

PD-ABI-480

ISN 80140



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO EL SALVADOR

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: J. Michael Deal, PRJ 
SUBJECT: Social Sector Reform (519-0401) Concept Paper

ACTION REQUESTED:

Approval of the Social Sector Reform Concept Paper at the level of \$15 million.

BACKGROUND:

The proposed Social Sector Reform Activity builds upon the GOES and USAID efforts to date to increase the quality of health and education in El Salvador and to improve the responsiveness of those institutions responsible for delivering basic social services. USAID policy dialogue efforts and technical assistance and training through a variety of projects have enabled Salvadorans to take some of the first important steps in improving services provided in the social sectors and thus reducing poverty. To further assist the GOES in delivering higher quality health and education services more equitable to its citizens, USAID proposes to finance a \$15 million grant to the GOES.

The *Goal* of the Activity is the Mission's Strategic Objective Number 4 -- Improved quality with equity in health and education. The *Purpose* of the Activity is to increase access to and quality of education and health services by improving the efficiency, effectiveness, and equity of service delivery.

The Activity will utilize two reinforcing components to address constraints to equitable, effective, and efficient social service delivery: 1) Policy Formulation and Reform, and 2) Improved Service Delivery.

Component One of the Social Sector Reform Activity will strengthen the capacity of government and private sector leaders, and the organizations they represent, to analyze issues, and engage a broad spectrum of Salvadoran society in debate and consensus-building around key policy reforms which merit the confidence of the citizenry. The project will involve both public and private institutions and coordinate closely with multilateral and other donors. By supporting studies, seminars, and public debate, a broader consensus will be built on the extent and pace of social sector reforms.

Component Two of the Activity will provide assistance to sectoral institutions such as the Ministry of Health, the Ministry of Education, the Salvadoran Social Security Institute (ISSS), training institutions, NGOs, etc., to help implement the reforms already adopted as well as those yet to come by providing a timely mix of technical assistance and training. This Component has three dimensions: (a) improved data systems for planning and budgeting; (b) improved operational efficiency and effectiveness of service delivery; and (c) models for service delivery. Interventions under this component will be coordinated closely with other donors and with the ongoing SABE, APSISA, SDA, PROSAMI, and Municipal Development Projects to ensure complementary utilization of resources.

Issues discussed during PDC review held March 25, 1994:

The following issues were discussed during the March 25, 1994 PDC Review. A brief description of how the issues were resolved follows:

1. Rationale for a Joint Health and Education Activity

While combined health and education approaches make sense at the "goal" level, how far they can or should be integrated at the activity or project level is not clear.

RESPONSE:

In late 1993, USAID initiated sector assessments in education and health to determine more precisely the state of education and health in El Salvador, and as a means of stimulating policy discussions within Salvadoran society and of informing the evolution of donor programs in the social sectors. The assessments were highly participative, representing the entire political spectrum, a wide geographic spread, and all economic strata. They revealed a strikingly similar pattern of constraints to effective, efficient and equitable social service delivery: Inadequate national budget systems for social sectors; insufficient information and data analysis; inflexible and inefficient bureaucracies characterized by excessive centralization; poor quality of and inequitable access to services; and an absence of participatory mechanisms. In addition to the above constraints identified in the assessments, the Mission has further identified the lack of adequately trained public sector staff as a common constraint across both sectors. Public sector institutions will need strengthened management skills in order to allow them to facilitate the transition to a new way of doing business.

The Mission believes that a combined social sector approach will be more effective in addressing the shared constraints than would two separate but parallel efforts. In other words, the whole is greater than the sum of the parts in terms of the activity's support for consensus-building around needed policy change.

A combined approach is consistent with the GOES Economic and Social Development Plan and its poverty alleviation strategy. The GOES 'Social Cabinet' is a natural forum for dealing with shared constraints and policy issues.

Economies of scale favor a combined approach in that we would do one activity paper instead of two, we would do one contract instead of two. The resulting workload for the Mission would be greatly reduced at a time that "right-sizing" personnel reductions are being implemented. We anticipate substantial subcontracting or a consortium proposal which would address the technical requirements of both health and education activities. While Mission management responsibilities would be shared by the Office of Education and Training (OET) and Health, Population and Nutrition (HPN), greater integration and teamwork has already begun as these two offices cooperate in our Strategic Objective No. 4 team.

2. Duplication of Effort and Cost Effectiveness

Given the current era of dwindling USAID resources for LAC Programs, does it make sense to fund a new \$15 million social sector reform activity that will pursue many of the same objectives (decentralization, greater cost recovery, expanded social service budgets, civil service reform, and enhanced policy analysis capacity) as other existing USAID and other donor projects?

RESPONSE:

Of the Mission's ongoing portfolio, SABE (519-0357) and APSISA (519-0308) are the prime vehicles for policy reform and both will support immediate follow through on the two sector assessments. For example, APSISA's PACD (9/94) will be extended 18 months and funds will be reprogrammed to strengthen its policy reform activities. But in both cases, flexibility is limited to address the array of policy changes and service delivery improvements which are urgently needed. Funds that can be redirected are limited and will only serve to maintain the momentum generated by the sector assessments until the new Activity begins in mid-FY95.

In the health sector, other donors have a relatively modest presence. The largest donor, UNICEF, only has an annual program level of \$1 million. While the IDB is planning a major new activity, they have asked USAID for assistance in project design and they have coordinated closely with us on the health sector assessment. We are confident that this coordination will avoid any duplication of effort.

The same is true of education, where the IDB is also planning to develop its new activity in close coordination with USAID - to the point of asking USAID to provide direct input into its design effort. The major ongoing other donor activity in education is the IBRD's EDUCO program, perhaps the most well known alternative model of service delivery in El Salvador. EDUCO began in mid-1991 and will be absorbed into the Ministry of Education's budget this year. EDUCO targets school children in 78 of El Salvador's poorest municipalities.

As part of the World Bank's Modernization of the State Program, a new civil service reform law will be drafted, based in part on a government-wide census of civil servants. The Ministries of Health and Education will also benefit from new accounting systems to be

implemented government-wide, and both ministries have been specifically targeted for new budget restructuring. Public sector modernization supported by the World Bank would be complementary and not duplicative of the proposed activity. TA, training, and other assistance will be required from several donors to improve public sector management systems and operations: e.g., transparent, accountable commodity management; budget allocation systems; integrated national programming and financial planning; absorption of costs for non-salary inputs; training for ministry staff at the departmental and municipal levels to assist the decentralization process.

Issues discussed during Mission review held on April 22, 1994:

The issues discussed during the Mission Review of the Concept Paper and a brief description of their resolution follows:

1. Concern over whether activities directed towards education and health may not be sustainable if the Project agreement is only accorded with the GOES.

The Activity envisions building upon the existing private advisory commission in the education sector and expanding, if possible, to include the health sector in order to ensure clear Salvadoran ownership, by both the public and private sectors, of the reform agenda. Coordination and administration of the commission activities would be the responsibility of a local NGO or NGO(s) ensuring creditability and acceptance of the output by placing the responsibility in the hands of a creditable Salvadoran institution.

If Salvadoran ownership of the Activity is to succeed, it has been noted that the possibility of a trilateral project agreement with one or more of the lead NGO(s), responsible for administration of the social sector commission(s), would be more appropriate than a bilateral agreement with the GOES. A trilateral project agreement including the GOES, USAID, and the private sector would have a better chance of ensuring sustainability, commitment and Salvadoran ownership of the reforms.

In addition, the design activity should include consideration of institution-strengthening activities such as: the preparation of a self-sufficiency plan, technical assistance in fund-raising, endowments, and other related activities in support of the longer-term sustainability of social sector policy reform efforts.

2. Design Budget

Concern has been expressed that the design budget for the Social Sector Activity may not be adequate if further reductions are deemed necessary because of Mission funding constraints.

Taking into consideration the costs involved in utilizing the Design and Perform (DAP) mechanism for contracting the design and incorporating a training assessment as per the Mission's new training strategy, the budget has reached approximately \$276,000.

The design budget for the Mission's new CRECER Activity is estimated at \$265,000 with an overall LOP similar to the Social Sector Reform Activity and which also implements a DAP mechanism. Additional funding cuts to the Social Sector Reform Activity budget could hinder overall quality of the Activity Paper design.

Issues to be considered during Design Phase:

The following issues were discussed during the Mission Review of the Concept Paper and will be highlighted in the RFP for consideration by the design team:

1. Level of GOES Commitment to Decentralization and an Enhanced Role for Private Entities

The Social Sector Reform Concept Paper details a number of examples of strong GOES support for the reform agenda; however, several issues remain to be addressed during the design of the project:

-- support and commitment of the new administration. On April 22, President Cristiani approved the National Decentralization Strategy, including the decentralization of education, health, water, and roads. The support and commitment of the new administration, which takes office on June 1, to follow-through on 'modernization of the state' initiatives begun under President Cristiani will be critical to the success of the Activity.

-- potential opposition by public sector employees' unions to the administrative reforms necessary in the ministries of health and education and the government's commitment to pursue appropriate solutions so as to complete its reform agenda.

-- the timing and scope of the IBRD/IDB supported civil service reform process. It is not clear at this time whether the ministries of health and education will be included initially in this effort and, if not, what will be the implications for decentralization and other administrative reforms necessary to permit the ministries to implement their new normative/regulative roles.

-- while MEA, EDUCO, SILOS, fondos distritales, and other examples can be cited where NGOs, municipalities, and community organizations have been allowed to initiate and expand their health and education activities, it is not clear how far the GOES is willing to go to truly decentralize its operations and permit significant new 'space' for private entities to provide services which have traditionally been the responsibility of the central ministries. It will be essential for the success of the project that the GOES be a willing partner in the development and implementation of new or alternative service delivery models to be supported under the project.

Initial indications are that the level of GOES commitment to social sector reform is high, and that opportunities for making important strides in more equitable, efficient and effective

delivery of social services are real. However, these issues must be explored in greater depth during project design including defining the expected role of the activity in policy dialogue, and determining appropriate CPs or other evidence of GOES commitment.

2. Coordination with Ongoing USAID and Other Donor Programs

The Concept Paper detailed the various ongoing and planned USAID and other donor projects in health and education. It is essential that the project design take these interventions into consideration so as to ensure complementarity and avoid duplication. This is particularly true of the major new initiatives planned by the IDB in both health and education which could begin by the end of CY 1995, and the ongoing IBRD Modernization of the State Program.

The Mission has invited the IBRD and the IDB to participate in the design of this Activity. The experience of other donor support for the health and education sector assessments was both extensive and very positive. USAID hopes to build upon this experience and we fully expect that the success of the Social Sector Reform Activity will depend in large part on close donor coordination in both policy reform and service delivery improvement. While it is unclear at this time the exact extent of technical expertise which will be made available by other donors to complement the USAID-funded design effort, this assistance would be additional to and not substitute for the requirements set forth in this Request for Proposals.

One specific area of emphasis for donor coordination is the development of service delivery models. Donors will be encouraged to contribute to the design of new or alternative models as well as to include funding for extending these models to a wider geographical area in new initiatives which they are planning. Donor involvement is key in order to ensure acceptance of and willingness to continue the experience of those service delivery models to be supported under the new Activity.

3. USAID Management Concerns

One of the principal issues to be resolved during the design phase will be how to address the distinct technical requirements of both the education and health service delivery systems. Concern exists over the 'balance' between the two sectors and how the institutional contractor will provide the appropriate mix of technical expertise and how USAID's education and health offices will manage these efforts.

Specifically, how will the institutional contractor ensure an integrated approach to the design, implementation, and USAID management of the Activity balancing both sectors and avoiding the development of two separate, parallel activities?

Other related concerns are as follows:

- the lack of experience of cooperation between the principal actors (ministries, NGOs, etc.) in the two sectors other than through the GOES' social cabinet.

-- lack of a clear counterpart which represents the interests and concerns of both sectors. As described in the Concept Paper, one possibility is that the education sector advisory commission could be broadened to include key actors in the health sector as well. Other options must also be considered to capitalize on the momentum generated by the recently conducted sector assessments.

RECOMMENDATION:

The Project Design Committee recommends that you approve the USAID El/Salvador Social Sector Reform Concept Paper by signing below.

Approved 
 Charles E. Costello
 Mission Director

Disapproved _____

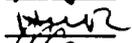
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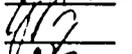
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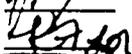
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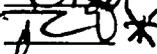
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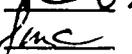
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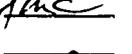
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LAC Technical Offices concerns as noted in draft Action Plan/ESF cable should be addressed, D 1-4.

I don't agree that a combined project is a good idea w/ too many differences in counterpart, ministries, and technical issues. This was resolved at full Mission review!!

SOCIAL SECTOR REFORM CONCEPT PAPER (519-0401)

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I. Introduction and Summary

Poverty in El Salvador is the single greatest moral challenge to the newly elected Government of El Salvador (GOES), both the executive and legislative branches. As it worked to consolidate the political transition from war to peace, the GOES was unable to mount a concerted attack on the causes of poverty with the same vigor that it spent on economic reform. Now that the macroeconomic framework is supportive of growth, the GOES must undertake sectoral programs which ensure that the poor participate in the benefits of that growth.

The provision of more effective, efficient and equitable social services will have a direct impact on the quality of life and reduction of poverty in El Salvador. The Social Sector Reform Activity will assist the GOES to remedy the major constraints impeding the delivery of quality social services equitably and efficiently to the citizens of El Salvador. The Activity will actively promote Salvadoran ownership, both public and private, of the social sector reform agenda to ensure a sustainable demand for proposed reforms. These reforms include increasing the budget resources available for health and education programs, promoting decentralization of health and education services, improving the efficiency with which the Ministries deliver services, improving the quality of the services provided, and developing alternative models for service delivery which the GOES, the NGO community, and donors will support on a nationwide scale.

II. Overview of the Social Sectors in El Salvador

In 1989, the GOES initiated a comprehensive economic stabilization and structural adjustment program aimed at restoring internal and external balance and reorienting the economy toward more reliance on market forces. The GOES has remained steady with its economic reform program, even during the difficult transition period from war to peace. Key economic policy reform gains included further trade liberalization, elimination of interest rate controls, the introduction of a value-added tax, a major increase in electricity tariffs, strengthening the financial system including the privatization of banks, and improved public sector accountability by upgrading financial management and auditing. The economy continues to respond impressively to the improved economic environment with real GDP growing 5 percent in 1993, resulting in a GDP in 1993 18 percent higher than that recorded in 1989.

Concurrent with its economic reform program, the GOES initiated a program to reduce poverty. The program was based on a three-part strategy: 1) increase economic growth in order to provide greater opportunity for productive employment; 2) improve the delivery of basic education and health services to enhance the ability of the poor to take advantage of the new opportunities made available by an expanding economy; and 3) provide a social safety net for those not able to improve their income generating capabilities.

The first component of the GOES poverty alleviation strategy has been highly successful. The improved macroeconomic environment has provided better incentives and support for lower-income groups to become more productive, and therefore has increased their incomes. Four

consecutive years of accelerating economic growth have increased employment by as much as 120,000 jobs, reducing the open unemployment rate from 10 percent in 1990 to below 8 percent in 1991 and 1992.

This growth has also contributed to a reduction in poverty rates and improvements in other social indicators. The proportion of urban households reporting incomes below that required to purchase a basic basket of goods and services and therefore considered to be living in relative poverty declined from 55.5 percent in 1989 to 53.7 percent in 1992. However, the proportion of households living in absolute poverty has held steady at 23 percent over the last three years. Nevertheless, recent improvement has been noted in certain other social indicators: urban homes with piped water -- up to 65 percent in 1992 from 58 percent in 1989; urban homes with indoor toilets -- up to 53 percent in 1992 compared to 48 percent in 1989; and urban homes with electricity -- up to 89 percent in 1992 from 84 percent in 1989.

The second component of the GOES poverty alleviation strategy includes programs and activities to improve the educational status and health conditions of the poor and hence their capacity to respond to the increased opportunities for productive employment. This component constitutes the main emphasis of the proposed Activity and will be addressed in more detail in the following section.

A vital complement to the first two components of the poverty alleviation strategy is the implementation of social safety net programs for those poor groups which do not benefit immediately from the new opportunities resulting from the economic adjustment program, and those who are not able to improve their income-generating capabilities even with better health and education services. The main components of the GOES social safety net program include the following: the Municipalities in Action Program (MEA), the Social Investment Fund (FIS), and the National Reconstruction Plan (NRP).

Despite increased economic growth and marginal improvements in poverty reduction, the most recent World Bank report on poverty in El Salvador highlights the severity of the problem in El Salvador and its relationship to social services: Total poverty (as defined by access to social services)¹ extends to 54 percent of the population, including 36 percent of the urban populace and 81 percent of the rural population; the poorest of the poor continue to reside overwhelmingly in rural areas representing 49 percent of the rural population as compared to 24 percent of the population in urban areas. In general, the poor have limited access to basic services such as schooling for their children, primary health care, and safe water and sanitation. Reflecting years of neglect in rural areas, access to these services is generally worse in rural areas than in urban areas.

¹The World Bank basic needs method defines total poverty by access to a defined set of basic services including overcrowding or more than three people per bedroom, children aged 7 to 10 years old not attending school, and lack of access to safe water and sanitation services; the poorest of the poor are individuals with incomes below the poverty line and at least one unmet basic need (World Bank, *El Salvador Poverty Alleviation: Achievements and Challenges*, June 22, 1993).

Social indicators in El Salvador are still among the lowest in Latin America: infant mortality per 1,000 is 41; the adult literacy rate is 76 percent for males and 70 percent for females; only 32 percent of pregnant women and only 29 percent of children under the age of two have access to some health service; 75 percent of children do not have access to preschool; and 24 percent of children between 7 and 12 years of age and more than four-fifths of children between 16 and 18 years of age were not attending school.

In the 1980s there were drastic real declines in GOES ordinary budget spending on health and education. Aggravating this situation is the inefficiency and highly centralized configuration of public sector delivery systems. Resources are concentrated in the urban areas (where the majority of private resources are found). High levels of poverty-related illness (acute respiratory infection and diarrheal disease) persist in the child and infant population, while resources are disproportionately allocated to hospitals versus primary health care. El Salvador suffers a severe education deficit compared to the rest of Latin America and the Caribbean, and the deficit widened considerably in the 1980s. Teacher salaries are low, administrative costs are high and too little is spent on textbooks and educational materials. Repetition rates are high, especially in the early school years. While the GOES has increased real spending levels for both education and health programs in the last few years, further increases and more efficient allocation of available resources are needed.

While it is still important for the GOES to continue its program to further liberalize its economy and permit markets to work, it must now place added attention on direct measures to more effectively combat poverty. Reaching close to 100 percent coverage of basic health and primary education services of a minimum level of quality would be an achievable goal in five to ten years if more resources were spent and if the internal efficiency of public institutions were increased markedly. Increases in efficiency, however, could only take place with a significant modernization of public institutions in the health and education areas, and this would require the decentralization of government functions and a greater role for NGOs, municipalities and the private sector in the provision of social services. If services are provided by institutions closer and more responsive to the beneficiaries, accountability and efficiency would increase, governance would be enhanced and poverty reduced.

III. Activity Description

A. Problem Statement

El Salvador's social service systems in health, education, and water and sanitation are characterized by inefficiencies in administration, poor quality services, and inequitable coverage. In order to maintain the peace, reduce poverty, and broadly share the benefits of economic growth, social service systems must be responsive to the citizenry providing efficient, effective, and equitable services.

B. Constraints to Effective, Efficient and Equitable Social Service Delivery

In late 1993, USAID initiated sector assessments in education and health to determine more precisely the state of education and health in El Salvador, and as a means of stimulating policy discussions within Salvadoran society and of informing the evolution of donor programs in the social sectors. The assessments were highly participative, representing the entire political spectrum, a wide geographic spread, and all economic strata. They revealed a strikingly similar pattern of constraints to effective, efficient and equitable social service delivery: Inadequate national budget systems for social sectors; insufficient information and data analysis; inflexible and inefficient bureaucracies characterized by excessive centralization; poor quality of and inequitable access to services; and an absence of participatory mechanisms.

1. Inadequate National Budget Systems

In the 1980s, drastic real declines in GOES ordinary budget spending on health and education, along with general deficiencies in public administration, severely curtailed the Government's effectiveness in the health and education sectors and reduced the coverage of services in these areas. Since 1989, the GOES program to improve social services has made advances in increasing social spending and restructuring of expenditures within the health and education sectors. Greater emphasis is being given to pre-primary and primary education and primary health care, especially in the rural areas. Public spending on social programs has recovered from 24 percent in 1988 to 31 percent in 1992. Between 1991 and 1992, budgetary allocations to the Ministry of Health increased by 11.6 percent and to the Ministry of Education by 6.2 percent in real terms. These advances notwithstanding, El Salvador continues to allocate meager percentages of the national budget to education and health at 16 percent and 10 percent respectively. These figures translate into approximately \$70 per public school student per year and \$16 per capita for public health services. El Salvador continues to compare unfavorably with other Latin American countries in terms of social sector expenditures.

Allocation of resources within the social sectors must also be reformed based on needs and priorities, services programmed, and performance, not on historical allocations. Resources still tend to be concentrated in the urban areas, however, the GOES has begun to refocus its resources. For example, between 1991 and 1992, allocations to pre-primary and primary education and primary health care increased by 14 percent and 14.5 percent respectively.

In order to provide sustainable social services to the citizens of El Salvador, the GOES must commit to absorbing many of the costs associated with the delivery of these services currently being externally financed. In the case of education, the Ministry of Education must continue to increase the absorption of the extraordinary budget (non-salary quality inputs) into the ordinary budget. The current Ministry of Health coverage, originally believed to cover health services for 85 percent of the population, in reality only covers approximately 51 percent. If the Ministry's current Cost Recovery Plan were fully implemented it would result in neither sufficient cost savings, nor cover the amount of the population previously thought. The Ministry of Health must identify alternative financing mechanisms and commit to financing

pharmaceutical procurement, medical commodities, and overall investment activities. Financial resources for the social sectors will have to be raised from a variety of sources. While increasing the budgetary allocations for health and education is a necessary requisite for increased and improved services, it is by no means adequate. Alternative financing options need to be identified, studied, and implemented by both the Ministries of Education and Health.

2. Insufficient Information and Data Analysis

The lack of reliable data on the state of health and education in El Salvador is a persistent problem that will constrain planning efforts related to more effective, efficient, and equitable social service delivery and poverty alleviation. Measurement of poverty in El Salvador is far from adequate and should be improved in order to establish the magnitude of the problem and to monitor progress. There is a great diversity among the groups of people needing help. While those in extreme poverty may be given priority for targeting of health and education services, the size of this group makes it difficult to operate programs effectively and efficiently. Evidence shows that the unit costs of reaching the rural poor (where the majority of poverty exists in El Salvador) may be 20 to 50 percent higher than average.² Poor quality and inequitable access to services are directly related to the lack of information in both Ministries. This lack of information does not allow decision-makers to make budget allocations and other critical program decisions based on the actual needs of the citizens. Information will need to be collected, quantified and analyzed so that policymakers with limited budgets can set priorities and make informed decisions about the tradeoffs involved in different options for and approaches to poverty reduction.

Data systems needed for decision-making in the Ministries of Health and Education are only now being set up. Strategic planning is virtually non-existent in both Ministries. Decision-makers and managers lack the current, accurate, and relevant information they need to determine priorities, policies and programs. They also lack the tools to analyze this information such as computer systems, analytic knowledge and capacities, and management skills necessary to develop priorities and programs based on this information.

3. Inflexible and Inefficient Bureaucracies Characterized by Excessive Centralization

The administration of services in the health and education sectors in El Salvador is characterized by bureaucracies with a high degree of centralization, inadequate assessment, follow-up and administrative procedures, a low level of internal efficiency, and top-heavy personnel systems providing few incentives for innovation and improved performance with staff overly concentrated in urban areas.

² Margaret Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America*, World Bank, Washington, D.C., 1992.

The Ministry of Education employs nearly one-third of all civil servants (34,000 employees), and has one administrative employee for every four teachers. The Ministry of Health employs an additional 15 percent (17,000 employees) of civil servants. A total of 90 percent of the education budget goes for salaries, and in the case of health, 84 percent of the amount budgeted for hospitals, and 99 percent of the remaining costs, are represented by salaries. The personnel management system which regulates these employees provides little incentive for improved performance by teachers and health workers. Most of the employees work in urban areas with no incentives for working in the poorest, rural communities. This low level of internal efficiency of public institutions in health and education is manifested, for example, in low attendance by teachers, particularly those teaching in rural areas.

Many activities implemented by the Ministries of Education and Health could be carried out more effectively and efficiently by other entities closer to the people they serve. The Municipalities in Action (MEA) Program has shown that municipalities, on average, have been able to generate savings of 45 percent on construction costs for infrastructure such as schools and health units. While advances have been made in the decentralization of health and education services to municipalities and NGOs, additional models need to be developed and tested.

A greater dependence on institutions and organizations outside the central government will require a change in the way public sector institutions conduct business. Managers in these institutions lack the skills and experience needed to manage successful bureaucratic change. Public sector managers will need training in project management, contract management, monitoring and evaluation, and other skills necessary to manage the transition and successful implementation of a decentralized service delivery mode.

4. Poor Quality of and Inequitable Access to Basic Services

Access to basic services is not equitable in El Salvador. In the education sector, where school enrollment is less than universal, it is poor children who are most likely not to attend school. In health, among those that report themselves as having been ill, the poor are much less likely to seek and receive medical care than the non-poor. The poor also appear to receive services that are of a much lower quality than the average. A tremendous gap also exists between urban and rural access to social services. Improving access will require not only increased budget allocations for the social sectors, but inequities in physical access to and quality of services will have to be reduced.

With the initiation of the GOES poverty reduction plan in 1989, the Government began to refocus its resources and priorities on the most critical health and education priorities needed to reduce poverty in the country. The GOES needs to further expand basic services in priority areas in both education and health. In health -- focus on primary health care including maternal health and child survival, family planning and reproductive health services, STDs, HIV/AIDS, immunizations, malaria control, and health education and training for community health promoters and midwives; in education -- continue focus on primary grades, expand access to first grade, provide textbooks and learning materials, emphasize the development of general

skills and learning capacity in public schools, and develop pre-service teacher education and in-service teacher training.

El Salvador currently lacks the physical infrastructure required to improve the access to and quality of social services. In particular, those areas where the poor reside lack health facilities, schools, and water systems or if they are available, they are in desperate need of rehabilitation. Water and sanitation services in particular are a major problem. Only 47 percent of the population has access to safe potable water, and only 15 percent in the rural areas. There is a need for developing policies and strategies with the participation of the different institutions related to the water sector to determine issues of design, construction, operation, participation, education and administration.

In order to reduce poverty, the GOES will have to increase access to and improve quality of services with direct investments in areas where the poorest live -- rehabilitate existing health facilities and schools; classroom and health facility construction; potable water systems construction and operation. To the extent possible, emphasis should be on decentralized management and maintenance of infrastructure.

5. Absence of Participatory Mechanisms

The high degree of centralization in the Ministries of Health and Education impedes responsiveness to citizen needs and participation in decisions about issues which affect them on a daily basis. Government unresponsiveness and lack of accountability to the citizenry and citizen decision-making power were two of the factors leading to the civil war over a decade ago. The lack of existing channels or mechanisms for popular participation in decision-making is one of the principal obstacles to more effective and equitable delivery of social services. While there are hundreds of organized interest groups, associations, and indigenous NGOs which are involved in education and health, as a group they lack the formal recognition as partners to the Government in delivering social services. Government-initiated efforts to increase and broaden participation in service delivery have rarely taken place without external donor prompting (see examples such as the World Bank-funded EDUCO Program and the USAID-funded *fondos distritales* in Section II.E).

The MEA Program initiated in 1986 has made tremendous inroads to increasing citizen participation at the local government level. Under this program, local currency is made available for municipal-level infrastructure and linked to citizen participation in project identification. Since 1989 the MEA Program has financed 2,184 projects in school construction and rehabilitation, 394 health projects, and 787 water and sanitation projects. This combination of social service delivery through a process of democratic participation has been the principal benefit of the MEA program.

The decentralization process now taking place in El Salvador is building on the MEA experience to devolve more responsibility for delivery of public services to the local level, in the form of municipal governments, NGOs, and the private sector. Due to the success of MEA,

municipal governments have made considerable progress towards increasing their credibility and legitimacy in delivering services. Notwithstanding the successes of NGOs under the National Reconstruction (NRP) and Maternal Health/Child Survival Services (PROSAMI) Projects, NGOs have yet to be given a broad mandate as legitimate purveyors of social service delivery in their own right.

C. Social Sector Reform Activity Strategy

Peace in El Salvador has brought a new series of challenges to the nation which must be confronted if political stability is to be maintained and some of the basic social causes of the 12-year war eliminated. The government is aware that, among the many changes and reforms which must be undertaken, two of the most important are a general improvement in the quality of life of the average citizen, and greatly increased opportunities for people to participate in decisions which affect their lives. Given the evident lack of efficiency on the part of ministries and other centralized agencies to deliver high quality services equitably, and the lack of opportunity for citizens to have a voice in the decision-making related to those services, the GOES and USAID recognize the need for fundamental changes in social services and the manner in which they are delivered.

The strategy proposed in this Activity builds upon the GOES and USAID efforts to date to increase the quality of health and education in El Salvador and to improve the responsiveness of those institutions responsible for delivering basic social services. USAID policy dialogue efforts and technical assistance and training through a variety of projects have enabled Salvadorans to take some of the first important steps in improving services provided in the social sectors and thus reducing poverty. Major policy accomplishments over the past year include: development of pilot programs for decentralized management of the educational system, decentralized teacher training, and local control of educational resource decisions; design and implementation of the Ministry of Health's Cost Recovery System; increased primary health care and child survival coverage through the expanded use of NGOs; and decentralization of the selection, training and supervision of Community Health Promoters.

The Social Sector Reform Activity supports the GOES Economic and Social Development Plan initiated by the Cristiani Administration upon taking office in June, 1989. In particular, the Activity supports reforms and programs begun as part of the GOES poverty alleviation strategy. The Activity also supports the decentralization efforts of the Administration through the *Comité Técnico de Descentralización y Desarrollo Municipal* (CDM), chaired by the Ministry of Planning (MIPLAN). Prior to the March 1994 elections, all political parties and presidential candidates pledged their support to municipal development and the decentralized delivery of service provision. This Activity will be in a position to support whichever political party comes to power as a result of the elections.

The Social Sector Reform Activity is consistent with the Agency goals of encouraging broad-based economic growth and stabilizing population growth. The activity will support the USAID Strategic Objective No. 4, Improved Quality with Equity in Health and Education.

Additionally, the Activity will contribute to Strategic Objective No. 1, Transition from War to Peace, Strategic Objective No. 2, Equitable Economic Growth, and Strategic Objective No. 3, Enduring Democratic Institutions with Broad-Based Participation.

The policy dialogue agenda of the Social Sector Reform Activity complements the *FY94 ESF Program (519-0408)* in the education and health sectors. The emphasis of the ESF Program is on measures designed to promote decentralization and private solutions to public problems, to increase equality and participation by all Salvadorans, and to enhance the transparency of government operations. These measures are expected to result in a modern state, more efficient and effective, and more responsive and accountable to its citizens. Policy reforms in health and education sought under the Social Sector Reform Activity will be complementary to those currently being negotiated and under future consideration in the following Projects: *Strengthening Achievement in Basic Education (SABE, 519-0357)* and *Health Systems Support (APSISA, 519-0308)*. The Social Sector Reform Activity also supports policy reforms consistent with the *Municipal Development Project (519-0388)* and the *Municipalities in Action Program (MEA)* with respect to decentralization of social service delivery systems.

The Social Sector Reform Activity will engage in policy dialogue in support of activities financed under other USAID Projects: Increased and strengthened roles for NGOs in social service provision supports activities under *Maternal Health/Child Survival Services (PROSAMI, 519-0376)* and *National Reconstruction (NRP, 519-0394)*; increased GOES focus on family planning and reproductive resources supports activities under *Family Health Services (SDA, 519-0363)*; and decentralization of water systems management to NGOs under *Public Service Improvement (519-0320)*. In addition, technical assistance and training provided under *Technical Support, Policy Analysis and Training (519-0349)* supports the Social Sector Reform policy agenda for decentralization of social services, privatization/municipalization of potable water systems, and development of a new system for targeting social spending.

USAID will continue to coordinate its activities with multilateral and bilateral donors. The IDB is the largest of these with major investments in vocational education (ITCA) and the Social Investment Fund of El Salvador (FIS). Included in the FIS portfolio of projects is financing of construction of schools and health posts and development of basic services such as preventive health and infant nutrition. The IDB has additional planned education, health, and water sector loans with investment expected to be around \$100,000,000. The World Bank will fund its EDUCO project in decentralization of basic education for one more year before being absorbed into the ordinary budget. The Social Sector Reform Activity will work in parallel with these projects, assisting them by leveraging policy reforms which enhance their implementation. A number of bilateral donors have individual projects in health service delivery and education improvement, all of which will require coordination with the overarching reforms proposed under the Social Sector Reform Activity.

D. Activity Goal and Purpose

The *Goal* of the Activity is the Mission's Strategic Objective Number 4 -- Improved quality with equity in health and education. The *Purpose* of the Activity is to increase access to and quality of education and health services by improving the efficiency, effectiveness, and equity of service delivery. By the end of five-years, the Activity will have contributed to the Mission's Strategic Objective No. 4 through:

- * Increase percentage of 6th graders graduating in 6 years;
- * Decreased infant mortality rate;
- * Decreased total fertility rate;
- * Increased net enrollment of children (7-12) in grades 1-6;
- * Increased promotion rate at the grade 1 level;
- * Increased contraceptive prevalence rate;
- * Increased percentage of modern temporary contraceptive methods in CPR;
- * Increased percentage of children under 5 vaccinated with complete series in four diseases;
- * Increased percentage of women vaccinated with complete tetanus series; and
- * Increased percentage of women receiving a minimum of five prenatal care visits

To achieve the end-of-activity status, the Activity will finance technical assistance, training, and limited commodity support to help the Ministries of Health and Education and the Salvadoran Social Security Institute (ISSS) and other organizations representing the citizens of El Salvador, NGOs and municipalities, accomplish the following major outputs:

- * Increased percentage of the national budget allocated for health and education;
- * Reallocated budget allocations for selected "quality" programs in health and education;
- * Decentralization of budget and program decisions to the appropriate level (regional, departmental, or municipal) for most efficient and effective service delivery;
- * Increased equity in basic service coverage in geographic, economic and social terms;
- * Mechanisms for financial sustainability such as cost recovery in place and functioning;
- * Data collection and analytic capacity in place in the Ministries of Education and Health and effectively informing the policy process and program management; and
- * New service delivery models tested and receiving GOES and other donor funding for application on a broader, if not nationwide scale; and
- * Increased participation of the private sector, including NGOs, in the delivery and monitoring of basic services.

E. Activity Components

The Activity will utilize two reinforcing components to address constraints to equitable, effective, and efficient social service delivery: 1) Policy Formulation and Reform, and 2) Improved Service Delivery.

Component 1 -- Policy Formulation and Reform

Component 1 of the Social Sector Reform Activity will strengthen the capacity of government and private sector leaders, and the organizations they represent, to analyze issues, and engage a broad spectrum of Salvadoran society in debate and consensus-building around key policy reforms which merit the confidence of the citizenry. The project will involve both public and private institutions and coordinate closely with multilateral and other donors. By supporting studies, seminars, and public debate, a broader consensus will be built on the extent and pace of social sector reforms.

The reform dialogue will extend beyond the line ministries to the GOES Social Cabinet and the Ministry of Planning. The Activity will build upon the existing private advisory commission in the education sector either 1) to expand the commission to include health policies in a broader social sector advisory commission, or 2) to establish a separate commission for health. Such a measure is essential to ensuring clear Salvadoran ownership, by both public and private sectors, of the reform agenda. Prior to the arrival of the contract team for the design phase of the Activity, the USAID Office of Health, Population, and Nutrition will engage donors in a dialogue to discuss options and gain consensus for establishing a social sector or health advisory commission.

Coordination and administration of the commission activities would be the responsibility of a local NGO or a group of NGOs (see Box 1 for a model from the Dominican Republic). This approach will ensure creditability and acceptance of the output by putting it squarely in the hands of a creditable Salvadoran institution. A small interdisciplinary technical assistance team will facilitate the analysis of issues and exchange of views among the Salvadoran entities, continuing the innovative approach of ensuring direct Salvadoran involvement as it was begun in the sector assessments. A broad range of interested parties is anticipated to ensure a continuing demand for the reforms being proposed, as well as promoting Salvadoran ownership of the process. Explicit efforts will be made to include members of the Legislative Assembly, municipal governments, NGOs, as well as the executive branch of government in the dialogue.

During the design phase of the Activity, NGOs or groups of NGOs will be considered for this role. Possible NGOs could include *Fundación Empresarial para el Desarrollo Educativo* (FEPADE), *Fundación Salvadoreña para el Desarrollo Económico y Social* (FUSADES), or *Centro de Investigaciones Tecnológicas y Científicas* (CENITEC), several of the larger NGOs in El Salvador. Another option would be a consortium of smaller NGOs. The Activity will include limited assistance for the institutional strengthening of the local NGO(s) in order to ensure the sustainability of Salvadoran efforts to advance the social sector reform agenda.

Criteria for selecting an appropriate NGO(s) to administer commission(s) activities should include:

- * Policy analysis skills or the willingness to acquire them - The NGO(s) must be able to defend policies they advocate in data- and research-based ways (in-house or contracted out). The ideal institution should not be mere public relations or lobbying groups.
- * Advocacy skills - The NGO(s) have to be able to successfully push for certain policies. Institutions should not just be academic producers of research, but active players involved in policy marketing. USAID or USAID-contracted technical assistance will not take on the role themselves of policy advocates, but rather provide assistance to the commission.
- * Commitment to the public interest - To the extent possible, the NGO(s) must be apolitical and must not respond to the interests of any specific group such as labor unions, industry groups, etc.
- * Power of convocation - The NGO(s) must be of sufficient standing that they can call high-level meetings and have them attended by key decision-, policy-, and opinion-makers in the country.

Box 1
Fundación EDUCA in the Dominican Republic

In the Dominican Republic, USAID financed a local NGO, the Action Committee for Basic Education (EDUCA) for the purpose of leading the policy dialogue in the area of educational reform. EDUCA has had a major impact on policy reform in education in the Dominican Republic directly impacting on the country's poor. A quadrupling in teacher's salaries and a near doubling of the Ministry of Education Budget over the past two years is directly attributable to efforts on the part of EDUCA. In addition, EDUCA has worked very closely with the IDB, the World Bank, and local educational institutions to train school directors and teachers and produce and distribute textbooks to thousands of primary school students who, due to a lack of purchasing power, were not able to have textbooks in the past. EDUCA also played a major role in designing the government's Ten Year Education Plan. EDUCA has served as the focal point for public/private collaboration in the education sector as well as the major force for educational reform in the Dominican Republic.

In coordination with the FY94 ESF Program, other USAID Project activities, other donors, and the advisory commission(s), the Social Sector Reform Activity will encourage the GOES to continue and increase its focus on reforms to provide more effective, efficient, and equitable delivery of social services. The policy dialogue agenda, which will be specifically focused on mitigating the major constraints described earlier include the following four interrelated priority policy objectives: 1) Improved national budget system and increased financial resources for social services; 2) Decentralization and increased participation; 3) Increased quality and equity of social services; and 4) Increased effectiveness and efficiency of the public sector institutions which deliver the services. A preliminary policy dialogue matrix can be found in Attachment I to this Concept Paper. This policy framework is drawn from a synthesis of the health and education assessments and the experience of ongoing USAID activities related to the social sectors. The formal design of the Activity will require short-term

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assistance to structure the reform agenda and detail the processes necessary to carry forward the reform process.

Component 2 -- Improving Service Delivery

Under this Component, the Activity will provide assistance to sectoral institutions such as the Ministries of Health, the Ministry of Education, the Salvadoran Social Security Institute (ISSS), training institutions, NGOs, etc., to help implement the reforms already adopted as well as those yet to come by providing a timely mix of technical assistance and training. This Component has three dimensions: (a) improved GOES policy analysis and planning; (b) improved operational efficiency and effectiveness of service delivery; and (c) models for service delivery. Interventions under this component will be coordinated closely with the SABE, APSISA, SDA, PROSAMI, and Municipal Development Projects to ensure complementary utilization of resources.

(a) Improved Data Systems for Planning and Budgeting

Technical assistance, training, and limited commodities will be provided to the Ministries of Health and Education to (1) institutionalize a strategic planning capacity; (2) enhance the capabilities to collect current, accurate and relevant health care, education, and management information at the central, regional and local levels; and 3) develop the analytical and management skills necessary to allow the Ministries of Health and Education to identify priorities, rationalize resource allocations, and define effective policies, strategies, and budgets for essential services. The Activity will support the work initiated through SABE and APSISA in developing methodologies and instruments for planning, programming, monitoring and evaluation of all health care and education services.

Existing mechanisms for coordinating actions and exchanging information among the various levels of government are weak and unreliable if they exist at all. Organizational and operational changes are required in planning and in identifying mechanisms for facilitating the transition from centralized social service delivery to a more decentralized mode of operation. In an environment of decentralization, mechanisms for regular communication among the actors regarding the phasing of changes and transitional arrangements must be established for effective coordination and planning of activities and efficient use of budgetary resources. Characteristic of a decentralized social service delivery system will be a more normative and regulatory role for central public institutions and an increased role in service delivery and management for municipalities, *consejos departamentales de alcaldes*, NGOs, and other entities closer to the beneficiaries.

(b) Improved Operational Efficiency and Effectiveness

The second component will enable the GOES to overcome constraints to the timely implementation of the reform strategy. The Activity will finance technical assistance, training,

limited commodities, and other costs for activities including, but not limited to reforming and/or improving public sector management systems and operations:

- * personnel management to include incentives, personnel levels, salary scales, and technical qualifications;
- * transparent, accountable commodity management;
- * budget allocation based on the needs, services programmed, priorities and performance;
- * integrated national programming and financial planning on an annual basis which includes linking local programming of services and budget development at each level of service delivery;
- * financial self-sufficiency, including cost recovery, cost sharing, and alternative financing mechanisms;
- * training for public sector planners (in coordination with the CLASP Project) will be provided to the Ministries of Health, Education, and Planning and administrators at the departmental and municipal level to assist with implementation of policy reforms the decentralization process.

(c) Models for Service Delivery

Component 2 will also engage all actors, including sectoral institutions, NGOs, municipalities, etc. in developing *alternative and new models for social service delivery which reflect the changed policy environment* focusing on a revised role for the central ministries and enhanced roles for municipalities, NGOs, and the private sector. The models to be identified, implemented, and tested will be negotiated with appropriate public entities and NGOs and will be implemented on a sufficiently large scale and with systems in place to allow measurement of change in health and education status and service system efficiency. While this component will build upon the experience of USAID activities and other model programs in El Salvador, it will be primarily a vehicle for new, experimental and innovative models. These models will reflect both the normative, regulatory role of the central ministries and the increased responsibility and autonomy of local level institutions.

Considerable progress has been made in the education sector with the World Bank-funded EDUCO program, perhaps the most well known alternative model of service delivery in El Salvador. EDUCO aims at improving nutritional levels and reducing the dropout rate among school children within 78 of El Salvador's poorest municipalities. The Program covers pre-school through third grade and works with parent groups known as *Asociaciones Comunales para la Educación* (ACE), which are responsible for supervision of the program and hiring and payment of teachers. The program began in June 1991 and by December of that year was serving some 13,000 children. By 1992 this figure had grown to 51,900, compared to its initial goal of reaching 35,000 children. For 1994, the Ministry of Education has agreed to absorb the EDUCO program into its ordinary budget.

The USAID-funded *Fondos Distritales* aims to broaden citizen participation in education service delivery while increasing the quality of the education. Under a pilot program initiated

in 1993, the Ministry of Education provides funding to three of the 216 school districts in El Salvador, approximately 100 schools. Districts access funding by submitting project proposals that have been identified by parents in the school district. This mechanism provides resources to supplement normal school budget, while providing a means to increase parents participation in the education their children. The pilot program will be increased by the end of FY94 to include 15 districts or approximately 500 schools.

Through the SABE Project, a pilot program has been initiated to decentralize procurement of learning materials to the level of the individual school. All procurement will be done locally, contributing to the local economy while providing the materials most appropriate to local needs. The Ministry of Education is currently negotiating with MIPLAN to decentralize selected education services this year to the departmental level in Sonsonate and Usulután, established as pilot departments for decentralization under the Municipal Development Project. Other experimental service delivery modes need to be developed and could include increasing the role of Parent Teacher Associations (PTAs) in the decision-making process of the schools. The Ministry of Education estimates that there are some 1,000 parent and school associations operating at present; however, outside of the EDUCO Program, PTAs have little say in the way schools are run and decisions made. Relationships could also be developed between private businesses and schools similar to the "adopt-a-school" program in the U.S. where a mutually beneficial relationship is developed.

While fewer models for alternative health service delivery are evident in El Salvador, the GOES, through the *Sistemas Locales de Salud* (SILOS), has promoted decentralization of resources and decision-making authority for health services including community participation. Other possibilities could include a variation of the highly successful PROSALUD model in Bolivia (see Box 2) and the development of a model similar to the World Bank's EDUCO program. The health services model would aim at improving primary health services of some of the poorest municipalities in the country. Communities would create "Asociaciones Comunales para la Salud" that would identify the primary health needs of the community in conjunction with local health NGOs and local government health institutions. The community would be responsible for hiring, payment of health promoters and medical practitioners, and construction of community health centers providing primary care. The municipalities would subsidize these health centers from monies generated from central government transfers targeting impoverished municipalities. The correct mix of financing for these centers would be determined through socioeconomic studies of the communities and financial analyses of the municipalities.

Another option for the health sector would be a model that includes NGOs and the private for-profit sector: The current health system is over-reliant on a curative system emphasizing physicians and hospitals but which does not meet the basic health needs of the population. A model is needed which emphasizes *preventive care* over curative care services, continuing the provision of secondary care including the hospital system under the responsibility of the Ministry of Health and initiating primary care services under the responsibility of private and non-profit sector.

Normative and regulatory responsibility for primary care services would be under the Ministry of Health but the implementation of such services would be delegated to private health care providers, NGOs and other non-profits. Hospitalization and preventive health services would continue to be the responsibility of the Ministry of Health but cost recovery systems and administrative systems would be implemented to make their services more efficient and effective. Secondary and referral care requests from primary health centers would be transferred to the hospitalization systems. The GOES is also currently considering the privatization of secondary health services.

Box 2

PROSALUD in Bolivia

This Bolivian-initiated model is comprised of a network of community-sponsored health centers supported by a central management unit. PROSALUD has proven to be a sustainable, high quality, low cost, culturally acceptable primary health care (PHC) service for populations in rural and marginal urban communities. PROSALUD's objectives are:

- * To provide sustainable, high quality, low cost, culturally acceptable primary health care services with the active participation of the communities being served.
- * To train professionals in the development and management of PHC systems.
- * To conduct operations research, marketing studies and epidemiological research in areas related to the provision of PHC services.
- * To provide technical assistance to other organizations within the health sector.

Community-sponsored health centers are sustained by collecting small user fees for curative services. All basic PHC services are free (vaccinations, prenatal care, etc.). Cross-subsidization is a fundamental part of the PROSALUD system: Urban clinics subsidize rural clinics; people who can afford to pay subsidize people who cannot afford the services; and fees generated from curative services subsidize free PHC services. The system's central Management Support unit is composed of several departments including: medical services, finances, social marketing, project development, training, logistics and drug supply, and management information whose role is to support the community health centers and provide technical assistance. Community health centers offer an integrated package of services including: general medical, pediatric and gynecological visits; prenatal, birth and postpartum services; family planning; well-child care, including growth and development and vaccinations; dental; pharmacy and laboratory services. Home visits are conducted regularly by full-time, paid health promoters and center staff.

F. Project Beneficiaries

The primary beneficiaries will be the 2,750,000 people (54 percent of the population) in El Salvador who live in poverty and have little or no access to social services. The Activity will emphasize the targeting of those citizens most at risk, i.e. the poorest of the poor, primarily residing in rural areas. All Salvadorans will benefit from increased quality services that are provided more efficiently.

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IV. Project Implementation

The Project Agreement will be signed with the Ministry of Planning, with participation of the Ministry of Finance, Ministry of Health, the Ministry of Education, and the ISSS. The possibility of a trilateral project agreement will be investigated during project design in order to include one or more lead NGOs, whose role will be vital to the success of the Activity. The Activity will be managed by the equivalent of one full-time USDH supported by two FSN professionals. The GOES contribution will be in the form of salaries and operational expenses associated with training programs and implementing improvements in service administration in the Ministry of Health and the Ministry of Education.

V. Project Budget

The Activity will finance assistance to the Government of El Salvador for a period of five years, with a total estimated budget of \$20.0 million. USAID's contribution will be \$15 million for technical assistance, training, operational support and commodities (see Table 1 for Summary Budget). It is anticipated that a major, competitively-bid institutional contract will be the principal conduit for Activity assistance. Activity Evaluations and Audits will be procured separately. At least 25 percent of the cost, or \$5.0 million equivalent, will be met by the Government of El Salvador, through budget support and salaries for institutional reforms in the Ministry of Health and the Ministry of Education.

Component 1 - Policy Formulation and Reform	1,500
Component 2 - Improved Service Delivery	13,000
(a) Data Systems for Planning and Budgeting	3,000
(b) Operational Efficiency and Effectiveness	3,000
(c) Models for Service Delivery	7,000
Management/Evaluation/Audit	500
Total	15,000

VI. Design Schedule

Preparation of the Project Paper will include the participation of the Offices of Education and Training (OET), Health, Population and Nutrition (HPN), Contracts, Controller, Legal Advisor, Development Planning and Programming, Economics, and Projects. The design of the Activity will utilize the Design and Perform (DAP) mechanism for contracting:

Project Design Committee (PDC) review	1994
of first draft of Concept Paper	March 29
full Mission review of Concept Paper	April 21
approve Concept paper	April 25
approve SOW for RFP	April 29
publish notice in CBD for DAP RFP	May 10
sign contract with DAP firm for design phase	August 31
Design team arrives in-country	October
Final PP, Project SOW, & Budget delivered	February 1995
modification of contract to permit implementation	April 1995

VII. Recommended Environmental Threshold Statement

A Categorical Exclusion from environmental examination is shown in Attachment II.

Box 2
Social Sectors
Preliminary Policy Dialogue Matrix

POLICY OBJECTIVE	USAID ACTIVITIES	WHAT IS NEEDED	TIMEFRAME	AGENCY RESPONSIBLE
IMPROVED NATIONAL BUDGET SYSTEM				
Increase public resources available for health and education.	FY94 ESF Program; Social Sector Reform; SABE; APSISA	Increase budget allocations for the Ministries of Health and Education with respect to GDP.	June 1994	MOF; MIPLAN; MOE, MOH
Increase public resources for priority health and education programs: improved quality of primary education and preventive health care vs. salaries and curative/tertiary care.	FY94 ESF Program; Social Sector Reform; SABE; APSISA	Increase budget allocations for selected programs in health and education.	June 1994	MOH; MOE
Improve the process of allocation of resources through a better budgeting of the Ministries of Health and Education.	FY94 ESF Program; Social Sector Reform; APSISA; SABE	Design new budget format for Ministries based on services programmed; submit to legislative assembly 1995 budgets prepared with new format.	June 1994 TBD	MOH; MOE
Increased financial self-sufficiency in health and education.	FY 94 ESF Program; Social Sector Reform; APSISA; SABE	Implement the cost recovery program in selected health facilities; identify alternative financing mechanisms to pay for pharmaceutical, commodities and overall investment activities in health, and absorb the extraordinary budget into the ordinary budget.	June 1994 TBD	MOH MOH; MOE
DECENTRALIZATION AND INCREASED PARTICIPATION				
Decentralization giving more decision-making power to the appropriate level for most efficient and effective service delivery, including municipalities, NGOs, and the private sector.	FY 94 ESF Program; Municipal Development; MEA	Approval of National Decentralization Strategy; decentralization implementation plans for health and education.	June 1994 Nov. 1994	CDM/MIPLAN MOH; MOE
Initiate/continue pilot decentralization programs in health, water systems and education.	FY ESF Program; Municipal Development; MEA; Social Sector Reform; SABE; APSISA; PROSAMI; Public Services Improvement	Establish 1,100 new EDUCO sections; initiate pilot program to contract NGOs to provide Minimum Health package in priority zones; identification/implementation of other service delivery models; decentralization/NGO management of water systems	Nov. 1994 Nov. 1994 TBD TBD	MOE; MOH; MOE; MOH ANDA
Increase municipal revenues to make operational the decentralization.	FY94 ESF Program; Municipal Development	Legislation to establish a new law for revenue sharing/transfers to municipalities.	June 1994	MIPLAN
Define the regulatory, monitoring, and service delivery role for public sector institutions with responsibilities for social service delivery and acceptance of the roles of NGOs and for-profit service providers.	Social Sector Reform; SABE; APSISA; Public Services Improvement; CLASP; SDA; PROSAMI	Appropriate legislative or administrative reforms depending on the service provided.	TBD	MOE; MOH; ANDA

* Note: June and November 1994 represent tentative dates for first and second disbursements respectively of the FY94 ESF Program.

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Box 2 (continued)
Social Sectors
Preliminary Policy Dialogue Matrix

POLICY OBJECTIVE	USAID ACTIVITIES	WHAT IS NEEDED	TIMEFRAME	AGENCY RESPONSIBLE
INCREASED EFFECTIVENESS, EFFICIENCY, AND EQUITY OF SOCIAL SERVICES				
Continued and expanded focus on primary education: primary grades, expanded access to first grade, provision of textbooks and learning materials, development of general skills and learning capacity, pre-service teacher education and in-service teacher training.	Social Sector Reform; SABE	Policy dialogue and public awareness of and dialogue on education issues, the state of education in El Salvador, and its relation to economic growth.	Ongoing	MOE
Continued and expanded focus on primary health care: maternal health and child survival, family planning and reproductive health services, STDs, HIV/AIDS, immunizations, malaria control, and health education and training for health promoters and midwives.	Social Sector Reform; APSISA; PROSAMI; SDA;	Policy dialogue and public awareness of and dialogue on health issues, the state of health in El Salvador, and its relation to economic growth.	Ongoing	MOH
Provide greater coverage in health and family planning, allowing a greater role for health promoters and midwives.	FY94 ESF Program; Social Sector Reform; PROSAMI; SDA; APSISA	Administrative reforms to allow greater role for health promoters and midwives and design a training program; training program finalized;	June 1994 Nov. 1994	MOH
Improve the teacher hiring process and give greater incentives for enhanced teacher performance, and work in remote areas.	FY94 ESF Program; Social Sector Reform; SABE	Submit reform to the Ley del Escalafón Magisterial; good-faith effort for approval.	June 1994; Nov. 1994	MOE
Commitment to consistent quality norms in primary education and primary health care.	Social Sector Reform; SDA SABA; APSISA; PROSAMI		TBD	MOE; MOH
Increased effectiveness of the Ministries of Health and Education to target social services.	Social Sector Reform	Develop and implement data collection, monitoring and evaluation information systems that provide accurate, timely, and relevant information; develop analytical capacity and management skills to effectively utilize information.	TBD	MOE; MOH
INCREASED EFFECTIVENESS AND EFFICIENCY OF PUBLIC SECTOR INSTITUTIONS				
Increased effectiveness of Ministry of Health and Ministry of Education capability for policy-making, programming, and the rationalization and usage of resources.	Social Sector Reform; SABA; APSISA; CLASP	Institutionalize strategic planning; Develop and implement data collection, monitoring and evaluation information systems that provide accurate, timely, and relevant information; develop analytical capacity and management skills to effectively utilize information.	TBD	MOE; MOH
Improved personnel policies and systems in the Ministries of Health and Education including improved salary levels, technical qualifications and evaluation based on performance.	Social Sector Reform; SABA; APSISA	Administrative reforms	TBD	MOE; MOH
Transparent and/or decentralized commodity management and procurement systems in health and education.	Social Sector Reform; SABA; APSISA	Administrative reforms	TBD	MOE; MOH

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Initial Environmental Examination

Basic Project Data

Project Location: El Salvador
Project Title: Social Sector Reform
Project Number: 519-0401
Activity Funding: \$15 Million (LOP)
Life of Project: 5 years
IEE prepared by: Peter Gore
USAID/El Salvador
Environmental Officer
Recommended Threshold Decision: Negative
Mission Threshold Decision: Concur with Recommendation
Date Prepared: March 29, 1994



Charles E. Costello
Mission Director
USAID/El Salvador

April 20, 1994
Date

Social Sector Reform
519-0401

Categorical Exclusion of Initial Environmental Examination

USAID/El Salvador intends to sign a Handbook 3 Bilateral Agreement with the Ministry of Planning for assistance to a variety of GOES entities and NGOs involved with social service delivery. The Social Sector reform Activity (No. 519-0401) has a planned life of five years with planned obligations not to exceed \$15.0 million.

The *Goal* of the Activity is the Mission's Strategic Objective Number 4 -- Improved quality with equity in health and education. The *Purpose* of the Activity is to increase access to and quality of education and health services by improving the efficiency, effectiveness, and equity of service delivery. Assistance will be channeled through two components: Component 1, Policy Formulation and Reform, and Component 2, Improving Service Delivery. Assistance will support the formation and reform of policies necessary for the delivery of quality health and education services more equitably and efficiently. Assistance will focus on assisting public and private institutions (e.g. Ministry of Health, Ministry of Education, NGOs) implement reforms already adopted as well as those yet to come by providing a timely mix of resources -- technical assistance, training, and commodities.

Pursuant to Section 216.2(a) of A.I.D. environmental procedures, environmental analysis/evaluation is required for new Projects (Activities). The Social Sector Reform Activity qualifies for a categorical exclusion under Section 216.2(c)1(i), "The action does not have an effect on the natural or physical environment," and Section 216.2(c)2(i), "Education, technical assistance, or training programs...", and Section 216.2(c)2(xiv), "Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning..."

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