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EL SALVADOR

CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES

(ES-O0011)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Juan José Durante (IFD/CMF), Project Team Leader; Fernando De Olloqui (IFD/CMF), Alternate Project Team Leader; Hongrui Zhang, Annabella Gaggero, Andrea Terán, Guillermo Collich, Claudia Márquez, Ana Lucía Lozano, Cynthia Martínez, and Sahara De la Torre (IFD/CMF); Cristina Villalba (CAN/CEC); Ginés Suárez (CSD/RND); María Deni Sánchez (SCL/SPH); Leslie Stone (SPD/SMO); Maricarmen Esquivel (CSD/CCS); Nidia Hidalgo (SCL/GDI); Ana Padilla (CID/CES); Ignacio Barragán and Esteban de Dobrzynski (LEG/SGO); Juan Carlos Lazo and Miriam Toriz (VPC/FMP).

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ABBREVIATIONS

ARL	Automatic redirection list
BCR	Central Reserve Bank of El Salvador
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CNPC	National Civil Protection Commission [Comisión Nacional de Protección Civil]
COEN	Center for National Emergency Operations [Centro de Operaciones de Emergencia Nacional]
CTS	Sectoral technical commissions
DACGER	Department of Climate Change Adaptation and Strategic Risk Management [Dirección de Adaptación al Cambio Climático y Gestión Estratégica del Riesgo]
DGPC	Department of Civil Disaster Protection, Prevention, and Mitigation [Dirección General de Protección Civil, Prevención y Mitigación de Desastres]
FOPROMID	Civil Disaster Protection, Prevention, and Mitigation Fund [Fondo de Protección Civil, Prevención y Mitigación de Desastres]
IDB	Inter-American Development Bank
IDRMP	Integrated Disaster Risk Management Plan
IHR	International Health Regulations
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MIGOBDT	Ministry of the Interior and Land Development [Ministerio de Gobernación y Desarrollo Territorial]
MINSAL	Ministry of Health
NPV	Net present value
OC	Ordinary Capital
OVE	IDB Office of Evaluation and Oversight
PFTR	Financing and Risk Transfer Program for Natural Disasters and Public Health [Programas de Financiamiento y Transferencia de los Riesgos de Desastres Naturales y Salud Pública]
PNPC	National Civil Disaster Protection, Prevention, and Mitigation Plan [Plan Nacional de Protección Civil, Prevención y Mitigación de Desastres]
SNPC	National System for Civil Disaster Protection, Prevention, and Mitigation [Sistema Nacional de Protección Civil, Prevención y Mitigación de Desastres]
UGRD	Disaster and Risk Management Unit of the Ministry of Health [Unidad de Gestión de Riesgos y Desastres]
WHO	World Health Organization

PROJECT SUMMARY

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(ES-O0011)

Financial Terms and Conditions[a]

Borrower: Republic of El Salvador			
Executing agency: Borrower, through the Ministry of Finance			
Source	**Amount (US$)**		**%**
IDB (OC):	Modality I	300,000,000	75
	Modality II	100,000,000	25
Total	400,000,000		100

Flexible Financing Facility[b]	
Amortization period:	25 years[c]
Grace period:	5.5 years[c]
Original weighted average life:	15.25 years[c]
Coverage period:	5 years[d][e]
Interest rate:	LIBOR-based
Inspection and supervision fee:	[f]
Disbursement fee:	[g]
Approval currency:	U.S. dollars

Project at a Glance

Project objective: The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, rapid contingent financing to cover extraordinary public expenditures aimed at supporting the population affected by natural disaster and public health emergencies.

Special contractual condition for general eligibility to request disbursements: The approval and entry into effect of the program Operating Regulations under the terms previously agreed upon with the Bank (paragraph 3.4).

Special contractual conditions precedent to the first disbursement for each eligible event:

(a) Disbursements under Modality I (natural disasters): (i) the Bank has verified the occurrence of an eligible event as defined in the program Operating Regulations; and (ii) the Integrated Disaster Risk Management Plan (IDRMP), previously agreed upon with the Bank, is moving forward to the Bank's satisfaction (paragraphs 2.7, 2.8, and 3.5);

(b) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through the Ministry of Health (MINSAL), has submitted evidence that it is up to date with its progress reports to the World Health Organization (WHO) regarding compliance with International Health Regulations (IHR); (iii) the borrower, through MINSAL, has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the complementary measures and conditions agreed upon for financing risk retention (paragraph 3.5); and

(c) Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of a national emergency due to a natural disaster resulting from an eligible event as defined in the program Operating Regulations; (ii) the IDRMP, previously agreed upon with the Bank, is moving forward to the Bank's satisfaction; and (iii) the Bank has verified the borrower's compliance with the complementary measures and conditions agreed upon for financing risk retention (paragraph 3.5).

In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and indicating whether these will come from regular program resources, undisbursed resources from the automatic redirection list (ARL), or a combination of the two. In the case of ARL loans, the request will identify the loans in question and the respective amount to be used (paragraph 3.6). For special contractual conditions for execution, see Annex III.

Exceptions to Bank policies: None.			
Strategic Alignment			
Challenges[h]:	SI ☒	PI ☐	EI ☐
Crosscutting themes:[i]	GE ☒ and DI ☐	CC ☒ and ES ☐	IC ☒

(a) Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4, approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020).

(b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(c) Amortization periods, weighted average life, and grace periods are counted from the date of each disbursement.

(d) The coverage period or disbursement period (equivalent terms) is renewable for up to five additional years, at the Bank's discretion, following a request by the borrower.

(e) In accordance with document AB-2990, loan disbursements will be subject to the following upper limits: they will be contingent upon the Bank's having sufficient resources available from the ARL or from the Bank's regular lending program for El Salvador, as applicable (paragraph 2.5), at the time of the disbursement request.

(f) The 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 policies.

(g) The fee is not charged if the loan is not used. The Bank will charge a one-time disbursement fee of 50 basis points on the date of disbursement, applicable solely to the amount disbursed from resources from the regular lending program. This fee is applicable to each disbursement. The disbursement fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from loans included on the ARL.

(h) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(i) GE (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problem addressed, and rationale

1. The country's vulnerability to natural disasters and climate change

1.1 Because of its geotectonic features and geographic location[1] [1], El Salvador is highly exposed and vulnerable to natural threats such as earthquakes, floods, volcanic eruptions, tropical cyclones, and droughts. The risk to its economy and its population is high. Approximately 96% of economic activity and 95% of the population are concentrated in areas at risk from multiple natural threats [2], and 20% of the population lives within 10 km of an active volcano [3]. In just the last two decades, the country has reported 42 disasters, including 12 tropical cyclones, 10 floods, 7 earthquakes, and 2 volcanic eruptions. These incidents have affected 3.9 million people and caused US$5.8 billion in economic losses [4].

1.2 El Salvador has been historically affected by seismic activity. Among the most destructive events were the earthquakes in 1986 and 2001 earthquakes, which caused significant damage in the country's major cities—including San Salvador, home to a third of the population—and impacted more than two million people [1]. The 1986 earthquake caused economic losses equivalent to 23% of GDP, and 4.9% of GDP was associated with the costs of the immediate response (US$1.2 billion in current terms) [5]. The 2001 earthquakes also caused large economic losses (12.1% of GDP) and spending needs (2% of GDP) for the immediate emergency response [6, 7].

1.3 Tropical cyclones and associated effects such as flooding also have a large impact. The passage of Hurricane Mitch through Central America in 1998 affected 84,000 people and caused US$388 million in losses [8]. In 2011, Tropical Depression Twelve-E impacted more than 1.4 million people and led to losses on the order of US$902 million (4.4% of GDP) [9]; in 2020, Tropical Storm Amanda caused approximately US$200 million in losses (0.8% of GDP) and left more than 100,000 affected people in its wake [10], requiring government intervention for the emergency response and the provision of shelters for the evacuees [11].

1.4 **Climate change.** El Salvador is one of the countries at greatest risk from climate change [12]. According to the Global Climate Risk Index, El Salvador ranks 28th out of 180 countries in terms of climate change vulnerability [13, 14]. Projections indicate that if the Representative Concentration Pathway 8.5 scenario came to pass, the increase in the annual average temperature could reach 4.5 degrees Celsius by the end of the century, while precipitation could be reduced by around 20% [15]. As the effects of climate change worsen, extreme hydrometeorological events like tropical cyclones, and floods are expected to increase in both frequency and intensity [15].

1.5 **Gender and natural disasters.**[2] By exposing preexisting inequalities [16], natural disasters tend to disproportionately affect the most vulnerable groups, particularly women [17]. This unequal impact can be seen in several ways: lower life expectancy, higher likelihood of unemployment, and higher risk of gender-based

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[1] See Bibliography (optional link 6).

[2] See Technical paper - Alignment with the Crosscutting Theme of Gender Equity (optional link 5).

violence [18, 19, 20]. A study by the International Red Cross in El Salvador found that gangs were likely to commit acts of violence against women and girls after disasters [21]. To address this issue, the response and recovery phases need a gender-based approach that includes safety protocols and preventative measures.

2. The country's vulnerability to public health events

1.6 El Salvador is vulnerable to acute public health events resulting from natural disasters and infectious diseases such as COVID-19 and dengue. The latter are severe pandemic or endemic outbreaks that can have immediate negative consequences for human health and economic activity, requiring a rapid public health response. The country has experienced several public health events over the last decade, such as outbreaks of vector-borne diseases such as dengue, chikungunya, and Zika. For example, in 2019, 27,384 cases of dengue were reported, followed by 5,450 cases in 2020.

1.7 More recently, the country declared a State of National Emergency on 14 March 2020 in light of the declaration of the COVID-19 pandemic by the World Health Organization (WHO) [22]. In El Salvador, as of 21 September 2021, 99,701 confirmed cases of COVID-19 and 3,102 deaths have been reported [23]. Estimates from the International Monetary Fund (IMF) indicate that government spending on the public health response in 2020 was 2.1% of GDP [24].

3. Financial vulnerability in the face of natural disasters and public health events

1.8 As in other Central American economies [25], the economic and financial impact of the COVID-19 health crisis in El Salvador in 2020 has been profound. According to the Central Reserve Bank of El Salvador (BCR), economic activity shrank by 7.9% in 2020 as a direct consequence of measures to contain the spread of the novel coronavirus; however, there were signs of recovery in the first quarter of 2021, as the economy saw 3.3% growth [26]. The BCR projects GDP growth of around 9.0% in 2021, driven by the recovery of productive activity, greater dynamism in private investment, and the rebound of the global economy [27].

1.9 The pandemic has also affected the country's public finances. According to data from the Ministry of Finance, tax revenues fell 5.9% [28], while the extraordinary fiscal measures taken to respond to the health crisis led to a public spending increase of approximately 19.7% in 2020 [29]. As a result, the fiscal deficit is expected to increase to around 10% of GDP and public debt to 87% of GDP. IMF projections suggest that the county's fiscal headroom will remain limited [30].

1.10 In this context, a severe natural disaster or a nationwide disease outbreak is a significant fiscal contingent liability because the emergency response would create a significant need for financing. If the 2001 earthquake were to happen today, the losses and financing requirements could top US$1.8 billion (7% of GDP) [31]. If this risk were to materialize, the government's capacity to deploy a rapid and effective emergency response could be compromised due to limited fiscal space.

4. Natural disaster risk management in El Salvador

1.11 El Salvador has continued to improve its regulatory and institutional framework for disaster risk management. In 2005, the Civil Disaster Protection, Prevention, and Mitigation Act (Decree No. 777) was passed to: (i) form the National System for

Civil Disaster Protection, Prevention, and Mitigation (SNPC); (ii) regulate the operations of the Department of Civil Disaster Protection, Prevention, and Mitigation (DGPC), part of the Ministry of the Interior and Land Development (MIGOBDT); and (iii) regulate the declaration of national emergencies and alerts in case of disasters, among other things [32]. The SNPC has three levels of civil disaster protection, prevention, and mitigation commissions: (i) the National Civil Protection Commission (CNPC), (ii) Departmental Commissions; and (iii) Municipal and Communal Commissions.

1.12 The CNPC is the highest authority within the SNPC and does the following: (i) establishes appropriate measures in disaster and national emergency situations; (ii) proposes the State of Emergency declaration to the President of the Republic; and (iii) coordinates interventions by the Departmental Commissions and Municipal and Communal Commissions through the DGPC.

1.13 El Salvador has a National Civil Disaster Protection, Prevention, and Mitigation Plan (PNPC) aligned with the 2015-2030 Sendai Framework and with the Paris Agreement [33], which is implemented by MIGOBDT through the DGPC. The DGPC is currently updating the PNPC,[3] including the topics of climate change and a focus on gender and vulnerable populations such as people with disabilities, in accordance with signed international and regional agreements.

1.14 The diagnostic assessment of El Salvador's integrated disaster risk management is documented in the Integrated Disaster Risk Management Plan (IDRMP) (paragraphs 2.7 and 2.8). The progress and challenges of some strategic areas of the country's disaster risk management are summarized below:

1.15 **Disaster risk reduction.** The country has been promoting public investment in disaster risk reduction through the Department of Climate Change Adaptation and Strategic Risk Management (DACGER) within the Ministry of Public Works and Transportation. Between June 2020 and May 2021, DACGER implemented 29 risk protection and mitigation projects for a total of US$8.88 million, notably sewer system improvements and the installation of sustainable drainage systems in the sectors of Barrio Candelaria and Ciudad Merliot in the San Salvador metropolitan area, reducing the risk of flooding for more than 160,000 residents [34]. The Regulations for the Structural Safety of Buildings also need to be updated, as they are from 1996.

1.16 **Disaster management.** The country has updated national and sectoral contingency plans for major threats: earthquakes, tsunamis, droughts, floods, and forest fires. El Salvador is also a signatory to the Regional Mechanism of Mutual Aid against Disasters, so it has a way to coordinate international assistance and aid in the event of disasters. In order to continue strengthening its planning tools, the DGPC will update the national disaster response plan, including areas of climate change and a focus on gender and vulnerable populations.

1.17 **Financial risk management.** El Salvador has made significant progress in this area: (i) the creation of the Civil Disaster Protection, Prevention, and Mitigation Fund (FOPROMID) in 2005; and (ii) an insurance policy through the Caribbean

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[3] The DGPC expects to disseminate the draft of the new PNPC by the end of 2022.

Catastrophe Risk Insurance Facility (CCRIF) (paragraph 2.10). It also developed a Financial Management Strategy for Disaster Risk in 2021 in order to preserve fiscal sustainability in the face of disaster risk [35]. In this strategic framework, the country requested Bank support by way of a US$400 million contingent loan for natural disaster emergency response.

5. Public health risk management in El Salvador

1.18 The Ministry of Health (MINSAL) developed a 2018-2022 National Disaster Risk Management Plan for the health sector [36] that set the institution's general framework for action in the areas of risk management. When it comes to preparing emergency plans, MINSAL has a Disaster and Risk Management Unit (UGRD), which issues guidelines for the creation of emergency plans at different levels. For response, it has a National Medical Emergency System, a coordinating network that provides emergency care using medical and technological resources. MINSAL manages the relationship with WHO regarding, among other matters, compliance with the International Health Regulations (IHR).

1.19 **Epidemiological surveillance system.** MINSAL has an epidemiological surveillance system that facilitates early detection of possible infectious disease outbreaks and the enactment of prevention measures [37]. This system has the capacity to conduct complex analysis using factors that make up the social determinants of health, enabling the use of stratified analyses to control arbovirosis and quickly identify the viral circulation of Zika and other vector-borne diseases.

1.20 **Provision of health services.** El Salvador has a comprehensive family and community health care model, which operates a network of 741 Family Health Community Units, 11 basic hospitals, 14 departmental hospitals, 2 regional hospitals, 3 national referral hospitals, and 1 hospital for COVID-19 patients. This integrated network serves more than 70% of the population. According to 2020 data from MINSAL, there are 46,674 employees in the health care network, including 3,832 specialist physicians and 4,367 general physicians and residents. El Salvador has 12.5 doctors for every 10,000 inhabitants, compared with an average of 9.9 doctors per 10,000 inhabitants in Central America.

6. Risk financing and transfer programs for natural disaster and public health emergencies

1.21 The Bank has a history of supporting countries to strengthen their effective financial management of disaster risks. During 2007-2008, the Bank developed a comprehensive financial approach to disaster risk management to help countries improve their financial planning (document GN-2354-7). The objective of this approach is to support borrowing member countries in the design and implementation of Financing and Risk Transfer Programs (PFTRs) for natural disasters.

1.22 In 2009, under this strategic framework, the Bank created the Contingent Credit Facility (CCF) for Natural Disaster Emergencies (document GN-2502-7) to provide countries with significant liquid resources immediately after a natural disaster. In 2020, in light of the challenges of the COVID-19 pandemic, the scope of the Facility was expanded to include public health risks (document GN-2999-4).

1.23 PFTRs assume the existence of budget and financial restrictions that make it impossible for any instrument, on its own, to effectively cover all layers of risk [38]. Therefore, in the design of PFTRs, the use of reserve funds to cover risks associated with high-recurrence, smaller-scale events is recommended. For less likely, large-scale events, the use of contingent lines and risk transfer instruments such as insurance and/or catastrophe bonds is encouraged [39].

1.24 **Potential benefits.** The benefits of focusing on PFTRs for the emergency phase are likely greater than their potential costs. PFTRs allow countries to obtain financial coverage that benefits the population regardless of whether the risks materialize, and they are more effective, both in terms of direct costs and savings, because they enable governments to reduce their liquidity gap due to the combination of increased expenses, lower revenues [40], and incremental restrictions on access to and cost of credit resources.

1.25 Having ex ante financial coverage available for the emergency stage partially reduces the risk associated with the impact of a worst-case scenario on public accounts and vulnerable populations by allowing the rapid deployment of resources to address the costs of emergency response. This has been verified through studies by the Bank [41] and other multilateral institutions like the IMF [42].

7. The operation in the Bank's sector and country strategy

1.26 **Bank action and support for the natural disaster sector.** The Bank has helped El Salvador's government prevent and mitigate flood risks through the Program to Reduce Vulnerability in Precarious Urban Settlements in the San Salvador Metropolitan Area, approved in 2011 for US$50 million (2630/OC-ES). Through a regional technical cooperation operation approved in 2016 for US$1 million (ATN/MD-15800-RG), the Bank conducted an assessment of potential losses in the agriculture sector caused by drought, including climate change scenarios [43]. The Bank is currently implementing the program Action Plan for the Implementation of a Governance and Public Policy Index for Disaster Risk Management (ATN/JF-16641-ES, ATN/JF-17111-ES), which was approved in 2018 for US$800,000 to help El Salvador update the seismic risk analysis component of its building regulations.

1.27 **Bank action and support for the public health sector.** The Bank has helped strengthen health care in El Salvador through projects in the Integrated Health I and II Program (2347/OC-ES and 3608/OC-ES), approved in 2010 and 2015 for US$82.7 million and US$170 million, respectively; and the three successive operations of the Mesoamerican Health Initiative (GRT/HE-12982-ES, GRT/HE-12983-ES; GRT/HE-14650-ES, GRT/HE-14651-ES; GRT/HE-16714-ES, GRT/HE-16715-ES), approved in 2011, 2014, and 2018 for US$6.5 million, US$5.9 million, and US$1.5 million, respectively. The Regional Initiative for the Elimination of Malaria in Mesoamerica (GRT/MM-17186-ES, GRT/MM-17187-ES), approved in 2018 for US$747,500, is also improving epidemiological care in the country, including diagnosis, treatment, research, and response. In 2020, the Bank also: (i) approved the Immediate Public Health Response to Contain and Control the Coronavirus and Mitigate its Impact on Service Delivery in El Salvador (5043/OC-ES) for US$50 million; and (ii) supported El Salvador's health response to the COVID-19 pandemic with resources from the 3608/OC-ES program in the active portfolio.

1.28 **Good practices and lessons learned from the CCF.** The Bank has approved 14 CCF loans,[4] with four disbursements for a total of US$280.5 million (3670/OC-EC, 4331/OC-DR, 4853/OC-BH, and 5195/BL-NI). The following lessons and improvements have been incorporated into the design of the current operation: (i) the calculation methods that trigger the loan activation have been refined; (ii) coordination and implementing mechanisms between the executing agency, the SNPC, and MINSAL have been strengthened; and (iii) operating regulations have been established to strengthen oversight and implementation of these projects.

1.29 The usefulness and effectiveness of the tool are verified and supported by the "Country Program Evaluation: Ecuador 2012-2017" report, prepared by the Office of Evaluation and Oversight (OVE) [44], and the OVE-validated project completion reports on the response operations to the 2016 Manabí earthquake in Ecuador (3670/OC-EC) and Hurricane Maria in the Dominican Republic in 2017 (4331/OC-DR). Some of the standout lessons incorporated into the project are: (i) the requirement to hire an independent auditor with reasonable assurance to safeguard the eligibility of expenses (paragraph 3.10); and (ii) the inclusion of operating guidelines and procedures in program Operating Regulations to strengthen early coordination between the executing agency and the Bank for substantiating the use of disbursed resources.

1.30 **Strategic alignment of the operation.** The program is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and with the development challenge of social inclusion and equality as it benefits a large number of people, particularly those who are vulnerable, by increasing ex ante financial coverage for natural disaster and public health emergencies. The project is aligned with the crosscutting themes of: (i) climate change, inasmuch as the project increases the available ex ante financial coverage for El Salvador by US$300 million under Modality I in the event of hurricanes and floods from excessive torrential precipitation associated with tropical cyclones. The operation resources under Modality I will be fully allocated to support the country's financial framework for climate change adaptation. According to the joint methodology of the multilateral development banks,[5] 75% of project resources are invested in adaptation related to improving the financial management of natural disaster risks. These resources contribute to the IDB climate financing target (30% of annual approvals by volume); (ii) gender equity, inasmuch as it promotes a gender perspective in the management of the country's disaster risk through the activities in the IDRMP and the gender action plan (paragraph 1.33); and (iii) institutional capacity and rule of law, by helping to improve El Salvador's capacity to administer public resources by increasing the amount of ex ante contingent financing and therefore strengthening contingent fiscal liability management (paragraphs 1.8 to 1.10).

1.31 This operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12), with contributions to the following indicators: (i) beneficiaries of enhanced disaster and climate change resilience: increases the

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[4] The current total for active contingent loans amounts to US$2,143,300,000.

[5] See Technical paper. Contribution to Climate Change Adaptation (optional link 4).

population that is more resilient to natural disasters, epidemics, and pandemics by benefiting from the ex ante financial coverage; and (ii) countries with strengthened tax and expenditure policy and management: improved capacity of a country to manage public resources and contingent fiscal liabilities.

1.32 The operation is also aligned with the Bank's Disaster Risk Management Policy (document GN-2354-5) and is consistent with the Climate Change Sector Framework Document (document GN-2835-8) and the Health and Nutrition Sector Framework Document (document GN-2735-7) by helping to improve the country's financial management of public health, disaster, and climate risks. It is also aligned with the IDB Group Country Strategy with El Salvador 2021-2024 (document GN-3046-1), particularly because it contributes to the crosscutting area of climate change and natural disasters by strengthening disaster risk management through an increase in ex ante contingent financing to consolidate fiscal sustainability in the face of natural disasters and climate change adaptation. Lastly, the operation is included in the Update of the Annex III of the 2021 Operational Program Report (document GN-3034-2).

1.33 **Gender considerations.** Using the IDRMP, this project will encourage measures that lead to the inclusion of a gender equity approach in El Salvador's disaster risk management. Actions taken during the first year, included in the IDRMP indicator matrix, will focus on strengthening the gender equity and vulnerable population approach, including people with disabilities, in the areas of governance in risk management and disaster preparedness and management. The operation also includes an additional output: preparation of a gender action plan during the first year to bolster the gender equity approach within El Salvador's disaster risk management (paragraph 1.39). This action plan, which will be drafted based on guidelines from the strategic framework on mainstreaming a gender approach in contingent loans[6] and implemented within the IDRMP oversight and monitoring framework (paragraph 3.13), will include annual activities to address the sector's main gender gaps during the coverage period, thereby reinforcing the country's efforts in this area. These activities will be integrated into the IDRMP as appropriate (paragraph 2.8).

B. Objectives, components, and cost

1.34 The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, rapid contingent financing to cover extraordinary public expenditures aimed at supporting the population affected by natural disaster and public health emergencies.

1.35 Additionally, the operation helps improve El Salvador's comprehensive disaster risk management by promoting improvements in the five strategic areas of the IDRMP (paragraphs 2.7 and 2.8). The gender actions in the IDRMP will foster a gender equity approach to the country's disaster risk management

[6] See Section II of optional link 5.

(paragraph 1.33),[7] as will an action plan to address the sector's main gender gaps during the coverage period.

1.36 **Sole component.** The proposed operation consists of a single US$400 million component that will structure stable, efficient, and rapid ex ante financial coverage to provide timely funding for extraordinary expenditures that are likely to be incurred during severe natural disaster and public health emergencies.

1.37 **Subcomponent 1.1: Coverage under Modality I.** The proposed operation includes a US$300 million subcomponent under CCF Modality I to provide timely funding for extraordinary public expenditures that are likely to be incurred during emergencies caused by severe or catastrophic natural disasters (parametric coverage) (paragraph 2.3). Covered events will be earthquakes, hurricanes, and flooding due to excessive torrential precipitation associated with tropical cyclones.

1.38 **Subcomponent 1.2: Coverage under Modality II.** The proposed operation includes a US$100 million subcomponent under CCF Modality II to provide timely funding for extraordinary public expenditures that are likely to be incurred during public health emergencies or as a result of severe or catastrophic natural disasters (nonparametric coverage) (paragraph 2.4). Covered events will be future epidemics and pandemics[8] and volcanic eruptions.

1.39 The operation also includes as a specific output the preparation of an action plan to strengthen the gender equity approach within the country's disaster risk management,[9] in order to strengthen the country's efforts in this sector (paragraph 1.33).

1.40 To assess the country's financial needs for contending with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed the exposure and vulnerability to such events, and their historical impact, factoring in the effects of climate change.[10] This analysis determined that the loan amount is US$400 million, composed of US$300 million under Modality I and US$100 million under Modality II. These amounts fall within the set limits per modality for CCF operations (document GN-2999-4, paragraphs 4.4 to 4.7). The

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[7] In 2021/2022, the DGPC plans to update the PNPC (paragraph 1.13) and the natural disaster response plan, as well as add a gender and vulnerable populations approach.

[8] The loan may not be used for the current COVID-19 pandemic outbreak as it is not an eligible event under the intended scope of CCF Modality II (document GN-2999-4, paragraph 3.16). However, future pandemics or epidemics may be eligible, including those caused by the novel coronavirus SARS-CoV-2.

[9] This output will be financed with resources from regional technical cooperation RG-T3925 Promoting Institutional Capacity Development for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management within the Framework of the CCF. The aim of this technical cooperation is to boost the institutional capacity of public entities to include a gender approach in the region's disaster risk management. It includes a specific component (Component I) to finance the preparation and subsequent implementation of gender action plans. The technical cooperation under preparation was considered eligible to receive US$300,000 in financing from the Strategic Program for Development of Institutions Financed with Ordinary Capital Resources (INS).

[10] Evidence of El Salvador's exposure and vulnerability to earthquakes, floods, tropical cyclones, volcanic eruptions, epidemics, pandemics, and the effects of climate change is documented in sections I.A.1 and I.A.2.

financial terms and conditions applied to these resources are indicated in document GN-2999-4 and included in the project summary of this proposal.

1.41 **Beneficiaries.** The potential project beneficiaries include, generally, the entire population of El Salvador and, specifically, affected groups that receive emergency assistance under the proposed coverage.

C. Key results indicators

1.42 The following indicators will be monitored to show the anticipated contribution to the project's general objective (paragraph 1.34): (i) ex ante financial coverage relative to the maximum probable expenditure during catastrophic natural disaster emergencies covered by the project; and (ii) ex ante financial coverage relative to the maximum probable expenditure during national public health emergencies covered by the project.

1.43 The following indicators will be monitored to verify improvements to the country's financial risk management and determine whether the operation's specific objective has been achieved (paragraph 1.34): (i) the amount of ex ante financial coverage available to the country for response to natural disaster or public health emergencies; (ii) beneficiaries of the ex ante financial coverage available for natural disaster emergencies; (iii) beneficiaries of the ex ante financial coverage available for public health emergencies; (iv) the spread between the financial cost of the Bank loan and the cost of El Salvador's long-term sovereign commercial external debt; (v) the financial savings ratio after an eligible event occurs: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms; and (vi) the speed at which funds are accessed following the occurrence of an eligible event (number of days between the eligibility verification request and the availability of the funds).

1.44 **Economic analysis.** The economic analysis of the project uses a cost-effectiveness analysis methodology to assess a scenario in which the entire financial coverage provided by the US$400 million contingent loan is used as a consequence of a catastrophic natural disaster or public health event.[11] The NPV of the financing cost of the Bank loan was compared to the cost of bond issuance, under the following assumptions: (i) interest on the Bank loan set at the London Interbank Offered Rate (LIBOR); and (ii) bonds issued with a maturity date of approximately 10 years, based on the country's current risk premium on the international market. Both NPVs were calculated using a 12% discount rate. The results show that the contingent loan is equal to 42.2% of the cost of issuing debt, which makes it a much more effective option.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 The operation will consist of an investment loan from the Bank issued under the CCF (document GN-2999-4) for up to US$400 million, with US$300 million under Modality I and US$100 million under Modality II. The borrower, acting through the

[11] Two other scenarios were evaluated, and the results indicate that the contingent loan would still be the most efficient option. See Economic analysis (optional link 1).

Ministry of Finance, will serve as the executing agency. All disbursements will be made from the Bank's Ordinary Capital resources. The funds will come from the regular lending program, from available undisbursed balances of ongoing investment loans specified on the automatic redirection list (ARL),[12] or from a combination of the two. Funds for natural disaster coverage under Modality II may not come from the ARL (Annex I to document GN-2999-4, paragraph 4.12).

2.2 Contingent loans issued under the CCF contain specific financial terms and conditions (as described in the project summary) to adequately support the country at the critical moment of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include the following: (i) the amortization period, weighted average life, and grace period are counted from the date of the first disbursement for each eligible event; (ii) the Bank will charge a one-time disbursement fee of 50 basis points (revised periodically) on the date of each disbursement, applicable only to the amount disbursed from the Bank's regular lending program (i.e., resources other than those from the ARL); and (iii) the resource availability period (coverage period) is five years and can be renewed for up to an additional five years at the Bank's discretion and upon the borrower's request, provided the IDRMP is still in force and progressing to the Bank's satisfaction, and/or the country's progress report to the WHO on IHR compliance is up to date.

2.3 **Eligible events under Modality I.** The loan will provide coverage under Modality I for earthquakes, hurricanes, and floods from excessive torrential precipitation associated with tropical cyclones based on the intensity and affected population parameters established in the contract between the country and the Bank, and defined in the terms and conditions of coverage under Modality I (Annex I to the program Operating Regulations). The annex discusses specific issues related to how the parametric triggers determine whether events are eligible for disbursements, as well as the methodology used to calculate the maximum coverage amount based on the intensity and percentage of the country's total population affected by each type of eligible event.

2.4 **Eligible events under Modality II.** The loan will provide coverage under Modality II for future pandemics and epidemics that result in a national public health emergency declaration by the country's appropriate authority[13] and for volcanic eruptions that result in a national emergency declaration by the appropriate authority.[14] Annex II to the program Operating Regulations discusses specific

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[12] The ARL includes the Bank's current investment loans with the country that have balances available for disbursement. The remaining balances can be automatically redirected should an event occur (Annex I to document GN-2999-4, paragraph 4.12). The borrower and the Bank agreed upon the ARL based on the following criteria: (i) the government's priorities in the context of a potential emergency; and (ii) the status of project execution and performance. The ARL will be periodically updated to include new loans in consultation with the borrower. If an event is declared eligible by the Bank and the disbursed resources come entirely or partially from ARL resources, the Bank will update the project management systems to reflect the appropriate changes in the selected loans.

[13] See footnote 8.

[14] In El Salvador, state of emergency declarations are regulated by the Civil Disaster Protection, Prevention, and Mitigation Act (Legislative Decree 777).

issues related to the legal framework, scope, and procedures of state of emergency declarations.

2.5 Loan disbursements will be contingent upon the availability, at the time of a disbursement request, of sufficient resources from the ARL or from resources allocated to the Bank's regular lending program with El Salvador, as applicable. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of resources available. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.

2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage available under the applicable modality; and (ii) the limit for each disbursement method set forth in the program Operating Regulations. In the case of Modality I, the limit will also be subject to the maximum amount resulting from the application of the coverage model for the eligible event.

2.7 **IDRMP.** To be eligible to receive financing through the CCF, member countries must have a public policy for integrated disaster management and promote the effective implementation thereof. The country's efforts in this area are documented in the IDRMP, which must be current and meet the Bank's standards to comply with the eligibility requirement established by the CCF (document GN-2999-4). To that end, the project team conducted a diagnostic assessment of disaster risk management in El Salvador (Annex III to the program Operating Regulations) and agreed with the government on the general 2021-2026 targets and IDRMP annual indicators according to the country's priorities in the sector. The IDRMP negotiated by the government and the Bank is documented in Annex III to the program Operating Regulations and is satisfactory to the Bank. Therefore, the country meets the aforementioned eligibility criteria.

2.8 The country has to make progress on the IDRMP to the Bank's satisfaction to maintain natural disaster coverage. Annual progress indicators have been established for each of the IDRMP's strategic areas for monitoring purposes. Progress monitoring exercises will take place annually. For the first monitoring exercise, the annual indicators were agreed upon and included in Table 1 of Annex III to the program Operating Regulations. Satisfactory execution of the plan will be determined by verifying significant progress for all of the agreed upon indicators. For subsequent annual verification periods, new annual progress indicators will be established with the government, including indicators for the gender action plan.

2.9 **IHR.** The CCF states that countries must be up to date with their IHR compliance reporting to the WHO to receive financing through public health coverage.[15] According to the WHO's SPAR platform, El Salvador meets this requirement,

[15] The IHR recommendations compliance report is updated annually through a self-assessment known as SPAR. For more information, see the Guidance Document for the State Party Self-Assessment Annual Reporting Tool.

having conducted its most recent annual evaluation in 2021.[16] During the contingent loan coverage period, the Bank will monitor the country's annual compliance with reporting to the WHO on its capacity and response to public health events under the IHR framework.

2.10 **Complementary risk financing mechanisms.** El Salvador has various financial mechanisms for managing contingent fiscal liabilities arising from natural disasters and public health events. It has FOPROMID, which was created in 2005 along with the SNPC through Legislative Decree 778 to finance the cost of emergencies [45]. This fund is managed by the Ministry of Finance, and its resources are channeled through MIGOBDT and the CNPC, which in turn monitor the use of resources by implementing institutions. FOPROMID has US$4 million annually. The country also has US$60 million in financial coverage from contingent emergency response components of World Bank loans [46]. Regarding risk transfer instruments, the Ministry of Finance is in the final stages of taking out a US$5.1 million renewable insurance policy from the CCRIF with coverage for excessive rainfall until June 2022.

B. Environmental and social risks

2.11 In accordance with the provisions of Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20, Operational Policy OP-703), this operation does not require classification. Because any resources disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and because the Ministry of Finance, as the executing agency, ensures compliance with the country's environmental and social legislation in the use of the funds, no negative environmental or social impacts are anticipated. The loan contract includes a list of the types of expenditures that cannot be financed with loan proceeds (negative list). Examples of such expenditures are those associated with ongoing reconstruction of infrastructure.

C. Fiduciary considerations

2.12 The operation will comply with the specific fiduciary control requirements and procedures set out in the CCF policy document (document GN-2999-4) and Annex III - Fiduciary Agreements and Requirements, supplemented by the Financial Management Guidelines for IDB-financed Projects (OP-273-12). No fiduciary risks have been identified for this operation under the Risk Management Framework for Projects with Sovereign Guarantees (OP-1519-4).

D. Other key issues and risks

2.13 **Risks from internal processes.** There is a medium-high risk that due to lack of and/or insufficient information about expenditures financed with operation resources and possible delays in internal accountability processes, some expenditures incurred by various SNPC entities (paragraphs 1.11 and 1.12) may be rejected for not meeting eligibility criteria, thereby reducing the effective financing of this operation. To mitigate this risk, the Bank will: (i) require independent verification of the use of loan resources by an independent audit firm acceptable to the Bank (paragraph 3.10); and (ii) negotiate with the Ministry of

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16 Electronic State Parties Self-Assessment Annual Reporting Tool (e-SPAR).

Finance to include operating guidelines in the program Operating Regulations that facilitate early coordination between the executing agency, the Bank, and the auditing firm in order to mitigate the risk that the country is unable to gather the information needed to justify the use of disbursed resources.

2.14 **Risks from organizational structure.** There is a medium-high risk that due to a delay in communication and appropriate interagency coordination between SNPC entities (paragraphs 1.11 and 1.12), resources disbursed for an eligible event may not be used within the time frame specified in the loan (paragraph 3.9), which would have an impact on the operation's effectiveness. To mitigate this risk, the Bank will: (i) provide technical support to the Ministry of Finance, including training workshops, as part of the project supervision and execution process; and (ii) establish a coordination and execution mechanism led by the Ministry of Finance in the event of disbursement (paragraphs 3.2 and 3.3). The Bank will monitor this coordination mechanism between the Ministry of Finance, MIGOBDT, DGPC, MINSAL, and other SNPC entities.

2.15 **Sustainability.** The country is expected to continue moving forward with implementation of the PNPC (paragraph 1.13) and the Disaster Risk Financial Management Strategy (paragraph 1.17), including strategic guidelines aimed at promoting retention and risk transfer mechanisms. In terms of public health risks, the country is expected to maintain its commitment to progress in these areas in the IHR framework. Ongoing implementation of the 2018-2022 National Disaster Risk Management Plan (paragraph 1.18) will contribute to the program's sustainability (paragraph 1.27), as will activities aimed at improving the epidemiological care capacity of El Salvador's health sector in response to cases of malaria and COVID-19, as part of the Bank's support for the country.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Republic of El Salvador. The executing agency will be the borrower, acting through the Ministry of Finance. The contingent loan resources will be disbursed to the Ministry of Finance. Under Ministry of Finance coordination, the contingent loan resources will be used by the public sector institutions responsible for budget execution during natural disaster or public health emergencies (implementing entities). With support from the implementing entities, the executing agency will be tasked with: (i) carrying out general coordination of the project; (ii) processing and handling disbursement requests to the Bank; (iii) coordinating follow-up of the monitoring, evaluation, and justification requirements for the use of loan resources; and (iv) ensuring that the project's objectives and terms and conditions are fulfilled.

3.2 **Regulatory framework for interagency cooperation in natural disaster and public health emergencies.** In the event of a natural disaster emergency, the Ministry of Finance, through MIGOBDT's DGPC, will coordinate with other SNPC institutions. As the lead agency of the SNPC, the DGPC will help the CNPC prepare and execute response and reconstruction plans at the national, departmental, and municipal level. At the operational level, the DGPC and CNPC will have the Center for National Emergency Operations (COEN) and its sector

technical commissions (CTS). These commissions are responsible for preparing sector response plans that will establish interagency and cross-sector coordination mechanisms to operationalize response actions. The framework is similar for emergencies caused by epidemics and pandemics. The Ministry of Finance, through MINSAL's UGRD, will coordinate with other SNPC institutions in charge of the response. MINSAL will set out sector guidelines to direct an appropriate response to epidemics or pandemics and will coordinate with the CNPC, COEN, and its CTSs for the rollout of immediate response actions and rehabilitation.

3.3 **Coordination and execution mechanism for using loan resources.** To ensure timely execution of loan resources, a coordination and execution mechanism (see program Operating Regulations) led by the Ministry of Finance will be set up to allow the flow of funds to SNPC institutions in the event of natural disasters, and to MINSAL in the case of public health events. The Bank will monitor implementation by the Ministry of Finance immediately after a contingent loan disbursement. This mechanism will be articulated within El Salvador's current framework of institutional arrangements for managing natural disaster and public health emergencies (paragraph 3.2) and must include, at minimum, the following processes: (i) prioritization and planning of the response; (ii) budgetary allocations; (iii) execution and monitoring; and (iv) reporting and closing.

3.4 **Special contractual clause for general eligibility to request disbursements. The special contractual clause for general eligibility to request disbursements will be the approval and entry into effect of the program Operating Regulations under the terms previously agreed upon with the Bank.** The program Operating Regulations will include: (i) the reference framework, including the interagency coordination mechanism; (ii) the operative provisions; (iii) the terms and conditions of coverage under each modality; (iv) the IDRMP; (v) the ARL; (vi) the terms of reference for hiring an audit firm to independently verify the use of disbursed resources if an eligible event occurs; (vii) templates for requesting advances and reimbursements; (viii) an example of an indicative list of potential eligible expenditures for future pandemics; and (ix) the list of excluded expenditures (negative list).

3.5 Special contractual conditions precedent to the first disbursement for each eligible event. The special contractual conditions precedent to the first disbursement for each eligible event will be:

a. **Disbursements under Modality I (natural disasters): (i) the Bank has verified that an eligible event as defined in the program Operating Regulations has occurred; and (ii) the IDRMP, previously agreed upon with the Bank, is moving forward to the Bank's satisfaction (paragraphs 2.7 and 2.8);**

b. **Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through MINSAL, has submitted evidence that it is up to date with its progress reports to the WHO regarding compliance with IHR; (iii) the borrower, through MINSAL, has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American**

Health Organization recommendations to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the complementary measures and conditions agreed upon for financing risk retention; and

c. **Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of a national emergency due to a natural disaster resulting from an eligible event as defined in the program Operating Regulations; (ii) the IDRMP, previously agreed upon with the Bank, is moving forward to the Bank's satisfaction; and (iii) the Bank has verified the borrower's compliance with the complementary measures and conditions agreed upon for financing risk retention.**

3.6 **In addition to the aforementioned contractual conditions, the borrower will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s) and indicating whether these will come from regular program resources, undisbursed resources from the ARL, or a combination of the two. In the case of ARL loans, the request will identify the loans in question and the respective amount to be used.** These contractual conditions were established as standard conditions for the execution of contingent loans in the CCF policy document (document GN-2999-4).

3.7 Each disbursement under this loan will be made under the financial terms and conditions set forth in the project summary, regardless of whether the funds come entirely or partially from the regular lending program, from loans included on the ARL, or from a combination of the two.

3.8 **Eligible expenditures.** Loan proceeds may be used to finance extraordinary public expenditures that are incurred during emergencies resulting from eligible events and that satisfy the following requirements, as set out in document GN-2999-4 (paragraph 4.20(c)): (i) they are not explicitly excluded in the loan contract (negative list); (ii) they are legal under the law of the Republic of El Salvador; (iii) they are directly or indirectly related to the natural disaster or public health emergency for which the financing has been provided; (iv) they have verifiable procurement items and payments that are clearly documented and recorded; and (v) they are considered appropriate in scale and price. Examples of expenditures that may be eligible (Annex VI to the program Operating Regulations).

3.9 The Bank will recognize up to 100% of the amount of eligible expenditures actually incurred and paid by the borrower and the implementing entities from the date the eligible event arises and for a period of up to 180 calendar days immediately thereafter, renewable for 90 additional days at the request of the borrower and at the discretion of the Bank (document GN-2999-4, paragraph 4.20(f)). All procurement-related matters of this operation will be governed by the rules set forth in the CCF policy (document GN-2999-4). The borrower will use its national legislation on the procurement of goods, works, or services as it applies to extraordinary fiscal expenditures in emergency situations (Annex III).

3.10 **Reasonable assurance audits.** The Bank will require independent verification of expenditures financed by the loan to assess compliance with the eligibility criteria set

forth in the loan contract and the program Operating Regulations. This independent verification must be carried out concurrently by a reasonable assurance audit firm acceptable to the Bank. The Ministry of Finance will be responsible for hiring the audit firm and initially assuming the costs (document GN-2999-4, paragraph 4.20(b)). The firm may be hired using the Bank's policy for contracting consulting firms, and the costs are eligible for loan financing.

3.11 **Justification of the use of resources.** The borrower, acting through the Ministry of Finance and with the support of the implementing entities, will justify the use of disbursed resources through a consolidated report on the appropriate use of resources, which must be submitted to the Bank within 365 calendar days from the date of occurrence of the eligible event for which the Bank has disbursed the resources in question. This report must be accompanied by the final report of the reasonable assurance audit firm hired by the borrower to concurrently review expenditures (paragraph 3.10). Once the consolidated report on the appropriate use of resources has been submitted, the Bank will determine the total amount of expenditures eligible for financing. If there are unjustified or ineligible expenditures, the Bank may require that the borrower repay the amount lacking justification.

3.12 If necessary, as stated in document GN-2999-4, within a period of no more than two years after each disbursement, the Bank, at its sole discretion and without cost to the borrower, may conduct additional subsequent audits to verify the suitability of the expenditures that were declared eligible, the results of which may lead to an eventual request for repayment of the amounts that were determined to be ineligible for financing.

B. Summary of arrangements for monitoring results

3.13 **Monitoring.** During the coverage period of the contingent loan, the Bank will conduct periodic monitoring of the progress on the IDRMP and the gender action plan, as well as annual evaluations of the same (see monitoring and evaluation plan). If, as a result of these evaluations, the Bank believes that the IDRMP is not progressing satisfactorily based on the indicators established for this purpose (including gender approach indicators), the borrower will be notified of specific actions that they must take within 90 days from the date the notice is issued in order to maintain eligibility for natural disaster coverage. Only once this period has elapsed, if the Bank finds that the recommended remedial actions have not been implemented fully and appropriately, the Bank may, through a formal notice to the borrower, suspend the borrower's eligibility for natural disaster coverage until these shortcomings have been sufficiently corrected. Nevertheless, once this coverage is active, it will remain active during the period established in the contract unless the Bank formally notifies the borrower that said coverage is suspended (document GN-2999-4, paragraph 4.25).

3.14 **Evaluation.** As indicated in the monitoring and evaluation plan, the loan assessment is conducted prior to the occurrence of an eligible event that leads to a disbursement through a project completion report. The evaluation methods are a reflexive approach and an ex post cost-effectiveness analysis. In the former, the evaluation would focus on the effectiveness of the loan over the entire period of coverage provided and whether the country accessed the resources with appropriate speed. In the latter, the evaluation would compare the cost of the disbursed resources in NPV with the cost of other financing sources in order to

estimate the country's financial savings rate. A qualitative evaluation has also been included to analyze how the IDRMP and the gender action plan help enhance the country's disaster risk management policy.

Development Effectiveness Matrix		
Summary	ES-O0011	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**Beneficiaries of enhanced disaster and climate change resilience (#) Countries with strengthened tax and expenditure policy and management (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-3046-1**	**Contribute to the strategic priority of strengthening disaster risk management**
Country Program Results Matrix	**GN-3034-2**	**The intervention is included in the 2021 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	**7.7**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**1.6**	
3.3 Results Matrix Quality	**3.6**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**2.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**8.4**	
5.1 Monitoring Mechanisms	**2.8**	
5.2 Evaluation Plan	**5.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	**Yes**	**RG-T3925 will provide technical assistance to the Dirección General de Protección Civil to strengthen the incorporation of the gender perspective in disaster risk management within the framework of the contingent loan.**

Evaluability Note: The project is a Contingent Loan for Natural Disaster Emergencies and Public Health in the Republic of El Salvador. The general objective of the project is to help mitigate the impact that a natural disaster or a severe or catastrophic public health event could have on the country's public finances. The specific objective is to improve the financial management of the risks of natural disasters and public health by increasing stable, cost-efficient and rapidly accessible contingent financing to cover extraordinary public expenditures directed to the care of the population affected by emergencies caused by natural disasters and public health events.

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and climate change, as well as public health events. The negative effects that these events have on the country, its population, the economy, and fiscal resources are properly documented. The project will provide coverage under Modality I of the CCF for earthquakes, hurricanes, and floods due to excess torrential rainfall associated with tropical cyclones. Under Modality II, the project will provide coverage for pandemics and epidemics, and volcanic eruptions that result in a declaration of national emergency. The proposed intervention is clearly linked to the problems and factors identified. The results matrix reflects the general and specific objective of the program and captures a good vertical logic. The output, outcome and impact indicators have baseline values, targets, and sources of information, and the vast majority are SMART.

The project has an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in accordance with the DEM guidelines and the characteristics of contingent loans for emergencies due to natural disasters and public health. The economic analysis shows that the operation is efficient with a Net Present Value of the loan granted by the Bank that is 42.2% of the cost of the most probable alternative, which makes it a more cost-efficient option. The monitoring and evaluation plan proposes a reflexive evaluation and an ex post cost-effectiveness analysis.

The three risks identified in the risk matrix seem reasonable, one is classified as Low and two as Medium-High. Medium-High level risks include mitigation actions, responsible parties, and dates or triggers.

RESULTS MATRIX

Project objective:	The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost efficient, rapid contingent financing to cover extraordinary public expenditures aimed at supporting the population affected by natural disaster and public health emergencies. The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the country's public finances.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
General development objective: To buffer the impact of a severe natural disaster or public health event on El Salvador's public finances							
Indicator 1: Ex ante financial coverage relative to the maximum probable expenditure during catastrophic natural disaster emergencies covered by the project.	%	7.4[1]	2021	5	47.3[2]	Ministry of Finance	The indicator measures El Salvador's ex ante financial coverage as a percentage of the maximum probable expenditure incurred while addressing emergencies caused by catastrophic natural disasters. See monitoring and evaluation plan.
Indicator 2: Ex ante financial coverage relative to the maximum probable expenditure during national public health emergencies covered by the project.	%	12.3[3]	2021	5	29.8[2]	Ministry of Finance	The indicator measures El Salvador's ex ante financial coverage as a percentage of the maximum probable expenditure incurred while addressing nationwide public health emergencies. See monitoring and evaluation plan.

[1] El Salvador currently has US$69.1 million in ex ante financial coverage for natural disaster emergencies (see the indicator for outcome 1). The size of the maximum probable expenditure during catastrophic natural disaster emergencies is based on the occurrence of a catastrophic natural disaster with a recurrence interval of 1 in 100 years, as reported in the IDB study: Indicators of Disaster Risk and Risk Management: Program for Latin America and the Caribbean: El Salvador.

[2] This target value assumes that no severe or catastrophic event occurs during the contingent loan coverage period but is adjusted for inflation and exchange rate variations.

[3] El Salvador currently has US$64 million in ex ante financial coverage for emergencies caused by public health events. This does not include the insurance coverage through the Caribbean Catastrophe Risk Insurance Facility because that policy does not cover health risks. The size of the maximum probable expenditure during nationwide public health emergencies is based on IMF estimates of extraordinary public expenditures in the health sector to respond to the COVID-19 pandemic.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Specific development objective: The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable and efficient contingent financing to cover extraordinary public expenditures aimed at supporting the population affected by natural disaster or public health emergencies.											
Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for extraordinary expenditures during emergencies caused by natural disasters or public health events.											
Amount of ex ante financial coverage available to the country for emergency response to natural disaster or health emergencies.	US$ million	69.1[4]	2021	469.1	469.1	469.1	469.1	469.1	469.1	Ministry of Finance	This indicator quantifies El Salvador's total ex ante financial coverage for financing emergency responses to natural disaster or public health emergencies. See monitoring and evaluation plan.
Indicators 2 and 3. Vulnerable people who become more resilient to natural disasters, epidemics, and pandemics as a result of the ex ante financial coverage provided by the contingent loan.											
Beneficiaries of the ex ante financial coverage available for natural disaster emergencies.	Thousands of people	208[5]	2021	1,398[5]	1,378	1,362	1,348	1,334	1,334	Ministry of Finance	This indicator measures the maximum number of people who could benefit from the country's ex ante financial coverage for natural disaster emergencies. See monitoring and evaluation plan.

[4] El Salvador has the following financial coverage: (i) US$4 million annually through the Civil Disaster Protection, Prevention, and Mitigation Fund (FOPROMID); (ii) US$5.1 million in insurance coverage for excessive rainfall from CCRIF; and (iii) US$60 million through the contingent emergency response components of three World Bank loans.

[5] These estimates assume average financial coverage of US$332 per person, which is equivalent to the country's monthly per capita income, and available ex ante financial coverage of US$69.1 million as a baseline and US$469.1 million in subsequent years for the total coverage of the contingent loan. The average financial coverage is adjusted for inflation and variations in the exchange rate in subsequent years.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Beneficiaries of the ex ante financial coverage available for public health emergencies.	Thousands of people	103[6]	2021	261[6]	257	254	252	249	249	Ministry of Finance	The maximum number of people who could benefit from the ex ante financial coverage available to the country for public health emergencies. See monitoring and evaluation plan.
Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-effective.											
Spread between the financial cost of the IDB loan and the cost of El Salvador’s long-term sovereign commercial external debt.	Basis points	768[7]	2021	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Equal to or greater than 200	IDB Finance Department (FIN) Refinitiv Eikon Ministry of Finance	This indicator compares the financial cost of the IDB loan with the cost of El Salvador’s long-term sovereign commercial external debt. See monitoring and evaluation plan.
Financial savings ratio should an eligible event occur: cost of funds disbursed by the Bank relative to the cost of issuing sovereign debt, expressed in terms of net present value (NPV).	%	57.8[8]	2021	20	20	20	20	20	20	FIN Refinitiv Eikon Ministry of Finance	It measures the financial savings rate from using the IDB loan for the emergency. It is calculated using a cost-effectiveness analysis methodology. See monitoring and evaluation plan.

6 This estimate assumes average financial coverage of US$622 per person, equal to the cost of care for each hospitalized case of dengue adjusted for inflation in the country (2021 prices), and available ex ante financial coverage of US$64 million as a baseline and US$164 million in the subsequent years for coverage under Modality II. The average financial coverage is adjusted for inflation and variations in the exchange rate in subsequent years.

7 See project economic analysis (optional link 1).

8 The NPV of the financing cost of the IDB loan compared with that of bond issuance using a cost-effectiveness analysis methodology. See optional link 1.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Indicator 6. Speed of access: Contingent financial coverage is efficient in terms of the speed with which the country can access loan funds to cover potential emergency expenditures.											
Speed of access to the funds after an eligible event occurs: number of days between the eligibility verification request and the availability of the funds.	Days	90[9]	2021	30	30	30	30	30	30	FIN Ministry of Finance	The indicator will measure the number of days between the date on which the country submits an eligibility verification request and the date on which the Bank notifies the country that the loan funds are available. See monitoring and evaluation plan.

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification
1. **Sole component:** Contingent loan from the Bank to cover extraordinary public expenditures during natural disaster or public health emergencies.										
Subcomponent 1.1: Coverage under Modality I.	US$ million	0	2021	300	300	300	300	300	300	Ministry of Finance
Subcomponent 1.2: Coverage under Modality II.	US$ million	0	2021	100	100	100	100	100	100	Ministry of Finance
2. Gender action plan designed and monitored to strengthen the gender equality perspective in the country's disaster risk management within the framework of the contingent loan.[10]	Number	0	2021	1	0	0	0	0	1	DGPC See monitoring and evaluation plan.

9 The figure represents the average time it takes to authorize and arrange a sovereign bond issuance on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

10 This output will be financed with resources from regional technical cooperation operation RG-T3925 Promoting Institutional Capacity Building for the Mainstreaming of the Gender Perspective in Climate and Disaster Risk Management within the Framework of the CCF. This technical cooperation is in preparation and has a specific component (Component I) for financing the preparation and subsequent implementation of gender action plans. The technical cooperation was considered eligible to receive financing of US$300,000 from the Strategic Program for the Development of Institutions Financed with Ordinary Capital Resources (INS).

Country: El Salvador **Division:** IFD/CMF **Operation No.:** ES-O0011 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Finance

Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation

☒ Budget	☒ Reports	☒ Information system	☒ National Competitive Bidding
☒ Treasury	☒ Internal audit	☒ Shopping	☒ Other
☒ Accounting	☒ External control	☒ Individual consultants	

2. Fiduciary execution mechanism

Particular features of fiduciary execution	The Ministry of Finance is the executing agency. The Ministry of Finance, with support from the implementing entities, will be responsible for coordinating and monitoring the use of resources. The operation will consist of an investment loan from the Bank under the CCF (document GN-2999-4) of up to US$400 million, which includes: (1) parametric coverage of natural disasters under CCF Modality I (up to US$300 million); and (2) nonparametric coverage of natural disasters under CCF Modality II (up to US$100 million); and (3) coverage for public health events under CCF Modality II (up to US$100 million). Given the specific nature of this type of operation, the borrower will, at the moment these events occur and according to their type, designate public institutions responsible for responding to the emergency and carrying out the corresponding procurement with the funds from this operation (implementing entities). The Ministry of Finance will be responsible for prioritizing and allocating proceeds from the loan to the implementing entities.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The Ministry of Finance is considered to have the necessary and sufficient qualities to ensure effective and transparent financial execution of this operation's resources. With support from the implementing entities, the Ministry of Finance will be responsible for: (i) ensuring that the project's objectives and terms and conditions are fulfilled; (ii) processing and handling disbursement requests to the Bank; (iii) managing the specific budget appropriations and lines for this project; (iv) acting through the implementing entities to monitor the fiduciary, procurement, monitoring, and evaluation arrangements to safeguard the appropriate and timely use of resources; (v) justifying, using reports and documentation provided by the implementing entities, the use of loan resources under the provisions of the loan contract and the program Operating Regulations; (vi) ensuring that the expected and pending

	payments that are part of executing the loan contract are made in a timely manner; (vii) hiring the reasonable assurance auditor and coordinating its work with the implementing entities; (viii) maintaining the necessary documents related to its competency so that the Bank, at its sole discretion, can verify the suitability of expenditures declared as eligible through additional independent external audits; and (ix) participating in the closing process, including the preparation of the project completion report.

4. Fiduciary risks and risk response: Does not apply, based on the current risk taxonomy framework.
5. Policies and guidelines applicable to the operation: Document GN-2999-4 will apply, along with document OP-273-12 (Financial Management Guidelines for IDB-financed Projects).
6. Exceptions to policies and guidelines: For this type of operation, government entities assigned to emergency management make procurements using national regulations, in accordance with document GN-2999-4.

II. Considerations for the Special Provisions of the Loan Contract

Special contractual conditions for execution: Hiring of an audit firm under the program Operating Regulations, from the list of eligible firms. IDB policies may be applied to the process.
Exchange rate: The exchange rate applicable for substantiating expenditures in the local currency of the borrower's country distinct from the U.S. dollar, if there is one, would be option (b)(i) of Article 4.10 of the general conditions of the loan contract.
Type of audit: A reasonable assurance audit will be conducted. Within no more than 365 calendar days from the declaration of the eligible event, the borrower, acting through the executing agency and with the support of the implementing entities, will submit to the Bank a final reasonable assurance report issued by the external audit firm that was hired.

III. Agreements and Requirements for Procurement Execution

☒	Use of country systems	El Salvador's procurement system is based on Article 72 of the Public Administration Procurement and Contracting Act (LACAP) and Section IV. Rules for Direct Contracting from the LACAP Regulations (RELACAP). The entities assigned by the government to manage the emergency will apply this standard or the standard in force at the time of the event.
☒	Records and files	The borrower and implementing entities will be responsible for maintaining fiduciary records for the project (documents related to procurements and financial management) independently based on their competence, in digital and physical form, and having procedures and manuals that allow them to be appropriately maintained to ensure that all expenditures are appropriately supported and available for review when requested by the Bank or auditors for a period of two years from the date of each disbursement.

Main procurement items: As this is a contingent loan, the procurement items to be financed will be established once an event has occurred that triggers the need for funds to address its effects. Therefore, it is not possible to identify the procurement items at the time of approval of the operation.

IV. Agreements and Requirements for Financial Management

☒	Programming and budget	The executing agency and the implementing organizations are responsible for managing their budget increases through the established budget modification procedures. El Salvador's Public Financial Management System comprises the Integrated Financial Management System (SAFI). The borrower will assign the necessary budgetary and accounting items for specific emergency expenditures.
☒	Cash flow and disbursements	**Disbursement mechanisms.** The executing agency may submit disbursement requests within the established time frame for this operation under the following modalities: (i) Advance of funds to finance eligible future expenditures up to a limit of 35% of the total approved coverage. (ii) Reimbursement for eligible expenditures incurred by the borrower with their own resources up to 100% of the total approved coverage. (iii) Direct payments from the Bank to third parties on behalf and at the request of the borrower for amounts agreed upon by the borrower and the Bank. **Designated account.** To administer fund advances, the Bank and the borrower must agree, prior to the request for the advance, to designate an account at the central bank or a subaccount within the country's treasury single account or an equivalent account where use of funds can be managed and identified. **Accountability for fund advances.** In order to request a new advance of funds, the borrower must provide an accounting to the Bank of at least 60% of the total funds received pending justification. **Eligible expenditures.** Expenditures that have been incurred during the period in line with the eligibility criteria established in the loan contract. **Projection of prioritized expenditures.** Prior to each fund advance request, the borrower must present to the Bank a projection of financial needs and eligible expenditures prioritized based on the amount of the advance requested and the cash flow model that will be submitted to the Bank in a timely manner. The Bank will conduct a preliminary review of the information submitted according to the following criteria: relevance to the list of prioritized expenditures and proportionality of the allocation of requested resources. If necessary, the Bank will propose changes to the borrower. **Declaration of expenditures financed with own resources.** The borrower must include in the reimbursement request a declaration letter signed by the executing agency, expressly stating that the expenditures to be reimbursed by the Bank were financed exclusively with resources from the treasury.
☒	Accounting, information systems, and reporting	**Specific accounting standards:** **Accounting method and currency.** Accounting records are kept on an accrual basis; however, project financial reports will be prepared on a cash basis and in U.S. dollars, which is the disbursement currency. **Reports:** The statements of emergency-related expenditures will be prepared by the implementing entities and consolidated and submitted by the executing agency. The items included in the expenditure statements must be detailed enough that the Bank can discern the expenditures incurred and also facilitate the process of auditing expenditures. Each item listed in the expenditure statement must have, at minimum, a breakdown of information agreed upon with the Bank. The Bank will provide the appropriate format.

☒	Internal control and internal audit	Project execution is based on the application of national regulations; therefore, the country's internal control systems will apply, along with the program Operating Regulations. However, the Bank is not relying on the use of this subsystem.
☒	External control and financial reports	**Audited financial report.** The borrower, acting through the executing agency and with support from the implementing entities, will submit to the Bank a final reasonable assurance report issued by an external Bank-eligible audit firm in the country, as appropriate, within a maximum of 365 calendar days from the eligible event. The audit will be commissioned by the executing agency using resources from the financing, in accordance with the terms of reference previously agreed upon with the Bank. The borrower will finalize the hiring of the independent audit firm no later than 45 days after the first disbursement has been made. The Bank's procurement policies may apply in this case. **Final report:** Within 365 calendar days from the occurrence of the eligible event, the audit firm will produce a final reasonable assurance report, which will be a prerequisite for the borrower's final financial report on the use of the resources. The audit firm must issue a finding, with a level of reasonable certainty, as to whether the expenditures presented by the borrower comply with the policies, procedures, characteristics, records, and supporting documentation to be declared eligible under the loan contract and the applicable policies. The Bank may request audited interim reports on the status of execution of the expenditures, which may be submitted alongside the interim financial reports. In addition, the Bank, at its sole discretion and at no cost to the borrower, may verify, through independent external audits, the appropriateness of the expenditures declared as eligible. Such audits will be conducted no later than two years after the end of the disbursement period of the related CCF contingent loan. If, as a result of any of the audits of the loan, the Bank finds ineligible expenditures, the Bank may require that the borrower immediately remedy the situation or repay the disputed amounts.
☒	Project financial supervision	Financial supervision will be conducted through visits, working meetings, and reviews of assurance reports or other audited financial reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

El Salvador. Loan ES-O0011 to the Republic of El Salvador
Contingent Loan for Natural Disaster and Public Health Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of El Salvador, as borrower, for the purpose of granting it a Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent credit will be for the amount of up to US$400,000,000 from the resources of the Bank's Ordinary Capital resources, and will be subject to the availability of resources from the Bank's regular loan program with the Republic of El Salvador or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ___________ 2021)

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