

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

PROGRAM FOR THE TOURISM DEVELOPMENT OF THE COASTAL-MARINE ZONE

(ES-L1066)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Mercedes Velasco (INE/RND) and Nelson Estrada (WSA/CES) (double booking), Project Team Co-leaders; Sybille Nuenninghoff (RND/CBL); Michele Lemay, Juan José Miranda, and Lina Salazar (INE/RND); Mario Castaneda and Santiago Castillo (FMP/CES); Pilar Jiménez (LEG/SGO); and Lisa Restrepo (INE/RND).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problems to be addressed, and rationale	1
B.	Objectives, components, and costs	9
C.	Results framework with key indicators	11
II.	FINANCING STRUCTURE AND RISKS	11
A.	Financing instrument.....	11
B.	Economic viability	12
C.	Socio-environmental risks	13
D.	Fiduciary and other risks.....	13
III.	IMPLEMENTATION AND MANAGEMENT.....	14
A.	Program execution and administration	14
B.	Monitoring and evaluation arrangements	15

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Framework
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
REQUIRED	
1. Annual work plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37782227
2. Impact monitoring and evaluation plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37775018
3. Procurement plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37782233
4. Environmental and Social Management Report (ESMR)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37759050
OPTIONAL	
1. Results framework for the program (detailed version)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37775925
2. Economic evaluation of the program	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37755973
3. Program execution plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37775846
4. Operating Manual for the program (preliminary version)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37782720
5. ESR forms	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37566270
6. Five-year National Development Plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37713692
7. Environmental evaluation of the program	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37656633

ABBREVIATIONS

ANDA	Administración Nacional de Acueductos y Alcantarillados [National Water and Sewerage Administration]
BCR	Central Reserve Bank of El Salvador
CORSATUR	Corporación Salvadoreña de Turismo [Salvadoran Tourism Corporation]
DIGESTYC	Dirección General de Estadísticas y Censos [General Directorate of Statistics and Census]
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
GCI-9	Ninth General Capital Increase
GDP	Gross domestic product
ISTU	Instituto Salvadoreño de Turismo [Salvadoran Tourism Institute]
MARN	Ministry of Environment and Natural Resources
MITUR	Ministry of Tourism
MSMEs	Micro, small, and medium-sized enterprises
OC	Ordinary Capital
PCU	Program coordination unit
POLITUR	Tourist police
SAFI	Sistema de Administración Financiera Integrado [Integrated Financial Administration System]
UNDP	United Nations Development Program
WAL	Weighted average life

PROJECT SUMMARY

EL SALVADOR PROGRAM FOR THE TOURISM DEVELOPMENT OF THE COASTAL-MARINE ZONE (ES-L1066)

Financial Terms and Conditions						
Borrower: Republic of El Salvador Executing agency: Ministry of Tourism (MITUR)			Flexible Financing Facility*			
			Amortization period:		25.0 years	
			Original WAL:		15.25 years	
			Disbursement period:		5.0 years	
Source		Amount (US\$ millions)		Grace period:		5.5 years
IDB (OC)		25.0		Inspection and supervision fee:		**
Local		0.0		Interest rate:		LIBOR-based
Total		25.0		Credit fee:		**
Currency: United States dollars from the Ordinary Capital (OC)						
Project at a Glance						
Program objective: The general objective of the program is to help increase the number of tourism jobs in El Salvador. The specific objective is to increase spending by tourists in La Libertad and Usulután, through investments targeting the sun and sand tourism and the ecotourism sectors. In order to achieve this objective, the program includes four components: (i) development of tourism attractions; (ii) local entrepreneurship; (iii) tourism governance; and (iv) environmental management.						
Special contractual clauses:						
Special conditions precedent to the first disbursement: (i) the formation of the program coordination unit (PCU); (ii) the entry into force of an agreement supplementing the existing framework collaboration agreement between the Ministry of Tourism (MITUR), the Salvadoran Tourism Corporation (CORSATUR), and the Salvadoran Tourism Institute (ISTU), establishing the technical-operational support to be provided by CORSATUR and ISTU to MITUR during program execution; (iii) the selection of personnel to staff the PCU, under the terms previously agreed upon with the Bank (paragraph 3.1); and (iv) the approval of the program Operating Manual, under the terms previously agreed upon with the Bank, including the Operating Guidelines for Resources for Microenterprises and an Environmental and Social Management Plan (ESMP) (paragraph 3.3).						
Special execution condition: MITUR will delegate responsibilities for execution and support of the various sector and local administrations participating in the program, prior to procurement processes in the respective jurisdictions, through the entry into force of a collaboration agreement between those entities and MITUR, under the terms previously agreed upon with the Bank (paragraph 3.2).						
Exceptions to Bank policies: None						
Project consistent with country strategy: Yes [X] No []						
Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [X] Headcount []						

(*) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

(**) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, and rationale

- 1.1 The [Five-year National Development Plan](#) and the Development Strategy for El Salvador's Marine Coastal Zone have made tourism a priority as a means of improving job opportunities given the country's serious underemployment problems (35.3%¹). The United Nations highlights² tourism's untapped potential for generating decent work in El Salvador,³ and its multiplier effect in the economy on other sectors, through production linkages and the absorption of labor. In particular, it emphasizes that: (i) among the four main job-creating sectors, wages are highest in tourism (US\$259/month per worker, compared with US\$122, US\$194, and US\$227 in agriculture, the maquila industry, and construction, respectively);⁴ (ii) every job and every dollar generated in tourism has a multiplier effect of 1.7 on employment and the gross monetary value of other economic activities in the value chain;⁵ and (iii) tourism has a high capacity for absorbing labor (while the number of jobs in the hotel and restaurant sector increased by 36.3% between 2005 and 2011, total jobs in the remaining sectors of the Salvadoran economy shrank by 15.1%⁶).
- 1.2 The lack of job opportunities disproportionately affects women: the rate of underemployment among women is 37.9%, or 4.8 percentage points above the figure for men. Tourism reduces that gender inequality inasmuch as: (i) it formally employs more women than men (the proportion of formal female workers in the sector is 59.6% of the total, 18 percentage points higher than the national average; (ii) the wage gap between women and men is smaller than in other industries (the monthly wages of female workers in tourism are 74% of the monthly wages of their male counterparts, while in manufacturing and the social and health services sectors the figure is just 71%); and (iii) it promotes female entrepreneurship (while in the overall economy 16.7% of working women are employers or work for themselves, in tourism this proportion is 39%).⁷
- 1.3 Tourism in El Salvador is a young but dynamic productive sector. In the last decade (2003-2012), inbound tourism grew at an average annual rate of 7.4%, similar to the rest of Central America and above the world average (4.8%), with

¹ [Multipurpose Household Survey 2011](#), General Directorate of Statistics and Census (DIGESTYC). Measured as the economically active population working non-voluntarily less than 40 hours per week (visible under-employment), or receiving less than one minimum wage (invisible or wage-based under-employment). This wage-based under-employment represents 91% of total under-employment.

² [Human Development Report El Salvador 2007-2008](#), United Nations Development Program (UNDP).

³ Decent work is characterized by fair wages (defined by the cost of a market basket from the Consumer Price Index) and social protection (an employment contract and social security coverage).

⁴ Human Development Report El Salvador 2007-2008, UNDP.

⁵ Travel and Tourism Economic Impact El Salvador 2012, World Travel and Tourism Council; and The Travel and Tourism Competitiveness Report 2013, World Economic Forum.

⁶ National Economic Directory 2005 and [Directory of Economic Units 2011-2012](#), DIGESTYC.

⁷ Multipurpose Household Survey 2011, DIGESTYC.

1,254,724 international tourist arrivals in 2012.⁸ In addition, domestic tourism accounts for four million trips per year.⁹ This spike in demand has been supported by the private sector: between 2005 and 2012, the number of hotels and restaurants together grew by 30%, while the number of establishments for economic activities overall declined by 10%.¹⁰ It is also an important sector for the national economy. Currently, it directly contributes 43,303 formal jobs (7.12% of total private sector jobs) and generates US\$751.6 million annually in foreign currency, representing 3.13% of GDP. By way of comparison, the foreign currency revenues from tourism in 2012 equaled 250% of the export value of the country's main traditional product, coffee, and 63% of the deficit in the country's current account balance.¹¹

- 1.4 However, despite the increase in the number of tourists, their spending on trips—the factor that could ignite growth in new jobs—is low. For example, the average spending by a foreign visitor in El Salvador is US\$376.40, while the average figure for the Central American countries overall is US\$729.40, and US\$1,455.40 in Panama and US\$740.90 in neighboring Guatemala. Thus, while international tourist arrivals for El Salvador represented 14% of the total for Central America in 2012, the country accounted for only 8% of foreign currency revenues from tourism, meaning that El Salvador attracts lower-spending tourists than do other neighboring countries.¹²
- 1.5 In order to meet the challenge of increasing tourist spending and achieve the goal of improving employment, the program targets two of the country's tourist areas: (i) La Libertad for sun and sand tourism; and (ii) Usulután for ecotourism.¹³ These areas have been given priority due to their considerable tourism potential, consistent with the Development Strategy for the Marine Coastal Zone and the [National Tourism Plan 2020](#). A recent study carried out by the Salvadoran government during its preparation of the Development Strategy for the Marine Coastal Zone indicates that La Libertad and Usulután are the two destinations with the greatest potential for tourism among the 15 locations evaluated in the coastal area, in terms

⁸ Tourism trends 2012 (advance copy), CORSATUR; and Tourism Highlights, 2012, United Nations World Tourism Organization.

⁹ [Tourism Report 2011](#) and Domestic Tourism Survey 2012, CORSATUR.

¹⁰ National Economic Directory 2005 and Directory of Economic Units 2011-2012. DIGESTYC.

¹¹ Tourism trends 2012 (advance copy), CORSATUR; and data from the Central Reserve Bank of El Salvador (BCR) as of 2012.

¹² Tourism statistics 2011, Central American Tourism Integration System.

¹³ La Libertad includes the municipios of Chiltiupán, Comasagua, Jayaque, La Libertad, and Tamanique, in the department of La Libertad. Usulután includes the municipios of Alegría, Berlín, Jiquilisco, Puerto El Triunfo, San Dionisio, and Usulután, in the department of Usulután.

of tourism resources, supply and demand, basic infrastructure, and destination management.¹⁴

- 1.6 La Libertad and Usulután have the characteristics and potential to develop sun and sand tourism and ecotourism modalities, respectively. The La Libertad coast is 45 minutes from the capital and is a sun and sand tourism area that is both a family destination and an area known for its water sports (surfing), with nearly 20 beaches suitable for recreation in the Bálsamo Coastal Conservation Area, and one in which two Quicksilver world cups have been held, in 2011 and 2012. In Usulután, there is Jiquilisco Bay, the largest mangrove in Mesoamerica (47% of the total surface area), which, because of the tremendous value of its natural assets, has six protected areas and has been declared both a Ramsar Site (2005) and a Biosphere Reserve (2007) by the United Nations Educational, Scientific, and Cultural Organization, testifying to its potential for ecotourism development and, in particular, as a place to observe wildlife. It has more than 80 species of birds, marine animals, and lizards, while also being one of the primary nesting and breeding grounds in the Pacific for three species of marine turtles. The characteristics of both areas are well matched to the stated preferences of tourists: 48.6% of foreign tourists who visit El Salvador express an interest in visiting the beaches, and 94.3% in visiting the country's parks and natural areas.¹⁵
- 1.7 Despite this potential, there is, at present, little tourism at La Libertad and Usulután: these areas account for 13.5% of available lodging in El Salvador and 14.3% of overnight stays by foreign tourists visiting the country.¹⁶ Studies¹⁷ confirm that the following market failures are limiting tourism:
 - a. **Insufficient value placed on tourist attractions.** The majority of the many public attractions (beaches, mangroves, protected areas, etc.) in La Libertad and Usulután are not in conditions conducive to visits or use by tourists. For example, less than one third of La Libertad beaches have facilities for recreational access and use, and none of the protected areas in Usulután have facilities to receive tourists and conduct nature activities. This has led to a low number of overnight stays (over 90% of visitors are on daytime excursions and do not stay overnight¹⁸). There is an overconcentration of private food services

¹⁴ [Evaluation of the potential of coastal destinations](#) and [results](#) 2012, Technical Secretariat of the Office of the President. The evaluation uses indicators in five dimensions: (i) tourism resources (number, variety, uniqueness, and carrying capacity); (ii) tourism supply (type, volume, quality, and investment projects); (iii) tourism demand (origin); (iv) basic infrastructure (land, air, and maritime connectivity, other facilities); and (v) destination management (public-private linkages, tourism modalities and events, and co-branding).

¹⁵ Profile of the foreign tourist in El Salvador 2012, CORSATUR.

¹⁶ Lodging in El Salvador, and Tourism trends 2012 (advance copy), CORSATUR.

¹⁷ [Tourism assessment](#) and [socioenvironmental evaluation](#) of La Libertad and Usulután, 2012; [Diagnostic assessment and exploratory proposal for the development of value chains in tourism in La Libertad and Usulután](#), 2012, MITUR and IDB.

¹⁸ Tourism assessment of La Libertad and Usulután 2012, MITUR and IDB.

(constituting 79.8% of all tourism businesses) in a small number of localities (66.2% of these establishments are located in just two municipios), at the expense of lodging, recreational, and related activities throughout the region.¹⁹ In order to encourage tourists to take trips and stay for periods lasting several days (overnight trips), this situation needs to be reversed, and public tourist amenities need to be developed for visits and use, making them a platform for the development of private services.

- b. **Limited local entrepreneurship and social inclusion.** The bulk of tourism enterprises in these two areas are microenterprises (97% of the total²⁰), and most are very small (84% have four or fewer workers,²¹ and over 60% are subsistence businesses²²), which is associated with low sales, wages, and productivity, such that their contribution to the national economy is less than ideal²³ (by comparison, these businesses account for 55% of jobs and 33% of the census value added). In short, given their characteristics, the creation and coordination of high-quality tourism products and services that would provide access to more discerning demand segments that spend more is extremely difficult, thus reducing their capacity to generate social benefits through jobs, and tax revenues through sales. The problems in reversing this situation and transforming these subsistence enterprises into entrepreneurial businesses are due to two factors: (i) insufficient knowledge of the tourism sector on the part of the local population, which reduces their employability and their capacity to develop and implement viable business plans (the World Economic Forum ranks El Salvador 91 among 139 countries in terms of training of human resources for tourism); and (ii) limited access to credit to start businesses or tailor existing businesses to the needs and demands of tourists, due to high interest rates. In this regard, El Salvador has a chronic savings deficit:²⁴ gross savings in 2011 were 9% of GDP, lower than the other Central American countries (which have savings rates of 11% to 18%). Consequently, the supply of available funds is low and the interest rate is high. The interest rate on loans of more

¹⁹ Directory of Economic Units 2011-2012, DIGESTYC.

²⁰ Directory of Economic Units 2011-2012, DIGESTYC.

²¹ Directory of Economic Units 2011-2012, DIGESTYC.

²² They bill less than 142.9 minimum wages per year. National Economic Directory 2005, DIGESTYC.

²³ “Hacia una MIPYME más competitiva,” 2005, Fundación Salvadoreña para el Desarrollo Económico y Social [Salvadoran Foundation for Economic and Social Development].

²⁴ World Economic Database, October 2012, International Monetary Fund.

than one year to individuals²⁵ hovered near 10.5% during January 2013. While there are some sources of financing that are more accessible than commercial banks, these sources are limited, and the rejection rate for loan applications by tourist-related microenterprises is high because they often do not meet the technical requirements. This problem disproportionately affects women: the gender-based income gap leads to lower savings and investment capacity by women, and since women have less collateral (land or houses) and fewer formal jobs, they have less chance of being considered as borrowers.²⁶

- c. **Weak tourism management.** Because El Salvador's efforts to promote tourism are more recent than other countries,²⁷ there are few means and methodologies for obtaining information about the sector and its evolution: (i) the national registry of tourism enterprises and activities is incomplete (only 15% are registered); and (ii) no comparable and disaggregated information on the tourism market is systematically compiled and disseminated for the different products and destinations. At the local level: (i) the Tourist Police need to be strengthened in terms of human resources training and mobility and communications capacity, in order to prevent problems with tourist security that could result from sector growth in these areas and that could harm, in particular, the smallest businesses, which would be unable to hire private security services (owners of tourism enterprises rate the reliability of police services at 3.1 on a scale of 1 to 7²⁸); and (ii) the municipios do not have tools for local sector planning and management, or mechanisms in place for sector coordination (public-private-civil society), which at present are weak and as yet in their infancy. This hinders effective decision-making by stakeholders and makes it hard to align them under a common strategy.
- d. **Environmental degradation.** One [environmental evaluation](#) conducted in the course of preparing for this operation indicates that there is a risk of environmental degradation in La Libertad and Usulután, owing to: (i) the lack of tools to ensure that tourism growth is systematic and controlled (e.g., there are no plans for land use and tourism management in natural areas with high biodiversity); and (ii) the insufficient purification of wastewater (e.g., major tourism localities such as El Tunco and Puerto El Triunfo discharge their wastewater without

²⁵ Loans to individuals are the point of reference because microenterprises do not have access to business loans. Weekly weighted average interest rate, annual percentage, BCR. Inflation rate: DIGESTYC consumer price index.

²⁶ [Human Development Report El Salvador 2010](#), UNDP.

²⁷ As an example, the national tourism administration was created in 1957 in Costa Rica and in 1967 in Guatemala, while in El Salvador the first national tourism administration was created in 1996.

²⁸ The Travel and Tourism Competitiveness Report 2013, World Economic Forum.

prior treatment²⁹). This combination of factors not only reduces the appeal of the two areas as sites to attract private tourist demand and investment but also compromises the protection of their valuable natural resources.

- 1.8 **Experience in the sector and lessons learned.** The program has been designed based on the [Bank's extensive experience with tourism](#), specifically in developing sun and sand tourism and ecotourism in coastal and nature areas in countries such as Barbados, Costa Rica, Brazil, and Honduras. Table I-1 (see page 8) shows the main lessons learned and how these have been incorporated into the design of this operation.
- 1.9 **Program design.** The program is part of a first phase of implementation of the Development Strategy for the Marine Coastal Zone and addresses the need to improve job opportunities for the population. Recent empirical evidence shows that the development of tourism in El Salvador has a positive impact on the volume and characteristics of jobs, as well as a multiplier effect that also benefits other sectors of the economy (paragraphs 1.1 and 1.2). Based on these studies, the ex ante economic evaluation estimates that the expansion of tourism activities resulting from the program will produce an additional increase of 9.7% in directly related jobs by 2033 (paragraph 2.3). There is also empirical evidence on the effectiveness of interventions of this type in job creation in other countries of Latin American, the Caribbean, and Central America,³⁰ which are comparable to this operation in terms of modalities (sun and sand tourism and ecotourism) and the geographic areas (coastal and nature areas) where tourism is concentrated. Moreover, in the case of some countries (e.g. Nicaragua, Costa Rica, Panama), there is a similarity in the sense of being part of the Central American environment. This evidence highlights the importance of tourism, compared with other productive sectors, in terms of direct and indirect job creation, wages, more equitable income distribution, and job and income opportunities for women.
- 1.10 In order to take advantage of the capacity of tourism to create jobs, the program has been designed around three pillars: (i) it will target areas where the level of development is below the national average: in the beneficiary municipios, 50.7% of households are poor and 24.4% are extremely poor,³¹ compared with national

²⁹ Statistical Bulletin 2010, ANDA.

³⁰ Blake, A. et al., 2009: "Tourism and Poverty Relief"; Castillo, V. et al., 2012: "Innovation Policy and Employment: Evidence from an Impact Evaluation in Argentina"; Eugenio-Martin, J. et al., 2004: "Tourism and Economic Growth in Latin American Countries: A Panel Data Approach"; Fayissa, B, et al., 2009: "Tourism and Economic Growth in Latin American Countries (LAC): Further Empirical Evidence"; Economic Commission for Latin America and the Caribbean, 2007: [Tourism and social conditions in Central America: Experiences in Costa Rica and Nicaragua](#); Croes et al., 2008: [Cointegration and causality between tourism and poverty reduction](#); Klytchnikova et al., 2009: [How tourism can \(and does\) benefit the poor and the environment: A case study from Panama](#); World Bank, 2012: [Tourism Sector in Panama: Regional Economic Impacts and the potential to benefit the poor](#). See [Program Monitoring and Evaluation Plan](#).

³¹ Poverty map of El Salvador 2005, Social Investment Fund for Local Development.

figures of 34.6% and 10.8%,³² respectively, and they also have unemployment levels above the national average (7.6% compared with 6.6%³³); (ii) it will maximize the potential in these municipios for sun and sand tourism and ecotourism, supported by the country's tourism planning and by recent studies and assessments (paragraphs 1.5 to 1.7), as well as by various experiences around the world that provide empirical evidence of the effectiveness and value of [sun and sand](#) and [ecotourism](#) in contributing to the local economy and improving social well-being in less developed areas by increasing income levels and jobs, through greater tourist spending, provided they are developed in a sustainable manner; and (iii) it incorporates strategies and activities directed at social inclusion and gender equity in the two types of tourism, based on the specific recommendations from a social-environmental evaluation of the areas of intervention, and on the evidence and recommendations gleaned from international experiences³⁴ aimed at maximizing social inclusion in the tourism sector, which suggest the need to incorporate professional training and support for local businesses in order to maximize benefits in terms of employment.

- 1.11 Given the other investments that will be made to implement the Development Strategy for the Marine Coastal Zone, the program has been designed to complement these efforts in order to take advantage of synergies and achieve a greater impact on this region of the country. In this respect, the investments planned under this program will complement the proposed Partnership for Growth initiative (Fomilenio II) and the Bank-financed operations Productive Corridors Program (ES-L1075), Ciudad Mujer ([2525/OC-ES](#)), and Development of a Model for Women's Entrepreneurship ([ATN/AS-13529-ES](#) and ES-M1043), in terms of basic infrastructure (Partnership for Growth and ES-L1075 will finance roads and ports to improve the connectivity of the tourism areas targeted by the program), business promotion (Partnership for Growth will support public-private partnerships, which will be complemented by activities under the proposed program to promote tourism-related micro, small, and medium-sized enterprises (MSMEs) and coordination mechanisms), and gender equity instruments (during execution, the program's tourism-related business support for women will be coordinated with the services provided under Ciudad Mujer and disseminated at its care centers in Usulután and La Libertad).
- 1.12 **Bank's country strategy and the GCI-9.** The program is aligned with the [Bank's country strategy with El Salvador \(2010-2014\)](#) (document GN-2575), in two of its six priority areas of intervention: public finances and sanitation, inasmuch as it will contribute to the following objectives: (i) increase tax revenue intake, by enhancing the capacity of tourism businesses to generate income and contribute by paying

³² Multipurpose Household Survey 2007, DIGESTYC.

³³ Multipurpose Household Survey 2011, DIGESTYC.

³⁴ [Sustainable Tourism-Eliminating Poverty](#), United Nations et al., and other [international experiences](#).

taxes,³⁵ thus helping to reach the target for net tax collections; and (ii) improve the coverage and management of sanitation services in urban areas, by installing wastewater treatment plants and sewer connections in tourist areas, thus helping to achieve the target percentage of domestic wastewater treated according to Salvadoran standards. The program is included in the [Country Program Document 2013 \(document GN-2696\)](#).

- 1.13 The program will also contribute to three lending targets of the GCI-9: (i) support for small and vulnerable countries, by providing support to El Salvador; (ii) poverty reduction and equity enhancement, by targeting the intervention to municipios with development indicators below the national average (paragraph 1.10); and (iii) support for climate change initiatives, sustainable energy, and environmental sustainability, by fostering practices in the tourism sector that contribute to the conservation and sustainable use of the country's biodiversity. In addition, the program will contribute to the Bank's sector priorities on: (i) "social policy for equity and productivity," by increasing the number of jobs in the formal sector; (ii) "infrastructure for competitiveness and social welfare," by increasing the number of households with new or improved sewage connections; (iii) "institutions for growth and social welfare," by increasing the number of productive MSMEs receiving financing and the number of municipal governments receiving support; and (iv) "protection of the environment, response to climate change, promotion of renewable energy, and enhanced food security," by increasing the number of projects with components that help to improve the management of protected areas.

Table I-1. Integration of lessons learned

Main lesson learned	How this is reflected in the program's design
There needs to be planning and scaling of investments in order to prevent negative effects from accelerated growth in tourism.	The program is supported by the prior planning of the Development Strategy for the Marine Coastal Zone and incorporates an investment plan and schedule for the five years of program execution (paragraph 0).
In order to prevent investments from being scattered, isolated, and low impact, the program should focus on specific destinations and types of tourism and attract private investment , based on a shared strategy with the public sector.	The program focuses on sun and sand tourism in La Libertad and ecotourism in Usulután, and it incorporates mechanisms for attracting private investment and fostering local entrepreneurship that is aligned with planned public investments (paragraphs 1.15 to 1.17).
Tourism can be an effective tool for increasing social inclusion and gender equity .	Based on recommendations from a socio-environmental evaluation of the beneficiary areas, the program incorporates actions aimed at increasing benefits for low-income individuals and women through its four components and in particular through a specific component designed to promote local entrepreneurship (paragraph 1.16).

³⁵ The [Bank's country strategy with El Salvador](#) establishes possible Bank interventions in the priority area of public finances, aimed at driving productive development and promoting MSMEs, in order to support the implementation of tax reforms (see paragraphs 3.5 and 3.6).

Main lesson learned	How this is reflected in the program's design
Tourism development should incorporate a real environmental commitment in both the planning and investment phases to ensure the conservation of natural resources.	The program has been designed based on a socio-environmental evaluation of the beneficiary areas, and the resulting recommendations have been included in the four components (paragraph 2.4). The operation will be executed using an Operating Manual that includes an Environmental and Social Management Plan for the program (paragraph 3.3), and there will be a specific component aimed at improving environmental management.
Due to the crosscutting nature of tourism, the programs require the involvement of various entities , along with clear, simple, flexible mechanisms for their participation.	The program will be executed by an agency with demonstrated experience and capacity in coordinating with other agencies, (paragraph 3.1), and the design of the program is based on plans and investments agreed upon with the participating entities (paragraph 3.2). In order to streamline execution, the program includes: agreements with those entities (paragraph 3.2), an Operating Manual that delineates the functions, procedures, and responsibilities of each entity (paragraph 3.3), and institutional strengthening actions (paragraph 1.17).
Maintenance and tourism-related use of works require appropriate planning, as well as ownership by stakeholders.	The program includes: an agreement with the entity responsible for the operation and maintenance of the work (paragraph 3.2), design of tourism-related uses and a cost recovery and asset management plan (paragraph 3.3), and training and coordination of the managers (paragraphs 1.15 and 1.17).
Programs should balance investment in works with strengthening of local governance for local tourism so as to ensure the future sustainability of the investments.	The program includes an institutional strengthening component (paragraph 1.17) aimed at increasing knowledge about the sector and the types of tourism to be developed, as well as about tourism planning and management at the national and local levels and mechanisms for working with the private sector.

B. Objectives, components, and costs

- 1.14 **Objectives.** The general objective of the program is to help increase the number of tourism jobs in El Salvador. The specific objective is to increase spending by tourists in La Libertad and Usulután, through investments targeting the sun and sand tourism and the ecotourism sectors. The program will benefit 268,126 people,³⁶ with 3,053 people directly and formally employed in tourism and 876 tourism enterprises³⁷ operating in 11 municipios of the departments of La Libertad and Usulután. In order to achieve its objective and consistent with the challenges identified (paragraph 1.7), the program will provide financing for works and the procurement of goods and services, through the four components described below.
- 1.15 **Component 1. Development of tourist attractions (US\$11.62 million).** This component is aimed at developing public goods that will encourage more tourists to visit and stay in La Libertad and Usulután. Its success will be measured by the increase in overnight stays by tourists. It includes investment in facilities to

³⁶ [Municipal population estimates and projections 2005-2020](#), DIGESTYC.

³⁷ Directory of Economic Units 2011-2012, DIGESTYC.

promote the development of products in sun and sand tourism and in ecotourism (interpretive centers, Plaza Marinera, piers and wharfs, breakwaters, pedestrian and interpretive paths, bicycle paths, traditional and artisanal markets, scenic lookouts, observations points for wildlife viewing, information points, etc.) and revitalizing urban sites and their surroundings (parking, signage, paving, lighting, etc.) in the main tourist areas and towns (Puerto La Libertad – Punta Roca – Deininger National Park, El Tunco – Zunzal, Puerto El Triunfo, Puerto Parada, the islands of Pajarito, Madresal and Mendéz, Alegría and Berlín). Resources from this component will be used to finance works, as well as technical, economic, and socio-environmental studies, and plans for recovering operating and maintenance costs.

- 1.16 **Component 2. Local entrepreneurship (US\$1.90 million).** This component is aimed at promoting tourism entrepreneurship in La Libertad and Usulután, improving the quality of service offered, and distributing the resulting benefits more equitably among the local population. Its success will be measured by the increases in formal tourism jobs, tax collections from tourism revenue, and women's participation in these jobs. It includes investments in: (i) a program communication and participation plan with an emphasis on the local low-income and female population; (ii) analysis of the tourism value chain, in order to identify and maximize opportunities for social inclusion and gender equity; (iii) a diagnostic assessment and action plan to increase formality in the sector; and (iv) technical assistance and training for MSMEs and human resources, in order to improve the quality of services, promote environmental management and social responsibility, and facilitate access to existing financing windows in the country that are separate from the program. In addition, this component includes resources (for a sum of up to US\$0.8 million) aimed at partially covering the cost of improving tourism and related microenterprises located in the beneficiary areas, so that as economically viable businesses, they will be able to adapt their services to the requirements of the target demand sector. It is estimated that the beneficiaries will be approximately 70 microenterprises, which will cover the remaining portion of the cost of these activities. The selection of beneficiaries and the administration and monitoring of the resources involved will be governed by [operating guidelines for resources for microenterprises](#).
- 1.17 **Component 3. Tourism governance (US\$3.18 million).** This component is aimed at strengthening tourism management capacities at the national and local levels, with La Libertad and Usulután stakeholders working in coordination. Its success will be measured by the number of public-private tourism-management entities operating in the beneficiary areas. It includes investments for: (i) expansion and dissemination of the tourism information and statistics system, including market studies on sun and sand tourism and ecotourism; (ii) development of a system for registering and classifying products and services offered by the private sector; (iii) an update of the regulatory framework for the tourism sector; (iv) training and computer, mobility, and communications equipment for the Tourist Police; (v) strengthening of municipios and national tourism administrations with regard to

urban land-use management, planning, control, and inspection; (vi) promotion of mechanisms for public-private coordination, such as tourism development committees; and (vii) promotion of the tourism products and destinations developed under the program in the target markets.

- 1.18 **Component 4. Environmental management (US\$6.53 million).** This component is aimed at improving management of the natural resources on which La Libertad and Usulután tourism is based. Its success will be measured by the increase in the area of protected land for which a system is in place for monitoring the environmental quality of treated wastewater in tourist areas. It includes investments in: (i) land-use plans in natural areas of tourism importance on the Bálsamo Coast and Jiquilisco Bay; (ii) design and implementation of studies on the limits of acceptable change and plans for the management and public use of protected areas and regions of high biodiversity; (iii) works for wastewater treatment in strategic tourist areas for the program; and (iv) strengthening of municipal environmental offices and Ministry of Environment and Natural Resources (MARN) offices, through the provision of equipment, technical assistance, and training.

C. Results framework with key indicators

- 1.19 The program has a [results framework](#) containing indicators of program impacts, outcomes, and outputs, with corresponding baselines, targets, and means of verification (Annex II). In accordance with the Bank's country strategy and the GCI-9 (paragraph 1.12), the main impacts of the program will be increases in: formal jobs in tourism, tax collections from sales by tourism businesses, number of tourism MSMEs receiving financing and municipal governments receiving support, amount of protected land of tourism importance with improved management, and proportion of wastewater in tourism locations that is treated in accordance with Salvadoran standards.

II. FINANCING STRUCTURE AND RISKS

A. Financing instrument

- 2.1 The program is designed as a specific investment loan, with a total cost of US\$25 million, to be financed entirely by the Bank with resources from the Ordinary Capital. Table II-1 shows the breakdown of costs and their respective sources of financing.

Table II-1. Cost and Financing of the Program (in US\$ millions)

Investment category	Total (IDB)	%
I. Direct costs	23.23	92.92
Component 1. Development of tourist attractions	11.62	46.48
Component 2. Local entrepreneurship	1.90	7.60
Component 3. Tourism governance	3.18	12.72
Component 4. Environmental management	6.53	26.12
II. Program administration (execution, monitoring, evaluation, and audits)	1.77	7.08
Total	25.00	100
Percentage	100	

* The financing costs, interest, and credit fee will be paid by the borrower outside the program.

- 2.2 The program's disbursement period will be five years. Disbursements will be made under the advance of funds modality, in accordance with the following preliminary financing plan (see [program execution plan](#)):

Table II-2. Disbursement schedule (in US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2.19	5.54	8.88	6.12	2.27	25.00
%	8.8	22.2	35.4	24.5	9.1	100.0

B. Economic viability

- 2.3 The program has an [ex ante economic evaluation](#), prepared using a cost-benefit methodology. The economic viability of the program was measured over a time horizon of 20 years, using a discounted rate of 12%. The benefits of program execution consist of an increase in arrivals of foreign and domestic tourists, and in total spending by tourists in the areas of intervention. These benefits will begin in 2017 and continue until 2026, when total tourist spending will be 10% higher than in the scenario without the program. This analysis shows a net present value of US\$60.5 million, and an internal rate of return of 34.4%. In addition, the program would contribute US\$44 million to GDP and generate a total of 4,186 jobs (1,731 indirect jobs and 2,455 direct jobs) as of 2033. The sensitivity analysis indicates that even in a downside scenario, in which total tourist spending increases by an annual average of only 2% as a result of the program, the program would still yield a return (net present value: US\$28.8 million; internal rate of return: 25.5%). In order to contribute to the financial sustainability of the investments over the long term, the investment eligibility criteria in the program Operating Manual (paragraph 3.3) will include the requirement that any planned individual works must be accompanied by cost recovery studies and operating and maintenance plans, which are to be financed with resources from component I (paragraph 1.15).

C. Socio-environmental risks

- 2.4 The program has been classified as a category “B” operation pursuant to the Environment and Safeguards Compliance Policy (OP-703). Based on the program’s [Environmental and Social Management Report](#) (ESMR), an Environmental and Social Management Plan (ESMP) was prepared. Its conclusions are incorporated into the four program components, along with their costs, ensuring that there will be sufficient resources to guarantee the environmental and social sustainability of the operation. Its actions include: (i) a communication and participation strategy targeting the local population; (ii) the inclusion of poor and female entrepreneurs in the productive activities and benefits of tourism; (iii) the promotion and application of sustainable practices in tourism on the part of both the public and private sectors; (iv) improvement of the management of natural areas, particularly of protected areas; (v) treatment of wastewater; and (vi) contracting of socio-environmental specialists to monitor the ESMP (paragraph 3.1). The ESMP will be part of the program Operating Manual (paragraph 3.3).

D. Fiduciary and other risks

- 2.5 The results of the institutional capacity assessment of the Ministry of Tourism (MITUR) as executing agency indicate a medium level of development, as well as a medium level of fiduciary risk. The main fiduciary risks that were identified relate to the ministry’s limited operational capacity, as well as its limited knowledge and experience in applying Bank policies on procurements and financial management, which could cause delays in the execution of program activities. Mitigation measures for these risks include: (i) strengthening the institution’s financing and procurement units with specialized personnel; (ii) training MITUR personnel involved in program execution; and (iii) establishing interagency coordination mechanisms, such as procedures, roles, and responsibilities, in the program Operating Manual (paragraph 3.3). These measures have been incorporated in the design and cost of program administration (paragraph 2.1).
- 2.6 **Procurement.** All goods, works, and services for the program will be procured in accordance with the Bank’s procurement policies as provided in documents GN-2349-9 and GN-2350-9 and pursuant to the program’s Fiduciary Agreements and Requirements (Annex III), as agreed upon with the executing agency and containing a procurement plan.
- 2.7 **Audits.** The executing agency will contract the services of a firm of independent external auditors, using funds charged to the loan, for the purpose of carrying out an annual external audit of the financial statements for the program. The external audit reports will be delivered to the Bank each year, no later than 120 days after the end of the corresponding fiscal period.
- 2.8 **Other risks.** The program has a risk matrix, prepared using the Bank’s methodology on risk management in sovereign guaranteed projects. This matrix has been agreed upon with the borrower and includes identification and assessment of risks, mitigation measures, monitoring indicators for each measure, and follow-up

and implementation responsibilities. The program's main risks are a decline in environmental quality in the beneficiary areas, as well as problems with coordination and in response capacity that could emerge with the participating entities and beneficiaries. The mitigation measures (including improved management of natural areas, treatment of wastewater, institutional strengthening, entrepreneurial support, and social inclusion) have been incorporated into the design and cost of the operation (paragraphs 1.15 to 1.18).

III. IMPLEMENTATION AND MANAGEMENT

A. Program execution and administration

- 3.1 The borrower for the program will be the Republic of El Salvador, and the executing agency will be the Ministry of Tourism (MITUR), which will have full responsibility for program administration, supervision, and evaluation. In order to meet this responsibility, MITUR will draw on technical-operational support from its two participating entities (the Salvadoran Tourism Corporation (CORSATUR) and the Salvadoran Tourism Institute (ISTU)). A program coordination unit (PCU) will be formed and will report directly to the Office of the Minister. It will have a multidisciplinary team consisting of a general coordinator and financial, procurement, legal, and administrative specialists, as well as tourism experts with experience in planning, projects, social development, and socio-environmental management. This team will be made up of personnel from MITUR, CORSATUR, and ISTU, as well as consultants to provide support. **The following will be special conditions precedent to the first disbursement: (i) the formation of the PCU; (ii) the entry into force of an agreement supplementing the existing collaboration framework agreement between MITUR, CORSATUR, and ISTU establishing the technical-operational support to be provided by CORSATUR and ISTU to MITUR during program execution; and (iii) the selection of personnel to staff the PCU, under the terms previously agreed upon with the Bank.**
- 3.2 **Participating entities.** For program investments that involve local or sector administrative jurisdictions beyond the executing agency and its participating entities (such as MARN, ANDA, the Tourist Police, and municipios), the executing agency will delegate responsibilities for execution and support of these administrations, to be formalized through collaboration agreements with the respective entities. No transfer of resources to these entities is envisaged. An agreement will be established to cover the collaboration obligations of the parties, including the modalities and conditions for the transfer of goods and services procured by the executing agency for the entity participating in the specific intervention. These obligations will include: (i) possessing the legal authority to carry out interventions on the land where the works are to be executed; (ii) collaborating in obtaining authorizations, permits, and other necessary formalities; (iii) giving the executing agency, construction companies, external auditors, and the Bank free access to the construction areas; and (iv) properly

operating and maintaining the assets during their useful life, pursuant to generally accepted technical standards and based on the works maintenance plans (paragraph 3.5). A special execution condition will be the entry into force of this cooperation agreement between MITUR and the various sector and local administrations participating in the program prior to initiating procurements in their respective jurisdictions, under the terms previously agreed upon with the Bank.

- 3.3 **Program Operating Manual.** Execution of the program will be governed by the Operating Manual, which establishes standards and procedures for the executing agency with regard to programming activities, financial and accounting management, procurement, audits, and monitoring and evaluation of the program, including: (i) procedures and responsibilities of the entities reporting to MITUR and other participating entities; (ii) eligibility criteria for investments and selection of beneficiaries; (iii) technical supporting documentation, to be prepared by type of investment, including economic and socio-environmental viability studies, cost recovery plans, and management and operating plans; (iv) technical and socio-environmental supervision of the works; (v) the Operating Guidelines for Resources for Microenterprises (paragraph 1.16); and (vi) the Environmental and Social Management Plan (ESMP) (paragraph 2.4). The executing agency has prepared a preliminary Operating Manual for the program. **A special condition precedent to the first disbursement will be the approval of the Operating Manual, under the terms previously agreed upon with the Bank, which includes the Operating Guidelines for Resources for Microenterprises and the ESMP.**

B. Monitoring and evaluation arrangements

- 3.4 The program has a [monitoring and evaluation plan](#), which has been agreed upon with the executing agency, and whose cost is included in the program administrative budget (paragraph 2.1). This plan includes: (i) indicators for monitoring, evaluating, and measuring the program's impact, the corresponding baselines, and means of verification; (ii) critical path of activities and outputs during program execution; (iii) description, timetable, and designation of responsibility for instruments to monitor the operation; and (iv) methodology, activities, and budget for implementing the plan.
- 3.5 **Monitoring.** The executing agency will provide the Bank with semiannual progress reports on program execution, no later than 60 days after the end of each six-month period. The reports will indicate the program's level of physical and financial fulfillment and progress with respect to the indicators and activities specified in the results framework, annual work plan, and procurement plan, analyzing the problems encountered and presenting the corresponding corrective measures. The reports for the second six-month period will also include the annual work plan for the following calendar year, with a projection of expected disbursements, an updated procurement plan, and a report on the status and plan for maintenance of the works executed under the program.

- 3.6 **Evaluation.** The executing agency will present to the Bank the following evaluation reports: (i) a preliminary evaluation, 18 months after the effective date of the loan contract; (ii) a midterm evaluation, 90 days after the date on which 50% of the loan proceeds have been committed; and (iii) a final evaluation, 90 days after the date on which 90% of the loan proceeds have been disbursed. These reports will include: (i) an analysis of the program's financial execution, by component and financing source; (ii) progress in achieving the outputs, outcomes, and impacts established in the results framework; (iii) effectiveness in applying the Operating Manual; (iv) fulfillment of the contractual clauses; (v) summary of the results of socio-environmental audits and fulfillment of the ESMP; and (vi) summary of the results of the program audits of financial statements, procurements, disbursements, and internal controls. The final evaluation report will also cover the results of measurement of the program's impact, according to the agreed upon plan (paragraph 3.4). All evaluations will be conducted independently and will be financed with loan proceeds.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending to small and vulnerable countries, ii) Poverty reduction and equity enhancement, and iii) Support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals	i) Share of formal employment in total employment, ii) Incidence of waterborne diseases, iii) Percent of firms using Banks to finance investments, iv) Public expenditure managed at the decentralized level as % total public expenditure, and v) Proportion of terrestrial and marine areas protected to total territorial area.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Number of jobs added to formal sector, ii) Households with new or upgraded sanitary connections, iii) Micro/small/medium productive enterprises financed, iv) Municipal or other sub-national governments supported, and v) Number of projects with components contributing to improved management of terrestrial and marine protected areas.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2575	i) Increase tax revenue intake, and ii) Improve the coverage and management of water and sanitation services in urban areas.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.6		10
3. Evidence-based Assessment & Solution	9.6	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	9.1	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget and Treasury. Procurement: Information System.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The project is financing investments that aim to enhance gender equality.	
Labor	Yes	The project's main objective is to increase employment in the touristic sector by increasing tourism expenditures. The project will finance investments that improve labor dimension for employees in the touristic sector.	
Environment	Yes	The project aims at reducing environmental degradation of important natural resources located in the area of the intervention.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Two technical cooperations where provided to support project preparation: ATN/SF-9642-ES supported the Ministry of Tourism; and ATN/MT-5977-ES supported the National Water Agency on the design of the treatment plants to be implemented with this project.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation methodology aims at providing rigorous evidence on the effectiveness of matching grants in tourism programs with a specific emphasis on employment.	

The general objective of the project is to increase tourism employment in El Salvador. The specific objective is to increase tourism expenditure in La Libertad and Usulután, through investments geared towards sun and beach and ecotourism segments. The project documentation provides justification for the project. Problems and their causes are identified and discussed. The structure of the results matrix is satisfactory.

The project document presents an ex-ante cost-benefit analysis based on the assumption that both tourism arrivals and expenditures will increase by 10% with regards to the baseline growth of arrivals of 4%. The sensitivity analysis is driven by varying the assumptions of projected tourism arrivals and the impact on the viability of the project.

The impact evaluation plan proposes an experimental approach to evaluate the matching grants intervention.

The project documentation includes a risk matrix that identifies potential risks and mitigation measures, including metrics to monitor their implementation.

RESULTS FRAMEWORK

For additional information, see the detailed results framework (optional electronic link #1): [37775925](#)

General objective:	To help increase the number of tourism jobs in El Salvador.		
Specific objective:	To increase tourist spending in La Libertad and Usulután.		
Impact indicators	Baseline (2012)	Target (2033)	Comments
To help increase the number of tourism jobs in El Salvador. Indicator:			<i>Source:</i> Salvadoran Tourism Corporation (CORSATUR), based on data from the Salvadoran Social Security Institute.
<ul style="list-style-type: none"> Direct formal jobs in the tourism sector in El Salvador (number). 	43,303	75,265	<i>Target:</i> Estimate based on ex ante economic evaluation of program. In 2033, 4,186 formal jobs (2,455 direct and 1,731 indirect) are expected to result from the program.
Outcome indicators	Baseline (2012)	Target (2018)	Comments
To increase tourist spending in La Libertad and Usulután. Indicator:			<i>Source:</i> CORSATUR.
<ul style="list-style-type: none"> Average spending per foreign tourist in La Libertad and Usulután (US\$/person and trip). 	599.00	610.50	<i>Target:</i> Estimate based on ex ante economic evaluation of program, at constant 2013 prices. The value of the indicator is estimated at 658.90 for 2033.

COMPONENT 1. DEVELOPMENT OF TOURIST ATTRACTIONS								
Outcomes	2012	Year 1	Year 2	Year 3	Year 4	Year 5	2018	Comments
Outcome 1. To increase tourist stays in La Libertad and Usulután. Indicator:								<i>Source:</i> CORSATUR. <i>Target:</i> Estimate based on ex ante economic evaluation of program.
• Total overnight tourist stays in La Libertad and Usulután (number).	1,421,372			1,735,889			1,913,631	
COMPONENT 2. LOCAL ENTREPRENEURSHIP								
Outcomes	2012	Year 1	Year 2	Year 3	Year 4	Year 5	2018	Comments
Outcome 2. To promote tourism offerings by the private sector and social inclusion in the tourism sector. Indicators:								
• Direct formal jobs in tourism in La Libertad and Usulután (number).	3,053			3,188		3,323	3,323	<i>Source:</i> DYGESTIC. <i>Target:</i> Ex ante economic evaluation of program.
• Participation of women as a percentage of total people employed in commerce, hotels, and restaurants in La Libertad and Usulután (%).	59.6			59.6		60.0	60.0	<i>Source:</i> DIGESTYC. Multipurpose Household Survey.
• Increase in tax collections:								
- Due to the activity of tourist businesses in La Libertad and Usulután (direct effects) (US\$ millions).	88.8			112.5		135.2	135.2	<i>Source:</i> Central Reserve Bank (BCR). <i>Target:</i> Ex ante economic evaluation of program. Tax collections include taxes on: income, land transfers, consumer products, VAT, etc., according to the BCR. This indicator is linked to the indicator in the Bank's current country strategy.
- Due to the activity of businesses that are linked to the tourism value chain in La Libertad and Usulután (direct and indirect effects) (US\$ millions).	151.4			190.9		230.4	230.4	
COMPONENTE 3. TOURISM GOVERNANCE								
Outcomes	2012	Year 1	Year 2	Year 3	Year 4	Year 5	2018	Comments
Outcome 3. To increase the capacity for sector development via coordination between stakeholders. Indicator:								<i>Source:</i> CORSATUR. Entities are considered to be in operation if they have: (i) by-laws and regulations in effect; (ii) formal agreements and provisions for monitoring results at no fewer than four meetings per year; and (iii) at least two agreements between CORSATUR, municipal authorities, and private initiatives for developing tourism in the targeted regions.
• Public-private entities to promote and manage local tourism, in operation in La Libertad and Usulután (number).	0			0			2	

COMPONENT 4. ENVIRONMENTAL MANAGEMENT								
Outcomes	2012	Year 1	Year 2	Year 3	Year 4	Year 5	2018	Comments
Outcome 4. To improve the management of the natural resources on which tourism activities in La Libertad and Usulután are based. Indicators: <ul style="list-style-type: none"> Amount of protected land of tourism importance in La Libertad and Usulután for which a system is in place for monitoring environmental quality (thousands of hectares). 	0.0			0.0			7.0	<i>Source:</i> Ministry of Environment and Natural Resources (MARN). The total area of land of tourism importance is 71,000 hectares. The system is expected to be implemented for 10% of this area.
<ul style="list-style-type: none"> Residential wastewater that is treated according to Salvadoran standards in the urban areas of the main tourist localities: 								<i>Linked to country strategy objectives, indicators, and targets.</i>
- El Tunco (%)	0.0			100.0			100.0	<i>Source:</i> National Water and Sewerage Administration (ANDA).
- Puerto El Triunfo -Jiquilisco (%)	11.2			33.7			33.7	
- Alegría (%)	0.0			100.0			100.0	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: El Salvador
Project number: ES-L1066
Name: Tourism Development Program for the Marine Coastal Zone
Executing agency: Ministry of Tourism of El Salvador (MITUR)
Prepared by: Santiago Castillo and Mario Castaneda (FMP/CES)

I. SUMMARY

This report was prepared based on the executing agency's fiduciary context and on the Bank's policies on financial management and procurement for Bank-financed projects.¹ It establishes the agreements and requirements for the program's financial management and procurements, as agreed upon with the executing agency.

The Ministry of Tourism (MITUR), as the executing agency, will be responsible for centralized fiduciary administration, through a program coordination unit (PCU), which will be established within MITUR for this purpose. In order to comply with the fiduciary agreements and requirements, the PCU will have the support of institutional financial management and procurement units within MITUR. In regard to financial management, the Bank's policy on this matter will be applied, and complementarily, the general application standards for the public sector will be used. In terms of procurements, the relevant Bank policies and procedures will be applied (documents GN-2349-9 and GN-2350-9). The PCU will receive support from two participating entities, the Salvadoran Tourism Corporation (CORSATUR) and the Salvadoran Tourism Institute (ISTU), for purposes of managing and coordinating the technical aspects of the program.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

The national financial management and procurement systems, as well as their internal and external control mechanisms, are well defined in Salvadoran legislation. By law, no sum may be committed or paid without a corresponding budgetary credit approved by the legislature. The Basic Law on Financial Administration of the State regulates public sector financial management and establishes the Integrated Financial Administration System (SAFI) consisting of the budget, public credit, cash management, and government accounting subsystems.

¹ Financial Management Policy and Operational Guidelines (documents OP-273-2 and OP-274-2); Procurement Policies and Operational Guidelines (documents GN-2349-9, GN-2350-9, and OP-272-1).

The Basic Law on Financial Administration of the State establishes in each of these government entities an institutional financial unit responsible for financial management. This unit reports directly to the head of the corresponding institution. The law assigns regulatory duties to the Ministry of Finance, thus decentralizing responsibility for financial operations in the administrative process to the execution units (MITUR).

The fiduciary responsibilities of the institutional financial unit are supported by the respective internal audit units, as well as by the institutional procurement and contracts unit in each governmental department. The Law on Public Administration Procurement and Contracts establishes the regulations in this area. With respect to external control, the Law on the Court of Accounts establishes that that institution is responsible for overseeing public finances.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

The fiduciary team assessed the program's overall level of risk associated with financial management and procurement as "medium." This conclusion is based on the limitations in operational capacity and knowledge of Bank policies within the institution's fiduciary units. The identified risks and proposed mitigation measures are summarized below:

Table 1: Identified risks and proposed mitigation measures

Risks/Weaknesses	Preventive/Corrective Action	Date for Compliance
Limited experience in executing procurement procedures according to Bank policies. Has participated in only three projects, for amounts of less than US\$150,000, mostly involving the contracting of consultants.	Strengthen the procurement team with personnel specializing in procurements, and particularly in handling Bank regulations and policies. The resources necessary for this are included in the administrative costs of the program (see program execution plan).	At project startup.
Insufficient personnel. Could lead to mistakes and inefficiencies in the processes for selection and procurement of goods and services, and in reporting.	Strengthening fiduciary areas (institutional financial unit – institutional procurement and contracts unit) with additional trained personnel is recommended. This is included in the administrative costs of the program (see program execution plan).	When the program launch workshop is held.
Limited knowledge of Bank policies. Program execution requires procurement and financing personnel with training in the Bank's operational policies and procedures.	Include, in the annual work plans, ongoing training activities for personnel dealing with the administration of goods and services and with financial management.	When the program is executed.
Inadequate physical space. The procurement unit has open cubicles, with no dividers between work stations, undermining the confidentiality of records and offers received, and privacy for procurement work, which requires a high degree of concentration to manage the volume of data.	Include, in the annual work plan, activities to improve the office environment of the procurement unit, or relocate the procurement personnel to a more private area with restricted access.	When the program is executed.

Risks/Weaknesses	Preventive/Corrective Action	Date for Compliance
<p>Limitations in filing. The procurement unit does not have a dedicated filing system; thus, its active files are scattered, with one part in the procurement unit and the other part in a meeting room where space has been made for storing the files. Although the files are locked up, they are not properly security, given that they are being stored in an open area that can easily be entered without a key. Moreover, there are no security measures in place in case of fire (there are no fire extinguishers).</p> <p>The unit does not have an up-to-date digital record of files, since the digitized files only go to 2011, not 2012 or later, and there is no equipment in place to remedy this situation, which is why an outside person is contracted to carry out this type of work.</p>	<ol style="list-style-type: none"> 1. Establish and maintain at the procurement unit a dedicated filing system, with all procurement procedures properly identified and all documentation for each step of the procurement process kept in a single file. 2. Establish an appropriate location and storage cabinets to safeguard all of the files and ensure that they have the necessary security. 3. Have in place the necessary security measures in case of an accident. 4. Bring the digital files on procedures current to the present date, and establish as part of the procurement cycle the digitization of each stage, for which purpose it would be advisable to purchase a heavy-duty professional scanner. 	<p>When the program is executed.</p>
<p>The procurement unit's computer equipment is partly updated; it has been partially replaced with new equipment.</p>	<p>The procurement of latest-generation computers is recommended, along with a scanner, printers, and photocopier, so as to streamline the management of procurements. The costs are included in the program administrative costs (see program execution plan).</p>	<p>When the program is executed.</p>

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACT

1. The following agreements and requirements are to be included in the special conditions of the loan contract:
 - a. Presentation, for Bank approval, of a program Operating Manual that defines procedures not already established in existing laws or regulations, along with mechanisms for interagency coordination with the participating entities, including their respective roles and responsibilities with regard to program execution.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. **Procurement execution.** The fiduciary agreements and requirements with respect to procurements set forth the provisions applicable to the execution of all procurements planned for the project.
 - a. **Procurement of works, goods, and nonconsulting services:**² Contracts subject to international competitive bidding (ICB) will be executed using standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using national bidding documents satisfactory to the Bank.

² According to the Bank's procurement policies, nonconsulting services are treated like goods.

- b. **Procurement of information technology systems:** Standard IDB documents will be used for this purpose.
- c. **Procurements: “Turnkey” (supply and installation):** Not applicable.
- d. **Procurement with community participation:** Not applicable.
- e. **Selection and contracting of consultants:** Contracts for consulting services are included in the initial procurement plan and will be executed using the standard request for proposals issued by the Bank.³ The list may comprise entirely (100%) national firms⁴ for contracts with values below the limits established by the Bank for El Salvador.
- f. **Selection of individual consultants:** The selection process will take into account the consultant’s qualifications for performing the work, based on a comparison of the qualifications of at least three qualified candidates.
- g. **Training:** Applicable.
- h. **Recurring expenses:** These are operating and maintenance expenses needed to run the project during its useful life.
- i. **Trade practices:** All procurement procedures will be conducted pursuant to international trade practices, and no procedures or practices will be used that undermine the fundamental principles of competition, efficiency, and economy.
- j. **Advance procurement/Retroactive financing:** For this project, there are no plans for advance procurements or related contracts.
- k. **National preference:** Not applicable.
- l. **Other:** In the case of bidding for works, the executing agency, prior to beginning any bidding process, must have the necessary land and/or rights and rights-of-way, as well as the environmental permits needed to execute the project.

2. Major procurement processes

Initial Procurement Plan

Description of the planned procurement		Estimated amount (US\$)	Method	Estimated date
Works	Construction of the building, site development, and new facilities for the Plaza Marinera in the Puerto La Libertad Tourist Complex.	3,340,760.00	ICB	QI 2014
	Construction of various infrastructure works at the Walter T. Deininger Park, including parking, surveillance towers, a building to house an interpretive center, etc.	1,765,320.00	NCB	QI 2015

³ Policies for the selection and contracting of consultants ([document GN-2350-9](#)), paragraph 3.9: Direct selections will be duly justified.

⁴ Foreign firms are not barred from participating.

Description of the planned procurement		Estimated amount (US\$)	Method	Estimated date
	Miscellaneous construction related to development of Puerto El Triunfo, including reconstruction of the wharf, repurposing a Navy building as an “ecocenter,” construction of a retail area for the sale of artisanal products from Bahía, and the cleaning and remodeling of El Malecón.	1,029,300.00	NCB	QI 2014
Goods	Purchase of shirts and boots for members of El Salvador’s Tourist Police (POLITUR).	109,600.00	NCB	QI 2014
	Purchase of pickup trucks, all-terrain vehicles, and vehicles for transporting boats and motorcycles for El Salvador’s Tourist Police (POLITUR).	194,400.00	NCB	QI 2014
Services:				
Firms	Feasibility study on works for Walter T. Deininger Park.	200,000.00	QCBS	QII 2014
	Design and management of a database system for capturing and managing information on local and national statistics on tourism demand.	240,000.00	QCBS	QII 2014
	Design, establishment, and management of the tourism satellite account for El Salvador.	200,000.00	QCBS	QII 2014
	Promotional activities, publicity, and marketing of tourism for El Salvador’s marine coastal zone.	850,000.00	QCBS	QI 2017
Individuals	General Program Coordinator to be part of the program coordination unit (PCU).	210,000.00	NICQ	QI 2014
	Project Specialist to be part of the program coordination unit (PCU).	120,000.00	NICQ	QI 2014
	Financial Management Specialist to be part of the program coordination unit (PCU).	120,000.00	NICQ	QI 2014
	Procurement Specialist to be part of the program coordination unit (PCU).	120,000.00	NICQ	QI 2014

3. Procurement supervision

- a. The Bank will conduct ex post reviews of procurements once per year. The frequency of ex post reviews and the thresholds established for ex ante review of contracts are consistent with capacity assessment that was performed. These thresholds and the frequency of the ex post reviews may be adjusted as part of the updates and reviews of the procurement plan, in accordance with the performance of the executing agency and progress in adopting any corrective measures described. The procedures applicable to each type of procurement are pursuant to the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The Bank will supervise procurements of goods, works, and consulting services financed with program resources in accordance with the procurement plan, Appendix I of documents GN-2349-9 and GN-2350-9, and the stipulations set forth in the table below.

Procurement procedures

Investment category	Threshold (US\$)	Procurement procedure	Type of review
Works	Greater than or equal to US\$5,000,000	International Competitive Bidding	All ex ante
	Greater than or equal to US\$350,000 and less than US\$5,000,000	National Competitive Bidding	All ex ante
	Less than US\$350,000	Shopping	Ex ante for first 3 contracts and ex post for subsequent contracts
	No threshold	Direct contracting	All ex ante
Goods and nonconsulting services	Greater than or equal to US\$250,000	International Competitive Bidding	All ex ante
	Greater than or equal to US\$50,000 and less than US\$250,000	National Competitive Bidding	All ex ante
	Less than US\$50,000	Shopping	Ex ante for first 3 contracts and ex post for subsequent contracts
	No threshold	Direct contracting	All ex ante
Individual consulting services	No threshold	Comparison of the qualifications of individual consultants	Ex ante for first 3 contracts and ex post for subsequent contracts
	No threshold	Direct selection	All ex ante
Consulting services by consulting firms	Greater than US\$200,000	Short list with broad geographic participation	All ex ante
	Less than US\$200,000	Short list may be comprised entirely of national consultants	All ex ante
	No threshold	Direct selection	All ex ante

- Records and files.** A dedicated filing system in the procurement units needs to be established and maintained, where all of the procurement processes are duly identified and all documentation for each stage of the procurement process is kept in a single file. In addition, a location for storing all of the files needs to be established, with appropriate security. The head of the institutional procurement and contracts unit will be responsible for maintaining and overseeing the program records and files. For purposes of preparing and filing program reports, the formats described in the aforementioned Operating Manual will be used.

VI. FINANCIAL MANAGEMENT AGREEMENTS

- Programming and budget.** The country system is to be used for this purpose. MITUR will oversee, on an annual basis, a budget allocation process that clearly identifies the program, with sufficient budgetary credits to cover each year's

execution commitments. This arrangement does not preclude the possibility that the authorities may employ some multiyear budgeting method for the program, in which case this will be preferable to annual allocations.

2. The budget will include the necessary breakdown for each of the program's components, assigning budget lines for each task, in order to facilitate periodic monitoring of the sums committed and liquidated for each component, as a means of measuring program execution.
3. **Accounting and financial reports.** The country system will be used on a partial basis. The program accounting records, as well as the corresponding supporting documentation, will be the responsibility of the MITUR institutional financial unit, using the Integrated Financial Administration System (SAFI). MITUR will ensure that auxiliary records are kept as necessary to fulfill the financial reporting requirements set forth in the loan contract.
4. **Disbursements and cash flow.** The country's cash management subsystem will be used for processing disbursements. MITUR will maintain a special account at the Central Reserve Bank, as well as a designated operational account at a commercial bank,⁵ from which payments to providers and contractors will be made, using the SAFI cash management subsystem; both accounts will be used exclusively for the program. Pursuant to the provisions of the Bank's financial management policy (document OP-273-2), disbursements will be made based on liquidity needs, for which purpose MITUR will prepare a financial plan that will serve as the basis for advances and other types of disbursements as deemed appropriate. This mechanism will be reviewed and adjusted as the Ministry of Finance implements the Treasury's consolidated account at the executing agency.
5. **Internal control.** The technical standards for internal control issued by the Court of Accounts of the Republic of El Salvador⁶ will apply. A significant prior control calls for a review, to be conducted by the budget section of the institutional financial unit, of annual planning for procurements and contracting with resources allocated in the corresponding budget. At a second stage, the budget section executes the budget commitment by creating a record in the SAFI. Prior to issuing payment for the contracted obligations, there is a new control in which a record is made to reflect the outlay. Payment of the obligation is recorded immediately after delivery of the check or amount is made to the beneficiary account.
6. **Internal audit.** MITUR has an internal audit unit, but it has limited resources. To the extent possible, the internal audit unit will include a review of program execution in its annual planning.

⁵ This arrangement will be used unless the Salvadoran government sets up a consolidated account for payments.

⁶ In El Salvador, a civil servant's responsibility in performing his or her functions is established by law such that legal action may be taken against the responsible official in cases of noncompliance. Title III, "Responsibility for public functions," Articles 52-61 of the Law of the Court of Accounts.

7. **External control and reports.** A firm of independent auditors acceptable to the Bank will be responsible for external control of the program. MITUR will be responsible for contracting the firm, through a competitive process, in accordance with the guidelines established by the Bank (AF-200). Terms of reference will be agreed upon in advance with the Bank; this contracting process will be reviewed on an ex ante basis. The annual financial statements will be prepared in accordance with the Bank's Guidelines on Financial Reports and Audits.
8. **Supervision.** For financial monitoring of the program, the (unaudited) financial reports produced by the institutional application (SAFI) will be used, and the necessary disaggregation will be described in the corresponding notes and supplemental financial information. Initially, these reports will be required on a quarterly basis, although the frequency may be adjusted subsequently. These quarterly reports are to be delivered no more than 45 days after the close of each calendar quarter. The explanatory notes accompanying the financial information will be designed to be consistent with the Bank's monitoring policy and tools. These reports will provide evidence of progress in executing the activities established in the multiyear program execution plan and the corresponding financial plan.
9. In the first quarter of program execution, on-site reviews of the financial information delivered will be conducted, comparing it with the existing plan. Fiduciary risks will be reevaluated, and a determination will be made as to whether additional on-site supervision is needed, as opposed to desk reviews.
10. **Execution mechanism.** The execution mechanism will be centralized. MITUR will ensure that the annual work plans and periodic progress reports are prepared and kept up to date, along with the estimates of funds needed to prepare disbursement plans and to update the program's management and monitoring instruments (program execution plan, procurement plan, and financial Plan).
11. **Operating Manual.** The information provided in these fiduciary agreements and requirements will be developed fully in an Operating Manual, which will require clearance by the responsible fiduciary specialists.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/13

El Salvador. Loan ____/OC-ES to the Republic of El Salvador
Touristic Development of the Coastal Zone

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 project for touristic development of the coastal zone. Such financing will be for the amount of up to US\$25,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2013)

LEG/SGO/CID/IDBDOCS#37890624
ES-L1066