USAID CATALYZE

Market Assessment of Non-state Education in El Salvador

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DISCLAIMER:

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1. OVERVIEW AND APPROACH

This market assessment of blended financing for the non-state education sector in El Salvador seeks to examine the opportunities and challenges for its expansion through a possible education finance activity. Through discovering key trends that define both the financial and non-state education sectors, an analysis is made of essential gaps and hurdles that impact them. Specifically, this assessment aims to inform the decision to pursue an education finance activity, identify specific areas on which to focus and key stakeholders for co-design partnering in El Salvador.

This assessment was carried out within Catalyze guidelines for mapping the sector through institutional and individual stakeholders and document and data review. In all, 6 non-state providers and 13 individuals from the education and finance sectors were interviewed and other information gained through systematic website review, secondary data analysis and, in some cases, informal conversations by telephone. As stated in the work plan, El Salvador has been on COVID restrictions since March and the economy is slowly opening up, so interviews were successfully conducted through virtual means through Meet and recorded, following a virtual interview protocol. Informal conversations were used for more sensitive topics primarily around finance issues, were not recorded and informants' names were not registered. In general, participants were pleased to participate, motivated by the topic and excited about possibilities for more attention placed on the non-state education sector.

In summary, key findings and takeaways on the finance sector landscape and non-state education space can be stated as follows:

Enabling conditions for the development of the private sector in education in El Salvador.

- The Salvadoran population is relatively young, with slightly over half under 30 years of age, creating demands on the public education system which only covers 85% of the enrollment.
- Education governance is centralized which facilitates common procedures and criteria for the non-state sector, but complicates oversight and support, particularly when education priorities tend to change every five-year political period.
- The risk of adjustments in public spending could compromise an already low budget in public education and generate increased demand for non-state providers.
- There is a clear constitutional right for parent choice and private providers, that facilitates 15% of the total enrollment in the non-state sector, particularly in the underserved secondary level. MINEDUCYT policies also protect parents' rights as consumers against arbitrary fee raises and purchases.
- Families choose this sector primarily for safety reasons, as well as perceived quality through higher infrastructure standards, more teacher supervision and additional curriculum options, such as religious education; however, they also commit themselves to additional costs and contributions beyond school fees.
- The non-state education sector is highly misunderstood as being profitable and elite, when in reality it is a very heterogenous sector with a majority of low-fee schools founded for altruist aims.

Characteristics of non-state educational institutions seeking access to finance

- Many low-fee schools, founded for social purposes, reflect a lack of entrepreneurship and administrative experience; therefore, these schools are not very profitable nor seek to enter the credit market.

- Low-fee schools' income is based on approximately 85% or more student fees, with additional funds gleaned indirectly from families through the sale of uniforms, books and activities. Cash flow difficulties result from parent debt.
- A high percentage of schools' expenditures is dedicated in teacher pay, even though a serious oversupply of certified teachers lowers the pay scale to half the minimum wage.
- Little profit is generated for investing in infrastructure and quality improvements. Due to certain cultural beliefs about the risk of debt,schools depend on personal or family loans and support to expand operations, rather than putting up the installations as collateral to a private banking institution.
- All schools are accredited in a process oriented towards continuous improvement rather than punitive measures, but MINEDUCYT follow-up and support practically are non-existent beyond informative and academic registry tasks.
- The law specifically prohibits public-private partnerships in education, but two such arrangements exist: the subsidized Catholic CECE schools and the EDUCAME flexible modalities implementors.
- The COVID crisis has generated a serious cash flow and high overdue payment scenario which could be remedied through credit, but the underlying philosophy of education as social project rather than a business undermines the demand.
- **Due to COVID, a planned transition to a multi-modal curriculum in the public sector will pressure the non-state providers to seek options for acquiring more technological equipment.**

Level of development of financial intermediaries for the non-state sector in El Salvador.

- The Salvadoran banking system is stable and competitive; both supervised and unsupervised financial institutions participate in the credit market, which differ in terms of the conditions they require for access to credit.
- Products specially designed to serve non-state educational institutions are not offered in the credit market; generally, loan criteria is based on the business model and success, so small education enterprises may not reach eligibility criteria and banks offer personal loans to owners.
- Some banks offer specific products to pursue higher education, while other financial institutions offer consumer loans with the possibility of using them to pay for studies.

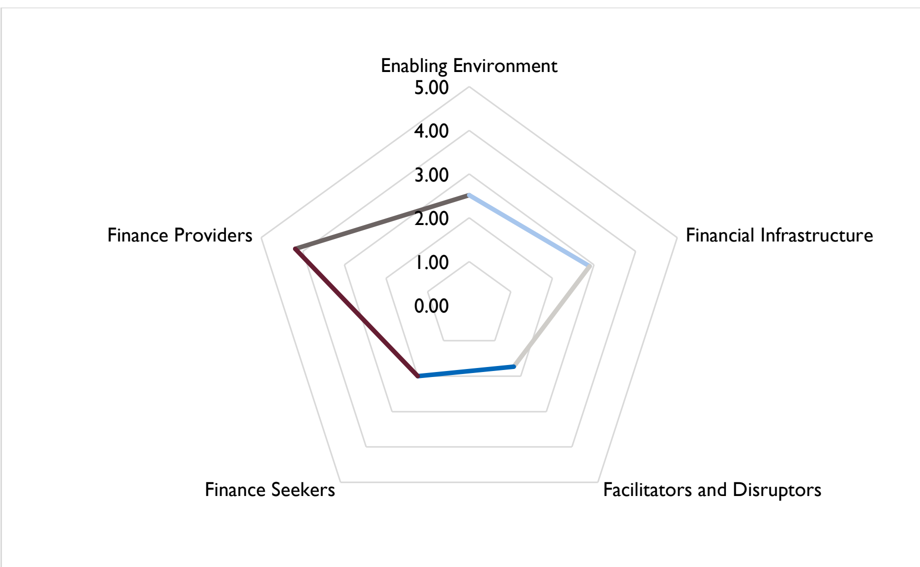
Finance providers for the non-state sector in El Salvador.

- BANDESAL offers guarantees so that students and educational institutions can access loans in the banking sector.
- BCIE has a credit line for university studies that it channels through commercial banks.
- Numerous donors and private NGOs support public schools and students, but few direct their resources to the private sector.

Availability of financial infrastructure for the non-state education sector in El Salvador.

- Most commercial banks have agencies, ATMs, financial correspondents and web platforms to carry out financial operations. These services are less frequent among savings and loan societies and non-existent in unsupervised financial entities.
- Even with the growth of different mechanisms for carrying out financial operations, credit applications continue to be made only in person at the agencies.
- Most commercial banks and savings and loan societies offer additional services such as collection of payments from private companies and payroll payments.
- The development of digital banking platforms has been growing in commercial banking, although their use may be limited by low internet penetration, despite the high penetration of mobile telephony.

Figure 1. Five-Point Framework Diagnostic Result, El Salvador



EL SALVADOR IN BRIEF

DEMOGRAPHICS	POLITICAL
POPULATION: 6,642,767 POPULATION GROWTH RATE: +0.51% POPULATION UNDER 30: 52.6% POPULATION DENSITY: 316 inhabitants per km2 DEPENDENCY RATIO: 51.2%	CAPITAL CITY: San Salvador INDEPENDENCE: 1821 POLITICAL PARTIES: 6 NO. DEPARTAMENTS: 14 NO. MUNICIPALITIES: 262 PRESIDENT: Nayib Bukele PRESIDENTIAL TERMS: 5 years GLOBAL CORRUPTION INDEX RANK: 34/100 (2019) CIVIL WAR: 1980-1992
ECONOMIC	**SOCIAL**
GDP: US$ 27.02 billion GDP PER CAPITA: US$ 4,187.25 INFLATION: 1.0% MAIN INDUSTRIES: Manufacturing, commerce. EASE OF DOING BUSINESS RANKING: 91/190 CURRENCY: US dollar, colón	LANGUAGE: Spanish PREDOMINANT RELIGION: Christian GINI INDEX: 0.3470 MIMINUM WAGE: US$ 300 AVERAGE EDUCATION LEVEL: 7.1 grades HOMOCIDE RATE:36/100,000

Data from multiple sources, 2018-2019.

2. ENABLING CONDITIONS

2.1 SOCIOECONOMIC OVERVIEW

Demographics and income shape the demands on the education system. Using the Multi-Purpose Household Survey (EHPM in Spanish[1]), in 2018 the Salvadoran population was estimated at 6,642,767 inhabitants; by sex, 47.1% were men and 52.9% were women. By age groups, the pyramid shows that the population is relatively young, since 52.6% are under 30 years old, creating demands on the education system, while only 13.2% are older than 60 years. El Salvador the most densely populated country in continental America with 316 inhabitants per km².

Despite the fact that monetary poverty has decreased in recent years, the EHPM 2018 data show that 26.3% of Salvadoran households live in poverty, broken down in 5.7% of households that are extremely poor and 20.6% relatively poor. Furthermore, the data reveal that monetary poverty, in any of its forms, is higher among rural households than among urban households. Although this continues to be a serious problem, the fact that poverty has been decreasing partially explains the downward trend in the Gini index, which between 2008 and 2018 went from 0.4809 to 0.3470.

The high incidence of income poverty in El Salvador is explained by what happens in the labor market. Although 61.3% of the Working Age Population is an Economically Active Population, the female participation rate is much lower than that of males (46.1% and 79.5%, respectively). On the other hand, the general unemployment rate is 6.3%, but is higher among men (7.3%) than among women (4.9%). The urban underemployment rate is 33.2%, and the formality rate is 57.5%, but the male rate is higher than the female rate (61.3% and 52.7%, respectively). To this must be added the low monthly salary, which is US$ 326.87 on average, but 20% higher for men.

2.2 SOCIAL OVERVIEW

Much of the social atmosphere in El Salvador is overshadowed by high homicide rates that have been among the highest in the world, even in comparison to its Central American neighbors. At an all-time high of 104 per 100,000 inhabitants in 2015, for the following years, the annual homicide rate has consistently fallen to 81/100,000 in 2016, 60 in 2017, 50 in 2018 and 36 in 2019.[2] Even so, 10% of all crime incidents are homicides and exceeds the US crime rate sevenfold.

Homicide activity is linked to, but not exclusive of, Salvadoran street gangs, which are considered the most powerful of the western hemisphere. Even though their origin dates back to more than half a century, their rise in control has occurred in the post-war period throughout the 1990s. There are multiple and complex causes for their increased activity and strength in society, but there is a consensus that the gang model was imported from the United States through deportations[3]. Weak social fiber, dysfunctional families, cultural patterns of violence, little community organization, access to drugs and arms and social exclusion are some of the identified reasons for the installation of gang activity in El

[1] DIGESTYC, 2019.

[2] Data from the US Overseas Security Advisory Council (OSAC): https://bit.ly/2J9mRcR

[3] Cruz, J.M., 2010.

Salvador[4], where at present, they are powerful social actors and a transnational organization.[5] As a part of both rural and urban communities, gangs also exercise influence in schools, as described in Section 3.

Migration is another consequence of violence, as well as lack of opportunities and poverty[6]. According to data from the Organization of American States (2015)[7], between 2009 and 2012 around 100,000 people emigrated from El Salvador, of which approximately 77% traveled to the United States. Salvadoran emigration is an important phenomenon, not only because of the number of people living outside the country which motivates family reunification, but also because of its contribution to the income of many Salvadoran families. According to BCR (2020)[8], between January and October of 2020, 17.1 million family remittances were received for a total amount of US $ 4,759.7 million, of which only 38.3% were made through the financial system.

2.3 POLITICAL OVERVIEW

Since 1992, after the Peace Accords were signed that ended the civil war in El Salvador, ARENA – the right-wing party— ruled the country until 2009; from then until 2019, the FMLN – the left-wing party— gained control of the executive branch. The current government, headed by Nayib Bukele, won the presidency in elections under the banner of GANA, a split from ARENA, although Bukele was mayor of a municipality and the capital city under the FMLN banner.

In some sense, Bukele's election has channeled the population's discontent with political parties and has broken with the bipartisanship that had governed the Salvadoran presidential elections. Bukele has high rates of citizen approval, so he is in a favorable context to carry out reforms, although he does not currently have the parliamentary majority; this situation could change in 2021 with the election of legislators.

2.4 MACRO-ECONOMIC OVERVIEW

After the 2008 international financial crisis which caused a drop in El Salvador's GDP growth rate, the economy has grown at an average rate of 2.5%. In fact, the GDP growth rate was 1.7% in 2014 and since then it has oscillated between 2.3% and 2.5%, slightly above its potential. According to the Central Reserve Bank of El Salvador (2019)[9], in recent years growth has been driven by the construction sector. Another important sector has been administrative services, which refers mainly to international call centers.

Despite the observed economic growth, it continues to be below that registered in the rest of the Central American countries. In the opinion of the International Monetary Fund[10], the low economic growth of El Salvador is explained, among other factors, by the low level of qualification of the workforce (a result of the education system), high energy and logistical costs, social insecurity and fiscal uncertainty, especially regarding debt management.

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[4] Cruz, J.M.,, ed.,2007.

[5] Savenije, W. & van der Borg, C,, 2015.

[6] El Salvador Country Development Cooperation Strategy (CDCS), USAID, 2020-2025. https://bit.ly/2JaRgrl

[7] OES (2015) Third Report of the Continuous Reporting System on International Migration in the Americas. https://bit.ly/3pUfA1k

[8] Banco Central de Reserva, 2020. www.bcr.gob.sv

[9] Banco Central de Reserva, 2019. www.bcr.gob.sv

[10] IMF, 2016.

El Salvador is formally a bimonetary economy, but in practice it is absolutely dollarized, since the *colón* has stopped circulating. In this context, inflation remains relatively low and stable, around 1% per year. The relevant macroeconomic issue in El Salvador is debt: in 2018 public debt registered US$ 13,162.7 million (50.5% of GDP). The high level of indebtedness affects the perception of risk, which has generated a discussion about the need to apply a series of adjustments, including reducing public spending, which could affect the provision of public goods and services, including those provided to the education sector.

2.5 REGULATORY OVERVIEW

Article 2 of the Salvadoran Constitution of 1983[11] establishes that everyone has the right to property and possessions, while Article 22 states that everyone has the right to freely dispose of their property in accordance with the law. Nonetheless, it is understood that a social market economy governs, since Article 102 indicates that economic freedom is guaranteed as long as it is not opposed to social interest and Article 103 states that the right to private property is recognized and guaranteed as a social function.

The non-state education sector is laid out as well in the Constitution, establishing the right to open private schools in Article 54 and the preferential rights of parents to choose the type of education they desire for their children in Article 55. However, as Article 57 clarifies, any private education providers will be subject to regulation and inspection by the State and may be subsidized only when they are not for profit. These regulations are outlined in the General Education Law of 1996[12], focusing primarily on how to legally offer private educational services and placing restrictions on charging arbitrary fees to families. The Special Law for Public-Private Partnerships, created in 2013 to benefit municipalities and energy sector investments, excludes education and other social services in Article 3.

In regards to taxes, the value-added tax (VAT) and income tax are the two most important taxes in El Salvador. The VAT, which has a general rate of 13%, is applied to the transfer of tangible or incorporeal goods and to the provision of services, although, among others, educational and teaching services provided by colleges, universities, institutes, academies or other similar institutions authorized by the

Summary of Section 2

- El Salvador has a young population and high density which results in high demand for education.
- Poverty and inequality are decreasing, but still high.
- Homicides and migration rates are high, affecting the social climate.
- Remittances are an important source of income for households.
- Presidential approval and electoral scenarios are favorable to carry out reforms.
- Low inflation, slow economic growth and risk of adjustment of public spending affect the economy.
- There is a constitutional recognition of parents' right to choose private education.

[11] Decreto 38, 1983.

[12] Decreto 917, 1996.

3. EDUCATION OVERVIEW

3.1 STRUCTURE AND ORGANIZATION OF THE SALVADORAN EDUCATION SECTOR

Education in El Salvador, within the social, political and economic contexts described above, can be summed up as a responsibility of the State, an inherent human right for all as set forth in the Constitution, and more recently, obligatory and free on all levels when offered by the State[13].These laws emphasize the responsibility of the State to "preserve, promote and disseminate" education, while citizens have the right and duty to study kindergarten and primary levels in order to be trained as "useful citizens", obliging parents to enroll their children and support their studies. State responsibility, human rights, utilitarian education and family obligations are the backdrop for the organization and delivery of education.

The Salvadoran education system is organized in a centralized structure where the overruling authority in education is the MINEDUCYT, as defined in the Constitution and described in the subsequent General Education Law. There are two modalities of education: formal and non-formal; the first is organized in levels and is duly certified, while the second is complementary, without grades or levels.

The formal education system is organized in five main cycles through pre-kindergarten to secondary; post-secondary has three main options – non-formal technical training, technical college (2-3 years) or university studies (5 years). All levels have both private and public providers, with non-state schools covering 15% of national enrollment up to the secondary level. Generally, eleven years of obligatory education is considered the goal, with kindergarten optional and tertiary education beyond the reach of many. Even though education by law is mandatory, there are no mechanisms for enforcing this.

Table 1. Formal Educational Levels in El Salvador

LEVEL	Early Childhood		Basic Education			Secondary Education		Post-Secondary Education	
CYCLE	Pre-kindergarten	Kindergarten	First Cycle	Second Cycle	Third Cycle	High school, general	High school, technical	Technical degree	University
AGES	0-3 year	4-6 years	Grades 1-3	Grades 4-6	Grades 7-9	Grades 10-11	Grades 10-12	2-3 years	5 years

Source: Based on Edwards, Martin & Flores, 2017.

In order to deliver educational services, the MINEDUCYT is structured in three levels of governance, with the highest authority resting on the Minister, followed by two Vice-Ministers: Education and Science and Technology, positions that are renewed every five years with a change of government. This central structure is made up multiple administrative and technical support offices with their national directors who manage specific programs or areas, where curriculum and curriculum-related efforts are centralized.

[13] General Education Law, 1996; Law for Integral Protection of Children and Adolescents, LEPINA, 2009.

Departmental offices[14] led by Departmental Directors carry out decentralized administrative tasks and oversee the K-12 schools in their respective department, through a team of pedagogical and administrative assistants that advise and supervise the schools. The 5,143 public schools are at the end of the chain of command and responsible for implementing education while resolving autonomous versus centralized demands[15]. Schools are administered by a School Board of Directors (*Consejo Directivo Escolar* - CDE, in Spanish), comprised of the principal as president, teachers, students and parents as members, with a parent elected as treasurer.

The national curriculum lays out a minimum requirement for all schools, both public and private, in regards to subjects, contents and number of hours. Schools may provide additional courses or hours of class, and non-state schools may raise the passing grade, but may not reduce the general curriculum. The 1998 curriculum that resulted from the Education Reform, was designed with a constructivist approach; in 2007, content was reorganized into a competency-based approach. At present, partially due to the COVID crisis, there are plans to change the curriculum to a multi-modal strategy (on-line, radio, TV, print) and renew content to make it more relevant.

In regards to programming, the school day is divided into two shifts: 7:00 a.m. to 12:00 p.m. in the morning and 1:00 p.m. to 6:00 p.m. in the afternoon. The Salvadoran school year runs from mid-January to the end of October, but bicultural schools with official international ties are authorized to offer a September through June school year.

3.2 EDUCATION POLICY, REGULATIONS AND BUDGET

In addition to centralized governance, education administration is characterized by five-year political periods with shifts in key personal, priorities and plans. In the post-war period, four major education plans have been introduced and implemented (to varying degrees) that responded to the priorities of the political parties in charge and international partners of that time[16]. As custom dictates, each five-year presidential period brings a new education plan, often eliminating previous plans without any kind of impact evaluation. This is now the complacently-accepted norm, which obliges donors to also readjust their plans according to this five-year cycle and it causes upheaval on the central and departmental MOE level with personal changes. Also notable is the lack of mention of non-state providers or policies directed towards them, with the exception being Plan 2021 (2004-2009). Non-state providers are less impacted by these changes, but public schools feel the alterations in discourse, plans, key personnel and even symbols like logos and letterhead.

Table 2. Educational plans and focus evolution in El Salvador

Period	Name of Plan	Average % GDP	Focus
1995-2004	Ten-Year Plan	3.50%	Coverage, quality, institutional modernization, values education.
2004-2009	Plan 2021	3.58%	Access, effectiveness, competitiveness, good management practices

[14] El Salvador has 14 departments, as subnational geo-political structures.

[15] Alberti, J.P, 2017.

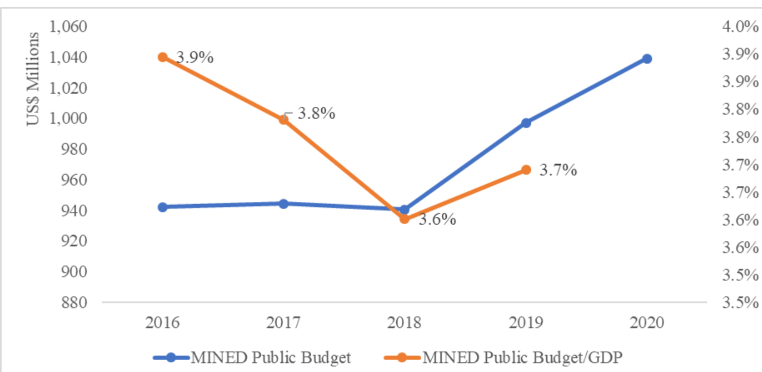
[16] Edwards, B.D., J.R., Martin, P. & Flores, I., 2017.

Period	Name of Plan	Average % GDP	Focus
2009-2014	Social Education Plan (SEP)	3.83%	School as center of culture, full-time schools, inclusion. Model Full-time Inclusive Schools (FTIS) and Integrated Systems (school networks)
2014-2019	Five-Year Plan (includes Social Education Plan) with priority in National Training Plan	3.87%	In-service training for teachers. FTIS model reduced due to lack of funding and priority.
2019-present	Cuscatlán[17] Plan	Pending	Teacher training, curricular relevance, institutional management, legal framework, technology.

Source: Based on Edwards, Martin & Flores, 2017.

Policies and plans are intimately linked with budget. When analyzing the central government's budget for the last seven years, an important portion of the general budget is assigned to the MINEDUCYT, highlighting the relevance that this sector has within public planning. As Figure 1 indicates, since 2015 the budget has increased yearly, except in 2018; despite this, resources designated for education still represent less than 4% of GDP permanently, accentuating the importance and need to commit a greater amount.

Figure 1. MINEDUCYT budget evolution (absolute and relative to GDP)



Source: Based on Ministry of Finance and BCR data.

It is important to note that, with the exception of 2021 projections, during the entire period under study, more than 90% of the budget of the MINEDUCYT is used in current expenses, especially for salaries; year after year this absorbs a significant part of the budget. On the other hand, investments in human capital and fixed assets have been less than 8% (with the exception of 2021) of the budget of the Ministry; necessary resources have not been dedicated to school maintenance and supplies, a reality

[17] Cuscatlán means "land of precious things" in Nahuatl and was the name given to the region of El Salvador by its original inhabitants.

frequently observed in schools. The 2021 budget projection includes a significant increase in the investment of fixed assets, for the primary purpose of purchasing computers for students and teachers, as well as improving school infrastructure and a symbolic raise for teachers and administrators.

The MINEDUCYT receives financial and technical assistance from numerous national and international NGOs and donors, generally for capital investments in specific projects. Additionally, loans with bilateral institutions are used for policy priorities; a recent example was in 2012 a US$ 60 million loan from the International Bank for Reconstruction and Development (IBRD), earmarked for improving education quality through expanding the Full-time Inclusive School model mentioned above. The Millennium Challenge Corporation in 2020 completed a US$ 277 million donation with US$ 88.2 million counterpart funds, which included infrastructure and resources for 349 public schools[18]. The continuing trend is using mostly national funds, with external loans and donations making up a very small portion of the education budget[19].

3.3 ENROLLMENT DRIVERS AND TRENDS

After a sustained Education Reform effort that achieved a 92.6% enrollment rate in 200520, in recent years El Salvador has experienced an unfortunate decline in enrollment due to varied and interrelated factors that will surely be exasperated by the COVID pandemic. The main challenges are the discontinuity of enrollment between cycles and limited participation in schooling due to both economic and security factors.

According to the MINEDUCYT school census data, for 2018 the gross enrollment rate is 68.5% in early childhood education and 95.6% in first and second cycles of basic education, which then decreases to 81.1% in third cycle and to a discouraging 48.5% in secondary education. Figure 2 shows the evolution of net enrollment rates by levels, presenting a serious picture of drop-out, repetition and late entry in the Salvadoran educational system.

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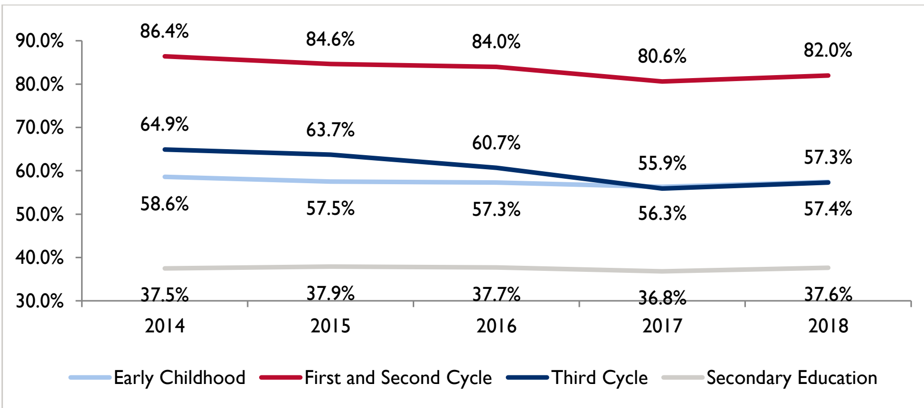
[18] The purpose of the program is to improve the investment climate for economic growth and poverty reduction. For more information, see: https://www.fomilenioii.gob.sv

[19] Rivas, F., 2013.

[20] Rivas, F., 2008.

Figure 2. Net Enrollment Rate in El Salvador, by Educational Level (2014-2018)



Source: Based on Ministry of Finance and BCR data.

The reasons for not attending school differ depending on age and sex[21]. For example, family causes are predominant in the preschool level, where parents decide not to enroll their children or believe they are too young to attend school. In the primary level, boys need to contribute to the family by working and girls need to help out at home. In secondary education, those who do not attend school cite lack of interest, costs, and the need to work as causes; once again, boys need to seek employment and girls, help out at home.

Schools self-report reasons for drop-out, where the most common causes are change of residence in 66.32% of schools and migration in 45.31%, which could both be indirectly related to the cause of gang violence reported in 12.65% of schools. Economic factors for drop-out are reported as the need to work (in 20.49% of schools) and the lack of economic resources (12.82% of schools). These reasons reflect both the state of external and internal security where schools report gang presence, theft, drugs, firearms, extortions and other risk factors[22].

The dynamics of gang presence in the community surrounding the school affect attendance since gang activity is territorial by nature; students from zones controlled by a certain gang may not safely attend the school in a rival zone, so traveling to school may be risky. Additionally, if youth associated with gangs attend school, they may use the school to recruit for the gang, sell drugs or extortion within the school for economic gain. If the school is on the limit between two competing gangs, this makes the school more insecure and parents may look for other schooling options[23]. The USAID Country Development Cooperation Strategy for El Salvador[24] emphasizes the importance of strengthening secondary education, particularly in high-crime communities as a way to contribute to economic growth and youth

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[21] Ministerio de Economía (2020), report on 2019 EHPM data. Available at: https://bit.ly/3992kjv

[22] MINED, 2018b. Available at: https://bit.ly/2J8XRT3

[23] USAID & ECCN, 2016. Rapid Education Risk Assessment. https://bit.ly/2J5TsQE

[24] USAID, 2013. Country Development Cooperation Strategy, El Salvador. https://bit.ly/3fu9csR

access to quality education as a driver of increased citizen security. Security is one of the most important drivers for non-state school demand, as explained in Section 4.

3.4 STATE OF EDUCATION EVALUATION

Quality in education is difficult to assess and in El Salvador there is little standardized testing for comparing educational results longitudinally. The General Education Law provides the legal framework for doing sample and/or census learning assessments in primary education and requires a standardized exit evaluation for all students graduating from secondary education, known as the Learning and Aptitudes Test for Secondary Education (PAES). The design of the PAES, however, has been modified over the years so results are not statistically comparable for longitudinal analysis, but these results are used as the only measure of education quality.

Private institutions tend to score higher than public high schools in PAES, but when eliminating elite private schools from the data, there is little significant difference between achievements of public and private schools[25]; in over half the 14 departments, public schools perform better than private[26]. Private schools generally have a selection process and do not accept under-achieving students and may even having a higher passing grade than in the public sector.

3.5 TEACHER SUPPLY AND STATUS

The teaching profession is highly-controlled by the State, as pre-service training is its exclusive responsibility, but there are both public and private higher education providers. The standardized curriculum is established and supervised by the MINEDUCYT and is comprised of three years of study in content area, pedagogy and student teaching; those who wish so, may continue on to complete a 5-year degree. Once a well-nourished field, there are presently only 1 public and 15 private institutions that train teachers. Aspiring teachers take a national exit exam (Evaluation of Professional Aptitudes and Competencies – ECAP), then register in the licensing program in order to teach; non-state schools are required to present documentation certifying that their teachers have a valid teaching degree and permission.

In-service training is sporadic and diverse, depending on the approach of the current MINEDUCYT administration. Generally, it is offered primarily to public school teachers, with a recent exception being Google Classroom training during the pandemic for both public and private teachers.

Even though there is no genuine professional development career track[27] to make teaching an attractive profession, ironically there is an enormous oversupply of teachers due to lack of planning of pre-service training. The registered teacher list from 2015 has over 90,000 names on it, but there are only 58,077 teachers working in public and private schools[28]. As another example, in 2013 the selection board opened up a total of 890 new teaching positions on a national level for which 57,787 applications were received[29].

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[25] Francis, et al., 2018. https://bit.ly/3pXhTki

[26] MINED, 2009.

[27] Martin, P. &Bodewig, C., 2020.https://bit.ly/2UXjus3

[28] MINED, Boletín Estadístico No. 15. Planta Docente, Año 2018. https://bit.ly/3q5CtPF

[29] Hernandez, J.M., 2014. https://bit.ly/379fVEI

The criteria for gaining a public-school post is based on the year of graduation from the teaching degree, so recent graduates may begin by working in the private sector where salaries are much lower, as they wait an average of ten years for an assignment. The tenure system only applies to the public sector and salary improvements are based solely on years of service and academic degrees; there is little incentive for obtaining more than a three-year degree or receiving in-service training.

For teachers, working in a private school means lack of job security, closer supervision and demands on their practice and non-competitive pay. Since the regular class load is only 25 hours a week in most schools, owners may legally pay their teachers as little as 50% of the minimum wage (presently set at $300 a month) or be paid an hourly rate according to the class time assigned. Benefits may be optional and payroll off-the-books, depending on the financial state of the non-state provider. Teacher turnover is rapid, as they look for higher paying non-state schools or a public post. Other teachers may opt to work a double shift, coving both a morning and afternoon shift, with no planning time during the day.

Teacher pay in the public sector has improved over the years, and in 2019 a first-time teaching post of one shift (20- 25 hours of classes weekly) begins with a US$ 695.52 monthly pay with only a three-year degree.[30] According to the EHPM, other professions pay similar wages, but with a 44-hour work week and a five-year degree. Working simultaneously in the public and non-state sector is feasible, as teachers may cover one school in the morning and another in the afternoon, where there is less enrollment. In 2018, 1,279 teachers (2.20%) worked in both the private and the public sector.

In regards to performance evaluation, the Teacher Career Law31 establishes periodic performance evaluations for public-school teachers to be conducted by MINED technical staff; however, in practice, any teacher evaluation is performed by principals, without standardized instruments, no reporting and few consequences other than suggestions for improving practice. Generally, in public schools the only feedback and support teachers have are through teamwork on the school level, parent feedback, as well as in-service training and other teacher networks that have been promoted but are not obligatory. In private schools, hiring and firing is at will, so teachers have closer supervision, but no job security or professional career development opportunities; the advantages are safer working conditions and teaching students who have been selected in an admission process.

The MINEDUCYT recognizes that teachers in the private sector are poorly paid, work in more demanding conditions and have less professional development, but they cannot intervene in the contractual relationship[32].

3.6 PAQUETES ESCOLARES

The *Paquete Escolar* (PE) is part of the Universal Social Protection System (SPSU) of El Salvador, introduced in 2009 by the first left-wing government. The PE, progressively implemented since 2009 in all educational levels of public and subsidized schools, annually delivers two uniforms, a pair of shoes and a pack of school supplies to students. The objective of the PE is twofold: on the one hand, it seeks to incentivize school attendance by reducing the household costs associated with educational services; on the other, it seeks to boost local economies by buying goods from SMEs that operate in the territory of the schools. In regards to attendance, unfortunately, declining enrollment in the past years does not

[30] Candray, J.2019. https://bit.ly/39azZJt

[31] Decreto 665, 1996.

[32] MINEDUCYT accreditation officer interview, November 10, 2020.

support a conclusion that the provision of these supplies has been sufficient to counter other factors that affect attending school.

Through a mixed methodology, which combines qualitative and quantitative elements and primary and secondary sources, Econometría (2014)[33] concludes that there is evidence that PE has strengthened the productive web and has trained supplier companies for entrepreneurship, showing that, among the PE suppliers: (i) 770 stopped being natural persons to become microentrepreneurs; (ii) the number of jobs increased 15% in two years; (iii) 75.5% have acquired new productive inputs; (iv) 41% accessed credit in the financial system, but 36% did so through friends or family.

3.7 PUBLISHING INDUSTRY

About six main publishing companies produce textbooks based on the national curriculum, of which half are international companies with regional presence. Additionally, other distributing companies sell textbooks produced in the U.S., Mexico and Europe; other authors self-publish and offer their textbooks. The MINEDUCYT has its own textbooks for basic education, called "Colección Cipotes"[34], which are distributed to public schools with *Paquetes Escolares*. Private schools and some public high schools purchase from editorial companies and pass the cost off to families, while obtaining additional income and recourse as an incentive. The MINEDUCYT does not register or supervise textbooks for quality or curriculum alignment.

The editorial companies use creative and aggressive marketing strategies as they suffer stiff competition based on perceived quality and price[35]. The strategy of publishing companies is to establish direct communication with the schools, often showing their books to teachers so the school can select their textbooks for the following school year. Some offer only textbooks for basic subjects with differing quality and prices; others offer training programs for teachers, on-line platforms, more sophisticated teaching resources and even complementary subjects like socio-emotional training. The company defines the recommended selling price, provides the books on consignment, while schools can make 20 – 35% profit on the sale to the families.

Some publishing companies may offer incentives, such as equipment for the school (computers, screens, multimedia projectors, etc.) depending on the number of books sold. School staff allude to possible kickbacks or payoffs to individual principals or board members in exchange for selecting a particular publishing company. At any rate, any costs for materials are passed on to the family. The COVID crisis has benefitted the companies that combine virtual resources and on-line classrooms with their textbooks, which has lowered their production and training costs as they have moved on-line.

3.8 USAID INVOLVEMENT IN EDUCATION

USAID has been and is an important partner for the MINEDUCYT and, at present, links their education strategy to preventing irregular migration to the United States[36]. The proximity of the region and the

[33] Econometría (2014) Process Evaluation of the Presidential Program for the Provision of Uniforms, Shoes and School Supplies for Students of Kindergarten and Basic Education of Public and Subsidized Educational Centers.

[34] Available at: https://bit.ly/3nXN39r

[35] Stakeholder interview with publishing company staff, November 17, 2020.

[36] El Salvador Country Development Cooperation Strategy (CDCS), USAID, 2020-2025. https://bit.ly/2JaRgrl

desire for family reunification, together with the lack of economic opportunity and the effects of social violence generate an on-going flow of irregular migration facilitated by human traffickers.

Hence, USAID in El Salvador, organized around two main strategies (economic development and democracy/governance), develops education as a cross-cutting theme to stimulate the economy and strengthen employability with the hope of creating stronger ties to El Salvador. Of particular interest is secondary education, as a vehicle for increasing job skills and discouraging school drop-out. In order to break the longer-term cycle of poverty and prevent irregular migration, youth must stay in school and successfully complete as many levels as possible. Some of the education strategies implemented are after-school programs, making schools more attractive and educating parents.

In 2019 - 2020, USAID completed two major projects in education: one, on strengthening higher education for economic growth and two, Education for Children and Youth for safe learning environments in 677 schools.

Summary of Section 3

- Education system consists of eleven years of formal education with public and private providers at all levels.
- Political instability of educational plans is felt, with no emphasis on the private sector.
- Low educational budget as a percentage of GDP.
- Current expenses, mainly salaries, absorb the educational budget.
- Loans and grants are used to finance capital expenditures.
- Net enrollment rates decrease over time and at transitions between levels.
- The presence of gangs in the community and within schools partially explains dropout.
- Minimal quality assessment points to similar results in public and private schools, except in elite schools.
- The teaching profession is characterized by an oversupply, long wait for a public post and low wages in the private sector.
- The providers of *Paquetes Escolares* find difficulties in accessing credit.
- Publishing companies sell mostly to private schools and costs are passed on to the family.
- USAID ongoing support of education is linked to preventing irregular migration through violence prevention, job training and economic growth.

4. NON-STATE EDUCATION SECTOR OVERVIEW

The previous report on the non-state sector in El Salvador[37] concludes that education actors are largely unaware of or uninterested in the non-state sector and there is little follow-up and virtually no support from the State. It is a complex and heterogeneous sector, with multiple business models, some of which are stated as for-profit, but in reality, are not very profitable. Contrary to public schools who must adhere to the Inclusive Education Policy[38], they are selective in nature, where higher-fee schools compete for high-achieving students and lower-fee schools refuse students for discipline or gang-related reasons. Families bear the burden of higher costs, but seek this option for reasons of safety, better environments and teacher follow-up, but not necessarily academic results. Most of these schools pay teachers less than the public schools, demand more and offer no professional development track. This section will update, highlight and add on to these results.

4.1 MARKET DEMAND AND DRIVERS

Market demand for non-state schools seem to be primarily driven by safety concerns and quality perceptions, and family income determines the decision. As previously concluded in the 2018 report, non-state schools are considered safer than public schools. Some of this is attributed to the territorial nature of gang activity and where families live in relation to a school. Other factors are school infrastructure (i.e., surrounding walls, gates, etc.) and the selection of students that contribute to a securer atmosphere within the school.

Quality is difficult to measure as there are no standardized learning assessments, but a strong sense of community and teacher follow-up are valued by families as well as religious or values education. Private school infrastructure is on average significantly better than public[39], as far as internet, libraries, science laboratories, recreational spaces, etc. Parents express that education is a commodity, quality education is only possible within the private education system, is mostly available for the urban population and is inaccessible for poor and rural families[40].

Family income is a determining factor for school choice as the 2019 EHPM database shows that in the group of girls, boys and adolescents, between 6 and 18 years who attend school and belong to the first quintile of the per capita income distribution, only 3.8% attend a private school, compared to 56.8% of their peers who belong to the last quintile. This distribution is very similar in all educational levels.

USAID in El Salvador points out that public education cannot meet the demand for schooling, even more so in higher education, hence private providers cover that market. For this reason, the MINEDUCYT should be more interested and give support to them, not just hand out accreditations and supervise. USAID is open to giving donations, but not funds, to link donors and private businesses who may be willing to leverage resources as well, but there is no experience at present with this model[41].

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[37] Francis, et al., 2018.

[38] MINED, 2010b. https://bit.ly/3q4suKn

[39] MINEDUCYT, 2019d.

[40] Díaz Alas, S.C., 2018.

[41] USAID education official interview, November 5, 2020.

4.2 STATUS AND SEGMENTATION

In general, public schools depend wholly on public financing since they are prohibited from soliciting contributions from parents. Private schools are those that are privately owned and managed and do not receive MINEDUCYT support. Private can be both for-profit or not-for-profit, and managed by a variety of models as discussed below. Non-state schools would also include CECE schools that are private Catholic church-owned schools that do receive MINEDUCYT support.

On a national level, non-state schools make up 14.6% of the total schools, representing 880 schools compared to 5,143 public. In all 14 departments, there is a similar percentage of private schools, except in the two central departments: La Libertad where the private sector makes up 73% of the schools and in San Salvador, 57%[42]. According to the former MINEDUCYT accreditation director, the on-going trend is 15-20% of total private enrollment, although the president of the Private School Association of El Salvador (ACPES) affirms that the number of non-public schools has decreased by 41% since 2007.

Schools can be classified by grades offered, size, fee level and types of ownership. Schools in general are considered small (fewer than 250 students), medium (250-599) or large (600 or more). Even though the largest, most expensive urban schools are the most visible, they are not representative or the majority of the sector. Table 3 shows the predominance of urban and small schools.

Table 3. Non-state schools in El Salvador, by level, size and area (2018)

	Rural			Urban			
	Small	**Medium**	**Large**	**Small**	**Medium**	**Large**	**Total**
Kinder	4	0	0	127	2	0	**133**
Kinder - 6th Grade	21	0	0	114	1	0	**136**
Kinder - 9th Grade	30	13	1	145	42	4	**235**
Kinder - Secondary	12	8	6	73	114	60	**273**
1st Grade- 6th Grade	1	0	0	3	0	0	**4**
1st Grade - 9th Grade	3	0	0	7	2	1	**13**
1st Grade - Secondary	2	1	0	21	5	0	**29**
7th Grade - Secondary	3	0	0	21	4	1	**29**
Secondary	2	0	0	18	4	4	**28**
Total	**79**	**23**	**5**	**549**	**170**	**54**	**880**

Source: School Census (2018).

As Francis, et al (2018) states, "Private schools [in El Salvador] operate under a wide range of monthly fees. Some charge less than five dollars per month, while many elite schools charge hundreds of dollars per month (…). High-fee private schools are not representative of the average Salvadoran private school. In fact, 57% of schools have monthly fees that fall below US$ 30 per month (…)". If a subjective criterion is used that an educational institution is low-cost if it has a monthly fee lower than 10% of the monthly minimum wage (US $ 300), approximately 60% of non-state educational institutions would fit into this category.

[42] MINEDUCYT, 2019b.

In regards to enrollment, the non-state sector attends 15% of the student population. This percentage increases in secondary education, where private schools cover 23% of the population [43] in this level, that in general has a low enrollment rate. This may have several explanations for increased private demand: there are fewer public high schools, students must travel further, and a greater fear of gang presence for this age group. Or more simply, only students from families with more financial resources tend to study secondary education. Additionally, non-state schools are primarily an urban phenomenon. Table 4 shows the number of students enrolled in private schools by levels in urban and rural areas.

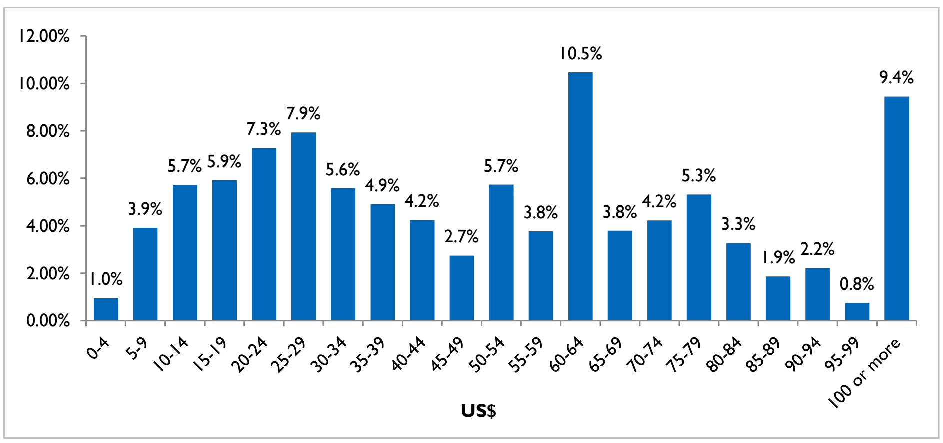
Table 4. Enrollment in private schools in El Salvador, by levels and area

	Rural	Urban	Total
Kinder	4,427	33,972	38,399
1st Grade - 6th Grade	10,348	77,781	88,129
7th Grade - 9th Grade	4,546	37,790	42,336
Secondary	2,671	40,972	43,643
Total	21,992	190,515	212,507

Source: School Census (2018).

Despite this, according to EHPM 2019 data, and as shown in Figure 4, only 32% of students from non-state schools attend low-cost schools.

Figure 3. Distribution of attendance in private schools, by monthly fee ranges



Source: EHPM (2019).

43 MINEDUCYT, 2019c.

4.2.1 FULLY PRIVATE SCHOOLS

Even though MINEDUCYT census data are incomplete and even erroneous for tabulating more precise details on the sector, two types of ownership of non-state schools can be identified: fully private and the Catholic subsided schools (CECE). Fully private schools can be owned by individuals, non-profit associations, foundations or businesses. Some may be part of a broader network or chain and/or associated with a church or a family endeavor. Very commonly found are former teachers who want to start a school to address problems in the immediate geographical area; this means enrollment is dependent on demographics, such as how many school-age children live close by. Religious-affiliated schools are linked to evangelizing efforts of a local church or for community outreach.

With individual owners, schools are often family-supported enterprises, for charitable purposes with initial and on-going family investment. There is not necessarily a governing body to make decisions and the day-by-day administration may be carried out by a family member with some training or abilities. These schools seem to operate under altruist principles, by educators who want to promote their own model and be in charge of their own school. Even though they may be registered as a for-profit enterprise, profit margins may be non-existent.

If the school is organized as a corporation, several family members or business associates may found and own the school, as a for-profit enterprise. Initial investments are provided by the partners, but stakeholders interviews reveal that any profit is a long-time coming. In this arrangement, decisions are made by a governing board of partners.

4.2.2 CECE

Even though the Special Law for Public-Private Partnerships (PPP) of 2013 specifically excludes education, there are two types of PPP in education: CECE schools and EDUCAME implementers. The CECE schools are owned and operated by Catholic parishes throughout the country and organized in the Catholic Education School council. This unique relationship dates back to 1976, where the MINEDUCYT pays salaries for a certain number of posts for teachers in Catholic schools; since 2004, they receive a monetary transfer for operating costs based on enrollment. Since 2010, they have also received uniforms, shoes, school supplies and snacks, just as the rest of the public schools, as they mostly cater to the lower-income segment of the population.

Considered subsidized private schools, the CECE are the only private providers receiving these kinds of public resources, even as they promote religious-oriented education and can deny enrollment, although not for religious reasons. They charge reduced monthly fees, sometimes as little as $10 and up to a maximum of $25 and are governed by a board that includes a church representative, the school principal, teachers, parents and students. The MINEDUCYT representative thinks that other private schools could also benefit from public subsidies.

The maximum authority of the Catholic Church in El Salvador, the Archdiocese of El Salvador has a Vicarage of Education44 that oversees both the fully private Catholic schools and the CECE subsidized schools and coordinates aspects related to the opening and closing of schools and the management of the official teaching posts. This centralized office receives and reviews the hiring requests from individual schools for both privately hired-teachers and the requests for official posts that the MINEDUCYT offers

[44] http://www.arzobispadosansalvador.org/sobre-nosotros/curia/vicaria-de-educacion/

to the Episcopal Conference. The decision about how these posts are distributed to the CECE schools is made through both MINDUCYT criteria and the bishops' decisions based on the needs of the schools.

In CECE schools, the board is the designated decision-making body, yet the presence of clergy also carries much weight. The Archdioceses also has influence that is wielded on financial issues, and can also close or open schools, according to church goals and sustainability issues.

4.2.3 EDUCAME. FLEXIBLE MODALITIES

Another example of PPP is the hiring of private, non-profit institutions to implement the MINEDUCYT's flexible modalities, EDUCAME, for accelerated, blended and on-line classes in third cycle and secondary education for overage youth and young adults. EDUCAME was designed and initiated in 2005 during the 2021 Education Plan as an efficient response to address the high numbers of youth who had dropped out of school. A special EDUCAME Institute was created to manage the administrative processes, apply sufficiency exams for out-of-school youth and hire private implementers to deliver grades seven through high school to youth ages 19 – 35 who have been out of school for at least two years.

Implementers, such as NGO or universities, are hired to coordinate sites throughout the country, hire and supervise teachers and keep record of enrollment and grades. These implementers are paid per student, and, according to the stakeholder interviews, the cost is sufficient to have some profit to fund their administrative costs for other activities. In 2018, 21,536 students studied grades 7-11 in 168 sites throughout the country, the majority in the accelerated modality[45]. In recent years, EDUCAME has eliminated the overage requirement for study in cases where social violence is an obstacle for attending school.

4.3 THE REGULATORY ENVIRONMENT AND THE ROLE OF GOVERNMENT

The regulation of the non-state school sector is handled at a central MINEDUCYT office, called the Accreditation Department, with an Accreditation Manual as a guiding document. Even though MINEDUCYT data is incomplete and confusing and contact information for schools and websites out-of-date, the process is effective in that all schools are registered and motivated to keep minimum standards. As a part of the accreditation policies, the client-driven structure gives parents more rights and the MINEDUCYT can intervene in case of disputes over fees, grades and other situations. For example, if grades are withheld from students for not paying their private school fees, parents may request the grade certificate from the MINEDUCYT.

The attention towards regulating non-state providers can be traced back to the 2021 Education Plan (2004-2009) which established a priority for school effectiveness to be achieved through accrediting educators and schools. Since this is politically not feasible in public education due to pressure from teachers' unions, the non-state sector was the place to start. Originally, a Categorizing and Licensing System was implemented in 2007, that classified schools as A-B-C-D according to 100 criteria mostly based on observable infrastructure, resources and licensed teachers, but not on pedagogical practice or learning results. This system opened the way to discontinue small schools with inadequate conditions and was revamped in 2010 with a more integral Accreditation system.

The Accreditation System is based on a philosophy of continuous improvement and a self-study verified by external evaluators. The requirements are both for initial start-ups and for on-going accreditation, which takes place at least every five years, depending on the results. Accreditation requires certain legal

[45] MINED, 2018b.

documents, such as: MINEDUCYT authorization to operate, a duly-named principal, location and grade levels; building safety, fire department and health permits, etc. In addition to the legal paperwork and permits, the school must submit to a self-study with evidence of each of six criteria: complementary educational programs (1.75 points), institutional planning and organization (1.50), curriculum delivery programs (1.75), learning assessment (1.75), infrastructure and physical resources (1.00) and teaching services (2.25), for a total of ten points.

Non-state schools, including CECE, who earn 8.00 to 10.00 points on the institutional evaluation are named as accredited institutions and given an operating certificate for five years. Those who are evaluated between 6.50 and 7.99 are accredited with observations and are given an operating certificate for three years. Those who score less than 6.50 are not accredited i and are given a transitional operating permit for two years, during which time they must overcome their observations. To that end, within 90 days, the non-accredited institutions must present an institutional improvement plan; after two years, they run the risk of being closed by the MINEDUCYT.

According to stakeholders, this accreditation program is better than the former ranking system because it promotes improvements and gives non-state providers time and tools to offer better quality services. Even though requiring the legal paperwork does not imply great costs and the MINEDUCYT portion is agile, coordinating with numerous state institutions, such as municipal building permit offices, the fire department and others is cumbersome. Few non-state schools have been started in recent years; the main obstacle seems to be the cost of infrastructure requirements, i.e. schools can no longer be started in residential buildings as they need to meet certain space requirements. One proposed initiative to facilitate opening new schools, generated by the early childhood policy for kindergartens, is a “single window” approach to all procedures and formalities; this means establishing one office to request all related paperwork with established times for fulfillment.

Another important regulation in regards to setting school fees was established in 2009, with a modification to the General Education Law. This states that non-state schools can only raise fees every two years; they may not raise enrollment and monthly fees in the same year; the raise in fees must be duly justified in regards to improved services; the raise must be approved by a majority of parents in an assembly; and certified by the MINEDUCYT and properly communicated to parents. No other fees may be charged, nor may schools require parents to purchase supplies or materials in a school store. These regulations are attempts to protect parents’ rights as consumers and avoid arbitrary charges and costs.

There are no additional requirements or supervision of curriculum and standardized testing, which are the same as in the public system. The Accreditation Manual states the minimum number of hours required per subject, and any changes, such as including English in the primary level, adding religious education, or more hours of any subject are permitted in the non-state school. Recent curriculum changes, such as a new math curriculum, the inclusion of moral and civic education and the kindergarten syllabus, for the first time had curriculum implementation oversight by the MINEDUCYT departmental staff.

Even though the evaluation includes site visits by external, contracted evaluators, it seems very little MINEDUCYT follow-up and support happens outside of that specific process. The Departmental offices handle academic registry and data, witness the parents’ assemblies to raise fees and invite principals to informative meetings, but there seems to be no support beyond that. According to stakeholders, there is very little oversight, and school closings due to MINEDUCYT supervision is practically non-existent; rather schools close due to other kinds of restraints, such as economic difficulties, gang presence and now with COVID, the inability to manage distance education. Stakeholders estimate anywhere between 20 and 100 small schools that may have to close as a result of the economic difficulties generated by the pandemic.

With the COVID pandemic and other emergencies like hurricanes, storms, flooding, the MINEDUCYT instructions are also valid for the non-state sector and communicated through official letters and media channels. As the MINEDUCYT adjusted their curriculum, made priorities and produced distance-learning materials, these are on-line and available if non-state schools wish to use them. Additionally, private school teachers were included in the Google Classroom trainings for on-line education, but are not included in projections to receive a computer nor are their students.

4.4 NON-STATE SCHOOL ASSOCIATIONS

School associations are generally not considered strong advocates nor influential in decision-making; most are created for internal coordination efforts of higher-fee schools and only one is organized with heterogeneous school types for lobbying purposes.

Most associations are organized around a common identity with larger, higher-fee schools, such as the Association of Catholic Education Entities (FEDEC) that promotes Catholic education and organizes inter-collegiate activities. The Federation of Christian Schools (FEDICRIS) is similar in purpose and activities. Neither of these have a strong presence nor messaging in media or social networking. The Association of Bicultural Schools, which represents the elite sector, has done lobbying with the MINEDUCY based on specific needs, such as teaching permits for foreign teachers, and schedule or curriculum changes unique to their international model.

In contrast, the Salvadoran Association of Private Schools (ACPES) was founded in the 1990s, during the Educational Reform as a response to reducing secondary education from three years to two. This measure implied significant savings in education investment for the state, but a setback in income for the private sector; therefore, the Association was formed to unite non-state providers around common issues and today describes itself as a "club of common interests" to follow a "common path of action" and "protect members against any political adversities"[46].

The ACPES website claims a membership of 600 schools (almost 70%), but this seems ambiguous since the president states membership fees are optional. The ACPES has increased their media presence in the last years, have participated in consultations on education and have lobbied in the Legislative Assembly on issues of interest. They consider themselves the main spokesperson on private sector issues, have established a cordial relationship with the MINEDUCYT, provide administrative, financial and marketing advice to their members, but still some school owners expressed they do not see the benefits of joining.

Other religious organizations have chains of schools, mostly related to churches, whose purpose is internal organization and branding. The CECE are organized for administrative and coordination purposes and the archdiocese oversees and coordinates. The largest group of evangelical church schools is the *Liceos Cristianos Reverendo Juan Bueno*, operating 37 schools that are initiated and backed by local Assemblies of God churches. Central offices coordinate selecting and hiring teachers, budgeting and administrative tasks, plus apply a cross-subsidy where higher-fee, profit-generating schools subsidize low-fee schools through a Solidarity Fund (see annexed case study for more details). The Seventh Day Adventist church also operates about 24 schools using a similar model. Other school networks or chains are not necessarily low-fee, such as the Baptist church, Salesian and Marist congregations, plus the Oasis bilingual schools.

[46]ACPES president stakeholder interview, November 4, 2020.

4.5 PRIVATE SUPPORT OF PUBLIC EDUCATION

Numerous private for-profit or not-for-profit institutions support public schools and their students. The for-profit companies act out of a sense of social responsibility to contribute to improving the workforce, but they can also report donations for income tax deductions. The not-for-profit endeavors seek to live out their mission and may compete among themselves to implement donor or publicly-funded projects. Several models of private support for public school students and schools are briefly mentioned here, then described in greater detail in the case studies.

The Superáte program provides complementary education, through classes in values, computers and job skills, to public school students who attend a Supérate center when not in school. The program is promoted as a social responsibility franchise and marketed to committed companies that assign resources to create a center and fund operations. The model is handled centrally through the Supérate office with academic and administrative support staff to advise and support each center. Companies much commit to a long-term financial commitment, involve themselves in the endeavor and coordinate with the local public schools.

A unique philanthropic school is Citalá School, run by a non-profit foundation that raises funds from companies and individual donors. It operates on the site of an elite bilingual school, where male public school students from the surrounding area are recommended by their principals and pay US$ 30 a month in fees to study there from seventh grade through high school. The Citalá School uses the elite school's infrastructure and resources during non-school hours by covering the curriculum through afternoon and Saturday classes.

Many NGOs with a religious orientation, such as Fe y Alegría (Faith and Joy), a Jesuit-affiliated association and FUSALMO, a Salesian-based foundation, provide support for public schools as a part of their regular programming. Fe y Alegría chooses public schools, presently 18 in El Salvador, in which to implement values education, violence prevention programs and their quality education model. The relationship is a bit ambiguous, because the school administration is public, so periodically agreements are signed with the MINEDUCYT. FUSALMO, with a mission of generating youth participation, busses public school students to their sports installations and provides in-service teacher training while students are participating in sports' activities. Additionally, USAID-supported programs have promoted private donations to public schools, through the Adopt-a-School program administered by FEPADE, and at present, Educar y Covivir, that promotes community-school relationships, including a component of private local funding for schools.

These and other NGOs, universities, private companies and consulting firms, as well as individuals, also compete to implement MINEDUCYT projects, both through public calls for proposals and in the stock exchange. These private providers are hired with government funds, donations or loans to give technical assistance and resources to public schools. To do so, they often compete among themselves, based on quality and price.

Summary of Section 4

- The non-state education provider sector is complex and heterogenous and covers 15% of enrollment.
- Enrollment in the non-state sector is driven by economic possibilities, a perception of greater quality and the search for secure learning environments.
- There are 880 for-profit, non-for-profit and subsidized private schools making up the sector, mostly urban and with few, large elite schools.
- In addition to the CECE subsidized schools, the EDUCAME implementors are public-private partnerships.
- Non-state providers are accredited by the MINEDUCYT, in a self-study evaluation process every five years. Start-ups follow the same process, which includes cumbersome permits from multiple public offices.
- One school association does lobbying with the MINEDUCYT and the legislative assembly, but other associations are coordinating efforts for activities among schools.
- Numerous NGOs and private donors channel funds to programs for public-school students, support or implement projects for public schools and are hired to implement projects for public schools.

5. REQUIRING FINANCING (DEMAND-SIDE)

This section will look at the demand side of financing, as in the needs presented by the low-cost, non-state schools through the interviews with school owners.

5.1 UNIT ECONOMICS OF NON-STATE SCHOOLS

The expenditures of a low-fee, non-state school are fairly straightforward, with the biggest expense being teacher and staff salaries. Even as teachers are severely underpaid in this sector, most of the non-state school budget is designated for salaries. Year-end expenses increase if benefits are paid, as staff should receive a Christmas bonus and annual severance pay. Other expenses are infrastructure costs and utilities, where owning property or renting makes an important difference in the budget. Schools rarely spend on any kind of school supplies, textbooks or teaching materials, rather request that families purchase them. Current expenses would also include any credit payments.

Income is based primarily on student fees. Schools generally charge an initial enrollment fee and then eleven monthly fees for January through November. Additionally, elite, bicultural schools may charge a hefty initial association fee for new students. The enrollment fee is generally paid towards the end of the previous year as a way to reserve space, which helps solve the December cash flow problem when additional funds are needed for staff benefits. An additional late fee is charged when a payment is not made on time. These two types of student fees generally cover about 80% of the school's budget, as stakeholders reported.

Additional income is generated from other activities, with the common denominator that families contribute these sources, calculated around 20% of total school income. One important source is the sale of uniforms and books, where schools earn a percentage over the price offered by the publishing company. Principals are emphatic that families may choose to purchase these wherever they choose (as the General Education Law states), but the school also is careful about not over-inflating prices and selecting books within the families' financial possibilities. School stores or cafeterias sell food and snacks, with profit going to the school; and some extra-curricular activities, like field trips, Family Day celebrations and others also generate income for the schools through selling snacks or charging admission.

Families also make in-kind contributions, such as school supplies, whiteboard markers, paper for photocopying, craft supplies and even toilet paper and soap as a part of the list to purchase at the beginning of the school year. All books and supplies needed for a child's learning activities and even in-classroom group-work is purchased by the family in the non-state sector, while public schools are prohibited from asking for such contributions.

Cash flow is maintained in a delicate balance, where on-time family parents are essential for paying teachers' salaries and other fixed costs. Parents who fall behind may be threatened with losing their child's assessment opportunities or grades, so families may depend on their year-end Christmas bonus that employees receive to pay off school debts and receive their grades.

Stakeholders agree that the biggest challenge in this sector is economic, because survival depends on the number of students and the families' ability to pay. Any changes in enrollment has a direct effect on the budget. Even though some owners may wish to sell their schools, the ACPES president states that few would be able to recover their investment.

5.2 FEE MANAGEMENT

Many of these low-fee schools seem to prefer cash payments at the school office in order to avoid banking commissions and to maintain a close relationship with parents. This requires a secretary or person available to receive payments and measures to securely handle money. A payment receipt is provided and is recorded manually or on a computer. Then, in the best of cases, the money is deposited in a bank account in the name of the owner of the school, maintaining a little cash for emergencies.

To facilitate the payment of fees, some schools open savings bank accounts and give the account number to parents so that they can make payments through on-site or online deposits. In most cases, a new exclusive account is opened in the name of the school owner, not a business account, and in some cases the school owner's personal account is used, making it difficult to distinguish between personal income and school income. This mechanism has been used during COVID emergency by schools that did not have other payment options.

Very few low-cost institutions have adopted other payment mechanisms, such as bank stubs and debit and credit cards (POS system). Among these schools, the main argument for not having these mechanisms is that their low potential demand – explained by the socioeconomic profile of parents—does not compensate for the fixed costs they must incur to use them.

Most of the low-cost non-state schools do not have a separate administrative or accounting area, although they may occasionally hire assistance in filing their tax returns. Additionally, school owners mention their lack of training and experience in administration and are largely unaware of smart financial options for growth and development.

5.3 NEEDS AND ACCESS TO FORMAL FINANCE

As indicated before, the costs of a private educational institution depend on whether or not they own or rent the property where the school is housed. For this reason, the owners seek to have their own facilities, which requires a large, initial investment. The same happens when looking to build new infrastructure to expand services and enrollment. Sometimes credit is considered an option when school owners want to make an infrastructure investment, but it is not uncommon to be financed with personal savings, family assistance or through personal loans.

The explanation behind this behavior is an intriguing culture of disinterest and distrust in taking out loans, a fact that was repeatedly confirmed in the stakeholder interviews. On one hand, school owners were wary of being able to pay back a loan with high interest rates and with the little earning generated by the school; on the other, being debt-free gives them a sense of pride. Moreover, collateral required is usually the building itself, which makes some owners uneasy and opt for taking out their own personal loan.

These schools were unaware of a special line of credit for their needs and had never been approached by a bank with a portfolio specifically for education. Stakeholders expressed that instead, schools seek donations or loans from family members, take out a personal loan or use personal credit cards for investments and cash flow difficulties. In part, this idea reflects the lack of knowledge owners have of the products that BANDESAL offers, as well as the lack of interest of the financial sector to serve the education sector.

5.4 FINANCIAL EFFECTS OF COVID

The COVID crisis revealed several difficulties with income in low-fee, non-state schools. Initially, the stay-at-home order prohibited families from paying cash at the school and made it difficult to pay at the bank during four months; additionally, some families suffered unemployment. During the distance learning period from March on, schools had to suspend activities, and there was no income from the store and other sales as students were not attending school. Both the lack of ease for paying fees and reduced income have created a difficult cash flow problem.

Some stakeholders calculate between 30% – 60% of overdue fees as a result of COVID, in addition to the loss of enrollment, particularly in younger children. Schools have had to offer discounts since students are not using their installations. Parents value the activities for their children and support from the teachers for dealing with students at home, but this has required an extra effort from the teachers, which have not been compensated with salary increases but, on the contrary, some have had to accept discounts on their already low salaries.

Summary of Section 5

- Non-state schools' expenditures are primarily staff salaries even though pay is low.
- School income is at least 80% of family fees, while the sale of books, uniforms and activities provide additional income.
- Families contribute additional in-kind supplies, in addition to enrollment and monthly fees.
- Families prefer to pay in cash at the school and an average of 30% fall behind on their payments.
- Credit would be helpful for expansion and infrastructure improvements, but there is a culture of distrust to request loans from a banking institution.
- The COVID crisis has exacerbated cash flow difficulties due to lack of ease in making payments.

6. PROVIDING FINANCING – SUPPLY SIDE

6.1 REGULATIONS

In accordance with the Law of Supervision and Regulation of the Financial System, in force since 2011, the Superintendency of the Financial System (SSF, in Spanish) has the responsibility of supervising and sanctioning the individual and consolidated activity of the institutions that make up the system, while the Central Reserve Bank (BCR, in Spanish) is responsible for the technical regulations. Both institutions are part of the Financial Regulation and Supervision System, which aims to preserve the stability of the financial system and ensure its efficiency and transparency. According to a Salvadoran economic development thinktank, the Salvadoran Foundation for Social and Economic Development (FUSADES)[47], the regulations appear not to be sufficiently clear regarding the competencies of each of the institutions, which has led to discrepancies between them.

In recent years, new regulations for the financial sector have been introduced. In 2015, the Financial Inclusion Law was enacted, which in its Article 1 states that the law "aims to promote financial inclusion, promote competition in the financial system, as well as reduce costs for users and clients of the referred system." In particular, the law regulates aspects related to the facilitation of the use of electronic money and the simplification of the processes of opening savings accounts for natural persons (without the requirement of a Tax Identification Number and through financial correspondents). On the other hand, the Law Against Usury, in effect since 2012, obliges the BCR to set and disclose maximum rates allowed in the credit market.

It is not a minor fact that in 2000 the Monetary Integration Law was decreed in El Salvador, which established the US dollar as legal tender in parallel to the *colón*; in practice today the Salvadoran economy is absolutely dollarized, since the *colón* has stopped circulating. In relation to the financial system, Article 9 of the law states:

> *All financial operations, such as bank deposits, credits, pensions, issuance of securities and any others carried out through the financial system, as well as the accounting records of the financial system will be expressed in dollars. The operations or transactions of the financial system that have been carried out or agreed in* colones *prior to the effective date of this law, will be expressed in dollars at the established exchange rate.*

6.2 OVERVIEW OF THE BANKING SECTOR

According to data from the SSF, at the end of 2019, the Salvadoran banking system consisted of 19 supervised depository entities, of which 12 are private commercial banks, 2 are state commercial banks, 4 are savings and loans societies and one is a federation of cooperative banks. In 2020 the *Banco Cuscatlán* bought Scotiabank, so there are currently 18 depository entities and 11 private commercial banks, as can be seen in Table 5. According to the BCR[48] (2020), all these entities exhibit adequate levels of liquidity and solvency.

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[47] FUSADES, 2020.

[48] BCR, 2020. www.bcr.gob.sv

Table 5. Banking sector in El Salvador (2020)

Type	Name
Private Commercial Banks	Agrícola, Cuscatlán, Davivienda, Citibank, G&T, Promérica, América Central, Abank, Industrial, Azul, Atlántida
Public Commercial Banks	Hipotecario, Fomento Agropecuario
Savings and Loans Societies	Yntegral, Credicomer, Constelación, Gente
Federation of Cooperative Banks	FEDECRÉDITO

Source: SSF (2019)

Market concentration is not an issue in the Salvadoran banking system[49]. Between 2018 and 2019, the Herfindahl-Hirschman (IHH) of the Salvadoran banking system decreased from 1,137.9 to 1,128.5, lower than the limit of 1,500 points that show a concentrated market, although it is possible that the last bank merger has slightly increased the concentration level. Although there are banking entities such as *Banco Agrícola* and *Banco Davivienda* that have significant market shares, the existence of other financial entities guarantees competition in the sector.

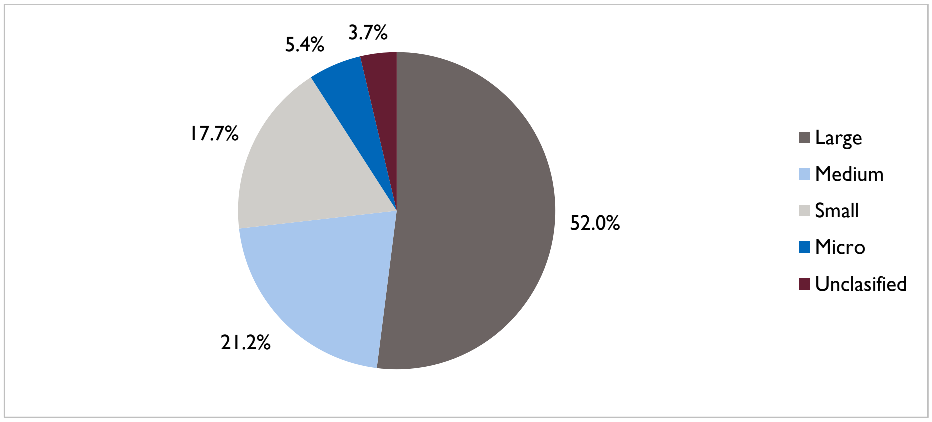
Another relevant issue for the banking sector is its financing. According to the BCR, "The loan-to-deposit ratio has remained below 100% since February 2019, which is explained by the accelerated growth of deposits and the excess liquidity that has been observed in the last two years. This has allowed the financial system to reduce dependence on external financing to meet the demand for credit". On the other hand, the data from the SSF, constructed from the balance sheets of the banking institutions, show that the intermediation margins have been reduced between the first quarter of 2019 and that of 2020, reaching, on average, 1.5% in the commercial banks, 2.0% in cooperative banks and 3.0% in savings and loans societies.

Regarding loans, SSF data show that at the end of the first quarter of 2020 the banking system presented a balance of US$ 14,576.9 million, which means a year-on-year growth of US$ 896.6 million in absolute terms and 6.6% in relative terms. In the same period, credit to households increased by US$ 396.8 million (+5.3%), while credit to companies increased by US$ 499.7 million (+8.0%). More specifically on credit to households, consumption loans increased by US$ 315.3 million (+6.5%) and housing loans by US$ 81.5 million (+3.1%).

Regarding business loans by sector, the balance has increased for all, except in the manufacturing industry (-1.9%), but continues being the second with the highest participation, after the commerce sector (+7.3%) and before the services sector (+9.0%), in which the educational activities are registered. Concerning the structure of the loan portfolio by company size, at the end of the first quarter of 2020 it is observed, according to data from the SSF, that 52.0% of the credit is directed to large companies, 21.2% to medium-sized companies, 17.7% to small companies and 5.4% to microenterprises and the self-employed, as can be seen in Figure 5.

[49] SSF, 2020.

Figure 4. Loan Portfolio in El Salvador, by Company Size (2020)



Source: SSF (2020).

As indicated by PCR (2020), a key point to differentiate savings and loan societies from traditional banking in El Salvador is that they loosen the minimum requirements of applicants for loans, while the latter requires accounting and tax requirements that are difficult to meet for micro or small companies. Another relevant element is the territoriality of the operations of the Salvadoran savings and loan societies, which have opted for a geographic coverage that includes rural areas and small urban centers, where commercial banks have little or no presence. This is also true for cooperative banking.

Regarding the quality of the credit portfolio, the SSF Risk Center reports that the share of the heavy portfolio —the one with the highest risk— has experienced a decreasing trend from January 2014 to March 2020, going from 3.6% to 2.9% (3.1% in consumer loans and 2.5% in business loans). The same trend can be observed in the default rate, which in the same period has fallen from 2.4% to 1.8%.

6.3 BANKING CREDIT MARKET FOR EDUCATION SECTOR

The education sector does not seem to be too relevant for the credit market, so much so that there are no specific products for the education institutions neither official information on the credits granted to this sector. In fact, the qualitative evidence indicates that the few low-cost private schools that try to access the credit market do not usually meet the required accounting, tax and collateral requirements, and that the perception of them is even more negative when they are non-profit institutions.

For this reason, credits to this sector are governed by the conditions applicable to personal consumer loans or business loans, in the best scenario. Table 6 shows the effective annual lending rates of these segments for commercial banks and savings and credit societies. As can be seen, the average interest rate of banks is lower than that of savings and credit societies, especially for business.

Table 6. Effective annual lending rates in El Salvador, by segments and term

	Consumption		Business	
	I Year	More than I year	I Year	More than I year
Agrícola	55.90%	71.60%	26.50%	22.00%
Cuscatlán	49.00%	49.00%	19.00%	19.00%
Davivienda	51.12%	51.12%	80.25%	66.25%
Hipotecario	43.58%	34.33%	43.58%	34.30%
Citibank	*	*	22.00%	22.00%
FomentoAgropecuario	32.92%	25.30%	25.18%	30.15%
G&T	31.05%	31.05%	27.68%	27.68%
Promérica	29.34%	29.34%	23.61%	23.61%
América Central	85.00%	85.00%	41.93%	36.02%
Abank	86.55%	86.55%	25.00%	27.00%
Industrial	33.11%	32.36%	17.06%	16.85%
Azul	44.00%	44.00%	39.00%	39.00%
Atlántida	51.00%	51.00%	38.12%	38.12%
Yntegral	46.62%	46.62%	37.90%	37.90%
Credicomer	36.45%	36.45%	85.61%	85.61%
Constelación	40.00%	40.00%	47.00%	43.00%
Gente	86.55%	86.55%	38.93%	*
Mean Banks	**49.38%**	**49.22%**	**32.99%**	**30.92%**
Mean Saving and Credit Societies	**52.41%**	**52.41%**	**52.36%**	**55.50%**

A more varied offer is observed in terms of student loans. For example, *Banco Agrícola* offers a "Study Loan" to finance the payment of higher studies inside or outside of El Salvador, with a term of up to 15 years, paying only interest and insurance for the duration of the training and allowing different types of guarantor (salaried, independent, pensioner). *Banco Promérica* and *Banco Hipotecario* offer a similar loan, and although they advertise a preferential interest rate, they require a mortgage guarantee and do not grant a grace period. There is no information available on the participation of this type of credit in the portfolio of the banking institutions that offer it.

Other banks and savings and credit societies do not have specific products, but indicate that their consumer loans can be used to finance educational needs.

6.4 OTHER RELEVANT ACTORS IN THE CREDIT MARKET FOR EDUCATION SECTOR

Not all financial institutions are supervised by the SSF. According to the current regulatory framework, the SSF supervises all banking institutions, savings and credit cooperatives that collect money from people other than their members, savings and credit cooperatives whose deposits exceed US$ 68.5 million, and savings and credit societies. Beyond these actors, there are financial institutions that do not collect money from the public but do grant loans to natural and legal persons.

Two of these unsupervised institutions are *Óptima* and FEDECACES. Like practically all unsupervised institutions, *Óptima* and FEDECACES offer a variety of personal and business services, including consumer loans, home loans, group loans, and loans for companies, especially micro, small and medium-sized ones. Neither *Óptima*, FEDECACES nor any of the unsupervised financial institutions offer specific credit lines for the education sector, but several of them indicate that their consumer loans can be used to finance the payment of higher university studies.

As they are unsupervised entities, there is no official information that allows comparing their requirements and conditions with those of the supervised sector, but research on web sites and the opinion of stakeholders show that this group of institutions is more flexible in regard to their requirements, which attracts more risky clients (whom, in many cases, have already been "expelled" from the regulated sector) and therefore justifies the institutions to charge higher interest rates to compensate for the risk.

Among the public institutions, the Development Bank of El Salvador (BANDESAL, in Spanish) is an autonomous organization that seeks to facilitate access to financial products to close market gaps. BANDESAL, through the Salvadoran Guarantee Fund (FSG, in Spanish), is the only institution that offers guarantees to facilitate access to credit for micro, small and medium-sized companies that have good projects but do not have the guarantees that are normally required by financial entities, serving as collateral to reduce the risk for financial intermediaries.

BANDESAL offers different types of guarantees, depending on the economic activity to which the applicant is engaged. In the particular case of the education sector, there are two types of guarantees: for students and for educational centers. In the first case, BANDESAL offers guarantees from US$ 500 to US$ 36,000, and they are oriented to Salvadoran citizens who wish to study inside or outside the country, with a maximum term and coverage of 15 years and 80%, respectively. In the second case, the guarantees are offered to education centers certified by the MINED that seek a loan for the purchase or repair of machinery and equipment, with a maximum amount, term and coverage of US$ 100,000, 8 years and 50%, respectively.

The Central American Bank for Economic Integration (BCIE, in Spanish), an international multilateral financial institution for development, offers an educational credit line to Central American citizens for technical or university studies. These funds, which in part come from the Taiwan International Fund for Cooperation and Development, are transferred to intermediary financial institutions, who must place them in the market, fulfilling certain conditions: term of up to 15 years, with up to 5 years of grace and preferential interest rates.

In the cases of BANDESAL and BCIE, financial intermediaries assume practically no risk, but even so, very few credits are assigned through these mechanisms. In informal conversations with workers in the banking sector, they point out that some clients themselves request access to credit through these sources of financing, but the demand is usually so low that there are not enough incentives generated for banks to carry out the administrative processes to channel these funds.

Last but not least, in the context of the COVID 19 pandemic, BANDESAL has developed two lines of financing to which private educational institutions can apply: (i) Subsidy (non-refundable) of 50% for payroll payment for two months (it is in discussion to be extended to four) for private institutions that have between 1 and 99 employees, as long as they maintain the same March 2020 payroll; (ii) Credit for all businesses at 3% annual interest rate, for 10 years, with a one-year guarantee, to settle pending payment commitments (rentals, utility bills, etc.) to return to normality, but not for investments or consolidations of debt.

Summary of Section 6

- The SSF is the supervisory institution in the banking system.
- The Salvadoran banking system is absolutely dollarized, stable and competitive.
- Loans for households and companies are growing, while business loan portfolios are concentrated in big companies.
- Savings and loan societies require fewer requirements than commercial banks.
- The banking system does not offer specific products for educational institutions.
- A few banking institutions offer special credit conditions for high-school students.
- Unsupervised credit institutions offer consumer loans to finance studies, but at higher interest rates.
- BANDESAL and BCIE offer guarantees and credit lines for schools and students.

7. FINANCIAL INFRASTRUCTURE

7.1 OVERVIEW OF FINANCIAL INFRASTRUCTURE

According to data from the SSF, through December 2019 the Salvadoran financial system had 4,533 access points, with a year-on-year growth of 554 points (13.9%), made up of 2,020 financial correspondents, 1,826 ATMs, 502 agencies and 185 establishments (mini-agencies and payment points).

The largest financial institutions have a network of agencies deployed throughout the country, although with little presence in rural or in small urban areas, where it is more common to find cooperative banking agencies. The SSF (2020) reports that the face-to-face modality in agencies continues to be the most recurrent way in which financial operations are carried out.

The deployment of ATMs also is widely-spread, although many of them are located in urban areas in the banking agencies or in shopping centers with restricted hours. The ATMs are used mainly to make cash withdrawals and balance and movements inquiries, but the *Banco Agrícola* recently has arranged some "Total ATM", in which, deposits can be made to one's own or to third party accounts, with some restrictions regarding the amounts.

Financial correspondents have risen in prominence and have become a way to extend commercial banks operations for increased access for users who live far away from the main cities. According to data from the SSF (2019), from 2016 to 2019 correspondents have increased by 1,146 access points, a growth of 131.1% in three years. Among banking sector stakeholders, financial correspondents lower costs to carry out banking operations and extend schedules to do so.

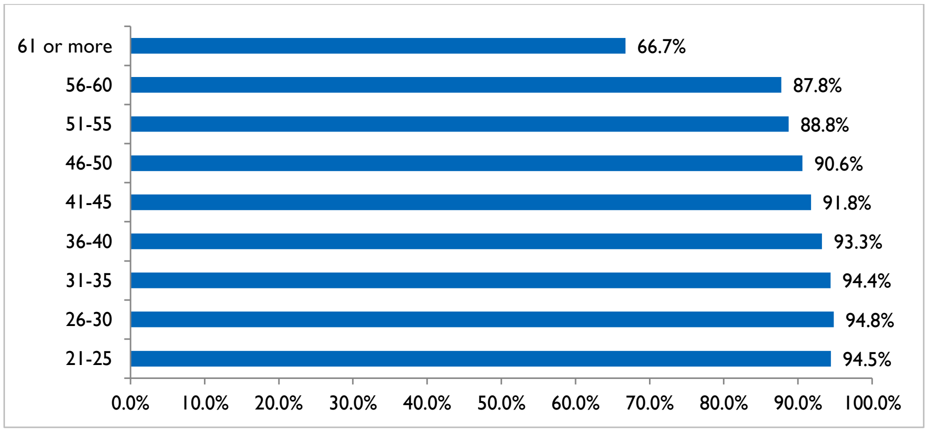
In October 2019, a survey was conducted in El Salvador and determined that 34% of Salvadorans who have a bank account in the country prefer to use digital channels to carry out transactions. Moreover, when users were asked about what they would look for in a bank, 39% of respondents indicated that one of the most important characteristics is digital accessibility. For this reason, commercial banks have also developed virtual tools —web pages and apps-— and more and more financial services are being digitization, with the COVID-19 pandemic streamlining this process. This transition to digitization is not observed in financial institutions other than the major commercial banks.

A relevant fact in El Salvador is the recent creation of an interbanking transfer system (UNI), which allows electronic transfers between accounts of different banks, using their own platforms. Once again, this system is only available to clients of commercial banks, and has restrictions on its hours of use, since transfers are not processed after four in the afternoon or on Saturdays and Sundays.

7.2 EVOLUTION OF MOBILE COMMUNICATIONS AND INTERNET

Mobile telephony has grown rapidly in El Salvador. According to information from the World Bank (2020), between 1998 and 2018 the number of mobile lines in El Salvador went from 137,114 to 9,433,495. In terms of penetration, this means having gone from 2.3 to 146.5 mobile subscriptions per 100 inhabitants, although the current penetration rate was reached in 2014 and has remained relatively constant since then. As can be seen in Figure 7, the data from the EHPM 2019 reveal that 87.5% of people over 20 years have a mobile phone, and that this percentage is higher among the youngest.

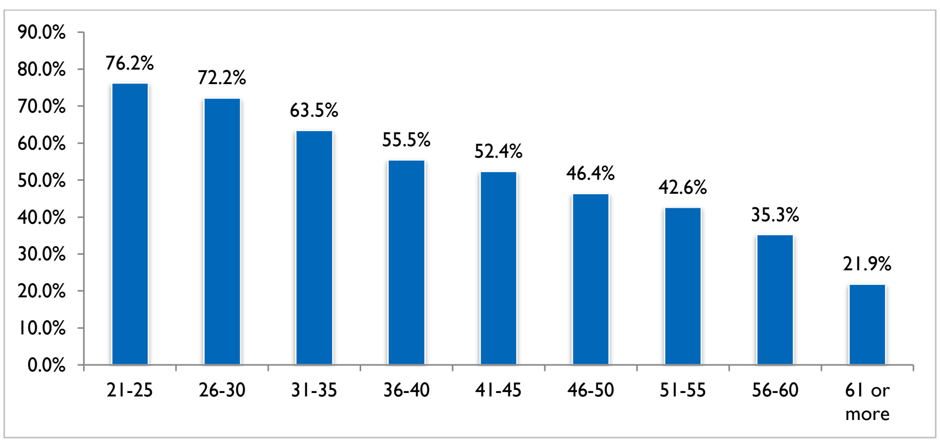
Figure 5. People with a mobile phone in El Salvador (%), by age groups



Source: EHPM (2019).

At the same time, the data from the EHPM 2019 reveal that only 53.5% of people over 20 that have a mobile phone have access to the internet, although access is negatively correlated with age, as shown in Figure 6.

Figure 6. People with a mobile phone and access to internet in El Salvador (%), by age groups



Source: EHPM (2019).

Fixed broadband service has also experienced a growing trend in El Salvador. Information from the World Bank (2020) shows that in 2003 there were 19,601 connections of this type, while in 2018 there were 492,265. This evolution has meant that, in the same period, the rate of penetration has gone from 0.3% to 7.7%.

Summary of Section 7

- Agencies, ATMs, Financial Correspondents and online platforms are the main mechanisms for financial operations.
- Agencies are the most used mechanism to request credits.
- There is a high penetration of mobile telephone services, although internet access is deficient.
- Use of mobile phones and internet is higher in the younger age groups.

8. INTERMEDIATORS/FACILITATORS

8.1 OVERVIEW OF FACILITATORS

As indicated in the previous sections, the financial sector in El Salvador is made up of institutions that are both regulated and non-regulated by the SSF. Among the supervised institutions, there are commercial banks, savings and credit societies and cooperative banks, while among the non-supervised institutions there are companies that grant personal and business loans but do not take deposits.

The liquidity, risk and concentration indicators show that the Salvadoran financial sector is stable and competitive. As part of this competition, financial institutions have been implementing different mechanisms to expand their operations throughout national territory, including the creation of agencies, ATMs, payment points, financial correspondents, telephone services and digital platforms. Commercial banks are the ones with the most mechanisms available.

In recent years, financial correspondents have been gaining relative importance. According to the SSF, in 2020 35% of the service points are financial correspondents. Of these, 45% of them are owned by a financial institution, but the rest belong to the financial correspondents management companies *Aki Red Multiservicios* and *Punto Express*, whom financial institutions —especially commercial banks— contract with the objective that their clients can carry out, without additional charges, their needed operations. These stores are located in easily accessible places, like pharmacies, stores, supermarkets, etc., in both rural and small urban centers.

Despite the growing diversification of service points and the fact that there is no official information in this regard, stakeholders agree that credit processing and account opening continue to be carried out in person at banking agencies. On the other hand, ATMs are used for cash withdrawals; electronic platforms are mostly used to pay for services and to carry out bank and interbank transfers; in financial correspondents money is withdrawn and deposited and services are paid; and the telephone service provides technical assistance to carry out on-line operations.

8.2 COST OF FINANCIAL SERVICES

Although it has been pointed out that there are different financial institutions (supervised and unsupervised) that grant loans, additionally commercial banks and savings and loan companies offer other types of services, such as opening savings accounts, cash withdrawals, the granting and use of debit and credit cards, the collection of services, the payroll payments, etc.

The costs for the provision of these services are:

- Opening a savings account, emission of a credit or debit card, payments with a credit or debit card: free of charge.
- Debit card transactions at owner's ATM: the bank guarantees between 4 and 7 monthly operations for free, although additional operations cost between US $ 0.50 and US $ 1.00.
- Withdrawals with a debit card at an ATM of another bank in El Salvador: the cost ranges between US$ 1.00 and US$ 3.50 per operation.
- ATM debit card withdrawals outside of El Salvador: the cost ranges between US$ 3.50 and US$ 5.65 per operation.

- Collection services: commercial banks charge from US$ 1.00 to US$ 3.00 per transaction, although in some cases they charge a minimum monthly commission ranging from US$ 20.00 to US$ 60.00. The only savings and loan company that offers this service is *Yntegral,* although it does not charge for it. The exception is the *Banco de Fomento Agropecuario* that charges less than US$ 0.50 per transaction and also makes a difference between types of companies (schools pay up to US$ 0.50).
- Internet banking services: all banks have a charge per security device that costs between US$ 25.00 and US$ 50.00, with a similar replacement cost, although in practice most of the operations can be carried out on-line without the need for this device. No savings and loan societies offers internet banking service.
- Interbank transfers: they cost between US$ 1.50 and US$ 10.0 per transaction, although with the creation of the UNI system, on-line inter-bank transfers cost US$ 1.00. The only savings and loan society that reports its rate on this service is *Gente*, which has a rate of up to US$ 2.50.

9. PAYROLL PAYMENT: COMMERCIAL BANKS CHARGE A FEE THAT VARIES BETWEEN US$ 0.60 AND US $ 5.00 PER EMPLOYEE, ACCORDING TO THE FORM OF PAYMENT (CHECK, DEPOSIT INTO ACCOUNT, PAYMENT AT THE COUNTER, ETC.). NO SAVINGS AND LOAN COMPANY OFFERS THIS SERVICE.

Summary of Section 8

- Financial correspondents are an instrument of commercial banking to expand services to rural and small urban areas.
- Financial correspondents do not charge additional fees to clients of financial institutions.
- Only commercial banks and savings and credit societies offer collection and payroll services.

9. CONCLUSIONS AND RECOMMENDATIONS

This assessment has shown that non-state education providers in El Salvador operate within challenging enabling conditions both in terms of education policy and delivery, intimately linked to limited credit demand, and multiple disruptors in that weaken investment. The solid financial infrastructure and strength of providers offer opportunities for developing new finance investment models and creating conditions for resource mobilization. Parallel to finance goals, key issues of equity of access, quality of learning and teacher professional development should be addressed.

The review of the education system and related enabling factors have revealed an ambiguous relationship with non-state education providers in El Salvador, which results in little support and attention from MINEDUCYT staff as the structure is presently defined, as well as indifference – and even rebuff from other stakeholders in education. A misunderstanding of the characteristics of the sector and a lack of recognition of their contribution to providing education for all limit interest in including them in educational programming. Nonetheless, non-state providers cover an important 15% of enrollment and offer secure, attractive services to students and their families.

The first recommendation is to strengthen enabling conditions on a strategic political level, through technical assistance for the MINEDUCYT in regards to crafting a new relationship with the non-state provider sector. This assistance would have three objectives:

a. Facilitate a change of perspective in regards to the importance of the non-state sector in providing educational services and covering gaps that public services cannot meet. The discussion should shift from the nature of the provider, whether public or private, to a paradigm of students' rights to receive education. This fundamental change in perspective means support for the non-state sector is directed towards benefitting students, not the provider.
b. Strengthen organizational mechanisms committed to facilitating and supervising the non-state sector, which implies involving all levels of MINEDUCYT structure. On the school level, all education providers should coordinate in a specific territory, departmental offices should attend to and support all providers and MINEDUCYT national offices must be available to do the same.
c. Design strategic plans and set forth education priorities, considering the entire education provider sector. Multiple stakeholders should be drawn into the discussion, including private institutions. Strategies should recognize the benefits for students and their parents' decisions to choose the type of education provider they prefer.

This first recommendation seeks to change social beliefs and political views in regards to non-state providers, but institutional-strengthening is also necessary. As presented in this assessment, non-state providers are heterogenous in size, fees, and profitability, but the majority are weak in their administrative and organizational capacity which limits their growth. ***The second recommendation, therefore, proposes technical assistance for strengthening institutional and lobbying capacity that could fundamentally change their role in the education sector.*** For example:

a. Strengthen the capacity of the different associations of private schools in El Salvador to represent and propose reforms that are relevant to improving education quality, equitable access and teacher professional development, through technical assistance.
b. Explore innovative organizational models that would permit educational institutions to operate as non-profit institutions with social aims and/or other mechanisms that would allow them to receive donations with tax benefits for donors, especially needed in the low-fee sector. This would draw much-needed private resources toward non-state schools.

Another area of need identified in this assessment is the deficient administrative, financial and business practices of owners of non-state institutions, who generally act out of a sense of vocation with charitable aims. ***A third recommendation is to strengthen non-state providers' ability to gain greater efficiency and profit, with the goal of improving and expanding their services.*** This would be done through the following activities:

a. Provide technical assistance and training in administrative, accounting and business practices to non-state institutions in order to improve their efficiency and increase profit and investment capacity. Owners often are teachers without specific training and are unfamiliar with good business practices for growth.
b. Educate on the importance of credit for business growth, with efficient business practices to maximize the potential for growth. This would counteract the culture of resistance to debt and fear of compromising the school.
c. Encourage the bankarization of the sector for charging fees and making payments as a strategy for business growth and the creation of favorable conditions for entering the credit market.

The strong, diverse and dollarized banking sector and the high level of competition among financial institutions allow a platform for efficient supply of credit resources. ***The fourth recommendation is to create conditions for a new relationship between the non-state education sector, and banking sector institutions, as well as other private donors,*** through the following:

a. Intermediate with institutions from the banking sector to educate on the business model of the non-state sector, with its peculiar culture and ethics, and generate the design of specific credit products that are attractive and mutually beneficial for both education providers and financial institutions.
b. Channel funds for lines of credit or guarantees for the non-state education sector in order to offer credit with preferential conditions: low interest rates, grace periods, lower collateral requirements. This would imply creating new credit funds or strengthen pre-existing ones in BANDESAL or the BCIE, using market mechanisms to channel them efficiently.
c. Disseminate the need for contributions to the non-state schools among private enterprise and other altruistic donors, through matching fund programs or other mechanisms.

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Commented [GS1]: Suggestion: Change to "References"?

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11. ANNEXES

11.1 ANNEX 1. LIST OF INTERVIEWS, ADDITIONAL STAKEHOLDERS AND NON-STATE PROVIDERS

11.1.1 INTERVIEWS WITH STAKEHOLDERS

	Name / Organization	Contact Information	Purpose	Interview Date
1	Juan Carlos Arteaga, MINED, Former head of Accreditation Department	2592-3170, juan.arteaga @mined.gob.sv	Update on current MINED policies on private schools	November 12, 2020
2	Guadalupe Leiva, Fusalmo	78226892, guadalupe.leiva@fusalmo .org	Understand finance scheme for EDUCAME implementers.	November 10, 2020
3	Héctor Matel, USAID Education Staff	7736-1116; hmatal@usaid.gov	USAID priorities and perspectives on education.	November 4, 2020
4	Mark Wilt / Brendan Fenley, USAID Economic Growth and Education Office Directors	mwilt@usaid.gov, bfenley@usaid.gov	USAID priorities and perspectives on economic growth.	November 16, 2020
5	Saul Leon, Fe y Alegría. Director General	s.leon@ feyalegria.org.sv	Understand private NOG collaboration with public schools.	November 3, 2020.
6	Ing. Julio Valencia, Director General, Liceo Rev. Juan Bueno	2526-6900; d.general@lcjuabueno.or g	Extensive network of private schools of the Assemblies of God church. Cross-subsidizes their schools.	November 4, 2020
7	Javier Hernández, President, Private School Association of El Salvador (ACPES)	7787-1543	Private school association for lobbying MINED, both for profit and not-for profit schools.	Miércoles 4, 11:00 a.m.
8	Rodrigo Bustamante, Executive Director, Irene Flores, Academic Coordinator Supérate Foundation	7737-4797; irene.flores@superate.or g.sv rodrigo.bustamante@su perate.org.sv	Private enterprise-funded complementary education program for public school students.	November 10, 2020
9	Jefferson Valencia, SSF Financial System Analyst	jvalencia@ssf.gob.sv	Supervision and behavior of banking system.	November 18, 2020
10	Saul Chicas, Chief of BCR Financial Research Department	saul.chicas@bcr.gob.sv	Credit market evolution and other loans issues	November 19, 2020
11	Anonymous director of business loans in a commercial bank	-	Products offered in the credit market for the non-state education sector.	November 19, 2020

	Name / Organization	Contact Information	Purpose	Interview Date
12	Anonymous director of personal loans in a savings and loan society	-	Products offered in the credit market for students and non-state schools.	November 19, 2020
13	Anonymous director of training at a textbook company.		Understand the dynamics of textbook marketing.	November 16, 2020

11.1.2 ADDITIONAL STAKEHOLDERS

	Name / Organization	Contact Information	Role /Relevance
EDUCATIONAL EXPERTS			
1	Rodolfo Cornejo, Accreditation director, MINEDUCYT.	Tel: 2592-3112 rodolfo.cornejo@mined.gob.sv	Newly-appointed accreditation director in the MINEDUCYT.
2	National Education Management Director, MINEDUCYT.	Director to be named	Responsible for oversight of schools and departmental offices.
3	Vicarage of Education, Episcopal Conference of El Salvador Prbto. Presbítero Guadalupe Aguilar Ramírez	2234- 5342 / 2234-5343.	Oversight, support and decision-making of Catholic schools, including CECE.
4	Helgar Cuellar, Director, Department of Social Studies, Salvadoran Foundation for Economic and Social Development	503-22485725 hcuellar@fusades.org	Conservative thinktank with studies and analysis of social and economic issues.
5	Nelson Cruz Salvador of the World Foundation (FUSALMO)	2259-2000 nelson.cruz@fusalmo.org	Salesian foundation that implements programs with public school students and teachers, and projects with the MINEDUCYT.
6	Gloria Evelyn Gonzalez National Director for Youth and Adult Education, MINEDUCYT.	2593 2637 evelin.gonzalez@mined.gob.sv	Planning and overseeing of implementation of EDUCAME flexible modalities with private providers.
7	Inter-sectorial Association for Economic Development and Social Progress (CIDEP)	503- 2528-4300 comunicacionescidep@gmail.com	NGO that implements EDUCAME sites and other projects with the MINEDUCYT.
8	Carolina Rovira Director, Higher Education Foundation (Fundación para la Educación Superior)	crovira@esen.edu.sv	Foundation linked with a higher education economics institution that carries out research on education

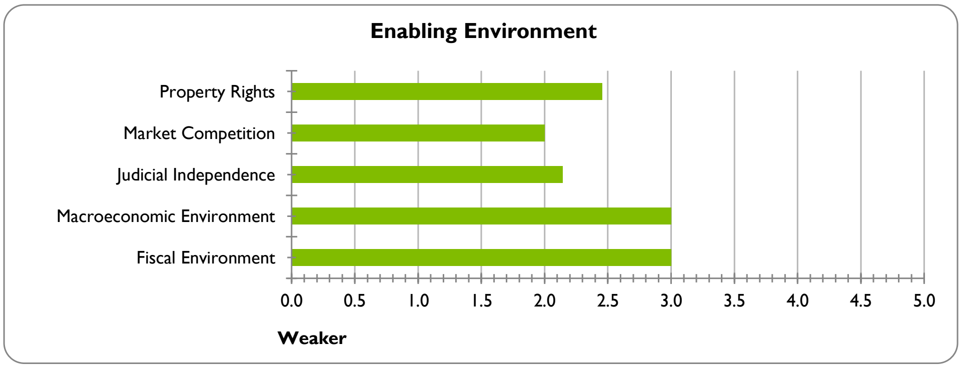
	Name / Organization	Contact Information	Role /Relevance
9	Ana de Bardi, Business Education Foundation (FEPADE)	503-2212-1600 anabardi@fepade.edu.sv	Channels private donations, scholarship programs to public school students and schools.
	TEXTBOOKS, TECHNOLOGY AND PUBLISHING COMPANIES		
10	Colección Cipotes:	https://www.mined.gob.sv/cyc/cyc.html https://www.mined.gob.sv/noticias/item/1014960-base-de-datos-servicios-de-impresion-libros-de-texto.html	The MINEDUCYT textbooks available on line and with instructions for purchasing print copies.
11	Santillana	+503 2505-8920 comunicacioncan@santillana.com https://santillana.com.sv/	Known as the most expensive and complete source for textbooks and resources. Also distributes for other companies.
12	Montañas de Fuego Internacional S.A. de C.V	2260-1817, 2260-1821 servicioalcliente@mdfeditores.com www.mdfeditores.com	A company that markets in all of Central America.
13	Edebé Central Offices. Barcelona	www.edebe.com	A Spanish company originally founded by the Salesians.
14	Ediciones Servicios Educativos	http://www.eseediciones.com/	A Salvadoran company linked to a printing company.
15	EDISAL, Editora y distribuidora de Libros de El Salvador, S.A. de C.V. Romel Eduardo Mariona	503 – 2260- 7525 gerencia@editorialedisal.com, edisalmercadeo@editorialedisal.com https://editorialedisal.com/	A Salvadoran editorial company.
16	TBox Planet	503 2505 8269 www.tboxplanet.com	A educational technology resource company that markets to higher-fee schools.
	BANKING INSTITUTIONS AND CONTACTS		
17	BANDESAL	www.bandesal.gob.sv	Public institution that seeks to close gaps in the credit market through guarantees and lines of credit to companies traditionally excluded from financing.

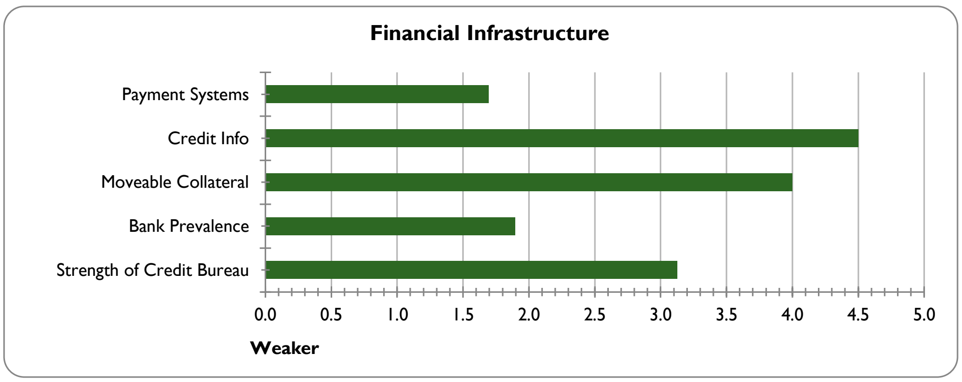
11.1.3 NON-STATE PROVIDER INTERVIEWS

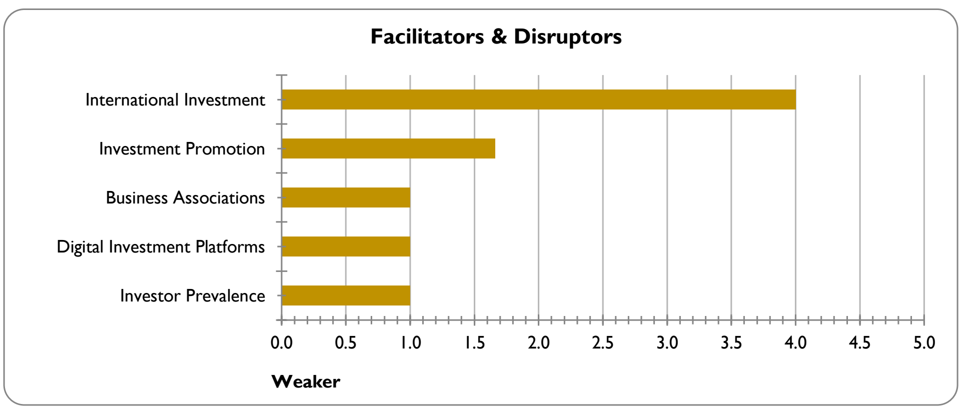
No.	Name of Non-State Provider	Contact	Type – grade levels	Enrollment	Fees	Credit Opportunities
1	Centro Pedagógico Asturias,Ciudad Credisa, Soyapango Code: 20172	Maribel Ramírez (female) +503 2293-2017 madecara@yahoo.es	Single-owner, private kindergarten for ages 3 – 6.	55 students	Enrollment - $32 Monthly - $25	Had a personal loan for infrastructure improvements.
2	Colegio "Profesora Ángela Pineda Altamirano" Lourdes Colón, La Libertad. Code: 21371	Lilian Pineda, co-founder and owner (female) 503- 7985 4758	For-profit secondary school. 7th – 12th grades, two technical degrees (commerce, health)	246 students	Enrollment - $60, $70 Monthly fees - $25, $40.	Personal loans with a bank
3	CECE Escuela Parroquial San José La Montaña, San Salvador Code: 88125	Mónica Tobar, Principal (female) Tel: 503-78776582 tobarmonica@gmail.com	CECE, private subsidized Catholic school. First through ninth grades	230 students	Enrollment - $52 Monthly fees - $10	Has financial backing from the Archdiocese, but would never consider credit.
4	Liceos Rev. Juan Bueno, San Benito, San Salvador	Julio Valencia, General Director (male) 503-2526 6900 d.general@lcjuanbueno.org	A private cross-subsidized network of 37 faith-based schools. All grade levels offered in most schools.	Between 81 and 1690 students	Enrollment - $4 – $200. Monthly fees - $5 - $107	Have obtained credit from commercial banks as a large organization.
5	Citalá School, Santa Tecla, La Libertad Code: 21593	Ramón Antonio Manzano, Director (male) 503-7889 3131 informacion@citala.edu.sv	A private philanthropic-financed school, foundation for boys 7th – 11th grades	232 students, all boys	No enrollment fees. $30 monthly fee	Never had to seek loans.
6	SUPÉRATE Business Program, San Salvador	Rodrigo Bustamante, Executive director (male) 503- 2562 0290 rodrigo.bustamante@superate.org.sv	A private complementary education foundation for public school students. Grades 9 – 11.	10 sites with approx.. 90 students in each	No cost.	Never had to request credit.

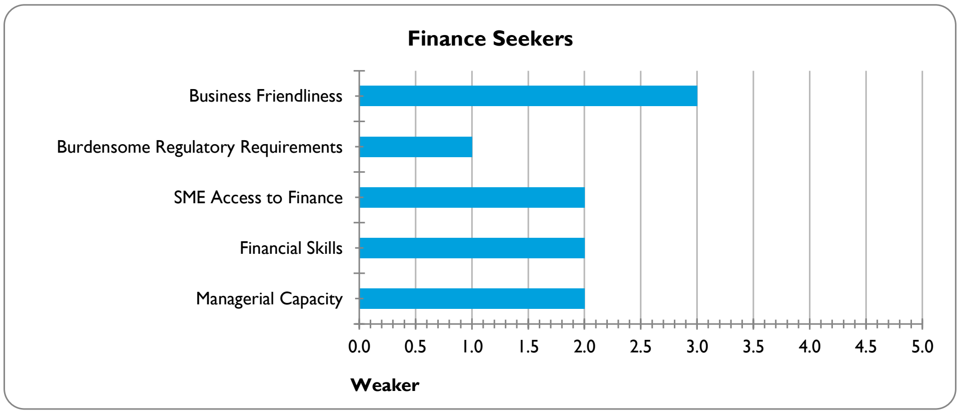
A note about confidentiality: In the cases studies, some schools and owners' names were changed to protect confidentiality as references to finances are made and for fear of extortion. The consultants request that names and contact information are not published openly for security reasons.

11.2 ANNEX 2 FIVE POINT FRAMEWORK








Finance Seekers
Business Friendliness
Burdensome Regulatory Requirements
SME Access to Finance
Financial Skills
Managerial Capacity
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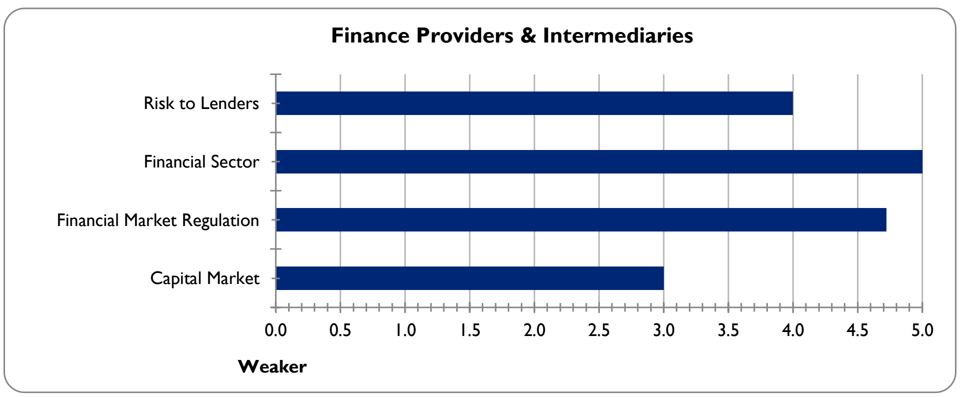
Finance Providers & Intermediaries
Risk to Lenders
Financial Sector
Financial Market Regulation
Capital Market
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11.3 ANNEX 3 CASE STUDIES

Case Study No. 1. Galicia Pedagogical Center, Soyapango, San Salvador

"Money is the problem. I don´t like to owe money; I prefer to save and then invest."

Galicia Pedagogical Center is a small, family-sponsored, neighborhood kindergarten in a highly-populated street that borders with several other areas full of lower middle-class families with children. The principal and owner, María, is a certified kindergarten teacher, who has expanded the school to its maximum limit through family support, investing personal funds and working several years without turning a profit.

The Galicia kindergarten attends 55 children ages 3 to 6 from the surrounding neighborhoods in a how rented from María's sister. The start-up costs were covered through a family loan, the first students and teacher were relatives and finally, after 15 years, the kindergarten is firmly established. In fact, María never does promotion or advertising and even sometimes has to turn away perspective students because she firmly believes that class sizes must be small.

Parents are happy with their pedagogical approach and prefer this small school over larger private schools where class size is over 40 students and over the public kindergarten where gang members' children attend. At one point, the Galicia enrollment was affected by gang lines, when parents were cautious about traveling in from other neighborhoods; now, parents beg her to add on additional grades, but she has no more physical space to grow.

Families pay a $32 yearly enrollment fee, eleven monthly fees of $25 and a one-time $25 activities fee to cover celebrations and field trips. Families also pay for books, supplies and uniforms purchased through the kindergarten, which María attempts to keep at a reasonable price. Ninety percent of the income is family fees, with a small profit on these sales of books and uniforms. About 15% of parents get on-behind with their payments, which they prefer to pay in cash, but the cash flow is generally sufficient to monthly keep up with all financial commitments. Year-end, parents catch-up using their Christmas bonus so they can receive their child's evaluations.

With the COVID crisis, about 14 of the youngest children dropped out; about 30% of parents have gotten on behind with their payments and have to pay through bank deposits in a personal account. Teachers have adapted to giving one hour of on-line classes weekly and sending activities to the families. In spite of this change, families feel the students are learning, but financially the situation is complicated. María has had to pardon debts, cancel the eleventh fee and give out grades even when families owe money.

The kindergarten hires three teachers and finding good teacher is difficult, in spite of the oversupply on a national level, because she is very demanding, but pays low salaries. Salaries are calculated as half-time jobs, at $160 or $170 monthly with benefits, like health insurance and retirement savings.

Getting to this point is a result of many years of hard work and investing personal resources. The lack of finances is an obstacle for continued growth, but María considers herself a "poor administrator". She makes purchases if they benefit the children even if not budgeted; she considers loaning money a drastic measure and prefers to save first and then invest. Each year-end, she invests in improving the equipment and installations in order to offer an improved and updated environment.

Financing a larger space for expanding the kindergarten to primary school seems impossible for María. A few years ago, her husband, now deceased, took out a personal loan to build a second floor on her sister´s house and the kindergarten was able to pay the monthly fee. Expanding to primary school would take additional capital to construct a complete building, since the Ministry of Education's infrastructure standards require all grades in one school compound, not in separate houses; additionally, there is not sufficient recreational space in their present building. In the current situation, Galicia cannot improve teacher pay or their financial situation without expanding enrollment, but the current infrastructure cannot be adapted to more students. María resists the idea of taking out a loan and would prefer an associate who could put up the money,

Case Study No. 2. Colegio Profa. Alicia Pérez, Lourdes, Colón.

"We all know that private schools are better quality."

Inspired by a mother who was a teacher and a son-in-law who works in health, two siblings joined together in 2004 to found a for-profit enterprise that creates an important opportunity for secondary education in a small town outside of San Salvador. The Teacher Alicia Pérez School was founded to offer a high school technical degree in health, since no other public or private institution in the area has that option. Grounded in a family of teachers, the school began in a personal property, then an initial investment was made to purchase a lot and construct a building. The school has grown from three grades to six, one degree option to three, and 50 students to 267 in 2020.

Offering seventh grade through high school and with general, health and commerce options, the school bears their mother's name. The founder and owner interviewed, Bianca, believes that private schools are of better quality than public, can respond better to market demands and give a sense of safety. Enrollment has been steady, even during COVID, with few drop-outs.

In spite of attracting a considerable number of students, the school had no profit during the first eight years, which may have been due to bad administration practices and perhaps even stealing. As owner, when Bianca fired the principal and administrator and her daughter took over the school administration, a profit was finally made. Even without a sustainable model, Bianca did not want to close the school in the early years because of her desire to maintain the social project that carried her mother's name.

Expansion, in spite of enrollment demand, has been a challenge, since credit is needed to build new classrooms. Several years ago, each associate took put up funds to build extra classrooms. The brother, who lives in the United States and has a business, put up cash, but Bianca had to take out a personal loan for a period of 10 years. She paid out approximately $1000 monthly from her own earnings rather than charging the school, because it was not turning a profit. No bank has every offered them a loan, and even when Bianca inquired about loan options to build laboratories and a cafeteria, she declined in order to not financially commit the school. The school continually invests their profit in improving the property and equipment, buying computers to offer special courses and expand their academic offer.

Quality comes from more control of teachers, which is why parents choose this school, according to Bianca. They are able to pay teachers better than other private schools, even with their unique hourly pay scheme, which functions well for practical purposes since not all teachers work the same number of hours or shifts; doctors and nurses are hired to teach the health classes. Nonetheless, high teacher turnover is a reality, since teachers move to the public sector when they can. This school pays $2.25 an hour for classes in third cycle and $2.50 for the high school level. Some teachers work as many as 42 hours a week, teaching classes from 7:00 a.m. to 4:00 p.m.

As in other schools, income is mostly dependent on family fees which cover 95% of the budget, in addition to a small profit on the sale of books and uniforms, and activities to raise funds. Students pay a monthly fee of US$ 25 in seventh through ninth grades and US$ 40 in high school, fees which have not been modified in years. Families may owe money from year to year, but the school still accepts their children as students. Families prefer to pay in cash or deposit fees in a bank account. Bianca is registered as the individual owner and keeps formal accounting, files taxes, etcetera, but avoids using the banks to collect fees because of the commission they charge.

The school is not a part of a school association even though Bianca recognizes that private schools are marginalized and seen as a business, not a social contribution. Lobbying and support from other sectors, such as NGO, universities and private businesses, would help; in reality, the school has signed agreements with these institutions for students' practicums but no other kind of support.

As in many low-cost schools, there is a tension in their identity as a social project to contribute with high-quality education and options not available in the public sector and their establishment as a for-profit business that is not, in reality, very lucrative.

Case Study No. 3. San Pedro Catholic Parochial School, San Salvador.

"Borrowing money would be an extreme measure."

Established in 1992 as a parish project, the San Pedro Montaña Catholic Parochial school is linked to the Catholic church and a seminary that prepares clergy; the school operates in a small space attached to the church compound. The school operates under the CECE arrangement, that is, it is a subsidized private school within the 1976 agreement between the Ministry of Education and the Catholic church, and operates with a board comprised of church and educational community members. In spite of the subsidy, the school struggles to stay afloat financially and must be profitable in order to stay open.

The San Pedro school has very limited space, so there is no kindergarten or high school; first through fifth grade meet in a morning shift and sixth through ninth in the afternoon. This means enrollment cannot grow beyond a maximum of about 230 students because there is no space. In the surrounding area, there are many pricey, private and free public schools; here students pay only $10 monthly. The choice of school is for the price and safety reasons; their parents mistrust the public school and some travel a reasonable distance to enroll their children in this safe but low-fee option.

The subsidy obtained from the MINEDUCYT consists in transferring money for operating expenses, covering some teachers' salaries and providing packages of schools supplies, shoes and snacks as a direct benefit for the students. The MINEDUCYT school functioning fund is transferred every year, about $1600 based on $8 per student enrolled, and is used for paper, cleaning and other supplies, which must be purchased with a formal invoice to be liquidated at the end of the year. Eight teachers are paid by the MINEDUCYT where monthly wages are $700 or more.

Parents' fees are received in cash at the school and used to help cover salaries for seven teachers (salaries of $240 a month, with benefits), internet, utility bills and infrastructure costs, although income is not enough for adequate maintenance or improvements. Additionally, the school generates about 20% of their budget through: activities with parents and parishioners; a scholarship program for needy students; a monthly church offering; the school store; and profit on the sale of books and uniforms (about 20-30% of the final price to the parents). The school secretary deposits the parents' cash payments in the bank account designated by the Archbishop's office.

Even with enrollment at a maximum, the Archdiocese decided to close the school in 2019 due to financial difficulties. When parents protested and the closure was announced in media reports, the MINEDUCYT paid two more teachers at the school to reduce their costs. Other income, such as donations from altruistic parishioners, have reduced in recent years, due to a scandal around sexual abuse and harassment five years ago.

Since the school is subsidized, the process for acquiring school supplies is the same as in public schools; the CECE secretary selects the provider in a fair that is offered in October of every year. The MINEDUCYT directly transfers the money to the provider after the CECE places the order and receives the goods.

In times of COVID, the level of late payments has doubled from 15% to 30% as parents struggle with reduced income and the inconvenience of making direct deposits in the school's account. After doing a survey with parents, the school opted for a virtual strategy using Facebook and WhatsApp for first through fifth grades and Zoom or Meet with smartphones in the upper grades. Both families and teachers have had to invest personal funds in internet, phone data, computers and phones.

The director emphasizes that there is an identity confusion about whether they are public or private, but in general their vision is social service and charity, not a business. Nonetheless, the broader church hierarchy has become more involved in the school and insists on seeing profits. As a CECE with the backing of the Archdiocese, the school could request credit from a financial institution, but the principal interviewed considers that an "extreme" measure, increasing financial distress rather than alleviating it. In order to improve infrastructure, the San Pedro school seeks donors and institutions that can help, rather than borrowing.

Case Study No. 4. Liceos Cristianos Reverendo Juan Bueno

"With our savings and reserves, we paid 100% of salaries."

The Rev. Juan Bueno Christian Lyceums are a network of 37 individual schools that belong to the Assemblies of God Conference in El Salvador. The first school was founded over 50 years ago by a North American missionary and each of the schools is founded by and belongs to a local church, but administrative processes finances and contracting of personal is managed on a central level. A cross-subsidization financial strategy allows more profitable schools to contribute resources to lower-fee schools in low-income neighborhoods so all can operate.

This subsidy allows schools to charge according to their local market's capacity to pay, with monthly fees of as little as $5 in some areas. Of the 37 schools, three are larger, more profitable schools, while eight receive the benefit of the subsidy to meet their operating costs; all the others have a balanced budget. The cross-subsidy is managed through a central Solidarity Fund, where all schools contributed monthly, then the Fund is redistributed according to the specific needs. This is possible because the central offices approve the budget of all member schools and supervise budget management.

Globally, 85% of the schools' budget is covered with school fees and the remaining 15% is raised from external donations; fees within some schools are also set differentially according to the student's capacity to pay. Under the umbrella of the church, the schools raise funds through several mechanisms: national and international sponsors for individual students and direct donations. Last year, a savings plan was started which was used for the COVID emergency because 24 schools needed additional support to cover their payroll and expenses.

Parents can pay through the banks or on-line, although the crisis created the need for POS payments. At present, many parents are on-behind in their school fees. Textbooks are sold to families at a preferential price and, in the case of the lowest-income schools, books are sold at cost. The schools receive incentives from the publishing companies in the form of computers, screens, teacher training and gift for special celebrations.

Like other schools, salaries make up the largest portion of the expenditures, even though salaries are not very competitive and teachers migrate to the public sector when they can. Some purchases are coordinated centrally in order to buy in bulk and receive better prices, and large expenditures need approval from the central offices. Six sub-sites coordinate payroll with local administrative personal. Income is reported daily and each school has a bank account where funds are transferred to cover payroll.

The installations of all the schools belong to the church and new schools are not opened frequently. The requirements for opening a new school are considered difficult, particularly in regards to infrastructure standards. An original priority was opening schools in poorer neighborhoods as a part of their social and evangelism goals but the gang situation prevents that: "It´s the worst thing that has happened to us", states the general director. Even though they have never had to close a school yet, it is a possibility in zones where enrollment has dropped due to social violence. In towns where the public schools are good quality, students migrate to the public sector and it is more difficult to maintain a private school.

The network has taken out loans from banks for construction projects, have a good credit record and the backing of the church conference. As a large, formally-organized entity, they can take out a business loan and are unaware of loans specifically for the education sector. With about 800 employees in all, they are not eligible for the BANDESAL credit offered to SMEs in the COVID response.

In general, there are no complaints about the MINEDUCYT; after 50 years of functioning they are well-treated. The accreditation process is fair and helps all their schools meet minimum standards, even though public schools do not have to meet these standards. The director is of the opinion that the MINEDUCYT could subsidize students in their schools, too, as in the CECE schools, because they have a similar social objective and have low-fee schools.

A well-organized centralized administration and a cross-subsidy strategy has allowed the 37 schools to operate successfully in varied settings, offering both higher-fee and lower-fee schools with the same social objective. Solidarity is key in times of crisis, where struggling schools are helped by the central administration that has the financial backing to seek creative solutions and support all their schools.

Case Study No. 5. Citalá School

"We can live without school fees. We have never had to borrow."

The Citalá School is a private secondary school founded in 2012, that offers grades 7 -11 for boys from low-income families who previously studied in public schools. It operated by a philanthropic foundation on the campus of an elite, bilingual Catholic boys' school. There are 244 students in 2020, who study in alternative schedules from the elite school, in the afternoons and Saturdays. The families pay a symbolic $30 monthly fee (some pay less, $15) with no enrollment fee, and the school even provides transportation since students finish early evening.

In 2020, the Citalá School will graduate their fifth cohort of students of 35-45 students. They receive Catholic Opus Dei formation, which promotes separated co-education, hence only boys are admitted. The Foundation is administered separately from the private school, except for use of the campus, including computer labs, library, sports fields and all the installations through a written agreement between the two institutions.

The selection process takes place in coordination with local public schools and includes an evaluation of potential leadership. School principals recommend students upon finishing sixth grade. The Citalá School does not consider itself a charity project, rather they look for boys who are well-behaved, with potential and who can capitalize on the positive effects of their peers. The original idea was inspired in the solidary and generosity associated with Opus Dei and a similar model operates in Honduras and Ecuador. There is a board of directors, that meets weekly to make decisions, and a separate patronage board that works solely on fundraising.

The cost of educating one student is $1100 a year, where 78% of the yearly budget of $300,00 is covered by donations and the fundraising strategies. The Citalá School depends primarily on donations from individual and businesses and affirms they could survive without the symbolic fees paid by parents. As a non-profit, the Citalá Association can give receipts for donations that are useful for tax purposes. To convince donors, the strategy is to do on-site visits so interested donors can see the experience first-hand and converse with students.

With the sponsor program, donors support individual students and can meet them in person. In the case of businesses, they sign an agreement to donate a certain amount; some may set up automatic periodic payments in their bank. This model is attractive for donors, who like to see the two schools operating on the same site but with different socioeconomic levels. For the last two years, the MINEDUCYT has contributed $20,000 through their subsidy program for private institutions that provide services to disadvantaged students

Recently, the Citalá School has looked for more innovative forms of raising funds, such as on-line crowdsourcing to capture international funds or campaigns with local banks, but for the moment, this does not represent much income. Instead, they seek more donors, fundraising with ex-students and more direct sponsors for specific students. They have an agreement with Business Foundation for Education (FEPADE) to channel scholarship money from private companies, some of which seek to benefit employees' children.

The rest of the budget, 22% is covered by the symbolic school fees where 90% of parents pay on time. Some students have support from their parents' employers or their church. Parents also cover uniforms and supplies, plus the costs of two field trips. Among other expenses, parents need to provide a device for their sons, such as a Smartphone or Tablet, and pay $45 for digital books. Phones are used during class time and at home for schoolwork. The school does not handle cash, rather payment is done through the banking system or intermediaries. The school does not receive profit from selling books, and sales at the school store is minimal.

As far as school expenditures, since the installations are borrowed, the only infrastructure costs are the cleaning services. The two greatest areas of expenses are salaries, where they struggle to pay fair wages; and transportation, to facilitate the students' attendance.

The Citalá Association has never had to ask for a loan, nor have they ever have been offered one, even as they participate in the banking system. As a result of COVID and cash flow problems, however, for the first time they have explored taking out a loan, while affirming that student fees are symbolic and they could survive without them.

Case Study 6. Supérate Business Program.

"Narrow and Deep. A social franchise is better."

Supérate Business Program is a complementary education program for public school students which is sponsored by businesses. It is considered a not-for-profit social franchise that was created 16 years ago by a Salvadoran textile company, whose owner had the vision of helping his workers' children. The original program was then replicated and expanded nationally and regionally, with the help of ten years of USAID funding.

The sponsoring Sagrera Paloma Foundation has structured the program and marketed it to businesses that meet certain requirements and who can commit to carrying through with the quality standards. Within the social franchise model, the sponsoring business must commit to the standards set forth in the manuals that outline administrative, academic, organizational, operational, communications and marketing procedures. For example, no more than 60 students can participate per three-year cohort. At present, there are 10 Supérate centers: 6 in El Salvador and 4 in Panama, while one in Nicaragua was closed. The Foundation offers technical support for the franchise and coordinates the establishment of new centers.

Companies are carefully reviewed and the franchise modality is formalized in an agreement with the Sagrero Paloma Foundation, committing to their fulfillment of the model and to receive the accompaniment the SP Foundation provides. Financing can be from foundations, businesses, families or even personal donations. Each company establishes its own center that is managed by the foundation or business that adopts it. An important part of selecting partners for Supérate sites is the assessment of their commitment and dedication in the long-run for a permanent project; generally, this is found in family businesses, not multinational ones.

A company must be committed on all levels of their organization, have independent economic stability, agree with the philosophy of the program, provide opportunities for study and work and, preferably, have adequate installations or make the initial investment. The cost per student is $1,500 annually and the program lasts for three years. Other criteria for opening a Supérate center is the assessment of the surrounding area, that is, if there are enough possible students and public schools for the selection; opportunities for higher education and employment, and a location convenient for public transportation.

Students are selected from nearby public schools, through a meeting with principals, identifying eighth grade students with a good academic record. Tests are applied to identify emerging leaders, assessing attitudes and the family's commitment. There is always more demand than space, with 60% participation of girls. Family support is important, because the program is very demanding, since they study one shift in the public school and participate in Supérate in the other.

The curriculum covers English, computers and values education during three or four hours Monday through Friday. Values education promotes social and life skills, self-esteem, leadership and job preparedness, and is facilitated by psychologists. Students graduate from Supérate and high school at the same time and seek to keep on with their studies and work.

The Foundation has no cash flow problems because the associates are large businesses that have even been able to continue their support even during COVID crisis. The hope is to expand more centers in Panama but associates must have commitment and capacity, since the initial investment is large and the annual cost is around $250,00 in order to maintain the center. The Foundation receives an institutional contribution to cover the use of the brand, support and use of the franchise, although each center´s administration is independent. The Foundation has only received outside financing from USAID and the graduate's network.

The company benefits by investing in youth and seeking higher quality workers for the country. The benefit is purely social, with the desire to help youth, as the future of the country, as a "narrow and deep" strategy, i.e., helping a few and well. In this sense, the modality of a social franchise is the most appropriate organizational model.

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