

Voices on the Border

Millennium Challenge Corporation in El Salvador

The Millennium Challenge Corporation (MCC) is a US Government corporation designed to work with the world's poorest countries to reduce poverty and promote sustainable growth. Founded in 2004 the corporation uses economic incentives to encourage political changes within countries and to reward those with economic freedoms and good governance. Before a country is eligible, the MCC first looks at the countries performance on "independent and transparent" indicators, which are broken down into three categories: 1) ruling justly, 2) investing in people, and 3) economic freedom. Once a country obtains satisfactory results it is eligible for a compact with the MCC.

Background

In 1992 El Salvador signed a Peace Accord that brought to an end a decade of civil conflict that left two-thirds of the population living in poverty and more than 70,000 people dead. During this period, "human capital formation lagged, public investment was deferred, and deterioration of the natural resource base accelerated" (Fact Sheet- El Salvador, www.mcc.gov), especially in the Northern regions of the country. Despite national economic growth in the 1990's, economic and social progress stagnated. One of the main obstacles to progress is unifying the northern territory with the rest of the country so that it can fully participate in the economic activities of the country. The MCC states that this has been a priority for El Salvador, but requires comprehensive development program to do so.

Signing of the Compact

In November of 2006 El Salvador signed a five-year, \$461 million compact with the MCC with the goal of improving the day-to-day lives of Salvadorians. The compact includes funding for strategic investment in education, business, agriculture and most importantly a transportation project that will connect northern El Salvador to the rest of the country. The compact is broken into three main projects: 1) human development, 2) productive development and 2) the transportation development.

Human Development Project (\$95.07 million)

The Human Development Project "supports formal and non-formal education as well as extends the reach of essential services and infrastructure including water and sanitation, electricity and other local infrastructure benefiting poor communities". The program is based on the foundations of other Salvadorian initiatives including the National Education Plan 2021 and the Solidarity Network. The program will partake in two main activities:

- Education and training- both formal training such as secondary and post secondary schooling, as well as practical training for the nation's poor in order to increase employment.
- Community development- making potable water available to 50,000 people; increasing sanitation systems and increasing electrical coverage in the northern region from 70% to 97%; and construction and improvement of community infrastructure (including work on tertiary roads and small bridges) to give 89,000 people greater access to markets, health care, education and employment.

Productive Development Project (\$87.74 million)

This project will work to enable the development of sustainable and profitable businesses; with a primary focus on helping poor farmers grow high-value crops, animal products and forestry. The project will also help micro, small and medium sized business in other fields, including tourism and artisan work. This project is projected to benefit 55,000 people. Additionally the program will support activities that will encourage financial activity in the northern zone.

Transportation Project (\$233.56 million)

The MCC identified this is the most important project within the compact and aims to deal with the northern region's physical isolation from the rest of the country. The project will work to improve roads and is expected to lead to new economic opportunities, decreased travel times to social service delivery points and markets and lower transportation costs. The MCC estimates that this project will benefit over 450,000 people. One of the main

components in this project will be constructing a secondary road (the Northern Transnational Highway) that travels through the northern part of El Salvador and connecting Guatemala to Honduras.

In addition to these programs, the compact also includes \$44.85 million for project administration and monitoring.

Projected Impact

Project	Benefactors	Estimated Benefits
Human Development	454,965	\$116 million
Productive Development	55,000	\$95 million
Transportation	644,109	\$319 million
Total	904,207	\$530 million

Progress (as of September 2009)

- Productive Development Project- The Government reports that 2,500 people have benefited from technical training provided by the program. Additionally over \$1 million in agricultural inputs were delivered to benefactors in the northern zone in June 2009.
- Transportation Project- The first 23km of the Northern Transnational Highway are underway.
- Human Development Project- During her visit to El Salvador, Secretary of State, Hillary Clinton witnessed the signing of the first private-public contract. The \$33 million contract (\$25 million compact funds) with an electricity distribution company is the programs largest to date. Also 50km of new rural electrical lines will be completed in September 2009 as well as the instillation of 450 solar panels in remote regions. In addition, in May 2009 a contract was signed regarding the design of 1,300 km of rural electrification lines.
- Of the 80 infrastructure projects slated to be done, 60 have now been awarded allowing for feasibility studies to be completed and designs finalized to benefit 79,000 people.
- Over 450 scholarships have been awarded for middle, secondary, post-secondary or technical/vocational education
- August 2009 Disbursement to date: \$31,192,781
- Total Contract Commitments: \$140,300,827

El Salvador's Performance on MCC Indicators

Indicator	FY 2009	FY 2008	FY 2007
<i>Ruling Justly</i>			
Political Rights	83%	84%	68%
Civil Liberties	60%	63%	65%
Control of Corruption	80%	78%	52%
Government Effectiveness	63%	50%	42%
Rule of Law	33%	44%	52%
Voice and Accountability	67%	59%	68%
<i>Investing in People</i>			
Immunization Rates	70%	69%	55%
Health Expenditures	67%	50%	52%
Primary Education Expenditures	24%	37%	34%
Girl's Primary Education Completion	38%	28%	21%
Natural Resource Management	21%	21%	21%
<i>Economic Freedom</i>			
Regulatory Quality	87%	75%	81%
Land Rights and Access	43%	46%	43%
Business Start-up	41%	29%	
Trade Policy	86%	62%	92%
Inflation	67%	55%	55%
Fiscal Policy	29%	28%	32%

The percentages shown above show El Salvador's percentile rankings among its income peer group. A countries performance is measured based on the median performance of its group. Percentages that are in red show where El Salvador failed to meet the performance standard.
Data from: <http://www.mcc.gov/mcc/selection/scorecards/index.shtml>