

El Salvador

The Government of El Salvador and the Millennium Challenge Corporation (MCC) on November 29, 2006, signed a five-year, \$460.94 million anti-poverty Compact that seeks to stimulate economic growth and reduce poverty in the country's northern region, where more than 44.8 percent of the population lives below the poverty line. The grant will improve the lives of approximately 850,000 Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. It is expected that, as a result of the Program, incomes in the region will increase by 12 percent over the five-year term of the Compact, and by 17 percent within ten years of the start of the Compact.

Background

In 1992, El Salvador signed a monumental Peace Accord that ended a decade of civil conflict which cost over 70,000 lives and left nearly two-thirds of El Salvador's population in poverty. During that conflict, human capital formation lagged, public investment was deferred, and deterioration of the natural resource base accelerated. The northern region of El Salvador (the Northern Zone) fared the worst, as its mountainous territory served as the primary conflict zone, increasing violence and instability in the area and causing an exodus of large numbers of inhabitants. Despite significant national economic growth and poverty reduction that followed the Peace Accord, economic and social progress has stagnated in El Salvador in recent years.

Overcoming these obstacles and physically unifying the Northern Zone with the rest of the country are national priorities. The population of the Northern Zone requires a comprehensive development program to enable it to fully participate in El Salvador's growth, the benefits of regional integration, and the economic opportunities brought about by the recently signed Central America-Dominican Republic-United States Free Trade Agreement.

Human Development Project (\$95.07 million)

The Human Development project is designed to support formal and non-formal education as well as extend the reach of essential services and infrastructure including water and sanitation, electricity and other local infrastructure benefiting poor communities. This project is based on the foundations and ongoing work of two existing Government of El Salvador programs – the Solidarity Network and the National Education Plan 2021. MCA funding will support the following two broad activities:

- ★ Education and training, both formal (secondary and post-secondary technical and vocational) and non-formal (skill development programs), aimed to increase employment opportunities for the region's poor.
- ★ Community development will provide improved access to potable water systems for 50,000 people and improved sanitation services for more than 25,000. Electricity coverage in the Northern Zone will increase from 70 percent to no less than 97 percent, benefiting 33,000 families. Through construction and improvement of community infrastructure (e.g., tertiary roads, improved drainage, and small bridges) more than 89,000 people will have greater access to markets, employment, and facilities supporting health and education.

Productive Development Project (\$87.47 million)

The Productive Development Project will assist the development of profitable and sustainable productive business ventures, with a primary focus on assisting poor farmers to grow high-value crops, forestry, and animal products. Business development support for micro, small and medium enterprises in other sectors, including tourism and artisan work, also will be provided. The principal beneficiaries of the Productive Development project are expected to be the 55,000 poor people employed in agriculture, agribusinesses and non-farm activities, including producers, and micro, small and medium companies. MCA funding will support the following three activities:

- ★ Production and business services will provide pre-investment assessments; assistance to small farm enterprises; and technical assistance and training to support the development of agribusiness and non-agricultural commercial activities.
- ★ Investment support will provide capital to competitively selected applicants for business activities.
- ★ Financial services will provide financial enhancements to support increased lending activity by banks and non-bank financial institutions in the Northern Zone.

Transportation Project (\$233.56 million)

The largest of the three components, the Transportation project, addresses the issue of the Northern Zone's physical isolation. Road infrastructure improvements are expected to lead to new economic opportunities for rural households, lower transportation costs, and decreased travel times to markets and social service delivery points for more than 456,000 beneficiaries. This component includes two activities:

- ★ The Northern Transnational Highway will include the design, construction, and rehabilitation of a 260-kilometer two-lane secondary road, forming a transportation corridor from Guatemala to Honduras across the Northern Zone. More than 80 percent of the highway will involve rehabilitation, with only 45 kilometers of new roads.

The Compact also includes \$44.85 million for program administration and monitoring and evaluation.