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The World Bank

Report No: NCO0000618

NOTE ON CANCELLED OPERATION REPORT
(IBRD-73430)

ON A

LOAN

IN THE AMOUNT OF US\$85 MILLION

TO THE

REPUBLIC OF EL SALVADOR

FOR AN

EXCELLENCE AND INNOVATION IN SECONDARY EDUCATION (EXITO)
PROJECT

December 4, 2007

Human Development Sector Management Unit
Central America Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

EL SALVADOR CURRENCY UNIT = US\$ 1.00

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CAFTA	Central American Free Trade Agreement
EDUCO	Community-Managed Education Program in Rural Areas (Programa Educativo con Participación de la Comunidad)
FEPADE	Business Foundation for the Educational Development (Fundación Empresarial para el Desarrollo Educativo)
FISDL	Social Investment Fund and Local Development
FUNDASAL	Salvadoran Foundation of Development and Low-Income Housing (Fundación Salvadoreña de Desarrollo y Vivienda Mínima)
GDP	Gross Domestic Product
GOES	Government of El Salvador
IBRD	International Bank for Reconstruction and Development
IDB	Inter American Development Bank
MEGATEC	Gradual Educational Model of Technical and Technologic Learning (Modelo Educativo Gradual de Aprendizaje Técnico y Tecnológico)
MINED	Ministry of Education
NER	Net Enrollment Rate
NGO	Non-Governmental Organization
PAC	Procurement Plan
PAES	Test of Skills and Learning for Secondary Education Graduation (Prueba de Aptitudes y Aprendizajes para Egresados de Educación Media)
PHRD	Special Fund for Policy and Human Resources Development
U A C I	Procurement and Institutional Contracting Unit (Unidad de Adquisiciones y Contrataciones Institucional)

Vice President:	Pamela Cox
Country Director:	Jane Armitage
Sector Director:	Evangelina Javier
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A. Basic Information			
Country:	El Salvador	Project Name:	Excellence and Innovation in Secondary Education (EXITO)
Project ID:	P078993	L/C/TF Number(s):	IBRD-73430
NCO Date:	12/20/2007		
Lending Instrument:	SIL	Borrower:	REPUBLIC OF EL SALVADOR
Original Total Commitment:	USD 85.0M	Disbursed Amount:	USD 0.0M
Environmental Category: B			
Implementing Agencies: Ministry of Education			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	03/07/2005	Effectiveness:	05/29/2007	
Appraisal:	08/24/2005	Closing:	12/31/2011	12/31/2011
Approval:	11/29/2005			

C. Ratings Summary	
Performance Rating by NCO	
Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Satisfactory
Borrower Performance:	Moderately Satisfactory

D. Sector and Theme Codes		
	Original	
Sector Code (as % of total Bank financing)		
Central government administration	20	
Other social services	5	
Secondary education	70	
Tertiary education	5	

Theme Code (Primary/Secondary)		
Decentralization	Secondary	
Education for all	Secondary	
Education for the knowledge economy	Primary	
Improving labor markets	Secondary	
Other social development	Secondary	

E. Bank Staff		
Positions	At NCO	At Approval
Vice President:	Pamela Cox	Pamela Cox
Country Director:	Makhtar Diop	Jane Armitage
Sector Manager:	Eduardo Velez Bustillo	Eduardo Velez Bustillo
Project Team Leader:	Joel E. Reyes	Eduardo Velez Bustillo
NCO Team Leader:	Joel E. Reyes	
NCO Primary Author:	Joel E. Reyes	

F. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/22/2005	Satisfactory	Satisfactory	0.00
2	09/20/2006	Unsatisfactory	Unsatisfactory	0.00
3	03/11/2007	Unsatisfactory	Unsatisfactory	0.00

1. Context, Project Development Objectives, and Design *(drawing from PAD, briefly describe the country and sector background, rationale for Bank assistance, development objectives, components, costs and funding, implementation arrangements, risk analysis, and quality at entry):*

Country Background. Following the 1992 Peace Accords, El Salvador enjoyed several years of rapid economic growth and poverty reduction, which slowed down in the later half of the 1990s. In the XXI century to provide a new impulse to economic growth, the development strategies of El Salvador focused on improving the country's educated labor force, with applicable skills for the competitive and technological world market. During the present decade, the Government began important investments in basic and secondary education, supported by international development agencies, including the World Bank. More recently, the country focused on developing an appropriate program for: 1) expanding access to education, especially at the secondary level where there is currently still an enrollment and completion deficit; (2) ensuring that students from disadvantaged sectors can enroll and excel in school; (3) improving the quality of education at all levels; and (4) strengthening linkages between the education sector and the private sector to guarantee that students have the appropriate skills to succeed in the work place.

Sector Background. The education sector—before the design of the present project which the cancelled loan was to support—was characterized by the following: (i) primary enrollment and years of schooling had increased, but there was still a secondary enrollment and completion deficit, particularly for the poorest 40 percent of the population; (ii) school-to-work transition was limited due to lack of congruence between what was taught in school and the skill mix required in the Salvadorian industries; (iii) traditional modalities of education delivery in the country did not attract poor and working youth, due to rigid schedules, urban-biased location, and lack of demand-side incentives (such as scholarships).

In primary education, innovations—such as community-based education programs like EDUCO (*Programa Educativo con Participación de la Comunidad*), flexible rural primary education modalities (accelerated learning and multigrade classrooms) and public-private alliances for education delivery—yielded positive lessons. In 2006, the net enrollment rate (NER) in primary education was 92 percent (expected to reach 95 percent by 2009) and the primary completion rate reached 81.5 percent. Using international data and controlling for per capita income, El Salvador was clearly outperforming countries with similar per capita incomes by between 10 and 15 percentage points. El Salvador educational innovations have served as models for other countries with similar education challenges, especially in providing equitable educational opportunities for the poor.

Improvement in access to and completion of primary education created pressure on the secondary education cycle to make room for the larger number and more diverse pool of students demanding secondary education. Although the country's transition rate between grade 6 and grade 7 had reached about 95 percent, there was still: (i) persistent drop-out during the lower secondary cycle; (ii) insufficient transition between grade 9 and 10; and (iii) substantial differences in secondary education access, transition and drop-out between urban and rural areas and socio-economic strata. Additionally, a very substantial fraction of students were over-age in secondary school (about 60 percent in each grade), producing a strong disincentive to continue in

school because of opportunity costs which increase with age.¹ In response to greater demand, secondary education enrollment substantially increased (60% net enrollment in 2004), but with low internal efficiency and high inequity. Secondary enrollment deficits persisted in rural areas and among poor youth in the country.

There is also evidence of low quality in secondary education in El Salvador. The percentage of students reaching “intermediate” achievement on national standardized exams in 2002 was lower in grade 9 than it was in grade 3, particularly in mathematics. Achievement was slightly higher in grade 11 at the secondary education terminal exam (PAES) but averaged “lower intermediate” for both academic and technical streams of secondary schools and in all subject areas. On the 2003 secondary exit exam (PAES) only eight percent of students reached “advanced” markings. If evaluated on a standard curve, the majority of secondary education Salvadorian students would fail.

Rationale for Bank Assistance

Since the Peace Accords of 1992, the Bank has been a key partner in the education sector of El Salvador. Through technical assistance, investment sector loans, and adjustment programmatic loans, the Bank has accompanied El Salvador for more than a decade, during which time major improvements in the sector have been evident. El Salvador innovated through worldwide renowned programs such as EDUCO (community-based managed schools), pertinent rural education pedagogical methods (multigrade and accelerated learning), improved teacher education and training strategies, and highly efficient management improvements of the sector.

Most recently, the Government requested Bank assistance to increase, in the large population segment of youth in the country, the acquisition of skills necessary to support innovative, technological development. Thus, the Bank supported El Salvador in conducting diagnostic studies² to broaden the equitable coverage and improve the quality of secondary education. The studies concluded that a population with full secondary education is important to boost national competitiveness and GDP in an increasingly technological world.³ Also, it was determined that demand for educated workers was only likely to increase with the CAFTA (Central American Free Trade Agreement) because of reforms to liberalize trade regimes, encourage foreign direct investment, and facilitate licensing of technologies.

El Salvador considered that the Bank had comparative advantage in diagnostic work, design, and technical know-how in the following areas: (i) technical and technological education, (ii) school-to-work transition, and (iii) flexible education delivery modalities for working and poor youth. El Salvador, thus, requested Bank assistance to respond to the strong rise in the demand for individuals with advanced skills in the country. The Bank became a key ally of the Government of El Salvador and the Ministry of Education to provide technical assistance and access to

¹ The evidence on El Salvador indicates a sharply increasing drop-out rate from the age of 14 (The World Bank, 2005, Central American Strategy Paper).

² The World Bank’s Central American Strategy Paper (2005), the El Salvador Country Economic Memorandum (2003), Country Assistance Strategy (2005), Poverty Assessment (2004), and Ricardo Hausmann’s, *A National Development Agenda for El Salvador* (2003).

³ See Fuller and Holsinger (1993), The World Bank (2003), and The World Bank (2005).

international networks of knowledge to design an innovative secondary education program. The Bank's assistance focused on strategies to increase the skills needed to support competitiveness and economic growth, and to correct the poor quality of schooling and limited enrollment in and completion of secondary education (and therefore also access to tertiary)—especially for poor, working and/or rural youth.

Development Objective and Key Indicators of the Excellence and Innovation of Secondary Education Project

The Project's development objective was to increase equitable opportunities for young people to complete their secondary education with high quality general and/or relevant specialized competencies. As such, appropriate key indicators included: (i) increase secondary school (grades 7-11/12) enrollment and completion, particularly for the most disadvantaged socio-economic groups; (ii) increase the percentage of secondary students scoring at the intermediate or advanced level on the grade 9 and PAES exams; and (iii) increase the proportion of technical education graduates who continue into tertiary.

The targeted regional areas of intervention would include regions: (i) with low socio-economic and education indicators, and (ii) targeted for key economic sector development of the country, such as ports (air and marine), tourism, and agro-industry. Monitoring and evaluation systems would provide information on interventions and beneficiaries decoding by income, gender, and sector (rural vs. urban).

Components

Component 1: Quality, Relevance and Competitiveness of Secondary Education (US\$ 43.5 million). This component would promote high-quality relevant secondary education by supporting measures to improve learning in core subjects, teaching-learning environments, and the relevance of technical education through stronger linkages with tertiary education and the private sector.

Sub-component 1A: Learning in Core Subjects

Its main goal was to improve quality and relevance of secondary education by improving learning in five key areas (Spanish, math, science, social science, and English). Ensuring high learning levels in core subjects is the basis for improving the productivity and competitiveness prospects of the country. Student learning was to be improved by developing basic competencies and targeting low achievers. Methodological guides, teacher training and an update of the study plans of pre-service teacher education would support the application of competencies. Additionally, part of this sub-component would improve the English language communication skills of youth completing secondary school by strengthening teaching and learning of English in public schools and offering English instruction as an extracurricular course for secondary students. Finally, this sub-component would also target those students who are academically behind, as measured by very poor scores in the PAES and grade 9 exams, and the disabled (students with special needs), by developing special academic reinforcement programs in schools.

Sub-component 1B: Relevance of Technical Education

It would improve the relevance of technical secondary education, integrating it with tertiary technological education. This reform would be supported by the development of three regionally-based, technical-technological networks. These networks would include technical institutes, technological institutes and, when possible, universities offering technical careers, such as engineering, integrated from both the curricular and physical resources perspective. They would

be developed in three regional development poles in the country (Comalapa, Zona Norte and Sonsonate), as determined by the new National Development Plan (Plan de Nación). Key to the implementation of these networks would be a competency-based reform, a rationalization of the supply of technical tracks, teacher professional development, and the targeted expansion and equipping of the network hubs for the benefit of the whole network. These networks would also allow for higher levels of integration of technical education with the labor market and professional training, to some extent, laying the basis for a life-long learning framework.

Sub-component 1C: Technology for learning

This sub-component would improve the quality and relevance of secondary education by improving the population's comfort with and mastery of information technology (computers and connectivity). The effective use of Information Communication Technologies (ICTs) can potentially have the greatest impact on the following skills: critical thinking, collaboration, team work, information reasoning, information literacy, and cultural awareness. The sub-component would provide new technology labs in secondary schools (including infrastructure improvement when needed, computers and audiovisual equipment), while putting in place a coherent use policy, which ensures integration with the curriculum, appropriate examinations that test the skills/knowledge that are expected to be developed, adequate training of teachers and students and the incentives for the teachers and students to effectively use the investment.

Sub-component 1D: Schools' environment for learning

This sub-component would improve the quality and relevance of secondary education by improving the teaching-learning environment in poor marginalized schools through an improvement of the social environment. El Salvador has unique challenges present in marginalized, urban secondary schools where poverty, violence, poor infrastructure and services, and insecurity make it difficult for students to learn, teachers to teach, and schools to function at their highest capacity. This sub-component would strengthen the social environment in poor, urban secondary schools with violence problems and gang-related activity by supporting the prevention measures for at-risk behavior, through training in conflict resolution, and promoting a sense of participation and solidarity, through the design and implementation of school youth projects and the creation of student brigades (co-ed type of boy/girl scouts).

Component 2: Broad-Based Coverage (US\$36 million)

This component would promote broad-based coverage in secondary education by supporting three key strategies: (a) the development of flexible delivery models; (b) the development of a new demand-side subsidy scheme; and (c), where needed, the expansion and rehabilitation of public infrastructure. The bulk of the secondary coverage gap in El Salvador is in the bottom 40 income percentile and in the rural areas; and the drop-out increases massively from the age of 14.

Sub-component 2A: Flexible Delivery Models

Flexible modalities are a promising means of providing relevant, quality schooling to disadvantaged groups. This subcomponent sought to expand secondary education coverage in a broad-based way by developing flexible delivery modalities, including accelerated, semi-distance and distance education modalities, for youth who did not complete, or are at risk of not completing, secondary education. Flexible delivery models have proven to be a promising means of providing relevant, quality schooling to rural, lower/lower-middle income, and over-age students. All modalities would be available for both lower and upper secondary education, have specific target populations and prioritize geographic areas with worse than average education indicators and better than average labor market prospects for secondary graduates. All three modalities would be implemented through accredited agencies, as part of the contracting-out strategy of the MINED. To ensure quality, the institutions would go through a thorough

accreditation process (see sub-component III.A) and all the programs would be based on the same general competencies as the traditional programs and be subject to the same tests in grades 9 and 11.

Sub-component 2B: Demand side scheme

This sub-component aimed at expanding secondary education coverage by developing a demand-side scheme for lower-income students. Lower-income families face higher direct and opportunity costs of schooling, as well as lower rates of return. El Salvador already had experience with demand-side interventions and the present scheme would build on this experience. This subcomponent would provide yearly grants to support secondary completion for youth from the bottom two income quintiles. Students would need to be in school and some minimum academic performance criteria would be applied. Alternative options were analyzed, including using electricity bills as main targeting criteria, since the amount of electricity used is highly correlated with income, and electricity bills are easy to monitor. In case of excess demand of eligible students, a lottery would help select the beneficiary students. Students would have the choice between public and private schools, which have been previously selected according to strict quality criteria and space availability. Grants would be available starting in grades 7 and 10 and would cover the main private direct costs. To ensure sustainability, a mixed public-private fund would be set-up. Finally, a monitoring and evaluation scheme would also be set up to monitor student and school performance in time and an impact evaluation of the grant scheme undertaken.

Sub-component 2C: Expansion of Infrastructure

Although lack of infrastructure is not the main cause for low secondary enrollment in the country, it is still an issue in upper secondary education, as also indicated by a sharper transition rate between grade 9 and 10. While there is more supply in urban than rural areas, classrooms are often over-crowded (over 45 pupils per classroom) in urban and marginal-urban schools requiring urgent attention as well. This sub-component aimed to increase secondary education coverage by expanding and improving the infrastructure and equipping formal, public general and technical secondary schools. This approach assumes it is more cost-effective to address the supply shortage in rural areas through distance education programs and migration to urban areas.

Component 3: Management and Evaluation for Effectiveness (US\$ 13.6 millions)

This component would enhance the effectiveness of all the project's interventions by developing solid evaluation, certification and accreditation systems, and by improving school management and decentralization.

Sub-component 3A: Evaluation and accreditation for effectiveness

This sub-component would maximize the effectiveness of the interventions of the project by developing solid monitoring, evaluation, certification and accreditation systems. Most of the interventions of the project required a strong evaluation and monitoring system to ensure that they achieve their objectives. Additionally, some of them relied on strong accreditation processes to be carried-out effectively; while others relied on teacher quality, which is closely related to teacher performance evaluation and certification.

Monitoring and evaluation: The monitoring and evaluation system of El Salvador is already fairly advanced (Annexes 3 and 4 of the PAD detail the characteristics of this system), although there are persistent key weaknesses, such as limitations in the extension, completeness and relevance of external evaluation, the lack of continuity in elaborating and monitoring key indicators, and the insufficient dissemination and operational use of the information. The project would strengthen the country's monitoring and evaluation system by improving the assessment of academic skills

(details are provided in Annex 4) and developing a new institutional set-up for monitoring and evaluation to ensure better coordination, continuity of monitoring and dissemination of results

Accreditation of institutions: The country still needed to develop an effective accreditation system for private and non-profit institutions (schools, NGOs, other institutions) to ensure high quality standards. The project would help the country set up an effective policy and institutional framework for accreditation of institutions.

Teacher evaluation and certification: Finally, the country also needed to improve its system of teacher performance evaluation and certification. The project would support more continuous teacher performance evaluation by helping define clear performance profiles and standards on which to base solid performance evaluation, which would make it possible to certify in-service training and reward actual classroom performance. It would also support an adequate institutional framework for certification, which may involve the creation of a new external agency, specialized in both accreditation (see above) and certification.

Sub-component 3B: Management and decentralization for effectiveness

This sub-component would enhance the effectiveness of the project's interventions by improving school management and decentralization. The 2001 analysis on the determinants of the PAES results indicated that school management is related to secondary education academic results, with strong evidence for the variables measuring directors' leadership and school autonomy. These variables have a positive impact on academic achievement by improving teacher effort and commitment, school and classroom environment, and the availability and use of teaching-learning materials, that is by strengthening most of the interventions of Component I. Additionally, management and, particularly, autonomy, could help expand coverage in difficult to reach areas, therefore strengthening the impact of the interventions of Component II. Effective management and decentralization in secondary education would require a mix of interventions aimed at: (a) helping directors develop their leadership skills; (b) strengthening school councils to allow them to manage more effectively their education budgets and implement successfully their yearly education plan; (c) providing better tools for quality control; and, (d) when needed, deepening school autonomy.

Implementation arrangements

The Implementation arrangements for the EXITO Project were developed with a focus on three key principles: (i) consolidated MINED institutionalized project implementation; (ii) promotion of strategic alliances for increased capacity, and (iii) results-based management (including emphasis on targeting, monitoring and evaluation). The project implementation period was defined for five years.

Consolidated Institutionalized Project Implementation:

MINED had continuously managed IBRD and IDB-financed projects over the last 15 years (with no need for a Project Coordination Unit - PCU). During this period, a key goal was to gradually institutionalize the implementation of externally financed projects within its line departments (rather than with a parallel PCU). Thus, the EXITO Project was to be managed within the line departments, divisions, and chief units ("jefaturas") of MINED. During project preparation, an "Institutional Analysis" and an "Institutional Capacity Feasibility Study" was prepared as evidence of MINED's existing capacity.

Promotion of Strategic Alliances

As part of the Project implementation arrangements, MINED sought to institutionalize its to-date successful work with other education institutional actors: Education Foundations, Universities, NGOs, and other education specialized institutions. For example, in training and development, MINED had worked with FEPADE (*Fundación Empresarial para el Desarrollo Educativo*); in research and analytical work, with FUSADES (*Fundación para el Desarrollo Económico y Social*); in standardized testing and other technical and pedagogical support with UCA (*Universidad Centroamerica Jose Simeon Cañas*); and in infrastructure construction, rehabilitation and expansion with FISDL, HABITAT, FUNDASAL and others.

Results-based Management

Project implementation (diagnosis, strategic planning, implementation, monitoring and evaluation) included specific guidelines, procedures, instruments and resources to guarantee the quality of targeting, accreditation, monitoring and evaluation, as well as participation of stakeholders across the education sector (central, regional, community and school).

Critical risks and possible controversial aspects

Potential Risks	Mitigation/Actions
Fiscal space is tight in El Salvador, which could cause delays in counterpart funding.	The Ministry and the GOES are highly committed to the Plan 2021 and the education sector reform. The Plan 2021 includes provisions for increased education spending.
The Ministry will be charged with preparation and implementation of the proposed project without any separate PCU to fortify the effort.	The Ministry has strengthened its capacity to prepare and implement the project through the use of targeted studies and training of personnel supported by a PHRD grant.
As evidenced through the implementation of the on-going projects, the Ministry has weak capacity in the areas of procurement and financial management which has delayed implementation and slowed the pace of disbursements, leading to multiple extensions to the closing date.	Procurement and financial management have improved and are now considered satisfactory. Close technical support and provision of training in procurement and financial management as needed.
The Ministry will have to coordinate several co-executing agencies.	UACI would be expected to move towards strengthening its competencies in supervision of the Annual Procurement Plans (PACs) that executing agencies would be conducting, and in ex-post review activities of procurement conducted by the latter.
There may be potential opposition from stakeholders (teachers' union) in relationship to scholarships for public and private school attendance as well as the expansion of EDUCO schools. Teachers at EDUCO schools are not part of the union.	There is strong parental and community support for both EDUCO schools and the provision of scholarships to needy families whether for public or private school places. The union has been part of the consultation process and continues to be.
As evidenced through the history of the previous projects, the delay can be long between board approval and effectiveness. A divided Congress can delay project effectiveness.	There is strong political support for this project, which should facilitate congressional approval. Permanent dialogue and alliance building with key stakeholders should ensure broad-based support for this operation.

Quality at Entry

The quality of the sector diagnosis, objectives, indicators, feasibility studies, design, and implementation arrangements are considered satisfactory, through the work of the Ministry of

Education and the support of the Bank. The preparation of the EXITO Project was done as part of a Long-Term Education Plan, which built in the lessons learned of the first 10-year Education Development Program of El Salvador (1995-2005). The Plan 2021, as the new education plan is now called, defined innovative, pertinent and strategic improvements in the education sector from 2005-2021. An integrated diagnostic work of studies carried by the country and other development agencies, including the Bank, provided a clear picture of areas of success and priorities for future development for the country's education.

The original design for the secondary education program benefited from high-quality feasibility studies (pedagogical, social, economic, financial, etc.) and from wide stakeholder consultations and support for the education program, including from the opposition parties and teacher unions in the country. In line with increased technical assistance from the Bank in impact evaluation, the monitoring and evaluation systems—for both the Long Term Plan 2021 and the Project—included specific counterfactual designs and pertinent impact and process indicators.

The analysis of external and internal risks was also comprehensive, and considered the risk of delays in effectiveness based on previous experience with long Congressional debate—after which the loans eventually became effective. The original assessed risk of division in the National Assembly was followed by the identification and implementation of mitigation strategies. An information, consultation and outreach plan to members of the National Assembly was designed and implemented by the Government and through several Bank follow up missions. Nonetheless, the Bank underestimated the risk of “lack of consensus” and “extreme political polarization” which led to the possibility that the loan would never become effective. Unfortunately, after the 2006 mid-term congressional elections (and after the CAS and project loan had been prepared and assessed), the political polarization increased to previously unexpected high levels, with the result of congressional gridlock in many issues of the legislative agenda, including external loan financing.

As will be detailed below, even within the new complex political environment, the Bank and the Ministry of Education continued to be proactive in redefining their risk assessment and mitigation strategies, especially when the non-ratification of the EXITO loan was imminent. The impact of this proactive planning was that the secondary education components, originally included in the EXITO Project, are nonetheless being implemented (with alternative sources of finance) and making progress towards the accomplishment of the Project's original Development Objectives.

2. Post-Approval Experience and Reasons for Cancellation.

(main events leading to cancellation, steps taken to resolve problems, exogenous factors, identification of causes and responsibility if project failed, implications of failure):

The reason for loan cancellation was non-ratification by the National Assembly of the proposed loan for the EXITO Project, within the 18 months after Board Approval. The Bank's Board approved the loan on December 29, 2005 and the Bank terminated the Loan Agreement as of June 15, 2007. This section provides details of how the Bank team correctly identified political polarization as a source of risk for the loan to be ratified and how it deployed all possible mitigation actions; the political environment at the time of CAS and loan processing provided evidence that this risk was manageable. This section also provides information on the implications of loan cancellation, and the Government's efforts to find alternative sources of financing, which today are contributing to the achievement of the Project's original PDOs.

2.1 Political panorama when Country Assistance Strategy was approved and at time of the Education Loan ratification

The Bank CAS for FY05-FY08 period contemplated an expanded lending program, and the education project was one of its priority interventions. When the CAS was approved, the country's political panorama was characterized by a Government that enjoyed sufficient support in the Assembly to get legislation through, including approval of new loans. An evidence of this positive political environment was the first loan delivered by the Bank under the CAS, the DPL1, which was approved and ratified by Congress with no major problems.

In this context, it was reasonable to believe that the political-polarization risk was manageable. Nonetheless, and given early signs of increasing political polarization in the country, the CAS and each individual operation prepared by the Bank identified potential political gridlock as a source of risk to our interventions. For the education loan, specific mitigation strategies for this risk included project information activities with members of the National Assembly, especially from opposition parties. The initial mitigation strategies paid off as the first loan consideration required prior to the signing of the education loan was approved.

Nevertheless, after the mid-term congressional election outcome in March 2006, the polarization increased rapidly and came to its highest point, and subsequently the Government political strength was diminished. This change in the political environment happened prior to the second review of the education loan in the National Assembly (under El Salvador law, a second review is needed for loan effectiveness), which this time required a qualified majority (2/3 of total votes) for approval.

Extreme high levels of political polarization exceeded Bank expectations and seriously limited Government's capacity to reach consensus with a qualified majority in Congress. Negotiations between the executive and legislative in other domestic fronts and national interest issues suffered as well from the political gridlock. As for new international lending, the main opposition party, with 38% of congresspersons, exercised its veto affecting five Bank loans (including the education project) and other multilateral loans for around \$485 million.

The Bank, in harmonization with other multilateral development banks, made all possible efforts (to be detailed below) to help build the consensus in Congress. The open discussion of project merits in economic and social fronts with all political parties had no success, due to the extremely high unexpected level of political gridlock. Without other option, the Government identified alternative funding to support the original education project's PDOs, and the country decision was to not further negotiate and the Bank was forced to cancel the loan after reaching the 18-month effectiveness period.

2.2 Steps take to resolve unexpected problems

As explained in the political panorama section, the risk of political polarization for loan approval was included in the Project Appraisal Document and a proactive plan was prepared with the Government to explain the Project concept and its expected benefits to members of the National Assembly, including those in the opposition. The Ministry of Education and the Bank collected and provided all information needed to clarify the Project's objectives, beneficiaries, equitable criteria and transparent management, among other information. Specific information and documents made available included: (i) audits of previously externally financed projects, (ii) presentation of Implementation Completion Reports, (iii) the presentation of the poverty-

reduction targets of the Project, and (iv) evidence of the community participation processes in favor of rural and poor communities.

As the political polarization continued to increase, beyond original expectations, MINED and the Bank defined and implemented an even more intense Information and Outreach Plan, which included technical, financial, management and stakeholder strategies. Each of these activities is detailed below:

- Technical Inputs:
 - Providing the National Assembly technical analysis on external loans' impact on achieving and accelerating education goals.
- Financial Information:
 - Complying with the National Assembly requests for extended audits of the Education Reform Project by the *Contraloría de Cuentas*.
 - Support MINED's proposal to audit all previous education loans with no major problems identified.
- Top Management Follow Up:
 - Meetings among MINED, members of the National Assembly from the Official and opposition parties, and the WB.
 - Regular in-situ follow up by the World Bank Resident Mission for all IBRD loans with official and opposition parties in the National Assembly.
 - Top World Bank Management missions to El Salvador, including the Regional Vice-president and the Country Director.
 - Bank sponsored workshops with members of the Financial and Budget Commission of the National Assembly prior to loan cancellation (both in Washington and in El Salvador).
- Stakeholders' information:
 - Information to stakeholders on the costs and benefits of the education sector loans, including media information, direct town meetings with project beneficiaries, and National Assembly lobbying by affected communities.

It was expected that this Information and Outreach strategies would support the consensus for approval of the loan by the National Assembly of El Salvador, within 18 month period allowed to effectiveness. Individual members of the National Assembly (from the leading and opposition parties) mentioned their support to the objectives of the education loans; however, once the voting in the National Assembly took place, the positive votes required for approval of the education loan were not enough (the voting was 6 votes short of reaching the 2/3 consensus required for ratification).

As the political stalemate for loan ratification became more imminent, the Ministry of Education and Bank teams identified and began to implement a plan to guarantee that the Education Program to be financed by the loan could start implementation with alternative sources of finance (from other donors and the Government). The Bank also facilitated technical assistance and international know-how to El Salvador in the key areas of Project support: flexible secondary education modalities, English-As-Second Language (ESL) programs, integration between technical and technological education, and At-Risk-Youth support and reduction of violence in schools.

While continuing to work with the National Assembly to obtain the second ratification of the IBRD education loan—as the final 18-month deadline for loan effectiveness was coming to an end—the Ministry of Education began to implement some of the EXITO Project's activities, with

counterpart financing and Bank technical assistance and supervision. The Implementation Supervision Reports (ISRs) for the Project during this phase, included evidence of progress in the monitoring and evaluation indicators for various components, such as the Flexible Secondary Education Modalities (called EDUCAME in El Salvador), the Technical and Technological Integrated Programs (MEGATEC), the School Environment Program (PODER), and the Technology (CONECTATE) and English As Second Language Programs (COMPITE). The monitoring, evaluation and accreditation systems were strengthened and implemented, and the Bank continued to provide technical support to El Salvador in these areas.

As an alternative financing strategy, the Ministry of Education and the Bank began working on a coordination strategy with other bilateral donors in El Salvador. The Secondary Education Program, to be supported by the EXITO Project and the Bank's loan, had become a well structured, substantiated, and well designed national education sector strategy. As such, other donors (JICA, USAID, German Cooperation Agency, Spaniard Cooperation Agency, Luxemburgo Cooperation, UN, and others) were willing to support the secondary education investments originally included in the IBRD loan. Grant funding, which only requires a simple majority vote in El Salvador by the National Assembly, partially supported the initial financing that would have been provided by the IBRD loan.

2.3 Implications of loan cancellation

The loan cancellation has financial, educational and Bank lending implications. Financially, once the withdrawal of the Bank's loan was confirmed, the Government proposed a Plan to sell National Treasury Bonds to finance the key elements of the long term development plan, Plan 2021, including the Secondary Education Program for which external financing had been sought. The US\$200 million dollars that will be available through the internal financing strategy—would guarantee investments to reach the original development objectives of the EXITO Project that was to have been financed by the IBRD loan. The original PDOs to be supported by the loan were also included in programs supported by other education donors, including Japan, Luxembourg, Spain, and the Millennium Challenge Corporation (MCC).. The implications of these decisions include higher costs of domestic funding mechanisms in relation to multilateral loans, as well as unlikely guarantees of replication of large scale donations in the future. However, the Government assessed that the costs of not providing secondary education now to present cohorts of youth were much higher than the costs of the alternative sources of financing identified. Multilateral funding is thus likely to be required in the next CAS period.

As for the education sector implications, the loan withdrawal would not affect the original secondary education development objectives, beneficiaries, and the related economic and social benefits and poverty alleviation goals—given the Government's ability to overcome short-term financing gaps by further mobilizing grants and domestic funding. However, the late start and scaled down of investments (supported by counterpart and donor funds) did and will affect the expected dates of achievement of originally stated PDOs. Especially, the 2008 net enrollment rate target in lower secondary education—which will continue to be monitor within the El Salvador 2005-08 CAS—was reduced from 55% to 53%.

Evidence of steady progress (albeit at a lower pace) is shown by the MINEDUC's monitoring indicators of the innovative secondary education programs originally included in the EXITO Project: (i) flexible and innovative secondary education access for poor, working and rural youth (EDUCAME); (ii) development of innovative programs to integrate technical and technological education (MEGATEC) in the country; (iii) strategies to reduce violence in schools and support at-risk-youth (PODER); and (iv) education and competitiveness programs, such as English-as-

Second Language (COMPITE), technology (CONECTATE) and scholarships connected to productive skills; the tables below show the updated monitoring indicators for each of these programs.

Broad Based Coverage in Secondary Education Expansion of Flexible Secondary Education Modalities (EDUCAME) 2006-2007								
Gender	2006	2007	Total	Total by Grades				
				7	8	9	10	11
Male	1,562	5,424	6,986	192	74	0	1,075	221
Female	2,298	7,979	10,277	236	156	0	1,495	411
Total	3,860	13,403	17,263	428	230	0	2,570	632

Schools Social Environment and Learning for At Risk-Youth (PODER) Students and Teachers Benefited 2006-2007		
Number of Schools	Number of Students	Number of Teachers
40	39,337	

Technology for Learning Incremental Access to Technology and Internet in Schools (CONECTATE) 2004-2006			
Year	Number of Schools	Students with Access	Number of Computers
2004	294	147,000	4,704
2005	360	333,001	6,696
2006	518	403,296	14,534

Improving Learning In Core Subjects English As Second Language Program (COMPITE) Youth Benefited by Level of Education and Municipality 2005-2007		
Level of Education	Number of Youth Benefited	Municipality
Lower Secondary Education	1,105	San Marcos, Santa Tecla, La Union, Metapan
Upper Secondary Education	1,451	San Salvador, San Marcos, Nejapa, Soyapango, Puerto de la Libertad, Juayua, Acajutla, La Union, Conchagua
Post-Secondary Technological	3,150	Santa Tecla, Santa Ana, Zacatecoluca, San Miguel, La Union
“Call Centers” Program	683	
Number of Students in Call Center Program	6,389	

Relevance of Technical Education Technical and Technological Integrated Centers (MEGATEC) Status to Date		
Region	Status	Coverage (No. of Students)
La Union	Initiated in 2006 with a second cohort in 2007 (supported by a grant by the Japanese Government of US\$4.6 million and an additional US\$3.2 of GOES funds.	486
Sonsonate	Building of center initiated in December of 2006	To initiate in school year 2008

Chalatenango	To be supported by the Millenium Challenge Corporation, MCC)	To initiate in school year 2009
Chalatenango	To be supported by ‘Fidecomiso para el Desarrollo Social’ (Government Bonds).	To initiate in school year 2009

Finally, the political gridlock has undercut the lending program and impeded the utilization of financial instruments from the Bank and other multilaterals. To continue to be engaged in the education sector would imply pro-active and innovative non-lending activities. A set of non-lending interventions has been identified and discussed with government authorities and stakeholders. The goal is to facilitate policy discussion and consensus-building on key development topics while providing technical advice and inputs. The proposed work will be closely coordinated with other donors and domestic stakeholders to maximize the impact of focused activities in selected areas.

2.4 Bank Technical Assistance Program for the Social Sectors.

In this new context of Bank-El Salvador development alliance, the Bank has facilitated a technical assistance fund to remain engaged in key social sectors in El Salvador, mainly education and social protection. The Bank will continue to furnish technical support to these programs in three main areas: (i) international knowledge sharing, notably in secondary education reform, labor opportunities and psycho-social support for youth; (ii) design and implementation of impact evaluations for education and conditional cash transfer programs; and (iii) the integration and decentralization of education management systems to improve planning, monitoring and results. Through this interim strategy of support, El Salvador and the Bank will remain engaged as allies to support the country’s development efforts and programs, while continuing to provide El Salvador with access to the Bank’s technical assistance and international know-how.

3. Assessment of Bank Performance

(Lending process/ensuring Quality at Entry, supervision and implementation assistance role, compliance with Bank policies, and justification for rating):

Rating: ***Satisfactory***

The Bank performance is rated satisfactory given: (i) the Bank’s correct identification of political polarization as a source of risk and its mitigation strategies, which was followed by a proactive intensification of risk management when a new unexpected political scenario developed (after the 2006 mid-term Congress elections); (ii) the technical assistance provided to the Ministry of Education in their definition of an innovative, future-focused and pertinent secondary education strategy; (iii) its continued engagement throughout a difficult politically polarized environment; and (iv) its support to the Ministry of Education towards finding alternative sources of financing, technical assistance and other instruments to guarantee the implementation of El Salvador’s secondary education investments, despite withdrawal of the Bank’s loan.

During project preparation, the Government of El Salvador elaborated its Long-Term Education Plan (called Plan 2021) with technical assistance from the Bank’s task team. The Secondary Education Program is an integral part of Plan 2021. During the preparation and implementation of the Information and Outreach Plan to Congress and stakeholders, the Task Team and Bank management displayed not only traditional technical and client orientation skills, but also strong communication, outreach and negotiation skills in a very complex political context.

With imminent signs that the Bank's loan would not be approved by the National Assembly, the Bank's team was again proactive in supporting the Ministry of Education towards the identification of financing vehicles so that the important secondary education investments that were included in the EXITO Project could be implemented. The Bank supported the MINED in its coordination efforts with other donors. Government counterpart funds and donor support allowed for the Plan 2021—and the secondary education components—to start implementation even before the loan was withdrawn. The Bank is defining new strategies to support the country's development efforts, and initially has included in its work program a technical assistance plan and budget for the social sector programs (education and social protection).

4. Assessment of Borrower Performance

(Government and implementing agency performance, compliance with covenants, justification for rating):

Rating: ***Moderately Satisfactory***

Despite lack of loan approval by the National Assembly, the overall performance of the Government, with support of the Ministry of Education, during this difficult period is considered moderately satisfactory. Other cancelled IBRD loans were given an unsatisfactory rating in this criterion in their respective NCOs; however, for the education loan, the performance of the Borrower is considered moderately satisfactory given the additional special effort made to safeguard the original project PDOs and to find and negotiate alternative sources of financing to achieve them.

The performance of the Government, and especially the Ministry of Education, was evaluated based on: (i) the provision of all project and education sector-related information and clarifications requested by the members of the National Assembly; (ii) the Government's efforts to provide counterpart funding to initiate project implementation (as evidenced in the monitoring system indicators); (iii) the process of donor harmonization and coordination which resulted in the identification of bilateral funds to support its Secondary Education Program (approximately US\$20 million); and (iv) the alternative financing strategy, through national funds to guarantee US\$200 million in funding to the Long-Term Education Program of El Salvador, which included the investments to be originally supported by the EXITO Project and loan.

Given the above stated efforts, the present cohort of youth in El Salvador is already receiving the following pertinent, equitable and high quality education services: flexible secondary education (targeted to poor, working, urban marginal and rural youth); competitiveness programs such as English As Second Language and Information Technology; integration of technical and technological education services connected to major economic and business development centers of the country; and programs to reduce youth risks and school violence.

The Government continues to back the Long Term Education Program and is committed to provide quality, pertinent and accessible secondary education to its population, especially the poor. The evidenced policy, financial and operational commitment to the secondary education reforms of the ***Plan 2021*** augurs well for a sustainable and able impact of the Project's originally identified development objectives.

5. Lessons Learned

(Both project-specific and of wide general application)

Lessons learned for reflection and future application in Bank, LAC and Task Team work are grouped in the following topics: (i) growing political polarization affecting multilateral development banks in Latin America, (ii) redefining Bank cooperation strategies and services (in addition to loan financing), (iii) management of project exogenous issues (outside task team control), and (iv) the important role of information and outreach in Bank's work.

Political Polarization in Latin America: One broad lesson learned to reflect on is the changing socio-political environment in Latin America. Latin America is today characterized by an increasingly polarized political environment. The Bank continues to have a role to play in this context; however, it needs to define a strategy to work with clients through out the political and ideological spectrum existent in Latin America today.

El Salvador represents this trend, where two major parties contemplate different approaches to development, and to the role of international assistance (other countries may include Venezuela, Ecuador, Bolivia and Nicaragua, but also client countries such as Costa Rica, Mexico, and Brazil). A major lesson learned through the El Salvador impasse is that the Bank must heed the growing evidence of the changing socio-political environment in Latin America and identify the implications for our services and strategic engagement in the region.

Bank New Role in Countries with Alternative Sources of Financing: Another lesson learned is the high demand of Bank's technical assistance in El Salvador, even with the non-approval of the Bank loan. El Salvador did identify alternative sources of finance for its secondary education program, but still has demanded Bank technical support. It is clear through the El Salvador case that the Bank's know-how, expertise, access to international knowledge and lessons learned did contribute to the design, implementation and monitoring and evaluation readiness and feasibility of a major reform in Secondary Education. Thus, the Bank needs to define more strategically our changing services, independently of loan financing. The Bank's poverty eradication mission can also be served by responding to the growing demands for knowledge sharing and technical support, especially from middle-income countries such as El Salvador.

Task Managing in Highly Political Volatile Contexts: Managing highly political environments is not easy on task teams; it requires varied skills, top management support, alliance building, and knowing the limits of Bank influence. Skills required include not only our traditional sector, economic, social and financial assessments and know-how; it requires as well negotiation strategies, conflict resolution skills, self-management, and alliance building competencies. Bank management understanding of the increasingly complex, ideological and political environment of our work can contribute to improved human resources, monitoring and supervisory support. For example, in the El Salvador case, although delays in project's effectiveness due to political polarization were identified as a critical risk, the political climate in the National Assembly after the 2006 mid-term congressional elections was clearly beyond Bank's capacities to deal with and influence, even with a proactive stance.

Outreach and Communication in Bank Work. Outreach and communication strategies should be implemented in every project. Information, education and communication (IEC) strategies are key risk mitigation components in highly politicized environments. In El Salvador, IEC

strategies were useful in communicating the proposed loan objectives and potential impact to all the political parties and education stakeholders. Although the loan ratification in the National Assembly—given a highly politicized environment—did not materialize, other benefits did result. For example, the Bank’s Task Team created strategic alliances with donors, cooperation agencies and key stakeholders in order to communicate the project’s objectives and create a broader support within the educational community of El Salvador.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Emanuela Di Gropello	Task Team Leader	LCSHE	
Fabiola Altimari Montiel	Counsel	LEGLA	
Ernesto P. Cuadra	Lead Education Specialist	ECSHD	
Angela Demas	Operations Officer	LCSHE	
Emanuela Di Gropello	Senior Human Development Econo	EASHD	
Joseph Paul Formoso	Lead Finance Officer	LOADM	
Claudia Isern	Temporary	LCSHD	
Joel E. Reyes	Sr Institutional Dev. Spec.	LCSHE	
Christopher J. Thomas	Sector Manager	EASHD	
Ilana Umansky	Junior Professional Associate	LCSHE	
Manuel Vargas	Sr Financial Management Specia	LCSFM	
Evelyn Villatoro	Sr Procurement Spec.	LCSPT	
Effectiveness/Supervision/NCO			
Joel E. Reyes	Sr Institutional Dev. Spec.	LCSHE	Team Leader
Keisgner De Jesus Alfaro	Sr Procurement Spec.	LCSPT	
Antonio Leonardo Blasco	Financial Management Specialis	LCSFM	
Juan Luis Cordova Guirola	Consultant	LCCGT	
Natalia Moncada	Program Assistant	LCSHD	
Monica Lehnhoff	Procurement Analyst	LCSPT	
Alberto Pimentel Mata	Consultant	LCCGT	
Luis R. Prada Villalobos	Sr Procurement Spec.	LCSPT	
Manuel Vargas	Sr Financial Management Specia	LCSFM	
Christel M. J. Vermeersch	Economist	LCSHE	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY03	18	64.81
FY04	1	3.03
FY05	32	112.83
FY06	36	124.87
FY07	1	4.05
Total:	88	309.59
Supervision/NCO		
FY03		0.00
FY04		0.00
FY05		0.00
FY06	10	36.03
FY07	20	67.36
Total:	30	103.39

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