WATER SECURITY AS ECONOMIC INFRASTRUCTURE: A FISCAL-TERRITORIAL DEVELOPMENT BREAKTHROUGH FOR EL SALVADOR

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This report was developed by the authors in consultation with UNDP's El Salvador Country Office and the Inclusive Growth team.

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Executive summary

El Salvador's development trajectory is critically hampered by the convergence of high vulnerability to climate events, persistent fiscal constraints, and deep-seated territorial inequalities. The nation consistently ranks among the most climate-vulnerable globally, with recurrent extreme weather events inflicting significant economic and fiscal costs. Water security, particularly within the vital Lempa River basin, has emerged as a central binding constraint.

A unique window of opportunity has opened with the launch of the Lempa River Basin Conservation and Restoration Program, underwritten by a landmark debt-for-nature swap. However, the central obstacle is the persistent fragmentation between climate commitments, fiscal frameworks, territorial planning, and public investment systems.

This policy brief proposes a systemic shift to overcome this fragmentation by establishing a unified fiscal-territorial framework. The core transformation is to reframe climate action as a foundational element of economic and fiscal strategy through four integrated actions:

1. **Defining Water Security as Economic Infrastructure:** Treating the Lempa River basin as a core economic asset.

2. **Integrating Climate Action into Fiscal and Territorial Systems:** Embedding resilience into public financial management and territorial planning.

3. **Shifting from Projects to a Prioritized Portfolio:** Moving toward a coherent national investment portfolio aligned with fiscal capacity.

4. **Strengthening Governance through Integration:** Establishing a high-level Fiscal-Territorial Resilience and Water Council to align decision-making, anchored in the existing Lempa River program.

Financially, this integrated strategy leverages public finance as its backbone, anchored by the predictable resources from the debt-for-nature swap, to strategically align multilateral climate finance and private capital.

By implementing this approach, El Salvador can transition from a reactive posture to a proactive, investment-led strategy, reducing long-term fiscal risk, enhancing economic productivity, and building a more resilient and inclusive development model.

1. NDC x SDG Insights overview: El Salvador

The strategic direction presented here is informed by analytical work conducted under the UNDP NDC × SDG Initiative. The analysis for El Salvador confirms that targeted climate interventions—particularly those advancing water security, urban climate resilience, and productive, resilient rural territories—can drive significant social and economic co-benefits (UNDP, 2024).

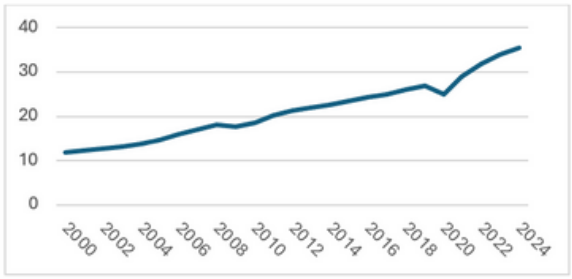
However, the diagnostic also reveals that the potential of these synergies is constrained by structural fragmentation. The analysis highlights that the disconnect between climate action and core fiscal and sectoral policy frameworks has historically diluted investment effectiveness.

These findings underscore the central argument of this proposal: without a stable, high-level institutional mechanism, El Salvador risks forgoing significant development opportunities. The recommended framework directly responds by creating the enabling conditions to translate climate ambition into durable economic and social progress.

2. Country context

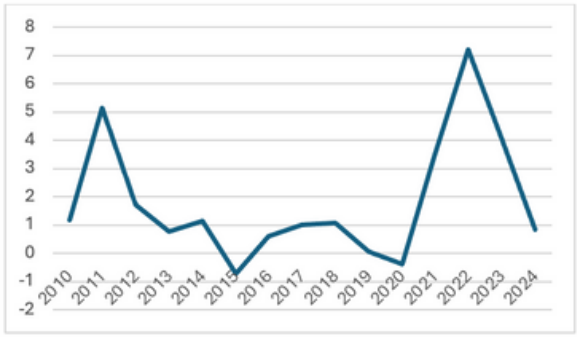
El Salvador enters the next decade at a pivotal juncture. The country has shown notable economic resilience. Real GDP growth is estimated at around 2.5% since 2024 (IMF, 2025), supported by strong domestic consumption and remittance inflows. Inflation is contained at around 1%, but central government debt increased to over 100% of GDP in 2024. Tax revenue collection sits above 20% of GDP. Persistent social gaps remain, with 27% of Salvadorans living in poverty (IMF, 2025; World Bank, 2025).

Figure 1: GDP (Billions of U.S. dollars, GDP, current prices)



Source: World Bank

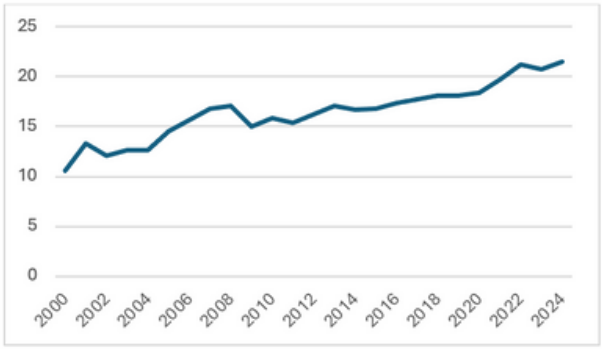
Figure 2: Inflation consumer prices (annual %)



Source: World Bank

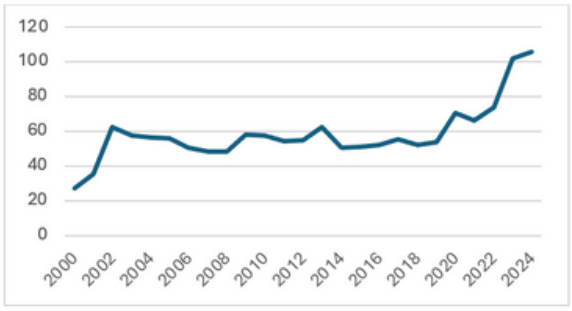
El Salvador's development trajectory is increasingly shaped by climate risk. The country ranks among the most climate-vulnerable in Latin America, with the Dry Corridor experiencing recurrent droughts and water scarcity.

Figure 3: Tax revenue as percent of GDP



Source: World Bank

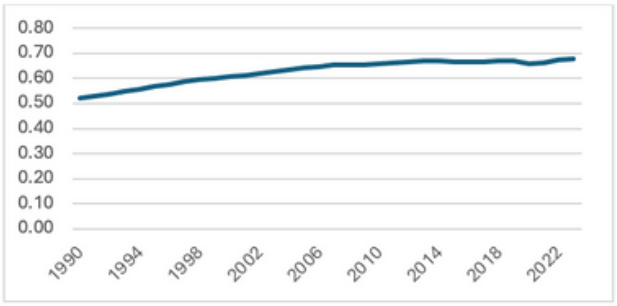
Figure 4: Central government debt as percent of GDP



Source: World Bank

According to its 2021 Nationally Determined Contribution (NDC), El Salvador commits to a 15% reduction in emissions and identifies priority adaptation actions (Government of El Salvador, 2021). These actions intersect strongly with multiple Sustainable Development Goals (SDGs). Yet, institutional fragmentation hinders implementation.

Figure 5: Human development index



Source: UNDP

Figure 6: Share of the population living in poverty at USD 3 per day (2021 PPP, %)

Source: World Bank

Financing gaps remain substantial, with an estimated need of around USD 20 billion for climate action by 2030. This context highlights the urgency of state-led long-term development planning to unlock climate-development synergies.

3. Development challenge and opportunity

El Salvador's development is shaped by the interaction of high exposure to climate-related hazards, persistent fiscal vulnerabilities, and structural territorial inequalities. These challenges have direct implications for economic growth and social well-being (IMF, 2025).

From a climate risk perspective, El Salvador is consistently identified as one of the most climate-vulnerable countries in the world (Germanwatch, 2021). The Notre Dame Global Adaptation Initiative (ND-GAIN) Index places the country among those with high vulnerability and limited adaptive capacity (ND-GAIN, 2023). Climate-related shocks already impose significant economic and fiscal costs, representing a material macro-fiscal risk (IMF, 2025).

Within this context, water security emerges as a central binding constraint. The Lempa River basin faces increasing stress, and weak integration between watershed management and investment decisions has limited the effectiveness of past interventions.

Despite these challenges, a unique window of opportunity has opened. The recent launch of the Lempa River Basin Conservation and Restoration Program, supported by a landmark debt-for-nature swap, provides long-term, predictable financing (Government of El Salvador & The Nature Conservancy, 2023). Additional enabling conditions include growing access to international climate finance and improvements in budget transparency.

The central constraint, therefore, is not a lack of ambition, strategies, or financing instruments, but rather the persistent fragmentation between climate commitments, fiscal frameworks, territorial planning, and public investment systems.

This proposal responds by advocating for a unified fiscal-territorial approach that integrates water security, urban resilience, and productive territorial transformation, treating climate resilience as a form of economic infrastructure.

4. The Proposed Integrated Framework: What Will Change?

This policy recommendation proposes a systemic shift in how El Salvador translates climate commitments into fiscal, territorial, and investment decisions. It focuses on changing the way decisions are coordinated, prioritized, and financed across existing institutions, with water security and territorial resilience as its organizing axis.

Currently, climate action is implemented through fragmented, project-based interventions. Their impact has been constrained by weak integration with core state systems, often treating adaptation as isolated expenditures rather than strategic investments.

The proposed framework changes this logic by establishing a unified fiscal-territorial approach that embeds climate resilience into the core of economic decision-making.

1. **Redefining Water Security as Economic Infrastructure:** The Lempa River basin is treated as a foundational system underpinning productivity, energy, and fiscal stability. This aligns with the established principle that integrated water resources management (IWRM) is a critical framework for managing water's connections to societal and environmental systems to support sustainable development Grigg (2024).

2. **Shifting to a Coherent National Investment Portfolio:** Moving from discrete projects toward a prioritized portfolio aligned with fiscal capacity improves execution and accountability, a shift emphasized by UNDP's integrated financing strategies (UNDP, 2024).

3. **Integrating Urban Resilience into National Planning:** Investments in green infrastructure and flood mitigation in San Salvador and secondary cities are prioritized based on their macroeconomic and social returns, reflecting evidence of substantial co-benefits in public health and labor productivity (OECD, 2023).

4. **Repositioning Rural Territories within a Productive Framework:** Linking ecosystem restoration, climate-smart agriculture, and rural livelihoods addresses the dual challenge of enhancing adaptive capacity while improving incomes, as outlined in the NDC.

Crucially, this strategy also transforms governance by introducing a coordination mechanism that aligns fiscal policy, territorial planning, and sectoral investment without creating parallel institutions.

In practical terms, the recommended shift integrates NDC, SDG, and fiscal sustainability goals into a single decision-making framework. This enables a move from a reactive approach to a preventive and investment-led strategy, making climate resilience a source of economic value and fiscal stability.

Institutional and Governance Innovation

Achieving the proposed shift requires innovating in how institutions coordinate, prioritize, and execute decisions. The core governance challenge is institutional fragmentation.

A. From Sectoral Coordination to Decision-Level Integration
The proposal introduces a permanent coordination mechanism: a Fiscal Territorial Resilience and Water Council, operating under the Executive. Its purpose is to align decisions across institutions with authority over budgets and territorial priorities, avoiding the pitfalls of ad-hoc committees common in fragmented systems (OECD, 2025).

B. Clarifying Roles and Strengthening Accountability
Under this framework, institutional mandates remain but are redefined functionally through shared objectives and synchronized planning cycles. This outcome-oriented governance strengthens accountability and is critical for effective climate policy (IPCC, 2022).

C. Integrating Territorial and Subnational Perspectives
The approach systematically incorporates territorial risk assessments into national investment decisions, improving efficiency. This integration is key for effective adaptation, as local needs must inform national priorities (World Bank, 2020).

D. Using the Lempa Program as an Institutional Anchor
The governance shift is anchored in the existing Lempa River Basin Program. This reduces friction and aligns with lessons from climate finance evaluations, which warn against stand-alone project units (UNFCCC Standing Committee on Finance, 2022).

The proposed arrangement is enabling, enhancing the state's capacity to act coherently within existing systems.

Integrating Climate and Development into Fiscal and Territorial Systems

The core ambition is to embed climate resilience and water security into El Salvador's fiscal and territorial decision-making systems.

A. From Climate Strategies to Fiscal Decision-Making
The framework systematically links climate objectives to budget formulation and public investment appraisal. Strengthening tools like climate budget tagging ensures climate investments are aligned with fiscal priorities. This integration is crucial as preventive investment can reduce future budget volatility, a key consideration for fiscal sustainability (IMF, 2023).

B. Aligning Public Investment with Territorial Resilience Priorities
Introducing a unified investment prioritization framework ensures projects are assessed on their contribution to water security and territorial productivity, strengthening existing appraisal systems.

C. Integrating Territorial Planning and Fiscal Systems
This integrated approach embeds territorial risk assessments into national fiscal decisions. Evidence shows this improves adaptation effectiveness and policy coherence (OECD, 2023).

D. Using Water Security as an Integrating Axis
Water security serves as a critical integrating axis for national policy, enabling effective coordination across sectors such as agriculture, energy, and urban development (Weber & Sörensen, 2020). This integrated approach is strongly supported by the high economic returns of strategic investments in water resource management, particularly in vulnerable contexts. Recognizing this, major multilateral development banks have mobilized tens of billions of dollars, with the majority of financing explicitly directed toward low- and middle-income countries to build resilience and drive growth (World Bank Group et al., 2024).

E. From Fragmentation to Coherence
Overall, the proposal represents a shift toward a coherent fiscal-territorial system that internalizes climate risk through core state systems.

Financing and Implementation Pathways

The effectiveness of this strategy depends on its financial credibility and implementation feasibility.

A. Using Public Finance as the Backbone
The approach reorients existing public spending toward high-impact resilience investments. Climate budget tagging is central for aligning budgets with priorities and improving transparency.

B. Anchoring Finance in the Lempa River Basin Program
The Lempa Program provides long-term, predictable financing. Using it as an anchor avoids parallel mechanisms and reduces risk, a practice recommended for enhancing aid effectiveness (OECD, 2019).

C. Leveraging Multilateral and Climate Finance
This coherent framework enables strategic engagement with multilateral banks and funds like the Green Climate Fund (GCF), improving the bankability of investment proposals, a need highlighted in UNDP's assessment (UNDP, 2024).

D. Mobilizing Private Capital and Blended Finance
By reducing risk and increasing scale through a clear public investment portfolio, the strategy makes selected investments more attractive for private participation through PPPs and blended finance, under strong public oversight (CPI, 2021).

E. From Fragmented Projects to an Integrated Portfolio
Implementation is organized around a prioritized national investment portfolio. This shift from fragmented project finance to integrated system finance improves coordination, execution, and scalability.

Results, Accountability, and Transparency

The proposed framework must be accompanied by a clear results framework and strong accountability mechanisms.

A. A Results Framework Focused on Development Outcomes
The results-based approach prioritizes strategic outcome areas: water security, urban resilience, territorial productivity, and fiscal risk reduction, aligned with the NDC and SDGs.

B. Key Result Areas and Indicative Indicators
1. Water security and watershed resilience (e.g., share of basin under effective monitoring, water availability).
2. Urban climate resilience (e.g., population benefiting from resilience infrastructure).
3. Productive and resilient rural territories (e.g., adoption of climate-resilient practices).
4. Fiscal resilience and risk reduction (e.g., reduced climate-related fiscal volatility).

C. Accountability Through Institutional Clarity
Accountability is ensured through clear institutional responsibilities linked to the governance council, avoiding parallel structures.

D. Transparency as a Management Tool
A public results dashboard consolidates information, building on ongoing efforts to improve budget transparency, recognized as an effective coordination tool (International Budget Partnership, 2022).

E. Learning, Adaptation, and Policy Feedback
The framework supports learning and adaptive management through periodic review, aligning with best practice in climate policy (IPCC, 2022).

F. From Reporting to Credibility
Clear results, accountability, and transparency strengthen policy credibility, essential for mobilizing financing and ensuring long-term returns.

5. Why This Integrated Framework Matters for El Salvador

This proposal matters because it addresses a structural development constraint in a nationally owned, fiscally realistic manner.

First, it matters because climate risk is already shaping development prospects. Without a systemic approach, impacts will continue to generate fiscal pressures and disrupt productivity.

Second, it reframes climate action as an economic and fiscal strategy. Treating water security as economic infrastructure aligns resilience investments with productivity and stability goals, delivering high returns (Global Commission on Adaptation, 2019).

Third, it builds on nationally owned assets and reforms, leveraging the Lempa Program and ongoing PFM reforms to enhance coherence without increasing complexity.

Fourth, it strengthens territorial cohesion and inclusion by integrating watershed management, urban resilience, and rural productivity within a single framework.

Fifth, it enhances policy credibility and fosters investor trust. A coherent framework with clear priorities sends a strong signal to development partners and private investors, a critical factor for mobilizing capital (CPI, 2021).

Sixth, it respects national sovereignty while strengthening state capacity, improving coordination within existing institutions.

Finally, it offers El Salvador a clear development narrative that links fiscal responsibility, territorial development, and adaptation, positioning resilience as a driver of inclusive growth.

This integrated framework is a practical governance and investment strategy to convert climate risk into an opportunity for strengthening El Salvador's development foundations.

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