levels, so the shares shown here are calculated in terms of the overall recurrent budget. This includes central administration costs and other recurrent costs that could not be attributed to any of the levels.



**Figure 5.7: Distribution of Public Subsidy to Basic Education, By Quintile, 1995 and 2002**



Source: Adapted from di Gropello (2004).

*—which has become increasingly pro-poor—*

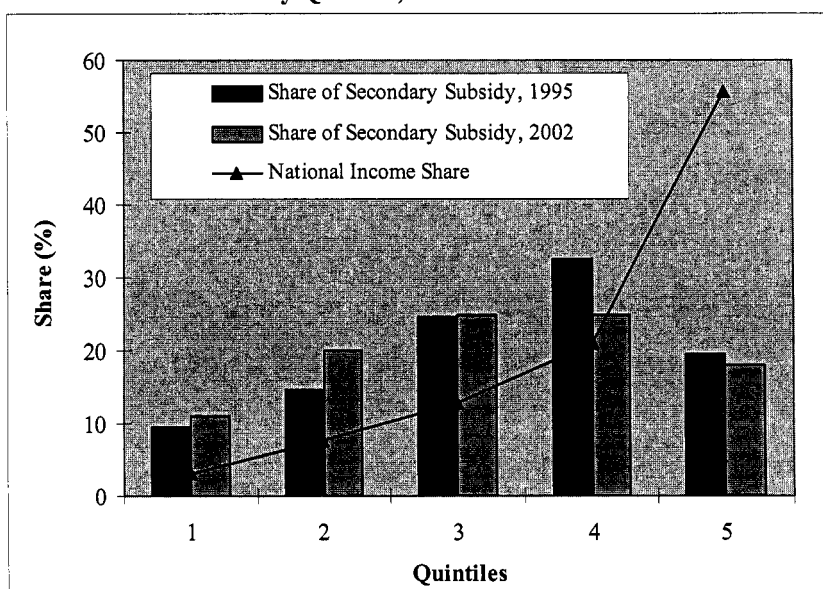
5.15 These patterns of pro-poor spending at the basic level are driven in large part by the strongly pro-poor patterns of benefit incidence in rural areas.<sup>35</sup> In 2002, for example, rural households in the poorest quintile received over 40 percent of the benefits of public spending on basic education received by all rural households (di Gropello 2004). In contrast, the benefits of public spending on basic education in urban areas go more to the middle 3 quintiles, with the middle quintile (20 percent) receiving roughly 28 percent of the benefits. Even so, it is important to note that public spending on basic education serves, at the margin, to improve the national distribution of income: this, in the sense that the urban poor receive a share of the benefits of spending that is larger than their share of national income (see Figure 5.7).

*—although spending on secondary education still tends to benefit the middle class.*

5.16 In contrast to basic education, public spending on secondary education tends to benefit the middle quintiles, especially those in the 3rd and 4th quintiles (Figure 5.8). As in the case of basic education, the distribution of benefits of public spending on secondary education has become more pro-poor between 1995 and 2002. Moreover, public spending on secondary education serves, at the margin, to reduce income disparities, as the poor (particularly the moderate poor) receive a greater share of the benefits than their share in national income (Figure 5.8).

<sup>35</sup> This is an impact of EDUCO, which focused on the most isolated, rural communities as well as from other MINED programs that gave priority to the rural areas where poverty was more pervasive and where education enrollments were lowest. Moreover, a GOES school lunch program has focused almost exclusively on rural areas (Marques 2004).

**Figure 5.8: Distribution of Public Subsidy to Secondary Education, By Quintile, 1995 and 2002**



Source: Adapted from di Gropello (2004).

5.17 As in the case of basic education spending, looking at the distribution of the benefits of public spending separately for rural and urban areas is instructive. In fact, in rural areas alone, the distribution of public spending can be considered pro-poor, as those in the 1st and 2nd quintiles received nearly 25 and 30 percent of the total benefits, respectively, in 2002 (di Gropello 2004). In urban areas, however, the benefits of public secondary spending were concentrated among those in the 3rd and 4th quintiles.

### Ongoing challenges

5.18 In spite of recent advances, important work remains to be done to ensure that education is available and “works” for all Salvadorans. Despite increases in public spending, expenditure levels remain low by regional standards. Moreover, cross-country analysis indicates that El Salvador’s performance in several areas – basic literacy, secondary school enrollments and average years of schooling – remain lower than expected given the country’s per capita income levels. Most dramatically, in 2000, secondary school enrollments were still only half of what would have been expected, given El Salvador’s income.

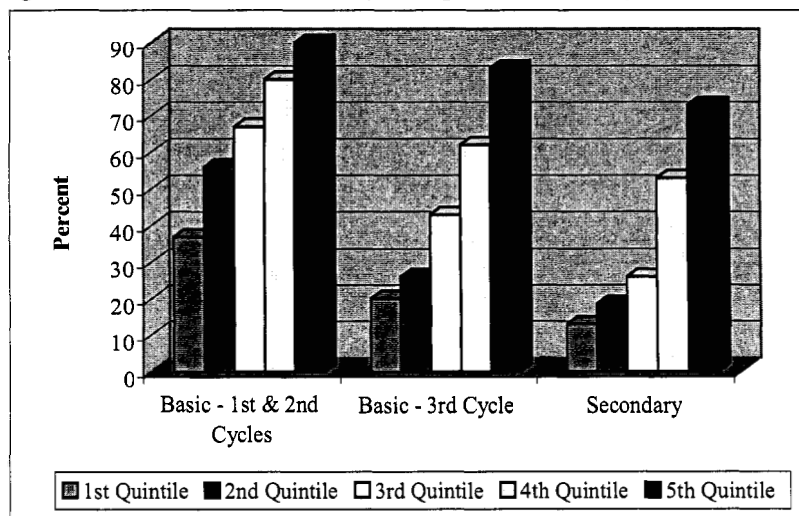
5.19 In terms of an agenda for education to reduce poverty, El Salvador faces several key challenges. Specifically:

- despite overall improvements in basic education coverage and a narrowing of the gap between the poor and non-poor, over 10 percent of all poor children still do not attend school and another 10 percent are not on track for their age;<sup>36</sup>

<sup>36</sup> In 2002, the gross basic enrollment rate was about 89 percent between the bottom two quintiles, indicating that approximately 11 percent of poor children do not attend school (di Gropello 2004). The difference between the gross enrollment rate and the net enrollment rate (Figure 5.1a) indicate the proportion of children who are not “on track”, i.e., not attending the correct grade for their age.

- only about 20 percent of poor children continue on to secondary school, compared to 36 percent among the non-poor (Figure 5.1b);
- less than 50 percent of the poor who enroll in school do not complete the second cycle of basic education, while less than 25 percent complete the 3<sup>rd</sup> cycle of primary (Figure 5.9); only about 16 percent of the poor who enroll in secondary school complete that cycle;

**Figure 5.9: Basic and Secondary Completion Rates, by Quintile, 2002**



Source: di Gropello (2004)

- and, while the quality of education is a system-side challenge in El Salvador (di Gropello 2004; Marques 2004), education quality appears to be particularly so among the poor.

***The costs of schooling are still a barrier among the poor—***

5.20 *Access and affordability.* A large share of Salvadoran youth does not attend school because they cannot afford it. Basic education in public schools is, in principle, free of charge. In practice, however, students have not only indirect costs, such as time that is not dedicated to work, but also direct costs with transportation, materials and contributions to the different school activities. Until recently, school directors frequently asked parents to contribute with payments to help finance school spending. In some cases, parents even paid the salary of the teachers until MINED could assign teachers to the school. In other cases, parents would contribute to school maintenance, purchase of equipment or materials, or to finance extra-curricular activities. In late 2003, however, the National Assembly prohibited schools from asking parents for tuition payments (*cuotas por matricula*), and MINED began transferring additional resources to schools (*bono de gratuidad*) to compensate partly for this loss of financing.

5.21 As for public secondary schools, students are charged a monthly tuition that varies between US\$ 1 to US\$ 15. The amount of the tuition is determined by the School Councils. Low-income students may be totally or partially exempt. Students in the technical/vocational education track usually pay higher fees than those in the academic track.

5.22 When asked, as part of the EHPM 2002, why they did not attend school, about 38 percent of the youth cited either that it was too expensive, that they needed to work in the labor market or

at home, or they reported family reasons associated directly or indirectly with affordability (Table 5.2). The percentage of youth giving these money-related reasons for not attending school increases very rapidly with the age of the cohorts: for those in upper basic and secondary education age group, they reach 48% and 64%, respectively. The magnitudes and patterns are similar between urban and rural areas.

**Table 5.2: Reasons for not Attending School, by Area, 2002**  
(percentages of school age children, 4-18 years)

Years	Too Expensive	Needs to work	Domestic works	Family reasons	Sum 1-4	No School nearby or no available Place	School damaged by earthquakes	Sum 6-7	Parents do not want	Does not want; It is not interested	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
<b>Total</b>	<b>20.5</b>	<b>9.8</b>	<b>3.7</b>	<b>4.2</b>	<b>38.2</b>	<b>2.9</b>	<b>0.1</b>	<b>3.0</b>	<b>10.8</b>	<b>17.0</b>	<b>31.0</b>	<b>100.0</b>
4-6	13.6	0.0	0.0	0.6	14.3	2.9	0.3	3.2	19.8	2.0	60.7	100.0
7-12	36.9	1.8	0.6	4.7	44.1	6.3	0.0	6.3	12.5	20.0	17.0	100.0
13-15	25.4	12.5	5.0	5.0	48.0	2.4	0.0	2.5	3.9	34.7	10.9	100.0
16-18	19.7	25.7	9.6	8.5	63.5	1.4	0.0	1.4	0.9	27.4	6.8	100.0
<b>Urban</b>	<b>20.1</b>	<b>10.8</b>	<b>3.3</b>	<b>4.7</b>	<b>38.9</b>	<b>1.6</b>	<b>0.2</b>	<b>1.8</b>	<b>10.4</b>	<b>13.6</b>	<b>35.3</b>	<b>100.0</b>
4-6	14.8	0.0	0.0	0.8	15.5	1.6	0.4	2.1	19.1	1.5	61.7	100.0
7-12	38.5	0.8	0.2	5.4	44.9	5.1	0.1	5.2	11.8	15.9	22.2	100.0
13-15	26.7	12.6	2.0	5.8	47.1	1.5	0.0	1.5	2.0	32.1	17.3	100.0
16-18	18.7	29.5	10.0	9.7	67.9	0.2	0.0	0.2	0.2	23.4	8.3	100.0
<b>Rural</b>	<b>20.8</b>	<b>9.1</b>	<b>3.9</b>	<b>3.9</b>	<b>37.7</b>	<b>3.7</b>	<b>0.1</b>	<b>3.8</b>	<b>11.1</b>	<b>19.0</b>	<b>28.4</b>	<b>100.0</b>
4-6	12.7	0.1	0.0	0.5	13.3	3.9	0.2	4.1	20.3	2.3	60.0	100.0
7-12	36.3	2.3	0.8	4.5	43.8	6.8	0.0	6.8	12.8	21.8	14.8	100.0
13-15	24.9	12.5	6.3	4.6	48.3	2.9	0.1	2.9	4.8	35.8	8.1	100.0
16-18	20.3	23.2	9.4	7.8	60.7	2.2	0.1	2.3	1.3	30.0	5.7	100.0

Source: di Gropello (2004).

*—but lack of availability of schools does not appear to be a major problem.*

5.23 In contrast, school availability does not appear to be a major reason for not attending school: only 3% of the youth give as reason for not attending school that there is “no school nearby or no space available”, with the percentage being somewhat higher in rural areas relative to urban areas (3.8 percent versus 1.8 percent). The percentage of youth at 3rd cycle (of basic education) age and at secondary school age giving this latter justification is lower than for the primary age group. This is surprising in view of apparent classroom constraints at these levels, particularly in peri-urban areas (di Gropello 2004); it may be that other reasons, such as the costs of schooling, overshadow the issue of school availability in the minds of children and their families. It should be noted that the unavailability of schools owing to the 2001 earthquakes is no longer a significant reason for children not attending school, as over 95 percent of schools damaged by the earthquakes have now been reconstructed.

*Lack of enthusiasm for schooling by children may reflect low perceived return to education*

5.24 Lack of interest in schooling does appear to an important reason for not attending school, however. Over 20 percent of children age 7 and above indicate “lack of interest” as a factor affecting school attendance, with over one-third of children age 13-15 years (the age for the 3rd cycle of basic education) reporting lack of interest as the reason for not attending school (Table 5.2). Why do so many youth have such little interest in studying? A recent study by the World Bank estimates that the private rate of return to an additional year of schooling differs significantly by level of schooling, a factor that may influence perceived value and, thus, interest

in schooling.<sup>37</sup> For primary schooling, the yearly return is estimated at close to 7 percent, while for the 3rd cycle of basic it is only estimated at 4.2 percent. At the secondary level, estimated returns are 11 percent per year, while returns to higher education are even higher. The study concludes that without public intervention, it is unlikely that increases in 3rd cycle or secondary education coverage will be quickly forthcoming.

5.25 Existing public programs to reduce the demand constraints facing the poor have had a positive, albeit limited, impact. There are three scholarships program: 1) the FANTEL scholarships for higher education studies in El Salvador or abroad, which are financed with resources from the privatization of the telecommunication company, ANTEL; it awards about 200 scholarships a year; 2) the Rodriguez Porth scholarships for low-income/high-achieving secondary graduates that finances about 80 scholarships a year;<sup>38</sup> and 3) the secondary education scholarships financed with the support of a World Bank loan; the latter has awarded about 4,000 scholarships over the last 4 years and about 500 scholarships in 2003. While scholarships and related measures to reduce demand-side constraints have great potential to improve schooling outcomes among the poor, their impact to date has been limited largely by a relative lack of resources.<sup>39</sup>

***Quality of education may be lower for poor children***

5.26 *Quality.* An ongoing GOES priority for the education sector is the improvement of school quality. And while improving quality is an important challenge for the entire sector, data indicate that this is a particular challenge with respect to the poor. Data on El Salvador's PAES test scores, by department, indicate that average educational achievement is systematically worse in lower income departments (Figure 5.10). While these patterns could reflect other factors besides education quality – for example, the household learning environment – at least some portion of this difference is likely attributable to differences in the quality of education across poor and non-poor areas.

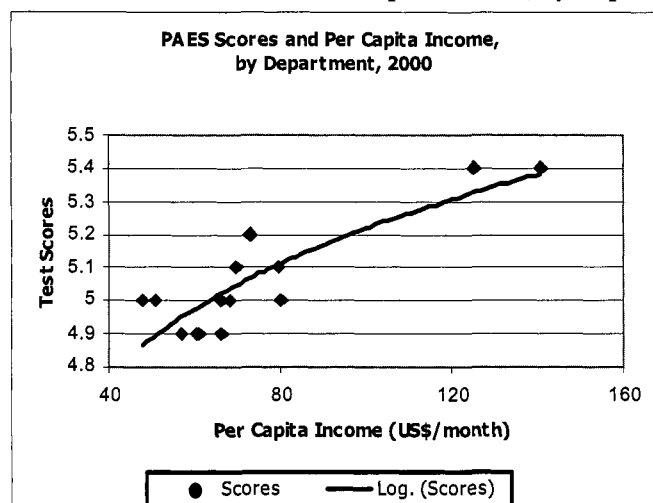
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<sup>37</sup> World Bank, *El Salvador Country Economic Memorandum*, Report No. 26238, 2003, Chapter VI, Volume II.

<sup>38</sup> The Presidency of the Republic also gives Excellence Awards (US\$ 114 per student) to the 500 most outstanding basic education students.

<sup>39</sup> In addition, in the case of the FATEL scholarships for higher education, they are not targeted toward the poor, per se.

**Figure 5.10: PAES Test Scores and Per Capita Income, by Department, 2000**



Source: Marques (2004).

5.27 Analysis of the EHPM data indicates, moreover, that returns to education in the labor market are systematically lower among the poor than among the non-poor. Specifically, the returns to each year of basic and secondary education are about half a percentage point lower for workers from households in the poorest quintile than for those from the wealthiest households. Moreover, the gap in the marginal returns to college education between the poorest and richest households is nearly 1 percentage point (Arias 2004).<sup>40</sup> Again, these differential returns to education among the poor and the non-poor may reflect one or more of several factors that cannot be measured easily in the available data, such as school quality, labor market connections, or the household learning environment in poor versus non-poor households. Nonetheless, the evidence suggests that at least some portion of this difference is due to a lower quality of education received by the poor, on average.

#### Directions for public policy

##### ***Fostering an education system that works for all Salvadorans, including the poor—***

5.28 The new government's plan – Safe Country, 2004-2009 – calls for the development and implementation of a new National Education Plan 2004-2021, which can continue to command a broad-based consensus and that will serve “as a renewed vision for sector development” for strengthening education access and quality. To promote a system of education that works for all Salvadorans, including the poor, it will be important for the Government to take measures to:

- Continue to improve access to basic education among the poor.
- Increase completion and graduation rates at basic level.

<sup>40</sup> While half a percentage point or one percentage point *per year* may not sound like a large amount, the effect is cumulative and, so, builds up over the course of the many years of education from basic to university level.

- Undertake efforts to bring more grade 9 aged students from poor households into the secondary education system, as part of a broader effort to increase secondary enrollments and achievement for all Salvadorans.
- Improve education quality at all levels of education.

5.29 These measures will be important to strengthen the capabilities of the poor and to ensure that the poor are able to take best advantage of emerging economic opportunities in El Salvador. Moreover, these measures coincide largely with the education agenda spelled out in the World Bank's recent Country Economic Memorandum (2003) to promote faster growth in El Salvador. So there are important synergies with respect to education-for-growth and the education-for-poverty reduction agendas.

*—calls for measures to improve access, affordability, and quality of education—*

5.30 To ensure that the poor have increased access to education, it will be important to take measures to ensure that the most poor and vulnerable households can afford to send their children to school. In this context, increased investments in targeted scholarships and other programs to reduce the demand-side constraints facing poor children and their families is warranted.

5.31 Although households do not commonly report lack of availability of schools as an important constraint to school participation, evidence from a recent World Bank study on the education sector (di Gropello 2004) does suggest that this is still an issue in some circumstances. For example, although the recent expansion of primary school infrastructure in rural areas has largely removed primary school availability as a major barrier among the rural poor, there is some evidence that a lack of classrooms remains a problem in some peri-urban areas. Moreover, lack of availability of schools in some rural areas does remain an important issue at the secondary level. As such it will also be important to strengthen programs of school construction and rehabilitation in areas where supply constraints appear to be binding. In this regard, there may also be scope for developing public-private partnerships to exploit excess capacity of private schools in some areas (di Gropello 2004).

*—which will require additional resources—*

5.32 Meeting the education goals outlined above will require additional resources. Simulation analysis was undertaken to estimate the likely fiscal costs of achieving universal primary school completion (i.e., the first two cycles of primary education) as well as to assess the likely costs of attaining universal basic coverage (i.e., all three cycles) *plus* 70 percent coverage at the secondary school level by 2015. Cost estimates for achieving universal primary school completion (MDG2) were made assuming the introduction of additional scholarships for the poor as well as the implementation of quality enhancing measures. In the case of achieving universal basic coverage and 70 percent enrollments at the secondary level, several scenarios were run using alternative assumptions about the roles of public versus private provision of education and about the use of traditional versus non-traditional models of the provision of education (e.g., EDUCO).<sup>41</sup>

5.33 The estimates suggest that achieving 100 percent completion rates at the primary level could be achieved if spending on primary education were increased by about 0.5 percent of GDP between now and 2015. If spending increases were only focused on primary schooling, this would imply increasing education sector spending from 3.2 percent of GDP (realized in 2003) to 3.7 percent in 2015. Financing the more ambitious goals of universal basic coverage, plus 70 percent enrollment at the secondary level, while ensuring the necessary quality improvements, would require larger increases in education spending. Indeed, the simulations suggest that it would be necessary to increase the overall education budget to about 5 percent of GDP by 2015.

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<sup>41</sup> For further details on assumptions and methodology, see di Gropello (2004).

As spending increases, it would be necessary as well to increase the share of upper basic and secondary education spending in the total education budget (to about 17% and 15%, respectively, by 2015).

*—and strategic partnerships between the private and public sectors.*

5.34 While increased public spending will be important to improving education outcomes in El Salvador – both nationally and among the poor – the different scenarios estimated highlight the importance of the private as well as the public sector in making education work for *all* Salvadorans. Indeed, the analysis suggests some potential for cost savings as well as scope for spending efficiency gains through strategic partnerships between the public and private sectors in the financing and provision of education services.<sup>42</sup>

## VI. HEALTH

*Good health is fundamental to people's well-being and a critical input into poverty reduction*

6.1 Good health is a basic part of people's well-being and is valued for its own sake. Good basic health is also essential for people to participate fully and productively in society and in the economy and is, thus, a critical input into poverty reduction. There is no simple relationship between health sector policy and programs and health outcomes, however. Health outcomes are a function of a multiplicity of factors, including the availability and quality of health care services, access to potable water, family health knowledge and health care practices, as well as household income (ability to afford health care, including proper medications, and so on). Health sector actions are, thus, one of several key inputs into improving basic health outcomes among the poor.

6.2 In chapter 7, the role of access to potable water and sanitation in helping to improve health outcomes and reduce poverty is discussed. This chapter focuses more on the health sector. Specifically, this chapter examines: (1) recent developments in health outcomes; (2) the role that public actions have played in recent progress, with special emphasis on public education spending; (3) key challenges for El Salvador with respect to ensuring basic health for the poor; and (4) policy directions for meeting those challenges.

### *Recent developments*

*Good progress in improving most health care indicators—*

6.3 During the 1990s, El Salvador made progress in life expectancy, infant mortality rates and children immunization, but progress in reducing child malnutrition has lagged. Table 6.1 shows key health indicators for El Salvador, Costa Rica, and LAC. El Salvador's life expectancy and infant mortality rates improved during the 1990s and these indicators are now similar or better than LAC. Moreover, they are higher than would be expected given El Salvador's per capita income levels (Todd and Hicks 2003). The prevalence of chronic child malnutrition (height for age) and of underweight children under 5 (weight for age) have also declined, although more slowly. While region-wide comparisons are not possible, data from Costa Rica indicates that malnutrition remains considerably higher in El Salvador. Indeed, nearly one in five Salvadoran children still experience chronic malnutrition (or "stunting"). HIV/AIDS prevalence is estimated

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<sup>42</sup> Among other things, there appears to be scope to take advantage of existing excess capacity (supply of classroom space) among private schools in El Salvador to promote greater education coverage, including among the poor. For further details, see di Gropello (2004).



at 0.7 percent of the population, which is about average for Latin America and for Lower-Middle Income Countries more broadly.<sup>43</sup>

**Table 6.1: Key Health Indicators, early 1990s – early 2000s**

	Life expectancy at birth (years)		Infant Mortality Rate, (deaths per 1,000 live births)		Under-5 Mortality Rate, (deaths per 1,000 live births)		Chronic Malnutrition (Children under 5)		Percentage Underweight (Children under 5)		Prevalence of HIV/AIDS (percent)	
	1990	2002	1993	2002	1993	2002	1993	2002	1993	2002	1990	2003
El Salvador	65.6	70.1	41	25	52	31	23.3	19.6	11	10	n/a	0.7
Costa Rica	75.4	77.6	13.7	9	26	11	6*	n/a	2.8	n/a	n/a	0.6
Latin America	67.9	70.7	39.5	27.5	84	34	19*	n/a	9*	n/a	n/a	0.7
Lower Middle Income Countries	65	69	55	33	83	41	17*	n/a	10*	n/a	n/a	0.7

Note: \* indicates most recent estimate, 1993-2001.

Source: World Bank, WDI (2002, 2003, 2005); *Encuesta Nacional de Salud Familiar*/National Family Health Survey (FESAL, 2002/2003).

6.4 Several other indicators, which can generally be taken to reflect health service access and delivery, have also improved over the decade (Table 6.2). The proportion of births attended by trained health providers has increased, as has the prevalence of contraceptive use. DTP immunization in 2002 was 93 percent for children under 12 months, a drop from 98 percent in 1990 – although it is still above the Latin America and Caribbean average.<sup>44</sup>

**Table 6.2: Health Service Access Indicators, early 1990s – early 2000s**

	Births attended by skilled health staff (% of total)		Measles Immunization % Children under 12 months		DTP Immunization % of children under 12 months		Contraceptive Prevalence (% of women age 15-49)	
	1993	2002	1993	2002	1993	2002	1993	2002
El Salvador	51	69	98	99	98	93	53	67
Costa Rica	n/a	98*	90	82	95	88	n/a	80
Latin America	n/a	n/a	76.7	91.1	70.7	88.6	n/a	40
Lower Middle Income Countries	n/a	n/a	n/a	84	n/a	83	n/a	61

Note: \* indicates most recent estimate, 1993-2001.

Source: FESAL (2002/2003); World Bank, WDI (2003).

<sup>43</sup> This average hides high prevalence among one particularly high risk group, men who have sex with men. A recent PASCA Multi-site Survey found the HIV prevalence to be 17.7 percent in El Salvador, higher than in Honduras (13 percent), Panama (10.6 percent), Guatemala (11.5 percent), and Nicaragua (9.3 percent). No data are available yet for Costa Rica.

<sup>44</sup> According to MSPAS there has been no recorded case of measles since 1996, when the triple viral vaccination (MMR/measles, mumps, and rubella) was introduced; in 2002, the ministry introduced the multipurpose vaccination which protects children against five different diseases.

*—but there remain notable differences across regions and socio-economic groups*

6.5 Despite the general progress in health indicators, substantial differences remain in health outcomes across different regions and socio-economic groups. The prevalence of child mortality is 52 percent higher in rural areas than in urban areas (Fiedler 2004). And although the gap has been closing in recent years (Figure 2.5), infant mortality is almost twice as high for low-income families as for those with higher incomes (FESAL-2002/03). Chronic malnutrition among the poor is about 40 percent higher than average national levels, with a wide variance across regions. Over 15 percent of children of low-income families are underweight, while less than 4 percent of children from wealthier households experience low weight for age.<sup>45</sup>

6.6 Similar patterns across socio-economic groups are found with respect to health service access. Salvadorans in the highest income quintiles are one-third more likely to receive medical care when ill than those in the poorest quintiles.<sup>46</sup> FESAL-2002/03 indicates that about 20 percent of expectant mothers from low-income households had no prenatal care visits, compared with only 4 percent of expectant mothers from better-off households. And, while 93 percent of the better-off mothers delivered in a hospital, only 52 percent of low-income mothers had institutional deliveries.

#### Recent public action

##### *El Salvador's public health system is comprised of multiple institutions at multiple levels*

6.7 The health sector in El Salvador comprises the MSPAS, the Salvadoran Social Security Institute (ISSS), the military health facilities, the private sector and over 30 NGOs that provide mostly primary healthcare services. Total health spending has been distributed as follows: 22.1 percent MSPAS; 18.4 percent ISSS; 56 percent household out of pocket expenditures; 2.4 percent private insurance; and 0.2 percent NGOs.<sup>47</sup> ISSS is financed by payroll taxes and caters to formal sector employees and their families covering about one million people (17 percent of total population); MSPAS is financed from government revenue and external loans and grants.

6.8 MSPAS has 30 hospitals (27 general hospital and 3 specialized), 367 health centers, 171 health clinics (*casas de salud*), and 47 rural health and nutrition centers, and 2 centers for emergency attention; the ISSS has 16 hospitals, 70 health centers and 170 enterprise clinics; the military has three hospitals; and the private sector has 36 hospitals. ISSS has rented several MSPAS facilities, including most recently a full hospital (*Hospital de Especialidades*) in San Salvador<sup>48</sup>; ISSS rental of MSPAS hospitals was scheduled to end at the end of 2004, however.

6.9 The public health infrastructure was severely damaged by the 2001 earthquakes. The first earthquake on January 13 left two MSPAS hospitals severely damaged and another six hospitals partially damaged, requiring full or partial evacuation. The most badly damaged hospitals continued to operate under provisional structures, while the rest reduced their operations. The second quake on February 13 left more than 2,000 hospital beds out of service, which compares

<sup>45</sup> As noted in Chapter 2, the FESAL publications differentiate outcomes across three different socio-economic levels: "low", "medium", and "high". This contrasts with the standard analyses undertaken using the EHPM data. Those analyses compare outcomes across the "poor" and "non-poor", based on the official Salvadoran poverty line or examine outcomes across income quintiles of the population.

<sup>46</sup> An Earthquake Emergency Reconstruction and Health Service Extension Project, Project Appraisal Document (Report NO. 22626-ES), October 31, 2001.

<sup>47</sup> Institutional Development Strategic Plan, MSPAS, October 2001

<sup>48</sup> The *Hospital de Especialidades* (or Specialty Hospital) was built after the 1986 earthquakes with a grant from France. It was to replace the Rosales Hospital that was severely damaged by the earthquake. The authorities decided not to close the Rosales and since MSPAS had no resources to operate both hospitals, it decided to rent the *Hospital de Especialidades* to ISSS. The proceeds from hospital rental have gone to the Salvadoran Treasury.

to the 4,843 MSPAS hospital beds in 2000.<sup>49</sup> Altogether, the two earthquakes damaged 24 hospitals, 98 health centers, 4 health clinics, and 5 rural health and nutrition centers.<sup>50</sup>

*Achieving consensus on the direction of health sector reforms has been elusive*

6.10 In contrast to the education sector, there has been no national consensus on the direction of reform of the health sector. During the 1990s there were several proposals to reform the sector that did not prosper. In 2000, a Presidential Commission for Health Sector Reform produced a diagnostic of the sector and some guidelines for sector reform<sup>51</sup> but failed to reach agreement on key issues, such as those related to the financing of the sector. In September 2003, the President appointed another Commission to follow up on the Reform of the Health Sector, which has organized five working groups (*Comisiones Especiales*) to seek a broader consensus on the direction of the reform. These working groups are on: financing, human resources, organization, social participation, and legal issues.

6.11 Historically, hospitals in the major urban centers and particularly in the capital city of San Salvador absorbed the bulk of public health resources in detriment of primary healthcare and the rural areas, where most of the poor live. During the 1990s, MSPAS sought to improve healthcare services in rural areas by expanding infrastructure, hiring health promoters and training midwives. While progress was made, especially in terms of immunizations and infant mortality rates, many remain without access to health services. Indeed, the presence of MSPAS promoters in the communities has had only limited impact on access to basic health care among the poor. In addition, efforts to increase demand for basic health services by the poor have been hampered by perceptions of low service quality, in part because of the low and irregular availability of and long waits for medication.<sup>52</sup>

*Efforts have been made to decentralize the system—*

6.12 MSPAS' Institutional Development Strategic Plan of October 2001 seeks to address these problems by changing the organization and delivery of health services through: i) a community-based approach to primary care provision; ii) a functional planning approach that specifies the functions (such as the projected volume of procedures, equipment requirements, patient flows, service definition, numbers and categories of staff, and inter-hospital referrals) that will take place in the health facilities; and iii) closer ties between hospitals and primary care providers by decentralizing a subset of management functions, improving the referral system and raising quality of care.<sup>53</sup>

6.13 The cornerstone of the Plan is the establishment of Basic Systems of Integral Health Attention (SIBASI) or health district units, which would replace the Departmental management units, and the introduction of a new model of health service management in which the financing and the provision of services may be performed by different institutions. The SIBASI would be the basic operative structure of the reformed public health service. MSPAS will continue to have the responsibility for the financing but the provision of services may be done by an NGO, as well

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<sup>49</sup> For estimates of the damage, *Earthquake Emergency Reconstruction and Health Services Extension*, Project Appraisal Report, World Bank, page 3; for number of existing hospital beds, Institutional Development Strategic Plan, MSPAS, October 2001.

<sup>50</sup> Data provided by MSPAS, October 2004.

<sup>51</sup> The agreed guidelines are: Consolidate a National Health System; consolidate an attention model based on the promotion, prevention and primary health care; consolidate a mixed provision model (public and private); consolidate a model under the direction of the MSPAS; institutionalize social participation and decentralization as transversal systems; invest in human resources for health; strengthen intersectoral coordination; and guarantee basic services to all Salvadorans.

<sup>52</sup> See *Earthquake Emergency Reconstruction and Health Service Extension Project*, Project Appraisal Document (Report NO. 22626-ES), October 31, 2001. See also Table 6.7, below.

<sup>53</sup> Ibid.

as by the private sector. In addition, the Strategic Plan calls for developing and implementing performance agreements and contracts and an incentive scheme to make health providers accountable to both the MSPAS and service users and introducing community participation in basic health and nutrition service delivery.<sup>54</sup>

***—and to strengthen community-based approaches to primary care provision***

6.14 MSPAS has established 28 SIBASI and has prepared the operational protocols. The purpose is to provide integral services to the population through the coordination of primary healthcare and general hospital care in the delimited geographic areas under the responsibility of each SIBASI. Within the SIBASI area, a network of health providers and a general hospital will work in a coordinated manner, avoiding duplication of efforts, and referring cases to the three specialized hospitals in San Salvador, through a National Reference Center. The impact of the health providers' work on the health status of the population under their responsibility will be monitored. The management functions related to planning of activities, provision of services and decisions concerning human, technological, and financial matters are being transferred to the SIBASI. Each SIBASI has a Managing Committee, which is advised by a Social Consultation Committee. The Managing Committee comprises representatives of the SIBASI's health providers and the SIBASI manager. Technical, financial and administrative teams support the manager. The SIBASI health providers include NGOs, the ISSS, the MSPAS, the private sector and others. The organizational development of the 28 SIBASI varies. In some SIBASI there is already a strong NGO presence and community participation; in others the organization is still incipient.

***But lack of data has made it difficult to assess the impact of recent reforms***

6.15 Implementation of the Strategic Plan and, in particular, the SIBASI model has potentially important implications for the performance of El Salvador's public health system. Yet, relatively little systematic information exists to date on the extent to which the Plan has been implemented and, more importantly, on how the reform is contributing to (i) the overall performance of health system, and (ii) improved access and quality of healthcare for the poor. In this context, it will be important to review the institutional reform process to assess its impact on the availability and quality of care, the balance between primary healthcare and hospital care, and the overall management of the public health system.

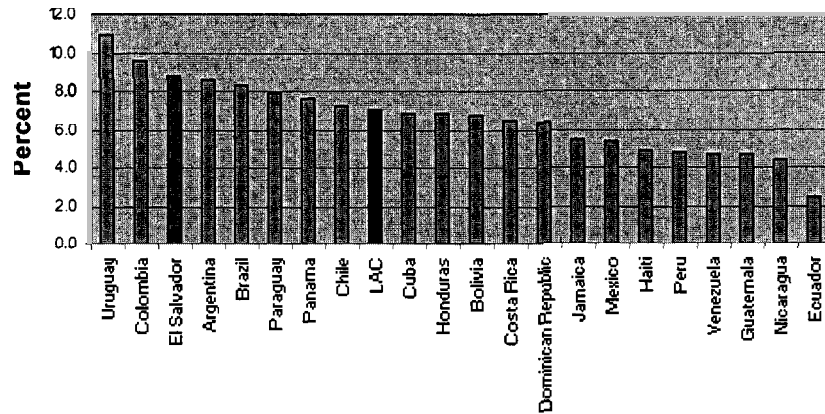
***Total health spending (public plus private) is high by regional standards—***

6.16 Health spending. Total Salvadoran health spending, including private and public spending is relatively high by Latin American standards. The World Development Indicators (2003) reports that El Salvador spent 8.8 percent of GDP on health in 2002 (3.8 percent public spending and 5 percent private spending), nearly 2 percentage points higher than the average for Latin America and the Caribbean (LAC) of 7 percent (Figure 6.1). This figure represents, in part, high private spending on health care. When only public sector spending is taken into account, El Salvador's rank in the region falls – although public health spending is still slightly above the regional average (Figure 6.2).

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<sup>54</sup> “SIBASI: Marco Conceptual y Operacional”, versión revisada, MSPAS, 2001.

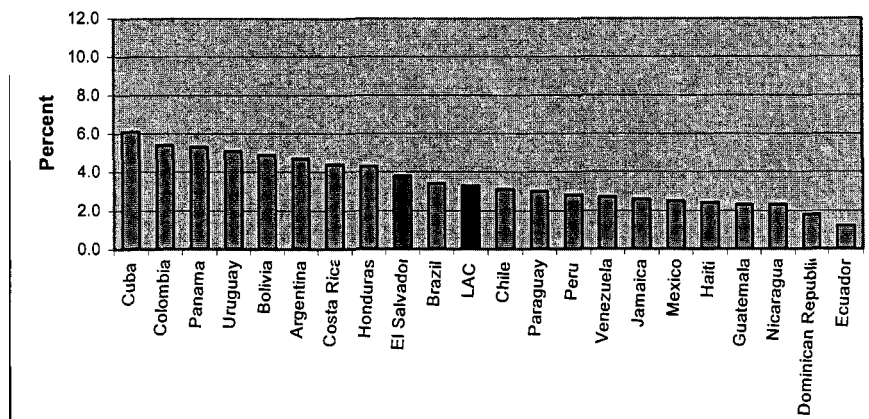
**Figure 6.1: Total Health Spending (Public and Private)  
as a Proportion of GDP, 2000**



Note: Total health expenditure is the sum of public and private health expenditures. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation. Private expenditure includes out-of-pocket and private health insurance plans.

Source: World Bank, WDI, 2003.

**Figure 6.2: Public Health Spending as a Proportion of GNP  
2000**

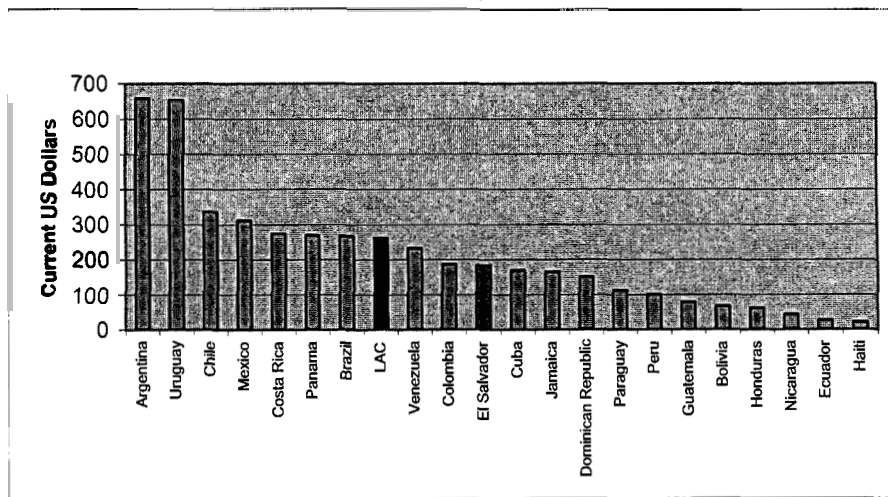


Source: World Bank, WDI, 2003

—although public health spending per capita is relatively low

6.17 Given El Salvador's low GDP per capita, its total health spending per capita is much lower than Costa Rica or LAC, however.<sup>55</sup> Figure 6.3 shows that in 2000, Costa Rica and LAC spent 52 and 42 percent more on a per capita basis than El Salvador. Since public spending in El Salvador is much lower than Costa Rica, per capita public spending is just a fraction of that country, which impact on the coverage and quality of public health services, particularly of the poor.

Figure 6.3: Health Spending Per Capita, 1997-2000



Source: World Bank, WDI, 2003.

6.18 MSPAS estimates total health spending at 8.0 percent of GDP in 2001 (Table 6.3). This is somewhat lower than the figure for 2000 reported in the *World Development Indicators* (2003), although the split between public and private spending is generally consistent across the two sources. Of total health spending, 46 percent was public spending – of which 47.4 percent came from the treasury (e.g., MSPAS, military, teachers, etc.), 44.5 percent from ISSS, 2 percent from external sources, and 6.1 percent from other sources (including, for example co-payments by beneficiaries).

<sup>55</sup> In 2000, WDI shows total population of El Salvador and Costa Rica at 6.3 million and 3.8 millions, respectively; El Salvador GDP at US\$ 11 billion and Costa Rica GDP at US\$ 14 billion (in 1995 US\$); and per capita GDP in El Salvador, Costa Rica and LAC at US\$ 1,752, US\$ 3,912 and US\$ 3,856, respectively (all in 1995 US\$).

**Table 6.3: Public and Private Health Spending and Sources of Financing, 1996-2000**

	1996	1998	2001
<b>Total Spending % GDP</b>	<b>7.6</b>	<b>8.3</b>	<b>8.0</b>
<b>Public Spending % of Total</b>	<b>41</b>	<b>42.5</b>	<b>46.4</b>
Central Government Financing <sup>a/</sup> , % public spending	(44.6)	(47.1)	(47.4)
External resources, % public spending	(11.9)	(6.8)	(2)
Other, % public spending <sup>b/</sup>	(0.6)	(4.4)	(6.1)
<b>Private Spending % of Total</b>	<b>59</b>	<b>57.5</b>	<b>53.6</b>
Private Insurance % private spending	(2)	(3.3)	2.6
Out-of- Pocket, % private spending	(97.7)	(96.7)	97.4

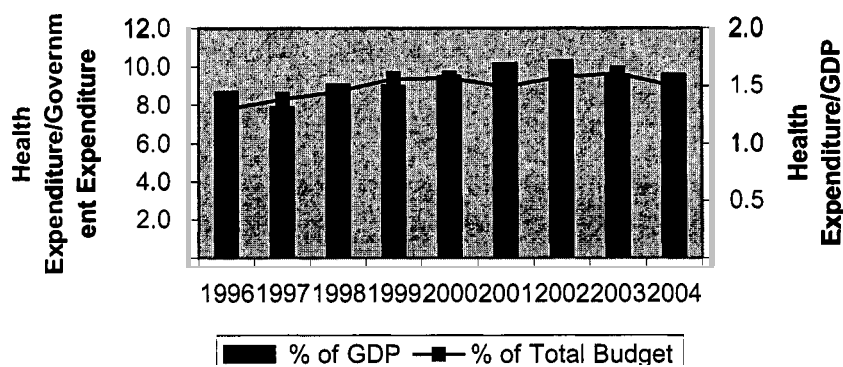
a/ Central Government Fiscal Resources.

b/ Other sources may include co-payments by the beneficiaries.

Source: Marques (2004), citing *Cuentas Nacionales en Salud, MSPAS, mayo 2003*.

6.19 The MSPAS budget has remained a relatively constant share of GDP in recent years, hovering around 1.6 percent. As a share of the Central Government budget, however, it has increased somewhat – from 7.8 percent in 1996 to 9.7 percent in 2003 (Figure 6.4). For 2004, the proposed MSPAS budget is equivalent to 1.6 percent of GDP and to 9 percent of the Central Government budget.<sup>56</sup>

**Figure 6.4: MSPAS Expenditures, 1996-2004, as a Percent of GDP and of Total Government Spending**



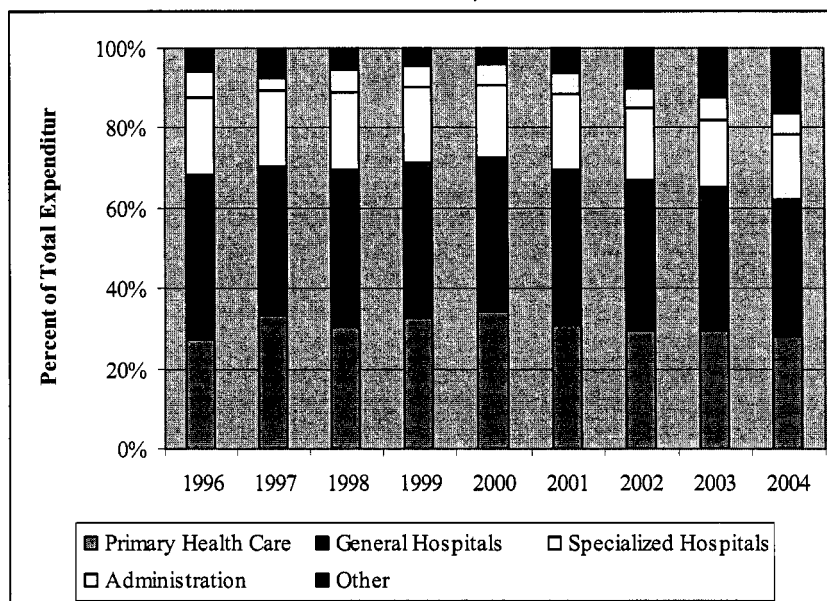
Source: Marques (2004), based on data from Ministry of Finance (1996-2001: executed budget; for 2002-2003, approved budgets; for 2004, proposed budget).

<sup>56</sup> The World Health Report (2002) shows that health expenditures by the General Government, which includes the Ministry of Health and other autonomous public institutions such as the social security, as a percentage of total General Government expenditures was much higher in El Salvador than other Central America Countries in 2002: El Salvador, 26.2 percent; Honduras, 18.3 percent; Costa Rica, 18.2 percent; and Guatemala, 16.4 percent.

***Investment spending has increased following the 2001 earthquakes—***

6.20 *Patterns of public spending by level of service.* Traditionally, MSPAS has classified healthcare in three levels: Level I or primary healthcare; Level II or general hospital care; and Level III or specialized hospital care. Figure 6.5 presents the distribution of MSPAS approved budget for these levels of health care, for administration, and “other” expenditures that include transfers to other entities and investment expenditures. While the bulk of MSPAS resources continued to be allocated to hospital care (56 percent on average during the 1996-2004 period), the share going to hospitals has tended to decline; specialized hospitals’ share of total budget declined from about 19 percent in 1996 to 16 percent in 2004 and general hospitals’ share declined from 41 percent to 34 percent during the same period. The share of spending on primary health care, increased from 27 percent in 1996 to nearly 35 percent in 2000, but declined again thereafter, equaling 28 percent of total spending in 2004. According to MSPAS data, the share allocated for administration has declined slightly over the period, from 6.6 percent of total spending in 1996 to 5.3 percent in 2004. “Other” spending, which includes investment spending, among other things, nearly tripled its share in the total budget, from 6.6 percent in 1996 to 16.2 percent in 2004. This has been driven to a large degree by increases in investments, particularly on earthquake reconstruction. While greater investments have accompanied the declining share of spending on hospitals, pre-earthquake spending trends also suggest that the share of spending on primary care is currently lower than it would have been in the absence of the quakes.

**Figure 6.5: MSPAS Expenditures by Level of Attention and Administration, 1996-2004**



Note: Refers to approved budget. Primary healthcare includes level I (public health and primary care in health units); general hospital care includes level II; specialized hospitals include level III. Administration spending refers to that incurred by MSPAS at the central government level. Other includes transfers to other entities and investment expenditures.

Source: Institutional Finance Unit (Unidad Financiera Institucional), MSPAS.



***—nonetheless, public health expenditures have generally been pro-poor—***

6.21 *Has public health spending been pro-poor?* As will be discussed further below, only 17 percent of the Salvadoran population is covered by the ISSS, and the poor make up only a small share of those covered. Since public spending on the ISSS makes up nearly half of total public health spending, it is unlikely that the poor benefit from a disproportionate share of total government spending on health. Nonetheless, the evidence indicates that MSPAS spending has been relatively pro-poor.

6.22 This is due, in part, to the fact that MSPAS facilities play a relatively more important role in the health care of the poor. Indeed, while the poor make up about 37 percent of the population, they account for 53 percent of all visits to MSPAS facilities (Table 6.4). The poor's share of MSPAS service utilization varies quite considerably across levels of service, however. As can be seen in Table 6.4, although the poor account for 73.5 percent of all visits to Health Units, they make up less than half (47.5 percent) of visits to hospitals.

**Table 6.4: Distribution of Persons that Visit MSPAS Facilities by Income Group, 2002**

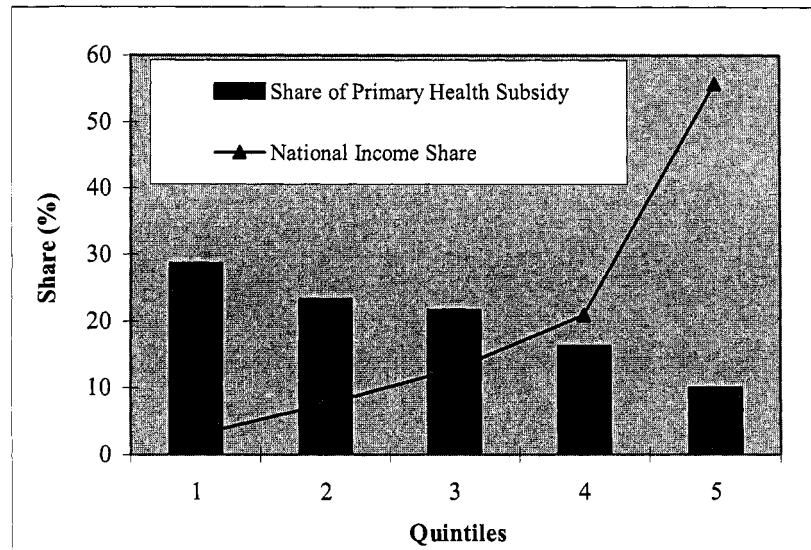
	Hospitals	Health Centers	Health Units	Total
National	100.0	100.0	100.0	100.0
Poor	47.5	55.6	73.5	53.3
Extreme poor	21.3	26.8	44.0	25.3
Relative poor	26.2	28.8	29.5	28.0
No poor	52.5	44.4	26.5	46.7

Source: Marques (2004), using EHPM data.

***—particularly at the primary care level—***

6.23 Analysis of the distribution (or benefit incidence) of public spending to primary health care is strongly pro-poor, where, as in the case of education, "pro-poor" is defined as the poor receiving a larger share of the benefits of public spending than their population share (Figure 6.6). As can be seen in Figure 6.6, the poorest 20 percent of the population receive roughly 29 percent of the benefits of primary health care spending, while the second quintile receives about 23 percent of the benefits.

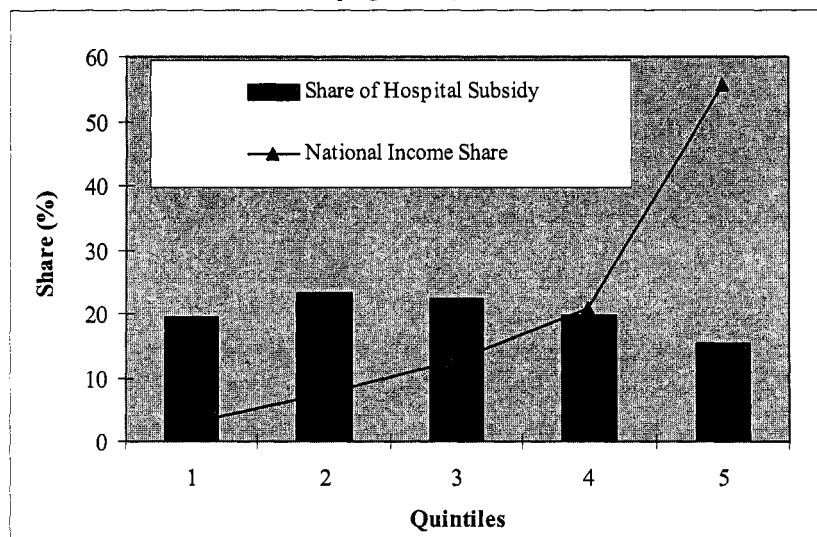
**Figure 6.6: Distribution of Public Subsidy to Primary Health Care, By Quintile, 2002**



Source: Marques (2004); estimations by FUSADES, using EHPM data.

6.24 While the distribution of the benefits of public spending to hospital care is enjoyed relatively more by those in the middle quintiles, spending can also be considered to be reasonably pro-poor (Figure 6.7). While those in the first quintile receive just under their population share of the benefits of public hospital spending (19.4 percent), the bottom 40 percent of the population receives nearly 43 percent of all the benefits of public spending on hospitals.

**Figure 6.7: Distribution of Public Subsidy to Hospital Care, By Quintile, 2002**



Source: Marques (2004); estimations by FUSADES, using EHPM data.

—*and in rural areas.*

6.25 As in the case of education, the pro-poor nature of public spending in health is driven largely by the benefit incidence of public spending among rural households. In rural areas, for example, about 45 percent of the benefits of MSPAS spending on primary health care went to those in the poorest quintile in 2000, while nearly 42 percent of MSPAS spending on hospitals went to the poorest quintile (Mason, Torres, and Aterido 2004). The corollary of this is that in urban areas, MSPAS spending on primary health care benefits the middle three quintiles most, whereas spending on hospital care disproportionately benefits the top three quintiles.

#### Ongoing challenges

6.26 Despite recent progress, El Salvador continues to face significant challenges in improving health outcomes, especially among the poor. Increased access for those who currently lack it, affordability, and service quality are all key issues. Moreover, several of El Salvador's accomplishments have created a new set of health care challenges. This is because with some health issues, such as malnutrition and infant and child mortality, it is often more straightforward to improve indicators when the problem is really extensive than when the problem exists at lower levels. For example, recent gains in infant and child mortality have come as a result of significant reductions in so-called "soft" mortality – in the post-neonatal or 1-to-4 year age groups. Indeed, with these gains, neonatal mortality – or so-called "hard" mortality – has become an increasing proportion of all infant and child mortality. But successfully addressing "hard" mortality is more difficult, and will require improvements not only in the outreach and quality of El Salvador's primary healthcare system, but in its hospital care as well.

6.27 In the paragraphs that follow, the challenges of access, affordability, and quality are addressed in turn.

#### *Nearly a quarter of the Salvadoran population lacks full access to basic health services*

6.28 Access and Affordability. The coverage of the health system is still inadequate. Table 6.5 shows that fewer than 20 percent of Salvadorans have access to medical insurance. The ISSS covers 17 percent of the Salvadoran population; private and institutional insurance another 1.8 percent; and the remaining 81.3 percent has no insurance. The uncovered population is even higher among the poor – 90.9 percent among the moderate poor and 97.3 percent among the extreme poor. It is the responsibility of MSPAS to cover the population without insurance, especially the poor. Nevertheless, it has been estimated that 24 percent of the population still do not have access to health services or only have limited access.<sup>57</sup>

**Table 6.5: Population Covered by Medical Insurance, 2002**  
(percent of total population)

Poverty Level	Without Insurance	ISSS		Institutional Insurance	Private Insurance
		Affiliate	Beneficiary		
Total Population	81.3	11.4	5.6	1.7	0.1
Poor (all)	93.8	3.6	2.3	0.3	0.0
Extreme Poor	97.3	1.7	0.8	0.2	0.0
Relative Poor	90.9	5.1	3.6	0.4	-
Non Poor	71.9	17.2	8.0	2.8	0.1

Source: Marques (2004), using EHPM data.

<sup>57</sup> *Human Development Report 2003* (UNDP).

6.29 Indeed, substantial differences remain between the access of the poor and the better off to health services. Salvadorans in the highest quintiles are one-third more likely to receive medical care when ill than those in the poorest quintiles.<sup>58</sup> And as noted above, there remain important gaps between the poor and non-poor in access to reproductive health care services, such as pre-natal visits and institutional deliveries (FESAL 1998). When ill, 14 percent of the poor go to private or NGO facilities rather than to MSPAS facilities (Table 6.6).

**Table 6.6 Establishment that Visited When Ill, 2002  
(Percent of Ill)**

Poverty Level	MSPAS	ISSS	Private	NGO or Other
Total	67.5	10.2	17.1	5.3
Poor (all)	81.3	4.5	9.6	4.6
Extreme Poor	86.2	1.2	7.5	5.1
Relative Poor	77.4	7.1	11.2	4.3
Non Poor	56.5	14.7	23.1	5.7

Source: Marques (2004) using EHPM 2002.

***Both direct and indirect costs can be barriers to health care access among the poor***

6.30 One-quarter of the poor and nearly one-third of the extreme poor do not seek help from MSPAS facilities because of the financial costs (Table 6.7). In an effort to reduce financial barriers to healthcare access among the poor, payments to health centers were legally eliminated by Executive Decree in June, 2002. Reports from the field indicate, however, that in practice fees continue to be charged at many health centers. The actual extent of this practice requires further investigation. In addition, the indirect costs of using health centers, such as travel time and the costs of transport also affect affordability of health care services among the poor. Indeed, the poor report travel times to the nearest health facility that are 17-50 percent longer than those reported by the non-poor, indicating higher time (and probably financial costs) of accessing basic health services.<sup>59</sup>

**Table 6.7 Motives for Not Visiting MSPAS Establishments, 2002  
(Percent of Ill)**

Poverty Level	Not necessary	Lack of money	Center too far; Center has no medicines; lack of attention	Does not trust; prefers to take domestic medicine; other
Total	43.8	15.6	23.3	17.3
Poor (all)	42.2	25.3	19.1	13.3
Extreme Poor	36.2	30.1	18.8	14.9
Relative Poor	47.7	20.8	19.4	12.1
Non Poor	45.1	7.3	26.9	20.7

Source: Marques (2004), using EHPM 2002.

<sup>58</sup> An Earthquake Emergency Reconstruction and Health Service Extension Project, Project Appraisal Document (Report NO. 22626-ES), October 31, 2001.

<sup>59</sup> World Bank staff calculations, using 2002 EHPM data.

***Low quality of care appears to undermine trust in the public health system***

6.31 In addition, one in every three poor person who gets ill, does not trust the public system and/or prefers to seek cures in alternative ways. Indeed, several factors appear to adversely affect service quality and, thus, people's confidence in the public health system. This includes lack of sufficient trained staff in public facilities. This problem is compounded by what appears to be a lack of adequate incentives to induce enough medical professionals to participate in the public system. Only half of the medical staff in public institutions work full-time or receive all of their earnings from MSPAS; moreover, key clinical personnel spend only about one-third to one-half of their time in non-clinical activities.<sup>60</sup> Together, these factors represent important challenges for improving outreach and access of the public healthcare system.

6.32 Concerns about access, affordable, and quality are not limited to the provision of health services, but to pharmaceuticals as well. A study by the Management Sciences for Health (MSH) found that for a sample of critically needed medicines, only 84 percent were available at MSPAS primary healthcare facilities and 70 percent at hospitals. The study also found that El Salvador routinely purchases pharmaceutical products at prices higher than the international median. Moreover, products of substandard quality were found in "50 percent of samples collected from public facilities ... and 28.6 percent from private pharmacies".<sup>61</sup> In 2003, MSH proposed a new system to manage pharmaceuticals, which involved joint procurement by the specialized hospitals and the SIBASI to obtain a better price and the involvement of a single distributor to manage the purchase orders, storage and distribution; MSPAS would monitor the quality of pharmaceutical products ordered and purchased by the network facilities. While the new system experienced some initial logistical problems, the MSPAS is continuing to address these important challenges.

***The 2001 earthquakes damaged public health facilities, affecting care provision***

6.33 Efforts to improve access and service quality have been complicated by the earthquakes of 2001. As noted above, the public health infrastructure was severely damaged by the earthquakes. Two MSPAS hospitals were severely damaged and six others were partially damaged in the first quake, with as much as one-third of all MSPAS health facilities affected. Indeed, estimates suggest that as many as 40 percent of MSPAS hospital beds were out of service in the wake of the second earthquake.<sup>62</sup> The most badly damaged hospitals continued to operate under provisional structures, while the rest reduced their operations. Moreover, the government has engaged in ongoing earthquake reconstruction efforts, supported by the IDB, the Central American Bank for Economic Integration (CABEI), Japan and the World Bank.<sup>63</sup> Nonetheless, the effects of the earthquake still affect El Salvador's ability to provide healthcare, including the types of care that will be needed to address the challenges of reducing neonatal (and thus so-called "hard" infant and child) mortality.

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<sup>60</sup> . Non-clinical activities include staff administrative duties, coordination with local authorities, and training. For further detail, see "Baseline and Best Practices Assessment of seven SIBASI in El Salvador," Eric Seiber, PHRPlus, December, 2002

<sup>61</sup> Cited in Marques (2004), based on reports posted on the web page of Management Sciences for Health ([www.msh.org/seam/3.1.2b.htm](http://www.msh.org/seam/3.1.2b.htm)).

<sup>62</sup> Marques (2004), citing *Earthquake Emergency Reconstruction and Health Services Extension*, Project Appraisal Report, World Bank, and Institutional Development Strategic Plan, MSPAS, 2001, figures.

<sup>63</sup> MSPAS has developed a program to reconstruct/rehabilitate its facilities, including 23 of 30 national hospitals and 82 health centers. Existing IDB loans and CABEI funds, are being utilized to cover the costs of provisional structures and for the rehabilitation of the 15 less badly damaged hospitals. For the reconstruction of the eight hospitals with the greatest damage, the government has obtained the support of the World Bank and Japan. The World Bank Emergency Reconstruction project will also support the extension of basic services to remote areas and the strengthening of primary health care services and facilities in areas affected by the 2001 earthquakes.

### Directions for public policy

#### ***It will be important to build a consensus on how to improve access and coverage—***

6.34 To continue to improve basic health outcomes for the poor, a key priority will be to build a national consensus on the strategic direction for El Salvador's national healthcare policies and programs. In this regard, the new Government's plan – Safe Country, 2004-2009 – calls for the reform of the health sector in a “concerted manner which may lead to an efficient national health system, functioning in a decentralized manner, with universal coverage and free of charge to all persons that can not afford.”

#### ***—that recognizes both demand and supply constraints***

6.35 Consistent with these goals, a key policy challenge will be to continue to increase healthcare access and coverage among the poor who currently lack access. Accomplishing this will require addressing both demand- as well as supply-side constraints to access.

- *Addressing demand-side constraints.* A key element of reducing demand-side constraints involves increasing the affordability of healthcare services.
- In the *short-term*, this should include increased efforts to enforce the Decree eliminating fee payments to health care centers. Consideration should also be given to the use of targeting mechanisms – either on the basis of geographic location or household poverty status – to ensure the efficiency and sustainability of such financial support to the poor.
- In the *longer-term*, consideration should be given to broader approaches to providing financial protection against health shocks to the poor. This would include consideration of approaches to improving access among the poor to the formal social security system and to private health insurance mechanisms, as well as exploration of ways to “pool” or insure against family health risks at the community level.
- *Addressing supply-side constraints.* Several supply-side measures will be important to strengthening El Salvador's health care system and, through it, health care access among the poor. These include:
  - Assessment of the ongoing institutional reform and decentralization plan to identify whether any mid-term adjustments would help to strengthen the reform process, particularly with respect to primary health care delivery;<sup>64</sup>
  - Review and reform of the health sector's human resource policy, including incentives and rewards systems, to ensure a sufficient supply of well-trained professional staff and quality care, particularly in poor, rural areas;
  - Reconstruction and rehabilitation of the hospitals damaged by the 2001 earthquakes to ensure adequate supply of secondary and tertiary health services; and
  - Measures to reduce the costs (and improve the quality) of pharmaceuticals, particularly basic medicines.

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<sup>64</sup> Such an assessment might also be valuable as part of the process of building national consensus on reforms.

6.36 Since private sector provision of healthcare services plays such an important role in El Salvador, strengthening the regulations governing private sector provision of services will also be important to strengthening the overall health sector as well as to ensuring the availability of quality care to all Salvadorans.

6.37 In spite of recent increases in public spending and levels of public spending that, as a percentage of GDP, compare well with other countries, public spending on health per capita remains low by international standards. Indeed, as in the case of education, continuing to make progress in improving health outcomes, particularly among the poor, will require additional resources. Estimating the resources needed to achieve specific health outcomes is difficult, due to the complex relationship between multiple factors (including, but not limited to health sector inputs) and specific health outcomes. Nonetheless, it is possible to provide a reasonable range of estimates for achieving universal access to basic healthcare services.

***Assuring basic health services to those who lack access will require additional resources***

6.38 Recent World Bank estimates of the annual cost of providing a minimum package of essential health and nutrition services in El Salvador, based on differentiated capitation, is estimated at between US \$15 and US\$ 20 per person.<sup>65</sup> At the same time, the cost of the basic health and nutrition package established by MSPAS (the SESYN, or Essential Health and Nutrition Services) and based on universal capitation, which is the basis for providing basic health care in the IDB's Support to the Modernization Health Program, is US\$ 31 per person.<sup>66</sup> Taking US \$20 per person as a lower-bound estimate, and US \$31 per person as an upper bound estimate for the basic package of essential health and nutrition services, the annual cost of covering the 1.6 million Salvadorans who still lack regular health services would range from between US\$ 32 million and US\$ 50 million per year, the equivalent of 0.2-0.3 percent of GDP, respectively.<sup>67</sup>

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<sup>65</sup> The package of essential health and nutrition services referred to here is designed to ensure the provision of basic maternal and child care services to poor Salvadorans and includes the following interventions: (i) maternal (pre and postnatal) care; (ii) sexual and reproductive health, including family planning and the control of sexually transmitted diseases; (iii) child health and nutrition (for children under 5 years); (iv) health education, detection and treatment of the most prevalent communicable diseases (tuberculosis, HIV/AIDS, Dengue) in the general population; and (v) community health prevention, detection and referral of the most prevalent and non-communicable diseases in adults. The package also includes a basic *vademecum* of pharmaceuticals according to the list of essential drugs regulated by the MSPAS. For more information, see Earthquake Emergency Reconstruction and Health Service Extension Project, Project Appraisal Document (Report NO. 22626-ES), October 31, 2001.

<sup>66</sup> Earthquake Emergency Reconstruction and Health Service Extension Project, Project Appraisal Document (Report NO. 22626-ES), October 31, 2001, page 13, provided a preliminary cost estimate of US\$ 15 per person per year based on the Guatemala and Honduran experiences. Recent studies prepared for the World Bank project point to a slightly higher cost of approximately US\$ 20 per person per year. These studies for the World Bank project are based on a differentiated capitation, where the cost of the package for children, adults, women and men are different, while the cost estimates for the IDB project are based on universal capitation, in which a single unit cost for all people, is estimated.

<sup>67</sup> The *Human Development Report 2003* (UNDP) estimates the cost of US\$ 31 per person per year; with a total annual cost of US\$ 50 million to reach 1.6 million people, the equivalent of 0.3 percent of GDP. To eliminate malnutrition in children under 5 years, the UNDP estimates it would cost an additional US\$ 23 million a year, equivalent to 0.15 percent of GDP. This estimate is based on the number of children with malnutrition in urban areas (29,655) and rural areas (49,841) and assuming an annual cost of eliminating malnutrition equivalent to the urban minimum basket (US\$ 385) and rural minimum basket (US\$ 240). The implied total cost – at the margin – of ensuring basic health and nutrition services for the 1.6 Salvadorans who still lack regular health coverage, according to the *Human Development Report 2003*, is thus 0.45 percent of GDP.

## VII. SOCIO-ECONOMIC INFRASTRUCTURE

### *Access to clean water and sanitation facilities important to health and poverty reduction—*

7.1 This chapter focuses on the role of socio-economic infrastructure investments as part of a strategy to reduce poverty. The chapter focuses specifically on rural water and sanitation and on rural roads. Access to potable water and suitable sanitation facilities in rural areas is increasingly recognized as an important health input and, through that channel, a key component of a country's poverty reduction efforts. Water and sanitation are particularly recognized for their role and impact on infant health.<sup>68</sup> For example, the Ministry of Health reported diarrhea, a key cause of which is contaminated water, as one of the most common infant diseases in 2001, evidenced by the 20 percent of medical consults for children under 1 year of age, and 15 percent for children between ages one and four. In addition, the 1998 FESAL data indicate that the problems of infant and child mortality are significantly more severe in households without access to improved water than in those with access (Table 7.1). The same is true of households who lack sanitation facilities. While the data presented in Table 7.1 are descriptive, the same relationships are valid controlling for income and a range of other household and community characteristics.<sup>69</sup>

**Table 7.1: Infant and Child Mortality, by Access to Water and Toilets  
(March 1993 to February 1998)**

**Do you have Piped Water inside the house?**

	Infant Mortality				
	Total	Neonatal	Post neonatal	1-4 years old	0-4 years old
Yes	30	17	13	4	34
No	40	16	24	12	51

**Do you have Toilet in the dwelling?**

	Infant Mortality				
	Total	Neonatal	Post neonatal	1-4 years old	0-4 years old
Yes	30	15	14	3	32
No	37	17	20	10	47

Source: Yepes (2004).

7.2 Investments in rural roads are also a key part of a poverty reduction strategy. Increased access to all-weather roads brings numerous benefits, such as improved access to schools and healthcare facilities and other basic services, reduced transactions costs (which enable greater access to and participation in market-based activities), as well as access to non-farm employment opportunities.

### *—as is the access provided by all-weather roads*

7.3 As discussed in Part I of the report, there is a robust empirical relationship between proximity to all-weather roads and transport infrastructure and the growth of household incomes in rural El Salvador (see also Beneke de Sanfeliú and Gonzalez-Vega 2000; Beneke de Sanfeliú and Shi 2004). Analysis of reductions in poverty at the canton level supports household-level

<sup>68</sup> Leipziger, Fay, Wodon, and Yepes, 2003. "Achieving the Millennium Development Goals: The Role of Infrastructure".

<sup>69</sup> *Ibid.*



findings about the link between rural road investments and household incomes, especially among the very poor.<sup>70</sup> A recent study used the BASIS data to match households in cantones that received road improving investments with those that had no such investments between 1999 and 2001 (Yepes 2004). Cantones with and without road improving investments were matched according to a number of characteristics, including average distances of households to paved roads in 1999 to ensure appropriate comparability. The study finds that although total poverty declined at similar rates in cantones with and without road improvements, extreme poverty declined significantly faster in cantones that received road investments. The impact was both statistically and economically significant. Extreme poverty declined 5.1 percentage points more in cantones with improved roads than in those without. These findings suggest that over the 1999-2001 period, at least, road investments had a particularly salutary effect on the incomes of the extreme poor.

7.4 As in earlier parts of the report, this chapter discusses: (1) recent developments in extending rural water and rural roads to the poor; (2) the role that public actions have played in recent progress; (3) ongoing challenges for improving access among the rural poor; and (4) policy directions for ensuring that investments in roads and water contribute powerfully to El Salvador's poverty reduction efforts. The chapter examines first rural water and sanitation and then turns to rural roads.

### ***Water and Sanitation***

#### ***Recent developments***

7.5 El Salvador has made significant progress in the expansion of water services and increased water access over the past decade. Access (or "improved" access) is defined as water supplied by public tap or pipe inside or outside the dwelling. "Reasonable access" to drinking water – defined as the availability of at least 20 liters a person per day from a source within one kilometer of the dwelling<sup>71</sup> – increased significantly in rural areas, contributing to a closing of the gap with respect to the cities.

#### ***While there have been significant gains in access to clean drinking water since 1991—***

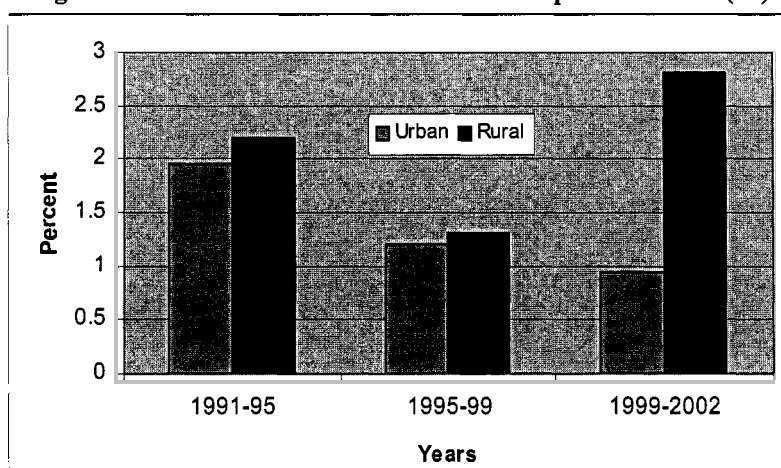
7.6 As shown in Figure 2.6, household access to improved drinking water increased at the national level from 54.9 percent in 1991 to 75.9 percent in 2002. In urban areas, access grew from 80.2 to 92.6 percent, while in rural areas, access increased by over 20 percentage points – from 27.5 to 47.6 percent – over the period. Although access in rural areas continues to be low relative to urban areas, the gap is closing (Figure 7.1). The average annual growth in rural coverage was 2.2 percent between 1991 and 1995, 1.3 percent between 1995 and 1999, and 2.8 percent between 1999 and 2002 – equaling or exceeding urban growth in each sub-period.

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<sup>70</sup> Cantones are administrative sub-divisions of municipalities.

<sup>71</sup> WHO and UN Children's Fund, 2000. Global Water Supply and Sanitation Assessment Report.

**Figure 7.1: Annual Increase in Access to Improved Water (%)**



Source: Yepes (2004).

7.7 The main sources of drinking water in rural areas also improved over the period (Table 7.2). Drinking water from improved sources increased by 20 percentage points (row A). Water access from wells remained largely the same during the 1990s, but then increasing slightly in the 2000s. Correspondingly, access via unimproved water sources, such as springs, river, rainwater, or vendors, declined from 49.1 percent in 1992 to 26.3 percent in 2002.

**Table 7.2: Sources of Water in Rural Areas, 1992 – 2002**

Source		1991	1995	1999	2002	Percentage Change		
						1991-95	1995-99	1999-02
A	Improved sources	27.5	37.1	41.6	47.6	9.6	4.5	6.0
B	Well	23.4	22.6	23.6	26.1	-0.8	1.0	2.5
C	River		25.8	21.9	17.5		-3.9	-4.4
D	Others		14.4	12.9	8.8		-1.5	-4.1
C + D	River and Others	49.1	40.3	34.8	26.3	-8.8	-5.5	-8.5

Source: Yepes (2004), using EHPM data (various years).

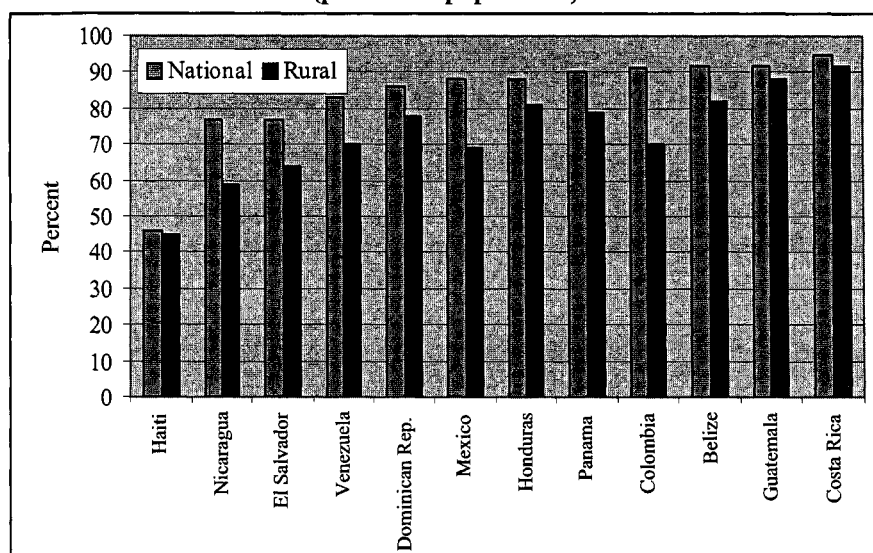
7.8 Efforts to improve rural water access between 1991 and 2002 have yielded significant benefits to the poor. For example, the proportion of poor who obtain their water from inferior sources, such as rivers and other sources, declined about 60 percent over the period.

**—half of rural households still lack access to improved water source**

7.9 Yet, important challenges remain. According to the *World Development Indicators* (2004) data, El Salvador still ranks relatively low by regional standards with respect to the proportion of the population covered by improved water sources (Figure 7.2). Indeed, analysis of data from 31 Latin American and Caribbean countries found that in 2000 access to safe drinking water in El Salvador is considerably lower than would be expected given its per capita income (Todd and

Hicks 2003).<sup>72</sup> Moreover, about 19 percent of the rural population – and over one-third of the extreme poor in rural areas – still get their water from rivers, lakes and springs where there are often high levels of pollution.<sup>73</sup> These groups have a particularly elevated risk of waterborne disease, such as diarrhea and gastroenteritis. Another nearly 9 percent of the extreme rural poor (who lack independent water access) purchase water from water salesmen, sometimes at three times the regular piped water tariff. Household data suggest that the cost to the extreme poor of water purchases from these sources is staggering, constituting 18 percent of their monetary income, on average (Yepes 2004, based on EHPM data).

**Figure 7.2: Access to Improved Water Sources, 2000  
(percent of population)**



Source: *World Development Indicators* (2004).

***Lack of sanitation facilities is also most acute in rural areas***

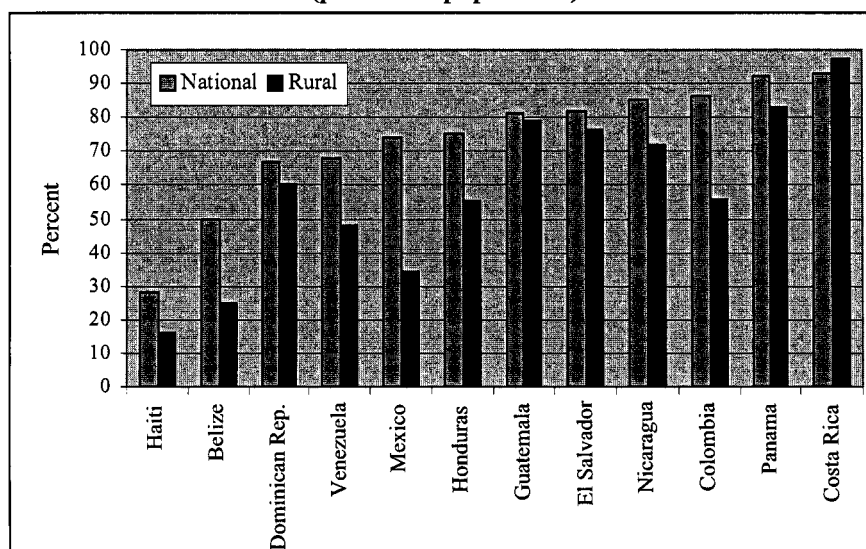
7.10 In addition, important challenges remain in the provision of sanitation services. According to the *World Development Indicators* (2004), while El Salvador fares relatively well in the provision of sanitation services, both nationally and in rural areas (Figure 7.3), over 20 percent of the poorest households still lack access to adequate sanitation facilities (Figure 2.6). Moreover, there persist considerable differentials in quality of access. The use of latrines is still very common throughout the country, with the availability of sewer infrastructure low in a number of rural areas.<sup>74</sup> At the same time, existing sewage collection systems often lack sufficient capacity to handle wastewater flows, especially in poor neighborhoods, resulting in overflow problems. These wastewater overflows contribute to the high levels of environmental pollution (Yepes 2004).

<sup>72</sup> Using *World Development Indicator* (2002) data from 2000, Todd and Hicks (2003) find that El Salvador ranks fifth lowest in the region among “under-performers” in water access.

<sup>73</sup> Significant water pollution is due to a weak regulatory environment governing the flow, quantity and quality of water along with poor (and frequently nonexistent) treatment of wastewater (Yepes 2004).

<sup>74</sup> More than 70% of inhabitants lack sewer service in about 10 municipalities, while more than 50 percent lack service in many others (Yepes 2004).

**Figure 7.3: Access to Improved Sanitation Facilities, 2000  
(percent of population)**



Source: *World Development Indicators* (2004).

#### Recent public action

##### ***A plethora of agencies have responsibilities for water and sanitation***

7.11 The rural water and sanitation sector in El Salvador is characterized by a multiplicity of institutions and agencies providing services. The lead Government of El Salvador institution in the rural water and sanitation sector is ANDA, which has formal responsibility for water and sanitation in both urban and rural areas. ANDA was founded 43 years ago to manage all water and sanitation systems in the country, and it undertakes most functions associated with the water and sanitation sector, including planning, construction, operation, maintenance and commercial processes. ANDA also plays the role of the sector's regulatory and enforcement agency.

7.12 In its first stage of operations, ANDA focused on urban areas, leaving provision of water largely the responsibility of the Ministry of Public Health (MSPAS). In addition, the *Departamento de Acueductos Rurales*, later converted to *Plan Nacional de Saneamiento Básico Rural* (PLANSABAR), had responsibility for rural water systems, constructing 308 aqueducts over a 15-year period that ended in 1996.<sup>75</sup> Some rural systems were also initiated and managed by communities or local committees, for example, ANDAR (*Asociación Nacional para la Defensa, Desarrollo y Distribución de Agua a Nivel Rural*).

7.13 More recently, ANDA has become involved in the direct provision of water services to rural areas, though largely through the extension of urban networks to adjacent rural areas. Indeed, ANDA has not developed the capacity to work in rural areas that are not connected to urban systems. So, most of the connections in rural sectors served by ANDA are at the peripheries of cities. In the absence of ANDA working on purely rural water systems, a large and rather heterogeneous group of institutions and agencies have played this role, including FISDL

<sup>75</sup> In 1996, when the program ended and administration of the PLANSABAR water systems passed on to ANDA, most of the aqueducts were facing sustainability problems – both in terms of financial weakness and lack of maintenance. See Cuellar, N. and S. de Larios (2001), “*Acceso al agua potable en EL Salvador: tendencias, perspectivas y desafíos*”, Prisma No. 42.

(Fondo de Inversión Social para el Desarrollo Local)<sup>76</sup>, MSPAS, municipal governments, decentralized utilities, NGOs, the private sector and local water committees (Figure 7.3).

**Table 7.3: Institutions in the Rural Water and Sanitation Sector, by Role**

	ANDA	FISDL	MSPAS	Municipalities	Decentralized Utilities	NGOs	Private Sector	Local Committees
<i>Number of Entities →</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>256</i>	<i>13</i>	<i>42</i>	<i>30</i>	<i>102</i>
General Planning	X							
Underground Water Exploration	X			X	X	X		
Water Quality Control	X		X					
Tariffs Approval	X			X				
Control and Regulation	X							
Sector's financing	X	X		X	X	X		
Operation and Maintenance	X			X	X			X
Construction of Water Infrastructure	X	X		X	X	X	X	
Construction of Sanitation Infrastructure	X		X	X		X	X	

Source: Yepes (2004).

**—with sometimes overlapping roles and responsibilities**

7.14 As can be seen from Table 7.3, different entities play different roles in the water and sanitation sector. In addition to ANDA's wide-ranging role, the Central Government is involved in the water and sanitation sector through FISDL, which plays roles in securing funding for the sector and in the construction of water infrastructure, and through MSPAS, which is currently responsible for assuring water quality.

7.15 Municipalities, decentralized utilities and NGOs also play an increasingly important role, often with the support of ANDA and/or FISDL. For example, FISDL supports municipalities to promote local development through (i) raising and managing financial resources from the national budget, donors, NGOs and Salvadorian emigrants, and (ii) strengthening institutional capacity to implement development projects, including water projects.

7.16 Since the 2001 earthquakes, ANDA and FISDL have been working toward an assisted decentralized scheme, which includes a set of initiatives to help municipalities improve investment in and management of water and sanitation utilities. ANDA and FISDL provide financing and support the strengthening of institutional capacity. NGOs act as counterparts in the investments. Municipal authorities and/or local committees also contribute, working to organize communities and orienting them on a range of issues, including on rational water use with

<sup>76</sup> FISDL was founded in 1990 as a Social Investment Fund to compensate the poorest Salvadorans affected by the structural adjustment process. In 1996, the Fund it was merged with *Secretaría de Reconstrucción Nacional* (SRN) and *Programa de Municipalidades en Acción* (MEA), whose goals where to provide financing to local governments and strength their institutional capacities. In 1999, the Government of El Salvador's development plan, *La Nueva Alianza*, empowered FISDL to promote and facilitate local development as part of its goal to strengthen municipal infrastructure and access to basic services.

sustainable tariffs. At present, 13 decentralized water utilities with different legal structures have been established and are operating.

7.17 While the private sector also participates in the water and sanitation sector, its role remains largely limited to construction of water and sanitation infrastructure – although it has provided a small share of capital in some of the decentralized utilities.

7.18 A recent study estimated the relative contributions of ANDA and the other water sector institutions in the provision of improved water access over the 1991-2002 period (Yepes 2004). Estimations were undertaken using data on rural coverage (and its change over time) from ANDA and comparing it with data on rural coverage from the 1991 and 2002 EHPM surveys. Adjustments were made to correct for definitional and other differences in the two data sources.<sup>77</sup> Differences in rural coverage rates between ANDA's data (which captures only ANDA's investments) and the EHPM data (which captures coverage regardless of the source) were then taken as reasonable estimates of the contribution that municipalities, decentralized utilities and local providers have made to improve water access over the period. The analysis suggests that ANDA has contributed to about three-quarters of the increase in rural coverage between 1991 and 2002, whereas other water sector institutions (e.g., local, municipal, decentralized and NGO providers) have collectively contributed the remaining 25 percent of the increase.

***And while access has improved, progress in rural areas has been uneven.***

7.19 While the current institutional arrangements have obviously contributed to increased access to water and sanitation services since the early 1990s, the multiplicity (and heterogeneity) of agencies are a function of an outdated regulatory framework that provides for uneven “rules of the game” for different institutions with different roles in the sector. This has resulted, among other things, in uneven spatial patterns of water sources and access across the country. As can be seen from Map 7.1, ANDA has continued to serve primarily the areas surrounding the larger cities. Increased water access outside ANDA's primary service areas has, thus, largely been the result of work by the other water entities, such as the municipalities, decentralized water providers and NGOs. As such, a significant proportion of improved drinking water access in rural El Salvador does not rely on direct Central Government management via ANDA – although it is true that many of the other water entities continue to rely on a variety of types of support from ANDA and/or FISDL (e.g., direct financial support, input subsidies, support to capacity building, etc.).

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<sup>77</sup> See Yepes (2004) for details.

**Map 7.1: Rural Improved Water Providers, by Municipality**

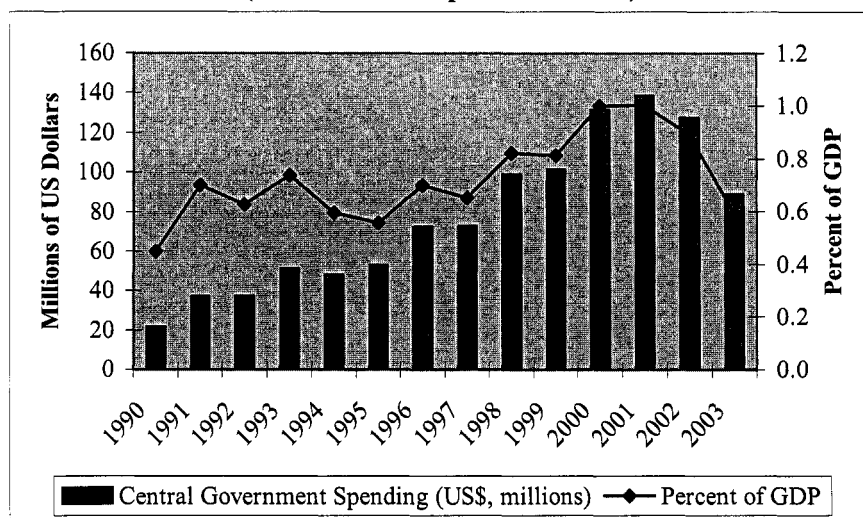


7.20 As also can be seen from Map 7.1, there remain a significant number of municipalities where the majority of people still obtain water directly from natural sources. This helps to highlight, from a spatial perspective, some of the ongoing challenges facing El Salvador with respect to increasing access to improved water sources among the rural poor.

***Fluctuating patterns of public expenditures—***

7.21 *Public Spending.* Central government expenditures on the water and sanitation sector tended to grow between 1990 and 2001 — although spending in the sector has declined substantially between 2001 and 2003 (Figure 7.4). As a proportion of national income, government spending grew from 0.4 percent of GDP in 1990 to 1 percent of GDP in 2000-01 but fell again to 0.6 percent in 2003, that is, about to 1994-95 levels. Roughly 89 percent of total expenditure during the period was executed through to ANDA, while 6 percent was executed through FISDL, and 5 percent through MSPAS (Table 7.4).

**Figure 7.4: Central Government Spending on Water Supply and Sanitation  
(US\$ million and percent of GDP)**



Source: ANDA, FISDL, and MSPAS data.

**Table 7.4: Public Spending and Investment in Water Supply and Sanitation, 1990-2003  
(Selected Years, US\$ million and percent of GDP)**

	1990	1995	2000	2001	2002	2003
<b>Total Expenditure</b>	21.5	52.9	131.4	138.6	127.4	88.8
<b>ANDA a/</b>	20.0	43.8	119.5	126.0	114.9	85.6
<b>FISDL</b>	0.0	5.3	4.7	4.6	4.1	2.9
<b>MSPAS b/</b>	1.5	3.8	7.1	7.9	8.3	0.3
<b>Total Investment c/</b>	2.6	23.8	47.8	51.6	26.1	7.6
<b>Water Supply</b>	0.2	15.3	38.5	41.1	14.0	6.8
<b>Sanitation</b>	2.4	8.5	9.3	10.5	12.1	0.9
<b>As a Percent of GDP</b>						
<b>Total Expenditure</b>	0.4	0.6	1.0	1.0	0.9	0.6
<b>Total Investment</b>	0.1	0.3	0.4	0.4	0.2	0.1

Notes:

a/ Expenditure data include spending on operations and maintenance activities, which are to some degree offset through cost recovery measures.

b/ For the 1990-1995 period, estimated as 3.1 percent of the budget as in 1996.

c/ Excludes US\$12.3 million from the ANDA-FIS joint program to avoid duplication during the 1990-1996 period.

Source: World Bank (2004), using ANDA, FISDL and MSPAS data.

7.22 Investment in the water and sanitation sector averaged 0.3 percent of GDP over the 1990-2003 period. Investments grew from 0.1 percent of GDP in 1990 to about 0.4 percent of GDP in 2000-01, but then fell again to 0.1 percent by 2003 (Table 7.4). Seventy percent of investment was used for rehabilitating, improving and building water systems (aqueducts and public water



wells) and the remaining 29 percent for sanitation (sewerage, septic tanks, and latrines).<sup>78</sup> Over the period, investments constituted the second-highest most important expenditure item, on average, after spending on operations, including physic-chemical treatment of water, and maintenance of distribution systems. Investments in water supply and sanitation reached a maximum of 39 percent of total spending in 2000, but declined dramatically thereafter, dropping to 5 percent of total expenditures in 2003.

7.23 To put these investment figures in perspective, during discussions for the National Sanitation Plan<sup>79</sup> in 1993, PAHO estimated required investments of between 0.67 and 0.83 percent of GDP in order to achieve 100 percent coverage of water and sanitation services, in both rural and urban areas.<sup>80</sup> This requirement was estimated based on universal access, making allowance as well for wastewater treatment. These figures were estimated under an economic growth scenario that was optimistic relative to actual growth rates in the second half of the 1990s. For this and other reasons, investments have been lower than anticipated, averaging less than half of the lower bound of the resource targets set to attain the established goals.

***—with heavy reliance on external financing of sector investments***

7.24 Investments in the sector have also been highly reliant on external funding sources. Between 1990 and 2002, external resources comprised about 63 percent of total investment in the sector (World Bank 2004). In this context, an average of 48 percent of the sector's investment over the period was financed by external loans, while another 15 percent was financed by external grants. The remaining investments (about 37 percent) were funded using domestic resources; about 21 percent, on average, were funded with ANDA's own resources, while the remainder (about 16 percent) was funded with Central Government and/or FISDL resources.

***Substantial increases in rural investment has narrowed coverage gaps***

7.25 In spite of fluctuations in total spending, average spending on investments in rural areas has increased substantially in recent years – albeit from a low base. Whereas investment in rural areas was \$2.9 million between 1995 and 1998, it rose to \$35.8 million between 1999 to 2002 – due to both increases in domestic funding (via ANDA and FISDL) and external support (through loans and donations from foreign governments and multilateral lending organizations).<sup>81</sup> Although no formal analysis exists of the distribution of the benefits of public spending in water and sanitation in rural areas, the data on changes in water access between 1991 and 2002 indicate that coverage grew faster among the poor than the non-poor and in rural areas than in urban areas over the period (see Figure 2.6).<sup>82</sup> As such, spending over the past decade has served to narrow the poor/non-poor and urban/rural coverage gaps.

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<sup>78</sup> World Bank 2004.

<sup>79</sup> Elaborated by National Committee of Water and Sanitation Sector Institutions (CONIAPOS), composed by the Ministry of Health, Ministry of Planning, and ANDA.

<sup>80</sup> See “*Análisis del Sector de Agua y Saneamiento en El Salvador*”, Washington D.C., 1994.

<sup>81</sup> Yepes (2004).

<sup>82</sup> A new World Bank Public Expenditure Review for El Salvador find that growth the availability of piped water at the national level between 1991 and 2002 has tended to benefited the first three quintiles most, with the largest gains accruing to the middle and poorest quintiles (World Bank 2004). Increases in the availability of sanitation facilities were found to benefit the poorer quintiles more than the wealthier quintiles. The analyses does not distinguish between rural and urban areas, however.

### Ongoing challenges

#### ***Increase access to water and sanitation facilities, especially in rural areas—***

7.26 Although access to water and sanitation services have increased, El Salvador faces continuing challenges in ensuring that the poor have reasonable access to potable water, as part of a national social policy to reduce poverty. El Salvador still ranks relatively low among Latin American countries in terms of safe water access – indeed, lower than would be expected given its per capita income. Several remaining challenges will be important in framing a pro-poor policy agenda for rural water and sanitation:

- Nearly half of the poorest Salvadorans lack access to improved water sources;
- In rural areas, over one-third of the extreme poor still get their water from rivers, lakes and springs where there are often high levels of pollution, raising their exposure to waterborne diseases;
- Over 20 percent of the poorest households also still lack access to adequate sanitation facilities, with potentially important impacts on family and environmental health; and
- Moreover, nearly 9 percent of the extreme poor in rural areas purchase water from informal sources at as much as three times the cost of the regular water tariff, with significant impacts on their abilities to purchase other basic consumption items.

7.27 While access clearly remains the central issue for water and sanitation, affordability and water quality (closely related to access) are critical for the poor as well.

#### ***—and rationalize the complex institutional and regulatory environment***

7.28 The challenge of ensuring universal access to safe water and sanitation is made more difficult by a complex institutional and regulatory environment in the sector. ANDA currently provides services in 182 of 262 municipalities in the country, and defines the regulation in municipalities and micro-regions under its control. This has resulted in duplications of efforts in some places, as well as uneven “rules of the game” between institutions working under ANDA jurisdiction and those outside. While the current multi-actor approach to rural water provision has potential benefits, the current regulatory environment can lead to inconsistent incentives for ANDA as regulator vs. service provider. It also contributes to inefficiencies in the system, considerably variability in the quality of water systems, and at times, exorbitant water costs for the poor.

7.29 Indeed, in the current environment, the expansion of urban water networks to provide surrounding rural areas has sometimes exacerbated the difficulties facing the poor in accessing affordable water. For example, as peri-urban areas have become more populated, some families located near urban water networks have purchased up to 300 meters of pipe from ANDA to access water from existing urban networks. These ad-hoc connections often fuel the supply side of gray water markets in which the rural poor pay considerably higher prices for water than the regular water tariff.

### Directions for public policy

#### ***Clarify roles, responsibilities, and rights in the sector—***

7.30 In this context, a key policy challenge in the sector will be to reinitiate and complete water sector reforms to update and rationalize the institutional and regulatory environment. The reform

would be intended to level the playing field and to clarify the functions and responsibilities in the sector. Among the key challenges for the reform process include:

- Clarification of the roles and responsibilities of the various institutions operating in the water and sanitation sector, including the roles of centralized versus decentralized service providers;
- Creation of an independent regulatory body, focused exclusively on policy and regulation and its enforcement; and
- Clarification/definition of water use rights.

7.31 Much of the sector reform agenda is not new. Indeed, reform efforts were initiated in the late 1990s and then set aside, in part because the earthquakes temporarily shifted the sector's focus to system reconstruction. Many technical inputs to a reform are already reasonably developed. The incoming administration thus has the opportunity to build on these inputs to complete the reform and put the water sector on a sound footing to improving access to potable water access among the poor. Yet progress on reforms is likely to require efforts to build consensus around the need and scope for reforms, as well as the identification of appropriate and cost-effective service delivery models for covering poor, often isolated, rural areas.

*—building on lessons from recent experience*

7.32 Some recent lessons from experience may also contribute to sector reforms that are effective in assuring access to safe water to the poor in rural areas. For example, there may be lessons for an appropriate service model, based on the experience of the thirteen decentralized utilities that were established in partnership between ANDA, FISDL and local actors after the earthquakes. A recent evaluation of several of the decentralized utilities suggests that these utilities have functioned well, with water systems that are technically appropriate to the locality, good water quality and a high degree of financial sustainability (Yepes 2004). These utilities were established under very specific circumstances in the aftermath of the earthquakes. Nonetheless, the approach appears to have promise, and could be used to inform design of an appropriate regulatory framework for the establishment and scaling up of small scale and local water enterprises, as part of the sectoral reform.

7.33 The issue of drinking water contamination is an increasingly important problem – especially to poor Salvadorans who lack access to improved water, and for whom consumption of contaminated water has direct and adverse health consequences. In this context, it will be important that there be efforts to align policies regarding drinking water access, wastewater management and decontamination of water sources as part of a sector reform process.

7.34 Finally, from a poverty reduction perspective, there may be added value in establishing an institutional mechanism for better identifying and targeting water and sanitation investments to those who currently lack access.

*Additional resources are required—*

7.35 *Costs.* In recent years, the water and sanitation sector has also been under-resourced if it is to achieve universal coverage in water and sanitation within a reasonable timeframe. Total spending has averaged about 0.8 percent of GDP, falling to 0.6 percent in 2003 after hovering at about 0.9-1.0 percent between 2000 and 2002. Yearly investments have averaged about 0.3 percent of GDP over the last decade, although they have only reached between 0.1-0.2 in the last

two years. Much of this spending has been funded by external resources that has varied year-to-year based on donors' project cycles.<sup>83</sup>

7.36 As noted above, in the context of the National Plan of Sanitation in 1993, it was estimated that to achieve universal coverage in water and sanitation services – in both rural and urban areas – annual investment requirements ranged from 0.67 to 0.83 percent of GDP – more than twice the percentage actually spent over the period, on average. A decade later, this estimate should be interpreted with some care, as considerable progress in providing water and sanitation services has been made since the early 1990s. In addition, completing and implementing water and sanitation sector reforms may bring efficiency gains that lower the costs of water and sanitation service provision. Moreover, and related to reforms, the identification of cost-effective delivery models, such as the decentralized utility model, could result in the ability to achieve more with less.

***—equivalent to about 0.3% of GDP.***

7.37 Given the uncertainty about the nature and timing of water and sanitation sector reforms and about the most cost-effective and appropriate service delivery models, estimating with precision the necessary increases in investments is difficult. Nonetheless, recent estimates suggest a possible range of costs associated with attaining universal coverage in water and sanitation. Using international estimates of efficiency prices and differentiating between the costs of investments in rural and urban areas, Yepes (2004) estimates an average annual investment cost of US\$ 21 million between now and 2015, or about 0.14 percent of GDP per year. Because these calculations use estimates of efficiency costs, rather than actual costs, they may be interpreted as lower-bound estimates. Following an analysis presented in the recent *Human Development Report* (2004), and using unit cost estimates provided by ANDA (although not differentiating between the unit costs of rural and urban areas), it is estimated that the additional investment costs of achieving universal water and sanitation coverage would range from US\$ 45 to US\$ 50 million between now and 2015, or as much as an additional about 0.3 percent of GDP per year.<sup>84</sup>

## ***Rural Roads***

### ***Recent developments***

#### ***Considerable improvements in road access, especially for the extreme poor—***

7.38 As with water, there have been considerable improvements in access to roads in rural El Salvador, especially among the very poor. Improved road access translates into reduced isolation, lower costs for goods and services, and increased access to markets and services and participation in economic activities.

7.39 Several access indicators, measured in terms of distances and travel times of rural households to paved roads and to the nearest markets, were collected as part of the BASIS survey data for 1995, 1997, 1999 and 2001. Estimates of average distances and travel times were made separately for the extreme poor, the moderate poor and the non-poor over the period (Yepes 2004). As can be seen in Figure 7.5, the average distance to a paved road is highest for the extreme poor and lowest for the non-poor. In addition, distances declined for all categories of

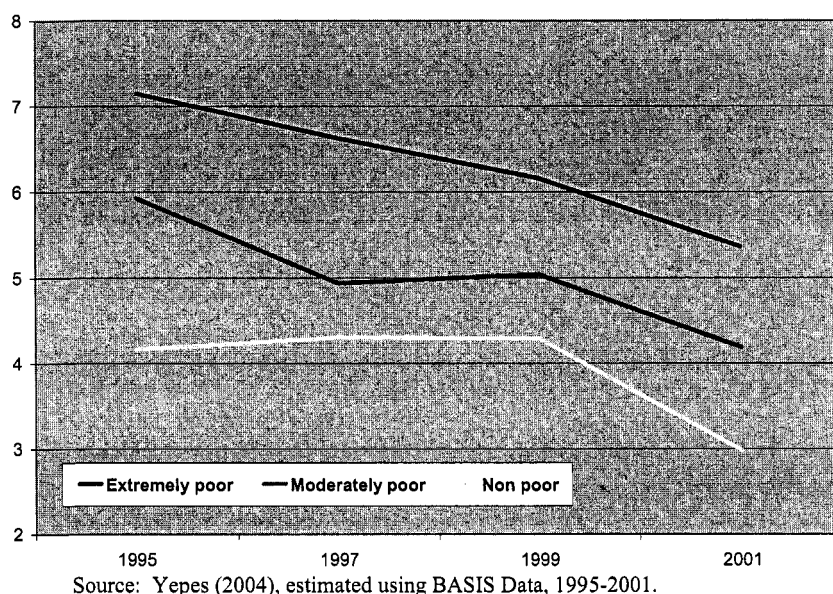
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<sup>83</sup> This uncertainty about size and sustainability of resources flows has also complicated the development within the water and sanitation sector.

<sup>84</sup> In the absence of sector reforms and the identification of a cost-effective service delivery model for rural areas, the costs are likely to be closer to the upper- than the lower-bound estimate.

households over the 1995-2001 period.<sup>85</sup> Distances to paved roads among the rural poor declined slightly more than for the rural non-poor, however, meaning that the distance gap between poor and non-poor closed slightly during the period. For example, the average distance to a paved road among extremely and moderately poor households declined by roughly 1.7 kilometers between 1995-2001, whereas it declined by just over 1 kilometer for the non-poor over the period.

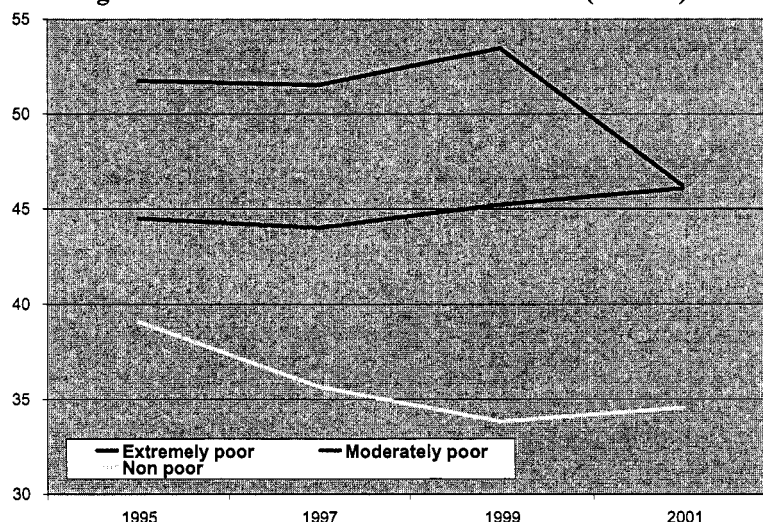
**Figure 7.5: Distance to Paved Roads in Rural Areas (in kms.)**



7.40 Average distances to the nearest market also fell during the period (Figure 7.6). Average distances to the nearest market for both the very poor and the non-poor in rural areas declined by about 5 kilometers over the period, whereas the data suggest that the moderate poor may have experienced a slight increase.

<sup>85</sup> It should be noted that declines in distance to paved roads do not reflect geographic movements of households in the BASIS panel, but rather reflect growth of the paved road network.

**Figure 7.6: Distance to the Nearest Market (in kms.)**



Source: Yepes (2004), estimated using BASIS Data, 1995-2001.

***—with notable effects on access – and reduced travel times – to markets***

7.41 Travel times capture not only physical distances but also the quality of roads, the quality and quantity of transport and other factors that affect the speed of travel (e.g., traffic congestion). Data on changes in travel times largely mirror those on changes in physical distances. As with distances to markets, the extreme poor experienced particularly large declines in travel times to the nearest market between 1999 and 2001 (Yepes 2004). These data suggest that the more and better roads and transport were particularly effective in reducing transactions costs and increasing access to markets among the extreme poor in recent years. This is consistent as well with the findings presented earlier in the chapter regarding relatively large declines in poverty between 1999 and 2001 among the extreme poor who lived in areas that received road-improving investments.

7.42 Despite measurable improvements, important challenges remain, as many poor rural households remain isolated – in absolute, as well as in relative terms. In 2001, average distances (and travel times) to paved roads remained 80-90 percent higher among the extreme poor than the non-poor. Similarly, distances (and travel times) to markets remained 33-36 percent higher among extremely poor households than among the non-poor.

**Recent public action.**

7.43 There are currently three main institutions responsible for rural road development and maintenance: the Ministry of Public Works (MOP), the Fund for Road Conservation (FOVIAL) and FISDL. MOP is responsible for the rehabilitation, modernization and development of primary, secondary, and tertiary road networks<sup>86</sup>. FOVIAL is responsible for maintenance of the primary road network, financed partially through a special tax on gasoline. FISDL works to strengthen municipal management capacity for maintenance of local roads, which link

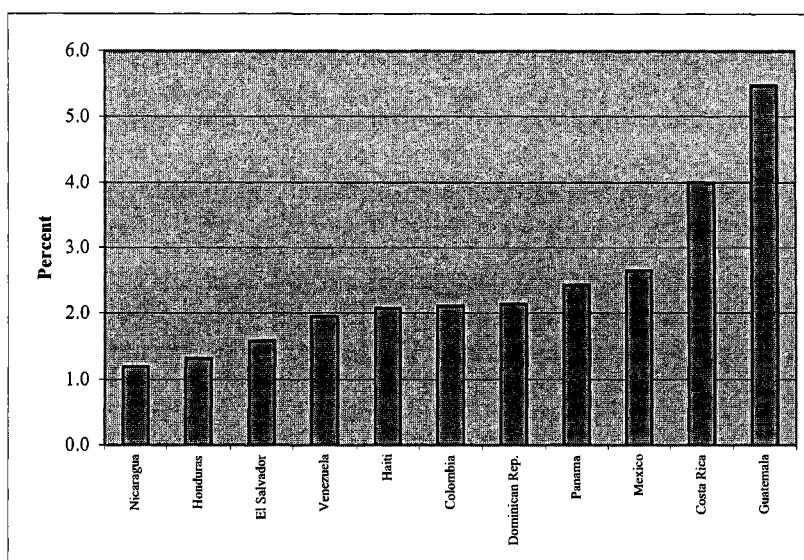
<sup>86</sup> Under Salvadoran law, primary, secondary and tertiary roads are designated as part of the “National Priority Network” (or *Red Nacional Prioritaria*).

municipalities, cantons and villages.<sup>87</sup> In coordination with the Ministry of Agriculture, FISDL also oversees rehabilitation of rural roads through institutional agreements with municipalities.

***A significant expansion of paved roads, with emphasis on rural areas—***

7.44 Figure 7.7 presents a comparison of the growth of paved roads in selected Latin American countries over the 1990s. The data suggest that, from a regional perspective, expansion of El Salvador's road network was relatively slow during much of the 1990s. The pace of road investments increased noticeably, at least rural areas, at the end of the decade. Between 1999 and 2003, the Government embarked on a significant road investment program in which 40 percent of the nation's principal road network was rehabilitated and repaired. This included paving or improving nearly 780 kilometers of roads as part of Central Government's *Caminos Rurales Sostenibles* (Sustainable Rural Roads) program, rural road repair of earthquake damaged roads, and partnerships between FISDL and local governments to increase rural road access.<sup>88</sup>

**Figure 7.7: Average Annual Increase in Kilometers of Paved Roads in the 1990s in Latin America**



Source: *World Development Indicators* (2004).

7.45 Between 1997 and 2003, GOES invested US \$1,256 million on projects in construction, rehabilitation and maintenance of the country's road network (Table 7.5). Of this amount, 82 percent was executed through MOP, 11 percent through FOVIAL, and 7 percent through FISDL. Public resources spent on roads fluctuated somewhat over the period, peaking at 1.7 percent of GDP in 2002, but declining to 1.3 percent in 2003.<sup>89</sup>

7.46 The available data do not permit separate analysis of spending on rural roads prior to 1999. However, between 1999 and 2003, public spending on rural roads totaled US \$184 million. This

<sup>87</sup> Under Salvadoran law, local roads (*caminos vecinales o locales*) are designated as part of the "Local Network" (or *Red Local*).

<sup>88</sup> FISDL undertook just over 1,900 road improvement projects during the 1999-2003 period.

<sup>89</sup> Unlike in the cases of education and health, cross-country data are not available on spending on road investments. As a result, no international comparisons – or benchmarking – are possible.

represented about 21 percent of total public spending on roads over that period. Fifty eighth percent of public spending rural roads went to projects implemented under *Caminos Rurales Sostenibles* and to rural road maintenance executed by MOP; 37 percent of spending on rural roads went for road improvement projects executed by FISDL;<sup>90</sup> and 5 percent of public spending went for routine maintenance of unpaved roads, carried out by FOVIAL. Spending on rural roads stayed fairly constant as a share of national income over the period, remaining at 0.2-0.3 percent of GDP.

**Table 7.5: Public Expenditure on Road Infrastructure, 1997-2003**  
(US\$ million and percent of GDP)

	1997	1998	1999	2000	2001	2002	2003
<b>Total Road Network a/</b>	177.5	186.8	120.0	139.7	195.1	247.6	189.5
<b>MOP</b>	163.6	186.8	116.1	123.9	179.7	183.1	79.8
<b>FOVIAL b/</b>	0.0	0.0	0.0	0.0	0.0	47.4	93.5
<b>FISDL</b>	13.9	0.0	3.8	15.8	15.4	17.2	16.2
<b>Percent of GDP</b>	1.6	1.6	1.0	1.1	1.4	1.7	1.3
<b>Rural Roads</b>	-	-	23.6	45.7	42.1	28.8	44.0
<b>MOP c/</b>	-	-	19.7	29.9	26.7	11.7	19.0
<b>FOVIAL d/</b>	0.0	0.0	0.0	0.0	0.0	0.0	8.8
<b>FISDL e/</b>	13.9	0.0	3.8	15.8	15.4	17.2	16.2
<b>Rural Roads as a % of Total Road Spending on Roads</b>	-	-	19.7	32.7	21.6	11.6	23.2
<b>Percent of GDP</b>	-	-	0.2	0.3	0.3	0.2	0.3

Notes:

a/ Inter-urban and urban

b/ Periodic and routine maintenance of paved and unpaved roads

c/ Rural maintenance and *Caminos Rurales Sostenibles*

d/ Routine maintenance of unpaved roads

e/ Local road improvement

Source: World Bank 2004, using MOP, FOVIAL and FISDL data.

**—and an increased focus on road maintenance**

7.47 In addition to the priority placed on developing rural roads through *Camino Rurales Sostenibles*, an important recent development has been the establishment of an institution, FOVIAL, dedicated to road maintenance. Since 2002, FOVIAL has overseen routine and periodic maintenance on El Salvador's primary road network. Many countries under-invest in operations and maintenance, and in doing so raise the cost of road infrastructure investments over time. In that sense, FOVIAL's maintenance activities represent good practice in governmental efforts to strengthen road sector investments – conserving resources by extending the life of recently paved or rehabilitated roads.

<sup>90</sup> FISDL activities often mobilize counterpart funds from participating municipalities and local government, thus leveraging Central Government investments. Such counterpart funds are not captured in the Central Government expenditure figures presented here. In that sense, these figures underestimate, to some extent, public spending on rural roads over the period.



***Still, need for an institutionalized program for rural roads maintenance.***

7.48 Although FOVIAL spent nearly 10 percent of its budget on rural roads maintenance in 2003 (Table 7.5), the Government of El Salvador does not yet have an institutionalized program for rural roads maintenance. There would be high returns, however, to developing a scheme to guarantee the longevity and sustainability of rural roads investments, particularly in secondary and tertiary networks (i.e., rural maintenance efforts that would mirror FOVIAL's efforts on the primary network). Such a program could be implemented, at least in part, through partnerships between the Central Government and local governments – along the lines of recent rural road maintenance activities supported and monitored by FISDL and the German agency, GTZ.

7.49 *Ongoing challenges and directions for policy.* Despite measurable improvements, important challenges remain, as many poor rural households remain isolated – in absolute as well as in relative terms. As noted above, in 2001, average distances for members of extremely poor households remained over 5 kilometers, about 80-90 percent further than among non-poor households. Similarly, distances to the nearest markets exceeded 45 kilometers for the extreme poor, more than one-third higher, on average, than for the non-poor.

7.50 Recent progress to rehabilitate the nation's principal road network, to repair earthquake damage roads and to promote greater rural road access through *Caminos Rurales Sostenibles* and other programs has been impressive and provides useful lessons for the way forward, particularly regarding the importance of road maintenance. Indeed, by ensuring longevity of recent rural road investments, returns to rural roads maintenance are extremely high and should be considered a priority along with continued investments in road expansion. In this context, efforts to ensure that the poor benefit from rural road investments should focus on:

- Continuing expansion and improvement of the rural road network;
- Developing a program for the maintenance of secondary and tertiary road networks to ensure the sustainability of recent investments in rural roads; and
- Continuing development of local and municipal capacity to build and maintain rural (and local) road infrastructure.

***Only a modest increase in spending is necessary***

7.51 *Costs.* The costs associated with a program to continue expansion and improvement of the rural road network, as well as to develop a maintenance capacity for rural roads depends on the specific goals and the timeframe set for achieving them. One possible set of objectives – that would be consistent with the country's goals to strengthen poverty reduction through infrastructure development – would be: (i) to pave or rehabilitate an additional 1,000 kilometers of rural roads; and, (ii) to ensure annual maintenance of 3,000 kilometers of rural (secondary, tertiary, and local) roads. Analysis of El Salvador's road investments suggests that the unit costs of the country's road development are in line with international norms (Yepes 2004). Using recent average unit costs of road paving, rehabilitation, and maintenance as benchmarks, it is estimated that a 5-year program to (i) pave and/or rehabilitate an additional 1,000 kilometers of rural roads and (ii) initiate a rural road maintenance program would cost the Government of El Salvador roughly an additional US \$25 million per year over average 2003 spending levels. This implies a spending level of approximately 1.4-1.5 percent of GDP per year, up from 1.3 percent of GDP in 2003 (and on average between 1999 and 2003).

## VIII. SOCIAL PROTECTION

8.1 Social protection is traditionally defined as a range of measures adopted by governments to provide basic income security to their people, to protect them from unanticipated shocks, and protect and develop the human capital of society's poorest most vulnerable members of society, those outside the reach of traditional government and private services. Social protection is typically delivered via a range of social insurance and/or social assistance programs (Box 8.1).

### ***Box 8.1: Social Protection – Managing Social Risk, Promoting Long-term Growth and Development***

People in developing countries face a range of risks. Some risks, such as economic recessions, harvest losses, natural disasters and wars, affect whole societies or large groups. Others, such as the illness of family members, loss of household breadwinners' jobs, and crime, may only affect individual households. *Social protection* is defined as a range of public interventions that support society's most poor and vulnerable members and help individuals, families, and communities manage risks better. Social protection includes a range of informal, market-based, and public mechanisms, including regulation, government financing, and the direct provision of services. Intended to augment, not replace, family, community, and market-based risk management mechanisms, such interventions complement national economic policies and support strategies for poverty reduction and human development.

Public social protection measures often are categorized into two main groups: *social insurance* and *social assistance*. Social insurance includes an array of insurance-type mechanisms, such as pensions and unemployment and health insurance that are intended to cushion the impact of shocks affecting income, employment, or health, and thereby prevent families from falling into poverty. Social assistance includes a variety of safety net programs, such as workfare, assistance to the disabled and indigent, and cash transfers, all of which help individuals and families deal with temporary or chronic poverty and achieve higher standards of living. Labor market policies and institutions often play a central role in social protection, both by influencing the nature and extent of the risks workers face and by providing a framework for social protection programs such as pensions, unemployment insurance and workfare.

Well-designed social-protection programs can compensate for missing insurance markets or other private risk-mitigation instruments, and in doing so, they create opportunities among the poor for more productive investments and higher incomes. In addition, certain types of safety net tools—such as “conditional transfers,” where payments are made contingent upon family investments in children's health or schooling—both provide short-term income support and strengthen longer-term investments in children's education, health, well-being and productivity.

Source: “Volatility, Risk, and Innovation: Social Protection in Latin America and the Caribbean, *Spectrum*, World Bank, Fall 2003.

### ***Social protection can soften the impact of shocks among society's most vulnerable—***

8.2 Social protection can – and should – play an integral role in a National Social Policy to reduce poverty in El Salvador. In particular, safety nets programs are important as part of El Salvador's poverty reductions strategy for several reasons. Specifically:

- Although the moderate poor have been able, to a large extent, to share in recent growth, the poorest, most vulnerable Salvadorans have been much less able to take advantage of recent progress. Between 1991 and 2002, per capita income growth among the poorest 20 percent of Salvadoran households was just over one-third of average per capita income growth for the period.<sup>91</sup> Indeed, a new analysis of the BASIS data finds some evidence of “poverty traps” among the poorest households in rural El Salvador (Gonzalez-Vega and Rodriguez-Meza 2004). Persistently low levels of education and

<sup>91</sup> See table 3.2.

continuing poor access to basic services mean that the most poor and vulnerable households lack the capabilities to take advantage of new and emerging economic opportunities and pull themselves out of poverty.

- El Salvador is prone to a variety of shocks, including earthquakes, droughts, floods, as well as external economic events. While all Salvadorans are potentially vulnerable to shocks, as events like the earthquakes of 2001 attest, the extreme poor tend to be most vulnerable. Evidence from the BASIS panel data indicates that rural incomes remain quite volatile in El Salvador, and that poor households tend to rebound from transient income shocks much more slowly than non-poor households (Beneke de Sanfeliú and Shi 2004; Gonzalez-Vega and Rodriguez-Meza 2004).<sup>92</sup> In addition, evidence from the 2001 earthquake and the coffee crisis suggests that even when households' incomes rebound quickly, the effects of shocks on non-income dimensions of well-being, such as education and nutrition, may be more persistent, taking more time to recover.
- While most households have their own "private" safety nets – most notably migration and remittances – they tend not be sufficient, particular among the poor. International evidence suggests that private risk management strategies only *partially* insure families against risk/shocks. Moreover, in the case of remittances, only a fraction of the population – and thus those that need support – receive them.<sup>93</sup>

***—and provide them with the security to invest productively in their own futures.***

8.3 More generally, a growing body of global evidence is making increasingly clear that too much vulnerability and "uninsured" risk in a society can hinder a country's ability to grow and reduce poverty, by reducing both the ability of the poor to invest in productive enterprises and the quality of their investments (Ravallion 2003). Poor, uninsured, and risk-averse farmers and entrepreneurs, for example, often invest in low-risk, low-return enterprises in an attempt to prevent or mitigate the impact of unanticipated shocks, leading to the type of poverty traps observed in El Salvador. Moreover, too much uninsured risk can lead the poor to under-invest in their children's education and health – saving on schooling costs or counting on child labor to augment and diversify their earnings "portfolio". But in doing so, they sacrifice their children's future productivity and increase the chances of an intergenerational cycle of poverty. In contrast, by virtue of its insurance and safety net functions, sound social protection programs can actually help to strengthen countries' ability to reduce poverty.

8.4 This chapter summarizes the key risks and risk groups in El Salvador, based on the findings presented earlier in the report as well as on the findings of a recent World Bank *Social Safety Net Assessment* (World Bank 2002). It then discusses the current state of El Salvador's social safety net, highlights key challenges for developing a safety net as an integral part of a National Social Policy to reduce poverty and vulnerability, and outlines policy directions for the near-term.<sup>94</sup>

***With falling poverty rates, more deliberate, targeted measures are needed.***

8.5 Several key messages emerge from the chapter. As is highlighted elsewhere in the report, El Salvador's recent accomplishments have created new challenges with respect to reducing

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<sup>92</sup> The findings of high volatility of income in rural areas, coupled with the fact that the incomes of the poor recover from shocks more slowly than incomes of the non-poor, suggest that formal and informal insurance markets do not function well in rural areas of El Salvador, and even less well among the poor.

<sup>93</sup> For a more detailed discussion of the role and extent of remittances, see Chapter 3.

<sup>94</sup> Since initial preparation of and consultations on this report, a new Government has developed and launched a multi-faceted social strategy that includes the *Red Solidaria*, a unified safety net program aimed at strengthening access to basic education and health services – and thus the human capital – of children living in extremely poor Salvadoran households.

poverty. When poverty was more widespread, growth together with broad sectoral strategies were appropriate and effective in raising the living standards of the poor. Yet, as the proportion of the population that is poor has declined, it has become clearer that there are sub-groups of the populations who have not been able to take advantage of growth or to benefit from traditional line ministry programs. For these, El Salvador's most poor and vulnerable families, specific and well-targeted measures are needed to ensure that they are more prepared to take advantage of future progress and opportunities. Moreover, the evidence suggests that focusing strategically on priority risks and risk groups; it is possible to have a significant positive impact with a safety net at a relatively low cost – perhaps less than 1% of the GOES budget per year in the short-term.

### Key risks

#### ***Many risks are age-specific—***

8.6 As discussed in detail in previous chapters, poor Salvadorans face elevated risks – with respect to health, nutrition, mortality, low education levels, lack of access to productive assets and earnings opportunities – affecting both their current and future well-being. These risks often manifest themselves in different – and programmatically relevant – ways over the lifecycle. Specifically:

- *Young children, age 0-6.* Young children in poor families face the risk of poor health and nutrition and lack of access to health early childhood development services, leading to atrophied physical and cognitive development. Atrophied child development, caused either by malnutrition or the lack of early stimulation, has severe negative consequences on school performance and, eventually, on productivity and earnings in the job market, thus contributing to the intergenerational transmission of poverty.
- *Children and Adolescents, age 7-15.* A key risk among poor children in this age group is the *lack of basic education*, due either to non-attendance, late entry, repetition, desertion, as well as child labor, again with adverse effects on children's capabilities and economic prospects. The SSNA also identified family disintegration, domestic violence, and child abuse and abandonment as an important risk among poor children in this age group.<sup>95</sup>
- *Young Adults, age 16-23.* Poor youth in this age group face high risk of low accumulation of human capital due to low levels of schooling, with negative consequences for employment, labor productivity and earnings. Economic inactivity among this age group is often associated a higher likelihood of violence, gang activity, and substance abuse. Teen pregnancy is also a growing risk among poor young Salvadoran women, with adverse impacts in terms of schooling, economic prospects, and family life.<sup>96</sup>
- *Prime working-age adults, age 24-64.* The main risk faced by poor people in this age group is low productivity and income due to low levels of human capital and poor access to productive assets, commonly with adverse second-round effects in terms of families' investments in their children's human capital.

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<sup>95</sup> In 1999, there were 1,510 cases of child abuse reported in the country (World Bank 2002).

<sup>96</sup> Every year, between 30,000 and 40,000 adolescents become pregnant, which represents a third of all pregnancies (World Bank 2002).

- *Older adults, age 65 and over.* The main risk faced by poor people in this age group is income insecurity due to the lack of a pension or other forms of old-age security.<sup>97</sup>

*—though a lack of access to key services affects people of all ages*

8.7 There are clearly important risks facing the poor that are not linked to a specific part of the lifecycle. As discussed earlier, the poor as a group have less access to basic services in general and report a higher incidence of illness than the non-poor, regardless of their age. The poor also tend to face greater personal and legal insecurity than the non-poor (World Bank 2002). And when economic or natural shocks occur, these shocks affect the well-being of entire families, regardless of age.

*Priority should be given to building human capital in the young, investments with high returns.*

8.8 At the same time, framing risks in terms of the lifecycle is helpful in highlighting potential criteria for prioritizing safety net related programs and investments – particularly when fiscal constraints are likely to selectivity among potential programs. Two attractive criteria include: (1) investments, the absence of which will cause *irreversible* damage; and (2) investments which, if made, can reduce the intergenerational transmission of poverty. Both of these criteria point in the direction of programs and investments to support interventions to build human capital early in the lifecycle – i.e., among infants, children, and adolescents in El Salvador’s poorest, most vulnerable households. This prioritization is also consistent with a large body of global evidence showing high economic and social returns to investments in young and school-age children.

*El Salvador’s current social safety net programs*

*Over fifty safety net type programs—*

8.9 Unlike the sectoral issues discussed in chapters 4-7 of this report, the risks outlined above are cross-cutting and do not fit neatly into one public institution or another. Indeed, most countries do not have a single institutional entity responsible for safety net type programs, and El Salvador is no exception. Understanding the scope and reach of a country’s social safety thus requires a multi-sectoral approach and considerable “leg-work.” In this context, the World Bank SSNA team, in collaboration with the main public and private social service institutions, identified 52 social safety net-type programs operating in El Salvador in 2000. These are programs implemented by a range of range of governmental, including the Ministries of Education, Health, and Labor, the National Secretariat for the Family, the Salvadoran Institute for the Protection of Minors, and, FISDL, as well as a variety of non-governmental actors (i.e., private sector, NGOs).

*—with responsibilities that are not always clearly demarcated—*

8.10 It is important to note that outside of safety net programs implemented in response to specific shocks – such as an earthquake or hurricane – there is not always a clear line of demarcation between the programs that make up a country’s safety net and those implemented by public institutions in the course of their normal work or line activities. One practical way of assessing whether a program is a line program or is part of the social safety net is to consider which obstacles to service access it seeks to eliminate, those from the supply side (e.g., lack of school infrastructure) or those from the demand side (e.g., cost of services, knowledge about service benefits and availability, etc.). Line programs typically act on supply (e.g., increasing the number of schools or teachers), whereas safety net programs often focus on removing obstacles

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<sup>97</sup> Among the working poor, only 6.1% is covered by the pension system. About 351,000 elderly persons are not covered by a formal pension program, nor do they receive any alternative benefit (World Bank 2002).

on the demand side (e.g., by providing support to families who do not send their children to school due to the high direct or indirect costs). Where relevant, this rule-of-thumb was used.

8.11 The SSNA found that most of the risks outlined above are addressed by one or more programs. (A detailed list of programs is presented in Annex 1.) The greatest number of programs address the risks faced by children under 6 and their mothers (6 programs), efforts to increase learning and retention of children in school (7 programs), the situation of child workers (5 programs), family disintegration (6 programs), and young offenders (3 programs). There is also support for the training and development of adolescents and young adults (6 programs) and the unemployed (2 programs). Problems of discrimination against women (3 programs) and disabled persons (2 programs) are also addressed by existing programs. For the elderly, besides social insurance, only two small support programs were identified. For the provision of basic services there are the FISDL programs, the FONAVIPO program of targeted subsidies for housing purchases, the Program for Attention to Earthquake Victims, and in particular, the program *Unidos for El Salvador* ("United for El Salvador", the earthquake reconstruction program).

***—and most are small-scale and/or pilot programs.***

8.12 In sum, there were found to be a considerable number of safety net type programs being implemented in El Salvador, by a range of institutions and organization. With a few exceptions, however, most of the programs are small scale interventions and/or pilot projects, as opposed to wide-reaching or national level programs. Moreover, the programs tend to operate in a largely uncoordinated manner, with relatively little sharing of operational lessons across projects or agencies.

8.13 *Public spending on the safety net.* The Government's line ministry programs and the social safety net programs ought to be thought of as complements – and spending the same. Line programs aim to provide basic services with adequate quality to the population at large. The social safety net programs should target those population groups, generally the poorest, who do not otherwise have access to these programs, or who face other obstacles to access (e.g., cost, distance, lack of know knowledge about service availability and benefits) to basic line ministry services. In principle, if the poor no had problems in gaining access to line ministry programs, or to private pr public insurance mechanisms, then safety net programs would not be needed. In practice, the very poor still tend to access to traditional sectoral programs as well as formal insurance mechanisms (whether public or private).

***Public spending on safety net programs is about 0.5% of GDP—***

8.14 The SSNA estimated total spending (public plus private) on El Salvador's social safety net, based on estimates of the amounts spent on each of the 52 programs identified (World Bank 2002). Special efforts were made to avoid double counting of expenditures that were better defined as part of the Government's basic line ministry programs. The estimates suggest that total spending on El Salvador's safety net from public and private sources was about US \$135.4 million in 2000 (Table 8.1). Forty-eight percent of that, or US \$65 million, came from the public sector, while the remainder came from non-governmental sources, including the private sector, NGOs, and households.<sup>98</sup> Thus, in 2000 the Government of El Salvador spent about US \$65 million on safety net related programs – the equivalent of 0.5 percent of GDP and 3 percent of Central Government spending.

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<sup>98</sup> Private sources of spending on the safety net include private sector/workers' contribution to Social Security (i.e., pensions and health), contributions to INSAFORP (*Instituto Salvadoreño de Formación Profesional*), as well as estimates of NGO financing of some social protection programs (e.g., implemented through FUSAL and other non-governmental agencies). Private spending, as discussed here, excludes remittances – although remittances are often considered a key element of households' private safety net.

**Table 8.1: Spending on El Salvador's Social Safety, 2000**

Category	Spending (US\$000)	% Total	% GDP
<b>Total Spending</b>	135,382	100.0	1.02
Public	65,000	48.0	0.49
Private <sup>1/</sup>	70,382	52.0	0.53
<b>By Age Group</b>			
0-6,	10,100	7.5	0.08
7-15	37,558	27.7	0.28
16-23	10,138	7.5	0.08
24-64	29,309	21.6	0.22
65+	12,528	9.3	0.09
Population at large <sup>2/</sup>	35,749	26.4	0.27

Notes: 1/ Private spending includes private sector/workers' contribution to Social Security (i.e., pensions and health), contributions to INSAFORP (*Instituto Salvadoreño de Formación Profesional*), and estimates of NGO financing of safety net programs. Remittances not included.

2/ The age category "Population at large" refers to programs that are not targeted to a particular age or demographic category

3/ 2000 GDP, US\$ 13,217 million; Government Budget: US\$ 2,085 million

Source: World Bank 2002.

**—which is low by regional standards—**

8.15 Comparison of these estimates with those from other recent studies suggests that public spending on safety net programs in El Salvador is low by regional standards. Public spending on safety nets in Central America as a whole is about 1.5 percent of GDP, about 1.4 percent of GDP for the Latin America region, and about 2.9 percent of GDP in OECD countries, on average (Marques 2003; *Spectrum* 2003).

8.16 Analysis of the BASIS data also indicates that transfers make up only a very small proportion of the incomes of rural households – both on average and among the poor. Between 1995 and 1999, total transfers from public and private institutions averaged between 0.8 and 1.1 percent of household incomes (Beneke de Sanfeliú and Shi 2004). This figure doubled to about 2.2 percent in 2001, due to receipt of assistance following the earthquakes. Perhaps more striking is the fact that between 1995 and 1999 total receipt of transfers made up only 1.3 - 2.2 percent of the incomes of the poorest rural households. This figure also doubled – to 4.1 percent – in 2001. To put this in perspective, remittances made up about 16 percent of rural household incomes, on average, in 2001, and nearly 10 percent of incomes among the poorest rural households (Beneke de Sanfeliú and Shi 2004).

**—especially among priority groups such as young children.**

8.17 The SSNA's expenditure analysis also highlighted patterns of spending on risk groups over the lifecycle (Table 8.1). Only 7.5 percent of total spending on safety nets (0.08 percent of GDP) was spent on programs for children age 0-6, perhaps the area with the highest economic and social returns on investments. At the same time, another priority age group, 7 to 15 year olds, received more than a quarter of the benefits of spending – this due mainly to the *Healthy School*

program, which is nationwide in scope.<sup>99</sup> As with 0 to 6 year olds, 16 to 23 year olds received 7.5 percent of the resources spent on safety net type programs. Twenty-four to 64 year olds received 22 percent of spending, while 9.3 percent went to people 65 and over. Finally, about 26.4% of the total spending on safety nets resources went to address risks affecting the population as a whole, much of this through infrastructure and local development activities implemented through FISDL.<sup>100</sup>

### Ongoing challenges.

8.18 Assessment of the existing programs suggests that they are generally pertinent, focusing key socio-economic risks faced by the poorest, most vulnerable Salvadorans. At the same time, the impact of the safety net remains quite modest relative to its potential for several reasons, including

- Low coverage associated with low levels of public spending
- Under-allocation of resources to highest priority risk groups
- Weak program targeting
- Lack of program coherence and coordination, and
- Low cost-effectiveness of programs in some cases

### ***Coverage of the safety net remains limited—***

8.19 *Coverage.* Although there is a significant number of programs, coverage of the safety net remains limited relative to the size of the groups at risk. For instance, according to FESAL (2003) 28 percent of children under 5 in low-income households experience chronic malnutrition; but only a fraction of those are covered by existing programs (Annex 1). Coverage will thus need to be increased substantially if El Salvador's safety net is to have significant and lasting impact. With some exceptions (e.g., the *Healthy Schools* program, which is nationwide), most programs are pilots or modest interventions that – without minimizing their merits – will have difficulty making a significant and lasting impact. Low program coverage of safety net is closely related to low levels of public spending on the safety net programs. As a percentage of GDP, El Salvador currently spends only about one-third on its safety net than do other countries in Central America (and Latin America as a whole).<sup>101</sup> If El Salvador is going to implement an effective social safety net, it will require increased commitment of public resources.

### ***—notably with respect to the developmental risks faced by 0-6 year olds***

8.20 *Allocation of resources to high priority risk groups.* Based on the criteria of irreversibility and reducing the inter-generational transmission of poverty, interventions to address the

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<sup>99</sup> Started in 1997, this Healthy Schools Program, implemented by the National Secretariat for the Family, seeks to reduce student desertion rates, compensate for inadequate school infrastructure, improve nutrition, and reduce the high rates of illness among the children. The program operates in 100% of rural public schools, reaching 650,000 children from 4 to 17 years old in 2000. It should also be noted that this program also benefited the 25 percent of poor children, aged 4 to 6, who attended preschool in 2000 (World Bank 2002).

<sup>100</sup> Additional detail on spending levels by program and risk group can be found in Annex 1.

<sup>101</sup> Public spending on El Salvador's safety net was roughly 0.5 percent of GDP in 2000, compared to 1.5 percent of GDP, on average, for the Central American countries and 1.4 percent of GDP, on average for the Latin America region as a whole (see Table 8.1, above, for the data on El Salvador; comparative figures for the region can be found in Marques 2003 and *Spectrum* 2003).



developmental risks of 0-6 year olds are particularly under-resourced. Although this age group makes up over 20 percent of the poor, early child interventions only received 7.5 percent of total spending on the safety net in 2000 (equivalent to 0.08 percent of GDP). Investments in early child development (e.g., early child health, nutrition, and education), along with investments in school aged children and adolescents, require an increase in priority vis-à-vis resource allocation to reduce irreversible damage to poor children's human capital. Moreover, early childhood investments have relatively high economic and social rates of return, so increasing emphasis on these groups would also help to ensure that safety nets are focused on high rate-of-return investments.

***Targeting mechanisms need to be strengthened—***

8.21 *Targeting.* While most programs use some targeting mechanisms, and while they tend to be pertinent in terms of the risk they address, they also generally lack criteria or tools for effectively targeting their actions and services to the groups with the greatest need. Since the 2001 earthquakes, the Government of El Salvador has been working, with World Bank technical assistance, to improve its poverty monitoring through the development of a poverty map. Data from the poverty map, combined with more direct selection mechanisms, will be important to targeting more effectively of the poorest and most vulnerable Salvadorans. Effective targeting will be necessary to ensure the most effective use of resources in reaching poor, vulnerable populations.

***—as does program coordination and coherence.***

8.22 *Lack of program coherence and coordination.* El Salvador's safety net is currently less impactful than it could be, in part, because its many small uncoordinated programs lack coherence or strategic vision. Indeed, at present, there is no institutional body or mechanism that provides strategic direction or supports identification of priorities, coordination between programs working on similar issues or in similar localities, nor promotes exchange of information on good practice. The effectiveness of the safety net would benefit from an institutional process that could help provide a coherent vision, strategic direction, and potentially supporting services (e.g., analysis, data on targeting, etc.).

8.23 *Cost-effectiveness.* Insufficient data are available with which to do a detailed analysis of program cost-effectiveness. Nevertheless, review of those programs that benefit children reveal a wide range of unit costs, suggesting both that some programs may be more efficient than others, and that there is not yet a proven cost-effective model for intervention. The fact that many of the existing programs are small means that, whatever other benefits they bring, they are probably not able to exploit economies of scale in program implementation. It will be increasingly important to identify both effective programs and cost-effective models of service delivery to promote the "scaling up" of successful models and to assure the maximum impact of the safety net for a given budget envelop.

**Directions for public policy**

***A two-pronged strategy—***

8.24 Given the combination of chronic poverty and vulnerability and shocks in El Salvador, the country would benefit from a safety net that has two strategic prongs: (1) one prong designed to improve service access to the poorest, most vulnerable groups who have been unable to benefit from El Salvador's traditional sectoral interventions; and (2) another prong that provides assistance to those, especially among the poor, who are detrimentally affected by unanticipated shocks. An important feature of the safety net is that it should act as a complement to, not a substitute for the regular programs of line ministries, private insurance, and households' own risk management strategies.

8.25 Strengthening the social safety net will require additional effort and resources to extend program coverage and improve impact, through focusing more strongly on priority risk areas, such as on for poor children and adolescents at risk. To do so, it will also be necessary to improve data and information collection for program targeting, as well as to develop monitoring and evaluation systems to enable the identification of effective models of intervention and to ensure program impact. Perhaps most importantly, it will be necessary to establish an institutional framework or process to support the development of a coherent social safety net as part of a broader National Social Policy to reduce poverty in El Salvador.

***—to improve coverage for priority groups—***

8.26 *Strengthening coverage, impact on priority groups.* Recent dialogue with counterparts in the Government of El Salvador produced a consensus that the criteria of “irreversibility of damages” and reducing that reducing the probability of the intergenerational transmission of poverty were appropriate.<sup>102</sup> These criteria also work to focus safety net related resources to areas of potentially high economic and social returns. In this context, priority should be given to programs that focus on (in order of priority):

- *Early childhood development*, including health, nutrition, early childhood education interventions for poor children, age 0-6 (as well as their mothers)
- *Basic education*, raising both enrollment and graduation rates among poor children, age 7-15, and
- *Youth development*, including interventions to promote constructive participation of youth in education, productive work, sports and recreation, community service, and counseling, for poor youth in the 16-to-23 age range.

***—and protect and support those most affected by shocks.***

8.27 A safety net this is designed to protect the poor from the adverse impacts of shocks will also need to have in place a plan, as well as the institutional capacity for rolling out and scaling up interventions quickly in the event of unanticipated shocks. Experience from other countries in Latin America as well as in Asia in the aftermath of the East Asian crisis suggests that the effectiveness of a country’s response to a shock depends in part on their preparedness, ex ante, to respond (de Ferranti and others 2001).

***Effective targeting will be important to ensure the most effective use of resources—***

8.28 *Improving targeting.* Following the 2001 earthquakes, the Government of El Salvador began an effort, supported by the World Bank, to collect household income and expenditure data at the municipal level (as opposed to the department level) to enable development of a poverty map for poverty monitoring and program targeting purposes. This effort has been undertaken in two rounds, focusing first on those municipalities most affected by the earthquakes and, subsequently on the remainder of El Salvador’s municipalities. The poverty map generated from these data is an important step toward refining poverty monitoring and targeting anti-poverty and safety net programs.

8.29 At the same time, serious constraints to effective poverty monitoring and targeting remain. Perhaps the most important is the lack of a recent population census. The most recent census was fielded in 1992 just after the return to peace. But there has been a significant population movement since then, and the census is not currently reliable, nor useful in supporting either poverty monitoring or program targeting. In addition, there are still ways to improve El

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<sup>102</sup> The criteria and priorities were discussed with the Social Cabinet of the Government in December 2001.

Salvador's household survey. Integrated household surveys that collect data on household consumption as well as income and expenditure – like the World Bank supported Living Standards Measurement Studies (LSMS) surveys are now considered international best practice for poverty measurement. This is in large part because household per capita consumption, rather than income, is now considered the preferred measure of household welfare. Thus, the collection of a new population census, together with an enhanced multi-purpose household survey, would go far to enable effective targeting of poor and vulnerable households.

8.30 More direct targeting methods can also be used. In some countries in the region, two-stage targeting has been used to target conditional cash transfers, transfers to poor households that are made conditional upon family investments in their children's education and health, and nutrition. In the first stage of targeting, poor localities are identified; in the second stage, poor households within the poor localities are identified as beneficiaries of the transfers. This was the case in Mexico's PROGRESA program. Elsewhere, approaches to designing "self-targeting" mechanisms have been used. In cash-for-work (or "workfare") programs, for example, best practice dictates that the offered wage be below the prevailing market wage in the locality where the public works program is being undertaken. By setting the wage below the prevailing market wage, these workfare programs attract those for whom the opportunity cost of their time is very low – either because they are unemployed or significantly underemployed. Such approaches may also be worth exploring in El Salvador in the context of designing better targeted safety net programs.

—*as will strengthened monitoring and evaluation of programs.*

8.31 *Identifying cost effective program models.* On the basis of the information collected for the SSNA (2002), it became clear that most safety net programs have deficient or non-existent information and monitoring and evaluation (M&E) systems. Indeed, existing monitoring and evaluation of programs is weak. Strengthening such systems is important to ensure that program benefits reach their intended beneficiaries and not other groups, that benefits delivered have the desired impact, that administrative costs are reasonable, and that program unit costs can be monitored to determine the most cost-effective models.<sup>103</sup>

8.32 In addition to building up a domestic information base and M&E capacity to identify cost effective approaches, there are many lessons from recent experience in the Latin America region from which El Salvador could potentially learn.<sup>104</sup> For example, several Latin American countries have been successful in improving the human development outcomes of poor children through the use of conditional cash transfer programs, financial assistance made to poor households conditional upon family investments in children's education, health, and nutrition (Box 8.2). Such a model might be appropriate in El Salvador in getting children from the poorest, most vulnerable households into and through basic education and/or through secondary schooling.

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<sup>103</sup> At the national level, information and M&E systems are necessary to support strategic resource allocation decisions (see *Institutional framework*, below.)

<sup>104</sup> For a review of recent experiences in social protection in Latin America and the Caribbean, see *Spectrum*, "Volatility, Risk, and Innovation: Social Protection in Latin America and the Caribbean," World Bank, Fall 2003.

**Box 8.2: Strengthening Poor Children's Education, Health, and Nutrition through Conditional Cash Transfers**

Evaluation results, available for two conditional cash transfer programs in Latin America, PROGRESA in Mexico and the *Red de Protección Social* pilot in Nicaragua, show that conditional cash transfers are an effective instrument for increasing the human capital of the poor through investments in health and education. Conditional cash transfer programs provide cash assistance to poor households on the condition that families make specified investments in the education, health, and nutrition of their children.

*Education.* Conditional cash transfer programs have raised enrollment rates for both boys and girls. In Mexico, primary school enrollment rates increased around 1 percentage point from a high pre-program level of about 90 percent. At the secondary school level, enrollment rates rose 7.2–9.3 percentage points for girls from baseline enrollment rates of 67 percent, and from 3.5–5.8 percentage points for boys from a baseline of 73 percent. In Nicaragua, program impacts are even more impressive. Average enrollment rates of children ages 7–13 in grades 1 to 4 in treatment areas increased nearly 22 percentage points as a result of the program, from a low starting point of around 70 percent.

Program impact on attendance rates are more mixed. In Nicaragua, the RPS produced an increase of 30 percentage points in the share of children who had fewer than six unexcused absences during a two-month period. The PROGRESA evaluation showed more pronounced effects on school enrollment than on attendance rates.

*Child health and nutrition.* Evaluations show improvement in health and nutrition too. Growth-monitoring visits of PROGRESA beneficiaries up to three-years-old have increased between 30–60 percent, and beneficiaries up to six years old have a 12 percent lower incidence of illness compared with control group children. In Nicaragua, around 60 percent of children under three-years-old participated in nutrition monitoring before the RPS was implemented. After a few months of program operation, more than 90 percent of children in RPS areas benefited from nutrition monitoring compared with 67 percent in control areas. The RPS increased timely immunization among children 12–23 months old by 18 percentage points.

Consumption levels also grew faster for households participating in conditional cash transfer programs. In Mexico, the average consumption level in PROGRESA households increased 14 percent. Median food expenditure after more than a year of program operation was 11 percent higher than in control group households. In Nicaragua, control households experienced a sharp decline in consumption due in part to low coffee prices and a drought, whereas the average per capita annual household expenditures in RPS areas did not change. This suggests that conditional cash transfer programs may also help poor people shield their consumption in times of crisis.

Source: Rawlings and Rubio (2003)

***Establishing an appropriate institutional framework will be important—***

**8.33 Institutional framework.** Management of the social safety net requires a coherent and effective institutional process that fulfills the functions of policy leadership, program coordination, and supervision of program actions and impact. This institutional role would need to be defined by the government. One model might be to convene a Social Cabinet with responsibility for Social Policy definition and leadership including (but not limited to) social protection. To fulfill its role, the social cabinet would want the support of a technical team that would provide technical inputs to help establish strategic priorities, undertake analysis for targeting of safety net interventions, support monitoring and evaluation of program execution, and define adjustments to the strategy over time, as necessary. Such a technical team could coordinate internal discussions about the kind of interventions that should be promoted and the appropriate trade-offs between unit costs of interventions and program coverage. The technical team could also undertake responsibility for development of programs to deal with emergencies

due to natural disasters or sectoral crises, as well as explore options to expand insurance coverage for the poor (e.g., pensions, health, unemployment, agricultural, etc.).

8.34 It is important to note that the above describes but one possible approach. Indeed, setting in place an institutional process does not imply the establishment of a new agency or a set of centralized programs. Rather, what is important is to put in place the mechanisms to ensure coherence across programs, that safety net interventions complement, not supplant, sectoral initiatives, that programs are well aligned with priority needs, and that effective approaches are identified and scaled up.

***—as will the commitment of additional budgetary resources.***

8.35 *Costs.* Strengthening El Salvador's social safety net as part of a National Social Policy to reduce poverty will require additional resources, in light of low current spending levels. But because the idea of developing a coherent social safety net is relatively new in El Salvador, it is proposed that the increase in public resources is relatively modest at first, focusing predominantly on expanding outreach and coverage to highest priority groups (i.e., young child in very poor households), as appropriate institutional framework is established, systems for targeting and monitoring and evaluation are established, and effective and cost-effective program models are identified. The intention would be increase public spending incrementally toward regional norms over time, alongside a process of developing increasingly cost effective service models and delivery mechanisms.

***There is scope for leveraging public resources through public-private partnerships—***

8.36 Efforts should also be made to leverage public resources through the further development of public-private partnerships aimed at assisting and protecting El Salvador's poorest, most vulnerable families. As noted above, over half of the total resources spent on safety net type programs have come from non-governmental sources, including from the private and NGO sector. In light of budgetary constraints, it is prudent to continue to identify areas for public-private partnership, thus leveraging public investments in the safety net. Indeed, promoting the active participation of communities, emigrants, local governments, service organizations, and private sector offers an opportunity to expand the outreach and impact of the safety net through creative resource mobilization efforts. Recent initiatives, like *Programa Unidos Por La Solidaridad* (The United for Solidarity Program), in which emigrant groups join with the FISDL to finance social investment efforts in local communities, could provide inspiration for such partnerships (Box 8.3).

***—and through a strategic focus on priority risk groups***

8.37 The SSNA analysis suggests that by focusing strategically on priority risk groups – specifically children, adolescents, and youth – and building on existing programs, it is possible to have a noticeable impact in the short-term for approximately US \$20 million/year.<sup>105</sup> This is equivalent to one-third of all public spending on safety nets in 2000, less than 1 percent of the GOES budget in that year, and less than 0.4 percent of GDP. At this level of funding, no less than two-thirds of the additional expenditure should be directed towards poor, at-risk children under 7 years of age for activities to strengthen early physical and cognitive development, with

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<sup>105</sup> The SSNA (World Bank 2002) estimated that by building on existing programs and funding, an additional US \$20 million per year could facilitate an increase in the number of poor children and at-risk youth covered by early childhood development, basic education, and youth development programs by more than 200,000 over a 5-year period. The SSNA made very specific suggestions about which programs ought to have been targeted, based on programs that were either operating or about to come on stream at the time. While the basic principles outlined in the SSNA still hold, analysis of the specific programs should be updated to ensure that funding increases account for the most recent developments. The forthcoming PHRD grant on Social Protection and Local Development (FISDL) can be used to support such an update.

the remainder focused on programs to increase education access and participation among poor and at-risk children and youth, age, 7-15 and 16-23 (e.g., through expansion of scholarships or conditional education-oriented transfers).

**Box 8.3: *Programa Unidos Por La Solidaridad* – Developing Communities in Partnership with Salvadorans in the Diaspora**

More than 2.5 million Salvadorans live outside their country – about 1 percent all international migrants worldwide. Out-migrants tend to maintain close ties with their communities of origin, sending back a steady stream of income earned abroad. This income is significant, making up as much as 14 percent of El Salvador's GNP. Traditionally, are generally thought to be used to purchase of a variety of consumption goods. But two new trends are emerging: (i) resources from abroad are positively related to the establishment of household micro-enterprises; and (ii) in some cases, remittances have been used to support small, but significant, components of local social investment projects.

In this context, the Government of El Salvador, through the Social Investment Fund for Local Development (FISDL), has begun to facilitate the active involvement of Salvadoran communities abroad in local development processes. In the early stages, the FISDL provided information services and promoted links between out-migrants and local communities, to remind communities abroad of the challenges and priorities facing El Salvador's municipalities. More recently, FISDL has provided concrete mechanisms at the local and governmental levels to facilitate and expand the social investments coming from Salvadoran communities abroad. This process became *Programa Unidos Por La Solidaridad* (The United for Solidarity Program).

The objective of these efforts is to create a "triangle of solidarity" among Salvadorans living abroad, local organizations, and the Central Government of El Salvador, aimed at maximizing resources for local poverty reduction. At the operational level, Salvadoran associations and committees abroad publicly submit project proposals, specifying the amount of they are prepared to contribute to its implementation. Periodically, FISDL reviews a group of proposals, organizes them according to the percentage of counterpart funds, and assigns complementary resources, giving priority to those projects that offer the greatest counterpart funding in relation to the total proposal.

To date, based on 14 rounds of proposal reviews, *Programa Unidos Por La Solidaridad* has implemented 45 projects worth US\$ 11.5 million. This has included US \$2.13 million in support from Salvadoran organizations abroad, US \$2.28 million from municipal governments, US \$6.92 million from FISDL, and US \$0.12 million other institutions of the Central Government. These works have benefited the country's poorest communities. In addition to contributing to improve public infrastructure and services – and temporary employment associated with construction activities – the program has facilitated the opportunity for Salvadorans in the Diaspora to participate in the development of their original communities.

Source: FISDL

8.38 Any additional demand for resources in the short-term would require tough strategic choices regarding the budget and may lack cost effectiveness in the absence of a clear strategic direction, institutional support mechanism, and "good practice" delivery models. Nonetheless, in the medium to longer-term, as the appropriate institutional processes are developed and the most effective delivery models identified, it is recommended that spending levels move incrementally toward regional norms – roughly 1.5 percent of GDP, on average. Regardless of public funding levels, public resources can and should be leveraged through the continued development of creative public-private partnerships.

**Annex 1**  
**Table A.1: Risks/Risk Groups, Programs, Coverage and Costs, 2000**

Age Group/ Risk/ Indicator	Programs	Coverage of the Program 2000	Annual Cost 2000 (US\$ 000)
<b>0-6</b> <u>Atrophied physical, cognitive, and psychological development</u> Infant malnutrition	1. Promotion of Preventative Healthcare for the Community (MSPAS) 2. Nourishing with Love (SNF)	33,969 (pregnant or breastfeeding women) 41,518 (0-5) 5,185 persons	1,500 32
Daycare coverage (0-3)	3. Centers for Integral Development (urban zones) (ISPM) 4. Centers for Child Welfare (rural zones) (ISPM) 5. Outbreaks of Hope (ASAPROSAR)	2,000 (up to 7) 6,360 (up to 7) 1,324 persons	1,252 1,702 53
Preschool coverage (4-6)	6. Pilot project for initial education in the frame of the school for parents (MINED)	12,500 (50 communities CBI-ISPM and 75 communities EDUCO)	30
<b>7-15</b> <u>Deficient basic education</u> Coverage Repetition/ Desertion/ Over-age	7. Healthy Schools (SNF) 8. Food Voucher (MINED) 9. Delivery of Uncooked Food (SNF) 10. Voucher for Education Quality (MINED) 11. Voucher for Rehabilitation of Furnishings (MINED) 12. Alternative Classrooms (a number of grades in same section) (MINED) 13. Accelerated Education (over-age) (MINED)	650,000 (4-17) (243,774) (394,802) 4,799 schools 512 schools 52,500 students (target 2004) 6,400 students (9-18)	25,447 (1,200) (4,728) 9,143 438 3,900 (until 2004) 306
<b>Child labor</b> Child workers	14. Focal Programs for Eradication of Child Labor in Specific Activities (Ministry of Labor/IPEC-ILO) 15. Barefoot Angels (markets) 16. Barefoot Angels (garbage dump) 17. Strengthening of National Process for Prevention and Elimination of Child Labor and Protection of Adolescent Workers (Ministry of Labor) 18. Solidarity (Olaf Palme Foundation)	5,745 (7-18) 250 children (up to 18) 130 children 30 382 children (7-18)	1,577 140 133 90 110
Family disintegration Women heads of household Domestic violence	19. Training and awareness raising about domestic violence for police and judicial authorities (ISDEMU) 20. Training for awareness raising, education, and prevention of domestic violence, sexual aggression (ISDEMU) 21. Foster Homes (ISPM) 22. Immediate Attention and external attention (ISPM) 23. Socio-Family Prevention (ISPM) 24. Cipotes y Cipotas (small children) (Olaf Palme Foundation)	360 police trained  120 CBI technicians trained 4,000 cases (2001) 4,249 cases (2001) 2,247 multiplier agents and 9,314 persons (until June 2001) 57 children (10-18)	19  20 n/a n/a 16 119

**Table A.1: Risks/Risk Groups, Programs, Coverage and Costs, 2000**

Age Group/ Risk/ Indicator	Programs	Coverage of the Program 2000	Annual Cost 2000 (US\$ 000)
<b>16-23</b>			
Low development of human capital			
Schooling	25. HABIL program (INSAFORP) 26. Firm-Center Apprenticeship Program (INSAFORP) 27. Center for Professional Formation of Ciudadela Don Bosco 28. Education and Training (ASAPROSAR) 29. FANTEL scholarships (MINED) 30. Presidential scholarships (MINED)	14,000 882 1,000 340 63 834	3,300 1,085 N/d 206 788 398
Teenage pregnancy Pregnancy / birth rate	31. Integral Healthcare for Adolescents (MSPAS) 32. Education for Life (SNF/MSPAS/ MINED)	N/d N/d	141 N/d
Inactivity Unemployment rate	33. System for Intermediation of Employment (Min. of Labor) 34. National Gatherings for Employment (Ministry of Labor)	7,500 (2001) 1,500 placed	458 (2001) 10
Violence, substance abuse Young offenders Gangs	35. Young Country (SNF) 36. Open Schools (Happiness and Youth Vouchers) (MINED)	16,780 50,000 (students 12-18) (2001)	309 160 (2001)



**Table A.1: Risks/Risk Groups, Programs, Coverage and Costs, 2000**

Age Group/ Risk/ Indicator	Programs	Coverage of the Program 2000	Annual Cost 2000 (US\$ 000)
<b>24-64</b> Low income Schooling Unemployment rate Underemployment rate	37. Literacy Training and Basic Education for Adults (MINED)	118,438 (15+)	3,336
<u>Occupational Health and Safety</u> Fatal accidents Non/fatal accidents	38. Promotion of Occupational Health and Safety Committees (Ministry of Labor) 39. Regional Project for Occupational Health and Safety (Ministry of Labor)	108 committees in firms N/d	80 23
<u>Discrimination against women at work</u> Salary women/men	40. Formation of Municipal Facilitators for Inclusion of the Gender Approach in the Reconstruction (ISDEMU) 41. Training of women leaders in gender and sustainable rural development (ISDEMU) 42. Reentry to production for women in municipalities of the para-central zone (ISDEMU)	200 trained (2001) 190 trained 180 women	34 52 91
<u>Discrimination against disabled persons at work</u> Unemployed disabled persons	43. Integral Attention for Persons Injured and Disabled as a Consequence of the Armed Conflict (Fund for the Wounded) 44. <i>Salvadoran Institute for Rehabilitation of the Disabled (ISRI)</i> Pension system	10,797 (families attended) 40,000 (disabled persons) 1,869 (Total disability pensions)	11,000 6,100 see text
<b>65+</b> No pensions Coverage	45. FUSATE 46. Narcisca Castillo Old Age Home Pension system	N/d 110 persons 63,905 poor affiliated (2001)	N/a 286 10,625

**Table A.1: Risks/Risk Groups, Programs, Coverage and Costs, 2000**

Age Group/ Risk/ Indicator	Programs	Coverage of the Program 2000	Annual Cost 2000 (US\$ 000)
<b>Population at Large</b> Precarious health services Coverage of medical insurance for the poor	47. Rural Health Program (FUSAL/MSPAS) 48. Pilot Health Plan (MSPAS-USAID-NGOs) Medical insurance ISSS and others (poor) Line program pf the Ministry of Health	50,000 23,122 192,5300 80% of the population	587 240 N/a
Precarious housing Housing deficit	49. FONAVIPO (less than 2 minimum wages)	Loans: 2,156 families Contributions: 3,665 families	2,200 4,400
<u>Lack of basic infrastructure</u>	50. FISDL	1,150 projects	28,322
Geographic isolation Distance to basic and productive services	50. FISDL		
Natural disasters Settlements in high-risk zones	51. Assistance for Earthquake Victims (SNF/WFP) 52. Unidos por El Salvador (Earthquake Reconstruction Program of the GOES / components for resettlement and disaster prevention	40,000 families National with emphasis on zones most affected by the earthquakes	10,340 (2001) 1,960,000 (total cost scheduled 2001-05)
Personal Insecurity Households affected by crime Murder rate	N/d	N/a	N/d
Legal insecurity Prisoners not sentenced\	N/d	N/a	N/d
<b>Exclusion</b>	50. FISDL		

## PART 3: TOWARD A NATIONAL SOCIAL POLICY FOR EL SALVADOR

### IX. THE WAY FORWARD

#### *Economic growth will remain a key to reducing poverty—*

9.1 The experience of the 1990s suggests that economic growth has been – and will continue to be – a key feature of El Salvador’s accomplishments in reducing poverty. This means that there will be high returns in terms of poverty reduction to Government of El Salvador taking the necessary measure to reinvigorate economic growth in the 2000s – through policies and investments that: (i) increase education levels of the population, (ii) develop the country’s economic infrastructure, (iii) foster greater technology adoption and local innovation, and (iv) improve the investment climate (including efforts to reduce violence and increase the rule of law) (World Bank 2003).

#### *—but specific policies are needed to ensure that all benefit from growth:*

9.2 The fact that many of the poorest, most vulnerable Salvadorans have been unable to take advantage of recent growth suggests, however, that it will be increasingly important for El Salvador to put in place a coherent set of policies and investments to ensure that the poor can share in and benefit from future economic progress. To build effectively on past achievements, it will thus be important for El Salvador to craft a national social policy that:

- Builds on recent accomplishments to strengthen the human capital of all Salvadorans, and
- Strengthens people’s access to markets and basic services.

9.3 For many of the remaining poor, better access to quality education and health care, and greater access to markets and basic services, such as safe water, will be sufficient to enable them to escape from poverty. Nonetheless, there are others who will still lack the capacity to take advantage of new and emerging opportunities and who will be especially vulnerable in the face of shocks. A third key element of a national social policy will thus be to:

- Put in place the instruments to assist and protect the poorest, most vulnerable members of society.

9.4 Such an approach would help to further reduce poverty by enabling the poor to participate more fully in economic growth. By strengthening the human capital of the poor and enabling them to be more productive, such a policy would contribute to stronger growth performance of the Salvadoran economy as well. This chapter summarizes the main policy challenges and pulls together the key elements of a possible national social policy for poverty reduction. In this context, the chapter highlights the pressing need for improved data for poverty monitoring and targeting of poverty reduction programs. It also outlines several important strategic choices facing El Salvador as it moves forward.

#### *Develop the human capital of all Salvadorans—*

9.5 *Education.* A key element of building the human capital of all Salvadorans involves ensuring that all people have access to education with quality. Strengthening the human capital and, thus, the capabilities of the poor will be critical to ensuring that they are prepared to take advantage of emerging economic opportunities in El Salvador. In addition, increasing the education levels of all Salvadorans, including the poor, will be important to fulfilling the education agenda elaborated in the recent Country Economic Memorandum (World Bank 2003)

on promoting faster growth in El Salvador. Indeed, there are significant complementarities between the growth and poverty reduction agendas in education.

9.6 In spite of recent advances, El Salvador faces a number of ongoing challenges with respect to assuring that all Salvadorans get a quality education:

- over 10 percent of all poor children still do not attend school and another 10 percent are not on track for their age
- only about 20 percent of poor children continue to secondary school
- less than half of all poor who enroll in school complete the second cycle of basic education; less than 25 percent complete the 3<sup>rd</sup> cycle of basic education; and only about 16 percent of the poor who enroll in secondary school complete that cycle
- and while the quality of education is a system-side challenge in El Salvador, education quality appears particularly low among the poor

***Increase education levels—***

9.7 In this context, it will be important for the government to focus on measures to:

- continue to improve access to basic education among the poor
- reduce grade repetition and drop-outs and increase completion rates at basic level
- introduce efforts to induce more poor grade 9 graduates into secondary schooling (as part of a broader effort to increase secondary enrollments and achievement for all Salvadorans), and
- improve education quality at all levels of education.

9.8 In light of the broad national consensus on education and the ongoing reform process in the sector, efforts should focus on building on recent progress, with special emphasis on addressing the constraints and challenges faced by the poor.

***—by addressing the affordability of schooling by the poor—***

9.9 For example, a large share of Salvadoran youth report that they do not attend school because they cannot afford it – in spite of the fact that basic education is, in principle, free of charge. Even when there are no tuition costs, families bear the costs of transportation, textbooks, and other materials. As such, it will be important to take measures to ensure that very poor and vulnerable households can afford education. Increased public investment in targeted scholarships and other programs to reduce the financial constraints facing poor children and their parents, as well as measures to increase the quality of schools in poor areas, is thus warranted.

***—increasing the availability of schools, where supply constraints impede access—***

9.10 Although it is less common that households report lack of school availability as an important constraint to participation, evidence suggests this is an issue at the post-primary level in some localities (e.g., peri-urban areas). As such, it will also be important to strengthen programs of school construction and rehabilitation in areas where supply constraints appear binding. In this context, there may be scope for developing public-private partnerships to take advantage of excess private school capacity in some localities.

***—and increasing the quality of education.***

9.11 While improving the quality of education is part of a national agenda, evidence suggests that education quality is a particular challenge among the poor. Test scores tend to be lower in lower-than in higher-income departments. Moreover, analysis of returns to education indicates that returns to the same level of education are lower for poorer, more vulnerable individuals and families than for wealthier ones. In addressing education quality, special efforts should thus be made to understand and confront any special challenges that might affect poor students and/or schools in poor areas.

***Ensure access to basic health services—***

9.12 *Health.* Good health is a fundamental part of people's well-being and is valued for its own sake. Sound health is also essential for people to participate fully and productively in society and in the economy. A second key element of building the human capital of all Salvadorans thus involves ensuring that all people have access to quality healthcare.

9.13 As with education, key challenges remain to ensure that the poor receive quality healthcare:

- basic health indicators are still low among the poor
  - infant mortality is almost twice as high for low- than for high-income families
  - chronic malnutrition is about 40 higher than average among the poor
  - over 15 percent of low-income children under 5 are underweight, compared with four percent of children from wealthier households
- the poor continue to have poorer access to quality healthcare than the non-poor, although they report a greater incidence of illness
- the issue of access to quality care is exacerbated by un-repaired earthquake damage to hospitals and other health facilities
- the cost of medicines remains high by international standards, while quality of drugs is often low.

9.14 Fewer than 20 percent of all Salvadorans have access to medical insurance either through the Salvadoran Social Security Institute (ISSS) or through private sources. Less than 10 percent and 3 percent of the moderate and extreme poor, respectively, are insured. A major responsibility of El Salvador's Ministry of Public Health (MSPAS) is therefore to cover the population without insurance. And while there have been important advances in recent years, it is estimated that nearly one-quarter of the population, mostly the poor, still has limited or no access to public health services.

***—by addressing issues of cost, and confidence in the public health system—.***

9.15 In this context, poor families report several reasons why they do not access public health care, related to the financial costs, distances to facilities, and to lack of trust in the public healthcare system. For example, one-quarter of the poor and nearly one-third of the extreme poor indicate that they do not use MSPAS facilities due to the financial costs. This includes not only fees for health services (which in principle have been eliminated by Executive Decree), but costs of travel and transport, as well as basic medicines. Indeed, the poor report travel times to the nearest health facility that are as much as 50 percent longer than those reported by the non-poor. And a recent study found that pharmaceutical prices in El Salvador are high by international

standards. Moreover, one in every three poor person who gets ill indicates that they do not trust the public system and/or prefers to seek alternative cures. These issues need to be confronted to ensure improved outreach by and access to the public healthcare system.

*—focusing on both demand and supply-side issues.*

9.16 Continuing to improve basic health outcomes among the poor will thus require enhanced efforts to ensure access to affordable healthcare among those who lack it, addressing both demand- and supply-side constraints, as well as building greater trust in the public healthcare system through enhancing the quality of services. This will involve:

- ensuring that health fee waivers are made available to those who cannot afford to pay
- assessing ongoing institutional reform and decentralization efforts to identify ways of strengthening the outreach and quality of the public health system – particularly with respect to primary health service delivery
- reforming the health sector’s human resource policy to ensure a sufficient supply of well-trained health care professionals and quality care, particularly in poor, rural areas, and
- completing rehabilitation of the hospitals damaged by the 2001 earthquakes to ensure adequate supply of secondary and tertiary health services, and
- undertaking measures to reduce the costs (and improve the quality) of pharmaceuticals, particularly of basic medicines.

9.17 Continuing to make progress in improving health outcomes, particularly among the poor, will require efforts on several fronts. Yet, in contrast to education, there is still no broad consensus on the direction of health sector reforms. In order to ensure consistent and sustainable progress in health, therefore, a critical element of a national social policy will be the forging of a national consensus on the way forward in the health sector.

*Improve access to markets and services—*

9.18 Basic infrastructure, such as rural water and rural roads, provide both direct and indirect benefits in the fight against poverty – benefits that complement and reinforce investments in human capital development. Access to potable water and suitable sanitation facilities in rural areas is increasingly recognized as an important health input, critically affecting the incidence of disease and infant and child mortality. Improved access to all weather roads translates into reduces isolation, lowers the costs for goods and services (including accessing education and health facilities), and increases access to markets, enabling people to better take advantage of emerging economic opportunities. And, as with education, road investments make potentially important contributions to both the poverty reduction and the growth agendas. Investments to increase both access to safe water and to rural roads, will thus continue to be a key element in El Salvador’s fight against poverty.

9.19 Several important challenges remain to ensure that the poor have access to safe water and sanitation and, through improved road networks, to markets and a variety of basic services. With respect to rural water and sanitation:

- Nearly half of those in the poorest Salvadorans lack access to improved water sources.

- In rural areas, over one-third of the extreme poor still get their water from rivers, lakes, and springs where there are often high levels of pollution, raising their exposure to waterborne diseases.
- Over 20 percent of the poorest households also still lack access to adequate sanitation facilities, with potentially important impacts on family and environmental health.
- Moreover, nearly 9 percent of the extreme poor in rural areas purchase water from informal sources at as much as three times the cost of the regular water tariff, with significant impacts on their abilities to purchase other basic consumption items.

9.20 With respect to rural roads:

- many poor rural households remain isolated from all-weather road networks. Indeed, average distances (and travel times) to paved roads remain 80-90 percent higher among the extreme poor than the non-poor, and average distances (and travel times) to markets remain 33-36 percent higher among extremely poor households than among the non-poor.

***—by completing regulatory and institutional reform in the water sector—***

9.21 *Rural water.* The challenge of ensuring universal access to safe water and sanitation is made more complex by a complex institutional and regulatory environment in the sector. The water and sanitation sector is characterized by a multiplicity of institutions and agencies providing services. ANDA, the lead agency in the water sector, was established and continues to be configured primarily to serve urban areas (or rural settings adjacent to urban areas). In this context, a number of other institutions, including FISDL (the Social Investment Fund for Social Development), MSPAS, municipal governments, decentralized utility companies, NGOs, and local committees have come to play important roles in rural water provision.

9.22 While the decentralized nature of rural water provision has potential benefits, the current regulatory environment provides uneven “rules of the game” across water sector institutions, leading to inefficiencies in the system, considerably variability in the quality of water systems, and at times, exorbitant water costs to the poor who access water through gray market purchases. As such, a key policy challenge in the water sector will be to reinitiate and complete water sector reforms.

9.23 Reform efforts were initiated in the late 1990s and then set aside, in part, because the earthquakes temporarily shifted the sectors focus to system reconstruction. Many technical inputs to a reform are already reasonably developed. The government thus has the opportunity to build on these inputs to complete the reform and put the water sector on a sound footing to improving access to potable water access among the poor.

***—and continuing progress in expanding – and maintaining – the rural road network.***

9.24 *Rural roads.* Three institutions are primarily responsible for rural road development and maintenance: the Ministry of Public Works (MOP), FOVIAL, and FISDL. MOP is responsible for the rehabilitation, modernization and development of primary and secondary networks. FOVIAL is responsible for maintenance of the primary road network, financed partially through a tax on gasoline. And FISDL works to strengthen municipal management capacity for maintenance of the tertiary network, which links municipalities, cantons, and villages.

9.25 Recent progress to rehabilitate nation’s principal road network, to repair earthquake damage roads, and to promote greater rural road access through *Caminos Rurales Sostenibles* and other programs has been impressive and provides useful lessons for the way forward, particularly

regarding the importance of road maintenance. Indeed, by ensuring longevity of recent rural road investments, returns to rural roads maintenance are extremely high and should be considered a priority along with continued investments in road expansion. In this context, efforts to ensure that the poor benefit from rural road investments should focus on:

- continuing expansion and improvement of the rural road network,
- developing a program for the maintenance of secondary and tertiary road networks to ensure the sustainability of recent investments in rural roads, and
- continuing development of local and municipal capacity to build and maintain rural road infrastructure.

***Support and protect society's poorest, most vulnerable households—***

9.26 *Building a Social Safety Net.* The idea of developing a coherent social safety net is a relatively new one in El Salvador – although it is now a core element in the platform of the current Salvadoran Government. Social safety programs have an important role to play in El Salvador's poverty reduction efforts for several reasons.

- In spite of broad socio-economic advance, the poorest, most vulnerable Salvadorans have largely not participated in or been able to take advantage of recent progress. Continuing lack of access to education, health, and other basic services raises the risk that these poor will be further left behind and that their weak capacity to take advantage of emerging economic opportunities will be passed on to their children via weak human capital.
- El Salvador is a shock-prone country. While all Salvadorans are potentially vulnerable to shocks, as the recent earthquakes showed, the extreme poor tend to be most vulnerable, both regarding income and basic education, health, and nutritional outcomes.
- While most households have their own “private” safety nets – most notably migration and remittances – they tend not be sufficient, particular among the poor. Private risk management strategies only *partially* insure families against risk/shocks and, in the case of remittances, only a fraction of those that need support most receive them.

9.27 Given its combination of chronic extreme poverty and vulnerability to shocks El Salvador would benefit from a safety net that focuses on: (1) improving service access to the poorest, most vulnerable groups who have been outside the reach of traditional line ministry interventions; and (2) protecting the poorest from the most harmful impacts of natural and economic shocks.

***—by developing a coherent, coordinated, and well-targeted social safety net***

9.28 A recent World Bank Social Safety Net Assessment (2002) identified 52, mostly small, social safety net-type programs implemented by a range of government institutions (e.g., MINED, MSPAS, the National Secretariat for the Family) and non-governmental actors (e.g., private sector organizations, NGOs). Review of these programs suggested that they are generally pertinent, focusing key socio-economic risks faced by the poorest, most vulnerable Salvadorans. Yet, the impact of these programs tends to be quite modest due to:

- Low public spending levels and low program coverage
- Under-allocation of resources to highest priority risk groups
- Weak program targeting



- Lack of program coherence and coordination, and
- Low cost-effectiveness of programs in some cases

9.29 To ensure that El Salvador's safety net contributes appropriately to sustainable poverty reduction, it will thus be important to:

- Develop a coherent, strategic vision for the sector
- Establish an institutional mechanism for coordinating programs, that would support:
  - greater emphasis on high priority, high return areas (e.g., early childhood interventions), and
  - identification and scaling up of cost-effective models, and
- Continue recent efforts to strengthen the information base for program targeting and programs' abilities to monitor and evaluate their impact.

9.30 To be effective, it will be important that any institutional mechanism have a strong mandate with the government, the authority to coordinate across traditional ministerial boundaries (since the safety net would need to address a number of cross-cutting issues), and command sufficient resources and technical capacity to effectively play a role.<sup>106</sup>

***Improve data for poverty monitoring and program targeting—***

9.31 Reaching the poorest, most vulnerable Salvadorans will require an improved data and information upon which to monitor the poverty situation and target programs to at-risk groups. Indeed, enhancing the Government's ability to target poverty reduction programs will be central to El Salvador meeting its future poverty challenging and, in doing so, is able to make the most effective use of its scarce fiscal resources.

9.32 Since the earthquakes of 2001, the Government of El Salvador has been working, with technical assistance from the World Bank, to collect household survey data (through the EHPM) that would enable development of a poverty map that would facilitate targeting of interventions at the municipal level. Prior to 2001, the EHPM data were statistically unbiased only at the department level. These efforts and the forthcoming municipal-level poverty map certainly represent a step forward in El Salvador's ability to identify and target poor and vulnerable households. Nonetheless, efforts to build a sufficiently detailed and disaggregated poverty map continue to be hindered by lack of data.

***—by collecting a new population census—***

9.33 Among the most important constraints is the lack of an up-to-date population census. The most recent census dates from 1992 just after El Salvador's return to peace. This is the last comprehensive accounting of El Salvador's population distribution and, as such, still underpins even recent estimates of the population – including the sampling frame for the most recent household surveys. Given the substantial changes in the demographic and geographic composition of the population, especially the substantial internal and international migration,

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<sup>106</sup> As noted in Chapter 8, since initial preparation of and in-country consultations on this report, a new Government in El Salvador has developed and launched a unified social safety net program, the *Red Solidaria*, that aims at strengthening access to basic education, health and nutrition services and, thus, the human capital of the poorest Salvadorans. The program adheres to a number of the principles outlined in this report.

serious questions exist as to how well recent household surveys capture the geographic distribution of poverty and vulnerability.<sup>107</sup>

***—and continuing to strengthen the household survey and program monitoring data.***

9.34 Other key data and information challenges exist vis-à-vis poverty monitoring, and poverty reduction program development and targeting. These include:

- The EHPM surveys collect detailed data on household incomes but not on household consumption; yet per capita consumption is considered a more reliable measure of household welfare and use of consumption is now considered international best practice for poverty measurement.
- In several key areas, including development of a social safety net and rural water provision, further work needs to be done to identify the most effective and cost effective models for service delivery. Yes, especially in the case of a social safety net, insufficient data exist with which to assess and compare the efficacy of various program approaches.

9.35 In order to strengthen the database for poverty monitoring, program development, and program targeting, it will thus be important to:

- implement a new population census as soon as is feasible
- continue efforts to strengthen the national household survey instrument (EHPM) for poverty measurement and program targeting; priorities include consideration of transforming the EHPM into a consumption survey to enable poverty measurement in accordance with international best practice<sup>108</sup>
- use the new census and enhanced household survey instrument, together, to develop a more detailed, geographically disaggregated “map” for poverty targeting than is currently available<sup>109</sup>
- develop indicators and collect of data on selected safety net (and other poverty-targeted programs) that would enable identification of the most cost effective service delivery models, as well as ensure effective program monitoring, evaluation, and (if necessary) adjustment of poverty targeted and other social programs.

***Making strategic choices***

***Financing a national social policy will require decisions about strategic priorities***

9.36 The collection of evidence suggests there are potentially important gains – in terms of poverty reduction and increased economic participation of the poor – available through the implementation of a national social policy. Greater productivity among the poor would also contribute to enhanced economic growth and development. At the same time, given that the

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<sup>107</sup> Since the initial preparation of and consultations on this report, the Government of El Salvador has scheduled the fielding of a new population census for 2007.

<sup>108</sup> In this context, a broader review of El Salvador’s poverty measurement methodology should be undertaken to ensure that it adheres to international best practice. This should include not only an assessment of which variables should be collected in the household survey, but what methods should be used for developing and inflating the poverty line over time.

<sup>109</sup> See, for example, Poggi, Lanjouw, Hentschel, and Lanjouw (1998) and Lanjouw, Elbers, and Lanjouw (2002).

fiscal space for increased spending is limited in El Salvador, it may be necessary to be selective and make strategic choices about priority areas for action.

9.37 Table 9.1 summarizes, sector-by-sector, the estimated costs of implementing the elements of a national social policy discussed in the earlier chapters – including investments to increase access to and the quality of education, to ensure access to a package of essential health and nutrition services, to ensure access to safe water and sanitation services, to extend and maintain rural road networks, and to implement a safety net to support and protect the poorest, most vulnerable Salvadorans. To have an impact on remaining poverty will require additional resources, significantly so in some cases.

**Table 9.1: Estimated Costs of Implementing a National Social Policy for Poverty Reduction**

<i>Sector</i>	<i>Objective</i>	<i>Current Public Spending as a Percentage of GDP<sup>1</sup></i>	<i>Target Public Spending as a Percentage of GDP</i>	<i>Proposed Increase as a Percentage of GDP</i>
Education	100 percent completion of basic education (3 <sup>rd</sup> cycle); 70 percent net secondary school enrollments by 2015	3.2%	5.0%	1.8% <sup>2</sup>
Health	Provide access to a minimum package of essential health and nutrition services to those who still lack regular health services	3.8%	4.0-4.1%	0.2-0.3% <sup>3</sup>
Water	Ensure access to safe water and sanitation among the poor who currently lack access	0.8% <sup>4</sup>	0.9-1.1%	0.1-0.3%
Roads	Rehabilitating an additional 1,000 kilometers of rural roads over 5 years; annual maintenance of 3,000 kilometers of rural (secondary and tertiary) roads	1.3%	1.4-1.5%	0.1-0.2%
Safety Net	Ensure access to basic service by the poorest, most vulnerable Salvadorans	0.5%	1.5%	1.0%
	<b>Totals</b>	<b>9.6%</b>	<b>12.8-13.2%</b>	<b>3.2-3.6%</b>

Notes: <sup>1</sup> 2000-2003, unless otherwise noted. <sup>2</sup> To achieve the more modest objective of 100 percent completion of primary education (basic cycles 1 & 2) by 2015, it is estimated that education sector spending would have to increase by 0.5% of GDP. <sup>3</sup> The estimated health costs are focused on assuring access to a basic package of health and nutrition services to those who currently lack regular health service access in the context of a strategy to reduce poverty; financing a sector-wide strategy for strengthening the health sector more generally, would require additional financing commitments. <sup>4</sup> 1990-2002 average.

9.38 The largest requirements for additional resources are associated with improvements in education and in the development of a social safety net. It is estimated that achieving universal basic education and 70 percent net enrollments in secondary schooling would require an additional 1.8 percent of GDP in education sector spending; developing an adequate safety net would require spending of an additional 1 percentage point of GDP over time. Only road investments, which essentially doubled between 1999 and 2003, would not require substantial increases in spending.

9.39 While commitment of additional resources in any specific sector may appear within reach, the joint costs of implementing the proposed elements of a national social policy pose a greater challenge – an implied spending increase of between 3.2 and 3.6 percent of GDP (Table 9.1). In this context, serious consideration should be given to measures that would increase government revenues. But with or without additional revenue measures, some effort to consider relative priorities and phasing of policies and investments are warranted.

***Education and rural road investments are poised to provide high returns in the short-term***

9.40 Given that additional investments in education and roads will likely contribute both the poverty reduction and economic growth agendas, these are likely to be particularly high return investments. In addition, recent developments in both sectors – progress on the reform agenda in education, the success of *Caminos Rurales Sostenibles* – suggest the sectors are poised to use additional resources productively.

***Building consensus on health and water reforms would raise returns in those sectors***

9.41 With respect to health and water and sanitation, there is less consensus about direction of sectors or about sectoral reforms. In this sense, it will be important to build a national consensus on the ways forward, before committing substantial additional resources. Indeed, reforms that define a strategic direction, including the appropriate roles for the private as well as the public sector, could pave the way to significant efficiency gains and, thus, a greater leveraging of available resources.

***Establishing an appropriate institutional framework will be critical to an effective safety net.***

9.42 In the case of development of a social safety net, since this is a relatively new area of policy and program development in El Salvador, it will be important to resource programs sufficiently to ensure an impact. At the same time, it may make sense to increase public resources incrementally over time, to ensure that an appropriate institutional framework is developed and cost-effective service models and delivery mechanisms are identified. Indeed, phasing in of spending increases to provide the Government of El Salvador a clear and predictable time horizon for increasing its revenue base may be both a sensible and pragmatic approach to implementing multiple elements of a national social policy.

***There is scope for leveraging private resources for effective poverty reduction.***

9.43 Finally, independent of spending levels adopted, ongoing efforts should also be made to leverage resources through productive and creative partnerships – between public and private entities, between the Central and Local Governments, and between Salvadoran emigrants and their communities, friends and families who remain in the country. While El Salvador has made important advances in this area recently, there remains considerable potential through such partnerships to enhance poverty reduction efforts and national development as a whole.

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