

EMERGENCY RECONSTRUCTION SUPPORT PROGRAM FOLLOWING THE EARTHQUAKE OF 13 JANUARY 2001

(ES-0148)

EXECUTIVE SUMMARY

Borrower:	Republic of El Salvador	
Executing agency:	Social Investment Fund for Local Development (FISDL), with support from the Ministry of Agriculture (MAG), Ministry of Environment and Natural Resources (MARN), and the municipalities (see Table 1.1)	
Amount and source:	IDB: OC (IFF)	US\$ 20 million
	Local:	US\$ 5 million
	Total:	US\$ 25 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period	5 years
	Disbursement period:	12 months
	Commitment period:	9 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars; under the Single Currency Facility
Objectives:	The program's objective is to contribute to efforts to restore basic priority services to the population affected by the earthquake. Specifically, it will seek to ensure that the social and economic life of the affected population is restored rapidly and efficiently through a set of activities focused on temporary housing, and to protect human lives in the immediate future through a set of preventive and control measures to deal with unstable hillsides.	
Description:	Program resources will be used to remove debris or rent private, unimproved lots with an option to purchase and subsequent temporary housing on these permanent residence sites (approximately 44,000 units), prevention measures to stabilize hillsides in order to ensure the population's safety, and studies to orient the physical and economic recovery of the affected population. The program will also backstop support services for implementation.	

The Bank's country and sector strategy:	When a natural disaster occurs, the Bank supports the efforts of its member countries to respond to the disaster and its socioeconomic and environmental impacts. This program is consistent with the Bank's policy on emergencies arising from natural and unexpected disasters (document GP-92-13) and the Emergency Reconstruction Facility, which provides rapid support following a disaster (document GN-2038-2). Moreover, the program focuses on activities that will have a high impact on the most vulnerable population.
Environmental considerations:	Activities under the proposed operation will comply with national and international environmental standards and specifications for mitigating environmental impacts caused by their execution. Given the nature of this program, no environmental impact assessments will be done (paragraph 5.37).
Benefits:	Support for families affected by the earthquake so that basic living conditions may be restored quickly and efficiently. Near-term improvement in the capacity to protect populations in unstable areas. These activities will have a high impact on the poorest, most vulnerable population. Support for efficiency and transparency in decentralized use of government resources.
Risks:	There are three types of risk for effective and timely execution of the operation. First , the urgency of the operation, particularly in the month following the disaster, may pose problems for accounting and substantiation of eligible expenditures chargeable to the Bank's financing. This risk is mitigated by the fact that FISDL: (i) has financial and operational management capacity; (ii) is presently applying the standard procedures of the National Public Sector Procurement and Contracting Act for temporary housing expenditures; and (iii) within one week of the disaster, submitted proposed operating procedures to the Bank that support effective, decentralized management of materials with respect to local governments and beneficiary families. Second , there is evidence that the country's supply of basic construction materials is being exhausted. Therefore, upcoming purchases for basic housing stock will have to be made abroad, which may involve increased costs and a reduction in the number of temporary housing units financed under this operation. This risk is being mitigated through wholesale purchasing and competitive bidding by FISDL, and by using plastic rather than metal sheeting as the wall material. Third , owing to the complexity of the situation and the rapid pace of project execution, MARN may not be able to guarantee the exhaustiveness or scientific and technical thoroughness of data collection and interpretation, and assessment of danger, risk, and priorities. For those same reasons, MAG may not be able to guarantee the quality of plans, supervision of

protective construction work, and the setup of monitoring and warning systems. To avert this risk, the program will provide resources for contracting qualified consultants.

**Special
contractual
clauses:**

Contractual conditions prior to the first disbursement: (a) appointment of FISDL employees who will make up the coordinating group for the program, and appointment of the program coordinator and financial advisor (see paragraphs 5.10 and 5.11); (b) signature of the funds transfer agreement with FISDL, whereby FISDL assumes its obligations as the program's executing agency and the conditions under which the borrower will transfer the financing and local counterpart resources to FISDL are established (paragraph 5.12); and (c) hiring of the independent auditing firm to conduct the concurrent and ex post audits called for in the program, in accordance with procedures and terms of reference agreed upon with the Bank in advance (paragraph 5.12).

Contractual conditions for disbursement under Activity I – temporary housing at permanent sites: (a) the FISDL emergency procedures previously agreed with the Bank are to be in force (paragraphs 5.13 and 5.14); and (b) the program participation agreement is to be in force with at least one municipality (paragraph 5.14);

Contractual conditions for disbursement under Activity II – prevention and control measures for unstable hillsides: (c) submission of the interinstitutional agreement signed between MARN, MAG, and FISDL for execution of this activity (paragraphs 5.16 and 5.17); and (d) contracting of the necessary consulting services to monitor compliance with technical specifications and physical advancement of construction work under this activity (paragraph 5.16).

Pursuant to the policy governing the Emergency Reconstruction Facility (PR-806), a revolving fund will be established in the amount of up to 20% of the program financing (paragraph 5.21).

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a social equity enhancing program, as described in the indicative targets mandated by the Bank's Eighth General Increase in Resources (document AB-1704). Furthermore, this operation also qualifies as a poverty-targeted investment (see paragraph 5.38).

Procurement: Use of procurement procedures for projects in emergency situations – GS-601 (paragraphs 5.22 and 5.23):

Simplified international competitive bidding procedures will be followed for procurement of consulting services for amounts greater than US\$200,000, construction contracts for amounts greater than US\$1.5 million, and for related goods and services for amounts greater than US\$250,000 (see Table 1.2). These emergency procedures will be applicable during the 12-month period beginning on 14 January 2001, when the emergency was declared.

Pursuant to policy GS-601, direct contracting without competition may be used up to a ceiling of US\$5 million. Such contracting will be subject to the following conditions:

- a. Procurements eligible for reimbursement through retroactive financing are included in the US\$5 million ceiling for direct contracting without competition.
- b. The maximum cumulative amount per company for direct contracting without competition is US\$600,000.
- c. No construction contract may exceed US\$300,000, except in the case of retroactive financing.
- d. For goods and services, no contract awarded without competition may exceed US\$2,500; this restriction does not apply to procurements reimbursed under retroactive financing.
- e. Direct contracting without competition is not permitted for consulting services, except for procurements reimbursed under retroactive financing.
- f. Each month, the municipalities will issue a list of the families benefiting from this program and will post it in a permanent site readily accessible to the public. Each month, FISDL, MAG, and MARN will post on a government web page a report on the contracts awarded using program resources. Notice of this posting will be given in a widely circulated periodical.

Reimbursement of expenditures and retroactive financing Up to US\$15 million in program-eligible expenditures may be reimbursed against the Bank financing (paragraph 5.19).

I. DESCRIPTION OF THE EVENT

- 1.1 On Saturday, 13 January 2001 at 11:34 a.m., an earthquake occurred measuring 7.6 on the Richter scale. Its epicenter was in the Pacific Ocean approximately 110 kilometers southwest of the city of San Miguel. In addition to El Salvador, the earthquake was felt in Mexico, Guatemala, Honduras, Nicaragua, and Costa Rica. The departments hardest hit in El Salvador were Usulután, San Salvador, San Miguel, La Libertad, Ahuachapán, Sonsonate, La Paz, San Vicente, Santa Ana, and Cuscatlán. Approximately 100 municipios suffered serious damage, particularly Nueva San Salvador, Tacuba, Ataco, Comasagua, Berlín, Santiago de María, San Julián, and Jujutla.
- 1.2 So far the country has experienced approximately 2,500 aftershocks, more than twenty of which have been stronger than magnitude 4.5. The earthquake caused more than 280 landslides resulting in approximately 650 deaths; buildings have been buried and a large number of urban and rural roads have been blocked. Owing to the visible instability of the hillsides and continuing strong aftershocks, there is a significant risk of additional landslides and their consequences.
- 1.3 As a result of the earthquake and its aftermath, numerous incidents of power outages and disruptions in the water supply have been reported, and these are being addressed rapidly. As of 25 January 2001, an estimated 360,000 persons had been directly affected by the earthquake; 709 deaths had been confirmed, along with 3,883 injured and over 68,000 left homeless. It is also estimated that over 63,000 homes were destroyed and 105,000 damaged by the earthquake. These figures continue to increase daily.¹

¹ This information has been obtained from a variety of mass media reports.

II. ELIGIBILITY CONDITIONS FOR EL SALVADOR TO ACCESS THE EMERGENCY RECONSTRUCTION FACILITY

- 2.1 The Emergency Reconstruction Facility policy (PR-806) stipulates that all borrowing member countries may request financing from the facility provided that they meet three eligibility conditions: (i) an official state of emergency has been declared; (ii) the emergency falls within the framework established in the Bank's operating policies for emergencies caused by natural and unexpected disasters; and (iii) the country offers clear evidence that it is prepared to strengthen its internal capacity regarding preparedness, prevention, and organizational structure to conduct risk management, mitigation, and aid activities in case of disasters. The country's compliance with these three eligibility criteria is described below.

1. Declaration of a state of emergency

- 2.2 On 13 January 2001, a few hours after the earthquake occurred, President Francisco Flores requested the support of the international community. On 14 January 2001, the Legislative Assembly declared a state of public emergency and national disaster, decreeing three days of national mourning for those who had died. As a result of this declaration of emergency, the Government of El Salvador activated the National Emergency Commission (COEN) and its emergency operations center. The government also established a National Solidarity Commission (CONASOL) to coordinate aid contributed by the international community. Although the state of emergency has been lifted, El Salvador is still focusing on rescuing and assisting victims, distributing food and materials to stabilize homes, and restoring basic services.

2. The disaster vis-à-vis the framework of the Bank's operating policy

- 2.3 Since the 13 January earthquake has caused significant injury and damage to the population, infrastructure, services, and the productive sector, as well as losses of material goods so extensive that the country's economic and social development is affected, it meets the definition of *disaster* stipulated in the relevant Bank policy (OP-704).

3. Clear evidence of the government's intent to strengthen its internal risk prevention and management capacity

- 2.4 The citizen safety component of the present government's New Alliance Program provides a strategy for protection against natural disaster. The program's activities include updating the legal framework, strengthening national institutions responsible for monitoring and assessing natural disasters, and building institutional and community capacity to improve emergency preparedness.

- 2.5 Despite this outlook and political commitment, progress has not been made to date in the risk assessment strategy as contemplated in the New Alliance Program. A draft text of the Civil Protection Act was submitted to the Legislative Assembly this year, but the legal framework has not been updated yet. The National Emergency System (SISNAE) currently comprises institutions and responsibilities that focus on preparing for and responding to emergencies. To create a modern system, a national comprehensive risk management policy must be put in place that will give direction to public, private, and local development sectors and processes, and reduce vulnerability to natural disaster, an investment that is essential for the development of El Salvador.
- 2.6 In order to meet the eligibility criteria and obtain a loan within the guidelines of the Emergency Reconstruction Facility, in parallel with this operation the government is requesting that the Bank: (i) prepare a nonreimbursable technical-cooperation operation to help the country to assess its risk management capacity and formulate an action plan to implement its disaster protection strategy; and (ii) provide a loan of up to US\$6 million to operationalize the risk management strategy contemplated in the New Alliance Program. The request for a new loan for 2001 may be replaced with a request to reprogram loans acceptable to the Bank.

III. INITIAL DAMAGE ASSESSMENT BY THE GOVERNMENT OF EL SALVADOR

- 3.1 The earthquake has affected nearly every economic and social sector in El Salvador. According to preliminary government estimates, losses are on the order of US\$1 billion (figure released by the Ministry of Finance and reported by the newspaper *Prensa Gráfica*). That figure is nearly 50% of El Salvador's general budget for 2001. No accurate estimates of the total cost of the damage are available yet. A breakdown of the damage is presented below, by category:

1. Productive sectors

- 3.2 The agriculture sector has suffered damage in the coffee, rice, grain, meat, dairy, and fisheries industries, mainly in the areas of production and support infrastructure. An estimated 540 hectares of coffee have been destroyed by landslides, and an additional 380 hectares of potato, rice, vegetables, and sugar cane crops are at risk of total loss owing to damage to irrigation systems (reservoirs and canals). The sector's infrastructure has suffered damage to the walls and roofs of warehouses and silos, cold storage facilities, sheds, boilers, laboratories, storage tanks, machinery, and offices. The fishing industry has suffered losses in pier infrastructure, machinery, and offices; the damage to mangrove swamps may affect future production in this sector. The Ministry of Agriculture has estimated that losses may total US\$11 million in the crops sector and US\$9.5 million in the fisheries sector. The actual cost of damage to infrastructure in these sectors has not yet been determined.
- 3.3 Production facilities in San Salvador, the country's main center of industrial and commercial production, were not seriously damaged, although a large number of small businesses (shops, restaurants, hotels, etc.) were affected. So far, no specific data are available concerning damage to these productive sectors.

2. Basic infrastructure

- 3.4 Road infrastructure. It is now estimated that the earthquake damaged a significant portion of El Salvador's main highway system. The most critical losses were caused by landslides along the Pan American, Litoral, and Comalpa highways, and numerous secondary roads. Thirty-nine bridges were also affected, particularly along the Litoral highway (Acajutla, La Libertad). A preliminary damage estimate for roadway infrastructure is US\$100 million, which includes the cost of immediate restoration, emergency repair, and priority reconstruction.
- 3.5 Harbor and airport infrastructure. El Salvador's international airport suffered minor damage; it suspended operations for 24 hours, but is now operating normally. The country's main harbor, Acajutla, suffered minor damage to its piers and other infrastructure.

3. Basic services

- 3.6 Electric power and telecommunications. Two transmission lines, their substations, and a number of transmission towers were knocked out, but service was restored quickly. Telecommunications service was interrupted temporarily, but has also now been restored.
- 3.7 Water and sanitation. So far, only preliminary information is available on damage to this sector. Many urban residents served by the National Water and Sewer Authority lost their water service, which has now been 90% restored. In general, the sewer system in Greater San Salvador escaped major damage. In rural areas, where more than 70 water and sewer systems are run by municipios, information is still incomplete. Some 21 municipios (located mainly in the eastern and western areas of the country) suffered damage to their supply networks. There is an underlying risk of disease owing to the use of contaminated water for household purposes.

4. Social services

- 3.8 Education. A preliminary assessment by the Ministry of Education estimates that 1,100 schools have been damaged (nearly 19% of the country's school infrastructure), particularly in the departments of La Libertad, Ahuachapán, Usulután, San Vicente, and Santa Ana. However, it is expected that this number may increase, since much of the school infrastructure is old and was not built using earthquake-resistant materials.
- 3.9 Health. The Pan American Health Organization has reported that approximately 39% of the country's hospitals have been destroyed, and damage to laboratory equipment is significant. Additionally, 54 health units located in the most seriously affected departments have been declared damaged. Demand has now saturated the capacity of the country's hospitals to provide care. There is an urgent need for field hospitals, which should be set up near damaged hospitals. There is a serious shortage of ambulances. Demand for medicines is high, particularly for analgesics, antihistamines, antibiotics, anesthetics, chlorine, and oral rehydration salts for mass distribution nationwide. For the moment, no outbreaks of epidemic disease have been detected.

5. Housing

- 3.10 It is estimated that the earthquake destroyed over 64,000 houses and partially damaged another 105,000.² Some 300 houses were buried by the landslide in the Bálsamo range, located in an urban area in the southern part of Santa Tecla (communities of Colinas I and II, Santa Eduvigis, Las Delicias, and Las Palmeras). Major landslides also occurred in the semi-urban communities of Finca El Carmen,

² Source: FISDL, as at 8:00 p.m. on 20 January. Data from other sources vary significantly.

Colonia San José La Flor, and Guadalupe I and II. The other damaged houses are located in the departments of San Salvador, La Libertad, Sonsonate, Ahuachapán, Usulután, and La Paz. Approximately 100 municipios were affected; those hardest hit were San Agustín (100% of its houses), Santa Elena (70%), San Francisco Javier (60%), Ozatlán (60%), and to a lesser degree the municipios of San Dionisio, Jucuarán, and Alegría, all in the department of Usulután. In the department of Sonsonate, the municipality of Armenia was hardest hit, with 80% of its homes damaged.

6. Municipios

- 3.11 Much of the damage described above occurred in approximately 100 rural and semirural municipios. On 17 January, the National Emergency Commission reported that nine communities had suffered severe damage from landslides: Colinas de Santa Tecla (San Salvador), Comasagua (La Libertad), six small communities in the department of Usulután, and the community of Juayua (Sonsonate). In addition to the landslides, these municipios suffered damage to streets and public buildings. To assist these municipalities, on 17 January the Legislative Assembly approved a request for resources from the Fund for Economic and Social Development (FODES) to finance rescue operations and care for earthquake victims. These resources will be transferred to the hardest hit municipalities.

7. Macroeconomic impact

- 3.12 The earthquake struck at a critical time for El Salvador. The Economic Integration Plan had just been launched with the passage of the Monetary Integration Act. Under the act, as of 1 January 2001, the U.S. dollar was adopted as the financial system's unit of account and as legal tender in El Salvador. The legal framework underpinning this exchange system prohibits the Central Reserve Bank from using reserves to extend credit to the central government or to the banking system.
- 3.13 The earthquake that struck just 13 days after this dollarization process was launched will affect the country's economy in the following ways: (1) temporary slowdown of economic activity, with the resultant negative impact on the employment rate and fiscal revenue inflows; (2) increase in the external debt owing to new borrowings to finance the reconstruction effort; and (3) negative impact on the balance of payments. These pressures on the economy may be tempered by an increase in remittances, donations, long-term loans, and concessional lending.
- 3.14 The International Monetary Fund and the World Bank will prepare a detailed analysis of the disaster's macroeconomic impact prior to the meeting of the Consultative Group for El Salvador to be held on 7 March 2001 in Madrid.

IV. ACTION BY THE GOVERNMENT

A. The government's response to the emergency

- 4.1 The government responded quickly to this difficult situation. Within a few hours, a national emergency was declared, the National Emergency Commission (COEN) was activated, and aid was requested from the international community.
- 4.2 COEN set up an emergency operations center in San Salvador, together with the institutions that make up the National Emergency System at the national, departmental, and municipal levels. COEN will work in tandem with the armed forces to address the aftermath of the earthquake: rescue operations, food and materials distribution, home stabilization, damage and needs assessment, and determination of the type and amount of humanitarian assistance and reconstruction that will be needed.
- 4.3 The government also set up the National Solidarity Commission (CONASOL)—with members from the private sector—to coordinate the handling and distribution of relief aid to the affected population, based on the most urgent needs of the victims as assessed by COEN and the National Emergency System. Additionally, two internationally renowned private companies have been appointed to conduct audits of the goods and funds received and used during the emergency. Finally, several working committees have been established to manage the immediate response.
- 4.4 On 17 January 2001, the President instructed the Minister of Finance to coordinate all recovery and reconstruction activities. On 23 January, the President notified cooperating countries that he would request restructuring of El Salvador's foreign debt, and debt forgiveness where possible. This debt restructuring is expected to be discussed at the upcoming meeting of the consultative group.

V. ACTION BY THE BANK

A. The Bank's response

- 5.1 The Bank has responded quickly to the natural disaster caused by the recent earthquake. In addition to the preparation of this operation, work is proceeding simultaneously along three avenues to enable resources to reach the affected population promptly and to rebuild damaged infrastructure.
- 5.2 The initial response was the preparation of a nonreimbursable US\$50,000 technical-cooperation operation to help address the immediate needs of Salvadorians. This humanitarian assistance, channeled through CONASOL, was approved by the President of the Bank on 16 January 2001, and the funds were delivered on 18 January.
- 5.3 At the request of the Government of El Salvador, a special mission was sent from 17 to 24 January to assess the emergency situation and to offer the country authorities the Bank's assistance in supporting the recovery and rebuilding process. The mission focused its efforts on determining financing needs and reviewing the portfolio to identify resources that could be redirected quickly for repair and reconstruction. Following this review of the portfolio in execution, the Bank mission identified approximately US\$110 million in eligible programs.
- 5.4 The present operation for US\$20 million under the Emergency Reconstruction Facility will enable the Government of El Salvador to use resources to begin rebuilding houses, and to identify and solve hillside stability problems under this program.
- 5.5 Lastly, the Bank will host a consultative group meeting and will hold a forum for international donors on 7 March in Madrid, to analyze the damage caused by the earthquake, the macroeconomic impact of that damage, and the government's reconstruction plans.

B. The emergency program

1. Activities to be financed

- 5.6 Three categories of activity would be financed:
- 5.7 Temporary housing at permanent sites (US\$15 million). The earthquake destroyed over 64,000 homes, leaving these families without shelter. Approximately 10% of these families are unable to return to their properties because of landslides or because the sites have been declared high-risk areas. Activities under this heading will benefit both families who have lost their homes and those who are unable to

return to their property (roughly 44,000 families in all). By supplying provisional materials and financial support for clearing debris, the program will allow many families to return quickly to their places of residence. For families who have to move, funds will be provided to cover up to 10 months of a lease with option to purchase for a private, unimproved lot (up to US\$200), plus materials to enable them to build temporary living quarters. This support will bring these families close to regaining a permanent residence.³ The specific activities to be financed include: (i) basic housing kits, (ii) transport and delivery to the beneficiary family, (iii) tools and a debris clean-up subsidy for beneficiary families, (iv) collection and disposal of debris from public roads by the municipios, (v) collection and disposal of recyclable materials used in temporary shelters and houses, and (vi) renting with option to purchase of private, unimproved lots, if resettlement is required (maximum of US\$200 per family).

- 5.8 Prevention and control measures for unstable hillsides (US\$3.9 million). This heading will finance: (a) monitoring, early warning, alarm, and participatory community organization systems for a number of critical areas identified by MARN, and (b) the design, construction, and maintenance by MAG of small hillside stabilization projects (costing under US\$300,000) at critical locations. The activities to be financed include: (i) macrozoning and assessment of critical areas; (ii) the design and implementation of a monitoring, early warning, alarm, and participatory community organization system in case of landslides; and (iii) hillside stabilization structures, including their design and maintenance.
- 5.9 Studies to orient physical and economic recovery (US\$100,000). This heading will finance the damage assessment conducted by the Economic Commission for Latin America and the Caribbean (ECLAC) for the Consultative Group, and other studies as needed.

2. Structure of program execution

- 5.10 To execute and coordinate the activities of this operation, a coordinating group will be established at FISDL and will be assigned responsibility for program coordination.⁴ A coordinator responsible for program supervision will be appointed, along with a financial adviser to provide the financial and administrative support needed to execute the proposed activities. Because the coordinating group will be

³ The term "permanent site" includes lots where families were living at the time of the earthquake and private, unimproved lots. It does not include sites where shelters are located or government lands that have been designated for temporary occupation. A study conducted recently for the ES-0087 housing program estimated that the monthly cost for renting unimproved lots was between US\$15 and US\$25 (copy of study in technical files).

⁴ FISDL has the operational, financial, and human resources to carry out this program: a staff of 200, eight internal auditors, etc. To meet demand from the municipalities, FISDL has a decentralized operating structure and a team of municipal advisors in the field at all times. Since 1990, the Bank has supported FISDL through four operations totaling US\$162 million.

made up of regular FISDL staff members, the organization's payroll will not expand and, consequently, the program does not include such financing. Establishment of this group will be a condition precedent for the first disbursement.

- 5.11 The coordinating group will be responsible for: (a) program supervision; (b) supporting the executing agency in implementing Activity I (temporary housing at permanent sites) and Activity III (studies to orient physical and economic recovery); (c) coordination with MARN and MAG regarding execution of Activity II (prevention and control measures for unstable hillsides), including transfers of resources; (d) maintaining consolidated financial control and accounting of the program, and (e) serving as the primary link between the program and the Bank.
- 5.12 As a condition precedent for the first disbursement, an independent auditing firm will be hired to conduct the concurrent and ex post audits in accordance with the procedures and terms of reference agreed to in advance with the Bank. Also, the funds transfer agreement is to be signed with FISDL whereby FISDL will assume its obligations as executing agency of the program and the conditions are established for transfer by the borrower to FISDL of program proceeds and the local counterpart.

a. Temporary housing at permanent sites

- 5.13 To execute the temporary housing activity, FISDL will sign an agreement with each municipio participating in the program. These agreements will incorporate the FISDL emergency procedures previously agreed with the Bank, including: (i) eligible expenditures (temporary housing kits and debris removal, transport, technical assistance to families, latrines, rental of private lots with option to purchase); (ii) the eligibility criteria and number of beneficiaries in the municipio; (iii) the procurement standards to be applied; (iv) procedures for delivering temporary housing kits and debris removal, and for contracts for goods and services within the municipios; (v) the resource transfer system; (vi) the mechanism for municipal accounting procedures that reflects eligible expenditures; and (vii) site selection criteria for final disposal of debris, or designation of areas previously identified by MARN for that purpose.
- 5.14 FISDL has submitted to the Bank a draft version of the emergency procedures to be used for executing the temporary housing activity; the text is currently being reviewed by the Bank. All program procedures and contracts will be governed by the procedures established for Emergency Reconstruction Facility loans (Procurement Procedures for Projects in Emergency Situations, GS-601) as agreed upon with the Bank for this operation. Implementation of the FISDL emergency procedures and signature of the agreements with the municipalities will be conditions for effecting expenditures under the temporary housing activity in each municipio. Before disbursements are made under this heading, a participation agreement is to have been signed with at least one municipio.

- 5.15 Throughout this process, FISDL will document procurement orders for goods and the distribution of kits and cash to the municipalities. The municipalities will document receipt of kits and cash and their distribution to families and contractors. Until the kits are distributed, the municipalities will keep them in secure warehouses. The independent auditing firm will conduct a concurrent audit of all stages of this process.

b. Prevention measures for unstable hillsides

- 5.16 To execute this activity, MARN and MAG will sign an interministerial coordination agreement (memorandum of understanding) with FISDL, based on which the Bank resources will be transferred for activities eligible for financing under this heading to the specific executing agencies, MARN and MAG. The agreement will establish: (i) the basic proposal for the prevention and control of unstable hillsides program, including a list of all eligible expenditures; (ii) the mechanism for prioritizing critical areas to be addressed; (iii) procurement and contracting standards and procedures; (iv) the resource transfer system; and (v) the accounting arrangements for eligible expenditures. MAG will contract for the construction work and the consulting services needed to monitor compliance with technical specifications and the physical advancement of activities under this heading; this is a condition precedent for the first disbursement under this activity. The independent auditing firm will conduct a concurrent audit of the activities performed.
- 5.17 Entry into force of the agreement between FISDL, MARN, and MAG is a condition precedent to the first disbursement for this heading.

c. Studies to orient physical and economic recovery

- 5.18 This heading will finance the damage assessment conducted by ECLAC for the Consultative Group, and other studies as needed.

Table 1.1
Execution structure

Direct cost category	Responsible entity
<u>Administration</u> Technical supervision, unstable hillsides activities Concurrent and ex post audit	MAG Independent auditing firm
<u>Temporary housing at permanent sites</u> May include materials for the basic units (housing kit) and transport of those kits to the family lot, clean-up of debris, latrine, lease with option to purchase of private lots, and support services	FISDL, with the municipalities
<u>Prevention and control measures for unstable hillsides</u> To protect the population, this may include structural, nonstructural, monitoring, and early warning measures for the population	MAG and MARN
<u>Studies to orient physical and economic recovery</u> , and short-term strengthening of risk management capacity	FISDL
<i>Note: A high percentage of expenditures eligible for retroactive financing is likely to be incurred under the heading of direct costs for temporary housing.</i>	

3. Use of funds and procurement procedures

a. Recognition of expenditures

- 5.19 It is recommended that government expenditures of up to US\$15 million (75% of the loan amount) for administrative and direct costs as indicated in the budget table at paragraph 5.24 (Table 1.3) be recognized for retroactive financing. These include all expenditures incurred from the date of the loan request (14 January 2001) to the date of the loan contract. The project team feels the proposed amount is justified in light of: (i) the pace at which FISDL is providing temporary housing solutions (8,000 in the first week, with an additional 8,000 purchased); this means that in roughly six weeks some 48,000 housing solutions may have been delivered to families in need, for an equivalent value of over US\$15 million; and (ii) FISDL's procurement procedures are substantially in line with those agreed on for this operation (under policy GS-601), thus increasing the possibility that most of the expenses incurred will be eligible for retroactive financing.
- 5.20 Disbursements by the Bank to cover these retroactive expenditures will be based on reimbursement requests from the government; disbursements will be made once the program is declared eligible. Costs incurred before the declaration of eligibility will

be subject to an ex post evaluation of eligibility, and to compliance with the procurement procedures established under this Emergency Reconstruction Facility loan (see the draft contract and executive summary). The ex post evaluation will also be conducted by the independent auditing firm whose services are being used for the concurrent audit. The same criteria used for the concurrent audit will apply to this evaluation.

b. Execution period and revolving fund

- 5.21 The resources of this operation are to be fully disbursed within 12 months after the loan contract is signed, and are to be committed within nine months. No general extensions are granted for these deadlines. In light of the execution period for this program and FISDL's execution capacity, it is essential that resources be available in a timely manner. Consequently, pursuant to the policy presented in document GN-2038-2, disbursements will be made through a revolving fund established in the amount of up to 20% of the loan proceeds, with concurrent verification by the independent auditors hired for this purpose.

c. Procurement and contracting procedures

- 5.22 The procedures to be followed for procurement and contracting in the context of Emergency Reconstruction Facility projects are presented in document GS-601. Under those procedures, the Government of El Salvador has reached agreement with the Bank on the applicable procurement procedures and on the amounts associated with the various procurement methods. At the same time, the agreement will serve as a basis for applying the policies of recognition of expenditures and retroactive financing for contracts signed prior to approval of this operation. These simplified procedures are applicable for a 12-month period starting on 14 January 2001.
- 5.23 The eligibility requirements established in the Bank's policies concerning the nationality of construction companies, provision of goods and consulting services, and the origin of related goods and services will apply to all contracts financed by the Bank. The following table presents a summary of the procurement standards that govern this operation.

Table 1.2
Procurement guidelines

General conditions:	Amount
1. Maximum cumulative amount per company – direct contracting without competition*	US\$600,000
2. Maximum cumulative amount for the entire operation – direct contracting without competition*	US\$5 million
3. Retroactive financing for direct contracting without competition is not subject to per-contract limits. The two preceding ceilings will apply.	
Contracts on force account	
1. Limit on force-account contracts for the operation	US\$1 million
Specific conditions (except for retroactive financing):	
Public works	
1. International competitive bidding threshold	US\$1.5 million
2. Maximum amount for individual contracts by direct contracting without competition	US\$300,000
Goods and services	
1. International competitive bidding threshold	US\$250,000
2. Maximum amount for direct contracting without competition	US\$2,500
Consulting firms	
1. International competitive bidding threshold	
2. There is no direct contracting without competition, except for those conducted during the retroactive financing period.	US\$200,000

* Includes retroactive financing.

- (i) **Force account.** This modality is expected to have little or no application in this operation.
- (ii) **Direct contracting without competition.** For construction work, this modality may be applicable in all activities. It may be applicable for the temporary housing activity in cases of municipalities that need small-scale services, such as removal of debris from the streets, or distribution of kits to families.
- (iii) **Publication of beneficiaries.** Each month, the municipalities will issue a list of the families benefiting from this program and will post it in a permanent site readily accessible to the public. Each month, FISDL, MAG, and MARN will post on a government web page a report on the contracts awarded using program resources. Notice of this posting will be given in a widely circulated periodical.

4. Emergency program budget

- 5.24 The following budget for the Emergency Reconstruction Facility has been prepared on the basis of information provided by COEN and the National Emergency System concerning the damage, the conclusions drawn by the project team following its limited visits to the affected areas, and the government's strategy. The total cost of the program will be US\$25 million. Of that amount, the Bank will provide US\$20 million, to be drawn on the Ordinary Capital under the Single Currency Facility, with interest being subsidized by the Intermediate Financing Facility.

Table 1.3

Budget categories			IDB financing (US\$000)	Local counter- part (US\$000)	Total (US\$000)
1	Administrative costs				
	1.1	Program coordinating group	100		100
	1.2	Concurrent audit	250		250
	1.3	Technical supervision (unstable hillsides activity)	150		150
2	Direct costs				
	2.1	Temporary housing at permanent sites	15,000		15,000
	2.2	Prevention and control measures for unstable hillsides: structural, nonstructural, monitoring, and early warning for the population	3,900		3,900
	2.3	Studies to orient physical and economic recovery, and short-term strengthening of risk management capacity	100		100
	2.4	Support for the emergency and reconstruction		4,925	4,925
Subtotal			19,500	4,925	24,425
3	Financial charges				
	3.1	Interest	300		300
	3.2	Credit fee		75	75
	3.3	Inspection and supervision	200		200
TOTAL			20,000	5,000	25,000
			80%	20%	100%

5. Counterpart contributions

- 5.25 In accordance with the Emergency Reconstruction Facility policy (PR-806), inflows to the emergency program from national public and private entities are

recognized as counterpart contributions, as are contributions from other bilateral and multilateral organizations. As of 24 January 2001, CONASOL had reported US\$17.1 million in funding offered by 57 international agencies, bilateral donors, and private organizations. Approximately half of the funds offered will be used for reconstruction efforts; the rest will be used for humanitarian assistance in cash, kind, and human resources.

- 5.26 Consequently, the Government of El Salvador will have no less than US\$5 million available as counterpart contributions from the following sources: multilateral resources for reconstruction (US\$6 million) and emergency relief assistance (US\$15.7 million). It will submit the requisite evidence to the Bank in a timely manner.

6. Program monitoring and supervision system

- 5.27 Since the program will be executed quickly (within the 12 months following signature of the loan contract), it is essential that the Government of El Salvador clearly establish its priorities and schedule of activities, and ensure that the financial and technical resources are available in a timely manner. The information supply and control system is designed in such a way as to identify expected outcomes and set up arrangements that will allow the program's executing agencies to make adjustments as necessary, in consultation with the Bank.
- 5.28 Program monitoring will be supported in four specific areas. **First**, for efficient disbursement of resources and transparent determination of eligible expenditures, a concurrent audit will be performed in accordance with the terms of reference approved by the Bank; the audit will be contracted for in accordance with procedures agreed upon with the Bank. This audit will examine contracting and disbursement processes as they take place, and expenditure eligibility will be certified quickly, enabling the revolving fund to be replenished in a timely manner. **Second**, for retroactive recognition of expenditures, which may account for a considerable percentage of the temporary housing activity, the auditing firm will perform an ex post evaluation of eligibility and of compliance with the procurement procedures established for this Emergency Reconstruction Facility loan as expressed in the FISDL and MARN/MAG emergency procedures agreed with the Bank. These procedures will contain oversight arrangements for physical execution of the program's activities. **Third**, each month, the municipalities will publish the names of beneficiary families; and each month, FISDL, MAG, and MARN will post on a web page the contracts awarded. This posting will be reported in the press. **Fourth**, five months after the date on which the operation becomes effective or when 75% of the financing resources has been disbursed, whichever comes first, a meeting will be held with the Bank to analyze the extent to which the program's objective is being achieved, the progress made to that date, and difficulties or problems that have arisen during execution. Specifically, this assessment will review execution of the unstable hillsides activity, and the likelihood that those

activities may be completed within the time frame of the program. This analysis will identify any adjustments in the program that will need to be agreed upon with the Government of El Salvador in the interest of appropriate execution.

7. Accounting and auditing: concurrent and ex post audit

- 5.29 Since this is an emergency operation that is to be executed quickly, all contracting and expenditures will be subject to concurrent auditing, which will be entrusted to an independent auditing firm acceptable to the Bank. Expenses incurred prior to declaration of eligibility will be subject to ex post evaluation of eligibility, as will as compliance with procurement procedures established for this Emergency Reconstruction Facility loan (see paragraph 5.20). Accordingly, FISDL, the municipalities, MAG, and MARN will maintain adequate controls and accounting records, observing generally accepted accounting practices and the terms of the agreements signed for their participation in the program. The coordinating group will keep the program's consolidated accounts.
- 5.30 The firm will provide immediate notification to the executing agency and the Bank of any serious errors or irregularities that it detects, and will publish quarterly situation reports within the first 14 days of each three-month period during program execution, documenting the status of recommendations pending execution. When the program is completed, the independent auditing firm will issue an auditor's certificate on the program's financial statements, which will be submitted to the Bank by the executing agency within 120 days following the date of the final disbursement.
- 5.31 To perform the concurrent audit, the independent auditing firm, in coordination with FISDL, will analyze a statistically valid sample of transfers to families (kits and cash) in each municipality, and of procurements of temporary housing kits and contracts for prevention measures regarding unstable hillsides. Compliance with the Bank's special procurement procedures for emergency loans (GS-601) will also be verified. The purpose of this analysis is to verify that the activity contracted for is eligible for financing.
- 5.32 The auditing firm will also conduct a concurrent audit of the bidding, selection, contracting, and performance of construction work under Activity II (prevention and control measures for unstable hillsides). This will be done jointly with MAG and MARN.
- 5.33 Before disbursement requests are submitted to the Bank, the independent auditing firm must examine the relevant supporting documentation. This examination will be based on an analysis of a sample of supporting documentation and inspection visits to the construction sites, with special emphasis placed on documents relating substantially to the amount of the disbursements. Based on this analysis and the conclusions of the concurrent audit, the independent auditing firm will verify that

the transactions included in the disbursement request comply with the conditions and procedures of this operation.

8. Environmental and social considerations

- 5.34 The Ministry of Environment and Natural Resources (MARN) does not yet have specific and definitive information that can be used to quantify the extent of losses and the cost of the environmental damage caused by the earthquake. The most specific data available have been obtained by reinterpreting the data from a sector perspective: losses of life, housing, water quality, essential infrastructure, basic services, landslides, assessments of hazardous areas, etc. No concrete information is available concerning how the population has been affected in terms of gender issues and damage to natural resources (environmental goods and services, biodiversity, soil, water, air, etc.).
- 5.35 The most immediate environmental concern expressed by MARN and MAG relates to the deterioration and instability of hillsides in populated areas, and the accumulation and disposal of debris. Landslides have been responsible for most of the deaths, injuries, and damage to infrastructure, which have, in turn, resulted in considerable economic losses.
- 5.36 This operation will finance activities to establish prevention and control measures for unstable hillsides, focusing on improving the general safety conditions and quality of life of the population and activities for the orderly collection and disposal of debris (paragraph 5.8). This will help to prevent possible negative impact on the environment.
- 5.37 In light of the nature of this program, no advance environmental impact assessments will be performed. However, the activities that are undertaken must comply with national regulations and standards for mitigating the negative environmental impact of construction work and services. The country has a body of environmental regulations and standards on debris removal and disposal. For activities to be financed under the prevention and control measures for unstable hillsides activity, environmental specifications will be prepared on the basis of applicable national and international benchmarks. For this activity, MAG—in coordination with MARN—will appoint individuals to be responsible for supervision and compliance with technical environmental specifications.

9. Poverty targeting and social sector classification

- 5.38 The project does not include explicit performance indicators to measure poverty reduction and improvements in social equity. The rationale for its poverty-targeting classification is based on geographical criteria. According to FISDL calculations, 78% of the 100 priority municipalities that will benefit from this program have an index of unmet basic needs that is higher than the national average; this is a

reflection of the fact that the earthquake had a serious impact on adobe and wattle-and-daub structures, found mainly among the country's poorer sectors. Seventy-five percent of the program's resources are allocated for financing temporary housing. Consequently, 59% of this loan's resources will be allocated to municipalities with a level of unmet basic needs that is above the national average. It is expected that a significant portion of the remaining Activity I resources will benefit the poor, as the poverty rate in El Salvador is 52% (Poverty and Inequality Advisory Unit) and most of the destroyed houses were made of adobe or wattle and daub, typical of low-income family housing.

C. Program startup: the next steps

5.39 The following activities will need to be undertaken immediately to initiate program execution:

- a. Contracting of the independent auditing firm.
- b. Compilation of accounting information for expenditures incurred by the Government of El Salvador under eligible budget categories. Submission of information to the auditing firm—for the ex post audit—together with the request to the Bank for retroactive financing.
- c. Agreement with the Bank as to the FISDL emergency procedures (currently under review). On that basis, the coexecuting agencies will begin or continue to incur eligible expenditures under the respective cost categories.
- d. Submission to the Bank of the interministerial agreements and the draft agreement with the municipalities for executing the prevention and control of unstable hillsides activity.

VI. COORDINATION WITH OTHER ENTITIES

- 6.1 Various international organizations and bilateral agencies are actively assisting El Salvador with rescue operations, damage assessment, and planning for operations to repair earthquake damage. These include agencies of the United Nations, the World Bank, PAHO, the World Food Programme, Red Cross, and bilateral organizations from the United States, Canada, Ireland, Mexico, Spain, France, Great Britain, Japan, Venezuela, Taiwan, and the European Union, among others. Commitments from these organizations now total US\$12.3 million in cash and kind. Of that total, US\$7.3 million is earmarked for the immediate needs of the victims, and US\$6 million is intended for subsequent reconstruction efforts. The Bank is coordinating its activities directly with these organizations and with the Coordination Center for the Prevention of Natural Disasters in Central America (CEPRENAC).
- 6.2 The Bank will also coordinate its activities with the international community through the upcoming meeting of the consultative group, which will provide a forum for international donors to analyze the impact of the earthquake in El Salvador and mobilize resources for recovery efforts. Three documents will be prepared to support that event: an assessment of the damage caused by the earthquake, to be prepared by ECLAC; an evaluation of the earthquake's macroeconomic impact, to be prepared by the IMF and the World Bank; and the reconstruction plan, which will be prepared by the Government of El Salvador with support from the United Nations Development Programme.

EARTHQUAKE DAMAGE

No.	Department	Population affected	Population suffering injury or damage	Vulnerable population
1	LA LIBERTAD	146,650	143,215	44,319
2	LA PAZ	189,175	227,034	100
3	SONSONATE	119,415	90,571	4,008
4	SANTA ANA	8,345	8,345	4,997
5	CUSCATLÁN	33,360	33,034	85
6	USulután	265,545	340,354	4,079
7	SAN SALVADOR	23,050	22,550	4,050
8	SAN MIGUEL	64,525	75,071	32,300
9	SAN VINCENTE	99,670	92,395	187
10	LA UNIÓN	9,930	11,916	5,190
11	AHUACHAPÁN	21,905	67,756	1,282
12	CABANAS	920	1,098	300
13	MORAZÁN	165	180	170
14	CHALATENANGO	410	492	
	TOTAL	983,065	1,114,011	101,067

National Emergency Commission (COEN)

<http://www.rree.gob.sv/sitio/sitio.nsf>

Procurement Guidelines

(per contract)

FOR CONSTRUCTION:

FROM \$0	TO	\$300,000	TO	\$1,500,000	AND HIGHER
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Direct contracting

Limited bidding or
Shopping or
Force account

International competitive bidding, simplified procedures

FOR GOODS AND SERVICES

FROM \$0	TO	\$2,500	TO	\$250,000	AND HIGHER
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Direct contracting

Limited bidding or
Shopping

International competitive bidding, simplified procedures

CONSULTING FIRMS

FROM \$0	TO	\$200,000	AND HIGHER
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Limited call for proposals or
Direct contracting

International competitive bidding, simplified procedures