



Number 51 / August 2014

COUNTRY ASSESSMENT: EL SALVADOR*

PROYECTO CAPITAL **

CONDITIONAL CASH TRANSFER (CCT) PROGRAMS IN EL SALVADOR

The first conditional cash transfer program in El Salvador, called “Solidarity Network” (“Red Solidaria”), began in 2005. This program targeted only the rural area. In 2009, the program expanded to urban areas in response to the increase in the urban population and levels of urban poverty. Three CCT programs currently operate in El Salvador. They are:

- 1) “Rural Solidarity Communities” (*Comunidades Solidarias Rurales, CSR*): operating since

2009; from 2005 to 2008 it was called “Solidarity Network” (“Red Solidaria”).

- 2) Temporary Income Support Program (*Programa de Apoyo Temporal al Ingreso, PATI*), also known as Urban PATI (*PATI Urbano*), because it has been implemented in urban areas since 2009, or PATI BM, because it has been financed by the World Bank (*Banco Mundial, BM*) for three years, beginning in 2011.
- 3) PATI for people living in one of 11 municipalities affected by Hurricane Ida, called PATI Ida (began operation in 2010 for two and a half years).

* The full text is available at the Proyecto Capital web site: <www.proyectocapital.org>.

** In this document, A Company Consultora reports on the consultancy, **Preparation of Assessment Report – Preparation Phase, Opportunities for Linking a Financial Inclusion Project with Conditional Cash Transfer Programs in El Salvador**. The consultancy was contracted by Fundación Capital, which since 2008, with the Institute of Peruvian Studies (*Instituto de Estudios Peruanos*), has been implementing Proyecto Capital, a regional initiative for Latin America and the Caribbean, sponsored by the Ford Foundation, with the goal of financial inclusion for beneficiaries of conditional cash transfer (CCT) programs.

The following is a summary of Conditional Cash Transfer (CCT) programs, their institutional framework, beneficiary populations, transfer amounts and costs, and conditionalities. For more information, see the corresponding sections.



Table 1: Summary of CCT programs

CCT PROGRAM	INSTITUTIONAL FRAMEWORK	BENEFICIARY POPULATION	SUBSIDY RECEIVED AND TRANSFER COST	CONDITIONALITIES
Rural Solidarity Communities (Comunidades Solidarias Rurales) (called Solidarity Network (<i>Red Solidaria</i>) from 2005 to 2008)	Legal framework: Executive Decree N° 11 (2005); N° 56 (2009); N° 72 (2010) Overseen by: Office of President of El Salvador Coordination and strategic direction: Technical Secretariat of President's Office Implementation: FISDL Financing: IDB and other bilateral and multilateral sources Financial intermediation: Scotiabank Delivery of subsidies: SERSAPROSA	Only families with children under age 5 or a pregnant women who live in one of the 100 municipalities with most extreme poverty	Health subsidy: USD 15 / month, paid bi-monthly. Cost per transfer: USD 1.64	<ul style="list-style-type: none"> - Comply with complete series of vaccinations for children - Attend all weight/height checkups - Attend all prenatal checkups - Attend follow-up and family assistance training - Using subsidy for food for family
		Only families with children between ages 5 and 18 who have not completed sixth grade, who live in one of the 100 municipalities with the most extreme poverty.	Education subsidy: USD 15 / month paid bi-monthly. Cost per transfer: USD 1.64	<ul style="list-style-type: none"> - Registering children for school and ensuring that they attend - Attending follow-up and family assistance training sessions - Using subsidy for food for family and to ensure that children attend school
		Families with children under age 5 or a pregnant woman, or with children between ages 5 and 18 who have not completed sixth grade, who live in one of the 100 municipalities with the most extreme poverty. In 2011: 95,360 beneficiary families and more than 94,000 parents trained	Health and education subsidy: USD 20 / month, paid bi-monthly. Cost per transfer: USD 1.64	<ul style="list-style-type: none"> - All mentioned above for education and health subsidies
Urban PATI (PATI Urbano) (in operation since 2009; current PATI is for three years, beginning in 2011)	Legal framework: Executive Decree N° 56 (2009) and N° 72 (2010) Overseen by: President's Office Coordination and strategic direction: Technical Secretariat of President's Office Implementation: FISDL and VMVDU (infrastructure) Co-implementation: INSAFORP, MTPS Financing: World Bank loan Financial intermediation: FEDECACES Delivery of transfer: SERSAPROSA	Persons over age 16 (priority given to youth between ages 16 and 24 and female heads of households) without formal jobs, who do not study during work hours, and who have lived for at least 6 months in one of 402 to 412 AUPs of the 25 municipalities with highest urban poverty and violence rates according to Urban Poverty Map where program is implemented. Total: 39,600 persons	Transfer: USD 100 per month. Cost per transfer: USD 1.85	<ul style="list-style-type: none"> - Engage in community activities six hours a day, five days a week, for six months. - Participate in an 80-hour (two-week) training course



(Cont. Table 1)

CCT PROGRAM	INSTITUTIONAL FRAMEWORK	BENEFICIARY POPULATION	SUBSIDY RECEIVED AND TRANSFER COST	CONDITIONALITIES
PATI <i>Ida</i> (2.5 years, beginning in November 2010)	<p>Legal framework: Executive Decree N° 56 (2009) & N° 72 (2010)</p> <p>Overseen by: President's Office</p> <p>Coordination & strategic direction: Technical Secretariat of President's Office</p> <p>Implementation: FISDL & VMVDU (infrastructure)</p> <p>Co-implementation: INSAFORP, MTPS</p> <p>Financing: USD 14 million, limited scope grant agreement (USAID)</p> <p>Financial intermediation: Promerica</p> <p>Delivery of transfer: PROVAL</p>	<p>Persons over age 16 (priority given to youth between ages 16 and 24 and female heads of households) without formal employment, who do not study during work hours and who have lived for at least 6 months in one of the 432 Rural Settlements of 11 municipalities affected by Hurricane <i>Ida</i> in November 2009, where the program is implemented.</p> <p>Total: 16,370 persons¹</p>	<p>Transfer: USD 100 per month.</p> <p>Cost per transfer: USD 1.49</p>	<ul style="list-style-type: none"> - Engage in community activities six hours a day, five days a week, for six months. - Participate in an 80-hour (two-week) training course

1/ Also expected to assist an additional 4,575 persons with an extraordinary allocation of USD4.4 million received because of storm E12, which struck El Salvador in October 2011.

Source: Compiled by author based on FISDL, 2011a; FISDL n.d.; STP, 2010.

FINANCIAL SYSTEM IN EL SALVADOR

The financial industry in El Salvador is characterized by the presence and influence of corporate banking backed by foreign capital. The supply of financial services consists of a diversity of stakeholders, including private, public and foreign banks; microfinance institutions (MFIs); cooperative savings and loan associations; workers' banks; and savings and loans.

There are also second-tier institutions, such as ASOMI (an association of 11 MFIs), FEDECACES (a federation of 32 cooperative savings and loan associations), FEDECREDITO (a federation of 48 savings and loans and seven workers' banks) and ALPIMED (which includes eight associations and foundations offering services, including microcredit, to microenterprises and small businesses). Table 2 summarizes the estimated infrastructure of the different types of financial entities, showing that banks have the most infrastructure.

The financial infrastructure of non-bank entities is important because in most cases they are closer to rural communities and the beneficiary population of CCT programs, which significantly helps with financial inclusion.

Table 2. Summary of financial infrastructure, by type of entity, loan portfolio size and number of customers (March 2012)

ENTIDADES	No. OF ENTITIES	POINTS OF SERVICE	No. OF CUSTOMERS	Loan portfolio (in USD mln)
Banks	13	436 offices 692 automated tellers		8.726.80
FEDECREDITO	48	125 offices 85 automated tellers	165.000	822.70
FEDECACES	32	75	50.000	113.00
ASOMI	11	89	100.235	169.70
ALPIMED	8	8	>13.790	>2.87

Source: Compiled by author based on review of the various entities' web sites (reviewed in June 2012).

INNOVATIONS FOR FINANCIAL INCLUSION

Technological innovations for financial inclusion in El Salvador include: (i) Transformation of the Multi-Sector Investment Bank (*Banco Multisectorial de Inversiones*, BMI) into the El Salvador Development Bank (*Banco de Desarrollo de El Salvador*, BANDESAL); (ii) Inter-institutional financial education program offered by BCR-SSF-IGD; (iii) Strategy for expanding FEDECREDITO's coverage and financial education program; (iv) Strategy for expansion of FEDECACES' coverage and financial education program; (v) Financial Inclusion Program of the U.S. Department of the Treasury's Technical Assistance Office and the BCR (OTA-BCR); and (vi) Program of *Banco Agrícola* non-bank agents.

Another initiative related to financial inclusion through MFS is the proposal that the Ministry of the Economy (MINEC) has developed for a computer-based platform that will allow both gas subsidy and CCT payments to be made electronically.

RELATIONSHIP BETWEEN CCT PROGRAMS AND THE FINANCIAL SYSTEM

There is an indirect service provision relationship between CCT programs and the financial system, in which the financial entity is contracted to deliver the subsidies. The contracting is done through a

public bidding process, in which interested financial entities submit their proposals and FISDL chooses the most appropriate one. Currently, the financial entities responsible are PROMERICA for PATI *Ida*, SCOTIABANK for CSR and FEDECACES for PATI Urbano. But although the financial entities are contracted to channel the resources, they play only an intermediary role, because they, in turn, subcontract a security company that specializes in transporting cash and valuables, which takes responsibility for delivering the money (in cash) to the CCT program beneficiaries. Most of the transactions are handled by the company SERSAPROSA (CSR and PATI Urbano) and the rest by the company PROVAL, which delivers the PATI *Ida* transfers.

CONCLUSIONS

The mechanism currently used to channel CCT payments is not considered effective for promoting financial inclusion, because although financial entities are contracted to channel the financial resources, in most cases the financial entity does not have a presence in the process and creates no added value for the population. This mechanism also raises transfer costs, because it works with intermediaries.

Financial inclusion demands interventions at the macro, meso and micro levels. At the macro level, there is a need to develop a legal framework



that is conducive to inclusion that promotes the development of gender-sensitive financial products adapted to the possibilities of the poor population. At the meso level, there is a need for a platform of services that brings financial services close to the target population, and at the micro level, it is necessary to motivate key stakeholders to participate in developing financial education programs and financial products adapted to the possibilities and needs of the poor population.

RECOMMENDATIONS

The current strategy of distributing transfers in cash has security risks and does not encourage a culture of saving, much less financial inclusion. It is recommended that alternatives be sought through partnerships with financial institutions that have the appropriate technical and logistical ability to make transfers to bank accounts or by mobile payment.

The strategy of service to rural beneficiaries of CSR and PATI beneficiaries (most of whom are urban) should be different and adapted to the preferences and needs of each group. The conditions of a CCT program in a rural area (CSR) are very different from those of PATI, in terms of the time frame for receiving money (several years vs. six months, respectively), the amount received (USD 30 to USD 40 bi-monthly, compared to USD 100), conditionalities (school attendance and health checkups, vs. working in a community project and receiving job skills training) and other factors, so the model for approaching the population and encouraging a culture of saving to increase financial inclusion, based on the transfers received, must be differentiated.

In both PC strategies—for rural areas, but even more in the case of urban areas—it is crucial to develop savings products adapted to the needs and abilities of the target population, including offers such as the possibility of saving frequently (including daily or weekly) and in small amounts (from USD

0.10), as for various reasons, it is easier for this population to save USD 0.10 a day than USD 3 a month. In rural areas, especially, savings must be in small amounts; they indicated that they could save between USD 0.25 and USD 10 per month. In urban areas, the amount may be greater (about USD 5 to USD 50 monthly), partly because of the larger amount of the PATI subsidy and because the money is received monthly instead of bimonthly. The occupational training that users receive at the end can spark interest in setting up a business for which working/investment capital is needed; this can be leveraged from the moment people enters the program, to motivate them to save. As a tool for capitalization, savings can be used to invest in the business or to obtain a loan (the savings can serve as backing for the loan if it is in the lending institution). To define the amounts and other conditions of savings products appropriately, we recommend a market study in both urban and rural areas

We recommend mainstreaming gender in all phases of the project, beginning with the program users' participation in the formulation phase and the establishment of organizational structures that allow the women to participate in decision making during implementation and during the monitoring and evaluation process.

The promotion of saving and financial inclusion of CCT program users can be tied to promotion of the small business and microenterprise (MYPE) sector, where access to financial services to invest in microenterprises and small business is crucial for women. PC can also help address some other obstacles that women entrepreneurs encounter, through additional activities provided by the CCT program, such as training and technical assistance in areas where they have encountered obstacles. This would increase the likelihood that the business initiatives would be sustainable.

Potential key stakeholders for *Proyecto Capital* in El Salvador are listed in Table 3, with a brief summary of their current roles and possible intervention as part of the project.

Table 3. Key stakeholders for a financial inclusion program, current intervention and intervention proposed for Proyecto Capital

KEY STAKEHOLDER	LEVEL OF INTERVENTION	INTERVENTION, PROYECTO CAPITAL (PC)
Technical Secretariat of the President's Office	Intervention at macro level; this is where all public policies in the country begin. This is the office that engages in inter-agency coordination and prepares strategic guidelines for programs related to the social policy system (including CCT programs). Responsible for developing mechanisms and technology that avoid exclusion.	Strategic direction and support for approval of PC; ensure that the legal framework is conducive to financial inclusion, with special attention to risks in the process.
Economic-Social Cabinet, sector and inter-state committees	Approve public policies and programs, including CCT programs. The Cabinet is made up of all ministries in the economic and social sector. The Sector Committee decides about areas (municipalities) of intervention. The Inter-State Committee handles interventions in the territory (only for CSU).	Approval of Proyecto Capital for El Salvador
FISDL	Implementing & administrative entity for CCTs.	Implementation & administration of PC, technical guidance.
Municipal Committees	These inter-institutional committees (which include FISDL, MINSAL, MINED, etc.) handle local administration, implementation and monitoring of CCT programs. They know the beneficiary population well and are close to it.	Local coordination and implementation, including logistics. Support with technical and administrative personnel.
Municipal governments	Municipal co-implementation consists of both investment of technical and administrative staff for preparation and implementation of community projects and allocating financial and/or in-kind resources, with amount depending on type of project and resources available in each municipality.	Technical, financial and in-kind support, among other things, for local dissemination of PC, training and support for PATI community projects.
NGOs	Oversee compliance with conditionalities and implement training programs in the case of CSR (contracted by FISDL). Know beneficiary population well and are close to it.	The project could take advantage of the platform of NGOs contracted by FISDL to channel gender-sensitive financial education programs in each CSR zone. To develop this mechanism, it is necessary to have appropriate material and to implement a training plan for NGO personnel, which can later be replicated with the CCT recipient population.
INSAFORP	Entity responsible for training in PATI programs.	Can take charge of social and occupational training. Lacks interest and experience in financial education.
Central Reserve Bank (Banco Central de Reserva)	Has an inter-institutional financial education program with SSF and IGD, which is adapting its strategy. Has a financial inclusion program with SSF, BANDESAL, STP and MINEC, which includes components related to the regulatory framework, public policies, mobile banking, financial education, database and institutional strengthening through sharing of experiences.	Support in providing training on the importance of financial inclusion and in transferring experiences from other countries. Guidance for enhancing the financial education program, adapting the content to the CCT recipient population (mainly women) and identifying appropriate channels for reaching them with education.

(Cont. Table 2)

KEY STAKEHOLDER	LEVEL OF INTERVENTION	INTERVENTION, PROYECTO CAPITAL (PC)
Office of Superintendent of Financial System <i>Superintendencia del Sistema Financiero</i>	Development of oversight regulations that do not exclude the poor population. This is part of the inter-institutional financial education program and the financial inclusion program (see BCR above)	Guidance for raising awareness and educating about the importance of financial inclusion and current obstacles to promoting it, from the standpoint of oversight regulations.
FOSEP	Finances all or part of pre-investment studies for economic and social development of the country.	Financial and technical support for studies that can guide PC. Support in identification of investment opportunities for private sector.
MINEC	Developed, facilitates and manages the platform for operation of CCT programs.	Support to FISDL to actively integrate the process and visualize the benefits of the proposed model.
DIGESTYC / MINEC	Conducts the country's Multi-Purpose Household Surveys and Population Censuses.	Support in gathering baseline and ongoing information (integrating indicators in EHPM) for the monitoring and evaluation process.
BANDESAL	As BMI developed instruments to promote financial deepening; has an economic development (specifically for microenterprises and small and mid-size businesses and a guarantee fund.	Second-tier technical and financial support for projects and products developed by the financial system.
FEDECACES	Financial education program and outreach strategy for areas where the CCT recipient population is located, where it already has a major presence. This strategy has facilitated its growth in points of service and in savings.	Technical support to provide continuity to financial education programs and expansion strategies. This is an ideal financial entity for reaching the population with CCTs and linking CCT programs with promotion of savings (because of the number of points of service, the possibility of capturing money, presence in rural areas closest to the CCT recipient population, etc.).
FEDECREDITO	Financial education programs, strategy for expansion of coverage in areas with accentuated poverty. Has extensive presence in areas of CCT program intervention. In the process of implementing own network of ATMs, non-bank agents and mobile banking to facilitate access to savings products for members and customers, with emphasis on low-income population.	Technical support for development of inclusive financial products, including term savings products. Channeling of CCTs and ties to saving.
Financial System in General	Diverse financial entities in the market are authorized to capture and have experience in development of financial products.	Technical support for development of financial products adapted to the possibilities of the CCT recipient population and suppliers of developed products (focusing on saving). Potential banks for PC are: Procredit, Banco Agrícola, BAC, BFA, G&T Continental, Promerica. Another potential stakeholder is <i>Sociedad de Ahorro y Crédito Apoyo Integral</i> , which specializes in microcredit, but which recently was authorized to capture.
Oxfam America & CRS	Have developed effective savings mechanisms for the poor population, specifically with groups of women.	The model can be replicated in CSR's beneficiary population (because of its distance from FIs), through NGOs that support the program in each zone. This savings model can be enhanced by linking financial stakeholders such as FEDECACES and FEDECREDITO.



(Cont. Table 2)

KEY STAKEHOLDER	LEVEL OF INTERVENTION	INTERVENTION, PROYECTO CAPITAL (PC)
Multilateral and Bilateral Cooperation Agencies	<p>UNIDO, UN HABITAT, UNDP, Millennium Development Goals Fund (Spanish government) and USAID support development of MFS system and financial inclusion.</p> <p>WB, IDB and USAID provided financial support for CCT programs.</p> <p>USAID has a program for improving access to employability.</p> <p>German Savings and Loan Foundation for international cooperation with BMZ implements project to strengthen financial education.</p>	Potential co-financers of PC, as well as providers of technical assistance.
Tigo Telephone Company	Provides mobile cash transfer services (called Tigo Money).	One of the key stakeholders for providing infrastructure and technical support if a means of mobile payment is to be included in PC.
Salvadoran Institute for Women's Development (Instituto Salvadoreño para el Desarrollo de la Mujer, ISDEMU)	<p>Designs, directs, implements, advises and ensures compliance with National Policy on Women, promoting integral development of Salvadoran women.</p> <p>Has school/professional education platform aimed at public functionaries.²</p>	<p>Ensuring gender mainstreaming in project formulation and implementation.</p> <p>Support for gender training for public functionaries involved in PC.</p>
Ministry of Education (MINED)	<p>Guides and oversees education programs nationwide. Has a platform of schools, teachers and technical staff.</p> <p>Is part of the Municipal Coordination Committees (<i>Comités Municipales de Coordinación, CMCs</i>), monitoring conditionalities and training within the context of the CSR.</p>	<p>Its platform could facilitate the preparation of didactic materials appropriate for the target population and for implementation of the financial education component, through a train-the-trainer model, among other things.</p> <p>Offers the potential to include financial and gender education in school curricula to educate the population from childhood.</p>

Source: Compiled by author, based on fieldwork.

²/ Source: www.isdemu.gob.sv

ABBREVIATIONS

ALPIMED *Red para el Desarrollo de la Microempresa de El Salvador* (El Salvador Microenterprise Development Network)

ASOMI *Asociación de Organizaciones de Microfinanzas* (Association of Microfinance Organizations)

ATM Automated Teller Machine

AUP *Asentamientos Urbanos Precarios* (Precarious Urban Neighborhoods)

BAC Banco de América Central

BANDESAL *Banco de Desarrollo de El Salvador* (El Salvador Development Bank)

BCR *Banco Central de Reserva de El Salvador* (Central Reserve Bank of El Salvador)

BMI *Banco Multisectorial de Inversiones* (Multi-Sector Investment Bank)

BMZ *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung* (German Ministry for Economic Cooperation and Development)

CAC *Cooperativas de Ahorro y Crédito* (Savings and Loan Cooperatives)

CTP Conditional Transfer Program

CCTP Conditional Cash Transfer Program

CMC *Comité Municipal de Coordinación* (Municipal Coordination Committee)

CRS Catholic Relief Services

CSR *Comunidades Solidarias Rurales* (Rural Solidarity Communities, conditional cash transfer program)

CSU *Comunidades Solidarias Urbanas* (Urban Solidarity Communities, conditional cash transfer program)

DIGESTYC *Dirección General de Estadística y Censos del MINEC* (MINEC General Office of Statistics and Censuses)

EHPM *Encuestas de Hogares de Propósitos Múltiples* (Multi-Purpose Household Surveys)

FEDECACES *Federación de Asociaciones Cooperativas de Ahorro y Crédito de El Salvador* (Federation of Cooperative Savings and Loan Associations of El Salvador)

FEDECRÉDITO *Federación de Cajas de Crédito y de Bancos de los Trabajadores* (Federation of Savings and Loans and Workers' Banks)

FISDL *Fondo de Inversión Social para el Desarrollo Local* (Social Investment Fund for Local Development)

FOSEP *Fondo Salvadoreño para Estudios de Pre-inversión* (Salvadoran Fund for Pre-Investment Studies)

IDB Inter-American Development Bank

INSAFORP *Instituto Salvadoreño de Formación Profesional* (Salvadoran Professional Training Institute)

ISDEMU *Instituto Salvadoreño para el Desarrollo de la Mujer* (Salvadoran Institute for Women's Development)

MFI Microfinance Institution

MFS Mobile Financial Services

MINEC Ministry of the Economy

MINED Ministry of Education

MINSAL Ministry of Health

MIPYME Microenterprise and Small and Medium-size Business

MOPT Ministry of Public Works, Transportation, Housing and Urban Development

MTPS Ministry of Labor and Social Security

MYPE Microenterprise and Small Business

NGO Non-Governmental Organization

OTA U.S. Department of the Treasury Office of Technical Assistance

PATI *Programa de Apoyo Temporal al Ingreso* (Temporary Income Support Program, conditional cash transfer program)

PC *Proyecto Capital*

SSF *Superintendencia del Sistema Financiero* (Office of the Superintendent of the Financial System)

STP *Secretaría Técnica de la Presidencia* (Technical Secretariat of the President's Office)

UNDP United Nations Development Program

UNO United Nations Organization

USAID United States Agency for International Development

USD U.S. Dollar

VMVDU Vice Ministry of Housing and Urban Development (part of MOPT)

WB World Bank

Proyecto Capital

This publication is possible thanks to the support of the Ford Foundation and the IDRC - International Development Research Centre



Readers may make verbatim copies of this document for noncommercial purposes by any means, provided that this copyright notice appears on all such copies.