

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **EL SALVADOR**

# **REDUCTION OF VULNERABILITY IN INFORMAL URBAN NEIGHBORHOODS IN THE SAN SALVADOR METROPOLITAN AREA**

**(ES-L1016)**

## **LOAN PROPOSAL**

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## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problems addressed, and rationale .....	1
B.	Objectives, components, and costs .....	4
C.	Key results indicators .....	8
II.	FINANCING STRUCTURE AND RISKS .....	9
A.	Financing instruments .....	9
B.	Environmental and social safeguard risks .....	9
C.	Fiduciary risks .....	10
D.	Other issues and risks .....	11
III.	IMPLEMENTATION AND ACTION PLAN .....	13
A.	Summary and execution arrangements .....	13
B.	Procurement .....	14
C.	Summary of monitoring and evaluation arrangements .....	15

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results matrix
Annex III	Fiduciary agreements and requirements

ELECTRONIC LINKS
<p><b>REQUIRED</b></p> <ol style="list-style-type: none"> <li>1. Annual work plan (Activity plan for the first disbursement and the first 18 months of implementation)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345364">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345364</a></li> <li>2. Monitoring and evaluation arrangements  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345403">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345403</a></li> <li>3. Environmental and Social Management Report (ESMR)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345384">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345384</a></li> </ol> <p><b>OPTIONAL</b></p> <ol style="list-style-type: none"> <li>1. Program Operating Manual  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345391">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36345391</a></li> <li>2. Preliminary design project for Las Palmeras  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36347821">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36347821</a></li> <li>3. Preliminary design project for El Caracol  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349236">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349236</a></li> <li>4. Investments in flood risk mitigation in the San Salvador Metropolitan Area (AMSS)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36347829">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36347829</a></li> <li>5. Economic study of the intervention  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36383424">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36383424</a></li> <li>6. Guidelines for preparing the Community Civil Protection Plan  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349234">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349234</a></li> <li>7. Vulnerability questionnaire form  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349409">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36349409</a></li> <li>8. Risk assessment of the San Salvador Metropolitan Area  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36181953">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36181953</a></li> <li>9. Environmental and Social Management Framework  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36360929">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36360929</a></li> <li>10. Resettlement Framework  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36361970">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36361970</a></li> <li>11. Basic information on eight preliminary informal urban neighborhoods  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36388461">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36388461</a></li> <li>12. Safeguard Screening Form for classification of projects (SSF)  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36351145">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36351145</a></li> </ol>

## ABBREVIATIONS

AMSS	Área Metropolitana de San Salvador [San Salvador Metropolitan Area]
ANDA	Administración Nacional de Acueductos y Alcantarillado [National Aqueduct and Sewers Administration]
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and Social Management Report
FUNDASAL	Fundación Salvadoreña de Desarrollo y Vivienda Mínima [Salvadoran Foundation for Development and Core Housing]
ICB	International competitive bidding
ISNA	Instituto Salvadoreño para el Desarrollo de la Niñez y la Adolescencia [Salvadoran Institute for Child and Adolescent Development]
MARN	Ministry of Environment and Natural Resources
MINED	Ministry of Education
MINSAL	Ministry of Health
MOPTVDU	Ministry of Public Works, Transportation, Housing, and Urban Development
NCB	National competitive bidding
NICQ	National individual consultant selection based on qualifications
OPAMSS	Oficina de Planificación del San Salvador Metropolitan Area [Planning Office for the San Salvador Metropolitan Area]
PCU	Project coordination unit
PEP	Program execution plan
QCBS	Quality- and cost-based selection
SAFI	Integrated Financial Administration System (public finance management software)
STP	Secretaría Técnica de la Presidencia [Technical Secretariat of the Presidency]
UACI	Unidad de Adquisiciones y Contrataciones Institucional [Corporate Procurement and Contracting Unit]
UFI	Unidad Financiera Institucional [Corporate Finance Unit]
VMVDU	Office of the Deputy Minister for Housing and Urban Development

## PROJECT SUMMARY

### EL SALVADOR REDUCTION OF VULNERABILITY IN INFORMAL URBAN NEIGHBORHOODS IN THE SAN SALVADOR METROPOLITAN AREA (ES-L1016)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of El Salvador <b>Executing agency:</b> Ministry of Public Works, Transportation, Housing and Urban Development (MOPTVDU), through the Office of the Deputy Minister for Housing and Urban Development (VMVDU)			Amortization period:	25 years
			Grace period:	5 years
			Disbursement period:	5 years
			Interest rate:	LIBOR
<b>Source</b>	<b>Amount (US\$ millions)</b>	<b>%</b>	Inspection and supervision fee:	*
IDB (Ordinary Capital)	50	100	Credit fee:	*
Local	0	0	Currency:	U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital
Total	50	100		
Project at a Glance				
<b>Project objective:</b> The objective of the program is to reduce the vulnerability and improve the living conditions of families residing in informal urban neighborhoods who are exposed to flood and landslide risks in the San Salvador Metropolitan Area (AMSS). The program will combine interventions to improve neighborhoods, mitigate local risks, invest in structural water management solutions, and provide access to social services.				
<b>Conditions precedent to the first disbursement of the loan proceeds:</b> (i) establishment of the program coordination unit (PCU) within the Office of the Deputy Minister for Housing and Urban Development (VMVDU); (ii) entry into force of the program Operating Manual; and (iii) updating of the program execution plan (PEP) (see paragraph 3.3).				
<b>Special contractual conditions:</b> (i) the first evaluation will be commissioned 24 months after the first disbursement, or when 50% of program resources have been committed (whichever occurs first); and (ii) the final evaluation will be commissioned when 80% of program resources have been committed (see paragraph 3.7); and (iii) before issuing calls for bids for infrastructure projects, an approved resettlement plan will be in place, subject to the Bank's no objection (see paragraph 2.4).				
<b>Exceptions to Bank policies:</b> None				
<b>Project qualifies as:</b> SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input checked="" type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input checked="" type="checkbox"/>				
<b>Financing program indicators</b> Small and vulnerable countries <input checked="" type="checkbox"/> SEQ, PTI <input checked="" type="checkbox"/> climate change <input checked="" type="checkbox"/> integration <input type="checkbox"/>				

\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems addressed, and rationale

- 1.1 Socioeconomic indicators have improved in El Salvador over the last two decades. However, there are still high levels of poverty (33.3%) and extreme poverty (9.2%) in urban areas, as well as problems in access to basic and social services,<sup>1</sup> and increasing vulnerability to landslides and floods. The San Salvador Metropolitan Area (AMSS) is highly and increasingly vulnerable to landslides and floods.<sup>2</sup> Its natural protection (soil permeability and forest cover) is decreasing as urban development spreads.<sup>3</sup> In absolute terms, due to population density, the greatest damage from natural disasters in the country occurs in this area.<sup>4</sup>
- 1.2 **Informal Urban Neighborhoods.** According to the urban poverty map,<sup>5</sup> there are 514 informal urban neighborhoods in the AMSS, grouped according to four levels of poverty (414 with moderate or low poverty and 100 with extreme or high poverty). Low-income households generally have significant gaps in their access to basic and social services: 58% of the informal urban neighborhoods do not have adequate sanitation services, 40% have no drinking water service,<sup>6</sup> and 15% do not have electricity. In the poorest quintile, the percentage of institutional births in urban areas is 78%, compared to 98% in the richest quintile, and early childhood

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<sup>1</sup> For example, according to the most recent household survey, 64% of urban households in extreme poverty have access to piped water, 37% have access to sanitation services through sewer or septic systems, and 3% do not have any type of sanitation service, compared to 85%, 74%, and 0.5%, respectively, for the rest of the population.

<sup>2</sup> The number of communities in the AMSS at risk of flooding increased from 73 to 86 between 2005 and 2009, and 53% of the natural disasters that occurred in the last 100 years took place between 1997 and 2007. El Salvador: Impacto socioeconómico, ambiental y de riesgo por la baja presión asociada a la tormenta tropical IDA en noviembre de 2009 [El Salvador: Socioeconomic and environmental impact and risk posed by the low pressure associated with Tropical Storm Ida in November 2009]. Economic Commission for Latin America and the Caribbean (ECLAC), 2010.

<sup>3</sup> Inundaciones: Un fenómeno recurrente en la ciudad de San Salvador [Floods: A recurring phenomenon in the city of San Salvador]. Carta Urbana No. 126. Salvadoran Foundation for Development and Core Housing (FUNDASAL), 2005.

<sup>4</sup> For example, one estimate of the impact of Tropical Storm Ida (primarily flooding and landslides) concluded that 40% of the affected population, and 53% and 29% of losses in the areas of health and education, respectively, occurred in the Department of San Salvador (where 12 of the 14 municipios in the AMSS are located). El Salvador: Impacto socioeconómico, ambiental y de riesgo por la baja presión asociada a la tormenta tropical IDA en noviembre de 2009 [El Salvador: Socioeconomic and environmental impact and risk posed by the low pressure associated with Tropical Storm Ida in November 2009]. ECLAC, 2010.

<sup>5</sup> The map considers access to basic services, quality of housing, education, and job insecurity.

<sup>6</sup> The households that must pay for delivered water or well water pay 10 and 3 times the equivalent rate for an in-home connection (US\$2.29 per 10m<sup>3</sup>). Based on the urban poverty map and the La Palmera and El Caracol preliminary design projects.

development services are in very limited supply,<sup>7</sup> despite the demand for them. In addition, families in extreme poverty tend to settle along riverbanks,<sup>8</sup> which increases their exposure to floods and landslides. Out of the total number of informal urban neighborhoods in the AMSS, 93 have been identified as areas at high risk of landslides and floods. Of that number, 29 are in the group with extreme or high poverty (16 at risk of landslides and 13 at risk of floods). There are 124,845 people living in the 514 informal urban neighborhoods (27,164 of them in neighborhoods with extreme or high poverty).

- 1.3 **Climate change.** Based on historical records, the average annual precipitation in El Salvador is 1,800 mm, with 90% of the rain falling between the months of May and September and the remaining 10% falling from October to April. However, in recent years, significant increases have been observed in the amount of recorded rainfall, as well as changes in rainfall patterns throughout the year, which may be associated with climate change. Moreover, temperature increases of 0.4 °C to 2.2° C have also been recorded since 1970.<sup>9</sup> In 2005, precipitation from the Stan storm system accounted for nearly 20% of the rainfall that year. In addition, the storms that occurred on 3 and 4 July 2008 and Ida in 2009 had very heavy rainfall with a return period of up to 300 years,<sup>10</sup> which caused several floods in the AMSS.
- 1.4 In addition to changes in precipitation patterns, there have been changes in land use in the AMSS. Haphazard urban growth, the lack of a land use plan, and the resulting decrease in soil absorption capacity have not been accompanied by adequate drainage solutions, which has accelerated surface runoff rates to rivers and streams. These volumes have increased by up to 70% during peak flows, with flood arrival times falling by up to 40%. As a result, the level and velocity of water in rivers and streams have risen, with an increased risk to the communities located near rivers and streams, which for the most part are socioeconomically depressed.<sup>11</sup>
- 1.5 Until now, the approach adopted by the Bank (through the Programs for Housing and Comprehensive Improvements for Informal Urban Neighborhoods, phases I<sup>12</sup>

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<sup>7</sup> There are 15 centers providing early childhood development services in urban areas, with capacity for 1,500 children, although there are 63,000 children aged 0 to 3 years in these areas who are in the poorest quintile and whose families could benefit from the availability of such facilities.

<sup>8</sup> FUNDASAL, Carta Urbana No. 116. De las palmas a los manantiales [From palm trees to springs].

<sup>9</sup> See Erazo Adriana (2006). Variaciones Hidroclimáticas o Evidencias de Cambio Climático en El Salvador? [Hydroclimate Variations and Evidence of Climate Change in El Salvador?].

<sup>10</sup> The return period is the average number of years that are expected before the precipitation is equaled or exceeded.

<sup>11</sup> See Erazo Ch. Adriana María (2010). Impactos de Cambios de Uso de Suelo en la Escorrentía Superficial en la Cuenca del Arenal Montserrat en la Ciudad de San Salvador en el Período 1992-2009 [Impact of Land Use Changes on Surface Runoff in the Arenal Montserrat River Basin in the City of San Salvador over the Period 1992-2009]. El Salvador.

<sup>12</sup> The program ES-0087 (US\$35 million) benefitted 12,910 families in 55 neighborhoods, with drinking water, storm and sewage drainage systems, and sanitary services in the homes.

and II<sup>13</sup>) to improve the quality of life of poor households in informal urban neighborhoods has consisted of specific investment projects in the neighborhoods. The current program reinforces this approach by investing greater resources in risk mitigation works, both within<sup>14</sup> and outside the neighborhoods<sup>15</sup> (where the flow volumes that cause flooding originate), in infrastructure (water, sewage systems, electricity, and drainage) and social services (health, early childhood development), and when necessary, by relocating families to nonvulnerable areas, given that in some cases this is the only viable solution.

- 1.6 The program ES-L1016 promotes comprehensive actions, combining investments in basic and social infrastructure in the subset of 29 informal urban neighborhoods<sup>16</sup> that are at risk for landslides and flooding, with interventions outside the informal urban neighborhoods to address water-related risks in the AMSS as a whole, and the development of a Master Drainage Plan.<sup>17</sup> Additional investments in health, nutrition, and violence prevention services are expected to be made in the targeted informal urban neighborhoods using loan proceeds from the program Support for Urban Solidarity Communities (ES-L1044).
- 1.7 **Government strategy and five-year development plan.** In May 2010 the Government of El Salvador unveiled its strategic five-year plan for 2010-2014, setting out in detail the current government's policies for addressing the problems discussed above. The plan calls for the creation of the Universal Social Safety Net as a pillar of the social sector, and investment in projects to protect against natural events as one of its strategic areas. This system envisages public policy actions in the following areas: education, health, violence prevention, income generation, productive development, social security, and basic social infrastructure.
- 1.8 **IDB's strategy in the sector.** Program ES-L1016 continues the Bank's support of social policy in El Salvador. The US\$500 million loan provided under the Social Policy Support Program (ES-L1040) positioned the Solidarity Communities program (previously known as the "Solidarity Network") as a pillar of the country's social strategy. In 2010, the Bank approved loan ES-L1044, which complements the activities envisaged as part of this operation, by expanding the supply of health, nutrition, early childhood development, and violence prevention services in 402 priority informal urban neighborhoods located in 25 municipios. The program

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<sup>13</sup> The recently approved program ES-L1022 (US\$26 million for the comprehensive improvement of informal urban neighborhoods component) is expected to improve the living conditions of 6,000 families living in informal urban neighborhoods in the country.

<sup>14</sup> Shoring works, containment walls, drainage systems, sewer systems, etc.

<sup>15</sup> Through the absorption of flood waters (detention basins) and/or channeling (culverts).

<sup>16</sup> The 29 informal urban neighborhoods eligible for the intervention are neighborhoods that will not benefit from operation ES-L1022 due to their high risk levels.

<sup>17</sup> Although physical investments have priority due to the urgency of the current situation, it is felt that the design and implementation of a Master Drainage Plan offers a solution to the problems previously identified as priorities.



also complements the activities of the Program for Housing and Comprehensive Improvements for Informal Urban Neighborhoods (ES-L1022) and the loan supporting the Integrated Health Program (ES-L1027). The program is consistent with the Bank's country strategy in El Salvador (document GN-2575), which in its second area of intervention states the objective of supporting the Universal Social Safety Net through the Urban Solidarity Community program. At the same time, the operation is consistent with the sector priorities<sup>18</sup> of the Ninth General Increase in the Resources of the IDB (document AB-2764). In addition, the operation is consistent with the Bank's Strategy on Social Policy for Equity and Productivity (document GN-2588-4)<sup>19</sup> and its Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (document GN-2609-1).<sup>20</sup>

## **B. Objectives, components, and costs**

- 1.9 The objective of this program is to reduce the vulnerability and improve the living conditions of beneficiary families that are exposed to flood and landslide risks in the San Salvador Metropolitan Area (AMSS). The program will combine interventions to improve neighborhoods, expand access to social services, mitigate local risks, and provide structural water management solutions. The program has the following components:<sup>21</sup>
- 1.10 **Component 1. Reduction of vulnerability in informal urban neighborhoods through the construction of detention basins and the repair of culverts in the AMSS (US\$20.7 million).** The sustainable mitigation of flood risks in at-risk informal urban neighborhoods in the AMSS in general requires structural solutions and a master drainage plan for the AMSS. This component will finance: (i) the preparation of a master drainage plan, which will guide current and future investments in the AMSS; (ii) the construction of a series of detention basins to absorb peak flows, as part of a solution to the flooding problem in the AMSS; and (iii) the repair of culverts.
- 1.11 **Master drainage plan.** This subcomponent will finance the necessary hydrologic assessment and modeling studies for the primary and secondary systems as well as culvert projects in the AMSS, for purposes of formulating a structural drainage management plan. The plan (to be developed in parallel with the investments of this component) will include legislative guidelines in order to define authority in the

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<sup>18</sup> The operation supports the priorities of social policy for equity and productivity, increased investments in infrastructure for social welfare, and environmental protection and climate change response actions.

<sup>19</sup> By increasing the number of people who receive a basic package of health services (Priority 5) and by addressing the double burden of the health transition.

<sup>20</sup> By supporting the priority sector of the strategy "Climate Change and Disaster Risk Management."

<sup>21</sup> The costs of the components were estimated with a hydrologic model of the main waterways in the AMSS, which determined the minimum investment needed to have an impact with the structural investments component.

management of drainage systems (including responsibilities for maintaining infrastructure works) and specify financing mechanisms. The master plan will be developed in coordination with the Planning Office for the San Salvador Metropolitan Area (OPAMSS)<sup>22</sup> as representative of the Council of Mayors in the San Salvador Metropolitan Area.

- 1.12 **Detention basins and repair of culverts.** This subcomponent will finance the construction of a series of detention basins in selected watersheds in the AMSS, which will allow the temporary storage of water from rains with return rates of up to 100 years. This will reduce peak flow volumes downstream and will more uniformly distribute the flow volume over time, thereby helping to reduce the flood risk in informal urban neighborhoods in the AMSS located downstream of the proposed works. Based on the modeling of the principal waterways, a preliminary design was created for the construction of at least seven reservoirs on five of the main waterways in the AMSS (El Piro, Merliot, el Limón, el Garrobo, and Buenos Aires). A cross-section of geographic information identified 103 informal urban neighborhoods in all four poverty levels along the affected waterways (13 with extreme or high poverty, and 90 with moderate or low poverty). In addition, this subcomponent will finance the repair of culvert works along the affected waterways.
- 1.13 The construction of these types of works is justified for several reasons, including the insufficient capacity of the stormwater drainage system in the AMSS to conduct the flow of water collected in the catchment area (watershed), which is primarily the result of the high levels of unplanned urbanization /impermeability, which is exacerbated by the settlement of areas adjacent to rivers and streams, as well as low-capacity culverts. As a result, it is imperative to increase the watershed's absorptive capacity, while seeking to restore natural absorption by making use of all possible areas through these types of intervention, which have been successfully implemented in many countries around the world, notably Argentina, Brazil, Mexico, Canada, the United States, and other countries in the Americas.<sup>23</sup>
- 1.14 **Maintenance and operation of works.** Up to 75% of the maintenance costs of the works may be financed with program funds up to year four, and up to 50% in year five. It should be taken into consideration that only part of the works will be completed by year four, and that very little maintenance will be required by year five. Furthermore, the government has agreed to guarantee the maintenance of these works with the participation of the municipal governments during their useful life.
- 1.15 **Component 2. Comprehensive improvements and risk mitigation for informal urban neighborhoods in the AMSS (US\$28.1 million).** This component will support comprehensive improvement projects for informal urban neighborhoods

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<sup>22</sup> The OPAMSS is an independent agency in charge of developing planning policies for the AMSS. It was created by the Council of Mayors of the SMAA's 14 municipios.

<sup>23</sup> See [optional link 4](#) for examples of other countries.

prioritized by their poverty and risk levels. It is expected to reach approximately 2,200 families. For component interventions, a subset of at least 8 informal urban neighborhoods will be selected from among the universe of 29 informal urban neighborhoods identified as vulnerable.<sup>24</sup> An assessment of needs, costs, and resettlement percentages will identify eight informal urban neighborhoods<sup>25</sup> to be supported through investments in risk mitigation, basic urban infrastructure, and strengthening of basic social infrastructure for the provision of social services.<sup>26</sup> In the case of social infrastructure, the technical files should clearly indicate the availability of social services and include interagency agreements on operation with the competent authorities.<sup>27</sup> In those cases where there are no viable solutions, financing will be provided for the relocation and resettlement of families to safe areas (see paragraph 2.5). The resettlement percentage for each informal urban neighborhood will not exceed 20% of the resident families. A maximum investment of US\$7,800 per family in the informal urban neighborhood is anticipated for urban development projects, with a maximum expenditure of US\$500,000 per neighborhood for mitigation works, and a maximum of US\$10,700 per resettled family in the case of resettlement.<sup>28</sup>

- 1.16 This component will finance the design and execution of physical works, and activities to expand the supply of social services and assistance. As part of the design activities, the component will finance specific consulting services such as the preparation of the technical, economic, legal, and social files required for each informal urban neighborhood project. As part of the execution activities, the component will finance sanitation infrastructure,<sup>29</sup> electricity,<sup>30</sup> stormwater

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<sup>24</sup> If there are not enough eligible informal urban neighborhoods from the original 29, additional informal urban neighborhoods may be considered (with extreme, high, moderate, and low poverty rates) taking into account the criteria described in the program Operating Manual.

<sup>25</sup> The following informal urban neighborhoods were initially identified: Las Palmeras, El Caracol, Amatitán, El Castillo II, Lamatepec, San Pedro B, La Campanera, and San Pablo. In order to prepare the component, two preliminary design projects were prepared for the communities of Las Palmeras and El Caracol, which totaled US\$6.1 million.

<sup>26</sup> Including the creation of spaces for violence prevention services, through arts and sports to be financed with complementary resources of the loan (ES-L1044).

<sup>27</sup> Ministry of Health (MINSAL), Ministry of Education (MINED), Salvadoran Institute for Child and Adolescent Development (ISNA), or the Office of the Secretary for Social Inclusion, among others. The investments will be coordinated with the respective components of the Urban Solidarity Communities program (ES-L1044) and the Integrated Health Program (ES-L1027). The early childhood centers community model, as well as “escuelas de convivencia” [multicultural schools] modules (including sports and art activities), may be implemented.

<sup>28</sup> The criteria and amounts may be revised based on the final project designs. For more information on the processes and responsibilities involved in the purchase of land, see the link [Resettlement Framework](#).

<sup>29</sup> Clean water, purification, improvement of distribution systems, and residential connections.

<sup>30</sup> Such as electricity distribution and public lighting systems, residential connections.

drainage infrastructure,<sup>31</sup> road access, a pedestrian network, and community health centers,<sup>32</sup> as well as green spaces<sup>33</sup> and risk mitigation projects such as the establishment of flood and/or landslide protection areas on public and private land, including regulations to protect at-risk areas. If necessary, the resettlement of at-risk families will be financed.<sup>34</sup> The component will also finance community strengthening activities (development of guidelines), consultation activities with the community on the design of works, training in the use and maintenance of infrastructure works, coordination with Civil Protection teams for the purpose of formulating Community Civil Protection Plans<sup>35</sup> in flood or landslide situations, coordination with the Ministry of Health (MINSAL),<sup>36</sup> and legal support for regularizing property titles.

- 1.17 **Maintenance and operation of works.** The works that are constructed will be maintained by the appropriate sector institutions,<sup>37</sup> whereas community and recreational facilities and equipment will be the responsibility of the community. Infrastructure for social services will not be built unless there is a prior operations and maintenance agreement with the responsible institution.<sup>38</sup> In addition, during implementation of the project, various community and municipal strengthening activities will be carried out, including: maintenance of roads, sanitary units, and gutters, and organization of committees to maintain social facilities, sports areas, and green spaces.<sup>39</sup>
- 1.18 **Eligibility criteria and prioritization.** The projects will meet general, economic, legal, environmental, urban, and social criteria, such as the following: resettlement activities involve a maximum of 20% of the population; at least 70% of the

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<sup>31</sup> Sewage and storm drainage systems, collection systems, and residential connections.

<sup>32</sup> In the two preliminary design projects that were selected for the beginning of the operation, a health center will be financed where Community Family Health Teams will be based who will work with these neighborhoods.

<sup>33</sup> Such as urban treescaping, social facilities, plazas, green spaces, and parks.

<sup>34</sup> Among other things, resettlement will involve: (i) the purchase of land (for families that need to be relocated); and (ii) provision of a housing solution, pursuant to the Bank's policy on resettlement (OP-710), which will provide more than one option to the population to be resettled and give priority to resettlement within the community of origin.

<sup>35</sup> Some of the activities to be performed by the social teams that will support project design include planning and supporting the communities in the preparation and finalization of requirements for a Community Civil Protection Plan. (See [optional electronic link 6](#) for an example of the documentation).

<sup>36</sup> The social team will be in charge of coordinating beneficiary services with MINSAL's Community Family Health Teams.

<sup>37</sup> The National Aqueduct and Sewers Administration (ANDA) for water and sanitary sewer services; MINSAL for health centers; the power companies CAESS and Del Sur for power; and the respective mayors' offices for solid waste management, roads, and flood protection works.

<sup>38</sup> The operation of early childhood development centers should be coordinated with the ISNA or MINED.

<sup>39</sup> To be financed as part of the design and execution of the social technical files.

population is living in areas of extreme and/or high poverty; risk mitigation costs do not exceed 40% of the project costs; and investment costs per lot do not exceed a maximum limit.<sup>40</sup> Projects will be prioritized based on the number of families residing in the informal urban neighborhood and the number of families that are at risk. All eligibility and prioritization criteria will be specified in the program Operating Manual.

- 1.19 **Component 3. Strengthening of operational management (US\$1.2 million).** This component will finance: (i) the operation of the program coordination unit (PCU); (ii) the strengthening of the Corporate Finance Unit (UFI) and the Corporate Procurement and Contracting Unit (UACI); (iii) training on the operation for the team at the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU); (iv) the maintenance of the detention basins system;<sup>41</sup> and (v) the midterm and final evaluations and the program impact evaluation described in the following section.
- 1.20 **Cost of the operation.** The cost of the program is US\$50 million, to be financed by the Bank. Table I-1 summarizes the costs of the program.

**Table I-1. Program costs (in US\$ thousands)**

Description	IDB	Total	%
COMPONENT 1: Reduction of vulnerability in informal urban neighborhoods through the construction of detention basins and the repair of culverts in the AMSS <sup>42</sup>	20,690	20,690	41.4
COMPONENT 2: Comprehensive improvements and risk mitigation for informal urban neighborhoods in the AMSS	28,114	28,114	56.2
2.a Improvements for at-risk neighborhoods	18,046	18,046	36.1
2.b Risk mitigation works and resettlement operations	10,068	10,068	20.1
COMPONENT 3: Strengthening of operational management	1,196	1,196	2.4
3.a Management and institutional strengthening	396	396	0.8
3.b Monitoring and evaluation	800	800	1.6
TOTAL	50,000	50,000	100.0

## C. Key results indicators

- 1.21 The principal indicator of impact in the results matrix is reduced vulnerability to landslides and floods in informal urban neighborhoods, through two sources of information: (i) a socioeconomic survey to be implemented in beneficiary and

<sup>40</sup> To be defined in the Operating Manual.

<sup>41</sup> Coordination at the central level with the other components of the Urban Solidarity Communities Support Program (ES-L1044) executed by the Technical Secretariat of the Presidency (STP) will be handled by the program coordination unit for the Urban Solidarity Communities program and will be described in the Operating Manual.

<sup>42</sup>

nonbeneficiary neighborhoods;<sup>43</sup> and (ii) the information system maintained by the Ministry of Environment and Natural Resources (MARN). Monitoring seeks to reflect the comprehensive nature of the intervention. Therefore, the increase in the price of land in the neighborhoods benefitting from the program will be determined through an independent property valuation performed before and after the intervention. In addition, given that the project will close the existing gap in health services, the percentage of households in an informal urban neighborhood will be compared with MINSAL's technical files.<sup>44</sup>

## II. FINANCING STRUCTURE AND RISKS

### A. Financing instruments

- 2.1 **Investment loan.** Given the nature of the activities to be financed under this operation, it was determined that the most appropriate financial instrument would be an investment loan.

### B. Environmental and social safeguard risks

- 2.2 Pursuant to the Bank's Environment and Safeguards Compliance Policy (OP-703), this program has been classified as a category "B" operation and was reviewed by the Environmental and Social Impact Review Committee (ESR) during the eligibility review meeting that took place on 27 May 2011, which led to the approval of the project profile on 15 June 2011. This review resulted in the activation of policies OP-710, OP-704, and OP-102 (Annex IV). To comply with the Bank's Environment and Safeguards Compliance Policy, an Environmental and Social Management Report (ESMR) was prepared, which summarizes the impact of the various interventions financed by the program and identifies measures for their mitigation and compensation and for environmental control, pursuant to the Bank's policies (see [electronic link No. 3](#)). The EMSR includes a draft resettlement framework for those cases when part of the beneficiary communities must be relocated or resettled. The procedures defined in the EMSR will be included in the program Operating Manual to guide execution.
- 2.3 With respect to the neighborhood improvement works in the informal urban neighborhoods, the impacts are mostly positive because the anticipated works will reduce vulnerability to floods and/or landslides, and will contribute to a significant improvement in the social and sanitation conditions of the families that live in these neighborhoods. The negative impacts will be temporary during the works stage, when nuisances such as noise, traffic detours, temporary road closures, and local environmental pollution may disturb the targeted communities. The EMSR also calls for mechanisms and tools for minimizing these impacts.

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<sup>43</sup> See survey form in the annex containing the monitoring and evaluation arrangements.

<sup>44</sup> This assumes that the family was already visited and assessed by one of MINSAL's Community Family Health Teams.

- 2.4 Before issuing calls for bids for infrastructure projects, an approved resettlement plan must be in place, subject to the Bank's no objection. There should also be environmental documentation, social actions, and a community development plan,<sup>45</sup> subject to the Bank's no objection, based on the resettlement framework mentioned in paragraph 2.2. The objective of the program is to mitigate or eliminate risk situations currently experienced by part of the population that lives in the targeted informal urban neighborhoods, and this framework will guide the preparation of resettlement plans in those cases where there is an identified need to move the population residing in flood or landslide risk areas to areas identified as being safe within the same neighborhood (relocation), or if this is not possible, to nearby areas (resettlement). Relocation or resettlement will only occur in cases in which it is justified as a risk mitigation or elimination measure.
- 2.5 The interventions for neighborhood improvement works in the informal urban neighborhoods are being designed with the aim of minimizing the need for resettlement, especially involuntary resettlement. According to the resettlement framework, the plans must comply with the principles defined in policy OP-710, which include: (i) design with the participation of the community; (ii) resettlement preferably to nearby areas in order to minimize any disruption in their social networks and employment sources; (iii) avoid or minimize the need to use temporary housing; (iv) offer relocation alternatives to the families,<sup>46</sup> such as the use of housing constructed by the program, letters of credit to help the families buy a home with an equivalent value to the first option, or any other alternatives that may be identified; (v) in the case of several families living in the same house, each family will be eligible for its own home; (vi) no families may be denied the benefit because they do not have a property title; (vii) the families will not pay for the new home, and the property title will be registered in the name of the man and the woman; (viii) the resettlement plans must include adequate provisions (physical investments) to ensure that the affected areas and homes are not reoccupied; and (ix) the families may not be relocated to the new homes until the construction of the house is completed, with locks installed and public utilities available. Each resettlement plan should be included as technical documentation and should be submitted to the Bank for its statement of no objection.

### C. **Fiduciary risks**

- 2.6 **Financial management.** The MOPTVDU has experience in the financial administration of projects financed by the Bank. However, it has operational limitations in terms of sufficient personnel to handle the program's financial administration and procurement processes, given that its three divisions are supported by the same two corporate finance and procurement units. To mitigate the risks in accounting and procurement matters, these units will be reinforced with

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<sup>45</sup> From the responsible official to be named in the Operating Manual.

<sup>46</sup> For more information on the processes and responsibilities involved in the purchase of land, see the link [Resettlement Framework](#).



additional staff, and an Operating Manual will be adopted for improving institutional capacities and ensuring efficient execution. Internal procedures and the roles and responsibilities of all units and institutions involved in the program will be described in the Operating Manual.

- 2.7 Program resources will be disbursed using advances of funds, pursuant to the provisions of the Financial Management Policy (OP-273-2). They will be managed by the MOPTVDU using the Integrated Financial Administration System (SAFI), which includes budget, accounting, and treasury management for all government agencies.
- 2.8 **Procurement.** During the preparation of the operation, the institutional capacity of the executing agency's Corporate Procurement and Contracting Unit (UACI) was assessed by applying the Institutional Capacity Assessment System methodology and tools to the unit's Goods and Services Administration System. It was determined that the total project risk associated with procurement management is low, and the results of the analysis indicate that the areas examined have, on average, a medium level of development (SD). The main weaknesses and the corrective actions that have been agreed upon are as follows:

**Table II-1. Weaknesses identified in the UACI and agreed upon corrective actions**

Weaknesses	Corrective action	Completion date
Unfamiliarity with Bank procurement policies and procedures for selecting and procuring goods and/or consulting services.	In-service training for staff involved in the administration of goods and/or consulting services.	At the time of the project startup workshop.
Inadequate staffing.	The UACI and UFI of the MOPTVDU will be reinforced with personnel dedicated exclusively to procurement and financial management for the program.	When the program is executed.
The UACI does not have a consolidated filing system that would properly identify all documentation for each stage of the procurement process.	Establish and maintain a consolidated filing system in the procurement unit, with the necessary security.	When the program is executed.

#### **D. Other issues and risks**

- 2.9 **High levels of social insecurity in the program areas.** The high levels of violence in the selected informal urban neighborhoods create a risk that may affect implementation of the program, as well as its final outcomes. Hiring local personnel and working closely with municipal staff will mitigate this risk. The program Operating Manual will include guidelines based on the successful experiences of public institutions.
- 2.10 A review and analysis process with the stakeholders involved made it possible to identify and prioritize risks. A relatively important risk is the likelihood of competitive bidding processes being declared void, as well as construction cost



- overruns.<sup>47</sup> Specific support for these risks is provided through technical cooperation and program resources to strengthen the executing agency's capacities in these types of processes.
- 2.11 Another significant risk is the problem of interagency coordination, which results in a slow rate of execution of the program. Mitigation measures include: (i) an execution mechanism that involves the active and committed participation of the institutions with responsibilities in the program; (ii) special precautions in the programming of activities to identify institutional responsibilities; and (iii) the promotion of strong leadership on the part of the Ministry of Public Works through the coordination unit. The need for resettlement and the eventual provision of new services will require land in restricted areas. Close relations with the mayors' offices in the metropolitan area and other entities and public authorities will be promoted to encourage cooperation in the identification of land.
- 2.12 **Analysis of economic viability.** Various methods were used to analyze each component. In the case of component 2, more specific information was generated, and private benefits—from the valuation of properties—were quantified. In the case of Component 1, the value of benefits was estimated in terms of the public savings resulting from the repair of damages, which would justify the intervention.<sup>48</sup> The net economic benefits of the neighborhood improvement component were estimated based on a sample of the neighborhoods targeted by the program (El Caracol and Las Palmeras), as well as a hedonic price model using parameters that were adjusted for local information, based on a sample of 300 homes.<sup>49</sup> Some benefits derived from the intervention were not considered due to limited available information (e.g., behavioral changes stemming from the decreased risk in the area). Nonetheless, this subquantification of benefits seems to reinforce the positive findings of the economic analysis.<sup>50</sup> The two projects in the sample that were analyzed show a socioeconomic rate of return of over 12% (positive net present value with the indicated discount rate), with an economic cost/benefit ratio of 126% and 115%. Furthermore, when subjected to a sensitivity test, both projects would support a cost increase of more than 20%.

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<sup>47</sup> The problem was identified by the executing agency at the workshop help to identify risks and mitigation strategies. The relatively high frequency of competitive bidding processes that are declared void was mentioned.

<sup>48</sup> Note that a neighborhood that could potentially benefit from both components would not be counted twice since in the first analysis, the private benefits resulting from improvements in the area are calculated, and in the second case, the public savings resulting from the mitigation of flood risks are analyzed.

<sup>49</sup> The model retrieves increases in property values due to improvements in the water system, sanitation system, roads, storm drainage system, electricity and public lighting, and community facilities.

<sup>50</sup> Economic benefits are calculated as of the time the works are executed, with the present value of the benefits calculated based on a social discount rate of 12% and a horizon of one year. The total economic costs of the program include: the total direct cost of the activities (excluding VAT), their indirect costs (contingencies, administrative overhead, and project preparation), and the present value of the operation and maintenance of the program.

- 2.13 The economic analysis of the component for the construction of detention basins considered all investment, operation, and maintenance costs associated with the construction and operation of the seven detention basins. These works represent an investment of US\$15.4 million (including designs and supervision). It is estimated that their impact during peak flow could represent a 50% decrease in the flow volume of these waterways, thereby allowing efficient operation of downstream water regulation works. The direct economic benefits of the intervention would be associated with a savings in the costs incurred by the government in normal infrastructure repairs.<sup>51</sup> For reference, over the course of one and a half years in 2011-2012 the Ministry of Public Works allocated US\$4.9 million for 21 repair and mitigation projects exclusively in the area of influence of the future detention basins to be built as part of this program. This amount is expected to drop significantly as a result of the flow volume control. Although no definitive conclusions can be drawn from the information, there could be net savings of US\$2.7 million per year over a period of 10 years (at a discount rate of 12%), which would economically justify the planned investment (which is well below the repair costs currently incurred).

### III. IMPLEMENTATION AND ACTION PLAN

#### A. Summary and execution arrangements

- 3.1 **Execution arrangements.** The program will be executed by the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU), through the Office of the Deputy Minister for Housing and Urban Development (VMVDU). A program coordination unit (PCU) will be established, comprised of a coordinator and an administrative assistant. In addition, consultants may be contracted for support, whose areas of expertise (such as procurement, finance, and environmental issues) and contract periods will be determined based on the coordinator's needs. The PCU's responsibilities will be defined in the Operating Manual that will be approved before the project is declared eligible. Fiduciary processes will be executed by the MOPTVDU's finance and procurement units, which will be reinforced according to the recommendations made in the fiduciary agreements for the execution of the project ([Annex III](#)), by adding one person to each unit. A general committee comprised of the competent institutions to be identified in the program Operating Manual will be created to ensure interagency coordination of the project. The committee will be responsible for coordination and consultation, with transactional and technical matters placed in the hands of the MOPTVDU.<sup>52</sup>

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<sup>51</sup> Repair costs associated with excessive flow volumes are extremely high. During the period 2011-2012, at least US\$40 million was allocated (through the Ministry of Public Works and the El Salvador Road Conservation Fund) for mitigation works and bridge and gully repair.

<sup>52</sup> In the case of component 1, local execution committees comprised of municipal officials will be formed, whose functions will be described in the Operating Manual.

- 3.2 **Flow of funds.** Table III-1 provides a preliminary estimate of the flow of funds based on the program execution plan (PEP).

**Table III-1. Annual flow of program funds (US\$ millions)**

Year 1	Year 2	Year 3	Year 4	Year 5	Total
1.60	17.15	20.20	10.65	0.40	<b>50.0</b>

- 3.3 Conditions precedent to the first disbursement will be: (i) **establishment of the program coordination unit (PCU) within the Office of the Deputy Minister for Housing and Urban Development (VMVDU);** (ii) **entry into force of the program Operating Manual;** and (iii) **updating of the program execution plan (PEP).**

## **B. Procurement**

**Table III-2. Procurement procedures**

Investment category	Threshold (in US\$000)	Procurement procedure	Type of review
Works	≥ 5,000	International competitive bidding	Ex ante
	≥ 350 < 5,000	National competitive bidding	Ex ante for the first three contracts and ex post thereafter
	< 350	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
Goods and nonconsulting services	≥ 250	International competitive bidding	Ex ante
	≥ 50 < 250	National competitive bidding	Ex ante for the first three contracts and ex post thereafter
	< 50	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
Consulting services, Individual consultants	No threshold	Individual consultant selection based on qualifications	Ex ante for the first three contracts and ex post thereafter.
	No threshold	Single source selection	Ex ante
Consulting services, Consulting firms	≥ 200	Short list with wide geographic participation	All ex ante
	< 200	Shortlist may comprise national consultants only	All ex ante
	No threshold	Single source selection	All ex ante

- 3.4 **Procurement.** The Bank will review the procurement of goods and services once a year on an ex post basis. The frequency of ex post reviews and the thresholds established for ex ante reviews of contracts are consistent with the capacity

assessment. Thresholds and the frequency of the ex post reviews may be adjusted as part of updates and revisions to the procurement plan, depending on the executing agency's performance and progress in the adoption of the corrective measures described. The procedures applicable to each type of procurement should follow the "Policies for the procurement of works and goods financed by the IDB" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the IDB" (document GN-2350-9). The Bank will supervise the procurement of program-financed goods, works, and consulting services as indicated in the procurement plan, Appendix I to documents GN-2349-9 and GN-2350-9, and the procedures established in Table III-2.

- 3.5 **External audit.** The MOPTVDU will hire an auditing firm acceptable to the Bank to conduct the annual audit of the program, under terms of reference previously agreed upon with the Bank.

**C. Summary of monitoring and evaluation arrangements<sup>53</sup>**

- 3.6 Program monitoring activities will include: (i) presentation of semiannual program monitoring reports prepared by the VMVDU, which will report on overall performance, the progress made in the execution of each of the components, and changes in the monitoring indicators selected in the results matrix (Annex II); (ii) presentation of quarterly status reports on the resettlement process, which may be included in the semiannual reports, when applicable; and (iii) the organization of at least two supervision missions twice a year during the execution period.
- 3.7 In addition, and as special contractual conditions, there will be two independent external evaluations, according to the following schedule: (i) the first evaluation will be commissioned 24 months after the first disbursement of the loan proceeds, or when 50% of the loan has been committed (whichever occurs first); and (ii) the final evaluation will be commissioned when 80% of the loan proceeds have been committed. The final evaluation will examine: (i) the results achieved by the program, measured in terms of fulfillment of the targets and performance of the indicators established in the results matrix; (ii) the processes and interventions in terms of their relevance and effectiveness; and (iii) the management of program resources.
- 3.8 **Impact evaluation.** The project will be subject to a quasi-experimental evaluation, for which a socioeconomic and vulnerability survey will be conducted in at-risk informal urban neighborhoods that are beneficiaries of the program, in 2011, 2013, and 2015. In 2011 this survey will be conducted by the Dirección General de Estadística y Censo [Statistics and Census Administration], which may be eligible to conduct the follow-up surveys through interagency agreements. The follow-up survey for the impact evaluation will be conducted 12 months after the works are completed. In addition, a baseline price of land in the informal urban neighborhoods to benefit from the program will be determined for each preliminary

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<sup>53</sup> See [link 2](#) in this document for more details.

design project. Once the works are completed in each informal urban neighborhood, the lessons learned in the execution of the works and implementation of resettlement plans will be documented. These documents will serve as input for the final evaluation of the program.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to small and vulnerable countries; Lending for poverty reduction and equity enhancement, and Lending to support climate chance initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	The intervention contributes to: i) Extreme poverty rate, ii) Gini coefficient of per capita household income inequality, iii) Percent of households with electricity, and iv) Annual reported economic damages from natural disasters.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to Bank Outputs: i) Individuals (all, indigenous, afro-descendant) receiving targeted anti-poverty programs, ii) Households with new or upgraded water supply, and iii) Households with new or upgraded sanitary connections.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2575	Expansion of the social protection program to urban areas.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.4		10
3. Evidence-based Assessment & Solution	8.4	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	9.1	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial management: Budget, treasury, accounting and reporting. Procurement: Information system.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The resettlement framework asks specifically to create a consultation space in which women can express their concerns about any proposed intervention.	
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	There is some available evidence on neighborhood improvement programs, however there is no information on this kind of interventions in neighborhoods with the levels of risk of the beneficiaries of the program. There is also lack of evidence regarding coping strategies of the poor in the face of shocks, the evaluation will include a module to study this topic.	

This is an investment loan for El Salvador, which contributes to the objective of lending to small and vulnerable countries. It also contributes to the objective of lending for poverty reduction and equity enhancement, as well as to the objective of lending to support climate change initiatives, renewable energy and environmental sustainability. The project directly contributes to the outputs defined in the Bank's Results Framework. The project is aligned to the Bank's Country Strategy with El Salvador, and was included in the 2011 Country Program Document.

The loan proposal presents a good description of the situation and vulnerability of the AMSS and, particularly, of the AUP, which respond to climate change and disorganized urban development. The problem is well identified and the proposed solutions are linked to it.

The project has an adequate logic as it proposes technically relevant solutions. For example, one of its components proposes investments outside the AUPs, but which influence their level of risk. The results matrix has adequate indicators, most of them SMART, to monitor the intervention. The economic analysis is adequate. The project has a solid monitoring and evaluation plan, which will allow monitoring and measuring the impact of the interventions proposed. The risk matrix is adequate.

## Results Matrix

<b>Project objective:</b>	The objective of the program is to reduce the vulnerability and improve the living conditions of families residing in informal urban neighborhoods who are exposed to flood and landslide risks in the San Salvador Metropolitan Area (AMSS). The program will combine interventions to improve neighborhoods, mitigate local risks, invest in structural water management solutions, and provide access to social services.					
<b>Outcome:</b>	Improved living conditions for families exposed to flood and landslide risks in informal urban neighborhoods in the AMSS.					
<b>Component 1:</b>	Reduction of vulnerability in informal urban neighborhoods through the construction of detention basins and the repair of culverts in the AMSS.					
<b>Component 2:</b>	Comprehensive improvements and risk mitigation for informal urban neighborhoods in the AMSS.					
<b>Component 3:</b>	Strengthening of operational management.					
Impact	Unit	Baseline	Year	End of project		Comments
<b>Improved living conditions for families exposed to flood and landslide risks in informal urban neighborhoods in the AMSS</b>						
Families affected by floods and/or landslides in a 12-month period in the selected informal urban neighborhoods.	%	17	2011	0		Source: Vulnerability survey. The target is based on storms with a 50-year return period.
Increase in the value of land in the beneficiary informal urban neighborhoods.	%	0	2011	25%		Source: Expert assessment of land prices in beneficiary informal urban neighborhoods.
Informal urban neighborhoods that have decreased their susceptibility to flood risks. <sup>1</sup>	#	0	2011	10		Source: Information from MARN visits.
Households included in the Ministry of Health's technical files. <sup>2</sup>	%	0	2011	90%		Ministry of Health's SUIS information system.
Water volumes retained.	Millions of m <sup>3</sup>	0	2011	0.5		Source: Hydrologic modeling of the proposed detention basins. Real-time monitors to be installed at the basins.

<sup>1</sup> This is measured at the informal urban neighborhood level because the MARN vulnerability indicator identifies one point on the map, which may or may not coincide with a polygon corresponding to an informal urban neighborhood. Vulnerability points have three levels (high, medium, and low).

<sup>2</sup> Inclusion in the Ministry of Health's technical files indicates that the household was already visited once and advised by community family health teams. It also means that they have a health monitoring program keyed to the family's demographic profile.

Output (units)	Unit of measurement	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>COMPONENT 1: Reduction of vulnerability in informal urban neighborhoods through the construction of detention basins and the repair of culverts in the AMSS</b>									
Detention basins constructed.	Basins				3	4		7	
Master drainage plan.	Plan				1			1	
Culverts repaired. <sup>3</sup>	Culverts								
<b>COMPONENT 2: Comprehensive improvements and risk mitigation for informal urban neighborhoods in the AMSS</b>									
Informal urban neighborhoods with completed improvement works.	Neighborhoods				4	4		8	
Technical files prepared for informal urban neighborhoods.	Files		8					8	
Civil protection plans implemented.	Plans			8				8	
Homes in resettlement areas constructed. <sup>4</sup>	Homes								
<b>COMPONENT 3: Strengthening of operational management</b>									
Project coordination unit established.	Coordination unit		1					1	
Baseline survey conducted.	Baseline	1							
Follow-up survey conducted.	Survey			1					
Impact evaluation completed.	Evaluation						1		
Monitoring reports.	Reports	0	4	4	4	4	4	20	
Audit conducted.	Audit		1	1	1	1		4	

<sup>3</sup> To be revised based on assessments of the systems.

<sup>4</sup> To be revised based on project technical files.



Output (US\$ millions)	Unit of measurement	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
<b>COMPONENT 1: Reduction of vulnerability in informal urban neighborhoods through the construction of detention basins and the repair of culverts in the AMSS</b>									
Detention basins constructed.	Basins				7	9		16	
Master drainage plan.	Plan				3			3	
Culverts repaired.	Culverts							2	
<b>COMPONENT 2: Comprehensive improvements and risk mitigation for informal urban neighborhoods in the AMSS</b>									
Informal urban neighborhoods with completed improvement works.	Neighborhoods				16.5	11.5		28	
Technical files prepared for informal urban neighborhoods.	Files								
Civil protection plans implemented.	Plans								
Homes in resettlement areas constructed.	Homes								
<b>COMPONENT 3: Strengthening of operational management</b>									
Project coordination unit established.	Coordination unit		0.06	0.06	0.06	0.06	0.06	0.3	
Baseline survey conducted.	Baseline			0.15	0.05	0.15	0.10	0.45	
Follow-up survey conducted.	Survey								
Impact evaluation completed.	Evaluation								
Monitoring reports.	Reports								
Audit conducted.	Audit		0.05	0.05	0.05	0.05	0.05	0.25	

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**COUNTRY:** EL SALVADOR  
**PROJECT N°:** ES-L1016  
**NAME:** Reduction of Vulnerability in Informal Urban Neighborhoods in the San Salvador Metropolitan Area (AMSS)  
**EXECUTING AGENCY:** Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU)  
**PREPARED BY:** Santiago Castillo and Mario Castaneda (PDP/CES)

### **I. Executive summary**

1. This report was prepared in connection with the new Financial Management and Procurement Policies for projects financed by the Bank.<sup>1</sup> This document sets out the preliminary agreements and requirements on financial management and procurement agreed upon with the program's executing agency.
2. In its capacity as executing agency, the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU) will be responsible for the execution of the program, through a program coordination unit (PCU) that will be established for this purpose within the Office of the Deputy Minister for Housing and Urban Development (VMVDU). The MOPTVDU will be subject to the general rules and regulations for the public sector in the area of financial management, supplemented by the Bank's financial management policy. For procurement, the Bank's policies and procedures (documents GN-2349-9 and GN-2350-9) will be used, supported by the administrative organization of the MOPTVDU's procurement and finance units.

### **II. Fiduciary context of the executing agency**

1. National financial management and procurement systems and their internal and external control mechanisms are well defined in Salvadoran legislation. By law, no sum may be committed or paid without the corresponding budgetary appropriation approved by the Legislative Assembly. The Basic Law on the Financial Administration of the State (AFI Law) regulates the financial management of the public sector, and an Integrated Financial Administration System (SAFI) has been adopted, which covers budget, public credit, treasury, and government accounting subsystems.
2. Under the AFI Law, a Corporate Finance Unit (UFI) was established in each of these government agencies, which is responsible for their financial management; this unit

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<sup>1</sup> Documents OP-273-2 and OP-274-2: Financial Management Policy and Operational Guidelines; and documents GN-2349-9, GN-2350-9, and OP-272-1: Procurement Policies and respective Operational Guidelines.

reports directly to the government official that heads each institution. The law gives the Ministry of Finance regulatory powers, whereas responsibility for financial operations in the administrative process is decentralized to the executing agencies, as in the case of the MOPTVDU.

3. It should be mentioned that the UFI's fiduciary responsibilities are complemented by the respective Internal Audit Unit and Corporate Procurement and Contracting Unit (UACI) in each governmental agency. The Public Administration Procurement Law establishes the regulations governing this area. With respect to external control, the Law on the Government Court of Accounts states that this institution is in charge of auditing the public accounts.

### **III. Fiduciary risk evaluation and mitigation measures**

1. Based on available information, the fiduciary team determined that the total project risk associated with procurement management is medium, and the results of the analysis indicate that the areas examined have, on average, medium development (SD). In terms of financial management, the risk after implementing the mitigation measures is estimated as residually low. It is important to mention that the corporate fiduciary units of the MOPTVDU are responsible for supporting the execution of another four operations financed by the Bank totaling US\$165 million,<sup>2</sup> which is important to point out due to operational limitations if these areas are not reinforced with additional personnel. Thus, the identified risks are summarized below:

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<sup>2</sup> ES-L1022-Housing, US\$70 million; ES-L1045-Rural roads, US\$35 million; ES-L1050-Metropolitan transportation, US\$45 million; ES-L1061-Rural connectivity, US\$15 million.

**Table No. 1: Identified risks and mitigation measures**

<b>Risks/Weaknesses</b>	<b>Preventive/Corrective Action</b>	<b>Completion Date</b>
Inadequate staffing. If additional personnel are not hired in the Corporate Finance Unit (UFI) and the Corporate Procurement and Contracting Unit (UACI) of the MOPTVDU with training in the Bank's procurement and financial management policies, mistakes and inefficiencies may occur in the selection and procurement of goods and/or services, or in financial reporting.	Reinforce the UFI and the UACI of the MOPTVDU with additional personnel working exclusively on program procurements and financial management.	By the program startup workshop.
The execution of the program requires procurement personnel with training in the selection and procurement of goods and/or services, pursuant to the Bank's policies and operating procedures.	Include in the institution's AWP in-service training activities for personnel associated with the administration of goods and services.	When the program is executed.
The procurement unit does not have a consolidated filing system that would make it possible to identify all procurement processes and to keep all documentation for each stage of the procurement process in a single file and location.	1. Establish and maintain a consolidated filing system in the unit that identifies all procurement processes and keeps all documentation for each stage of the procurement process in a single file. 2. Establish a secure location to keep all files and ensure that they are properly protected.	When the program is executed.

#### **IV. Considerations for the special conditions of the contract**

1. It is recommended that the loan contract should include the following agreements and requirements in the special conditions:
  - a. Condition precedent: Presentation of a program Operating Manual to the Bank for approval.
  - b. Condition precedent: Evidence that appropriate personnel have been assigned to handle the program's procurement and financial management processes.
  - c. Special condition. Records, audits, and reports (responsibility for keeping files): The MOPTVDU will be responsible for keeping program records using the SAFI system, along with the respective supporting documentation that is the responsibility of the finance and procurement unit.
  - d. Special condition. Financial statements and other reports: The MOPTVDU will commission the program audit. The audit will be conducted annually, but unaudited financial information will be presented on a quarterly basis to demonstrate the progress being made in the execution of the program.
  - e. Special condition. The MOPTVDU will prepare and keep up-to-date the program execution plan (PEP), as well as the procurement plan, using the Procurement Plan Execution System (SEPA).

## V. Fiduciary agreements and requirements for procurement execution

### 1. Procurement execution.

The fiduciary agreements and requirements for procurement establish the provisions that apply to the execution of all procurements envisaged under the program.

- a. **Procurement of works, goods, and nonconsulting services:** The procurement of works, goods, and nonconsulting services<sup>3</sup> arising under the program and subject to international competitive bidding (ICB) will be carried out using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be carried out using national bidding documents satisfactory to the Bank.
- b. **Procurement of information technology systems:** Not applicable.
- c. **Turnkey procurement (supply and installation):** Not applicable.
- d. **Procurement with community participation:** Not applicable.
- e. **Selection and contracting of consultants:** The procurement of consulting services arising from the program will be included in the initial procurement plan and will be carried out using the standard requests for proposals issued by the Bank.<sup>4</sup> The list may be comprised entirely (100%) of national firms<sup>5</sup> for contracts in amounts under the thresholds established by the Bank for El Salvador.
- f. **Selection of individual consultants:** Consultants will be selected based on their qualifications for the job, after comparing the qualifications of at least three (3) qualified candidates.
- g. **Training:** Not applicable.
- h. **Recurrent expenses:** Operating and maintenance costs required to implement the program during its useful life. **Not applicable.**
- i. **Commercial practices:** All procurement process must be carried out according to international commercial practices, and any procedures and practices that violate the fundamental principles of competition, efficiency, and economy should not be imposed.
- j. **Advance procurement/retroactive financing:** No advance procurements and/or associated contracts are planned for this project.
- k. **National preference:** Not applicable.
- l. **Other:** In the case of bidding for works, before initiating any bidding processes the executing agency must have the land and/or rights and easements, as well as any environmental permits required to execute the project.

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<sup>3</sup> Under the IDB's procurement policies, non-consulting services are treated like goods.

<sup>4</sup> Policy for the selection and contracting of consultants financed by the IDB (document [GN-2350-9](#)), paragraph 3.9: Single-source selection must be duly justified.

<sup>5</sup> This does not preclude the participation of foreign firms.

## 2. Main procurements

**Table No. 2: Initial Procurement Plan**

Description of procurement		Estimated amount (US\$)	Type of procurement	Estimated date
WORKS	Urban infrastructure, risk mitigation, resettlement (7 processes)	26,847,778	NCB	March 2013
	Construction of detention basin works (3 processes)	14,690,000	NCB	August 2012
	Execution of culvert repair works	1,813,500	NCB	May 2013
GOODS	Various processes	80,000	Shopping	January 2012
SERVICES	Training for informal urban neighborhoods (8 processes)	160,000	Shopping	January 2012
	Systematization workshops	4,000	Shopping	June 2014
FIRMS	Consulting services for preparation of the Master Drainage Plan	3,000,000	QCBS	January 2012
	Technical files	400,000	QCBS	January 2012
	Supervision of basin works	1,000,000	QCBS	August 2012
	Supervision of intervention projects	480,000	QCBS	March 2013
	Monitoring and evaluation	450,000	QCBS	June 2012
	Social files	200,000	QCBS	January 2012
INDIVIDUALS	Consultants to support the PCU	296,000	NICQ	January 2012

## 3. Procurement supervision

The Bank will review procurement processes once a year on an ex post basis. The frequency of ex post reviews and the thresholds established for ex ante reviews of contracts are consistent with the capacity assessment. Thresholds and the frequency of the ex post reviews may be adjusted as part of updates and revisions to the procurement plan, depending on the executing agency's performance and progress in the adoption of the corrective measures described. The procedures applicable to each type of procurement should follow the "Policies for the procurement of works and goods financed by the IDB" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the IDB" (document-GN-2350-9). The Bank will supervise the procurement of program-financed goods, works, and consulting services as indicated in the procurement plan, Appendix I to documents GN-2349-9 and GN-2350-9, and the procedures established in the following table:

**Table No. 3: Procurement Procedures**

<b>Investment category</b>	<b>Threshold (in US\$ 000)</b>	<b>Procurement procedure</b>	<b>Type of review</b>
<b>Works</b>	≥ 5,000	International competitive bidding	Ex ante
	≥ 350 < 5,000	National competitive bidding	Ex ante for the first three contracts and ex post thereafter
	< 350	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
<b>Goods and nonconsulting services</b>	≥ 250	International competitive bidding	Ex ante
	≥ 50 < 250	National competitive bidding	Ex ante for the first three contracts and ex post thereafter
	< 50	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
<b>Consulting services, Individual consultants</b>	No threshold	Individual consultant selection based on qualifications	Ex ante for the first three contracts and ex post thereafter.
	No threshold	Single source selection	Ex ante
<b>Consulting services, Consulting firms</b>	≥ 200	Short list with wide geographic participation	All ex ante
	< 200	Shortlist may comprise national consultants only	All ex ante
	No threshold	Single source selection	All ex ante

#### **4. Files and records**

A consolidated filing system must be established and maintained in the procurement units, where all procurements are properly identified and all documentation for each stage of the procurement process is stored in a single file. In addition, a secure location to keep all files and ensure that they are properly protected must be established. The head of the UACI will be responsible for maintaining and storing the program files and records. The formats described in the Operating Manual should be used for the preparation and filing of the program reports.

### **VI. Financial management**

#### **1. Programming and budget**

Each year, the MOPTVDU will set a budgetary appropriation that clearly identifies the program, with sufficient funds appropriated to cover the execution commitments for each year.

#### **2. Accounting and financial reports**

The Corporate Finance Unit (UFI) will be responsible for the program's accounting records and pertinent support documentation, using the SAFI.

### **3. Disbursements and cash flow**

The MOPTVDU will keep a special account at the Central Reserve Bank, as well as a designated operational account at a commercial bank,<sup>6</sup> which will be used to make payments to suppliers and contractors, based on the cash subsystem in the SAFI; both of these accounts will be used exclusively for the program. Pursuant to the Bank's new Financial Management Policy (document OP-273-2), disbursements will be made based on liquidity needs. The MOPTVDU will prepare a financial plan for this purpose, which will serve as a basis for advances or any other disbursement modalities deemed appropriate.

### **4. Internal control**

The technical rules on internal control issued by the Court of Accounts will apply.<sup>7</sup> An important prior control consists of a review by the UFI budget office of the annual procurement plan using resources allocated in the respective budget. In the second stage, the budget office makes the budgetary commitment through a record in the SAFI. Before making a payment for the obligations that were undertaken, there is a new control on the accounting record produced by the expenditure. The accounting record showing payment of the obligation is created immediately after the check is sent or the credit is posted to the beneficiary's account.

### **5. Internal audit**

The MOPTVDU has an internal audit office, although it has limited resources. A review of program execution is expected to be included in its annual work plan.

### **6. External control and reporting**

An independent auditing firm acceptable to the Bank will be contracted to conduct an external audit. The MOPTVDU will commission the external audit through a call for bids from level I firms, following the guidelines set forth in AF-200. The terms of reference will be broad and should be previously agreed upon with the Bank. The Bank will review this contract on an ex ante basis.

### **7. Financial supervision plan**

For financial monitoring of the program, the financial reports (unaudited) generated by the institutional software application (SAFI) will be used, with the required breakdown provided in the corresponding notes and supplementary financial information. Initially, these reports will be required on a quarterly basis, although the frequency may be subsequently adjusted. These quarterly reports should be submitted no later than 45 days after the close of each calendar quarter. The explanatory notes to the financial information should be designed so that they are consistent with the

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<sup>6</sup> This arrangement will be retained unless the Salvadoran government sets up a Single Account ("Cuenta Unica") for payments.

<sup>7</sup> In El Salvador, the laws establish the responsibility of the public servant in the performance of his or her duties, such that any instances of a breach of duties may lead to legal action against the official. Section III, 'Responsibilities of a public servant,' Articles 52-61 of the Law on the Court of Accounts.



Bank's financial policies and tools. These reports should provide evidence of the progress made in the execution of the activities included in the PEP.

During the first six months of execution, the financial information submitted will be reviewed on site, comparing it with the work plan. The fiduciary risks will be reassessed and a decision will be made as to whether more on-site supervision (as opposed to desk reviews) is required.

#### **8. Execution mechanism**

The PCU will monitor the execution of all program activities. As the entity responsible for coordination, the PCU will ensure that the annual work plan and periodic status reports are prepared and kept up-to-date, and that estimates are provided on the funds required to prepare disbursement plans and update the program's management and monitoring tools (PEP and procurement plan).

#### **9. Operating Manual**

The issues covered in these fiduciary agreements and requirements will be described in detail in the Operating Manual, which will require the approval of the undersigned fiduciary specialists.