

LOCAL DEVELOPMENT PROGRAM

(ES-0109)

EXECUTIVE SUMMARY

BORROWER: Republic of El Salvador

EXECUTING AGENCY: Social Investment Fund for Local Development (FISDL)

AMOUNT AND SOURCE:

IDB: OC/IFF	US\$20.10 million
OC:	US\$13.96 million
Local counterpart funding:	US\$ 3.79 million
Total:	US\$37.85 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	30 years
Disbursement period:	4 years
Grace period:	4.5 years
Interest rate:	Variable
Commitment fee:	0.75% annually on undisbursed balance
Inspection and supervision:	1% of loan amount
Currency:	US Dollars - Single Currency Facility

OBJECTIVES:

The goal of the proposed operation is to improve the living conditions and the development opportunities of the poorest sectors of the Salvadorean population by: (i) establishing a viable participatory planning and budgeting mechanism which delegates project cycle responsibilities--project identification, execution and maintenance--to local actors; and (ii) developing and implementing a program of investments in social and economic infrastructure projects.

Specifically, the program seeks to: (i) improve the coverage and quality of basic social and economic infrastructure in the poorest municipalities least attended by the social fund; (ii) increase the capacity of municipal authorities and local communities to participate in the planning, management, and implementation of social and economic infrastructure projects; (iii) ensure the maintenance of completed social and economic infrastructure projects; (iv) incorporate effective environmental impact measures in social and economic infrastructure projects; (v) ensure the participation of women in project cycle decision-making, including project maintenance and the monitoring of use of funds; and

(vi) strengthen the FISDL's capacity to stimulate local development and decentralization processes.

DESCRIPTION:

The program comprises two components. The first component supports the introduction of the FISDL's new paradigm through: (i) the implementation of a participatory planning and budgeting mechanism undertaken at the municipal level; (ii) the design and execution of a preventive maintenance scheme; (iii) design and implementation of a cost-sharing know-how scheme for the purchase of technical assistance to improve municipal execution capacity; and (iv) institutional strengthening of the FISDL. The second component will finance priority projects in the FISDL's pipeline stock in two modalities.

Component 1. Introducing the FISDL's New Paradigm (US\$17.5 million).

The Participatory Planning Process (PROPP) (US\$15 million). The subcomponent will support the FISDL's future model of intervention which will delegate project cycle responsibilities in project identification, execution and preventive maintenance to municipal authorities and communities in approximately 33 small, medium and large municipalities.

Establishment of a National Preventive Maintenance Scheme (US\$800,000). This subcomponent will support the design and execution of a National Preventive Maintenance Scheme which will be cofinanced by the program, central government and local actors, and which will be managed locally.

The Know-how Scheme (US\$250,000). This sub-component will enable municipal authorities to purchase technical assistance on a cost-sharing 50:50 basis to strengthen execution capacity.

Institutional Development of FISDL (US\$1.5 million). This sub-component will finance: (i) the hiring of incremental staff to strengthen the FISDL's environmental, economic and social evaluation capacity, to develop and implement a gender policy, and support internal auditing; (ii) technical advisors to support program execution and strengthen the planning department; and (iii) studies and related institutional strengthening activities.

2. Responding to the Project Pipeline (US\$16.5 million).

Modality I (US\$10 million) is designed to benefit the smallest, poorest and least attended municipalities through investments in potable water, sanitation and electricity projects. Sixty percent of the available funds will be allocated to social infrastructure and 40 percent to economic infrastructure.

Modality II (US\$6.5 million) benefits medium-sized municipalities through investments in potable water, sanitation and electricity. Under this modality, the process of delegation of project cycle responsibilities to municipal governments will begin.

**ENVIRONMENTAL/AND
SOCIAL REVIEW:**

The CESI/TRG considered the ESIB at its meeting of June 20, 1997, and the ESIR at its meeting on October 17, 1997, and its recommendations are found in paragraphs 2.28, 3.14 and 4.9.

BENEFITS:

In addition to increased access by the poorest sectors to social and economic infrastructure, specific benefits of the program are: (i) the introduction of an ex-ante mechanism for allocation of funds to municipalities; (ii) the introduction of participatory techniques that will concentrate assistance on those most in need in the poorest municipalities; (iii) the participation of previously marginalized and excluded groups, including women; (iv) the creation of local level deliberative processes that increase the number of interest groups involved in decision-making; (v) the promotion of transparent and accountable use of resources, contributing to good governance; and (vi) a strengthened capacity of municipal authorities and communities to manage local development processes.

RISKS:

The principal risks to the realization of the benefits are: (i) the delegation of responsibilities under the new way of working might require additional support for capacity-building of local actors; (ii) the ability of the FISDL to attract and retain highly qualified staff if its personnel policy is subsumed under the *Ley de Administración Pública*; (iii) that the procedures operationalizing the transfer of 6 percent of the national budget to municipal governments, overburden municipal absorptive capacity and undermine the efforts contemplated in the PROPP.

**EXCEPTIONS TO
BANK POLICY:**

- (i) That municipal authorities be permitted to execute, under direct administration,

projects up to US\$20,000 (paras. 3.10 and 3.24)

(ii) That for purposes of Component 2, the executing agency will be permitted to contract directly projects below US\$75,000. (par. 3.28)

(iii) That an advance of funds of up to 10 percent of proposed loan be approved. (par. 3.29)

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Program's objectives concord with the Bank's country strategy for El Salvador which is to give priority to: (i) bringing the low income, rural and urban populations into the mainstream of the development process; (ii) increase the coverage and improve the quality of basic social services, (iii) modernize the state by seeking the participation of the private sector in service and infrastructure provision, and (iv) support the development of the productive private sector.

PROCUREMENT:

International competitive bidding will be required for consulting services in excess of US\$200,000, goods and services in excess of US\$250,000 and works in excess of US\$1,000,000.

Works, goods and consulting services below these amounts will be contracted in accordance with the simplified procedures agreed upon with the Bank, and consistent with Bank policies.

The Bank will supervise the contracting of goods, works, and consulting services financed by the operation on the basis of an ex-post random sample. (par. 3.33)

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Special conditions prior to first disbursement:

(i) Approval by the Bank of the final draft of the institutions' operating regulations for the PROPP, (Component 1) and Component 2, Modalities I and II (par. 3.6(c)).

(ii) Presentation of evidence that coordination agreements have been signed between the FISDL, and MINED, ANDA, MSPAS, ISDEM and CEL. (par. 3.8)

Other contractual conditions are described in the following paragraphs: par. 2.40 (financing interest) par. 3.30 (retroactive financing of up to

US\$150.000); pars. 3.36-3.39 (reports); par. 3.35 (Auditing).

POVERTY TARGETING: The program automatically classifies as a poverty targeted investment under the Eighth Replenishment (Document GN-1964-2). It is geographically targeted to poor beneficiaries and it has been determined that a significant majority of the beneficiaries of the operation, according to conditions prevailing in the country, are poor.

I. BACKGROUND

A. Socio Economic Context

- 1.1 El Salvador has experienced a significant economic recovery since the advent of peace in 1992. Economic growth has averaged 6 percent per annum, and public finances have improved considerably. The fiscal deficit has fallen to 0.9 percent of GDP, and the tax base has increased appreciably. Inflation is about 10 percent per annum, and the current account deficit is at 5.5 percent of GDP.
- 1.2 These impressive macro-economic successes notwithstanding, much remains to be done to address the socioeconomic legacy of the decade-long conflict. Significant deficits in basic social service provision still exist. Social spending has increased, but it is well below pre-war levels. Social indicators have therefore improved slowly, but they are still among the worst in the region.
- 1.3 Poverty has diminished, but remains widespread. Half the population is poor and 20 percent are extremely poor. Extreme poverty is mainly rural-based and associated with poor soils, though obdurate poverty pockets exist in coffee-producing areas. Urban poverty is sharpened by accelerated migration, growing income inequalities, a deteriorated environment, and rising violence and personal insecurity. There is a clear sense that unless the country's pressing social needs are met effectively, the still fledgling peace, democratization and reconstruction processes may be placed in jeopardy.

B. The Government's Poverty Alleviation Strategy

1. Introduction

- 1.4 El Salvador's social policy priority is to reduce poverty. The present Government, like the previous administration, has adopted a poverty alleviation strategy based on three components: (i) economic growth; (ii) investments in basic health and education (human capital) to enable the poor to use their labor more productively; and (iii) the provision of a social safety net to protect vulnerable groups and the very poor.
- 1.5 Underpinning the Government's poverty strategy is the vision of a competitive, learning society where a decentralized state collaborates with poor communities to solve their problems. Government thinking has also been shaped by concerns over the past performance of poverty alleviation programs, namely that: (i) the poverty alleviation impact of social sector reforms has yet to materialize and is unlikely to occur over the short-term; and (ii) social transfer programs, such as social investment funds, are not sustainable without improved incomes and employment opportunities.

- 1.6 The Government has continued on-going sectoral reforms to decentralize basic social services provision, while introducing new program initiatives. In education, the Government has deepened reforms to improve the coverage and quality of basic education; the centerpiece is the Community Education Project (EDUCO), which has successfully delegated school management responsibilities to community-based education associations (ACEs). The Government is also promoting a knowledge revolution to convert El Salvador into a more productive society. The proposed IDB technology-based program (ES-0108) and the school infrastructure operation (ES-0110) are designed to support governments efforts in this area.
- 1.7 Health reform, in contrast, has been much slower, a contributory factor to lagging health indicators. Some recent progress can be detected nevertheless, and with IDB support the Government plans to pilot the decentralization of resource management in order to increase efficiency and service quality (ES-0053).

2. The Social Safety Net

a. The Social Investment Fund

- 1.8 At the heart of El Salvador's social safety net is the Social Investment Fund (FIS) created in 1990. The FIS was conceived as a compensatory fund supporting people's own poverty efforts with investments in economic, social and productive infrastructure. A significant institutional innovation, the FIS was designed as a short-term, autonomous government agency with a four year mandate. In 1993, its charter was extended until 1997 and its mission integrated with post-war national reconstruction goals.
- 1.9 The FIS's efficient and transparent performance is reflected in the US\$192 million captured from international sources. The IDB has financed three operations totaling US\$153 million. Loan 861/SF-ES for US\$33 million, approved in 1991, is completely disbursed; Loans 765/OC-ES and 905/SF-ES for US\$60 million, approved in 1993, are totally committed and the date for the last disbursement has been extended to December 1997; and Loan 829/OC-ES for US\$60 million approved in 1995, is 100% committed and 80% disbursed.
- 1.10 KfW has targeted US\$16 million to health and education investments in the 31 poorest municipalities. Taiwan, Switzerland, Japan, UNDP, UNICEF and the Central American Bank for Economic Integration have contributed US\$23 million. The GOES has provided US\$20 million.
- 1.11 The FIS has invested US\$174 million in over 7,600 projects; an effort complementing line ministry activities. Education investments have predominated, with other significant investments in sanitation, potable water, electricity, and environment. Other investments have been made in nutrition, cooking stoves and training projects (see Table 1-1).

Table 1-1: Sectoral Distribution of FIS Investments 1990-1997

Sector	% of projects executed	% of funds
Education	52	54
Sanitation	12	13
Potable water	6	8
Electricity	4	7
Environment	13	6
Other	13	12
TOTAL	100	100

Source: FISDL

- 1.12 The FIS became the Government's most important infrastructure financing agency, thus achieving the objective of the third operation supported by the IDB. The FIS has managed around 80 percent of safety net expenditures. It has met the demands of many poor communities neglected over the conflict decade. During 1990-97, FIS approvals and disbursements averaged US\$2.1 million monthly; reaching a high point in 1995, when US\$3.7 million were approved, and US\$ 3.4 million were disbursed monthly. In 1997, approvals steadied at US\$1.4 million per month, reflecting a reduced availability of funds, while disbursements were at US\$2.3 million, the institutional average. The FIS's recurrent costs have historically been 15 percent of investments, except in 1995 when exceptional redundancy payments raised the figure to 20 percent.
- 1.13 A review of the safety net arrangements by the incoming Government focused on the sustainability of the FIS as an agency financing welfare-type poverty interventions. Its concern was that a community-level dependency syndrome existed that undermined both community capacity to raise their productivity and their motivation to work with local government and other local actors to find solutions to local problems. The Government concluded that the FIS had to go beyond financing isolated poverty projects to become an agency which supported community-based solutions to development problems and that helped communities realize their income-generating potential.

b. The Social Investment Fund for Local Development (FISDL)

- 1.14 As a first step, the Government modified the FIS law in 1996, to establish the Social Investment Fund for Local Development (FISDL) ^{1/} as a permanent decentralized government agency. The law summarizes the FISDL's mandate as: "the promotion of wealth creation and local development with the participation of municipal

^{1/} The legal abbreviation is FIS, however in the document FISDL is used to refer to the reconstituted institution marking its transition as the GOES's local development instrument.

governments, communities, the private sector and central government institutions that implement social and economic infrastructure projects". 2/

- 1.15 The FISDL defines its specific mission as the creation of: (i) capacities in communities and municipalities which promote sustainable economic growth and social and political development; and (ii) an environment enabling the formation of new inter-institutional partnerships between local actors--the private sector, civil society organizations and municipalities. To meet its objectives, the FISDL considers that it must: (i) expand its project menu beyond basic social and physical infrastructure projects that are designed to meet deficits; and (ii) change how it identifies, executes and supervises its projects by delegating project cycle responsibilities to local actors. 3/
- 1.16 The 1996 reform introduced changes into the FISDL's financial administration which will now operate under Integrated Financial Administration System (SAFI) rules. The FISDL will continue to enjoy its contracting and fundraising exemptions, but its personnel policy might be subsumed under the civil service code. If this change occurs the FISDL will have to make additional efforts to ensure that it attracts and retains highly qualified staff.
- 1.17 To support the FISDL's development, the GOES merged into it the Municipalities in Action (MIA) program. A USAID financed program, MIA was designed to promote development and build the credibility of local government by fostering citizen participation in local affairs through: (i) the use of open town meetings, *cabildos abiertos*, to identify priority needs; and (ii) the provision of resources to fund the solutions. Community-municipal relations were strengthened, but *cabildos abiertos* were not complemented by other mechanisms such as *mesas de concertación* where community and municipal representatives could jointly prioritize projects. Without such mechanisms, womens' participation was limited and municipal authorities alone decided on projects that were financed.
- 1.18 MIA delegated implementation responsibilities to municipal authorities, providing a critical capacity building experience in project execution. Its procurement arrangements concentrated 75 percent of project expenditures locally. MIA operated in each municipality simultaneously, and over 1986-97 supported 43,000 projects for US\$370 millions, especially rural roads, municipal buildings and electricity. However, the MIA model achieved limited success in building a maintenance culture.
- 1.19 The sections that follow identify the main constraints and opportunities facing the FISDL as it transforms into an instrument

2/ GOES, "Ley del FIS con las modificaciones contenidas en el decreto No. 826 del 19 de Septiembre de 1996 y sus consideraciones".

3/ FISDL, "Marco Conceptual del Fondo de Inversión Social para el Desarrollo Local", Mayo 1997.

of local development. These constraints and opportunities shape the context for the interventions proposed in the present Program. Section C examines the development challenges facing the FISDL and the principal lessons learned from the IDB's third operation with the FIS. ^{4/} Section D brings the threads together to relate the proposed program with FISDL's transition.

C. The Development Challenges facing the FISDL

1. Redefining the Role of the Beneficiary

a. People's Participation and the Role of the Formulator

- 1.20 The FIS conceptualized beneficiary participation as project identification. Later, it expanded this concept to include commitment to project maintenance. The FIS's strategy to link beneficiary participation to preventive maintenance by training activities undertaken after the hand-over of completed projects has had limited success in generating commitment.
- 1.21 The FIS's project cycle has not permitted effective beneficiary participation. Project beneficiaries have been excluded from most decision-making around project identification, formulation and execution. Completed projects are handed over to the petitioner, not the beneficiaries. Other local actors, including municipal authorities, have not had a significant role in the project cycle.
- 1.22 Within the post-conflict context, the FIS's main counterpart became the formulator, who was at the center of project identification, design, and execution. When local communities were unable to prioritize projects, formulators induced demand; contributing to the emphasis on education projects over other project types, owing to their ease of design and simple construction. Project formulators effectively controlled project design since beneficiaries were largely unacquainted with FIS regulations and lacked the up-front resources to cover pre-investment costs. Formulators became contractors automatically when project budgets were below established cost ceilings, and pre-investment costs were reimbursed as part of the construction contract.
- 1.23 The FIS-formulator/executor nexus facilitated project approval and disbursements. The criteria for selecting eligible providers of goods and services favored firms from the larger cities to the exclusion of local firms, meaning that opportunities to promote procurement-driven local development processes were missed.
- 1.24 There is now clear evidence that beneficiary participation in decision-making contributes greatly to the execution of small-scale

^{4/} Nogales, et. al., 1996, "El Salvador, Fondo de Inversión Social. Misión de Supervisión", Informe Final.
Stephen Grun, 1997, "El Salvador, Fondo de Inversión Social para el Desarrollo Local. Misión de Evaluación Ex-Post". Informe Final. The full report is held on the project files.

development projects. When beneficiaries make commitments before project execution and participate in project cycle decision-making, projects match what they want and what they are willing to maintain. The FISDL's transition is therefore the moment to consider how to strengthen people's participation in the projects it finances.

b. Meeting the needs of poor women

- 1.25 The FIS has had a partial understanding of women's development roles. Women were considered to be project beneficiaries but not protagonists in project identification, execution and maintenance.
- 1.26 Women, unlike men, have a triple role. ^{5/} They are responsible for reproductive work--childbearing and rearing--and have an increasingly important productive role contributing to household survival. Women also have a community-managing role, which is of growing importance as communities themselves take greater responsibility for the provision and maintenance of local services.
- 1.27 There are three implications of women's triple roles for the present operation. First, the design of participation mechanisms need to take into account the time constraints faced by women as they balance their three roles. Second, women contribute to the management of poverty reduction projects and their involvement will be more effective if this is recognized and supported. Third, women and men have different needs and different control over resources and therefore they have different development priorities.

2. A Worsening Environmental Situation

- 1.28 El Salvador faces severe environmental degradation that affects its capacity to sustain economic and social development. Accelerated deforestation, leading to widespread soil erosion has reduced the absorptive capacity of aquifers. Contaminated water, pesticide residues and solid waste, are three major health hazards affecting poor men and women. In response to this situation the Government recently created a Natural Resources and Environment Ministry.
- 1.29 The FISDL's environmental control system is a public sector exception. The system is technically complete, easily implemented, and identifies adverse impacts and the required mitigation measures. However, the system is not fully used. The environmental unit is under-resourced, environmental criteria are not integral to project approval and internal audits do not systematically check the application of the environmental control system.
- 1.30 Given the country's environmental crisis, the tools at its disposal, and its national reach, the FISDL can acquit itself as an

^{5/} Caroline Moser, 1993, "Gender Planning and Development: Theory, Practice and Training", Routledge, London.

agency that promotes good environmental practice. To meet this challenge, the FISDL must: (i) institutionalize its environmental tools in the evaluation of individual investments and the aggregate impact of its projects ^{6/}; and (ii) assume leadership as a training institution that builds the capacity of its local partners, especially municipal authorities and community organizations, to manage their own environmental control systems.

3. Operations and Maintenance

- 1.31 The FIS has signed agreements with line ministries and public agencies to define operations and maintenance (O&M) responsibilities. These agreements have not always produced the expected O&M results and O&M lessons have not been fed back into project design.
- 1.32 It's known that beneficiary participation in O&M is most developed when beneficiaries make cash contributions, as in potable water projects. Experience elsewhere suggests that sustainable preventive maintenance is based on cofinancing between government and local actors and municipal governments' ability to coordinate the required maintenance activities.

4. Targeting

- 1.33 The projects financed by the FIS reach the poor. However, by financing projects on a "first come, first served" basis, it did not reach those most in need equitably. FIS investments were concentrated in the most accessible poor municipalities and due attention was not given to the poorest and remotest municipalities. Under the third IDB operation the FIS agreed to sharpen resource allocation with the introduction of a targeting methodology based on a poverty map. The inability to implement the reform fully affected the FIS's performance and has made the improvement of targeting an imperative for the proposed operation.

5. Growing violence and personal insecurity

- 1.34 The increasing level of violent crime is one of the most serious issues facing El Salvador today. ^{7/} Rising domestic violence is also a pressing concern. Intensifying social violence--attributed to unemployment and organized gangs, or *maras*--threatens personal safety, access to jobs and the sustainability of community based

^{6/} At the moment the FISDL only reviews the environmental impact of individual projects, and does not take into account the aggregate impact of its investments over time and in spatial terms. The FIS therefore does not know what the environmental impact has been of its over 7,600 projects. This observation was raised in the environmental analysis (Lewandowski 1997) which is found in the project files.

^{7/} Sharply rising homicide rates, mainly affecting men have reached 150 per 100,000 p.a., the highest in Latin America. Two 1996 surveys found 25% of respondents had an immediate family member assaulted in the previous 4 months, and 79% of respondents identified crime as the number one problem. "Assessing Personal Security in Latin America", Latin America Newsletters Special Report, April 1997.

organizations. Growing violence restricts participation in local development activities and creates a climate of mistrust among neighbors, eroding a community's social capital. Social violence also discourages people from leaving their houses empty for fear of burglary, inhibiting attendance at night classes and evening meetings. It reduces access to social services and alters people's perception about priority problems; for example, with growing personal insecurity people demand street lighting and telephones.

- 1.35 Violence is now recognized as an important macro-economic development issue. The GOES has acted to prevent armed gangs from interrupting the coffee and sugar cane harvest. Less attention has been placed, however, on the implications of violence for the design of community based poverty reduction programs. The present operation provides the FISDL the opportunity to explore jointly with communities how violence-related obstacles to local development can be overcome through interventions that: (i) mitigate the local impact of violence and personal insecurity, for example, through the redesign of existing project prototypes to reduce vandalism; and (ii) respond to the local roots of increased personal insecurity. 8/

6. Growing urban poverty

- 1.36 El Salvador is now an urban society. Urbanization has affected the distribution of the country's poor. While extreme poverty remains concentrated in rural areas, the numbers of urban poor have increased by 40 percent over the 1975-95 period.
- 1.37 The FIS has funded urban poverty projects to address basic social services deficits. These small-scale projects have not ameliorated the urban services problem of large cities, whose dimension and complexity requires large-scale interventions. The FISDL is reviewing its past experience to identify its value added with respect to urban poverty alleviation and how to work jointly with communities and the governments of large urban areas.
- 1.38 By focusing on the poor's assets--identifying what the poor have, rather than what they do not have--the FISDL can construct an asset framework. This facilitates the identification of interventions that (i) promote opportunities to consolidate the asset base of the urban poor, and (ii) remove obstacles to the urban poor using their assets more productively. The participatory planning of the San Salvador municipality shows that priority problems locally are personal security, environmental degradation and female employment, and that priority investments are: (i) better street lighting (to allow people to go out at night to work and study without fear of attack); (ii) solid waste management and retention walls

8/ A planning workshop in Tecoluca, for example, concluded that vandalism is the most important problem in the municipality. The participants concurred that any improvement to the schools and health center would be wasted if night watchmen were not employed or perimeter walls built.

(to improve environmental conditions and to ensure houses are not washed away); and (iii) neighborhood creche and childcare facilities (to allow women to take up productive employment).

- 1.39 Neither communities, municipal authorities, nor the FISDL, acting alone can provide sustainable solutions to local level urban problems. The FISDL's role therefore is one of financial catalyst facilitating new partnerships between diverse local actors.

D. The Way Forward

1. The Importance of the Community-Municipal Nexus

- 1.40 The FIS was effective in financing good quality, small-scale social infrastructure projects. The FISDL recognizes that a rapidly-changing local context and a situation of scarcer, more expensive financial resources demands a new way of working. In line with its mandate to work with local development actors, the FISDL has designed a new way of working which delegates project cycle responsibilities--identification, execution and maintenance--to local communities working with municipal authorities.
- 1.41 The FISDL's thinking about its future way of working has drawn on the wide experience of enhanced citizen participation in municipal affairs since the end of the conflict. Of specific interest was the various participatory mechanisms for local problem solving and cooperation. ^{9/} Their commonality is the importance invested in the community-municipal relationship as the driving force behind local development processes. The particular experience of participatory planning and budgeting is that it is an efficient and equitable way of prioritizing demands and allocating scarce resources.

2. The Municipal Legal Framework

- 1.42 The foundation for municipal government action in local development is the Municipal Law of 1986 (*Código Municipal de 1986 y sus Reformas*). This law authorizes local government to provide services and exercise authority over: (i) natural resource use and protection; (ii) regulation of urban development and land use; (iii) the promotion of popular participation in local decision-making; (iv) solid waste disposal; and (v) the elaboration and execution of development plans. The lack of appropriate tools and support means that only the larger and better funded municipalities, and those participating in specific donor programs, have begun to exercise these powers.

^{9/} COMURES, the mayors' organization, is supporting inter-municipal planning in Sonsonate department. NGOs and bilateral organizations, such as GTZ and USAID, are providing technical assistance to municipal level micro-planning efforts in widely different departments, Morazán, Chalatenango, San Vicente, and La Libertad. The recently elected mayor of San Salvador has also begun a participatory planning process, adapting the Puerto Alegre experience to the local context.

3. The Fiscal Condition of Municipalities

- 1.43 Larger municipalities have the ability to develop new areas of action because they have the capacity to raise local taxes, unlike smaller and medium sized municipalities which depend mainly on government transfers for their income. Overall, the total amount of transfers has increased over the 1990s, but it still remains at 0.5 percent of GNP; a situation that leaves most municipalities lacking sufficient funds to meet most local development demands. The status of municipal finance is subject to substantial change as a result of the recently approved law that establishes that 6 percent of the national budget will be transferred to municipal governments. The national fiscal situation inhibits its immediate, full implementation and discussion focuses on a phasing-in timetable. Notwithstanding these developments, the assumption underpinning the proposed operation remains valid, namely that municipal authorities have the technical, administrative as well as financial resources required by the participatory planning and budgeting exercise introduced by the Program.

4. The FISDL's commitment to change

- 1.44 The FISDL has demonstrated its commitment to the introduction of a new way of working. It has taken steps to improve the targeting of its resources and to seek greater development impact and sustainability from its projects. With KfW support the FISDL has: (i) introduced a four-municipality pilot project using participatory planning techniques, and (ii) started workshop discussions with mayors, community-based organizations, NGOs and central government agencies on its new mission and way of working. The FISDL with IDB support is continuing this dialogue with civil society organizations and mayors. Importantly, the FISDL's Consejo de Administración is committed to institutional change and the incorporation of the professional skills needed to make the transition from an agency financing social infrastructure to one that promotes local development processes.
- 1.45 The policy dialogue and program coordination between the IDB, World Bank, KfW and USAID has ensured that the major donors have given a consistent message about their expectations concerning the pace and direction of institutional change, and the FISDL's role in the decentralization process. By the end of the IDB program, it is anticipated that the FISDL will have ready for nationwide application, a viable participatory planning and budgeting mechanism which delegates project cycle responsibilities from the FISDL to municipal authorities working with local actors. The World Bank and KfW's stated priority is to support the GOES's reformulated poverty alleviation and social development through operations to finance the FISDL.

II. THE PROGRAM

A. Project Objectives

- 2.1 The Government is committed to a poverty alleviation and local development strategy that seeks to improve the living conditions and development opportunities of the poorest sectors of the country's population. The goal of the present program is to support this strategy by: (i) establishing a viable participatory planning and budgeting mechanism which delegates project cycle responsibilities from the FISDL to municipal authorities and other local actors; and (ii) developing and implementing a program of investments in social and economic infrastructure projects.
- 2.2 The specific objectives of the program are:
- (a) To improve the coverage and quality of basic social and economic infrastructure in the poorest municipalities that have been least attended by the FIS;
 - (b) To increase the capacity of municipal authorities and local communities to participate in the planning, management, execution, maintenance and *contraloria social* ^{10/} of social and economic infrastructure projects;
 - (c) To ensure the maintenance of completed social and economic infrastructure projects;
 - (d) To incorporate effective environmental impact measures into social and economic infrastructure projects;
 - (e) To ensure women's participation in project cycle decision-making;
 - (f) To strengthen the FISDL's capacity to stimulate local development and decentralization processes.

B. Program Strategy

- 2.3 To achieve the program's objectives, the operation will support the introduction of three innovations in the way the FISDL works. The first is the introduction of micro-level, geographic targeting instruments. The second is the implementation of a participatory planning and budgetary mechanism which delegates to municipal authorities and local communities the responsibility for the selection of investment projects and deciding how they will be carried out. The third is the delegation of project execution responsibilities--bidding, contracting and supervision--to municipal governments with the capacity to assume these activities. Together these innovations will move the FISDL beyond compensatory poverty alleviation interventions, and place it in a position to promote capacity-building local development.

^{10/} Contraloria Social is used here to define a mix of tasks undertaken by local communities ranging from monitoring the execution of projects, monitoring the use of funds and reporting back to the community on works quality and the good stewardship of the funds available.

C. Program Components

2.4 The program comprises two components. The first component supports the introduction of the FISDL's new paradigm through: (i) the implementation of a demonstration participatory planning and budgeting program; (ii) the design and operationalization of a preventive maintenance scheme; (iii) the design of a cost-sharing know-how scheme; and (iv) institutional strengthening of the FISDL.

2.5 The second component is designed to facilitate the FISDL's transition by financing projects in the current stock.

1. Introducing the FISDL's New Paradigm (US\$17.5 million)

a. Testing the Participatory Planning Process (PROPP)
(US\$15.0 million)

(i) The Basic Principles of the PROPP

2.6 The PROPP will work at the municipal level. It will create spaces for participation and foster collaboration between municipal authorities and local communities in order to promote the exchanges and discussions to identify priority development demands and to decide how these will be met. To ensure the credibility of the consensus-based planning exercise, the PROPP will also have resources to finance priority investments.

2.7 The design of the PROPP draws on the best-practice experiences of the MIA program as well as ongoing exercises in municipal-level participatory planning in El Salvador and elsewhere in Latin America. The PROPP will also benefit from the lessons of a FISDL implemented, KfW-financed pilot participatory planning project currently in execution. The PROPP will include procedures for ensuring women's full involvement in project identification and project management, as well as consensus-building techniques to reconcile competing claims to scarce resources. The PROPP will consolidate the project cycle management skills of local actors.

(ii) The Selection of Participating Municipalities

2.8 The operation will field test the PROPP in a representative sample of about 25 small and medium municipalities, and 8 municipalities with populations over 100,000. ^{11/} The municipalities will be selected using the following criteria.

(a) **Exclusion:** Small and medium sized municipalities participating in Component 2, and municipalities in similar participatory planning programs will not be eligible.

^{11/} Apart from population size and rural-urban differences, the participating municipalities will represent each of the five geographical regions as well as the country's distinct agricultural zones.

- (b) **Pre-Selection:** A list of pre-selected small and medium sized municipalities will be identified using municipal size and poverty criteria. The poorest municipalities from three categories of municipalities (0-9,999, 10,000 to 39,999 and 40,000 to 99,999) will be selected. The sample size from each category will be representative of the total universe. The large municipalities are already pre-selected.
- (c) **Selection:** To participate in the PROPP, a municipal authority must agree to: (i) facilitate the participatory planning and budgeting exercise; (ii) provide counterpart resources-- financial, managerial and technical; (iii) assume delegated project execution responsibilities; (iv) participate in the preventive maintenance scheme; (v) report to the FISDL regarding activities under their responsibility; and (vi) permit external audits on the use of funds. Refusal to comply with one of these conditions will exclude a municipality from the PROPP.

(iii) Technical Assistance for municipalities and communities (US\$2 million)

- 2.9 Under the PROPP the FISDL will delegate project cycle responsibilities to municipal authorities and local communities. To help these local actors assume project cycle tasks the FISDL will contract training and technical assistance providers. The providers will be present during three years in each selected municipality. Training and technical assistance will focus on participatory planning and budgeting exercises undertaken annually. Each annual exercise comprises: (i) production of a municipal investment plan prioritizing projects for FISDL evaluation, approval and financing, and (ii) monitoring and evaluation of results.
- 2.10 The identification of preferences in small and medium municipalities will be undertaken in open town meetings, or *cabildos abiertos*. *Mesas de concertación* composed of representatives of community and civil society organizations and municipal authorities will prioritize preferences through consensus-building within an indicative annual budget. The project selection process will be the basis of targeting at the local level since communities themselves, by their participation in the *mesas de concertación*, will determine where project resources can best be applied based on their first-hand knowledge of local investment needs.
- 2.11 In large urban municipalities, open-town meetings at the ward, or zone level will identify preferences. *Mesas de concertaciones*, comprising representatives of the municipal authority and local community representatives will also be formed at the zone level.
- 2.12 The providers will advise and train municipal authorities and communities on how to work together and to resolve the tensions that will inevitably arise in the production of annual municipal

investment plans. The providers will also train (i) local promoters to provide follow-up to the plan and its implementation and (ii) local committees to monitor the execution of priority projects and oversee the use of project funds (*controlaria social*).

- 2.13 Local level monitoring and evaluation of project impact will be coordinated by the *mesas de concertación*. The results will be made public to interested local actors. The information sharing activities are a critical dimension of the program. The evaluation of progress made and the feedback of lessons will be the starting point for the subsequent participatory planning cycles.
- 2.14 The PROPP design will facilitate the exit of the service providers after three years. The providers will transfer planning and budgeting skills over years 1 and 2 and consolidate local level capacity in year 3. In years 2 and 3 the participatory planning and budgeting exercise will be repeated to produce annual municipal investment plans. The training activities will build the capacity of local actors to undertake environmental impact and economic analyses.
- 2.15 Evaluation and execution arrangements in years 2 and 3 will follow the steps established in year 1. In years 2 and 3, monitoring and evaluation efforts will pay special attention to the experience of the local management of the proposed preventive maintenance scheme.
- 2.16 The providers will also train local actors in the tools and techniques which will promote the equity, accountability and transparency of all local planning and budgeting processes. They will support the strengthening of the networks of relationships between the different development actors operating locally and assist local actors to access other sources of funds to cover projects not financed by program resources.
- 2.17 This technical assistance and training package is estimated at US\$1,650,000. The program will also finance (i) inter-municipal exchanges and a national conference after 18 months (US\$100,000); (ii) training needs in economic and environmental analysis and gender (US\$95,000); (iii) a package of materials --chairs, tables, flip charts, markers, etc.-- for participating municipal authorities (US\$80,000); and (iv) incentives for the best performing municipality and the municipality making the most progress (US\$75,000); the procedures for these awards will be developed by the FISDL in the first nine months of the operation.

(iv) Municipal Investment Plans (US\$13 million)

- 2.18 The planning and budgeting exercise will produce a municipal investment plan that prioritizes not only projects but also vulnerable populations. The FISDL will undertake the social, economic, environmental and technical pre-feasibility analysis of the proposed municipal investment plan. The economic and environmental analysis will assess both the individual projects as

well as their combined impact. The pre-feasibility stage will also corroborate the community and gender participation in project identification, and review the commitments made for local counterpart contributions.

- 2.19 Agreement on the annual investment plan will release pre-investment funds, not to exceed 4 percent of funds pre-assigned to the municipality, to the municipal authorities who will manage project formulation. The FISDL will undertake project evaluation. Project execution--bidding, contracting and supervision--will be delegated to the municipal authority, according to project complexity, project type and local executing capacity. The FISDL will undertake an assessment of municipal execution capacity to identify those which can undertake these responsibilities.
- 2.20 The Program will support: (i) Municipal Investment Plans in small and medium municipalities for US\$10 million; and (ii) Municipal Investment Plans in large municipalities for US\$3 million.
- 2.21 The FISDL will not apply its established ex-ante project menu. In order to respond to community-driven demands and preferences, three broad categories of eligible investments have been identified:
 - (a) **Social Projects**, such as school repair, and the purchase of educational equipment, health center repair, water and basic sanitation (50% of the resources available to each municipality);
 - (b) **Economic Infrastructure Projects**, such as electricity, retaining walls, drainage channels, re-forestation, rural roads, creches for the children of working mothers, etc. (30 percent of resources available to each municipality);
 - (c) **Priority Community Projects**, that could include youth recreation facilities, village halls, attention for children in difficult circumstances and schemes to combat rising levels of personal insecurity (20 percent of resources available).
- 2.22 The FISDL will have resources to contract specialists to design the technical dimensions of projects additional to its actual menu.
- 2.23 The FISDL will review the technical requirements of the projects to guarantee their feasibility. Each project proposal will: (i) be a priority defined in the municipal investment plan; (ii) provide the least cost, feasible solution to a specific problem; (iii) identify the responsibilities that local actors will assume during project execution; (iv) comply with national policy and technical norms defined by the corresponding ministry; (v) contain a maintenance and operation plan; (vi) present the corresponding environmental study with mitigation and control measures identified; (vii) present an economic analysis that will cover future demand and economic sustainability, and (viii) be presented by representatives of the beneficiary community, the mayor and with the sign-off of the *mesa de concertación*.

- 2.24 The FISDL has identified an ineligible project list: housing, the construction and repair of municipal buildings, municipal salaries and municipal equipment (outside that stipulated in the package of agreed assistance--para. 2.17), credit for agricultural production and animal purchase, vehicles, religious and party political activities and buildings, *fiestas patronales*, land purchase, infrastructure and activities related to local lottery and gambling schemes and highways. The Project Team will monitor the utility of the list of eligible projects, the indicative allocations between social, economic and priority community projects as well as the negative list during program execution.
- 2.25 Projects in the FISDL's pipeline stock will be fed into the participatory planning and budgeting process to determine whether these needs correspond to priority demands. These projects do not have an institutional commitment since the FISDL does not undertake project evaluation until financial resources are available.
- b. Establishment of a Preventive Maintenance Scheme
(US\$800,000)
- 2.26 This subcomponent will support the design and execution of a National Preventive Maintenance Scheme. The scheme will be co-financed initially by the IDB and central government. However, access to these resources will be conditioned on municipalities and communities providing their own contributions. Funds will be released on the FISDL's approval of an annual maintenance plan elaborated by the municipality that details the activities financed by each contributor. The municipality will manage the funds and provide accounts to the FISDL. Training will be provided to municipal authorities in the use of the procedures manual. Initially, the scheme will cover FISDL-financed projects, but will be extended to cover other projects at a future date.
- c. The Know-How Scheme (US\$250,000)
- 2.27 This subcomponent will enable municipal authorities to purchase technical assistance to strengthen their capacity to assume project execution responsibilities. These funds will be approved on a cost-sharing 50:50 basis. The FISDL will develop the operating procedures.
- d. Institutional Development of FISDL (US\$1.5 million)
- 2.28 This subcomponent will finance the hiring of incremental staff to strengthen: (i) the environmental unit (US\$200,000); (ii) the promotion and evaluation unit's capacity to undertake economic and social evaluation, gender analysis and to develop projects that mitigate the effects and causes of personal insecurity (US\$280,000); and (iii) the Internal Audit Unit (US\$70,000). Finance will also be available to contract technical advisors to support program execution and the mainstreaming of the conceptual, operational, managerial and planning innovations supported by the

IDB program (US\$360,000). Funds will be available for the study of municipal executing capacity, the design of operating regulations, the definition of cost ceilings, an efficiency review of project cycle procedures, a study of MIA's operational experience, a strategic planning exercise, development of inputs for GOES's decentralization policy and seminars and study tours (US\$540,000). In addition, funds will be available to update the poverty data that is the basis for the model of the ex-ante assignment of funds that the FISDL has adopted as a planning tool (US\$50,000).

2. Responding to the Project Pipeline (US\$16.5 million)

2.29 In order to move forward with its new paradigm, the FISDL will address its accumulated stock of 2,200 projects, costed at US\$90 million. The GOES's approach is to deal with the 735 school infrastructure and school equipment projects--costed at approximately US\$40 million--in a Ministry of Education (MINED) school infrastructure operation. Meeting the FISDL's stock of education projects, the operation would also address much of increased demand for schools created by the extended coverage of the EDUCO Program, financed through IDB loan 879/OC-ES. The proposed school infrastructure project (ES-0110) is scheduled for board presentation in early 1998.

2.30 The proposed operation will finance priority projects in the remaining pipeline stock in a component comprising two modalities.

a. Modality I. Meeting the Basic Needs of the Poorest
(US\$10.0 million)

2.31 Modality I will support the implementation of potable water, sanitation and electricity projects. These investments are designed to benefit the poorest and smallest municipalities. The selection criteria for eligible projects and municipalities are:

- (a) Municipal poverty level determined by the ex-ante formula;
- (b) Past attendance by the FIS/FISDL measured in terms of municipal per capita investment;
- (c) Municipalities with less than 40,000 (These municipalities cover 90% of the municipalities and 49% of the population);
- (d) Projects with beneficiary funds deposited for connection costs.

2.32 To comply with Government investment priorities, 60 percent of available funds will be allocated to social infrastructure, water and sanitation, and 40 percent to economic infrastructure electricity. Within each project type selection will be made according to their pipeline entry date.

2.33 The FISDL has used a formula, based on unsatisfied basic needs, to assign ex-ante the funds that each municipality will receive. To ensure the fullest participation of the poorest and smallest municipalities, the FISDL will allow actual allocations to vary up

to 35 percent (tolerance margin) above the assigned amount. 65 municipalities will participate in this modality.

b. Modality II. Meeting basic needs and building municipal project capacity (US\$ 6.5 million)

- 2.34 Modality II will also support potable water, sanitation and electricity projects in the pipeline stock, located in municipalities with populations between 40,000 and 100,000. Under this modality, the process of delegation of project cycle responsibilities to municipal governments will begin. The projects are already formulated, hence delegated responsibilities would be the bidding, contracting and supervision stages of project execution. The actual tasks delegated will depend on project type and complexity and municipal execution capacity. This capacity will be defined on the basis of a municipal execution assessment.
- 2.35 The projects selected have beneficiary funds deposited in a project savings account to cover connections. The funds available for each eligible municipality will be allocated using an ex-ante assignment mechanism. A tolerance margin of 35% will also be used in this modality. 16 municipalities will participate in Modality II.
- 2.36 The Operating Regulations for Modality II will draw on the municipal bidding, contracting and supervision experience of MIA. The Operating Regulations will define the mechanisms that will be used to: (i) build beneficiary commitment to project maintenance during project execution; (ii) organize beneficiary monitoring (*contraloría social*) over the utilization of funds; and (iii) establish financial transfer mechanisms to municipal authorities.

3. Targeting

- 2.37 The IDB and FISDL developed a model, based on unsatisfied basic needs, for the ex-ante assignment of IDB funds at the municipal level. The FISDL has adopted this model as its planning tool.
- 2.38 Additional targeting techniques are incorporated into both components. In Component 1, the PROPP will introduce community level targeting in the participatory planning process (see para. 2.10). The criteria to select participating municipalities are designed to produce a representative sample of El Salvador's 262 municipalities (see para. 2.8). Component 2, Modality I targets the poorest, least attended municipalities (para. 2.31). Component 2, Modality II, targets municipalities with the potential to assume project executing responsibilities. Finance is available for updating the poverty map (para. 2.28).

D. Project Cost and Financing

- 2.39 A breakdown by investment category and source of financing is presented in Table II-1.

Table II-1. Cost Table (US\$ Thousands)

Categories	IDB	GOES	Total	%
1. <u>Introducing FISDL's New Paradigm</u>	<u>15,160</u>	<u>2,390</u>	<u>17,550</u>	<u>46%</u>
1.1 The PROPP	14,000	1,000	15,000	
1.2 Preventive Maintenance Scheme	600	200	800	
1.3 The Know-How Scheme	200	50	250	
1.4 Institutional Development of FISDL	360	1,140	1,500	
2. <u>Responding to the Project Pipeline</u>	<u>15,500</u>	<u>1,000</u>	<u>16,500</u>	<u>44%</u>
1.1 Modality I	9,500	500	10,000	
1.2 Modality II	6,000	500	6,500	
3. <u>Finance Charges</u>	<u>3,405</u>	<u>395</u>	<u>3,800</u>	<u>10%</u>
3.1 Interest (including IFF)	3,064		3,064	
3.2 Inspection and Supervision	341		341	
3.3 Credit Commission		395	395	
Total	34,065	3,785	37,850	100%
Percentage	90%	10%	100%	

1. IDB Financing

- 2.40 The total program is estimated at US\$39,8 million. The Bank's loan of US\$35.9 million will be in US dollars from the Single Currency Facility of the Bank's Ordinary Capital. US\$20.1 million will be eligible for IFF financing. Bank financing will defray 90% of the program's total cost, since this operation qualifies as a geographically and poverty targeted investment. Interest expenses during execution will be financed by the loan. The terms and conditions of the proposed loan are detailed in Table II-2.

Table II-2 Loan Terms

Source of Funds	Ordinary Capital (IFF)
Amount	US\$ SCF
Terms:	
Amortization	30 years
Grace period	4.5 years
Commitment	3.5 years
Disbursement	4 years
Interest rate	Variable
Supervision	1% of loan amount
Credit commission	0.75% p.a. on undistributed balance

2. Local Contribution

- 2.41 The local counterpart, a national budget contribution, is US\$3.9 million over 4 years. It will contribute to: (i) introducing the new paradigm --PROPP implementation (US\$2 million); preventive maintenance scheme (US\$200,000); know-how fund (US\$50,000); and institutional strengthening (US\$1.1 million); and (ii) credit commission (US\$460,000). At program's end, the incremental recurrent costs of the new posts will be covered by the FISDL. Municipal authorities and communities will contribute about 10 percent of project costs in the form of cash, materials or labor. This contribution is included in local counterpart funding.

III. INSTITUTIONAL FRAMEWORK AND PROGRAM EXECUTION

A. The Borrower, Guarantor and Executing Agency

- 3.1 The borrower and loan guarantor will be the Government of El Salvador. The executing agency will be the Social Investment Fund for Local Development (FISDL).

B. Principal Operating Agencies

1. The Social Investment Fund for Local Development

- 3.2 Overall program execution will be vested in the FISDL. The FISDL's Technical Committee, comprising department heads and chaired by the President, will monitor the Program's progress and advise the Administrative Council. This Committee will meet at least monthly to (i) oversee the FISDL's institutional transition; (ii) ensure efficient management of resources; (iii) evaluate and determine in Component 2, Modality II project cycle responsibilities to be delegated to municipal authorities; (iv) recommend the small and medium sized municipalities that will participate in the PROPP; (v) monitor program objectives and compliance with operational regulations; (vi) identify consultants as required; and (vii) disseminate the program's activities.
- 3.3 Program preparation identified five major areas for performance improvement: planning, environment, evaluation, auditing and gender. The program will support the FISDL's efforts to (i) enhance the role of the Planning Department as the key department shaping the institution's strategic direction; (ii) hire a manager and a specialist to strengthen the Environment Unit and to provide the resources to promote good environmental practices with local counterparts; (iii) hire an economist and a sociologist to provide an integrated economic and social analysis of municipal investment plans and their component projects; (iv) hire one incremental staff in the Internal Audit Unit; and (v) hire a gender specialist to design a gender policy and a training program to mainstream gender in FISDL's activities. The Program will provide resources for the development of a FISDL response to increased violence and personal insecurity. The terms of reference and the CV's of the incremental staff are expected to be presented to the Bank within 3 months of first disbursement. The contracting of this incremental staff is expected to be completed no later than 6 months after first disbursement.
- 3.4 For program execution the FISDL will be supported by two technical experts, assigned to the Planning Department. They will work with the department to strengthen the FISDL's capacity in the following areas: strategic planning, policy development, performance monitoring of the ex-ante assignment model, and the monitoring and evaluation of program impact. The experts' terms of reference will be prepared by FISDL and approved by the Bank. The experts will

join KfW efforts that support the FISDL in the design and implementation of a 4 municipality pilot program. The IDB is in conversations with KfW on the formation of a single technical assistance effort and its financing. The hiring of the two experts is expected to be completed no later than 6 months after first disbursement.

2. Other Participating Agencies

- 3.5 Municipal governments, community organizations, NGOs and other specialized service providers will participate with the FISDL in the execution of the proposed program. Relations between the FISDL and participating agents, and between the different agents, will be established by agreements. The FISDL will transfer the program's resources to beneficiary agencies on a non-reimbursable basis, and the program will be carried out in accordance with the operating, technical and financial requirements, rules and procedures detailed in the proposed agreements and operating regulations.
- 3.6 The operating regulations will stipulate the program's mechanisms and arrangements for working with participating agents. These operating regulations will include as a minimum the following:
- (a) **Component 1, PROPP.** (i) criteria for assigning project cycle responsibilities to municipal authorities; (ii) rules that the municipal authorities will follow in executing the delegated stages of the project cycle; (iii) the mechanisms for transfer and disbursement of funds; (iv) the types of accounts required and justifications for advancement of funds; (v) presentation of project audited financial statements; (vi) bidding and procurement procedures for contracting goods, works and services, including supervision; (vii) types of guarantees required from contractors; (viii) procedures and criteria for contracting service providers in participatory planning and budgeting; (ix) the format and content for the presentation of municipal investment plans; (x) FISDL evaluation criteria of municipal investment plans; (xi) criteria for the corroboration of community and women's participation; (xii) technical, economic, legal, institutional, financial and environmental eligibility criteria for each type of project; (xiii) revised eligibility criteria for goods and service providers (to ensure the participation of local firms); (xiv) model agreements required for the program; (xv) the planning methodology that service providers will apply locally; (xvi) the formation of *mesas de concertación* and their internal rules; (xvii) the detailed selection criteria for participating municipalities; and (xviii) the municipal audit model.
 - (b) **Component 2, Modality I.** Regulations based on those already in place and currently being used by FISDL.

(c) **Component 2, Modality II.** All those applying to component 1 [items (i) to (viii) and (xiv)] that address municipal responsibilities for project execution. A condition prior to first disbursement will be Bank approval of the final draft, ready for use, of the operating regulations for the PROPP, (Component 1) and Component 2, Modalities I and II.

C. Inter-Institutional Coordination

3.7 The FISDL has cooperation agreements with normative agencies-- MINED, ANDA, MSPAS, ISTA and CEL-- to facilitate planning and project execution, to coordinate activities, to identify operation and maintenance commitments and to establish project norms. Coordination experience is mixed and is best with MINED and MSPAS, because the FIS has acted as their executing agency.

3.8 The agreements expire over the next six months and preparatory discussions for new agreements are underway. The rapidly changing circumstances surrounding the way the FISDL works signifies that; (i) these discussions should embrace the municipal role--given their enhanced participation, government contribution to the preventive maintenance scheme and plans for decentralization by service providers such as ANDA, and (ii) any agreement reached should be revisited one year after the start of the PROPP. The FISDL will sign an agreement with the Salvadorean Institute for Municipal Development (ISDEM) to coordinate technical assistance to municipal authorities. As a condition prior to first disbursement, the Borrower will present evidence that coordination agreements have been signed (with MINED, ANDA, MSPAS, ISDEM AND CEL).

D. Program Execution

3.9 The program will be executed over a four year period, with three and a half years to commit resources.

1. Component 1. Introducing The FISDL's New Paradigm

a. The PROPP

3.10 The FISDL will apply its new participatory methodology in selected municipalities. Municipal governments would be asked to: (i) hold town meetings to identify needs; (ii) participate in *mesas de concertación*, comprising representatives from municipal authorities and communities to prioritize projects and allocate budgets; (iii) develop annual investment plan over a three year period; (iv) contract technical assistance required to formulate project proposals; (v) prepare bids and contracts and contract firms that will undertake construction and provide support during supervision; (vi) open and maintain a project bank account; (vii) maintain acceptable accounting records and present audited statements to FISDL. For projects with costs less than US\$20,000, the FISDL could authorize construction through direct administration.

- 3.11 Community organizations will take active part in the participatory planning exercise, training, and project prioritization activities. Coordination of counterpart resources either in cash or in-kind, operation and maintenance activities and *contraloría social* will be done through existing local committees.
- 3.12 Specialized service providers will provide technical assistance and training in the preparation of annual municipal investment plans, monitoring and evaluation and ensure women and other vulnerable groups participate in the planning and budgeting processes as detailed in the program description.
- 3.13 NGOs and firms may be contracted to provide additional specific services to (i) improve municipal execution of delegated project cycle functions; (ii) provide training and technical assistance to local actors in preparing bidding documents, contracts and supervision agreements; (iii) provision of training to beneficiaries in project operations and maintenance.
- 3.14 FISDL will make pre-feasibility assessments of the municipal investment plans to: (i) ensure that preparation processes conform to established procedures and corroborate community and gender participation during project identification; (ii) ensure that projects are technically viable; (iii) confirm commitments for counterpart contributions and cofinancing from local actors; (iv) make concurrent project audits; (v) supervise the performance of all professional agents; (vi) monitor and evaluate overall development of activities; and (vii) disburse funds into project accounts according to established regulations. Project evaluation will remain an exclusive responsibility of the FISDL.
- 3.15 To facilitate the contracting of goods and services, the FISDL will maintain, and make available to municipal authorities, lists of: (i) authorized providers of pre-investment, construction and supervision services, (ii) providers of training services, and (iii) providers of other goods required by the program. Municipal authorities will complement these lists with local eligible firms, who will be pre-qualified by the FISDL.
- 3.16 The execution of the IDB Program involves operating procedures novel to FISDL. The program will therefore finance the contracting of specialist consultants to assist in designing the detailed operational procedures and staff manuals.

b. Establishment of a Preventive Maintenance Scheme

- 3.17 During the first year of program execution consultants will be hired to assist the FISDL in the design and execution of a sustainable preventive maintenance scheme. The conceptual and operative lessons learned from a scheme managed by the Nicaraguan social fund and experiences in preventive maintenance in El Salvador will be important inputs. The consultants will focus on four important components of the scheme: (i) the financial and

legal conditions; (ii) the type of infrastructure which will be covered by the scheme; (iii) the responsibilities of the main actors; and (iv) an indicative system of costs and procedures to be used during the maintenance process. The scheme will take into account the overall approach of the operation which supports the delegation of responsibilities to municipal authorities and local communities. The consultants will draft operating manuals and regulations and will accompany the scheme's execution over an envisaged 2 year pilot stage when 10 large, medium and small municipalities will be engaged in testing procedures. The scheme is expected to have national coverage by the end of the IDB operation.

c. The Know How Scheme

- 3.18 Municipal authorities will access funds for technical assistance to strengthen their implementation capacity which will allow them to become eligible execution counterparts in FISDL-financed projects. Municipal authorities will cover 50 percent of the costs of each technical assistance package, which will not exceed US\$5,000 in total. The FISDL will design the scheme's operating regulations.

d. Institutional Development of FISDL

- 3.19 The FISDL will be responsible for: (i) training and capacity building of FISDL staff in the management of the delegated project cycle, the development of its supervisory functions, and the mainstreaming of a gender policy; (ii) updating the poverty map; (iii) revising current cost ceilings; and (iv) evaluating the management information system to identify equipment and software required to maintain the institution's data management capacity.
- 3.20 The FISDL with counterpart funds will hire the incremental staff necessary to strengthen the institution's executive and management capacity. Counterpart funds will also be used to contract consultants to develop the technical specifications of projects addressing problems of violence and personal insecurity (para 3.3). The FISDL will manage the contracting of the two technical advisors to be located in the Planning Department (para 3.4). The FISDL will undertake an ex-post impact evaluation of the PROPP within 6 months of the last disbursement.
- 3.21 Funds will be available to design and implement a monitoring and evaluation system that will identify the lessons of the PROPP. The M&E system will identify gender differentiated impacts of the program. The monitoring and evaluation system will be in place before the PROPP begins execution.

2. Component 2. Responding to Project Pipeline

- 3.22 **Modality I** will use the mechanisms and procedures established under the previous IDB operation. These procedures were reviewed by the Project Team and were found appropriate for the execution of the

modality. The FISDL will: (i) evaluate the project's technical viability; (ii) bid and contract for construction works, provision of goods and services according to different project types and supervision of works; (iii) ensure that guarantees are provided by construction companies; (iv) contract NGOs and specialized service providers to train and support beneficiaries, including women, during project execution about how to operate and maintain water systems.

- 3.23 Under **Modality II** the FISDL will: (i) delegate bidding, contracting and supervision responsibilities to municipal authorities with capacity to assume them; (ii) make available lists of authorized service providers; (iii) monitor municipal authorities' bidding and contracting of contractors and supervisors for construction works; (iv) confirm commitments for counterpart contributions and cofinancing from local actors; (v) disburse program funds directly into a project account opened by the municipal authority; (vi) make concurrent audits to ensure adherence to bidding and contracting procedures and adequate use of funds.
- 3.24 Municipalities will be responsible for: (i) preparing bids and contracts for the provision of goods and services; (ii) maintaining acceptable accounting records; and (iii) presenting audited project financial statements to the FISDL. The FISDL could authorize direct administration for projects less than US\$20,000.
- 3.25 NGOs and firms could, at request of municipal authorities and/or beneficiary organizations carry out and/or administer aspects of delegated project cycle responsibilities. They will participate in training and capacity building of local actors to manage the delegated responsibilities.
- 3.26 Communities will be responsible for selected operations and maintenance activities. These will be undertaken either by existing committees or specially formed *comités de mantenimiento*.
- 3.27 The program will finance dissemination of the program's progress through media and promotional materials directed to communities, local governments and other interested actors.

E. Procurement of Goods, Works, and Consulting Services

- 3.28 International competitive bidding will be required for consulting services in excess of US\$200,000, goods in excess of US\$250,000 and construction works in excess of US\$1,000,000. Goods, works and consulting services contracted under Component 1 will be subject to simplified procedures attached to the loan contract. Under Component 2, the executing agency will contract works directly when below US\$75,000. Works between US\$75,000 and US\$999,999, will be subject to the simplified procedures attached to the loan contract. No one contractor will be awarded new contracts when the total value of the new contracts plus those in execution exceed the

equivalent of US\$500,000, except in the cases where contracts are awarded through competitive bidding.

F. Advance of Funds

- 3.29 Approval is recommended of a 10% advance of the proposed loan. Historically the FISDL has committed and disbursed an average of US\$2.5 million per month. The execution of Component 2, Modality I (US\$10.0 million) is expected to follow this rhythm. The advance of funds would cover approximately two months' disbursements.

G. Retroactive Financing

- 3.30 Approval is recommended of retroactive financing up to US\$150,000 to defray expenses incurred by the FISDL to expedite program execution. The proposed activities are: (i) an assessment of municipal capacity to assume delegated project cycle responsibilities; (ii) a review of MIA operating procedures to identify what is applicable to the PROPP; and (iii) technical assistance for the FISDL to develop the operating regulations. (see para. 3.6c)

H. Disbursements

- 3.31 The Bank loan and Government counterpart resources will be deposited in a special FISDL managed account. Transfers will be made to subsidiary project accounts held in local commercial banks and managed by municipal authorities. The legal and operational aspects of these transfers and their liquidation will be formalized in the agreements to be signed between the FISDL and the participating municipal authorities and will be detailed in the operating regulations.
- 3.32 Given the nature of the operation and the expected volume of transactions for procurement of goods and services, FISDL and municipal authorities, respectively will retain in their files originals and/or copies of the contracts, orders, invoices, receipts, payment vouchers, supplier certificates and other documents that corroborate the information supplied in the report presented to the Bank. The report will contain, among other information, a list of projects financed, amount, check numbers, date, contractor, sources of funds and taxes. The documentation to be kept at FISDL and municipality is to be properly identified and filed, and made available to authorized IDB officials and external auditors for review.
- 3.33 The Country Office will make ex-post technical and financial inspections to examine support documentation, including project files and receipts of a random 10 percent sample of projects. The examination will corroborate that the FISDL maintains in its files the disbursement request documents that show funds were used in compliance with the loan contract. If discrepancies to agreed procedures are found, a larger sample will be examined and the

FISDL notified of the amounts deductible from future requests. These are proven procedures, established under the third IDB operation.

3.34 The disbursement schedule for the Program will be as follows:

Table 1: Proposed distribution of program resources

YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
30%	40%	20%	10%	100%

I. Accounting and Auditing

3.35 The FISDL will establish and maintain adequate accounts and records, in accordance with accepted accounting practices. These will be audited at the end of each fiscal year by a firm of independent and qualified auditors acceptable to the Bank. Presentation of statements will be done during project execution and commencing during the first year of program execution.

J. Initial Report

3.36 As part of the Initial Report presented to the Bank, the FISDL will include the following: (i) the terms of reference corresponding to the incremental positions detailed in para. 3.3, together with the list of prospective candidates and their curriculum vitae; (ii) the terms of reference corresponding to the positions of technical experts detailed in para. 3.4 and the list of prospective candidates and their curriculum vitae.

K. Annual Reports

3.37 The FISDL will produce annual reports using agreed performance and the PROPP monitoring and evaluation indicators. The form, scope and content of the report will be agreed with the Bank.

L. Monitoring and Evaluation of Program Performance

3.38 Benchmarks to measure program execution in year one have been developed. Consultants will be hired to undertake yearly impact evaluations to provide additional input to the Bank for its annual strategic policy reviews. These reviews undertaken with the FISDL will revise progress in the new way of working, FISDL's institutional development, the promotion of local development through the FISDL's redesigned procurement policy, and will monitor resource transfers under the municipal 6 percent. The second annual review will be a mid-term evaluation to identify the lessons learned and the impact, attached to the operation, of the PROPP to date. The scope of the monitoring exercise will require increased Bank headquarters supervision and consultant effort.

M. Ex-Post Evaluation

- 3.39 Given the innovative nature of the PROPP, an ex-post evaluation would need to be undertaken of its impact and results. The report will be presented to the Bank within 6 months of the last disbursement. The ex-post evaluation will use the data provided by performance and the PROPP monitoring and evaluation indicators. The FISDL will contract an outside consultant to do the evaluation.

IV. VIABILITY, BENEFITS AND RISKS

- 4.1 The proposed operation is inserted into a period of rapid change for the FISDL, especially in how it works with its counterparts. The change is associated with the transformation of a traditional FIS, which finances small-scale projects in poor communities, into a local development instrument that finances small-scale projects as a means to an end, not just as an end in itself. The innovations supported by the proposed program carry substantial benefits as well as risks. This chapter reviews the operation's viability and expected benefits, before discussing political and technical risks.

A. Institutional Viability

- 4.2 The FISDL has embarked on a process of deep transition. The significant changes already achieved and the experience acquired by the management team will facilitate the introduction of the innovations contemplated in the operation. The proposed arrangements for additional resources to enhance the FISDL's execution capacity have been jointly identified and focus on the needs on those departments directly involved in introducing the new paradigm. A key here will be the Planning Department which will be supported in its ability to manage: (i) institutional strategic planning; (ii) policy development; (iii) inter-institutional relations with government entities; and (iv) relations with donors.
- 4.3 The incorporation of MIA's operational lessons into the FISDL's new operating regulations will augment its capacity to execute the program. The fuller fusion of MIA into the FISDL will also accelerate the processes already underway whereby the FISDL is getting closer to its counterparts and beneficiaries.
- 4.4 The success of Component 1 will determine the program's overall impact. The success of the PROPP will depend on the availability of service providers of training and technical assistance to municipal authorities and communities. An analysis confirms that NGOs and firms providing such services exist in El Salvador and that these organizations are interested in participating in the FISDL's participatory planning initiative.
- 4.5 Component 1 is based on an established fact that poor people know their needs but often lack organizational, administrative and technical resources to define priority demands and identify the best solutions. Its structure also takes into account the growing tendency for communities to work with municipal authorities, indicating that a favorable environment exists for the introduction of a participatory planning mechanism. The modular design will ensure the program remains on track if problem cases require extra attention.

B. Technical Viability

- 4.6 The technical viability of the Program derives from the incorporation of lessons learned from the IDB third operation with the FIS and the accumulated experiences of participatory planning in El Salvador and elsewhere in Latin America. Further, the PROPP's design is based on consultations with local actors; a process which the FISDL is committed to continue during execution.
- 4.7 The preventive maintenance scheme, which draws on experiences elsewhere in Latin America, responds to an increasing concern at all levels of government about project sustainability. Its viability is government's commitment to support financially the implantation of a locally-managed preventive maintenance scheme.
- 4.8 The Program will assist the FISDL to introduce those policies that will ensure the retention of qualified staff both within the FISDL and at the municipal level. The PROPP itself, and the new way of working that it represents, will be an important element in attracting competent professional staff.

C. Environmental Viability

- 4.9 The ESIB was approved on 20 June 1997 and the ESIR on October 17 1997. The FISDL's environmental control system is technically sound and easily implemented. By supporting the full institutionalization of the system, the program will ensure the FISDL broadens the scope of its environmental impact analysis to include municipal investment plans as well as individual projects. At the same time, the FISDL will acquire the capacity to provide technical assistance and training on environmental control systems to local counterparts.

D. Financial Viability

- 4.10 The Program's financial viability is based on the institution's projected 1997 recurrent expenses estimated US\$4.0 million--US\$1.2 millions financed by IDB, US\$2.7 million by the GOES and the balance by other donors. The Government has agreed to cover future recurrent costs when IDB financing ends in December 1997. The FISDL's 1998 proposed budget is US\$5 million, an 85 percent increase in the GOES's commitment over its 1997 contribution. Discussions continue over the GOES contribution at this writing.
- 4.11 Local counterpart funds for the proposed program have been estimated at US\$3.9 million. It is expected that approximately US\$300,000 will be required during the first year of execution to hire the incremental staff and undertake training with FISDL staff.
- 4.12 The Program's viability also rests on the full involvement of municipal authorities and local communities. Studies will be commissioned to assess municipal executing, financial and institutional capacity and to develop criteria concerning the

responsibilities to be delegated to each municipality. The sustainability of the projects financed under the PROPP will relate to beneficiary ownership of projects, engendered by their full involvement in project cycle decision-making.

E. Economic Viability

- 4.13 The ex-post evaluation of the IDB's third FIS operation concludes the FIS undertakes a solid economic evaluation of individual projects. However, to improve project sustainability, the economic evaluation should take into account the ability of a community to "sustain" a completed project and the potential future demand for the services provided. The municipal investment plans are the opportunity to undertake economic evaluation of the aggregate impact of project interventions. The hiring of an economist will strengthen the FISDL's capacity to do economic analysis.

F. Benefits

- 4.14 The Program will allow communities working with municipal authorities to take control of project cycle decision-making. This change will inject greater transparency into FISDL operations.
- 4.15 The direct beneficiaries will be those with access to the social and economic infrastructure financed by the program. The targeting of investments will focus the FISDL's attention on the poorest municipalities. The introduction of municipal-level processes of discussion, negotiation and consensus will introduce efficiencies in resource allocation. Further efficiencies will derive from the beneficiary counterpart resources that will be committed prior to execution. This commitment will ensure that priority projects are executed which will be an incentive to improve preventive maintenance and to enhance project sustainability.
- 4.16 The creation of local-level participatory spaces will have a spill-over effect beyond the program's boundaries. Shifts in local power relations will inevitably occur as previously marginalized and excluded groups use the opportunities created as routes into the mainstream. While this process might sharpen the differences between different actors, the presence of increased numbers of interest groups involved in decision-making will promote good governance both within the proposed program and with respect to other municipal level development initiatives. By providing the means and support for integrating women into the planning and budgeting exercises, the program will ensure their participation but also enhance their status by recognizing their development contributions.
- 4.17 The Program will consolidate local social organizations, the networks, trust and norms that facilitate cooperation and coordination for mutual benefit. These relationships, a community's social capital, are critical to economic and social development. Building these networks of organized reciprocity and civic

solidarity will complement investments in human capital that aim to raise an individual's productivity. By strengthening the capacity of communities to manage development processes, the program will help to break a dependency syndrome, rooted in the humanitarian and reconstruction responses to the crisis of the conflict years, and assist people to regain their collective and individual self-reliance and their capacity for self-help.

G. Risks

- 4.18 With its ex-ante menu and its established project cycle, the FISDL has provided a standardized package of goods and services, regardless of the local context. With the present operation, the FISDL will customize its assistance taking into account the necessities of each municipal situation. This approach requires sound, but flexible operating regulations, and a professional staff able to exercise the right kind of judgement required in their application. The FISDL has shown its ability to begin to meet these challenges with the pilot project in participatory planning executing with KfW support. The incorporation of incremental staff with social science backgrounds and the hire of two technical experts in the planning department will provide the critical mass of professional expertise to meet execution and strategic challenges.
- 4.19 The program will be executed in a dynamic electoral context in which the risk always exists that an institution like the FISDL could be used for party political purposes. The design of the program seeks to minimize this risk. The program introduces additional targeting criteria, has identified the projects that will be executed over the next 12 months with IDB funds, and ensures that a wide diversity of local actors will participate in project identification, execution and maintenance activities.
- 4.20 The Program's activities will also be developed in the context of the National Assembly's decision to transfer 6 percent of the national budget to municipal governments. This decision creates risks as well as opportunities. The Government's short-term liquidity problems suggest that the transfer will be phased-in, minimizing the danger that the transfer of large amounts of additional monies over a short time period will overburden the absorptive capacity of municipal governments and undermine the effort contemplated in the PROPP. The procedures that will regulate the use of these funds are currently under discussion and the FISDL is part of these deliberations. The extra resources available at the local level will be an opportunity to leverage additional municipal contributions to project financing and preventive maintenance arrangements.

LOGICAL FRAMEWORK

Program summary	Verifiable indicators	Means of verification	Main assumptions
Goal: 1. Help to improve the living conditions and development opportunities for people living in poverty through investment in social and economic projects and participatory processes stimulating local development.	1.1 Equitable and transparent allocation of national resources to encourage local development processes. 1.2 At least 60% of social and economic infrastructure investments directed towards the country's poorest rural and urban areas. 1.3 Priority assigned to social and economic infrastructure investments on a participatory basis at local level. 1.4 Administration, maintenance, and sustainability of investments in physical infrastructure with local participation.	1.1 Evaluation reports on the instruments used for ex ante allocation and targeting of resources. 1.2 Program progress reports (also applies to 1.3 and 1.4).	There is a stable social climate in the country facilitating implementation of the government's social and economic policies and the processes of decentralization and delegation of functions to municipal governments.
Purpose 1. Improve living conditions and expand development opportunities for the poorest population segments by completion of the program.	After a period of three years: 1.1 9,577 families benefitting from water supply systems functioning in accordance with ANDA standards.	1.1 Field visits, progress reports, database, ex post evaluation reports, monitoring reports (including data on the percentage of projects started by month and the number of operating household connections). (These means of verification also applied to 1.2, 1.3, 1.4 and 1.5).	Priority will continued to be assigned to supporting the social sectors concerned. There is sufficient installed capacity in the country generally and in the various municipalities in particular to complete the infrastructure works in accordance with the various modalities.

Program summary	Verifiable indicators	Means of verification	Main assumptions
	<p>1.2 3,087 families benefitting from sewer systems functioning in accordance with ANDA standards.</p> <p>1.3 8,958 families benefitting from electric power systems functioning in accordance with CEL standards.</p> <p>1.4 25 small and medium sized municipal governments and 8 large municipal governments participating with local stakeholders and prioritizing, managing, and maintaining social and economic infrastructure works.</p> <p>1.5 At least 160 young people living in large municipalities benefitting from crime and violence prevention projects.</p>		
<p>Outputs:</p> <p>1. Coverage and quality of social and economic infrastructure services expanded.</p>	<p>1.1 Families connected to ANDA water supply systems and other independent sources as follows:</p> <p>a) 4,160 families in 53 projects with amounts totalling US\$4.2 million representing 113 kms of pipe and 38 municipalities (Component 2, modality I);</p> <p>b) 5,417 families in 41 projects with amounts totalling US\$2.2 million representing 51 kms of pipe in 14 municipalities (Component 2, modality II);</p> <p>1.2 Families connected to ANDA sewer systems and independent sources as follows:</p> <p>a) 1,203 families in 25 projects with amounts totalling US\$1.7 million representing 19.5 kms of pipe in 17 municipalities (Component 2, modality I);</p> <p>b) 1,884 families in 20 projects with amounts totalling US\$1.7 million representing 24 kms of pipe in 8 municipalities (Component 2, modality II);</p>	<p>1.1 Field visits, progress reports, databases, ex post evaluation reports, monitoring reports (including data on the percentage of projects started by month for household water, sewer, and electric power connection) (these means of verification also apply to paragraphs 1.2, 1.3, 1.4 and 1.5).</p>	<p>Priority continues to be given to the social sectors concerned.</p> <p>The government is able to create a legal and institutional context favorable to decentralized management of the FISDL project cycle.</p>

Program summary	Verifiable indicators	Means of verification	Main assumptions
	<p>1.3 Families receiving electric power:</p> <ul style="list-style-type: none"> a) 4,921 families in 56 projects with amounts totalling US\$3.7 million, representing 189 kms of electric wire in 28 municipalities (Component 2, modality I); b) 4,037 families in 48 projects with amounts totalling US\$2.8 million representing 195 kms of electric wire in 12 municipalities (Component 2, modality II); <p>1.4 25 small and medium sized municipalities (Component I) benefitting from:</p> <ul style="list-style-type: none"> a) 100 social infrastructure projects with amounts totalling US\$6 million, selected and prioritized by means of participatory planning processes, with consideration given to projects to mitigate the causes of crime and citizen insecurity. b) 75 infrastructure projects with amounts totalling US\$4 million selected and prioritized by means of participatory planning processes. <p>1.5 In each of the 8 most populated municipalities in the country (Component I):</p> <ul style="list-style-type: none"> a) 25 infrastructure and equipment projects for the prevention and mitigation of crime and threats to personal safety (recreational areas and playing fields, public lighting, communal use centers) benefitting at least 20 young people per project; b) 25 infrastructure projects with amounts totalling US\$1.2 million identified as high priority; c) 20 economic infrastructure projects with amounts US\$1 million identified as high priority. 		

Program summary	Verifiable Indicators	Means of verification	Main assumptions
<p>2. Ability of local stakeholders to plan, manage and implement projects to strengthen social and economic infrastructure.</p>	<p>2.1 25 small and medium sized municipalities (Component I) with investment plans for local development prepared, containing social and economic infrastructure projects prioritized through participatory planning processes and eligible for FISDL financing.</p> <p>2.2 10 small municipalities (Component I) managing stages of the water, sewer and electric power project cycle according to project complexity and execution capacity.</p> <p>2.3 25 small and medium-sized municipalities managing project cycle stages according to typology and complexity of the projects and capacity for execution (Component I).</p> <p>2.4 In 40 small, medium-sized and large municipalities, communal development committees composed of trained men and women and participating in participatory oversight of social and economic infrastructure projects.</p> <p>2.5 8 large municipalities (Component I) managing project cycle functions.</p>	<p>2.1 Completed participatory planning processes; municipal investment plan; number of projects eligible for FISDL financing; field visits; progress reports; databases; evaluations of municipal capacity.</p> <p>2.2 Letters of commitment for stakeholder participation in management of the cycle; monitoring reports; field visits, progress reports, ex post evaluations (also applies to 2.3, 2.4 and 2.5).</p>	<p>2.1 Local stakeholders are willing to participate in the planning process and undertake commitments as part of the new approach.</p> <p>2.2 Local stakeholders are willing and committed to execute projects in which functions are delegated (also applies to 2.4 and 2.5).</p>
<p>3. Ensure operation and maintenance of the social and economic infrastructure works.</p>	<p>3.1 Governing institutions (ANDA, CEL distributors of energy, health, education, public works), fulfilling operation and maintenance commitments for the social and economic infrastructure projects.</p>	<p>3.1 Framework agreements between FISDL and the governing institutions; field visits; progress reports; monitoring reports; ex post evaluation reports.</p>	<p>3.1 Governing institutions and local stakeholders will be able to participate in maintenance of the economic and social infrastructure project.</p>

Program summary	Verifiable Indicators	Means of verification	Main assumptions
	<p>3.2 15 local governments contributing to the preventive maintenance of economic and social infrastructure projects.</p> <p>3.3 120 communal development committees, composed of men and women, trained in maintenance of economic and social infrastructure projects.</p> <p>3.4 National financing mechanism encouraging cofinancing and preventive maintenance of investments in economic and social infrastructure functioning at the local level.</p>	<p>3.2 Maintenance agreement between the FISDL and local governments; field visits; progress reports; monitoring reports; ex post evaluation reports.</p> <p>3.3 CDC member listings, by sex and maintenance training; field visits; progress reports; monitoring and ex post evaluation reports.</p> <p>3.4 Financial mechanism functioning and managed at the local level; 40% of projects maintained under this mechanism; field visits; progress reports; monitoring reports; ex post evaluation reports.</p>	<p>3.2 Local governments willing to contribute to preventive maintenance.</p> <p>3.3 Local stakeholders are prepared to assume responsibilities for project maintenance.</p> <p>3.4 The central government supports establishment of the local mechanism; the government and local stakeholders are prepared to sustain the maintenance fund.</p>
4. Include effective measures to limit environmental impairment in social and economic infrastructure projects.	4.1 All projects have an ex ante environmental evaluation and mitigation measures included in projects where indicated.	4.1 Project environmental report; field visits; monitoring reports.	4.1 Local stakeholders and project participants will implement the measures agreed upon for environmental impairment mitigation and reduction.

Program summary	Verifiable Indicators	Means of verification	Main assumptions
<p>5. Participation by women in the project cycle management, maintenance of infrastructure, and social oversight.</p>	<p>5.1 At least 40% of the participants in the process of identifying and prioritizing Component I projects are women.</p> <p>5.2 Projects meeting needs of women (Component I) identified.</p> <p>5.3 Women participating in the management of infrastructure projects (Component I).</p> <p>5.4 Women participating in maintenance of the projects.</p> <p>5.5 Women participating in the social oversight process (Components I and II).</p>	<p>5.1 List of women participating in project cycle management, maintenance, and social oversight; field visits; data base; monitoring and ex post reports (also applies to 5.2-5.5).</p>	<p>5.1 Women are willing to participate in the project cycle processes, and men are willing to allow them to participate (also applies to 5.2-5.5).</p>
<p>6. Strengthen the capacity of the FISDL to promote the processes of local development and decentralization.</p>	<p>6.1 FISDL provided with the organizational structure and operational and administrative procedures needed to promote local development with emphasis on equitable ex ante resource allocation, participatory planning, gender, environment, decentralization of the project cycle, and preventive maintenance of the works.</p>	<p>6.1 Performance indicators; organizational structure and procedures consistent with the new working approach; gender, environmental, and decentralization policy documents.</p>	<p>6.1 The national legal framework permits the delegation and decentralization of the new project cycle, and the relevant policies are applied.</p>

Program summary	Verifiable indicators	Means of verification	Main assumptions
Components:			
1. Introduction of the new FISDL paradigm;			
1.1 Implement PROPP, including technical assistance and training for the local development of social capital.	1.1 US\$13 million to finance social and economic infrastructure projects, including crime prevention measures to be identified in the processes of participatory planning in 33 small, medium sized, and large municipalities in the country. US\$2 million to strengthen the capacity of local stakeholders to manage the various phases of the infrastructure project cycle (US\$1 million from GOES).	Field visits, progress reports, database, ex post evaluation reports, monitoring reports (including data on percentage of projects started by month and the number of operating household connections) (also applies to 1.2-1.4)	1.1 The government supports the delegation of responsibilities to local stakeholders.
1.2 Place the preventive maintenance system in operation.	1.2 US\$800,000 for the establishment of a national financial mechanism for preventive maintenance with counterparts from the national government (US\$600,000 from the IDB and US\$200,000 from GOES) and local contributions.		1.2 The central government supports the establishment of the local mechanism. The government and local stakeholders are prepared to sustain the maintenance fund.
1.3 System for financing technical assistance for municipalities.	1.3 US\$250,000 for the establishment of a fund for hiring of technical assistance services by the municipalities (US\$200,000 from the IDB and the rest from GOES).		1.3 The local governments are prepared to contribute 50% of the cost of technical assistance.
1.4 Institutional development of FISDL.	1.4 US\$1.5 million (US\$360,000 from the IDB and the rest from GOES) to hire specialized personnel (one economist, one sociologist, one gender expert, and two environmentalists), technical assistance, training, purchase of equipment and systems development, dissemination of information and communication to strengthen the FISDL's capacity to promote local development processes.		1.4 FISDL has an appropriate contracting policy.

Program summary	Verifiable indicators	Means of verification	Main assumptions
<p>2. Execute a significant number of the stock of projects.</p>	<p>2.1 US\$10 million (US\$ 9.5 million from IDB and rest from GOES) for 53 approved projects for water supply, 25 for sewerage, and 56 for electric power, to be executed in municipalities with up to 40,000 inhabitants by traditional contracting methods (modality I).</p> <p>2.2 US\$6.5 million (US\$6.0 million from IDB and rest from GOES) for 20 approved projects for water supply, 20 for sewerage, and 48 for electric power, to be executed by municipalities with up to 100,000 inhabitants, attempting to delegate part of the functions of the project cycle according to the complexity of the project and the installed capacity of the municipalities (modality II).</p>	<p>2.1 Field visits, progress reports, database, monitoring reports and ex post evaluation reports (including data on percentage of projects started by month and the number of functioning household connections (these means of verification also apply to 2.2.</p>	<p>2.1 The sector indicated continues to be given priority support.</p>

Program summary	Verifiable indicators	Means of verification	Main assumptions
Activities			
1. Introduce the new paradigm for FISDL.			
1.1 Design, implement, and evaluate methodology for participatory planning and prioritization of projects for small, medium-sized, and large municipalities.	1.1 25 small and medium-sized municipalities and 8 selected large municipalities with participatory action plans and identified and prioritized projects that can be financed by the FISDL.	1. Field visits, progress reports (including firms hired to provide technical assistance), database, ex post evaluation reports, monitoring reports including data on the percentage of municipalities with participatory plans, percentage of projects approved, percentage of projects under contract and in progress, and percentage of social monitoring and oversight committees functioning.	Municipal authorities are interested in and committed to the responsibilities assigned, including the project cycle management functions.
1.2 Conduct public bidding and hire and supervise the specialized firms responsible for supporting the participatory planning processes in the municipalities.	1.2 US\$10 million in financing for social and economic infrastructure works identified in the investment plans of small and medium-sized municipalities.	2. Progress reports, evaluation of the preventive maintenance system, reports from line ministries and governing institutions on local maintenance, the national budget, field visits, and reports from the training firms.	The various non-governmental and professional sectors are interested in and committed to participating in the public bidding processes for management of this type of program.
1.3 Design, implement, and update the system of training in participatory planning methodologies.	1.3 US\$3 million in financing for social and economic infrastructure works, including crime prevention projects in 8 selected large municipalities.	3. Progress reports, field visits.	The municipalities have the capacity to provide the necessary counterparts, not only in kind and labor, but also in financing.

Program summary	Verifiable indicators	Means of verification	Main assumptions
1.4 Submit projects identified in the participatory planning processes for small, medium-sized, and large municipalities for evaluation.	1.4 50% of the resources allocated to investment in social project works; 30% in economic infrastructure works and 20% in community projects, such as crime prevention and public safety.	4. Analysis of "institutional performance" indicators, ex post evaluations, aide-memoirs of seminars and workshops held, progress reports, minutes of administrative committee meetings, etc.	The municipal authorities are willing to maintain the policies of broad participation for all sectors, and there is a desire and the needed resources to create the technical units needed to follow up on the process. The national government is prepared to provide funds on an ongoing basis for preventive maintenance.
1.5 Evaluate and approve projects submitted by municipalities.	1.5 US\$2 million for training and assistance activities, of which US\$1,650 million will go to technical services and training; US\$100,000 to the exchange of experiences between the municipalities; US\$95,000 for special training activities; US\$75,000 for incentives to adopt approaches constituting best practice; and US\$80,000 for municipal logistical support.	5. Field visits, progress reports, database, ex post evaluation reports, monitoring reports, including data on the percentage of physical/financial progress on the projects started, by month, number of operating household connections.	The FISDL is interested as an institution in working on environmental, and gender issues and the participatory management of projects.
1.6 Develop a proposal and implement the pilot phase for the management of projects delegated to selected municipalities.			
1.7 Conduct public bidding and hire and supervise specialized firms responsible for supporting the processes of decentralized management of the project cycle in small and medium-sized municipalities.	1.7 Social oversight committees with participation by women functioning in most of the selected municipalities.		
1.8 Conduct public bidding and hire and supervise works identified in the participatory planning processes.			

Program summary	Verifiable indicators	Means of verification	Main assumptions
1.9 Evaluate works completed under decentralized management of the project cycle.			
2. Preventive maintenance			
2.1 Design a system for preventive maintenance including approval of the financial and institutional mechanism, national counterparts, the type of project, and the role of local stakeholders.	2.1 US\$800,000 (25% of which are counterpart national government funds) used for the preventive maintenance of infrastructure works.		
2.2 Implement and evaluate the pilot phase for implementation of the system of preventive maintenance at the local level.	2.2 New national allocations to replenish the preventive maintenance fund.		
2.3 Expand coverage of the preventive maintenance system to other small, medium-sized, and large municipalities.	2.3 All municipalities working in the new FISDL paradigm have established preventive maintenance plans for constructed works. Preventive maintenance system adopted by the rest of the municipalities in the country.		
3. Technical assistance plan			
3.1 Develop a "know-how" technical assistance scheme for municipalities.	3.1 Governmental and nongovernmental institutions and private firms qualified to provide technical assistance services have been listed.		
4. Institutional development of the FISDL.			
4.1 Select, hire, and bring in personnel specialized in gender, environmental, community participation and economic analysis issues.	4.1 US\$1.5 million has been used as follows: US\$200,000 to strengthen the environmental unit; US\$280,000 to strengthen the planning unit; US\$70,000 for internal auditing; US\$360,000 for design and implementation of the delegated project cycle management innovations; US\$540,000 for seminars, exchanges, analysis of installed capacity in the municipalities; US\$50,000 to update data on poverty and develop a more transparent ex ante allocation mechanism.		

Program summary	Verifiable indicators	Means of verification	Main assumptions
<p>4.2 Design a system of training for FISDL personnel in the areas of participatory planning, decentralized project cycle management, gender, environment, and preventive maintenance of works.</p> <p>4.3 Develop systems for monitoring, control, supervision, and follow up for project cycle delegated management.</p> <p>4.4 Conduct specialized studies to enhance the FISDL's capacity to work on the strategic issues.</p> <p>4.5 Adopt the recommendations of the studies.</p> <p>4.6 Conduct public bidding and hire services to improve the FISDL's information systems capacity.</p>			
<p>5. Management of the stock of projects</p> <p>5.1 Conduct public bidding, hire, and supervise for the construction of water supply, sewage and electric power systems (Component 2, modality II).</p> <p>5.2 Implement and evaluate the pilot phase that partially delegates management for part of the works in the stock of projects.</p>	<p>5.1 US\$10 million used to execute water supply, sewerage, and electric power projects in 65 small and medium-sized municipalities selected on the basis of poverty level, lack of previous attention from the FISDL, size of the municipality and the existence of beneficiary counterparts.</p> <p>5.2 US\$6.5 million for water supply, sewerage, and electric power projects in municipalities of up to 100,000 inhabitants in which functions can be partially delegated depending on the complexity of the project and the capacity of the municipality.</p>		

**PROCUREMENT PLAN
EL SALVADOR
LOCAL DEVELOPMENT PROGRAM (ES-0109)**

Main Procurement	Financing	Procurement Method (Thousands)	<u>Pre- qualif</u>	Expected SPN Publication date
1. Program Administration				
Incremental staff US\$550,000 Average US\$70,000	100% GOES	LCB from \$75 to \$199 PCB less than \$75	No	I/98
Technical experts for Planning Department US\$360,000 Average US\$70,000	100% IDB	LCB from \$75 to \$199 PCB less than \$75	No	I/98
Studies, workshops, seminars US\$590,000	100% GOES	LCB from \$75 to \$199 PCB less than \$75	No	
2. Program Execution				
TA for municipalities and communities US\$1.6 million Average US\$50,000/activity	100% IDB	LCB from \$75 to \$199 PCB less than \$75	Yes	II/98
Specialized consultancies: economic, environment, gender US\$95,000 Average US\$2,500	100% GOES	LCB from \$75 to \$199 PCB less than \$75	No	N/A
Package of materials for municipalities: US\$80,000 Average US\$2,500/municipality	100% GOES	LCB from \$50 to \$249 PCB less than \$50	No	N/A
Construction works: Component 1. US\$13 million Average cost: Water US\$80,000, Sewerage US\$70,000 Electricity US\$66,000	95% IDB 7% GOES	LCB from \$75 to \$999 PCB less than \$75 FA less than \$20	Yes	N/A
Construction Works Component 2, Modality I: US\$10 million Average cost: Water US\$80,000, Sewerage US\$70,000 Electricity US\$66,000	95% IDB 5% GOES	LCB from \$75 to \$999 PCB less than \$75 FA less than \$20	Yes	N/A
Construction Works Component 2, Modality II: US\$6.5 million Average cost: Water US\$53,000, Sewerage US\$93,000 Electricity US\$59,000	92% IDB 8% GOES	LCB from \$75 to \$999 PCB less than \$75 FA less than \$20	Yes	N/A
Consultants for Preventive Maintenance Scheme:US\$75,000	100% IDB	LCB from \$75 to \$199 PCB less than \$75	No	N/A
Know-How Fund:US\$250,000 Average US\$3,000	80% IDB 20% GOES	PCB less than \$75	No	N/A

ICB - International Competitive Bidding
LCB - Local Competitive Bidding
PCB - Private Competitive Bidding
DC - Direct Contracting
FA - Force Account
SPN - Special Procurement Notice

RGII-ES091P
ES-0109
Original: Spanish

PROPOSED RESOLUTION

**EL SALVADOR. LOAN ___/OC-ES TO THE REPUBLICA OF EL SALVADOR
(Local Development Program)**

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 financing to cooperate in the execution of a Local Development Program. Such financing will be for the amount of up to thirty four million sixty five thousand dollars of the United States of America (US\$34,065,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.

RGII-ES091P
ES-0109
Original: Spanish

PROPOSED RESOLUTION

EL SALVADOR. PARTIAL PAYMENT OF INTEREST ON LOAN No. ____/OC-ES
TO THE REPUBLIC OF EL SALVADOR
(Local Development Program)

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 as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the Republic of El Salvador as Borrower, and to adopt other pertinent measures to use the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of up to twenty million one hundred thousand United States of America Dollars (US\$20,100,000) of the loan authorized in the Resolution DE-____/____, in accordance with the provisions set forth in Document FN-263-11, as amended, approved by the Board of Executive Directors on December 21, 1983.