El Salvador Investment Climate Project

Final Report

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Acronyms

AAC	Civil Aviation Authority
ACOPASCA	Asociación Cooperativa de Producción Agropecuaria San Carlos
ADESCO	Asociación de Desarrollo Comunal
AEPQ	Highway Escuintla-Puerto Quetzal (Guatemala)
AILA	International Airport La Aurora (Guatemala)
ANDA	National Administration of Aqueducts and Sewers
APANC	Asociación de Productos Agropecuarios Nueva Concepción
API	Apuesta por InversionES
CBA	cost-benefit analysis
CEPA	Autonomous Port Executive Commission
CIs	contracting institutions
CIV	Ministry of Communications, Infrastructure and Housing (Guatemala)
CNR	National Records Center
CONVIA	Guatemala Highway Consortium
DATCO	Dirección de Administración de Tratados Comerciales
DGA	Customs Office
DIPIL	Project Implementation Directorate
DNM	National Directorate of Medicines
EDM	Millennium Entity
EIU	Economist Intelligence Unit
ERR	economic rate of return
ESIC	El Salvador Investment Challenge
FGD	focus group discussion
FOMILENIO II	Fondo del Milenio II
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social
GoES	Government of El Salvador

GoG	Government of Guatemala
GDP	gross domestic product
ICP	Investment Climate Project
INVEST	Investment and Exports Promotion Agency of El Salvador
KII	key informant interview
LACTOLAC	Lácteos del Corral S.A. de C.V.
MAG	Ministry of Agriculture
MCC	Millennium Challenge Corporation
MINEC	Ministry of Economy (El Salvador)
MINFIN	Ministry of Finance (El Salvador)
MINSAL	Ministry of Health (El Salvador)
MOP	Ministerio de Obras Públicas (El Salvador)
OFAPP	Organismo Fiscalizador de Asocios Público-Privados
OMR	Organismo de Mejora Regulatoria
OPAMSS	San Salvador Metropolitan Area Planning Office
PDA	Partnership Development Activity
PPP	Public–Private Partnership
PROESA	Export and Investment Promotion Agency of El Salvador
RI	regulatory improvement
RIA	Regulatory Improvement Activity
RNT	Registro Nacional de Trámites
SMR	Sistema de Mejora Regulatoria
ToC	theory of change

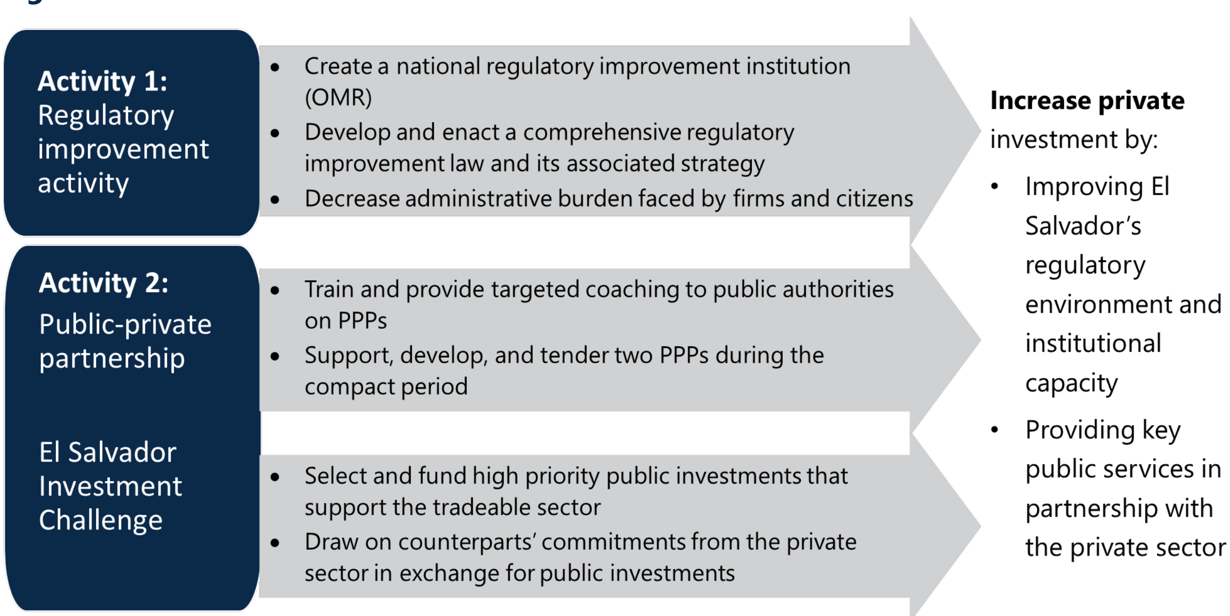
Executive Summary

A. Introduction

Under the authority from the Government of El Salvador (GoES), the Fondo del Milenio II agency (or FOMILENIO II) executed the MCC-El Salvador Investment Compact from 2015 to 2021. As one of three large-scale projects in the Investment Compact, the El Salvador Investment Climate Project (ICP) invested $92.4 million to boost the productivity of the tradeable sector through better regulation, well-targeted public investments, and large-scale public-private partnerships (PPPs). The ICP was made up of two activities, the Regulatory Improvement Activity (RIA) and the Partnership Development Activity (PDA). In turn, PDA consisted of two sub-activities, the El Salvador Investment Challenge (ESIC, or *Apuesta por InversionES* [API for its initials in Spanish]) and the PPP Sub-Activity.

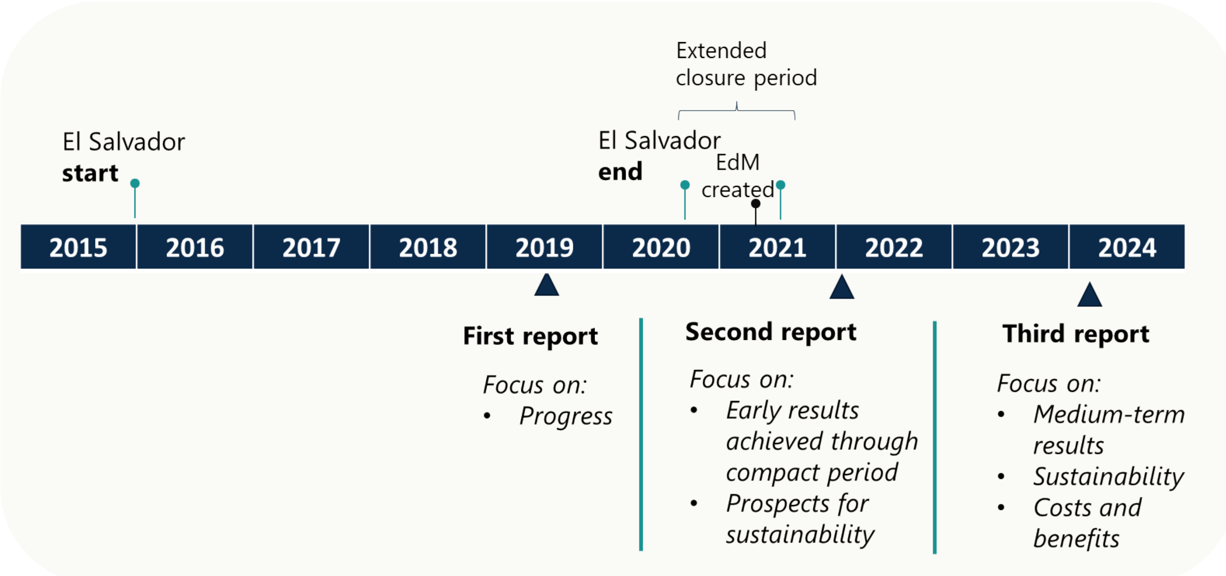
In RIA, stakeholders designed and supported a new agency devoted to improving the quality of regulations governing businesses and citizens: the *Organismo de Mejora Reguloria* or OMR. Under ESIC, FOMILENIO II established an investment fund with an endowment of $75 million in funding—$50 million from GoES and $25 million from FOMILENIO II. FOMILENIO II selected and funded high priority public investments—such as transportation and water treatment infrastructure—to stimulate private investment in the tradeable sector. For the PPP Sub-Activity, FOMILENIO II helped PPP authorities build technical capacity and develop a pipeline of viable PPPs largely in the transportation sector. Figure ES.1 summarizes the goals that MCC and FOMILENIO II staff anticipated for the ICP's activities and sub-activities at their inception.

Figure ES.1. Goals of ICP



The El Salvador Compact closed in September 2020, but several activities continued beyond the extended Compact close-out date. In April 2021 the Government of El Salvador created the Millennium Entity (EDM for its initials in Spanish) and the successor entity to FOMILENIO II to oversee the completion of Compact-funded infrastructure projects (including several under ESIC) after close-out. Figure ES.2 shows the timeline of Compact execution and evaluation report release dates.

Figure ES.2. Compact and evaluation timeline



EDM = *Entidad del Milenio.*

MCC contracted Mathematica to conduct performance evaluations of RIA, the ESIC Sub-Activity, and the PPP Sub-Activity. The first interim report provided more details on the implementation between 2015 and early 2019 (Padilla et al. 2019). In the second report, we documented ICP implementation between early 2019 and the end of the Compact in 2021 and discussed early results (Padilla et al. 2022). The current report presents findings from each Activity or Sub-Activity covering 2022 and 2023, roughly two years after the end of the Compact (see Figure ES.2).

B. Findings on RIA

OMR has continued implementing the Regulatory Improvement (RI) Law and supporting public institutions' use of RI tools. From 2019 to 2021, OMR helped the 17 ministries of the executive branch adopt and complete four tools aiming to take stock of regulations, assess regulatory burden, and prioritize regulatory reform: (1) the National Registry of Procedures (RNT), (2) Regulatory improvement (RI) plans, (3) regulatory agendas, and (4) impact assessments. In 2022, in addition to these 17 ministries, the RI Law required 79 autonomous agencies and six legislative and judicial entities to adopt the four tools. Starting in 2023, all 262 municipalities in the country were responsible for adopting the four tools.

Table ES.1. Progress in the adoption of RI tools

RI tool	Description	Progress as of September 2023
RNT	All procedures with a legal basis are included in a public registry	Currently, there are over 3,800 procedures on the RNT platform, primarily representing the 17 ministries in the executive branch
RI plans	Annual plans for administrative simplification—or the reduction of burden through streamlined processes	Approximately 28 percent of the 357 ministries, autonomous institutions, and municipalities submitted their plans including objectives, goals, indicators, activities to improve procedures.
Regulatory agendas	Annual list of laws and regulations they will produce or modify	About 33 percent of partnered institutions (118 of the 357) submitted a list of regulations that plan to approve, modify, or eliminate on a yearly basis (regulatory agendas).
Impact assessments	A cost-benefit analysis of new laws and regulations that affect businesses.	OMR received seven impact assessments in 2022 and five in 2023.

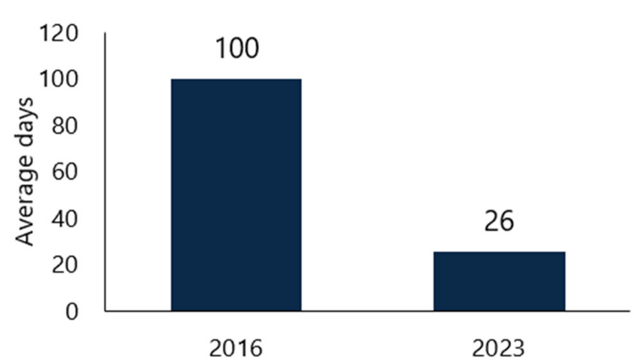
OMR has benefited from stable leadership in recent years, despite an uneven start. OMR had four executive directors from 2015 to 2021, each with different skillsets, levels of political support, and visions for OMR. This led to some discontinuities and pivots in strategy and workstreams that likely compromised OMR's influence during the Compact period. The current executive director was appointed in August 2021; her tenure has facilitated strategic decision-making and a stable vision for implementing the RI tools.

Municipalities' adoption of RI tools has been slow due in part to technology constraints. As noted above, the RI Law required municipalities to use all four RI tools by 2023. However, municipal adoption of the tools has been slow, due in part to municipalities' lack of computers and internet. Without these, municipal staff cannot attend virtual training or access OMR's platform to register procedures. OMR staff reported the digital gap among municipalities is the biggest challenge to complying with the RI Law.

RI tools have influenced GoES authorities to reduce regulation to some extent. Ministry staff historically created new procedures without considering how these procedures would affect users. However, the regulatory agenda dissuades institutions from issuing new procedures. There is a perception among ministry staff that if their regulatory agenda fails to name all new procedures before they are introduced, the national accounting authority *(Corte de Cuentas)* could hold technical staff personally liable for incomplete adherence to the RI Law. Similarly, the regulatory impact assessment prompts institutions to assess whether creating additional regulations is cost-effective; this introduces a new counterweight to issuing new regulations.

The average time to obtain construction permits dropped dramatically in recent years, due in part to RIA. In 2016 and 2017, OMR

Figure ES.3. Average days to obtain a construction-related permit



Note: Days reported by a panel of firms surveyed in 2016 and 2013.

worked closely with the National Administration of Aqueducts and Sewers (ANDA) and the Ministry of Public Works (MOP) to streamline the construction permitting process. Generally unrelated to RIA, the GoES also developed a one-stop shop for construction permits[1] to streamline construction permits in 2021. Moreover, the GoES created by decree the Directorate of Construction Procedures in 2023, which centralized procedures and permits necessary for construction and urbanization projects in the country. According to interviewed stakeholders, these efforts had a cumulative effect of reducing the construction-related permit wait-time dramatically. Reports from the panel of firms surveyed in 2016 and again in 2023 shows a decrease of 74 days on average to obtain a construction permit—a reduction of 74 percent in the average wait-time.

One key RI tool, the RNT, has not been easily accessible to the public, limiting its benefits. One of the benefits of the RNT is to make regulations transparent and thereby encourage authorities to request only those administrative procedures that appear in the RNT. To achieve this, it is necessary that the administrative procedures included in the RNT are accessible to citizens in general. The RNT is not yet available in a portal where it is easy to identify the procedures requested by GoES institutions. This undermines the tool's objectives of making regulations fully transparent and holding authorities to their official regulations. OMR has worked on the launch of the RNT and it is expected to be available to the public in 2024 on the portal, however, as of June 2024 the portal is still not functional.

RI tools have fallen short by failing to tackle legal reforms. Representatives of GoES authorities noted to focus the application of RI tools to existing procedures but not legal reforms. Representatives from the Salvadoran Foundation for Economic and Social Development (FUSADES), a respected Salvadoran think tank, also noted that GoES institutions should have applied RI tools—such as the RI plan and impact assessments—to reforms and laws presented to the Assembly in 2021 and 2022, which did not occur. Excluding legal reforms from regulatory improvement tasks represents a missed opportunity to improve the country's investment climate, particularly given the outsized role that existing laws and regulations play in the overarching regulatory environment.

Regulatory improvements have not been implemented as a strategy that seeks to transform all aspects of the regulatory framework. Several stakeholders noted that the GoES prioritizes RI as part of the strategy aimed at improving the environment for investing and doing business in the country. As result, progress has been made on specific issues affecting the investment climate, but not as a strategy to change the regulatory framework. For example, the GoES developed a one-stop shop for construction permits and created the Department of Expediting Procedures to streamline processes in the construction sector. In contrast, there has been a delay implementing the Law to Eliminate Bureaucratic Barriers, which was designed to establish a systematic and transparent approach to RI. Specifically, the GoES has not created a tribunal responsible for assessing the legality and rationality of regulations for which complaints have been lodged, as well as imposing any necessary sanctions on public authorities.

The biggest threat to sustained RI is OMR's capacity to fulfill its growing mandate. The interim report indicated that OMR staff faced capacity challenges in serving the 17 partner institutions in the executive branch. Since then, 79 autonomous agencies and six institutions from the legislative and judicial branches, as well as the 262 municipalities, are now required participate in the National Registry—and

[1] The site is available at https://simple.sv/tramite/permisos-integrados-del-sector-construccion/empresarial.

could call on OMR for support. As of March 2023, only 10 technical OMR staff worked on revising the RI tools submitted by partner institutions, resulting in a ratio of one OMR staff-person per 37 institutions. OMR's staffing shortage severely limits the potential benefits of RI tools. Critically, OMR does not have enough staff to review and approve new procedures at the rate they are added to the RNT.

C. Findings on PPP

PPPs allow governments to develop public infrastructure utilizing the private sector's resources and expertise. PPPs are an attractive option for financing public goods and services without adding to fiscal deficits. During the Compact period, FOMILENIO II funded transaction advisors and pre-feasibility and feasibility studies to support the PPP structuring process. These studies and transaction advisor services were critical to move PPPs from theoretical projects to fully vetted, bankable investments with private sector interest. More details on the support provided is available in the baseline (Padilla et al. 2019) and interim reports (Padilla et al. 2022). Since the approval of the first PPP project in 2021, only the cargo terminal project advanced to the operation phase. The other three projects supported by FOMILENIO II are no longer in the pipeline of active PPP projects. Table ES.2 summarizes the specific project support each PPP project received and their status as of March 2023.

Table ES.2. Status of PPP projects as of March 2023

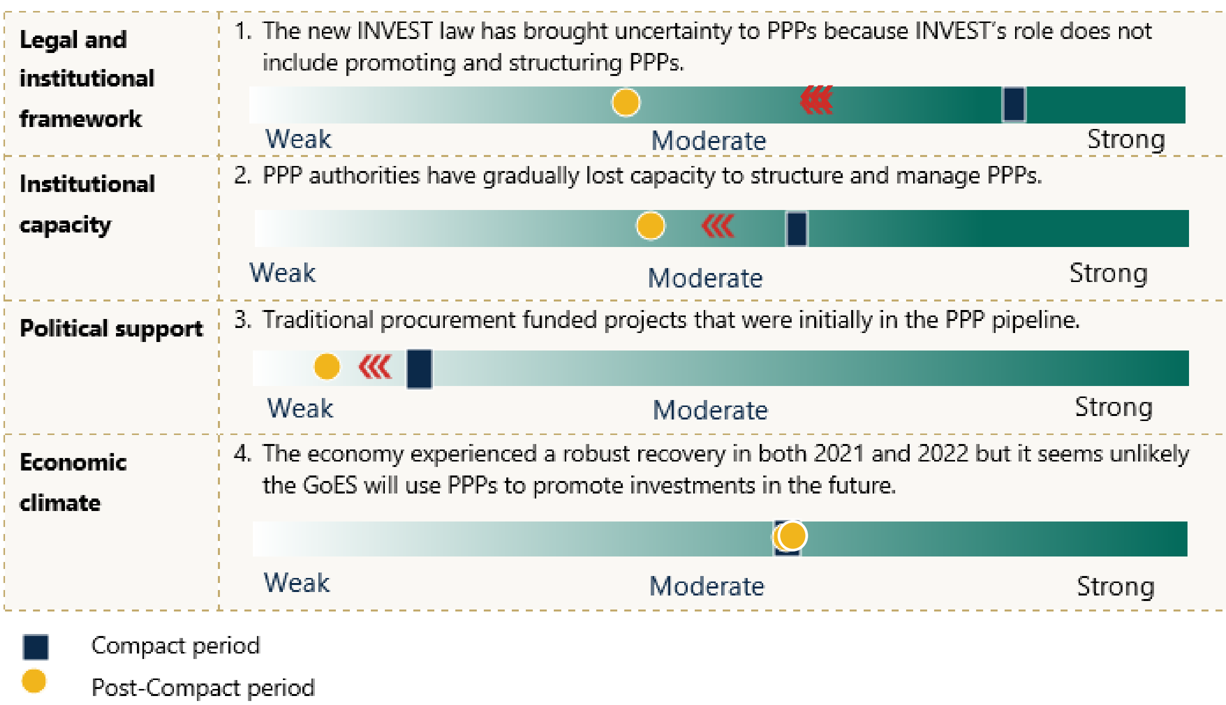
PPP project	Description	FOMILENIO II's project-specific support	Status as of March 2023
Cargo terminal in the international airport	Expand the cargo terminal to double its capacity and authorize a private consortium to manage it.	Technical studies, prefeasibility and feasibility studies, and transaction advisor	Operating
Street lighting and video surveillance	Install lighting and video surveillance over 140 kilometers of highway, financed by billboards and other advertisements along the motorway.	Technical studies, prefeasibility and feasibility studies, and transaction advisor	Not in the pipeline
Hachadura toll road in the Pacific corridor	Expand the highway to four lanes from La Hachadura to Acajutla and include an overpass and a bypass.	Prefeasibility and feasibility studies	Not in the pipeline
Selected boarding crossings	Improve the infrastructure and systems such as video surveillance for cargo control at the borders of El Poy, Anguiatú, El Amatillo, and La Hachadura.	Prefeasibility and feasibility studies	Not in the pipeline

The pandemic changed GoES priorities and its preferred funding mechanisms for infrastructure. The Bukele administration's enthusiasm for PPPs prior to 2021 did not last because the timeline for structuring and implementing PPPs is relatively slow compared to traditional procurement. PPP projects can take almost two years to design and structure, whereas traditional procurement projects can secure funding in six or seven months. The GoES post-COVID-19 strategy for economic recovery included designing and executing large transportation projects—potentially through PPPs. However, the executive branch started prioritizing projects through traditional procurement in 2021 because it was more expeditious.

Despite producing one high-quality PPP during the Compact period, the Sub-Activity fell short of its initial goal of two tendered PPPs before the Compact ending in September 2020. We documented in the interim report that the cargo terminal PPP complies with international standards, has a clear business case and an existing demand for services, and is self-sustainable. Since the start of its operation, the cargo terminal PPP has increased the flow of imports and exports in the international airport by 15 percentage points (CEPA 2023). However, as of June 2023, the GoES does not appear to have plans to move forward with any additional PPPs. As result, the GoES did not meet the Sub-Activity's initial target of supporting, structuring and tendering two PPP projects.

The enabling environment for PPPs in El Salvador has eroded since the Compact's closure. The PPP enabling environment is the set of structural factors needed in a country to establish and implement high-quality PPPs. Some key features of the PPP enabling environment—such as the legal and institutional framework—were largely untested during the Compact period. However, from the experience structuring the expansion of the cargo terminal project, stakeholders noted the need to reform the PPP Law to streamline processes such as the approval of PPPs. In addition, the GoES approved the INVEST law, which replaced the PPP authority, PROESA, with a new agency. This created uncertainty for the institutional framework supporting PPPs. In addition, PPPs lost high-level political support as GoES opted to fund transportation projects initially slated for PPPs through traditional procurement. Cumulatively, these developments led to a weaker PPP enabling environment in 2023 compared to 2020 (see Figure ES.4).

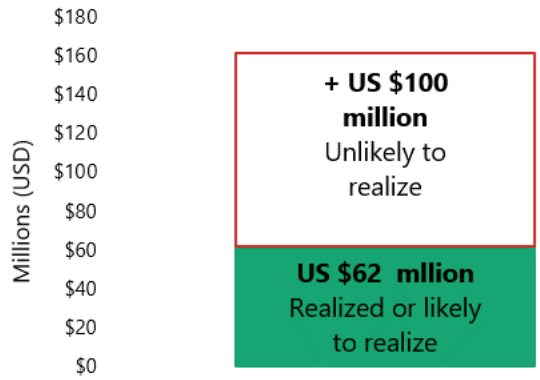
Figure ES.4. Changes in the PPP-enabling environment in El Salvador during and after the Compact period



Source: Interviews with former staff from FOMILENIO II, PROESA, and government officials as well as Infrascope report for Latin America and the Caribbean (Economist Intelligence Unit 2019 and 2022).

PPPs increased private investment in infrastructure, but not at levels initially projected by FOMILENIO II. As of June 2023, the execution of the expansion of the cargo terminal had generated an initial investment of about U.S. $14 million from the private firm operating the PPP. By the completion of the project, an investment of US $62 million is expected from the firm. However, at least US $100 million in private investments from the other three PPP projects supported by FOMILENIO II are unlikely to materialize (see Figure ES.5).[2]

Figure ES.5. Expected investment of PPPs



Source: PROESA records.

D. Findings on ESIC

The ESIC Sub-Activity identified and funded nine public investments, including roads, customs office improvements at the border, and water and sanitation systems. Given ESIC's goal of catalyzing private investment in the tradeable sector, each public investment required a private counterpart investment that was equal to the total cost of the public good. This would ensure that each dollar of public funding leveraged at least one dollar in private funds. Private counterpart investments included a hotel complex, enterprise locale expansions, and new commercial processing plants that would benefit from new roads, water systems, and other ESIC-funded public investments.

Eight of nine public investments were completed, but only two were operational by 2023. In March 2023, eight projects were finalized but only two projects were operating: the Anguiatú border crossing and the Claudia Lars bypass road connecting Flor Amarilla and Ateos. MOP staff said they expected four projects to become operational by the end of the year: the sewage water treatment plant in Nejapa, the potable water plant and the wastewater treatment plant in El Zonte, and a potable water system in San Carlos. However, as of September 2023, none of these four projects were operational. The expansion of the irrigation system in El Paisnal remains unfinished; remaining construction was suspended because the GoES prioritized other projects and it is unclear whether the project will resume.

[2] We estimated that the expected investments for the other three PPPs supported by FOMILENIO II is over $100 million because the expected investments for the street lighting and video surveillance and the Hachadura toll road in the Pacific corridor were $14 million and $86 million, respectively. This amount does not include the expected investment from selected boarding crossings because it was not calculated.

Table ES.3. Status of public investments

ESIC public investment	% completed as of May 2021	% completed as of March 2023	Anticipated cost	Operational as of September 2023
Workforce development training in airplane maintenance	99%	99%	$2.4M	n.a.
Construction of sewage water treatment in Nejapa	83%	100%	$5.1M	No
Improvement of potable water and sanitation system	93%	100%	$1.3M	No
Construction of wastewater treatment in El Zonte	95%	100%	$3.9M	No
Construction of a potable water and wastewater treatment plants in El Zonte and El Palmar	35%	100%	$3.3M	No
Provide technical assistance in agribusiness	100%	100%	$58.8K	n.a.
Expansion of the irrigation system in El Paisnal and Nueva Concepcion	73%	85-90%[1/]	$12.06M	No
Modernization of Anguiatú border crossing	46%	100%	$13.1M	Yes
Construction of bypass road connecting Flor Amarilla and Ateos	100%	100%	$27.2M	Yes
Total cost			**$68.6M**	

[1/] The expansion of the irrigation system in El Paisnal and Nueva Concepcion was suspended in 2022.
n.a. = not applicable.

Of 12 private investments, only the construction of a tourist complex remained unfinished in 2023. In 2021, the interim report indicated that ESIC firms invested more than $138 million[3] in upgrading or expanding their operations (Padilla et al. 2022). At that point, only one company (part of the El Zonte Alliance) had not completed their counterpart investment—a hotel and restaurant—due to delays in obtaining permits from the Ministry of the Environment. A year-and-a-half later in March 2023, the status of that investment had not changed.

GoES has not adopted ESIC as a model to prioritize public investments. ESIC's design envisioned more involvement by the GoES in implementing high-value public goods, under the premise that the GoES could adopt the model in the post-Compact period. Despite the creation of the Project Implementation Directorate (DIPIL), which has the knowledge and capacity to implement the ESIC model, there is no interest in the Ministry of Public Works to adopt ESIC as a model to prioritize and develop infrastructure projects.

ESIC had a small catalytic effect on private investment, but additional investment from ESIC firms is not expected in the long-term. We estimated a small catalytic effect of $6 million in private investment that occurred as a direct result of ESIC public investments between 2019 and 2021. In 2023, we reached out to ESIC firms to document additional investments that could materialize when the public investments are operating. Representatives noted that the public investments were not likely to affect their longer-term investments or operations. The only exception was a private sector representative who noted that their firm might make additional investments in El Zonte once the public projects are operating.

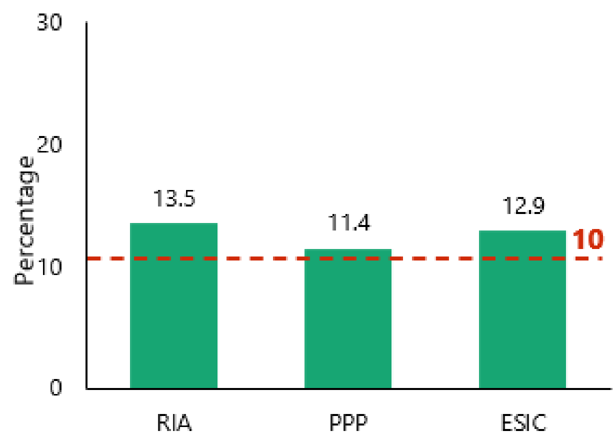
[3] Our estimate is based on the amounted reported by ESIC firms, so it differs from the amount reported in the El Salvador Compact II closeout Indicator Tracking Table (ITT).

ESIC appears to have positive ripple effects in local communities. During the construction of the bypass, the MOP decided to build an ancillary road connecting to the bypass. The MOP considers this project to be a success and is investing additional funds in the road with the construction of two overpasses to further ease bottlenecks and traffic. Representatives interviewed reported seeing increased economic activity in the surrounding areas (such as new gas stations, shops, and restaurants) and attributed it the ESIC-funded bypass and ancillary road. Interviewees also reported expected positive outcomes for local businesses, as the bypass has reduced travel time to the port and other areas of commerce, as well as reducing the time it takes to conduct business. Private sector representatives noted the ESIC projects have boosted the entire area of El Zonte economically, with businesses expanding into the treatment plant's service area.

E. Cost-benefit analysis

Mathematica estimated the monetary value of benefits and costs for RIA, PPP, and ESIC. We also calculated three distinct economic rates of return (ERR) for each Activity and Sub-Activities. The ERRs provide a single metric showing how a project's economic benefits compare to its costs. As shown in ES.6, we estimated RIA's economic rate of return to be 13.5 percent, PPP Sub-Activity 11.4 percent, and ESIC Sub-Activity 12.9 percent, suggesting that they are cost-effective. The primary benefit stream for RIA is time savings linked to improved regulations; the primary benefit stream for the PPPs is increased revenues linked to enhanced cargo terminal capacity; and the primary benefit streams for ESIC are time savings at the border and in transit, increased tourism, and improved health linked to public goods. All are above MCC's hurdle rate of 10 percent to consider projects worth pursuing both were cost-effective. (See ES.7).

Figure ES.6. Economic rate of return of ICP Activities



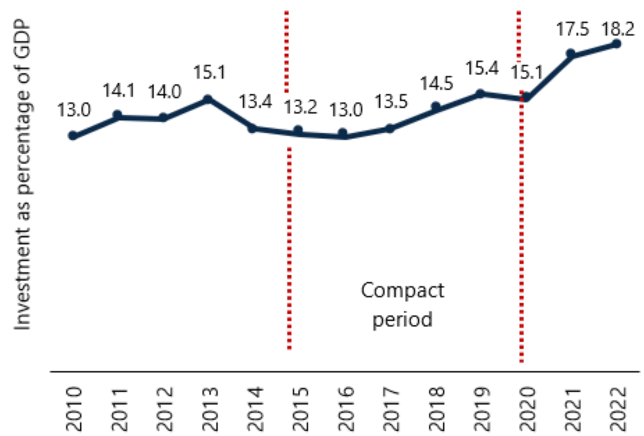
Source: Author's estimates.

F. Conclusions

The ICP generated strong technical capacity, but only RI authorities are on the path to capitalize upon this capacity. RIA's strengthening capacity efforts contributed to consolidate OMR's role in providing tools and guidance to entities from the executive, legislative, and judicial branches, as well as municipalities to help them assess and reduce red tape. The PPP Sub-Activity generated strong technical capacity in PPPs among public authorities such as PROESA. However, there is uncertainty regarding the future of PROESA technical staff at the newly appointed PPP authority. Similarly, most members of FOMILENIO's ESIC team do not currently work with GoES to prioritize and execute high-impact public goods. (However, some members of the ESIC team currently lead the Project Implementation Directorate in the Ministry of Public Works, potentially applying the technical skills and perspectives they acquired under ESIC.)

A lack of high-level political support was as the largest obstacle to achieving ICP goals. Progress developing well-structured PPP projects during the Compact period was eventually overshadowed by a lack of high-level political support in the post-Compact period. GoES's decision to develop key infrastructure projects in the PPP pipeline through traditional procurement jeopardizes the future of PPPs in the country. For ESIC, the GoES showed little interest in adopting the model in the post-Compact period, likely because GoES officials were not as engaged in ESIC implementation as originally envisioned.

Figure ES.7. Private investment as percentage of GDP



Source: World Bank indicators 2010–2022.

El Salvador has experienced higher private investment during the Compact—and OMR's regulatory improvements may have contributed. As noted above, qualitative and quantitative sources suggest that OMR played a substantive role in decreasing wait-times for construction permits starting in 2017. In turn, decreased wait-times for construction permits may have contributed to increased private investment from 2017 to 2019 (Figure ES.7). FUSADES analyses (2022) suggest a causal relationship between the size of the construction permit backlog and the national private investment rate in El Salvador. However, it is impossible to estimate OMR's direct contribution to national investment rates, given the myriad factors driving private investment.

I. Introduction to the Investment Climate Project

In 2011, a team of economists from El Salvador and the United States identified two primary constraints to economic growth in El Salvador under the Partnership for Growth Initiative: (1) security and crime and (2) low productivity in the tradable sector. To address the second constraint, the Millennium Challenge Corporation (MCC) and the Government of El Salvador (GoES) designed a second Compact in El Salvador that would in part improve the business environment and unlock other constraints to growth in the tradable sector.

A. Overview of the Investment Climate Project

MCC and the GoES signed a five-year investment Compact in September 2014 to finance $277 million in large-scale improvements in human capital, the investment climate, and logistical infrastructure. The El Salvador Investment Climate Project (ICP) invested $92.4 million to boost the productivity and competitiveness of the tradable sector by improving the regulatory and business environment, improving institutional capacity, and enabling the GoES to more effectively partner with the private sector to provide key public services. The Compact lasted five years, from September 9, 2015, to September 9, 2020. There were implementation delays due to the COVID-19 pandemic, resulting in several activities continued beyond the extended closure period.

ICP included two activities: the Regulatory Improvement Activity (RIA) and the Partnership Development Activity (PDA). PDA, in turn, consists of two Sub-Activities: the El Salvador Investment Challenge (ESIC, or *Apuesta por InversionES* [API], its name in Spanish) and the Public–Private Partnership (PPP).

MCC contracted Mathematica to conduct performance evaluations of RIA and the ESIC and PPP Sub-Activities. The first report documented the creation of the *Organismo de Mejora Regulatoria* (OMR) under RIA, the implementation of the three pillars of support for PPPs, and the allocation of the entire budget of $75 million of the ESIC funded in eight public investments; as a counterpart, 13 private firms invested or pledged to invest more than $138 million. The first interim report provided more details on the implementation between 2015 and early 2019 (Padilla et al. 2019). In the second report, we focused primarily on documenting the implementation of these activities, particularly in the period between early 2019 and the end of the Compact; that report provided insights into early results. The second interim report (Padilla et al. 2022) provides more details. The current report examines findings from each Activity or Sub-Activity roughly two years after the end of the Compact.

B. MCC program logic model and discussion

The ICP seeks to increase investment and ultimately boost the productivity of the tradable sector. The logic model (developed by MCC) in Appendix A, Figure A.1 illustrates how the Activities and Sub-Activities contribute to that goal.

- RIA aimed to establish the institutional structure and build government capacity to reduce regulatory burden to businesses in the tradable sector. In the medium term, this would reduce the cost of doing business and increase private investment, thus generating a more competitive export sector in the long term.

- The PPP Sub-Activity was designed to (1) build institutional capacity to identify and design PPPs; (2) increase understanding of PPPs among public officials, interested parties such as unions, and citizens; and (3) develop quality PPP projects in the short term. In the aggregate, these outputs would generate a pipeline of high-quality PPPs that are approved and executed in the medium term. In the long term, more PPPs would generate more private investment combined with the Sub-Activity of ESIC and RIA, which would jointly spur investment and economic activity, thus creating a stronger tradable sector.
- The ESIC Sub-Activity funded well-crafted public investments designed to increase social welfare while generating more private investment in the country's tradable sector. The result would be an improved business environment, increased employment, and a more efficient use of public funds.

1. Goals

The goal of ICP Activities was to increase private investment by improving El Salvador's regulatory environment and institutional capacity and providing key public services in partnership with the private sector. Figure I.1 shows the main goals set for each activity and the indicators used to measure implementation progress. The respective findings chapters describe each of these activities in greater detail.

Figure I.1. Goals of ICP

2. Purpose of the final report

This final report, the third in a series, is organized as follows. In Section II, we summarize the evaluation design, which we updated in 2021. In Section III, we outline our data collection and analysis approach. Because the Activity and Sub-Activities under ICP were implemented completely independently, our discussion of these is also separated in Sections IV, V, and VI. In Section IV, we provide the main findings for RIA; we further organize this into a description of the activity, implementation findings, results findings, and insights and implications of the findings. In Section V, we cover the PPP Sub-Activity, including a comparison with the PPP Activity in Guatemala;[4] in Section VI, we cover the findings of the ESIC Sub-Activity. We have organized each of the findings chapters with an implementation section and a results section and link the findings to the theory of change (ToC) as described in each section. Chapter VII presents the estimated cost-benefit of each activity/Sub-Activity. Finally, Chapter VIII provides our conclusions.

[4] A separate report presents the detailed findings for the Guatemala PPP activity.

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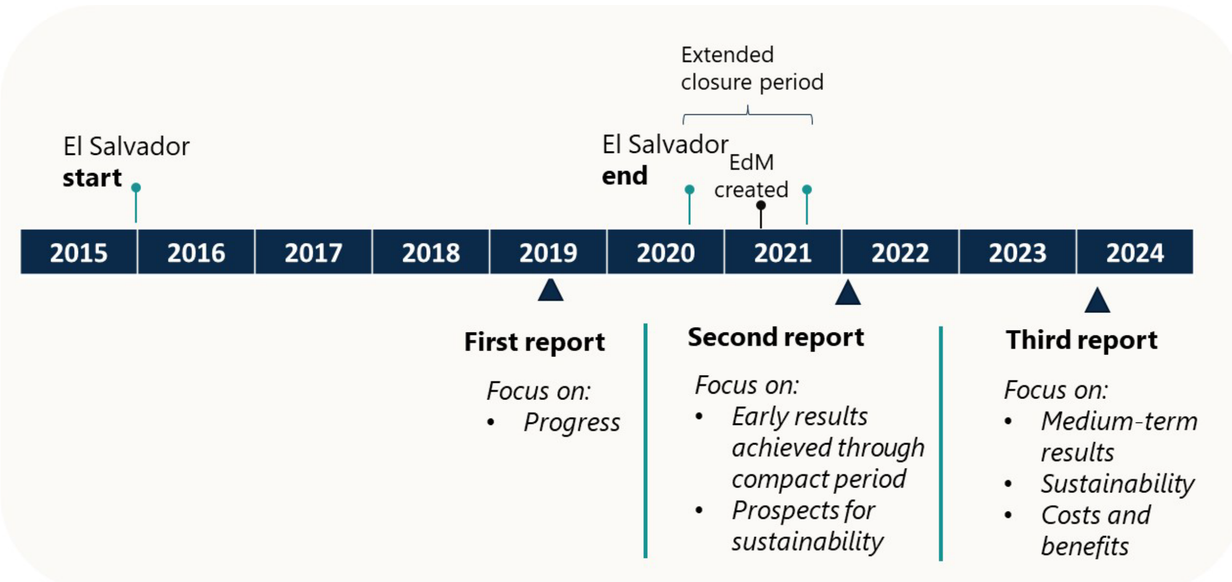
II. Research Questions and Evaluation Design

Figure II.1 shows the overall evaluation timeline. This third and final report examines to what extent the ToC of each Activity and Sub-Activity was fulfilled roughly two years after the end of the Compact and the release of Mathematica's second interim evaluation report (Padilla et al. 2022). The El Salvador Compact closed in September 2020, but several activities continued through June 2021, the end of the extended closure period. In addition, on April 30, 2021, the Millennium Entity (EdM) was created to oversee the completion of infrastructure projects after the closing of the Compact.

Figure II.1. Overall evaluation timeline



EdM = *Entidad del Milenio*.

A. Research questions

Table II.1 presents the evaluation questions addressed in this report. Appendix A provides a comprehensive list of research questions addressed in previous reports.

Table II.1. Evaluation questions addressed in the final report

Key research questions	Answers in the report
RIA evaluation	
RQ 3. What were the major barriers and facilitators to spurring these entities to adopt and implement the four tools of regulatory improvement and OMR's proposal(s)? How did OMR respond to the challenges?	Page 17
RQ 4. How successful was OMR in supporting the GoES institutions' adoption of regulatory improvement principles and methodologies?	Pages 16-17
RQ 6. Was the *Registro Nacional de Trámites* (RNT) successfully set up with the appropriate organizational and institutional structure, technological support, user accessibility, operational procedures, and required information to achieve the objectives of transparency and legal certainty?	Page 15
RQ 8. Did GoES entities develop the required capabilities to design and implement their own proposals for regulatory reform and simplification? Did the GoES develop the required capabilities to conduct its own regulatory impact assessments?	Page 17
RQ 9. To what extent is a culture of regulatory improvement taking root within the GoES as a result of efforts to communicate and implement the *Sistema de Mejora Regulatoria* (SMR)? What are major challenges to and facilitators of inculcating this culture—operationally, politically, and culturally—and how did stakeholders address them?	Page 23
RQ 10. Did the implemented reforms or changes materially reduce the administrative and regulatory compliance costs or response times for issuing permits or licenses to firms in the tradable sectors?	Pages 19-22
RQ 13. Does OMR have the appropriate structure, position, and resources necessary to act as a strong coordinator and facilitator of the SMR?	Pages 23-24
PPP Activity evaluation	
RQ 1. Did the Government of Guatemala (GoG) or the GoES follow the PPP law in developing PPP projects? [If feasible] In managing PPP projects?	Pages 31-32
RQ 2. What role did political and institutional contexts play in implementing PPPs in both countries?	Page 32
RQ 5. [If feasible] How effective were the *concedente* (line ministry that signed the concession) and the regulator in managing and regulating the concession after it was signed?	Page 31
RQ 8. To what extent did the project facilitate greater capacity for PPPs within the GoES and GoG? How have institutional interactions normalized or been codified to support PPPs?	Pages 34-35
RQ 9. To what extent has the PPP Activity resulted (or is it likely to result) in greater private investment in key infrastructure projects?	Page 36
ESIC Activity evaluation	
RQ 6. Was the fund an effective mechanism for allocating public money to higher-return projects? Did it improve the GoES' decision-making? Would the GoES have invested in the public good anyway?	Pages 57-59
RQ 7. How has the investment challenge spurred more private investment in El Salvador? Were private-to-public ratios calculated appropriately? If subsidization is taking place, how could it be avoided in future fund designs?	Pages 46-48
RQ 8. What type of impact did the total investment (public and private) have on participating firms in terms of employment and business outcomes?	Pages 49-50
RQ 9. To what extent are the selected investments expected to generate positive environmental and social (employment opportunities for men and women, productive activities at the local level, human capital development, and so on) impacts? How? Are the expected impacts significant? Are they likely to be achieved? To what extent do the investments promote gender equality? How?	Page 49

B. Summary of evaluation design

Mathematica conducted mixed-methods performance evaluations of ESIC, PPP, and RIA to answer MCC's questions on implementation, results, and sustainability. In December 2020, Mathematica proposed minor revisions to the evaluation design for each of these activities. Three general factors motivated the revisions: (1) impacts of the COVID-19 pandemic on implementation, outcomes, and potential sustainability; (2) changes in implementation timelines and priorities that required modifying some of the research questions to fully capture MCC-funded initiatives and their outcomes; and (3) infeasibility of conducting a small number of analyses given limited data availability or emerging methodological issues. The design report provides more details on the evaluation design (Blair et al. 2018).

This report documents and assesses implementation, results, and sustainability of the RIA, PPP, and ESIC Sub-Activities. Table II.2 summarizes our evaluation approaches.

Table II.2. Overview of evaluation approaches

Activity or Sub-Activity	Approaches	Key outcomes and themes
RIA	Implementation analysis	We built upon the analysis from the first two reports to document and assess OMR's work after the closing of the Compact. This assessment includes the agency's efforts to lead the implementation of the regulatory improvement tools designated in the Regulatory Improvement (RI) Law that entered into force in 2019.
RIA	Outcome analysis	We conducted a qualitative assessment of the extent to which OMR and relevant ministry staff acquired competencies to adopt the main RI tools in the new RI Law. We also assessed whether the outcomes depicted in the ToC have materialized. When available, we supplemented our qualitative analysis with administrative data.
RIA	Sustainability analysis	We used qualitative data to present OMR's prospects for long-term sustainability, including its operating structure and governance, technical capabilities, and financial resources.
PPP	Implementation analysis	We documented and assessed the work of PPP authorities to vet and develop PPP projects after the closing of the Compact. We presented a qualitative assessment of the status of the MCC-supported PPPs and the PPP-enabling environment.
PPP	Outcome analysis	We conducted a qualitative assessment of the extent to which outcomes depicted in the ToC have materialized. To the extent possible, we compared the implementation experiences and outcomes of MCC-supported PPP activities in El Salvador and Guatemala given their similar supports, time frames, and sociopolitical characteristics.
ESIC	Implementation analysis	We documented and assessed the implementation of public and private investments after the closing of the Compact.
ESIC	Outcome analysis	We conducted a qualitative assessment of the extent to which public investments led to lower operating costs for firms and eventually to capital improvements.

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III. Data Sources and Analysis Approach

A. Data sources

For this mixed-methods performance evaluation, we conducted semi-structured interviews with key informants from institutions involved in developing and implementing RIA, PPP, and ESIC Sub-Activities. We also thoroughly examined program documents such as reports from the *Fondo del Milenio II* (FOMILENIO II), OMR, and the Export and Investment Promotion Agency of El Salvador (PROESA). Although our analysis relied primarily on interviews with key stakeholders, we did supplement qualitative data analysis with quantitative information. Next, we describe the data sources in detail.

Key informant interviews and focus group discussions. Data collection for this report took place in March 2023. Given the delays implementing key components of RIA, PPP, and ESIC, this round of data collection focused on documenting implementation and results since the closing of the Compact. Table III.1 summarizes the set of key informant interviews (KIIs) and focus group discussions (FGDs) conducted, including our sources and the key topics discussed.

Table III.1. Interviews and FGDs conducted for the final report

Sources	Method and sample size	Key topics discussed
RIA		
Former FOMILENIO II staff	1 FGD	Current context, follow-up on implementation of RI activities, adoption of the four RI tools, sustainability of OMR's activities, and results from the RIA
OMR staff	1 interview	Current context, follow-up on implementation of RI activities, adoption of the four RI tools, sustainability of OMR's activities, and results from the RIA
Government officials from institutions implementing RIA	4 interviews	Current context, follow-up on implementation of RI activities, adoption of the four RI tools, sustainability of OMR's activities, and results from the RIA
Legal experts	1 Interview	Current context, follow-up on implementation of RI activities, adoption of the four RI tools, sustainability of OMR's activities, and results from the RIA
PPP Sub-Activity		
Former FOMILENIO II staff	1 interview	Current context of PPPs in El Salvador, implementation progress or changes since June 2021, capacity to develop and implement PPPs in El Salvador, and results from PPP Sub-Activity
PPP in country stakeholders (PROESA, Autonomous Port Executive Commission [CEPA], and Civil Aviation Authority [AAC])	3 interviews	Current context of PPPs in El Salvador, implementation progress or changes since June 2021, capacity to develop and implement PPPs in El Salvador, and results from PPP Sub-Activity
Private sector	1 interview	Current context of PPPs in El Salvador, implementation progress or changes since June 2021, capacity to develop and implement PPPs in El Salvador, and results from PPP Sub-Activity

Sources	Method and sample size	Key topics discussed
ESIC Sub-Activity		
Former FOMILENIO II staff	1 interview	Current investment climate, follow-up on implementation, status of public investments, benefits of private investment, and results of the ESIC Sub-Activity
ESIC firms	3 interviews	Current investment climate, follow-up on implementation, status of public investments, benefits of private investment, and results of the ESIC Sub-Activity
National or local government officials	3 interviews	Current investment climate, follow-up on implementation, status of public investments, benefits of private investment, and results of the ESIC Sub-Activity

Note: We include our discussion with the legal representative from El Zonte as one ESIC firm, even though it represents the activity of three firms.

Document review. This review included reports completed by FOMILENIO II, such as annual and final reports, and progress reports developed by key government institutions, such as OMR and PROESA.

Administrative records and Infrascope indicators. For the evaluation of RIA, Mathematica staff obtained administrative data from the Customs office (DGA) and the National Records Center (CNR) related to customs sanctions and wait times for starting a business. In addition, we used the Infrascope index to assess government capacity to develop PPPs. [5] The Infrascope index is a benchmarking tool developed by the Economist Intelligence Unit that evaluates the capacity of the countries to implement sustainable and efficient PPPs.

The **Infrascope index** is a benchmarking tool that evaluates the capacity of the countries to implement sustainable and efficient PPPs.

Survey data. For the outcome analysis of RIA, we used the El Salvador Enterprise Survey to compare the potential effect of RIA on firms' wait times and regulatory costs associated with specific regulatory requirements and processes in the post-Compact period. We used data from the 2016 survey, which includes data from 719 firms, and the survey collected in 2023, with information from 729 firms. The surveys include information from 273 firms interviewed in 2016 and again in 2023.

The **Enterprise Survey** is a firm-level survey of a representative sample of an economy's private sector. The survey covers a broad range of business environment topics:

- Access to finance
- Corruption
- Infrastructure
- Competition
- Performance measures

The Enterprise Survey provides accurate estimates of regulatory and administrative costs and wait times for a nationally representative sample of existing firms.

[5] The scores are based on the following sources: (1) interviews and/or questionnaires from sector experts, consultants, and government officials; (2) surveys from national regulators; (3) legal and regulatory texts; (4) the Economist Intelligence Unit country credit risk and operational risk products; (5) scholarly studies; (6) websites of government

For ESIC, we sent firms a brief survey intended to capture quantitative results of this Sub-Activity. However, only five firms replied, noting that because the public investments have substantial delays it was not possible for them to link their investment decisions with ESIC.

B. Analysis approach

1. Qualitative data

We recorded all qualitative interviews and then transcribed them. Thematic coding and triangulation techniques enabled us to document and assess program implementation and results, with a focus on identifying common and divergent themes across different stakeholder types. Our coding scheme prioritized extracting information linked to the critical conditions and outcomes depicted in the ToC. Our analysis of coded transcripts focused on identifying similarities and differences in perspectives across respondents. This process enabled us to confirm patterns or findings, identify discrepancies, and help contextualize findings. Drawing on this analysis, we synthesized implementation findings, as well as outcomes accomplished by RIA, PPP, and ESIC Sub-Activities. We also used a political economy lens to assess implementation and early results for the PPP and RIA—meaning that we characterized the enabling environment for PPPs and regulatory reform and assessed implementation and results in terms of the power dynamics and incentives facing key players. For the PPP analysis, to the extent possible, we also compared and contrasted program implementation and results of MCC-funded PPP supports in Guatemala and El Salvador.

2. Quantitative data

To complement the qualitative assessment, we used various indicators reported in the Infrascope reports to assess government capacity to develop and manage PPPs. Our original plan was to conduct a longitudinal trend analysis of overall Infrascope and domain scores from before the Compact or threshold period (2012) to after the Compact or threshold period (2022). However, changes in the Infrascope scoring methodology in 2016 and again in 2020–2021 were substantive enough to preclude comparing countries' total and domain scores before 2016 with their scores and sub-scores from 2016 onward. However, we used individual indicators under the domains of institutions and business climate for 2018 (threshold implementation period) and 2020 (threshold closure period). We also compared countries' performance on the single Infrascope indicators of (1) PPP institutional framework, (2) stability of dedicated PPP agency, (3) project preparation facilities, (4) coordination among institutions, (5) sustainability, and (6) experience with PPP infrastructure contracts as a proxy to measure government capacity to develop and implement PPPs.

Finally, because we could not find a credible control group for estimating RIA's causal effects on firms, we conducted a longitudinal trend analysis using administrative data from government institutions. For example, using administrative records from DGA we analyzed changes in the value of weight discrepancy fines in the 2016–2022 period, after a reform extending the weight discrepancy tolerance was implemented in 2018. We also compared key indicators of the Enterprise Survey in 2016 and 2023 to better understand the potential effect of RIA on compliance costs and wait times.

authorities; (7) local and international news media reports; and (8) the World Bank's Private Participation in Infrastructure database.

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IV. Regulatory Improvement Activity

A. Background information on RIA

1. Overview

RIA featured $6 million in funding from 2015 to 2020 to support OMR, a newly established public institution devoted to improving the quality of Salvadoran administrative requirements and regulations. At its inception in 2015, OMR had the mandate to guide public authorities in their regulatory improvement (RI) efforts, starting with the ministries within the executive branch. [6] Another task of OMR was to lead meaningful public–private dialogue to advance the quality of Salvadoran regulation.

OMR's focus and priorities shifted since its inception, resulting in three distinct phases of implementation.

- In the **first phase** from 2015 to 2017, OMR focused on a few high-profile reforms identified by private sector representatives. The reforms centered on customs reforms, construction permits, and registering businesses.
- In the **second phase** from 2017 to 2019, OMR leadership embarked on a systematic campaign to simplify administrative procedures across the executive branch of government. Under OMR's guidance, the 17 ministries in the executive branch registered all their procedures, identified the most burdensome procedures in terms of compliance costs and wait times, and developed improvement plans to address these high-burden procedures. However, ministries did not implement these plans because when the RI Law was approved, OMR pivoted to implementing the RI tools required by the law.
- In the **third phase**, after the RI Law took effect in 2019, OMR provided training and technical assistance to staff from partner institutions on the RI Law and the adoption of the law's four RI tools:
    1. **National Registry of Procedures** (RNT) is a public registry of administrative requirements for firms
    2. **RI plans** are plans for administrative simplification or the reduction of burden through streamlined processes
    3. **Regulatory agendas** include the annual list of laws and regulations government institutions will produce or modify
    4. **Impact assessments** are cost-benefit analyses of new laws and regulations that affect businesses

The RI Law instituted an ambitious implementation and rapid expansion of the four RI tools since its ratification in 2019. Since 2020, all ministries from the executive branch are mandated to adopt the four tools. In 2022, in addition to the ministries, the RI Law required all 79 autonomous agencies and six legislative and judicial entities to adopt the tools. Starting in 2023, nearly all authorities in El Salvador, including all 262 municipalities are responsible for submitting (1) annual regulatory improvement plans, (2) regulatory agendas, (3) procedures to the RNT, and (4) RI assessments.

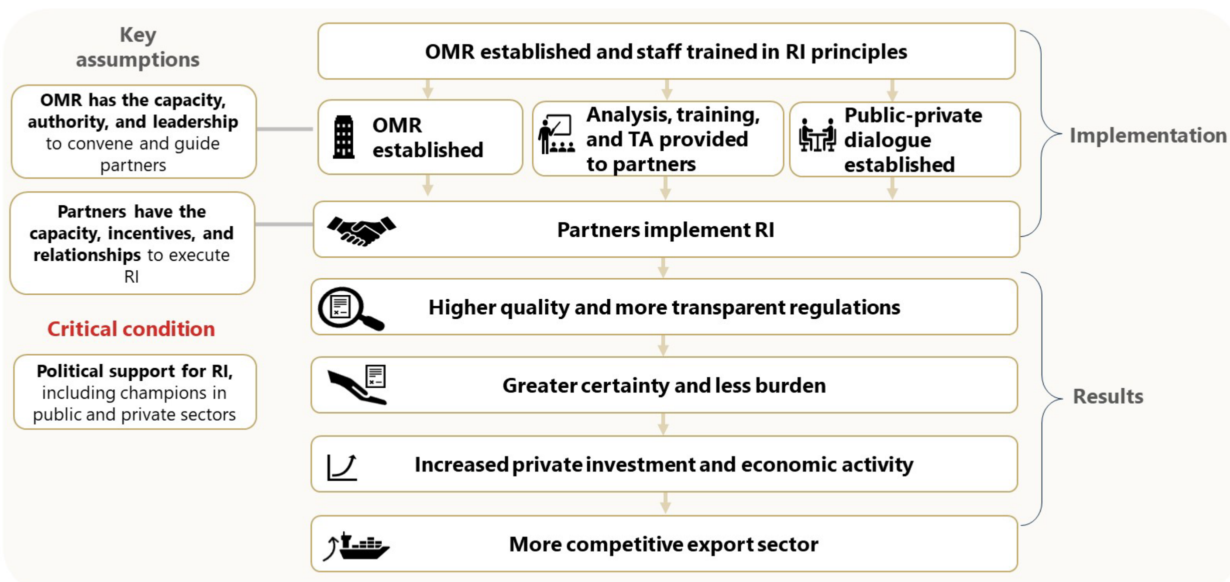
[6] The ministries of the executive branch are Finance, Economy, Public Works, National Defense, Education, Labor, Foreign Affairs, Interior, Agriculture and Livestock, Culture, Justice and Security, Environment, Public Health, Tourism, Local Development, Housing, and Transportation. The last three were recently created.

2. RIA logic model

Combined with other improvements in the investment climate, including the ESIC and investments in large-scale PPPs, RIA would spur investment and economic activity, thus creating a stronger tradable sector. The distilled RIA ToC developed by Mathematica relies on a review of the initial model logic and information gathered from interviews with stakeholders. It represents our understanding of the implementation of the main components of the RIA and contains the expected implementation outputs, results, and key assumptions, as well as their sequencing (Figure IV.2).

The ToC includes a critical condition for the RIA's success: a foundational level of political support for RI, including at least one high-profile champion for RI during the Compact period. The ToC also includes some key assumptions with respect to the institutions and individuals involved. First, it assumes that OMR could establish itself and build the necessary capacity, authority, and leadership to guide other public actors in RI within the Compact period. Second, it assumes that with guidance from OMR, public institutions could also build capacity and face strong incentives to implement RI regimes during the Compact period (see Figure IV.1).

Figure IV.1. RIA ToC



In the following sections, we discuss the extent to which the GoES fulfilled the RIA ToC as planned—including whether the critical conditions and key assumptions held. We organize the discussion by implementation and results, following the ToC from implementation to ultimate results (top to bottom). We organized this analysis by subtitles that directly link to the outputs and outcomes depicted in the ToC. We also address the evaluation questions throughout each of these sections, including those not directly depicted in the ToC.

B. Current status of RIA

OMR has continued leading the implementation of the regulatory improvement law and supported public institutions in the adoption of RI tools:

OMR has helped compile procedures for the RNT, but has been slow to review these procedures. OMR recently developed a revised online platform for the RNT, the integrated RI system or *Si Mejora*. The previous RNT platform, developed with FOMILENIO II's support, captured only basic information on each procedure. In contrast, the new platform includes elements that allow OMR to review each procedure in depth and engage with the institution requiring the procedure. Since October 2022, most of government institutions have submitted their procedures to the new platform and OMR has worked on migrating the procedures submitted in previous years to the new platform. As of September 2023, partner institutions have submitted 2,114 procedures for review and registry. However, OMR has completed a thorough review of only one-third of the registered procedures.

Most of the ministries and autonomous institutions have adopted RI plans and regulatory agendas, but municipalities have not. As mentioned, the law's tools of RI extended to autonomous institutions and agencies, as well as the legislative and judicial branches in 2022, and took effect for all municipalities in 2023. By September 2023, 28 percent of ministries, autonomous institutions, and municipalities (100 of the 357) submitted their RI plans, including objectives, goals, indicators, and activities to improve procedures. Similarly, about 33 percent of partner institutions (118 of the 357) submitted regulatory agendas outlining regulations they plan to approve, modify, or eliminate. Municipalities drove the slow progress: less than 20 percent of municipalities submitted improvement plans and agendas.

Partners institutions are implementing the regulatory impact assessments at a slow pace. The adoption of regulatory impact assessments has been slow because partner institutions from the Executive branch did not have the knowledge to carry them out. OMR began training for partner institutions in mid-2021. Since partners institutions received training, OMR received seven impact assessments in 2022 and five in 2023. However, most of the requests submitted by partner institutions were requests to exempt the impact assessment.[7]

C. Critical conditions

In this section we discuss our findings following key conditions and assumptions of the ToC for RIA (Figure IV.2). We begin by discussing OMR's capacity, authority, and leadership to convene and guide partners. We also present our assessment of partner institutions' capacity, incentives, and relationships to execute RI activities, and whether there is political support for RI.

[7] The RI Law establishes that when a procedure does not generate costs, partner institutions can submit a request to be exempt from conducting the impact assessment.

OMR has the capacity, authority, and leadership to convene and guide partners institutions

OMR has benefited from stable leadership in recent years. As discussed in the second interim report (Padilla et al. 2022), OMR experienced multiple leadership transitions and shifts in strategies from 2015 to 2020. OMR had four executive directors during that period, each with different levels of political support and approaches to OMR's vision, leading to some discontinuities and pivots in strategy and work streams that likely compromised its potential impact. Moreover, for most of 2021, OMR did not have an executive director. The current executive director was appointed in August 2021 and her tenure has facilitated an institutional vision for implementing the RI tools. Having a stable leadership has also helped OMR's efforts to position itself as the leader of the RI agenda.

"The current director has been the one who has remained in the position the longest since 2015. Having the same leader has allowed a greater positioning of OMR."
— OMR staff

OMR is one of several public players driving RI—and it has a relatively narrow focus in recent years. Staff from partner institutions noted that OMR should play a role in RI efforts that leverage regulatory and legal reforms. However, OMR focuses exclusively on administrative procedures—but not revisions to laws and regulations. Stakeholders also reported an overlap of OMR efforts and other RI efforts among public authorities. For example, MINEC leads similar administrative simplification efforts—at least with respect to procedures within its purview. One worrisome development is that OMR is no longer recognized as a key player on RI topics in which it previously specialized, including construction permits and business registrations. Stakeholders noted that OMR staff has not participated in discussions with the National Administration of Aqueducts and Sewers (ANDA) and the Ministry of Public Works (MOP) on construction and business registration reforms in recent years, despite OMR's high level of involvement in these discussions in 2016 and 2017.

"If the institution wants to propose or discuss a legal reform, OMR does not intervene. They are only involved in procedures."
— OMR staff

OMR continues to face organizational and financial challenges. Since its creation, OMR's allocated budget and staff have not changed even though its mandate has grown exponentially. With about 10 staff focused on revising tools submitted and an annual budget over $1 million, OMR's biggest challenge has been its limited capacity to serve a growing number of institutions that are obliged to develop RI tools under the RI Law. As of 2023, 357 entities—including ministries, autonomous agencies, and municipalities—must develop RI tools. OMR staff estimate that covering this many institutions requires a $2 million budget and 20 staff working to revise submitted tools—essentially twice the size of its current budget and technical staff.

"I believe that OMR's biggest challenge is the amount of work versus the in-house capacity to handle it."
— Partner institution

Partners have the capacity, incentives, and relationships to execute RI.

Despite OMR's ongoing training and technical assistance, partner institutions need to strengthen their capacity. OMR staff noted that the lack of technical capacity from several partner institutions made it more challenging for them to review submitted RI tools. For OMR, some deliverables did not have the quality of analysis expected from trained staff at partner institutions. The main challenges in strengthening staff capacity in partner institutions have been staff shortages, lack of commitment to RI tasks, and staff turnover in institutions.

"For us it is challenging to review the procedures submitted because partner institutions do not have the knowledge. Moreover, their approach is: let OMR review it, instead of learning."

— OMR staff

Some partner institutions are poorly resourced to adopt RI tools, whereas others appear to have enough resources. Government officials from the Ministry of Public Works (MOP) and the Ministry of Health (MINSAL) reported not having enough staff or funding to adopt the RI tools. In their estimation, completing the full set of tools requires an entire team, and there is currently one staff member dedicated to the effort. In contrast, government officials from the National Directorate of Medicines (DNM) reported no major difficulties in adopting the four tools.

New challenges have emerged as more partners are called to adopt RI tools. In 2023, municipalities had to submit their full set of procedures to the RNT. However, the adoption of the tool has been slow due to lack of capacity and access to technological resources. OMR staff reported the digital gap among municipalities is the biggest challenge to complying with the RNT. For example, staff from several municipalities have not participated in training because OMR offers all training sessions virtually and they have limited computer or internet access. Even though there has been progress increasing access to technology since the COVID-19 pandemic, it remains one of the main challenges for municipalities to participate in the RNT.

"Access to technologies here in San Salvador is not the same as access to technologies in the Morazán border area."

— OMR staff

Political support for RI, including champions in the public and private sectors.

Political support for RI needs further consolidation. Given the outsized power of the executive branch in Salvadoran politics, successful implementation of RI required political and financial support from key champions to overcome resistance to change. Several stakeholders noted that the GoES prioritizes RI as part of the strategy aimed at improving the environment for investing and doing business in the country. However, progress has been made on specific issues and not as a strategy that seeks to transform all aspects of the regulatory framework. For example, the GoES developed a one-stop shop for construction permits and created the Department of Expediting Procedures to streamline processes in the construction sector. In contrast, there has been a delay implementing the Law to Eliminate Bureaucratic Barriers, which was designed to establish a systematic and transparent approach to RI. Specifically, the GoES has not created a tribunal responsible for assessing the legality and rationality of regulations for which complaints have been lodged, as well as imposing any necessary sanctions on public authorities.

D. Results

In this section, we analyze whether RIA met key outcomes listed in the ToC, focusing on higher-quality and more transparent regulations, greater certainty, less burden, and increased private investment and economic activity. Within each subsection, we use boxes to denote the outcome discussed.

Higher-quality and more transparent regulations

Partner institutions' adoption of the four RI tools has discouraged the discretional application of requirements. Stakeholders from partner institutions reported the adoption of the RI tools has slowly changed practices that resulted in a high volume of regulation. Historically, institutions created new procedures without considering how they would affect users. However, the implementation of the regulatory agenda dissuades institutions from issuing new procedures; if the annual RI agenda does not include such procedures, the national accounting authority (*Corte de Cuentas*) could hold staff personally liable for incomplete adherence to the RI Law. Similarly, regulatory impact assessments prompt institutions to assess whether creating additional regulations is cost-effective.

"It used to be a common practice to issue regulations expeditiously; however, now that the RI Law establishes that procedures should be included in the agenda, doing so implies not complying with the law."
— Partner institution staff

The RNT has much progress to make to be at the level of the operation needed to be binding. For the RNT to be binding—meaning that public institutions can require only those administrative procedures that appear in the RNT—it must be published on a public platform. The RNT is available online for partner institutions to submit procedures and their legal basis. However, is not yet available to the public. This limits the potential of the RNT to influence public sector behavior. OMR has worked on the launch of the RNT and it is expected to be available to the public in 2024 on the portal https://simejora.omr.gob.sv/, however, as of June 2024 the portal is still not functional. . [8]

The benefits of implementing the RI tools have fallen short by not including legal reforms in their scope. Representatives from the Salvadoran Foundation for Economic and Social Development (FUSADES), a respected Salvadoran think tank, noted that the GoES has approved new laws as well as legal reforms without applying RI tools. Excluding legal reforms from regulatory improvement tasks

"The Bitcoin law was discussed and approved without appearing in the regulatory agenda of the Ministry. Similarly, an impact assessment of its benefits and costs was not developed."
— FUSADES staff

[8] The RNT was developed based on the Mexican portal for procedures that includes a section for users to report when institutions' requirements are not included in the registry of procedures.

represents a missed opportunity to improve the regulatory framework given the key role that reforms play in bureaucratic procedures.

The RNT helped simplify and eliminate requirements for procedures. The effect of the adoption of the RNT on simplifying procedures is not clear because most interviewed staff from partner institutions noted that when their staff identified a procedure as having no legal basis, they worked on creating the legal basis instead of eliminating the procedure. However, as part of the enrollment of procedures in the RNT, OMR and partner institutions worked on identifying requirements unrelated to the procedure or that were required more than once. This review resulted in 439 simplified requirements and 1,051 eliminated requirements in 2022 and 2023 (OMR 2022, 2023). The extent to which these changes reduced burden to firms and citizens is unclear, given a lack of empirical data on most procedures.

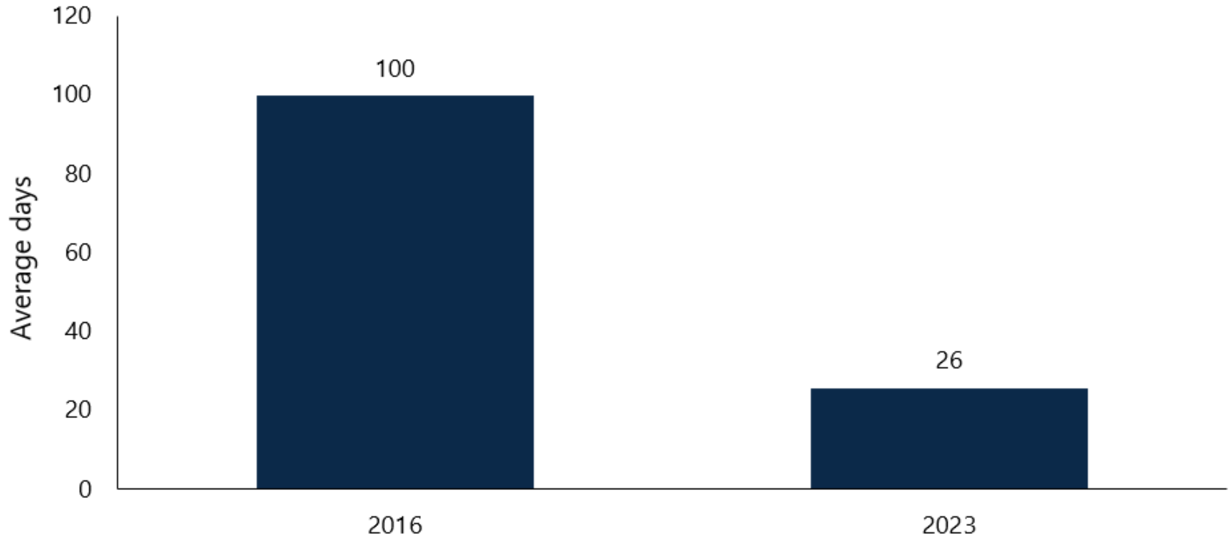
Greater certainty and less burden

Other public authorities leveraged and expanded upon OMR's efforts to simplify construction permits. As documented in the first report, OMR worked closely with ANDA, MARN, and MOP in 2016 and 2017 to streamline the construction permitting process. These three institutions—which together accounted for most permit requirements—adopted 13 of the 14 administrative changes that OMR recommended in 2017. Starting in 2021, the GoES developed a one-stop shop for construction permits that integrated requirements and processes into a single portal. [9] The Ministry of Commerce and Investment and the Ministry of Housing led this project; however, OMR verified that procedures without legal basis were not included in the portal. Largely unrelated to RIA and OMR, the GoES also created by decree the Directorate of Construction Procedures in 2023, which centralized procedures and permits necessary for construction and urbanization projects in the country.

From 2016 to 2023, the time to obtain construction permits dropped dramatically. As a result of the full set of simplification work described above—some directly linked to RIA and some not—the average days to obtain a construction-related permit decreased. Figure IV.2 shows that the panel of firms surveyed in 2016 and again in 2023 reported the average days to obtain a construction permit decreased from 100 to 26.

[9] The site is available at https://simple.sv/tramite/permisos-integrados-del-sector-construccion/empresarial.

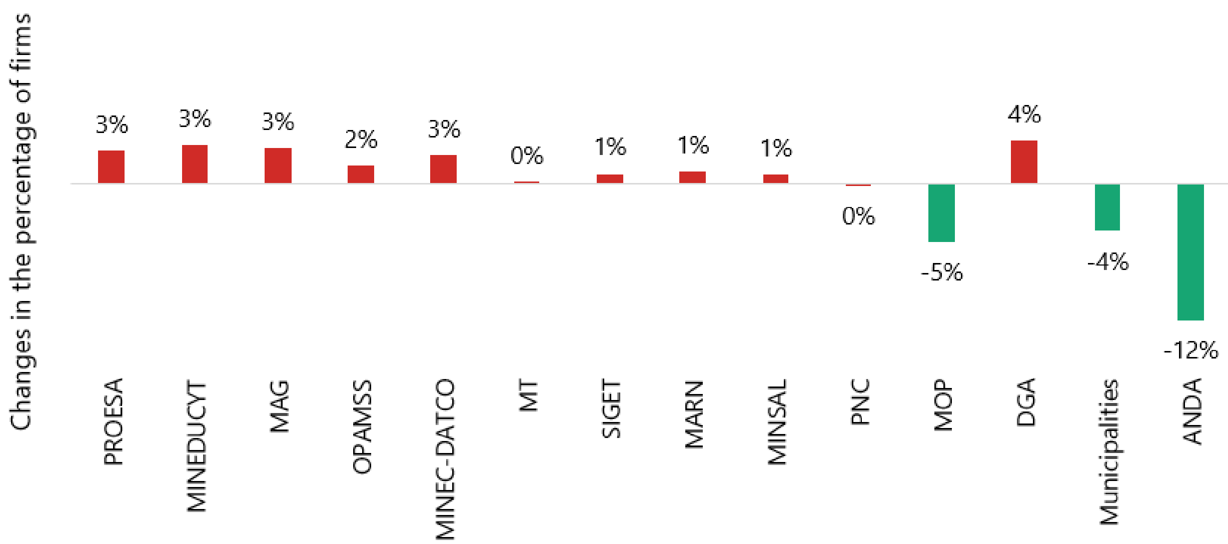
Figure IV.2. Average days to obtain a construction-related permit for a panel of firms in 2016 and 2023



Source: El Salvador enterprise surveys 2016 and 2023, World Bank.

Following RIA, private sector survey respondents were less likely to cite ANDA and MOP as obstacles to their operations. We used data from the Enterprise Survey to compare the percentage of firms that reported services provided by government institutions was a major or very severe obstacle to their operations in 2016 and 2023 As illustrated in Figure IV.2, representatives of firms were less likely to report) ANDA and MOP as major or very severe obstacles to their operations in 2023 compared to 2016. This suggests that OMR's work with ANDA and MOP to generate administrative simplifications in 2017—particularly with respect to streamlining ANDA's requirements for low-risk construction projects—resulted in lower burden and wait-times for firms.

Figure IV.3. Changes in the percentage of firms' reporting service provision was a major or very severe obstacle to their current operations from 2016 to 2023

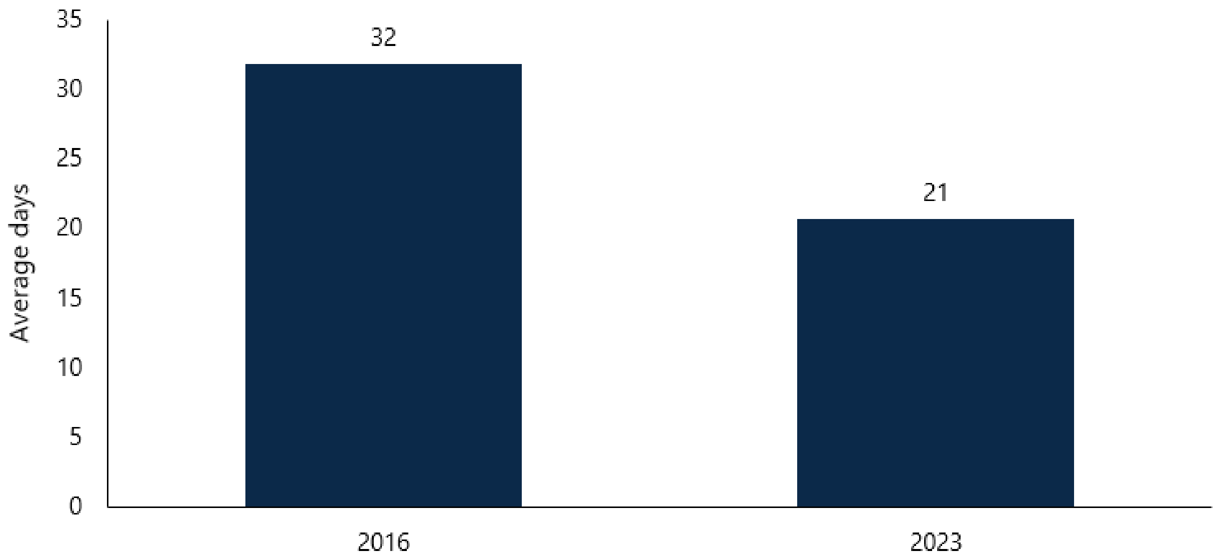


Source: Enterprise survey 2016 and 2023.

PROESA= Export and Investment Promotion Agency of El Salvador; MINEDUCYT= Ministry of Education Science and Technology; MAG = Ministry of Agriculture; OPAMSS= San Salvador Metropolitan Area Planning Office; MINEC-DATCO = Ministry of Economy– Directorate of Administration of Trade Agreements; MT = Ministry of Labor; SIGET= General Superintendence of Electricity and Telecommunications; MARN = Ministry of agriculture and natural resources; MINSAL = Ministry of Health; PNC= national civil police; MOP = Ministry of Public works; ANDA = National Administration of Aqueducts and Sewers.

From 2016 to 2023, the time to obtain a business license decreased by over 30 percent. Similar to construction permits, the average days to obtain a business license decreased. Figure IV.4 shows that firms surveyed in 2016 and again in 2023, reported that in 2016 it took 32 days on average to obtain a business license, whereas in 2023 it took firms 21 days. We found similar results from the full sample of firms surveyed in 2016 and 2023. In 2023, the average days to obtain a business license was 18 days, a decrease of 13 days compared to the days it took to obtain a business license in 2016. Consistent with this result, the number of surveyed firms reporting that business licensing and permits was a major or very severe obstacle for their operation decreased dramatically. About 10 percent of the panel of firms surveyed reported business licensing was a major or very severe obstacle for their operation in 2023, compared with 22 percent reporting it was an obstacle in 2016.

Figure IV.4. Average days to obtain a business license for a panel of firms surveyed in 2016 and 2023

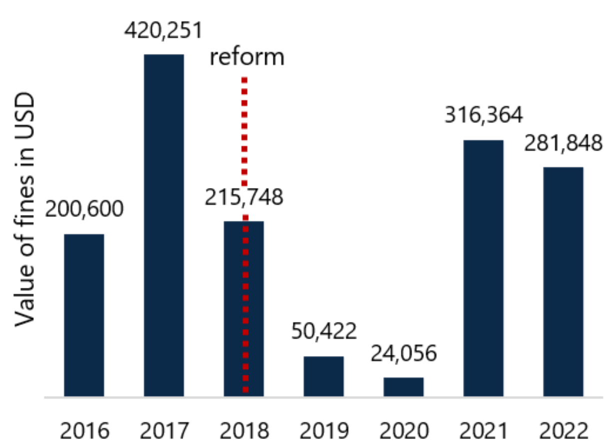


Source: World Bank, Enterprise Survey 2016 and 2023.

OMR likely contributed to decreased wait-times through its work supporting the online business registration portal. In the first report, we documented that prior to RIA, the process to register a business entailed 11 steps involving five government institutions, a municipal authority, a fund manager for pensions, a notary, and a public accountant. In 2012, the GoES launched a new web portal (miempresa.gob.sv) intended to consolidate this process online. However, the portal was not widely used because business owners were still required to present documents in person at CNR and other institutions. In 2017, OMR worked with MINEC and CNR to relaunch the miempresa.gob.sv web site, which offered more a simplified and integrated business registration process than its previous iteration. In interviews stakeholders credited shorter registration wait-times in part to OMR's work to improve the portal's integration and functionality.

The value of weight discrepancy fines decreased from 2018 to 2020—but increased again after the pandemic. In 2017, OMR recommended reforms and administrative improvements aiming to alleviate administrative burden for Salvadoran businesses. With respect to customs reforms, OMR recommended legal reforms that introduced allowable weight discrepancies without tax implications of up to 5 percent for exports (from no allowable discrepancy) and increased allowable weight discrepancies with tax implications from 3 to 5 percent for imports and exports. The Salvadoran customs authority implemented these reforms, as well as OMR recommendations to reduce fine

Figure IV.5. Weight discrepancy fines (in USD)



Source: Records from DGA.

amounts and streamline fine payment, thus releasing merchandise immediately (rather than after up to six days). As shown in Figure IV.5, the Salvadoran customs authority recorded fewer instances of discrepancies and fines starting in June 2018 when the GoES implemented the reform. In 2019, the first full year that reforms were implemented, the number and dollar value of fines were just a fraction of their peak in 2017. In 2020, the dollar value of fines further decreased, but containment measures adopted by the GoES against the outbreak of the COVID-19 pandemic severely reduced exports and imports. In 2021 and 2022, the amount value of fines increased compared to 2019. However, it remained below the value of fines observed in 2017. These trends are difficult to interpret, in part because it is not possible to normalize annual figures by the number of customs transactions and compare fines across years.

Increased private investment and economic activity

RIA work on construction permits may have helped increase private investment, albeit in a limited way. As noted above, qualitative and quantitative sources suggest that OMR played a substantive role in decreasing wait-times for construction permits starting in 2017. In turn, decreased wait-times may have made a modest contribution to private investment rates from 2017 to 2019; private investment increased in El Salvador during each of these three years. (FUSADES analyses [2022] suggest a relationship between the size of the construction permit backlog and the national private investment rate in El Salvador.) However, it is impossible to estimate OMR's contribution to national investment rates, given the myriad factors driving private investment.

1. Sustainability of RI in El Salvador

The biggest threat to RI's sustainability is OMR's capacity to fulfill its growing mandate. The interim report indicated that OMR staff had challenges serving the partner institutions in the executive branch. Since then, 79 autonomous agencies and six institutions from the legislative and judicial branches, as well as the 262 municipalities, are required to participate in the National Registry. As of March 2023, about 10 OMR staff work on revising the RI tools submitted by partner institutions. The ratio of OMR staff serving partner institutions is one staff per 37 institutions. [10] OMR's staffing shortage affects the potential benefits of RIA. For example, publishing the RNT with the total number of procedures reviewed by OMR would contribute to the transparency of the procedures and diminish the use of discretion in applying these requirements. However, this requires OMR to have enough personnel to complete the review of the RNT.

An RI culture has started to permeate among government officials in the executive branch, but involvement varies within different levels of government. OMR's work has resulted in cultural shifts among staff of several partner institutions in the executive branch, as well as autonomous agencies through training and assistance to implement the RI Law. However, this cultural shifting has not reached all levels within the institutions. For example, ministry leadership, who can champion the implementation of RIA tools, as well as lower levels, responsible for executing the changes, are less engaged than middle

[10] The burden for OMR might alleviate once the Salvadoran territory is restructured in 44 municipalities in May 2024. However, a ratio of one staff serving 15 institutions remains a challenge for OMR.

levels that have benefited from OMR's capacity-strengthening activities. Moreover, introducing this cultural shift to autonomous institutions and municipalities remains a work in progress for OMR.

OMR must keep proving its relevance for the GoES strategy, aiming to further increase investment and economic growth. Having established OMR as an independent and permanent agency since 2019 bodes well for its institutional sustainability. But its continuity is not guaranteed given the executive's recent efforts to discontinue or merge government institutions that are not perceived as valuable or strategic to drive the executive agenda. [11] To continue operations, OMR must keep proving its value in improving the investment climate and supporting the executive agenda. Moreover, OMR must make a strong case for additional funding to fulfill its mandate for a growing number of institutions.

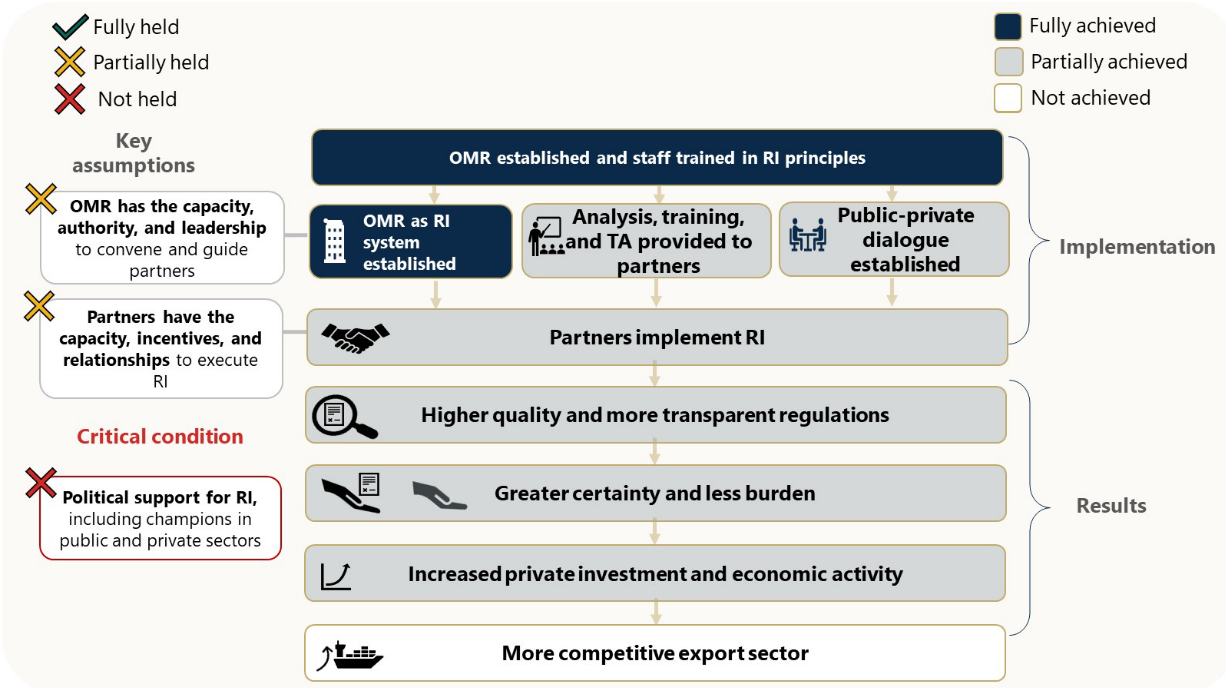
E. Insights and implications

Looking at the ToC, all aspects of the implementation of RIA were achieved either fully or partially, allowing some progress in the expected results. As depicted in Figure IV.6, OMR has been established and strengthened; the RI system is in place; and, during the first years of implementation, stakeholders established a meaningful public–private dialogue. Partner institutions have made progress implementing RI tools, resulting in pockets of greater certainty and less burden. RIA has had some success with administrative improvements to streamline business registration and construction permitting, which resulted in improvements in wait times to obtain a construction permit or business license. This effort resulted in a reduction in the waiting time to obtain a construction permit and business license. Even though these are small improvements in specific areas, they might have contributed to the increase in investment observed since 2022.

The critical conditions and assumptions underlying the RIA ToC did not hold, preventing further progress on the expected results. Several stakeholders noted that the GoES prioritized RI as part of the strategy aimed at improving the environment for investing and doing business in the country. However, it has made progress on specific issues but not as a strategy that seeks to transform all aspects of the regulatory framework. This lack of support for coherent RI cascaded into all areas, resulting in an OMR leadership that changed several times, limited public resources for OMR to fulfill its growing mandate, and limited ministry incentives to implement RI tools—all of which led to partially achieved results (Figure IV.6).

[11] In 2019, five ministries were eliminated: Social Inclusion; Citizen Participation, Transparency and Anti-Corruption, Technical and Planning, Governance and Vulnerability (https://www.laprensagrafica.com/elsalvador/Bukele-creo-dos-nuevas-secretarias-y-elimino-cinco-20190602-0448.html). The executive branch also made changes to institutions such as the National Institute of Statistics, which now is a unit within the Central Bank (https://www.elsalvador.com/noticias/nacional/gobierno-nayib-bukele-/1052963/2023/).

Figure IV.6. Mapping of results in RIA's theory of change



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V. Public–Private Partnership Sub-Activity

A. Background information on PPPs

1. Overview

A public-private partnership (PPP) is a contract between a private party and a government entity whereby the private party provides a public asset or service; and bears significant financial, technical, or operational risks and management responsibility in exchange for compensation. PPPs are an attractive investment vehicle to governments because they can provide public goods and services without adding to fiscal deficits. PPPs should maximize benefits to society—in terms of the availability, quality, and cost of the good or service in question—as well as value for money, defined as the cost-savings, efficiency gains, and other benefits of involving the private sector (as opposed to the public sector) in construction, maintenance, and operation.

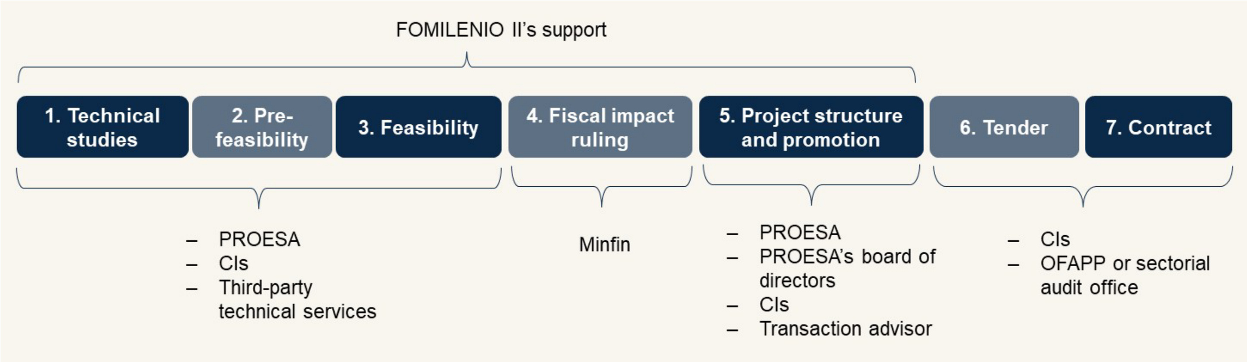
In El Salvador, the PPP Law establishes a legal framework to develop PPPs and its secondary regulations state the main actors for developing and executing PPPs. Several key stakeholders are involved in developing and executing PPPs:

- **PROESA** was the PPP authority responsible of identifying, vetting, developing, and promoting PPPs from 2010 to mid-2023. In June 2023, a new agency (**INVEST**, or the Investment and Exports Promotion Agency of El Salvador) replaced PROESA as the agency responsible for promoting private investment, and PROESA's activities were discontinued.
- **Contracting institutions (Cis)** are the owners of the projects developed with a private counterpart through a PPP. Cis are ministries, autonomous institutions, and municipalities. Cis help to identify PPP projects, manage the concessionaire's work, and track their performance once they are operational.
- The **MINFIN** (or Hacienda) assesses PPP projects to ensure the government does not assume undue fiscal risk linked to PPPs.
- **Concessionaires** are the private entities that design, build, finance, operate, and maintain public goods under PPP arrangements.
- **Transaction advisors** set the technical, environmental, and financial requirements of the PPP, as well as the selection criteria and process. They draft the terms of the invitation to be tendered and market the PPP to potential bidders.
- The **Audit Office for Public–Private Partnerships**—or the *Organismo Fiscalizador de Asocios Público-Privado*s (OFAPP) is a technical oversight body to regulate PPPs. This entity will start operations when PROESA's board of directors approves a PPP in a sector that did not have an audit office.[12]

[12] OFAPP is the audit office in sectors where there is no regulatory or audit office. In energy and telecommunication sectors, the Superintendency of Electricity and Telecommunications is the auditing entity. In the aviation sector, the audit entity is the Civil Aviation Authority, or the *Autoridad de Aviación Civil*. In the energy and telecommunication sectors, the audit entity is the Superintendency of Electricity and Telecommunications, or *Superintendencia de Electricidad y Telecomunicaciones*.

PPPs must complete five phases of development, progressing from prioritization to operation (Figure V.1). The assistance provided by the PPP Sub-Activity (discussed below) concentrated largely in the prioritization, preparation, and structuring phases, which require third-party technical services and in-house analysis by well-trained government officials.

Figure V.1. PPP phases and roles of key stakeholders



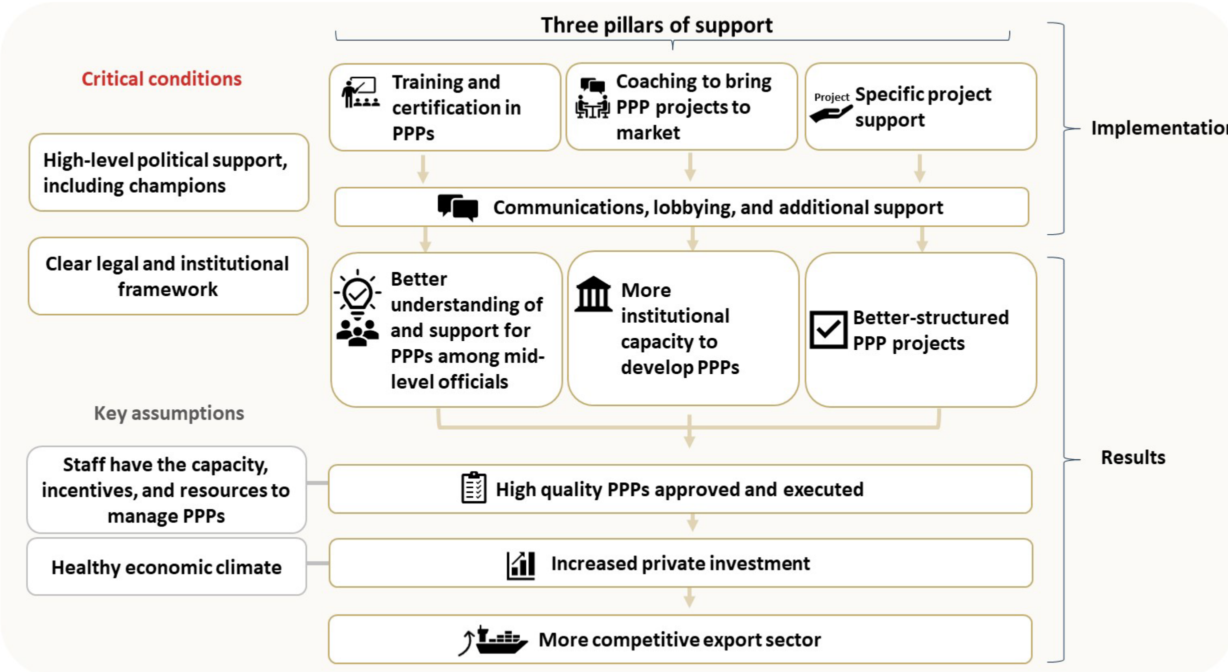
The PPP enabling environment is the set of political, economic, and institutional factors that affect the success of PPPs. Well-designed and executed PPPs are often the product of a strong PPP enabling environment, which includes the following components:

- **Legal and regulatory framework.** Laws and rules provide certainty about the PPP process and the roles of all stakeholders.
- **Institutional capacity.** Government officials and stakeholders have a clear understanding of the PPP process and fulfill their roles.
- **Political support.** Strong political support from the highest levels of government (president, vice president, or key ministers) to compensate for potential political risks associated with PPPs compared to traditional procurement.
- **Economic climate.** A healthy economic environment where the private sector has interest in executing PPPs, as well as the availability of financing for PPPs in the country.

2. PPP ToC

MCC funded three pillars of support for PPPs in El Salvador: (1) training and certification, (2) coaching to bring PPPs to market, and (3) specific project support (Figure V.2). The support was intended to build GoES institutional capacity to identify and design PPPs; increase understanding of PPPs among public officials, interested parties such as unions, and citizens; and develop quality PPP projects in the short term. In the aggregate, these supports were intended to generate a pipeline of high-quality PPPs that could be approved and initiated during the Compact period. In the long term, PPPs would generate more private investment along with the ESIC and RIA, which would jointly spur economic activity, thus creating a stronger tradable sector.

Figure V.2. PPP ToC



In the following sections we present the status of PPP projects as of March 2023 and discuss the extent to which the PPP Sub-Activity ToC was fulfilled as planned. We organized the analysis by subtitles that directly link to the implementation and results depicted in the ToC. We also address the evaluation questions throughout each of these sections.

B. Current status of MCC-supported PPPs

During the Compact period, FOMILENIO II funded transaction advisors and pre-feasibility, and feasibility studies to support the PPP structuring process. These studies and transaction advisor services were critical to move PPPs from theoretical projects to fully vetted, bankable investments with private sector interest. More details on the support provided is available in the baseline (Padilla et al. 2019) and interim reports (Padilla et al. 2022). Since the approval of the first PPP project in 2021, only the cargo terminal project advanced to the operation phase, as the other three projects supported by FOMILENIO II are no longer in the pipeline of PPP projects. Table V.1 summarizes the specific project support each PPP project received under the Activity and the status as of March 2023.

Table V.1. Status of PPP projects as of March 2023

PPP project	Description	FOMILENIO II's project-specific support	Status as of March 2023
Cargo terminal in the international airport	Expand the cargo terminal to double its capacity and authorize a private consortium to manage it.	Technical studies, prefeasibility and feasibility studies, and transaction advisor	Operating
Street lighting and video surveillance	Install lighting and video surveillance over 140 kilometers of highway, financed by billboards and other advertisements along the motorway.	Technical studies, prefeasibility and feasibility studies, and transaction advisor	Not in the pipeline
Hachadura toll road in the Pacific corridor	Expand the highway to four lanes from La Hachadura to Acajutla and include an overpass and a bypass.	Prefeasibility and feasibility studies	Not in the pipeline
Selected boarding crossings	Improve the infrastructure and systems such as video surveillance for cargo control at the borders of El Poy, Anguiatú, El Amatillo, and La Hachadura.	Prefeasibility and feasibility studies	Not in the pipeline

The expansion of the cargo terminal is in the construction phase. In 2021, the consortium Alutech, which received the PPP contract, created the firm Adimex to operate the project in El Salvador. Since May 2022 Adimex is operating the cargo terminal as well as designing the expansion of the cargo terminal with an investment of almost U.S. $14 million. This investment has financed the design of an expansion of more than 2,000 square meters, as well as forklift equipment, racks, equipment to systematize processes, video surveillance, and scanners.

GoES voided the street lighting and video surveillance PPP and there are no plans to relaunch the project. During the international tender process in 2021, firms that were interested before the pandemic lost interest due to a high degree of uncertainty in the economy and decided not to submit proposals. In addition, the GoES along with the municipality of San Salvador installed street lighting in several streets that were part of the PPP project. The MOP voided the tender because the private sector requested a guaranteed minimum income from the GoES, deviating from the PPP design. It is unlikely the tender process will launch again because the project is less profitable as result of municipality-led lighting installations.

PROESA dropped the expansion of the Hachadura toll road in the Pacific corridor from the pipeline at MOP's request. As PROESA sought funding for the transaction advisor to prepare the tender draft, MOP started constructing an outbound lane in the Hachadura road. MOP needed this outbound lane for another project developed under the Compact, the Logistical Infrastructure Project. MOP sent PROESA a request to exclude this project from its PPP pipeline because it considered including more construction work in the Hachadura road on its annual plan. In March 2023, staff from PROESA expressed interest in resuming the project. However, that resumption would require restructuring the project to account for MOP work completed. Moreover, with PROESA's replacement by INVEST in June 2023 it is not clear if stakeholders will restructure the PPP.

The improvement of selected border crossings is no longer planned. MCC funded the prefeasibility and feasibility studies of the PPP project aiming to improve the infrastructure and systems such as video surveillance and non-intrusive inspection system at the borders of El Poy, Anguiatú, El Amatillo and La Hachadura. However, after the studies were finalized in 2020, there was no progress in preparing the project to bring it to market. In March 2023, PROESA staff reported that this PPP was no longer part of the pipeline.

C. Critical conditions

The ToC outlines two critical conditions, without which the PPP Sub-Activity could not fulfill its objectives: (1) a clear legal and institutional PPP framework; and (2) high-level political support from the president, vice president, and other visible public officials. A clear institutional and legal framework guides all players' roles on PPPs and interactions with one another. Similarly, political support for PPPs is critical to sustain their development, approval, and implementation. We discuss our findings of these conditions below.

Clear legal and institutional framework

Stakeholders flagged the urgency of reforming the PPP Law. El Salvador's original PPP law clearly outlines the distinct PPP phases, but it mandates a rigorous set of interim approvals from stakeholders. In March 2023, governments officials noted the need to cut unnecessary PPP approvals. For example, before the dissolution of PROESA, its approval was necessary when CIs requested including a project in the portfolio of PPP projects, over and above PROESA's approval upon completion of the prefeasibility and feasibility studies. Stakeholders noted the need to streamline this process, as well as shorten the time that MINFIN is allotted to complete its fiscal risk assessment.

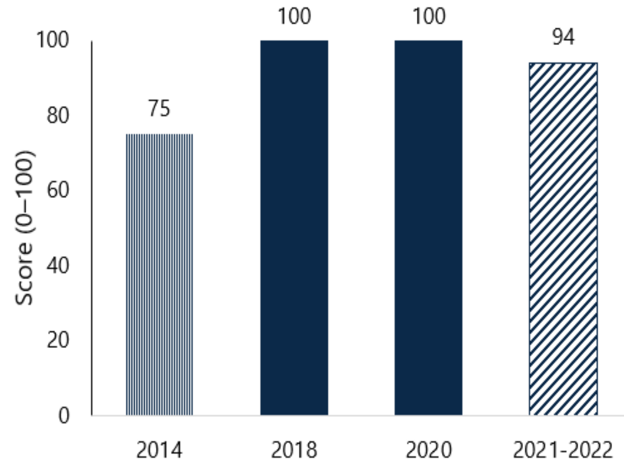
The approval of a new law—and new agency—to promote investments created uncertainty for PPPs. In June 2023, the Assembly approved a law to create INVEST, replacing PROESA as the agency responsible of promoting investment in El Salvador. The INVEST and PROESA laws are similar in content, except the new law does not include among INVEST's responsibilities establishing advisory committees for PPP projects. MINEC has been assigned this responsibility related to PPP projects, but it is not clear how or when MINEC will perform this function (El Salvador's *Decreto Número 753* [INVEST Law]).

"... In the new law, INVEST (unlike PROESA) does not have the power to establish advisory committees for each PPP project; This part was excluded from the new agency and will be taken over by the Ministry of Economy."
— William Soriano, House representative, quoted in El Mundo

Data from the Infrascope index showed a decline in the PPP regulatory environment in 2021–2022, compared to the performance in 2020. Figure V.3 shows the score in the conducive regulatory environment indicator, which assesses whether the existing legal framework is conducive for PPP implementation, whether the regulatory framework allows for accurate interpretation, and whether legislation and guidelines contain clear procedures for appeals in PPP contract disputes. El Salvador's performance on the conducive regulatory environment indicator showed an improvement during the

Compact implementation period (2018 and 2020), compared to 2014. However, the index report from 2021–2022 showed a slight decline in the score from 100 to 94. The is consistent with stakeholders' recent concerns about approvals and roles, triggered by legal questions that have arisen from the first PPP. However, because of the timing of the Infrascope report, this indicator does not reflect changes resulting from the replacement of PROESA with INVEST as the PPP authority.

Figure V.3. Conducive regulatory environment



Source: Economist Intelligence Unit (EIU). 2014, 2018, 2020, and 2021–2022.

Note: The 2014 score is shown with a vertical strip pattern because its not comparable with the scores from 2018 and 2020 due to methodological changes. Similarly, the score from the 2021–2022 index report is shown with diagonal stripes because its not comparable with the score from 2020.

High-level political support, including champions

A lack of high-level support for PPPs persists post-Compact. From 2015 to early 2019, PPPs did not have high-powered political champions in the executive branch and sources reported that members of the Assembly caused delays in approving the cargo terminal in 2019. The interim report provides more details (Padilla et al. 2022). During the first years of Nayib Bukele's administration (2019 to present), there was enthusiasm for PPPs (El Salvador President Press Release 2021).[13] Since the 2021 elections, the Assembly is composed mostly of representatives of *Nuevas Ideas*, the president's party. In this context, approval from the Assembly has not been a limitation to execute PPP projects. However, President Bukele and GoES more generally have chosen to finance infrastructure—such as roads and streetlights initially in the PPP pipeline—through traditional procurement.

"I perceive a tendency that if there is money and (the project) can be done through traditional public works, traditional public works will be preferred."

— MOP staff

"Time has been a factor in some way, if the GoES needs the road now, they prefer to take the risk completely and get a loan rather than wait to see if there is an investor who would be interested in the construction of the road."

— MOP staff

"It was an issue that the infrastructure was required sooner than what could be provided with a PPP."

— MOP staff

The pandemic altered GoES priorities and its preferring mechanisms for funding infrastructure. The post-COVID-19 strategy for economic recovery included designing and

[13] In 2021, the president publicly announced the government's intent to use $775 million in PPPs (El Salvador President press release 2021). The commitment for PPPs internally and publicly was realized in August 2021, with the official approval of the first PPP project (expansion of the airport cargo terminal).

executing large-scale transportation infrastructure through PPPs. In 2021, the GoES publicly announced the government's intent to leverage $775 million through 11 PPP projects (El Salvador President Press Release, 2021). However, the Bukele administration's initial enthusiasm for PPPs did not last because they found the timeline for structuring and implementing PPPs too slow. Instead, the administration opted for traditional procurement methods to secure more timely funding for the projects during the pandemic. PPP projects take almost two years in the design and structuring phase, whereas traditional procurement projects can secure funding in six or seven months.

Recent GoES-proposed PPP legal reform is a sign of some political support for PPPs. In 2022, officials from MOP and PROESA reported plans to reform the PPP Law. The executive branch sent an ambitious package of legal initiatives and reforms to the Assembly as part of its strategy to promote infrastructure investments (El Salvador President Press Release 2022). PROESA staff perceived the PPP legal reforms as a good sign of the executive's general support for PPP projects. PROESA also noted that the proposed PPP reform will include modifications to minimize time-intensive paperwork and possibly enable some projects to bypass Legislative Assembly approval. However, as of November 2023 there are no publicly available information related to the status of this package of reforms.

In March 2022, the GoES announced a package of 52 priority reforms and legal initiatives to increase investment. The package sent to the Assembly aimed to remove red tape, reduce bureaucracy, and facilitate business in the country. ◢

D. Results

As mentioned, this section presents the results of the PPP Sub-Activity linked to the outputs and critical conditions depicted in the ToC. Each box represents the associated outcome in the ToC graphic in Figure V.1.

Better understanding of and support for PPPs among mid-level officials

Private sector representatives indicated their GoES counterparts do not fully understand PPPs. Adimex staff noted some of their GoES counterparts in the cargo terminal operation have struggled to understand the PPP project. Consistent with this perception, GoES staff working on the operation noted they did not receive any training or coaching under the PPP Activity, which may have helped them navigate the process of monitoring, overseeing, and regulating the expansion of the cargo terminal project. Public officials working on the operation phase have reported the need to strengthen their capacities to carry out day-to-day tasks.

Airport employee unions and the public do not fully understand PPPs, resulting in resistance to the cargo terminal PPP. Representatives from the private sector noted a general lack of awareness among the public that PPPs are not the same as privatization, which is highly stigmatized and politicized in Latin America. In PPPs, the private sector administers public goods or services, but the state retains ownership of these goods and services. Stakeholders noted that PPP projects still face resistance from citizens and workers that often argue that PPP projects are an attempt to privatize services. For example, unionized airport employees opposed ADIMEX managing the expansion of the cargo terminal, citing privatization concerns. When the project started, there was the option for CEPA employees to become ADIMEX employees; however, only six of 48 employees agreed to become ADIMEX staff.

More institutional capacity to develop PPPs

The PPP Sub-Activity did not secure lasting change in GoES staff capacity to develop and implement PPPs. Officials from key government ministries—including PROESA,[14] MOP, and MINFIN—noted that the three-pillar approach resulted in more capacity to evaluate projects, do the appraisals correctly, bring them to the market, complete a quality structuring, and carry out international promotion activities to attract investors. However, the Activity failed to produce the local expertise required to sustain this momentum once the Compact ended. In 2023, stakeholders identified the following challenges: (1) staff turnover as several officials who received the training no longer work at these institutions, (2) no opportunities to apply the knowledge acquired as only one PPP project is operating, and (3) several staff working in the operation phase did not participate in the PPP training.

"The capacity that was gained stayed that way, it has not yielded more benefits because only those working in PROESA and CEPA have had the opportunity to apply what they learned. But not all of us are doing it [applying the knowledge gained]."

— MOP staff

Officials in charge of regulating and auditing PPPs require urgent support to fulfill their roles. It was challenging for AAC to embark in its role as the audit office of the cargo terminal project because it did not receive training or technical assistance during the Compact period. In addition, its role as the audit office of the aviation sector is very different from regulating a PPP project. Staff from AAC noted that their day-to-day activities do not relate to the monitoring role they had to carry out for expansion of the cargo terminal and it has been challenging to acquire new skills to oversee and regulate the project. Moreover, because this is the first (and only) PPP project, there is little guidance on how to execute the processes outlined in the PPP law.

"The institution [AAC] has trained personnel to be able to carry out its role as an aviation audit entity; however, the role of technical oversight body to regulate PPPs requires other skills, which would be good to reinforce through training.

— AAC staff

Replacing PROESA with INVEST runs the risk of losing in-house PPP capacity. PROESA absorbed all consultants paid by FOMILENIO II during the Compact period. With these consultants hired as full-time staff, PROESA had a total of six full-time staff devoted to PPPs. However, PROESA staff are not guaranteed to make the transition to INVEST because it is not clear what role the new agency will play in structuring and developing PPPs. As mentioned, one concern about this new law is that it does not include establishing advisory committees for PPP projects among INVEST's responsibilities.

[14] We held an interview with PROESA staff before its disappearance, so we include their perspectives on the implementation of the PPP Sub-Activity.

Better-structured PPP projects

The quality of the only operating PPP is high. We documented in the interim report that the cargo terminal PPP project complies with international standards, has a clear business case and an existing demand for the services offered, and is self-sustainable. Since the start of its operation, the investment in expanding the cargo terminal has resulted in an increase of 15 percentage points of imports and exports traded in the international airport in 2022, compared to 2021 (CEPA 2023).

High-quality PPPs approved and executed

The PPP Sub-Activity has failed to produce additional high-quality PPP projects. The expansion of the cargo terminal obtained congressional approval in late 2021 and achieved a critical milestone in May 2022—when ADIMEX started investing in machinery and developing the design of the expansion of the cargo terminal. As of June 2023, however, the remaining PPP projects supported by FOMILENIO II are no longer part of the pipeline of PPP projects. Moreover, assigning a new institution to promote PPPs generated additional uncertainty related to the future of PPPs.

Increased private investment and more competitive export sector

The increase in investment linked to the PPP Sub-Activity is less than originally expected. The expansion of the cargo terminal has generated an initial investment of about U.S. $14 million from the private firm operating the PPP. By the completion of the project, the firm is expected to make a total investment of $62 million. However, at least US $100 million in private investments from the other three PPP projects supported by FOMILENIO II are unlikely to materialize, given their shift to traditional public procurement (see Figure V.4).[15]

[15] We assumed that the expected investments for PPPs supported by FOMILENIO II is over $162 million because the expected investments for the cargo terminal, the street lighting and video surveillance, and the Hachadura toll road in the Pacific corridor were $62 million, $14 million, and $86 million, respectively. This amount does not include the expected investment from selected boarding crossings because it was not calculated.

Figure V.4. Expected investment of PPPs

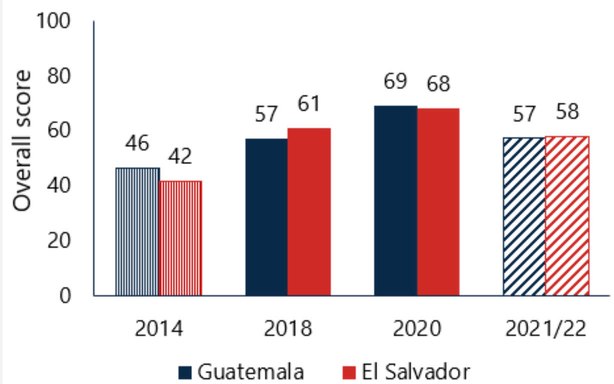
Source: PROESA records.

Findings across Guatemala and El Salvador

Under its current contract, Mathematica is also conducting a performance evaluation of the PPP Activity in Guatemala. Here, we summarize common and divergent findings of PPP support activities for both countries, as well as their implications.

The enabling environment for PPPs in both countries has eroded in the last 18 months. PPP projects do not have high-level political support or a champion, the current legal framework needs reforms, and the delays in moving PPP projects forward have taken a toll on the technical capacity of staff. As shown in Figure V.5, the overall PPP scores for both Guatemala and El Salvador increased over the period 2014 to 2020, followed by a slight decrease in 2021–2022. This trend is consistent with the stakeholder reports of a weakened enabling environment in both countries.

Figure V.5. Overall Infrascope score



Source: Economist Intelligence Unit (EIU), 2014, 2018, 2020, and 2021–2022.

Note: The 2014 and 2021–2022 scores are shown with different striped patterns because they are not comparable with the scores from 2018 and 2020.

The lack of political support in El Salvador is distinct from political complications in Guatemala. In both countries, support from the executive branch is critical to execute PPPs. In El Salvador, the executive branch has the political capital to champion PPP projects. However, the GoES has chosen to finance infrastructure projects through traditional procurement because the timeline is more expeditious. In Guatemala, the lack of support from the executive is due to the political cost of proposing PPP projects when there are still citizens and government officials who do not understand or opposes PPPs . Moreover, PPPs in Guatemala face a very long and potentially contentious approval process in Congress.

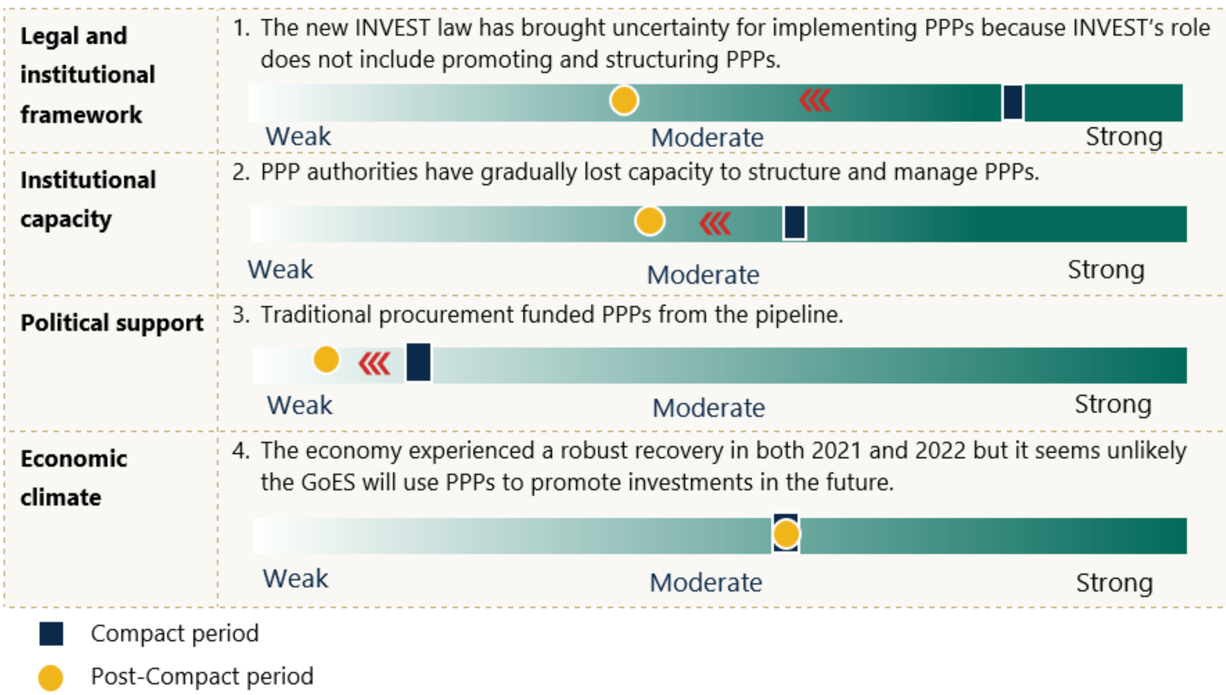
PPP authorities in both countries face significant capacity limitations. In El Salvador, INVEST has brought more uncertainty for implementing PPPs because its role in promoting and structuring PPPs is not well defined, and it currently lacks any technical capacity on PPP development. In Guatemala, ANADIE needs greater capacity to develop and promote PPPs for these projects to flourish. To be a strong advocate for PPPs, ANADIE requires a larger budget and more stable leadership.

The future of PPPs is uncertain in both countries. Guatemala has a pipeline of robust PPP projects, but the delay and potential cancellation of the country's first PPP, the Escuintla-Puerto Quetzal (AEPQ) Highway, represents a risk to the larger PPP pipeline. In El Salvador, the funding of key projects via traditional procurement, along with the altered institutional framework, pose the largest threats to PPPs.

E. Insights and implications

Despite the approval and operation of the first PPP, the enabling environment in El Salvador has eroded since the Compact's closure. Some key features of the enabling environment—such as the legal and institutional framework—were largely untested during the Compact period. However, from the experience structuring the expansion of the cargo terminal project, stakeholders noted the need to reform the PPP Law to streamline PPP approvals. In addition, PPP authorities have gradually lost capacity in structuring and managing PPPs, given the relatively limited pipeline. PPPs did not gain support from powerful political champions despite the success of the cargo terminal project. On the contrary, the GoES opted to fund projects that were part of PROESA's pipeline through traditional procurement. Moreover, the GoES created a new government institution, replacing PROESA as the entity leading investment efforts. The cumulative effect of these developments is an overall deterioration of the enabling environment for PPPs in El Salvador (Figure V.6).

Figure V.6. Changes in the PPP-enabling environment in El Salvador during and after the Compact period

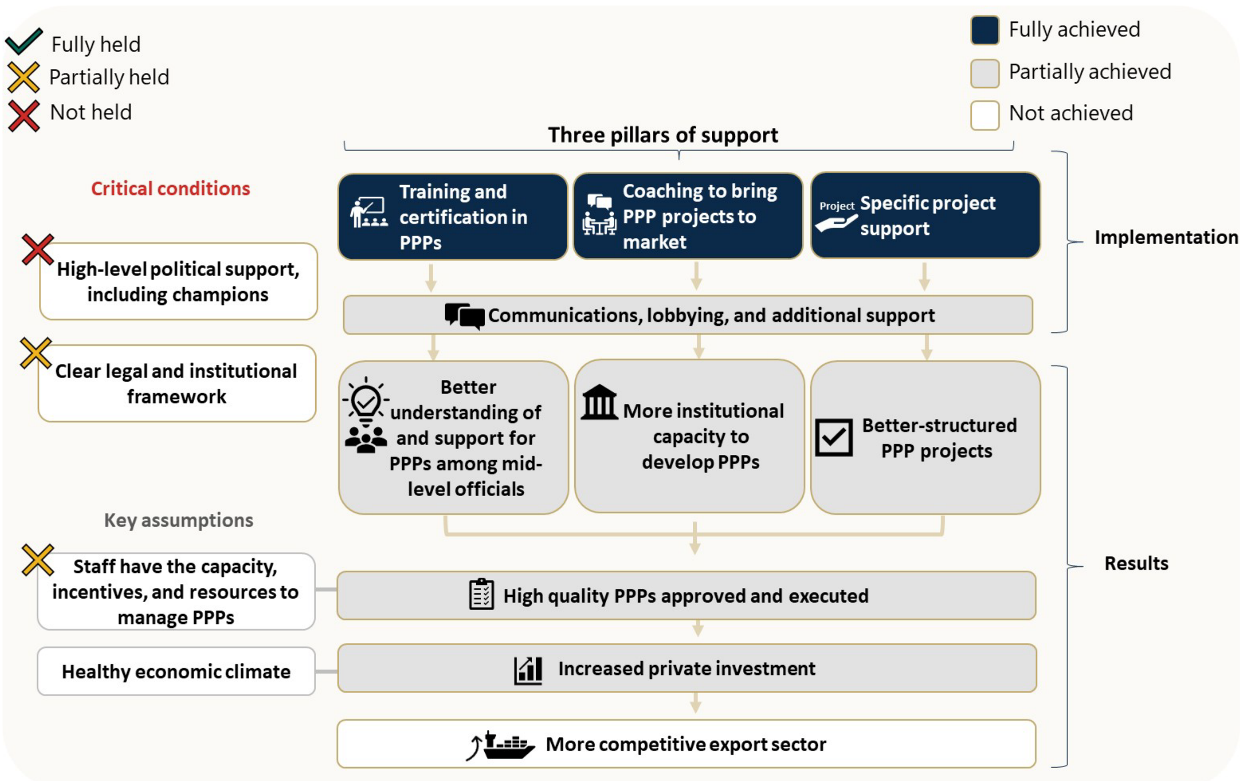


Sources: Interviews with former staff from FOMILENIO II, PROESA, and government officials, as well as Infrascope report for Latin America and the Caribbean (Economist Intelligence Unit 2019 and 2022).

The PPP Sub-Activity fully or partially achieved most aspects of the implementation. As depicted in Figure V.7, the Sub-Activity achieved all implementation outputs linked to its three pillars of support—including staff trained and projects supported. Through the Sub-Activity, GoES also structured high-quality PPP projects and one high-quality PPP started operations. However, it is unlikely the GoES will structure and execute other PPP projects in the short term. In addition, the capacity-building component of the three-pillar approach did not generate sustained GoES staff capacity to develop and implement PPPs.

The lack of political support affected the expected results. As shown in the ToC in Figure V.7, the progress the PPP Sub-Activity made in terms of building capacity in PPP institutions, along with the execution of the first PPP, was not enough to overcome critical conditions and assumptions that did not hold. Specifically, PPPs could not overcome a lack of high-level political support in the post-Compact period. Despite some progress increasing private investment linked to the first PPP, achieving more benefits is unlikely given the uncertainty of additional PPP projects.

Figure V.7. Mapping of results in PPP's theory of change



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VI. El Salvador Investment Challenge

A. Background information on ESIC

1. Overview

FOMILENIO II established an investment fund with an endowment of $75 million in funding—$50 million from the GoES and $25 million from FOMILENIO II. The original logic of ESIC was that FOMILENIO II would spend this $75 million on public investments, such as roads, customs office improvements at the border, and water and sanitation projects that would be most effective in catalyzing private investment in the tradable sector. One of the innovative requirements of ESIC was that each public investment required a counterpart investment from private firms of equal or greater value. This would ensure that each dollar of public funds leveraged at least one dollar in private funds. For very large public investments, the ESIC team grouped firms into clusters so their combined counterpart investment would be greater than or equal to the public investment. This 'clustering' enabled ESIC to fund larger public investments. For more information on the process for selecting public investments and participating firms, see the first interim report (Padilla et al. 2019).

2. ESIC ToC

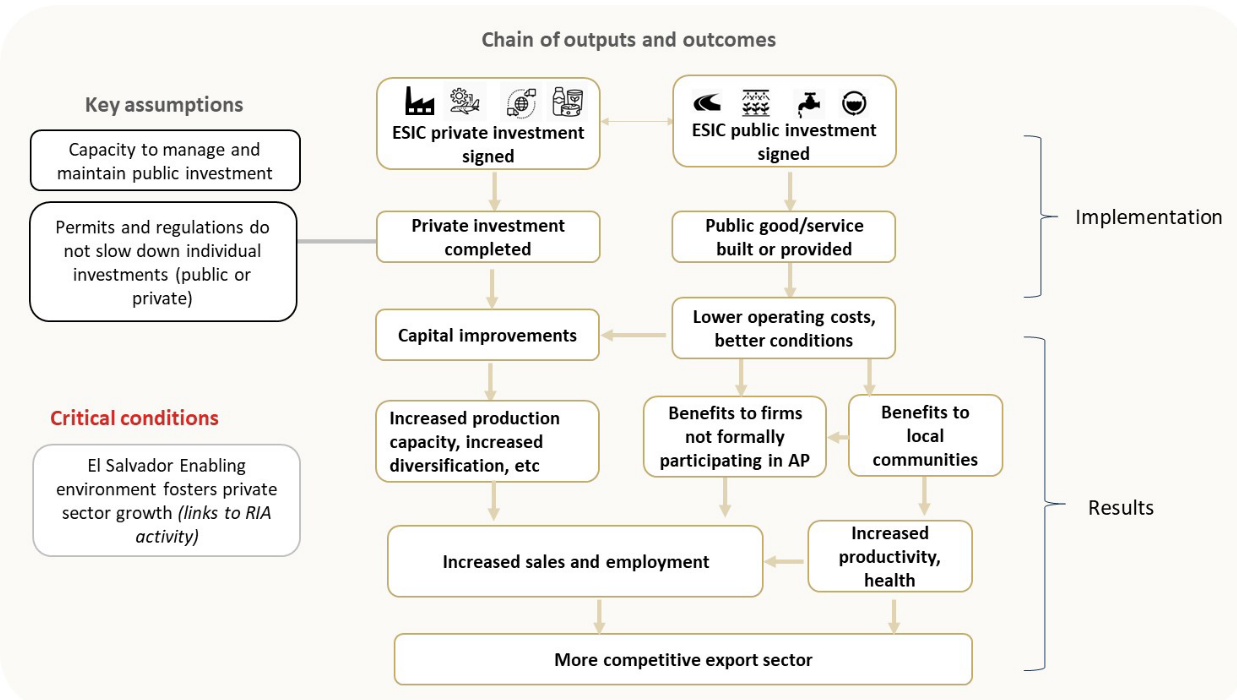
Mathematica constructed an evaluable ToC for the ESIC Sub-Activity based on a review of the Sub-Activity's initial program logic and conversations with stakeholders. This ToC represents our understanding of the Sub-Activity's outcome pathways and key assumptions, according to FOMILENIO II, MCC, and other key stakeholders. The ToC that reflects true ESIC implementation during the Compact period differs significantly from FOMILENIO II's original vision. As indicated in the logic model in Appendix A, ESIC assumed that public investments would precede private investments, given that these public investments were assumed to be a necessary precondition for private investments to be profitable. However, public and private investments happened concurrently in practice, largely because private investments did not depend as heavily on functioning public investments as assumed. We adjusted MCC's original ToC to reflect ESIC's parallel sets of public and private investment in practice. The second interim report provides more details on the changes made to the ToC (Padilla et al. 2022).

Figure VI.1 shows a simplified ToC in which private and public investments under ESIC followed parallel tracks:

- On the **public investment** side, public investments would lower operating costs for businesses; businesses could then use the cost savings to further invest in capital improvements, increase revenue, and potentially increase employment.
- On the **private investment** side, firms invested in upgrading infrastructure or skills to either diversify their product lines or expand capacity. These investments would eventually lead to increased sales, revenue, and employment, which would then lead to a more competitive export sector.

ESIC was designed with two assumptions in place. The first was that capacity existed in El Salvador to maintain and operate the public investments and services funded under ESIC. In fact, many of the ESIC public investment agreements clearly articulated the entity responsible for overseeing and maintaining the public investment. In some cases, FOMILENIO II was also responsible for creating these entities. The other assumption that ESIC had was that it could complete private investments within the Compact period and would not experience major delays with environmental, legal, or construction permits and authorizations. The ESIC ToC also assumed a critical condition—namely, that El Salvador's larger enabling environment of policies, regulation, human capital and public safety conditions would remain favorable for private investment during the Compact period.

Figure VI.1. ESIC ToC



In the next sections we further explore the causal pathways in each of the subsequent implementation and results sections of this report, following the sequence depicted in the ToC.

B. Current status of ESIC projects

Under ESIC, private firms committed to making large investments in their businesses in exchange for FOMILENIO II's public investments. In this section, we document the status of private and public investments as of late 2023.

Public good built or service provided

In April 2021, the GoES created the EdM to oversee the completion of Compact-funded projects after close-out. In December 2021, the Assembly approved through a transitional decree the creation of the Logistics Infrastructure Project Implementation Directorate (DIPIL) within the MOP to finalize and monitor the construction of projects developed by FOMILENIO II.

Eight of nine public investments were completed, but only two are operational. In March 2023, eight projects were finalized but only two projects were operating: the Anguiatú border crossing and the Claudia Lars bypass road connecting Flor Amarilla and Ateos. MOP staff said they expected four projects to become operational by the end of 2023: the sewage water treatment plant in Nejapa, the potable water plant and the wastewater treatment plant in El Zonte, and a potable water system in San Carlos. However, as of September 2023, none of these four projects were operational. The expansion of the irrigation system in El Paisnal remains unfinished; remaining construction was suspended because the GoES prioritized other projects.

Table VI.1. Status of public investments

ESIC-public investment	% completed as of May 2021	% completed as of March 2023	Anticipated cost	Operational as of September 2023
Workforce development training in airplane maintenance	99%	99%	$2.4M	n.a.
Construction of sewage water treatment in Nejapa	83%	100%	$5.1M	No
Improvement of potable water and sanitation system	93%	100%	$1.3M	No
Construction of wastewater treatment in El Zonte	95%	100%	$3.9M	No
Construction of a potable water and wastewater treatment plants in El Zonte and El Palmar	35%	100%	$3.3M	No
Provide technical assistance in agribusiness	100%	100%	$58.8K	n.a.
Expansion of the irrigation system in El Paisnal and Nueva Concepcion	73%	85-90%[1/]	$12.06M	No
Modernization of Anguiatú border crossing	46%	100%	$13.1M	Yes
Construction of bypass road connecting Flor Amarilla and Ateos	100%	100%	$27.2M	Yes
Total cost			**$68.6M**	

[1/] The expansion of the irrigation system in El Paisnal and Nueva Concepcion was suspended in 2022.
n.a. = not applicable.

Private investment completed

Of 12 private investments, only the construction of a tourist complex remained unfinished in 2023. In 2021, the interim report indicated that ESIC firms invested more than $138 million[16] in upgrading or expanding their operations, consistent with their pledged counterpart contributions (Padilla et al. 2022). At that point, only one company (part of the El Zonte Alliance) had not completed the agreed investment due to delays in obtaining permits from the Ministry of the Environment. A year-and-a-half later in March 2023, the status of that investment had not changed.

[16] Our estimate is based on the amounted reported by ESIC firms, so it differs from the amount reported in the El Salvador Compact II closeout Indicator Tracking Table (ITT).

Table VI.2. ESIC private investments

Firm name and sector	ESIC-related investment	Amount invested	% completed in 2021	% completed in 2023
AEROMAN (aviation industry)	Increase aircraft maintenance operations space and hangars	$28.7M	100%	100%
LACTOLAC (agribusiness)	Construction of a dairy processing plant	$15.5M	100%	100%
ACOPASCA (agriculture)	Processing plant (to clean and cut fruit)	$1.2M	100%	100%
Alianza el Zonte-Roberto Oceano, Puro Surf, Palo Verde (tourism)	Construction of a tourist complex and restaurant	$4.7M	50%	50%
APANC (dairy cooperative)	Construction of a pasteurizing plant	$135K	100%	100%
Ingenio la Cabaña (agriculture)	Investment in training, machinery, and production equipment	$7.8M	100%	100%
Diana (agribusiness)	Investment in software licenses (SAP), machinery, computer equipment, and training	$12.3M	100%	100%
Techno Screen (textiles)	Investments in equipment	$1.8M	100%	100%
LIVSMART (agribusiness)	Investments in new plant	$51.2M	100%	100%
Textiles San Andrés (textiles)	Specialized machinery	$3.8M	100%	100%
Indufoam (furniture)	Mattresses and bedding	$2.9M	100%	100%
ExportSalva (trade zone)	Building expansion	$6.7M	100%	100%
Confecciones del Valle (textiles)	Photovoltaic system for power generation and equipment	$1.7M	100%	100%
Total investment		**$138M**		

Notes: The last three companies operate under Grupo Hilasal. In our assessment, we considered that their combined investment is greater than what they had committed to in the agreement.

M indicates millions of U.S. dollars and K indicates thousands of U.S. dollars.

C. Critical conditions

In this section, we discuss our findings for the key conditions and assumptions of the ToC for ESIC (Figure VI.I). We begin by discussing institutions' capacity to manage and maintain public investment. We also present our assessment of the El Salvador enabling environment and whether permits and regulations hinder individual investments.

Capacity to manage and maintain public investment

Completed construction projects have sustainable plans for their operations. MOP staff reported that all completed projects have a public entity responsible for overseeing and maintaining the public investment when the projects become operational. For most projects, the entity responsible for their maintenance are decentralized municipal entities called Community Development Associations (ADESCOs). The MOP manages and maintains the bypass road connecting Flora Amarilla and Ateos and the DGA oversees and maintains the Anguiatú border crossing. There is uncertainty about who will oversee, operate, and manage the irrigation system in El Paisnal if the construction resumes, given that local authorities are unaware of the agreement between FOMILENIO II and the municipality. Despite the agreement that ADESCO is responsible for managing the potable water plant, as well as the wastewater treatment plant in El Zonte, ANDA has informed ESIC firms and the community that it will operate and manage the project. The community received this news poorly, and there is a risk of further delays in the operation of the plants.

Local opposition slowed the construction of El Zonte's wastewater treatment plant, largely stemming from imperfect communication from project officials. Interviewees reported that community members believed the plant would serve only hotels and wealthy landowners in the area, acting as a mechanism for the wealthy to dump their untreated sewage into the river and further pollute it. This misconception about the function of the plant led to community members erecting barricades to the plant and destroying some pipes that fed into waterways. Interviewees attributed some of this opposition to a lack of information-sharing within the community by FOMILENIO II regarding the plant's true role of treating water for the broader community. A local municipal leader shared that they combatted this misconception by disseminating information regarding the process of water quality checks that would occur before any water from the plant entered the community waterways. Following this public outreach, community members made no additional complaints.

"If I hadn't been a part of the project … I would not have known about it. I think the government didn't publicize it well and didn't highlight all the benefits it would bring."
— Private sector representative

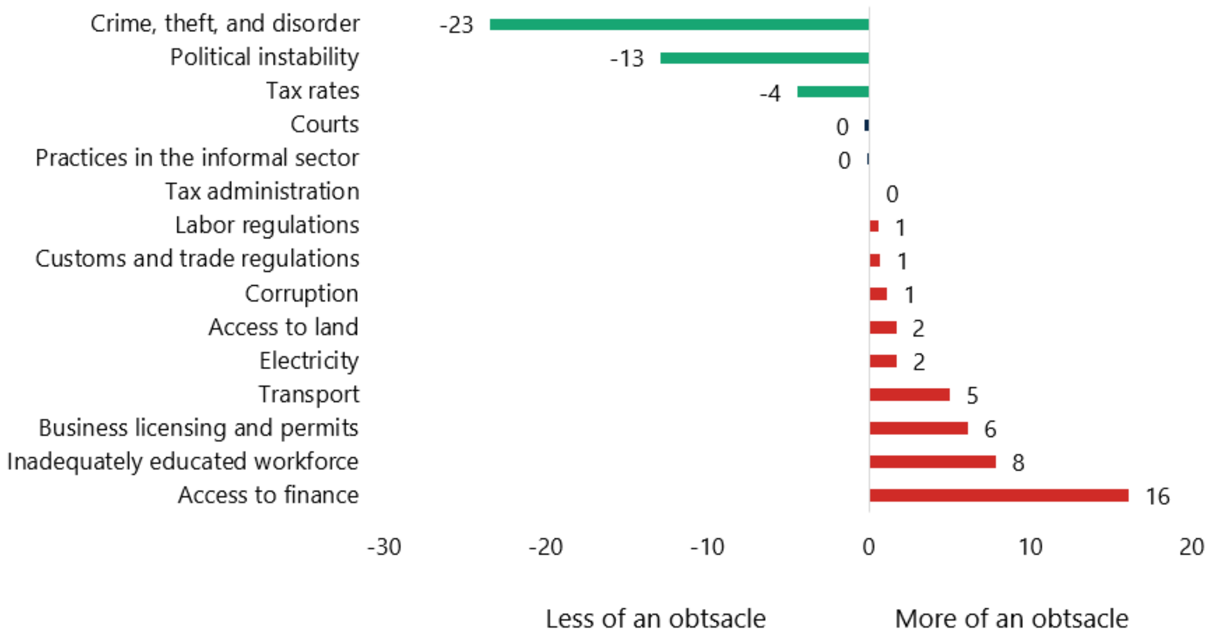
Permits and regulations do not hinder individual investments (public or private)

FOMILENIO II's support to firms to navigate red tape helped catalyze several investments. One of the main findings from the interim report is that FOMILENIO II staff liaised with ministry counterparts to clear bureaucratic hurdles, and this was one of the largest benefits of ESIC to participating firms. For example, FOMILENIO II's support in navigating 16 different construction permits resulted in fast-tracking ESIC firms' investments by an average of 21 months, according to FOMILENIO II estimates. However, there was one high-profile exception: a representative from one of the firms in El Zonte reported having spent eight years clearing red tape for the construction of a hotel. As of March 2023, the firm had completed the procedures requested by the Ministry of Environment and was navigating the remaining municipal red tape required to complete its investment.

El Salvador's enabling environment fosters private sector growth

The enabling business environment in El Salvador appears to have improved in the past six years—at least with respect to public safety. Enterprise survey data show changes in the biggest obstacle affecting the operation of firms from 2016 and 2023. By 2023, fewer firms reported that their biggest concerns were crime, theft, and disorder, political instability, and tax rates. In contrast, more firms reported access to finance, inadequately educated workforce, and business licensing permits as the biggest obstacle to operations. There was an increase of 6 percentage points of firms that reported business licensing and permits were the biggest obstacles for their operation. This increase should be interpreted with caution because the enterprise survey results also show a decrease in the average number of days it took firms to obtain a business license (Figure IV.4) and a decrease in the average number of days to obtain a business license. Potentially, these findings simply reflect the fact that crime, theft, and disorder improved more dramatically and observably in the past few years than permitting and licensing.

Figure VI.2. Changes in the reported biggest obstacle affecting the operation of firms from 2016 to 2023



Source: El Salvador enterprise surveys 2016 and 2023, World Bank.

D. Results

In this section, we further explore the causal pathways in the implementation and results sections, following the sequence depicted in the ESIC ToC. As in the previous section, the sub-headers are separated by boxes from the ToC. The implementation section presents all the activities that had to be implemented to achieve the expected results, including whether critical conditions and key assumptions in the ToC held. Throughout each of these sections, we also address responses to the evaluation questions, including those not directly depicted in the ToC.

Lower operating costs, better conditions

Public projects were completed as originally designed, but with unanticipated delays and costs. FOMILENIO II and MOP completed all projects according to the original designs. However, the COVID-19 pandemic and subsequent supply chain issues, price increases, and travel restrictions affected construction firms working on the projects. Interviewees noted that project engineers from Mexico could not travel during this time. The resulting change in contractors on the Modernization of Anguiatú border crossing and potable water plant projects caused delays and costs increases. However, MOP staff reported that even with the increase in costs, the operational projects are profitable.

"The projects completed have basically ... remained true to what was envisioned originally. Some of the companies were affected by the pandemic ... and we had to hire new companies, which increased the time it took to finish some of the projects."

— MOP staff

It is still early to assess whether the public investments have generated lower operating costs for firms. Most of public goods or services have not materialized, so it is not possible to assess whether the ESIC achieved its expected results in terms of lower operational costs and better conditions for firms. However, we have anecdotal evidence of potential effects, both positive and negative. Representatives from a firm near the bypass noted that their employees have benefitted from decreased commuting times and subsequent increased work–life balance. In contrast, a representative of an ESIC firm reported the firm has not been able to obtain an operating license due to the delay in the operation of the potable water plant. The firm has completed the procedures to obtain the operating license, which hinges on delivering potable water to the firm's packaging plant. As result, the delay in the delivery of potable water has affected the operation of the packaging plant.

Capital improvements

ESIC had a small catalytic effect on private investment but is unlikely to have a large effect on ESIC firms' future investments. In the second interim report (Padilla et al. 2022), we documented that ESIC firms indicated they would likely have made investments comparable to those included in the agreements with FOMILENIO II in the absence of ESIC. However, firms reported investing about $6 million more than originally planned because of ESIC.[17] In 2023, we reached out to ESIC firms to document additional investments that could materialize when the public investments are operating. Most of the representatives who replied our request noted the operating public investments are not likely to affect their operations. The

"... as the [potable water and wastewater] plants begin to fully operate, we believe we will see a substantial increase in investment in El Zonte."

— Private sector representative

[17] This amount was estimated based on firms accounts on the investment executed above the agreed investment with FOMILENIO II.

only exception was a private sector representative who noted that public investments in El Zonte might attract investment in the region when the water and sanitation projects are operating.

Economic conditions, rather than the public investments, have driven investments. Representatives of the private sector noted the progress made in completing public investments has not changed their investments plans. Instead, the economic climate in their sector has driven their investment decisions. For example, a private sector representative whose investment is associated with the abandoned irrigation system in El Paisnal reported plans to increase investment given the increase in the price of sugar, regardless of whether the project is completed. In contrast, a private sector representative whose investment is linked to the operating bypass noted they have no plans to invest because they have experienced a decrease in their sales in the past year and will consider further investments only when demand for their products increases.

"The investment strategy of [our company] is independent of the [public] project."
— Private sector representative

Increased production capacity and diversification

ESIC firms reported mixed expectations surrounding production capacity growth when the corresponding public investment is operating. Firms from El Zonte expressed a sense of optimism about how public investments would eventually affect their production capacity and service offerings. Another private sector firm reported it was challenging to differentiate between the direct effects of the project and the firm's overall capacity and offerings. Similar to investment decisions discussed above, most firms expected that factors outside ESIC, such as their market and the overall economic climate, would affect their offerings in future years.

"Our investments are not significantly and directly influenced by the modernization of the Anguiatú customs; however, we hope that by improving the import/export processes of our clients, who can use said border, there will be future benefits and improvements in our productive activity."
— Private sector representative

Benefits to non-ESIC firms and local communities

Delays in the commissioning of infrastructure projects operating affected firms' perceived benefits. In 2021, when just one public investment was completed, representatives of the private sector stakeholders viewed ESIC favorably because its public investments represented important investments in public welfare and El Salvador's tradable sector. In 2023, this optimism was reserved for the expected benefits of the bypass and the wastewater treatment plant in El Zonte.

The ESIC-funded bypass had follow-up investments and positive ripple effects in local communities. During the construction of the bypass, the MOP decided to build an ancillary road connecting to the bypass, which would offer nearby firms and communities even more transportation access. The MOP considers this project to be a success and is investing additional funds in the road with the construction of two overpasses to further ease bottlenecks and traffic. Representatives interviewed reported seeing increased economic activity in the surrounding areas (such as new gas stations, shops, and restaurants) and attributed it to the new road infrastructure. Interviewees also reported expected positive outcomes for local businesses, as the bypass has reduced travel time to the port and other areas of commerce, as well as reducing the time it takes to conduct business. Private sector representatives noted the ESIC projects have boosted the entire area of El Zonte economically, with businesses expanding in the treatment plant's service area.

> *"We saw a stronger focus between businesses and the community, which has been a great benefit not only for those who are already in the community, but all those who will come to the community.... A large part of the community is seeing these developments in a more positive light."*
>
> *— Private sector representative*

Stakeholders from the public and private sectors expected that public investments in El Zonte will have positive spillovers on the environment, nearby firms, and the community. Representatives from public and private sectors expect positive environmental impacts from the El Zonte water treatment plant. Multiple interviewees were confident that when it begins to function, the water going back into the river will likely be cleaner than the river water itself. There was a shared expectation among interviewees that this would improve both the health of the river and business outcomes in the area. Because much of the economic activity in the area depends on beach tourism, reduced sewage near the beaches should further increase tourism in the area. Interviewees also reported anticipated benefits in the surrounding community regarding access to clean drinking water, which can become scarcer during dry months but should be more accessible once the plant is operational.

Public investments in Zonte could also bring new community challenges. More than 100 homes are under construction directly across from the plant in El Zonte, which interviewees directly attributed to the existence of the plant, noting that a main selling point of the homes will be their direct connection to the plant. These new homes could generate tensions with the current residents if the plant does not have enough capacity to serve the needs of the larger community. Households near the El Zonte plant can access to treated water if they pay a connection fee. Similarly, a potential subsidy could make connection costs affordable for local landowners who wish to connect to the plant. However, interviewees expressed some concerns about potential difficulties connecting non-landowning residents to the plant, because the connection will require a deed. Another challenge for the community is that property prices near public investments such as El Zonte plan and the bypass are increasing, making it challenging for local residents to buy or own land.

FOMILENIO II construction projects fulfilled their contractual and operational gender equity goals. Staff overseeing the construction of public investments noted that their companies employed women in construction and administration functions. They also fulfilled obligations to conduct trainings on preventing workplace sexual harassment. However, they noted this was contract-specific and they were not confident it had set a precedent for future projects to integrate gender-inclusion benchmarks without specific contractual requirements.

"Prior to the project it was uncommon to see women participate in construction activities, like machinery operations."
— OMR staff

Increased sales and employment

Firms in the tourism sector expressed confidence that, upon completion of the projects, they would see an increase in revenues and employment. A private sector representative reported that the addition of a high-capacity water treatment plant qualified El Zonte for investments and projects not happening in similar coastal areas without treatment plants. The plant has incentivized hotels, restaurants, and other businesses to come to the area and generate employment opportunities without having to invest in expensive, individualized options for on-property water treatment solutions. However, even without the operating plant, the representative noted that El Zonte no longer has a "low" season and has maintained an occupancy rate about 80 percent for nearly three years, compared to an occupancy rate of about 55 percent before that, which allows for more sustained year-round job opportunities.

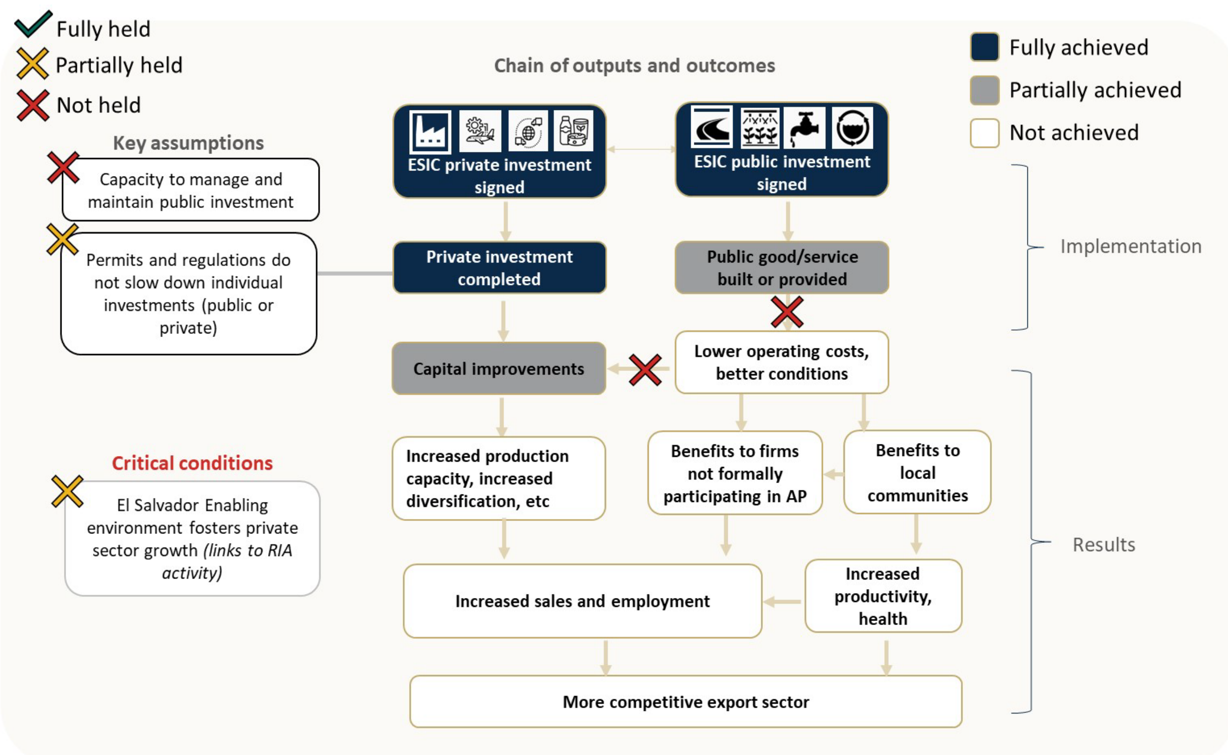
E. Insights and implications

The Ministry of Public Works has not adopted ESIC as a tool to prioritize investments, and that is unlikely to happen. ESIC's design envisioned more involvement by the GoES in ESIC implementation, under the premise that the GoES could adopt the model in the post-Compact period. Despite the creation of DIPIL, which has the knowledge and capacity to implement the ESIC model, there is no interest in the Ministry of Public Works to adopt ESIC as a tool to plan and develop infrastructure projects. In part, this reflects the relatively marginal role that GoES played in designing and implementing ESIC. Potentially, FOMILENIO II could have better engaged officials at the Ministry of Public Works during the Compact period to create more direct involvement and support for the ESIC model.

ESIC was an effective tool to identify public investments with high rates of return. However, it is not possible to accurately estimate its benefits due to operational delays. As depicted in Figure VI.3 the true effects of ESIC will be realized only when the public and private investment streams have been realized and start working together to enable firms to lower their operating costs and increase their competitiveness. We cannot assess the full effects of ESIC because the public goods or services are not operating. However, some firms did report more investments than they had initially planned, and local communities also invested in their infrastructure to complement ESIC investments.

Delays in the operation of the public investments had negative effects on ESIC. Disagreements over the management and maintenance of ESIC projects have further delayed its operation. We also documented that opposition in local communities in part drove projects' delays because there was not a clear understanding of the ESIC projects' benefits. We also found mixed results related to navigating red tape. Although some firms benefit greatly from FOMILENIO II's support in clearing bureaucratic hurdles, others reported spending years clearing red tape while executing their projects. If these factors remain or worsen in future years, they could preclude firms from increasing their capacity, offerings, and sales as envisioned in the ToC (Figure VI.3).

Figure VI.3. Mapping of results in ESIC's ToC



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VII. Cost-Benefit Analysis

As part of its evaluation contract with MCC, Mathematica calculates ex-post economic rates of return (ERRs) for the ICP. The ERRs provide a single metric showing how a project's economic benefits compare to its costs; if the ERR is too low, stakeholders might deem the program insufficiently productive to justify. For low-income countries, the MCC considers 10 percent the threshold during the planning phase to determine whether its investments in a Compact country will yield sufficient returns for the country's citizens (MCC 2013).

A. Approach to the Cost-benefit analysis

The CBA largely follows the approach described in our revised evaluation design report (Blair et al. 2018). We calculated three distinct ERRs under this contract: one for the RIA, one for ESIC, and one for the PPP Sub-Activity because these activities have independent stream of benefits and costs. Furthermore, estimating activity-level rates of return could provide MCC with valuable insights into the effectiveness of each activity, as all three are relatively new areas of investment for the agency. To create ERRs in a systematic way across all three activities, we followed five sequential steps for each activity:

(1) Verify and update key benefits and costs in existing investment-level cost-benefit analyses (CBAs)

(2) Aggregate investment-level benefits and costs into activity-level benefits and costs

(3) Add any additional MCC and FOMILENIO II costs not included in the previous steps

(4) Generate activity-level ERRs using the most appropriate time horizon

(5) Conduct sensitivity tests as described in Appendix C.

B. ERR for RIA

RIA's ToC envisioned that creating and strengthening OMR, establishing an RI system for GoES institutions, and supporting partners' use of RI tools would result in higher-quality regulations, greater certainty, and less burden to firms and citizens.

1. Economic benefits of RIA

We estimated the monetary value of the RIA's benefits and costs over a 20-year horizon and then approximated the project's ERR. We identified two main economic benefit streams for RIA:

First, OMR helped advance several administrative improvements to streamline construction permitting and business registration. This effort contributed to—but did not fully account for—a decreased wait-time to obtain a construction permit (from 98 to 46 days) and a business license (from 31 to 18 days).[18] For our analysis, we assumed that OMR efforts resulted in a decrease of 22 days to obtain a construction permit and a decrease of 5 days to obtain a business license. We reached these estimates through an analysis of the specific procedures and timelines that OMR likely influenced vis-à-vis the procedures and timelines

[18] The decreased wait-time to obtain a construction permit and a business license presented in this section is based on the reported days by the full sample of firms surveyed in 2016 and 2023.

that other public actors likely influenced through the one-stop shop and Directorate of Construction Procedures. We also assumed that the decrease occurred gradually between 2016 and 2023. Next, we used level-of-effort estimates for procedures and wage data from the Ministry of Labor to estimate the administrative cost savings generated by streamlined procedures and decreased wait-times.[19] [20] Table VII.1 shows our estimate of the economic benefits from the savings in the time spent on these procedures in the 2016–2023 period.

The second benefit stream included in our estimates is the savings linked to simplified procedures across the 17 ministries of the executive branch and the 79 autonomous institutions with which OMR worked during the Compact period. In late 2017, OMR leadership embarked on a systematic administrative simplification campaign across the executive branch of government.[21] As mentioned in Chapter IV, OMR has made progress in simplifying procedures as part of implementing the RNT. We estimated the economic benefits of simplifying procedures using OMR's baseline estimates of the economic social cost of about 1,500 procedures.[22]

For this stream of benefits, we assumed that OMR would reduce the cost of complying with procedures by at least 20 percent by 2027. OMR staff believed this 20 percent reduction would be attainable within three years of initiating its simplification initiative in 2017. We assumed that OMR and partner institutions would achieve this 20 percent goal along a longer timeframe than initially estimated by OMR. The cost of procedures would decrease 10 percent in 2024, 14 percent in 2025, 18 percent in 2026, and starting in 2027 the cost of procedures would be 20 percent less. OMR set a 20 percent goal and the three-year implementation timeframe to achieve it in 2017 (La Prensa Grafica 2017).

As documented in chapter IV, OMR's regulatory improvements likely made at least a small contribution to the observed increase in national private investment, particularly through its work to simplify construction permits. However, we have not included this benefit in our analysis because is not possible to quantify the extent of its contribution.

[19] We quantify the administrative cost by identifying the people who participated in the activities needed to manage the procedure, the time each worker dedicated to the procedure, and the salary or remuneration per work hour. Source: SCM Network. "International Standard Cost Model Manual." https://regulatoryreform.com/wp-content/uploads/2015/07/International-SCM-Manual.pdf.

[20] We used data on the time to obtain permits and the workforce in the firms from the El Salvador Enterprise Surveys of 2016 and 2023; we also used administrative records on wages from the Ministry of Labor.

[21] This work involved quantifying the administrative burden—or the cost of completing paperwork and waiting for a response—of hundreds of procedures required by Salvadoran ministries. More details on this effort are available in the interim report (Padilla et al. 2022).

[22] OMR used the SIMPLIFICA methodology, developed by the National Commission of Regulatory Improvement. The approach focuses on monetizing the time invested by the users to meet the requirements, plus the time spent waiting to obtain a resolution. This cost is multiplied by the number of times the procedure is performed during a calendar year to arrive at the procedure's total economic social cost. OMR estimated the economic social cost for all procedures in the executive branch.

Table VII.1. RIA expected benefits (millions USD)

	Less time spent obtaining constructions permits	Less time spent obtaining an operating license	Reduced cost of procedures	Total benefits
2016	$542,880	$101,547		$644,427
2017	$1,085,760	$154,992		$1,240,752
2018	$1,083,588	$208,438		$1,292,026
2019	$1,192,164	$261,883		$1,454,048
2020	$1,192,164	$261,883		$1,454,048
2021	$1,192,164	$261,883		$1,454,048
2022	$1,192,164	$261,883		$1,454,048
2023	$1,192,164	$261,883		$1,454,048
2024			$2,518,048	$2,518,048
2025			$3,525,267	$3,525,267
2026			$4,532,486	$4,532,486
2027-2035			$40,288,766	$40,288,766
Total undiscounted				**$66,348,108**
Total present value (discounted to 2016)				**$20,904,235**

Sources: Authors' estimates using data from the Enterprise Surveys 2016 and 2023. Administrative records from OMR and the Ministry of Labor.

2. Costs associated with RIA

Table VII.2 presents the estimated costs by year and category. Costs include MCC's administrative costs, direct implementation costs from MCC during the Compact period and OMR's costs since it became a permanent institution. We also include the cost of partner institutions to implement the RI tools. For the partner institution costs to implement RI tools, we consider the growing number of government institutions that are required to develop these tools. For example, in 2019 we included the cost for 17 ministries, whereas in 2021 we included the cost of 17 ministries, as well as 79 autonomous institutions. The present value of the costs is almost $20 million, using the recommended discount rate of 10 percent.

Table VII.2. RIA expected costs (millions)

	MCC administrative costs	Direct costs for RIA		Partner institution costs to implement RI tools	Total costs
		FOMILENIO II	OMR		
2016	$1,189,493	$2,300,000			$3,489,493
2017	$60,942	$1,100,000			$1,160,942
2018	$56,923	$1,100,000			$1,156,923
2019	$51,694	$900,000			$951,694
2020	$160,465	$600,000		$124,101	$884,566
2021		$0	$1,300,000	$148,920	$1,448,920
2022		$0	$1,313,000	$849,720	$2,162,720
2023			$1,326,130	$1,296,480	$2,622,610

	MCC administrative costs	Direct costs for RIA		Partner institution costs to implement RI tools	Total costs
		FOMILENIO II	OMR		
2024-2035			$16,986,834	$23,869,220	$40,856,054
Total (undiscounted)					**$54,733,922**
Total present value (discounted to 2016)					**$19,729,010**

Source: Authors' estimates using FOMILENIO II and MCC administrative records.

3. Comparing benefits and costs

We used the estimated benefits and costs to compute three different cost-benefit measures:

1. The net present value of RIA, defined as the discounted sum of net benefits (benefits minus costs) in each period, is **$1,175,225**.
2. The benefit-cost ratio, defined as the ratio of the present value of the benefits and the present value of the costs, is **1.1**.
3. The ERR, defined as the interest rate at which the net present value is equal to zero, is **13.5 percent**.

RIA's estimated rate of return of 13.5 percent exceeds MCC's hurdle rate of 10 percent.

This ERR calculation has two limitations: first, it does not include the contribution of OMR's regulatory improvements to increased private investment because we are unable to estimate the extent of its contribution. Second, estimated benefits depend largely on the economic savings resulting from the simplification of procedures. These benefits could fail to materialize if OMR decides to change its RI strategy, as occurred in 2017. In Appendix C we present estimates for a scenario in which OMR reduces the costs of procedures by 15 percent instead of 20 percent.

C. ERR for PPP

The PPP Sub-Activity ToC posited that training, coaching, and targeted project support would build GoES capacity to structure and implement PPP projects, produce a pipeline of approved and executed high-quality PPPs, and generate more private investment along with the ESIC and RIA.

1. Economic benefits of PPP Sub-Activity

As documented in Chapter V, only the PPP expansion of the cargo terminal is being implemented. Moreover, as of March 2023, there was not a pipeline of new PPP projects. As such, our estimates for PPP benefits are based solely on the expansion of the cargo terminal in the international airport. We estimated the monetary value of the PPP project benefits and costs over a 27-year horizon. We used the benefits and costs included in the FOMILENIO II-commissioned feasibility study for the cargo terminal PPP.[23] The main benefits of the expansion of the cargo terminal are the additional revenues linked to increasing the

[23] The 20-year timeframe from the feasibility study differs from the actual implementation timeline. The GoES awarded the expansion and management of the cargo terminal to ADIMEX for a period of 15 years with the option to execute a second phase that would last 20 years. We used the estimated benefits and costs from this study because the basic assumption regarding sources of benefits and costs are the same.

capacity of the cargo terminal to manage and store merchandise, as well as from other services such as the lease of terminal space. We net out costs of operations and maintenance, described in the subsequent section.

A key benefit of the PPP Sub-Activity is the capacity that the GoES acquired to structure, implement, and oversee PPP projects. Estimates of capacity strengthening benefits rely on wage and income data because it is assumed that enhanced skills would lead to increased income. However, government officials who participated in training have their own salary structure as public servants. Moreover, PROESA's dissolution makes the existence of economic benefits from capacity strengthening support less likely to materialize.

Table VII.3. PPP expected benefits (millions)

	Benefits from the operation of the cargo terminal			
	Cargo fees	Storage fees	Other services fees	Total
2016-2022	$0	$0	$0	$0
2023-2032	$28,971,240	$27,956,170	$17,787,320	$74,714,730
2033-2042	$49,218,532	$41,280,473	$22,518,756	$113,017,761
Total undiscounted				**$187,732,491**
Total present value (discounted to 2016)				**$43,609,191.57**

Source: Authors' estimates using data from the expansion of the cargo terminal feasibility study, 2016.

2. Costs associated with PPP

Table VII.4 presents the estimated costs by year and category. During the Compact period, direct project costs consist of the actual cost of implementing the PPP Sub-Activity. We also include MCC administrative costs and the administrative and operating costs of the PPP cargo terminal.

Table VII.4. PPP expected costs (millions)

	MCC administrative costs	Direct costs	PPP operating costs	Total costs
2016	$96,800	$440,000		$4,423,840
2017	$430,760	$1,958,000		$3,528,938
2018	$517,880	$2,354,000		$1,775,041
2019	$261,360	$1,188,000		$1,784,257
2020	$261,360	$1,188,000		$1,573,677
2021	$193,600	$880,000		$1,073,600
2022–2051			$123,190,878	
Total costs (undiscounted)				**$132,960,638**
Total present value (discounted to 2016)				**$34,205,729.98**

Sources: FOMILENIO II and MCC administrative records.

3. Comparing benefits and costs

We used the estimates benefits and costs to compute three different cost-benefit measures:

1. The net present value of RIA, defined as the discounted sum of net benefits (benefits minus costs) in each period, is **$1,834,924.20.**
2. The benefit-cost ratio, defined as the ratio of the present value of the benefits and the present value of the costs is **1.3.**
3. The ERR, defined as the interest rate at which the net present value is equal to zero, is **11.4 percent.**

PPP's estimated rate of return of 11.2 percent is above the 10 percent rate MCC requires to consider projects cost-effective.

D. ERR for ESIC

The goal of ESIC was to leverage private investment through public investments and fund high-priority public projects that support the tradable sector. The ESIC ToC envisioned that public goods or services provided under ESIC would generate lower operating costs for firms whose proposals were approved, thus enabling them to make desired capital improvements.

1. Expected benefits of ESIC Sub-Activity

We conducted a cost-benefit analysis of ESIC to assess the extent to which the expected benefits were commensurate with its costs. Specifically, we estimated the monetary value of the project's benefits and costs over a 29-year horizon and then estimated the Sub-Activity's ERR. We departed from MCC's standard 20-year horizon because we based our estimated benefits of public investments on the expected internal ERR over the 20-year period in which public projects are operating. As of March 2023, five (of seven) projects were not yet operating but expected to start in 2024; we used the period 2016–2044 for the analysis. The expected benefits of ESIC are the $6 million in private investment catalyzed by the Sub-Activity, as reported by participating firms (Table VII.5).[24]

The other source of expected benefits was the overall economic benefits of the public investments for ESIC firms, nearby firms that did not formally participate in ESIC, and local communities that undertook investment projects. The benefits from public investments include the economic value of (1) the reduced cost of trips, (2) savings on time for crossing the border, (3) more tourism, (4) more availability of water, and (5) less infectious diseases. We used the internal ERR of each project to estimate the expected benefits.

[24] In 2023, we contacted firms to document additional investments that could materialize when the public investments are operating. However, most of the representatives who replied to our request noted that because the project investment is not likely to affect their operations, future investments could not be linked to ESIC.

Table VII.5. ESIC expected benefits (millions)

	Leveraged investment	Benefits from public investments	Total
2016–2017	$0	$0	$0
2018	$1,500,000	$0	$1,500,000
2019	$1,500,000	$958,627	$2,458,627
2020	$1,500,000	$974,927	$2,474,927
2021	$1,500,000	$663,705	$2,163,705
2022		$267,872	$267,872
2023-2044		$431,433,134	$431,433,134
Total (undiscounted)	**$6,000,000**	**$434,298,265**	**$440,298,265**
Total present value (discounted to 2016)			**$84,860,317**

Sources: Economic assessments of ESIC projects and FOMILENIO II records.

2. Costs associated with ESIC

Table VII.6 presents the estimated costs by year and category. We included MCC administrative costs during the Compact period. We also included the initial investment for the expansion of the cargo terminal, as well as the operation and maintenance costs.

Table VII.6. ESIC expected costs (millions)

	MCC administrative costs	Initial investment	Operation and maintenance	Total costs
2016	$1,176,842	$0	$0	$1,176,842
2017	$1,449,429	$0	$0	$1,449,429
2018	$462,382	$2,439,831	$0	$2,960,613
2019	$217,964	$5,095,062	$0	$5,313,025
2020	$241,926	$12,885,198	$0	$13,127,125
2021	$834,419	$52,232,285	$49,081	$53,115,784
2022		$26,094,536	$360,055	$26,454,591
2023		$5,395,738	$49,081	$5,444,819
2024-2044			$29,585,533	$29,585,533
Total (undiscounted)				**$138,627,761**
Total present value (discounted to 2016)				**$67,755,598**

Source: MCC records.

3. Comparing benefits and costs

We used the estimated benefits and costs to compute different costs-benefit measures:

1. The net present value of ESIC, defined as the discounted sum of net benefits (benefits minus costs) in each period, is **17,474,249**.
2. The benefit-cost ratio, defined as the ratio of the present value of the benefits and the present value of the costs, is **1.3**.
3. The ERR, defined as the interest rate at which the net present value is equal to zero, is **12.9 percent**.

All ESIC public investments have relatively high economic rates of return; this made ESIC a cost-effective Sub-Activity, regardless of its ability to leverage private investment. ESIC's estimated rate of return of 12.9 percent is above the 10 percent rate MCC requires to consider projects cost-effective. Since five public investments are not yet operational, we present a sensitivity analysis of the effect of further delays in Appendix C.

VIII. Conclusions

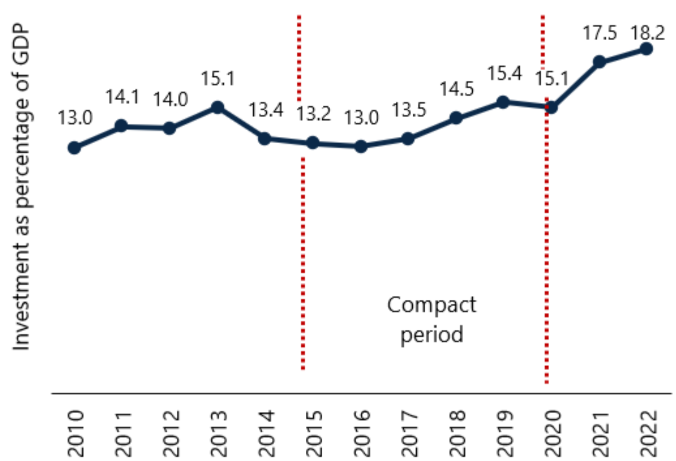
The ICP generated technical capacity among public officials, but only OMR has consolidated this capacity. Several technical OMR staff have worked at the agency for several years and built a strong technical skillset as well as relevant training and communications skills. As such, OMR has accumulated some strong in-house capacity for RI. The PPP Sub-Activity generated strong technical capacity in PPPs among public authorities such as PROESA and MINFIN. However, much of this capacity may be lost in PROESA's recent dissolution. Similarly, the ESIC team at FOMILENIO II did not transition to another public agency and continue core activities of the ESIC model. However, some key members of FOMILENIO II's ESIC team are currently working in somewhat similar roles at the Project Implementation Directorate in the Ministry of Public Works.

ICP facilitated meaningful collaboration between the public and private sector. The implementation of RIA, PPPs, and ESIC brought together public and private sector actors and incentivized them to work together. During the first years of Compact implementation, RIA promoted true dialogue between public and private sectors on regulatory burden. ESIC convened the public and private sectors to prioritize infrastructure investments that would benefit communities at large—and provided private firms with public sector allies at FOMILENIO II. Overall, communication between the private sector and local communities improved because of ICP activities. This was of great benefit to El Salvador where there has been historical distrust among the public and private sectors.

A lack of political support ultimately reduced the impact of PPPs and ESIC. Notably, GoES's decision to move key infrastructure projects in the PPP pipeline to traditional procurement has dealt PPPs a major blow at a critical moment when public capacity is lagging and reforms to the PPP law are needed. For ESIC, GoES had little interest in adopting the model in the post-Compact period, in large part because the government had played only a minor role in the sub-activity during the Compact period.

El Salvador has experienced higher private investment in recent years and regulatory improvements may have contributed. As noted above, qualitative and quantitative sources suggest that OMR played a substantive role in decreasing wait-times for construction permits starting in 2017. In turn, decreased wait-times for construction permits may have contributed to increased private investment from 2017 to 2019 (Figure VIII.1). FUSADES analyses (2022) suggest a relationship between the size of the construction permit backlog and the national private investment rate in El Salvador. However, it is impossible to estimate OMR's direct contribution to national investment rates, given the myriad factors driving private investment.

Figure VIII.1. Private investment as percentage of GDP



Source: World Bank indicators 2010–2022.

Most PPP and ESIC activities ceased in the post-Compact period, but RI activities will likely continue in some form. The future of PPPs in El Salvador is in doubt, given the dissolution of PROESA and the inactive pipeline of projects. Similarly, GoES did not institutionalize ESIC as a tool to prioritize public investments. However, OMR’s legal establishment as an independent, permanent agency in 2019 bodes well for its institutional sustainability. Its designated role in helping authorities implement the RI Law also confers power and responsibility upon OMR, provided the law maintains executive support. However, a substantial risk to OMR’s sustainability is its capacity to fulfill its growing mandate to support municipal-level RI. OMR also faces the risk of playing a marginal role in regulatory improvement by excluding legal reforms from its scope.

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Appendix A:

El Salvador Investment Climate Project Logic Model

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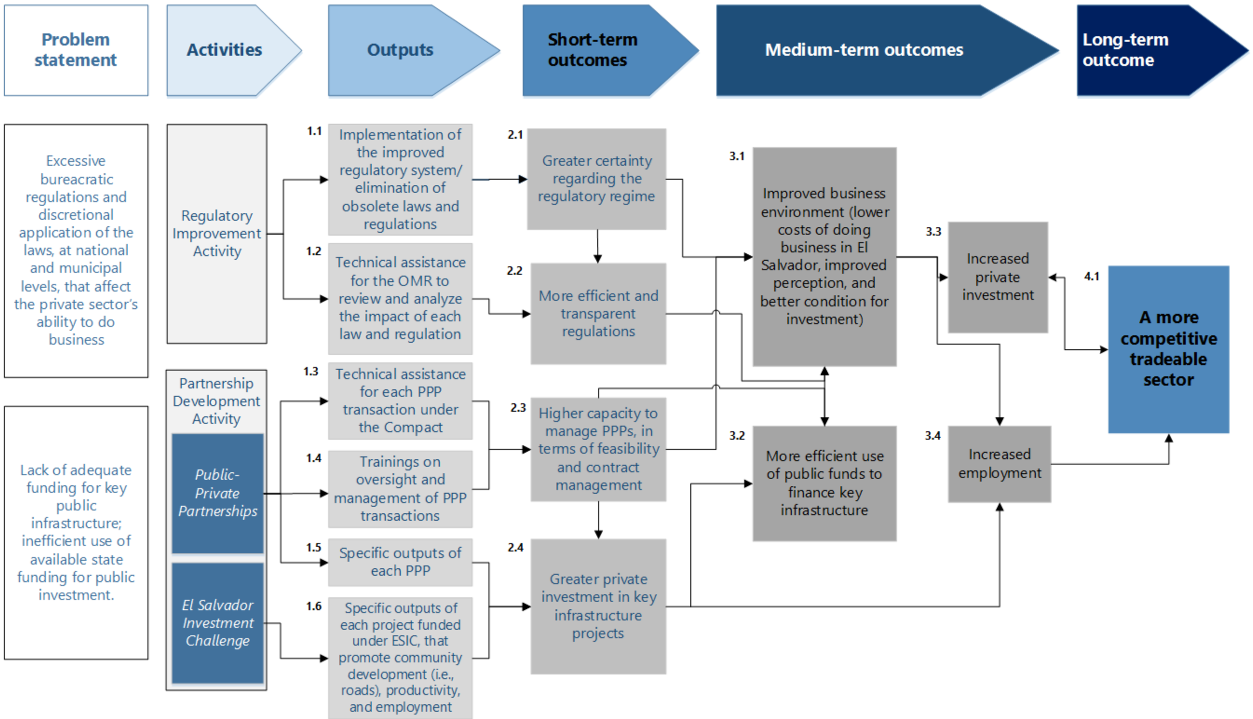
Figure A.1 includes the anticipated outputs and short-, medium-, and long-term outcomes of both activities as depicted by the Millennium Challenge Corporation during Compact development.

Figure A.1. Investment Climate Project Logic Model



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Appendix B:

Public–Private Partnership Activities’ Research Questions

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Table B.1. Evaluation questions for the Regulatory Improvement Activity evaluation

Key research questions	Answers in the reports		
	First	Second	Final
RQ1. Did OMR trainings and technical support effectively help institutions conduct regulatory impact assessments?		X	
RQ2. Were the recommendations and tools for regulatory improvement prepared with the support of OMR adopted and meaningfully implemented by the relevant GoES entities? Why or why not?		X	
RQ3. What were the major barriers and facilitators to spurring these entities to adopt and implement the four tools of regulatory improvement and OMR's proposal(s)? How did OMR respond to the challenges?		X	X
RQ4. How successful was OMR in supporting the GoES institutions' adoption of regulatory improvement principles and methodologies?		X	X
RQ5. How was the SMR conceived, developed, and implemented? What challenges and opportunities did stakeholders face in designing and implementing the SMR? Why and how were important decisions made with respect to the design or implementation of the SMR?	X		
RQ6. Was the RNT successfully set up with the appropriate organizational and institutional structure, technological support, user accessibility, operational procedures, and required information to achieve the objectives of transparency and legal certainty?		X	X
RQ7. What were the key political, institutional, and organizational challenges and opportunities in establishing the RNT? To what extent were they successfully handled? To what extent and how did they affect the design, scope, scale, or end effectiveness of the RNT?		X	
RQ8. Did GoES entities develop the required capabilities to design and implement their own proposals for regulatory reform and simplification? Did GoES develop the required capabilities to conduct their own regulatory impact assessments?		X	X
RQ9. To what extent is a culture of regulatory improvement taking root within the GoES as a result of efforts to communicate and implement the SMR? What are major challenges and facilitators to inculcating this culture—operationally, politically, and culturally—and how did stakeholders address them?		X	X
RQ10. Did the implemented reforms or changes materially reduce the administrative and regulatory compliance costs or response times for issuing permits or licenses to firms in the tradeable sectors?		X	X
RQ11. Did the reforms lead to unforeseen costs or adverse impacts for other businesses, government efficiency or processes, social groups of interest, environment, or other?		X	
RQ12. How did the COVID-19 pandemic affect the implementation, effects, and potential sustainability of RIA investments and activities?		X	
RQ13. Does OMR have an appropriate structure, position, and resources necessary to act as a strong coordinator and facilitator of the SMR?		X	X
RQ14. Does the SMR have the necessary structure, governance, incentives, technical capabilities, controls, checks and balances, and resources that are necessary to sustain it in the long run?		X	

Table B.2. Evaluation questions for PPP evaluation

Key evaluation questions	Answers in the reports		
	First	Second	Final
RQ1. Did the GoG/GoES follow the PPP law in developing PPP projects? [If feasible] In managing PPP projects?		X	X
RQ2. What role did political and institutional contexts play in implementing PPPs in both countries?		X	X
RQ3. How did the COVID-19 pandemic affect the implementation, effects, and potential sustainability of MCC-funded PPP investments and activities?		X	
RQ4. How well was the ex-ante CBA done for each PPP? How good was the PPP's financial model and business case, including the demand study and the ability of the government and users to pay? What was the quality of the government's assessment of PPP costs and benefits from a technical, financial, economic, environmental, social, legal, and political perspective?		X	
RQ5. How good were the MoF's assessment and management of its direct payment and contingent liability obligations arising from the PPP?	X		
[If feasible] How effective were the *concedente* (line ministry that signed the concession) and the regulator in managing and regulating the concession after it was signed?			X
RQ6. Does MCC's three-pillar approach to PPP assistance meet stakeholder needs? Were any pillars more useful than others? How could the three-pillar approach be improved?		X	
RQ7. How did training and coaching outcomes differ between the two countries?		X	
RQ8. To what extent did the project facilitate greater capacity for PPPs within GoES and GoG? How have institutional interactions normalized or been codified to support PPPs?		X	X
RQ9. To what extent has the PPP Sub-Activity resulted (or is it likely to result) in greater private investment in key infrastructure projects?		X	X
RQ10. What cost savings accrue to GoES and GoG through the PPPs?	n.a	n.a	n.a.
RQ11. [If applicable] Were costs savings used for education investments?	n.a.	n.a.	n.a.

Notes: RQ10 and RQ11 only apply to Guatemala's evaluation because its ToC includes that the GoG would have savings from the implementation of PPPs that can be used for education investments.

n.a. = not applicable.

Table B.3. Evaluation questions for ESIC evaluation

Key evaluation questions	Answers in the reports		
	First	Second	Final
RQ1. Are the guidelines and processes outlined in the grant manual appropriate to achieve GoES objectives? Can they be improved? Are the guidelines appropriate to minimize gender discrimination, enhance gender equality, and minimize adverse social and environmental impacts?	X		
RQ2. To what extent has the process for recruiting, reviewing, and selecting proposals from private investors been appropriate, efficient, and effective? Is the grant manual being followed? Does the approval process use clear selection criteria? Were the criteria appropriate to achieve the stated objectives? To what extent do ESIC investments meet GoES needs?	X		
RQ3. Is the fund being managed well, and is it efficient?		X	
RQ4. What types of proposed investments is the fund attracting? Are applicants and participating firms existing investors in El Salvador or new ones? Was there qualified demand for public goods—did enough applicants meet the basic requirements?		X	
RQ5. Do potential investors see ESIC as an appropriate tool to leverage investment? What type of investment is needed for private investment (especially foreign) to be established in the tradeable sector?		X	
RQ6. Was the fund an effective mechanism for allocating public money to higher-return projects? Did it improve GoES decision making? Would GoES have invested in the public good anyway?		X	X
RQ7. How has the investment challenge spurred more private investment in El Salvador? Were private-to-public ratios calculated appropriately? If subsidization is taking place, how could it be avoided in future fund designs?		X	X
RQ8. What type of impact did the total investment (public and private) have on participating firms in terms of employment and business outcomes?		X	X
RQ9. To what extent are the selected investments expected to generate positive environmental and social (employment opportunities for men and women, productive activities at the local level, human capital development, etc.) impacts? How? Are the expected impacts significant? Are they likely to be achieved? To what extent are the investments promoting gender equality? How?		X	X

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Appendix C:

Sensitivity Analysis

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It is important to conduct additional sensitivity checks of the CBA results to the parameters used. Typical sensitivity analyses rely on assumptions to assess the likely distribution of the estimated summary measures, by varying the value of inputs to the CBA.

For RIA, we estimated the economic benefits of RIA assuming that OMR would reduce the costs of procedures by 15 percent, instead of the original goal of 20 percent.

Table C.1. RIA expected benefits assuming a 15 percent decrease in costs of procedures (millions USD)

	Less time spent obtaining constructions permits	Less time spent obtaining an operating license	Decrease the costs of procedures	Total benefits
2016	$542,880	$101,547		$644,427
2017	$1,085,760	$154,992		$1,240,752
2018	$1,083,588	$208,438		$1,292,026
2019	$1,192,164	$261,883		$1,454,048
2020	$1,192,164	$261,883		$1,454,048
2021	$1,192,164	$261,883		$1,454,048
2022	$1,192,164	$261,883		$1,454,048
2023	$1,192,164	$261,883		$1,454,048
2024			$503,610	$503,610
2025			$1,259,024	$1,259,024
2026			$1,762,634	$1,762,634
2027-2035			$31,475,598	$31,475,598
Total undiscounted benefits if				**$45,448,310**
Total present value (discounted to 2016)				**$14,898,164**

Sources: Authors' estimates using data from the Enterprise Surveys 2016 and 2023. Administrative records from OMR and the Ministry of Labor.

We also assumed that partner institutions would use less resources to work on simplifying procedures.

Table C.2. RIA expected costs assuming a 15 percent decrease in costs of procedures (millions USD)

	MCC administrative costs	Direct costs for RIA		Partner institution costs to implement RI tools	Total costs
		FOMILENIO II	OMR		
2016	$1,189,493	$2,300,000			$3,489,493
2017	$60,942	$1,100,000			$1,160,942
2018	$56,923	$1,100,000			$1,156,923
2019	$51,694	$900,000			$951,694
2020	$160,465	$600,000		$62,051	$822,516
2021		$0	$1,300,000	$74,460	$1,374,460
2022		$0	$1,313,000	$424,860	$1,737,860
2023			$1,326,130	$648,240	$1,974,370
2024-2035			$16,986,834	$11,934,610	$28,921,444
Total (undiscounted)					**$41,589,702**
Total present value (discounted to 2016)					**$16,164,165**

In this scenario, the net present value of RIA is negative $1,266,001 and the **ERR is 5.3 percent**.

For ESIC, we estimated the expecting benefits with further delays in the operation of public investments, Particularly, we assumed that the infrastructure projects would start operating in 2026 (see table C.3).

Table C.3. ESIC expected benefits assuming a 2-year additional delay in the operation of public investments (millions)

	Leveraged investment	Benefits from public investments	Total
2016–2017	$0	$0	$0
2018	$1,500,000	$0	$1,500,000
2019	$1,500,000	$958,627	$2,458,627
2020	$1,500,000	$974,927	$2,474,927
2021	$1,500,000	$663,705	$2,163,705
2022		$267,872	$267,872
2023-2046		$431,360,295	$431,360,295
Total (undiscounted)	**$6,000,000**	**$440,225,427**	**$440,225,427**
Total present value (discounted to 2016)			**$80,602,519**

Sources: Economic assessments of ESIC projects and FOMILENIO II records.

We also assumed that a delay in the operation of the public investments would also set back the operation and maintenance costs. Table C.4.

Table C.4. ESIC expected costs assuming a 2-year additional delay in the operation of public investments (millions)

	MCC administrative costs	Initial investment	Operation and maintenance	Total costs
2016	$1,176,842	$0	$0	$1,176,842
2017	$1,449,429	$0	$0	$1,449,429
2018	$462,382	$2,439,831	$0	$2,960,613
2019	$217,964	$5,095,062	$0	$5,313,025
2020	$241,926	$12,885,198	$0	$13,127,125
2021	$834,419	$52,232,285	$49,081	$53,115,784
2022		$26,094,536	$360,055	$25,734,481
2023		$5,395,738	$49,081	$5,444,819
2024-2046			$29,585,533	$29,585,533
Total (undiscounted)				**$137,907,651**
Total present value (discounted to 2016)				**$66,396,587**

In this scenario, the net present value of ESIC is $14,352,620 and the **ERR is 12.4 percent**.

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Appendix D:

Responses to Stakeholder Comments

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Table D.1. Responses to stakeholders comments

Reviewer institution	Page number	Comment	Answer from evaluator
OMR	RE-2 Spanish	Edits to clarify the institutions that adopted the RI tools	Edits accepted and incorporated to the English version
OMR	RE-3 Spanish	Edits suggested related to how the adoption of the RI tools influences creating new regulation	Some of the suggestions where accepted and incorporated to the English version. The findings are based on reports from stakeholders. We can only include information noted by interviewees.
OMR	RE-4 Spanish	Hay que señalar que el OMR ha apoyado estos esfuerzos desde un inicio y se ha proporcionado asistencia técnica continua a estos procesos. Desde la firma del convenio inicial y luego durante el proceso de creación de la DTC	Se incluyó en el texto y en una nota al pie.
OMR	RE-4 Spanish	Las resoluciones de inscripción del RNT gozan de las siguientes características: 1) son públicas y pueden visualizarse por la población en general en el sitio web del OMR: https://omr.gob.sv/category/rnt/ 2) Cuentan con un portal en donde se alojan todos los tramites inscritos y en evaluación, que forma parte del RNT. https://simejora.omr.gob.sv/ Además, el art. 29 de la LMR, establece expresamente que: "Ningún trámite o sus elementos será exigible, si no se encuentra inscrito en el registro, ni deberá aplicarse en forma distinta a como se registró".	Hicimos ediciones al párrafo aclarando que OMR está trabajando para facilitar al público en general el acceso al registro nacional de tramites. Sin embargo, el portal https://simejora.omr.gob.sv/ no estuvo habilitado durante el periodo que cubre el reporte. Adicionalmente, a junio de 2024 el portal no está en funcionamiento.
OMR	RE-4 Spanish	Se agregó un párrafo describiendo el art 29 de la ley de Mejora Regulatoria, sobre la no solicitud de trámites o sus elementos si no se encuentra en el RNT.	No se incorporó el párrafo pues nuestro resultado está enfocado con el objetivo de contar con un inventario de tramites es que los ciudadanos tengan claridad sobre los tramites y requisitos que las instituciones de gobierno puedan solicitar. Por ejemplo, que este en ley no implica que ya sea vinculante. Por ejemplo, las municipalidades han avanzado lentamente en el registro de tramites, no obstante, las instituciones de los gobiernos locales continúan solicitando requisitos y procedimientos a la ciudadanía.

Reviewer institution	Page number	Comment	Answer from evaluator
OMR	RE-5 Spanish	En atención a arts. 15 y 17 LMR. Art. 15 Agenda Regulatoria (Los Sujetos Obligados publicarán el listado de regulaciones que proyectan aprobar, MODIFICAR, suprimir o presentar …) y Art. 17 Evaluación de Impacto Regulatorio (Los Sujetos Obligados deberán realizar una EIR previo a la aprobación de una nueva regulación o la reforma de regulaciones existentes)	Se hicieron modificaciones con relación a la LMR, pero dejamos la información que personal de las instituciones de gobierno reportaron respecto a que las herramientas las están aplicando principalmente para trámites.
OMR	RE-5 Spanish	Si es exigible para reformas, ver LMR: Art. 15 Agenda Regulatoria (Los Sujetos Obligados publicarán el listado de regulaciones que proyectan aprobar, MODIFICAR, suprimir o presentar …) y Art. 17 Evaluación de Impacto Regulatorio (Los Sujetos Obligados deberán realizar una EIR previo a la aprobación de una nueva regulación o la reforma de regulaciones existentes)	Se editó el texto de acuerdo a esta aclaración
MCC	ES-ix	I don't think "RI" is defined before this.	Figure updated
MCC	ES-ix	This is a little misleading, as a number of the construction activities across the Program, including API (ES Investment Challenge or ESIC) went well beyond the extended Compact closure period.	Edited to clarify
Former FOMILENIO II staff	1	This sentence, particularly as a topic sentence, does not seem to flow well for the rest of the paragraph. Since the evaluation only dedicates one page to the Guate PPP (page 37), perhaps this sentence can move to the end of this section and read as the following: "In addition to the evaluation of the PPP, Mathematica was also contracted to compare the MCC PPP investment in Guatemala with that of El Salvador." Or something to that effect.	Thanks for the suggestion. We deleted here and keep the language under Purpose of the final report (next page) related to the evaluation for PPP Activity in Guatemala,
Former FOMILENIO II staff	15	Some or all (17 ministries, 79 autonomous agencies, and six legislative and judicial entities)?	Edited to clarify that is most of government institutions

Reviewer institution	Page number	Comment	Answer from evaluator
Former FOMILENIO II staff	16	Perhaps not in the preview of the evaluation, but one interesting observation has been how the roll of MINEC has changed. The evaluation notes that administrative simplification efforts also fall here as to PPP responsibilities (to the extent that they will ever occur again), this may be due to the vision of MINEC as the conduit for "reactivating the economy" (term used by GoES). It would make for an interesting paragraph.	We did not add information because it might sound speculative. We don't have firsthand information about the nature of the changes MINEC experienced
Former FOMILENIO II staff	17	This is a powerful sentence and suggests using it in the Exec Summary and in the conclusion of this section.	Information included in the Executive summary and the Conclusion
Former FOMILENIO II staff	34	Perhaps comment on the benefit of converting to ADIMEX staff?	We don't have the information regarding benefits of converting to ADIMEX staff compared to staying in CEPA
Former FOMILENIO II staff	37	Perhaps expand on what is meant by sector stakeholders?	Edited for clarification