

1.2 Summary of the Action

El Salvador faces challenges in terms of providing opportunities for large parts of the population, in particular young men and women; this puts pressure on migration and the risk of youth joining gangs. El Salvador's government has prioritised digital transformation in its **Digital Agenda 2020-2030** to exploit the opportunities offered by digitalization and revitalize the economy in a sustainable development path with equal opportunities for all. This includes promoting innovation, entrepreneurship, digital skills and improved access to public services.

The proposed action will contribute to increase connectivity levels, mainly benefiting public educational institutions and health units in rural areas with the provision of affordable broadband connectivity, as well as strengthening the capacity of teachers, medical personnel, and citizens – particularly women - who will enjoy access to digital services in connected public sites. Specific training modules will be designed specifically to address the digital gender gap. Households in the defined coverage areas, mainly in remote areas, will also be indirectly benefited, thanks to a greater offer of connectivity services due to the entry of new operators in currently underserved regions.

The action will complement an existing loan of the IDB (also supported by Corea and by funds from the EU 2014-2020 MIP for El Salvador) aimed at expanding connectivity and digital skills in El Salvador.

2 RATIONALE

2.1 Context

The COVID-19 pandemic has had a significant negative impact on Salvadoran people's lives incomes, as well as impacted negatively on the pro-poor growth the country was going through from 2012 to 2019. In 2021, growth showed signs of recovery, supported by remittance-fuelled consumption and exports. El Salvador's economy is expected to grow 4 percent in 2022, but this could be hindered by the impact of the Russian-Ukrainian crisis, which is pushing inflation up. At the same time fiscal sustainability issues remain a challenge, as public debt has been growing and the prospect of reaching an agreement with the IMF to obtain a US\$ 1.3 billion extended fund facility (EFF) credit arrangement, which would cover budget shortfalls over the coming years appears increasingly unlikely.

Politically, the government's recent state of exception have deepened concerns about the government's democratic commitment, while at the same time there has been a significant reduction in the high levels of gang-related violence that has increased the government's support, but also led to increased concerns about the sustainability of the security policies among critics. These recent developments, together with uncertain macroeconomic perspectives and lack of advances on PFM reforms and fiscal transparency, have hampered the Delegation's options to continue engaging with the Government through Budget Support, which was the preferred modality employed during the previous budgetary period. However, policy dialogue through ESCO (Government Cooperation Agency) and with the line Ministries has continued, in particular in terms of implementation of the government's Digital Agenda.

The Salvadoran government continues to prioritize economic growth and the creation of jobs in its Social Policy and the Policy for Commerce and Investment. The country maintains potential to boost its economic growth due to the country's strategic location, with access to many markets, a growing and reliable labour force, a digital-oriented young public leadership and a solid industrial base.

The MIP strategic priority is fostering the green economic recovery, creating jobs and tackling inequalities, in particular the digital divide. Digital transformation is one of the government's main strategic priorities. The following action aims at supporting the government in improving access to affordable broadband connectivity investing in digital infrastructure, and also reducing digital competencies gap in connected public sites such as public schools and educational and health centers.

The action will contribute to the implementation of the Gender Action Plan - GAP III, and, particularly, to its thematic area of engagement "Addressing the challenges and harnessing opportunities offered by the green transition and the digital transformation".