

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

RURAL ROADS FOR DEVELOPMENT PROGRAM

(ES-L1045)

LOAN PROPOSAL

This document was prepared by the project team consisting of Alfonso Salazar (TSP/CES), Project Team Leader; Néstor Roa (INE/TSP); Juan Carlos Perez-Segnini (LEG/SGO); Sandra Iriarte (INE/TSP); Santiago Castillo and Mario Castaneda (PDP/CES); Ana Elsy Cabrera (CID/CES); Mary Eloise Canfield (ENE/ESG); Roberto Suárez Nicolini (consultant); and Luis Uechi (INE/TSP), document reviewer.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION, OUTCOMES AND RATIONALE.....	1
A.	Introduction.....	1
B.	Background, problem, and rationale	2
C.	Objective, components, and costs.....	6
D.	Results Matrix and major indicators.....	9
II.	FINANCING STRUCTURE AND PRIMARY RISKS.....	10
A.	Financing instrument.....	10
B.	Environmental and social risks and mitigation measures.....	11
C.	Fiduciary risk.....	11
D.	Other considerations and risks	12
III.	EXECUTION AND ADMINISTRATION PLAN	12

ANNEXES

Annex I	Development Effectiveness Matrix - Summary
Annex II	Results Matrix
Annex III	Summary procurement plan

Electronic links and references	
Required	
1.	Monitoring and evaluation plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35165066
2.	Procurement plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35165013
3.	Environmental and social management report for the program http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35164917
4.	Annual work plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35166895
Optional	
1.	Identification of infrastructure projects - Road sector http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35001749
2.	Identification of infrastructure projects - Bank projects http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35001752
3.	Project selection criteria http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2271150
4.	Sample projects http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35163902
5.	Project execution plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35165301
6.	Project risk management http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35165315
7.	Environmental and safeguards classification http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35166884

APPENDICES

Proposed resolution

ABBREVIATIONS

FOVIAL	Fondo de Conservación Vial de El Salvador [Road Conservation Fund]
MOPTVDU	Ministry of Public Works, Transportation, Housing, and Urban Development
UACI	Unidad de Adquisiciones y Contrataciones Institucionales [Procurement Unit]
UPV	Unidad de Planificación Vial [Road Planning Unit]
VMOP	Office of the Deputy Minister for Public Works

PROJECT SUMMARY

EL SALVADOR RURAL ROADS FOR DEVELOPMENT PROGRAM (ES-L1045)

Financial Terms and Conditions			
Borrower: Republic of El Salvador Executing agency: Ministry of Public Works, Transportation, and Housing and Urban Development (MOPTVDU)			Financing
		Amortization period:	25 years
		Grace period:	4 years
		Disbursement period:	4 years
Source	Program	Interest rate:	Libor
IDB (Ordinary Capital)	US\$35,000,000	Inspection and supervision fee:	*
Local counterpart:	0	Credit fee:	*
Total	US\$35,000,000	Currency:	US dollars from the Single Currency Facility
Project at a glance			
Project objectives and description: The main objective of the project is to help improve rural road infrastructure in order to provide for year-round transportation in rural areas, with a focus on those areas with productive development potential. The improvement works on the rural roads selected for the project must meet the criteria and conform t to the conditions set out in the Project Manual, including the appropriate environmental conditions. These criteria and conditions are: (i) they works must apply only to existing roads under the MOPTVDU’s jurisdiction now in use and located away from sensitive environmental areas as well as archeological sites or indigenous communities; (ii) changes in layout will not be included with the exception of such improvements as may be required from time to time for reasons of road safety; (iii) the works will cover gravel and asphalt surfaced roads; (iv) basic road safety signs and markings will be installed, including speed bumps as applicable; and (v) the works will include pedestrian cross walks in built up areas.			
Special contractual conditions: (a) conditions precedent to the first disbursement: (i) approval of the project’s administrative and financial manual (paragraph 3.2); (ii) approval of a projects manual including technical, economic, and environmental eligibility criteria for the projects, as well as matters related to maintenance of works (paragraph 1.27); (iii) agreement between the executing agency and the Bank regarding the works and itemized budgets for the works in the project sample, in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 1.27); and (iv) agreement between the executing agency and the Bank regarding the economic evaluations of the two projects in the sample, in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 1.27) (b) during the project: (i) baseline data will be gathered for each project in accordance with the categories previously agreed upon with the Bank (paragraph 1.35); (ii) the procedure and methodology that will be used to compile, process, maintain, and report the periodic data for purposes of comparison with the baseline data in order to evaluate project outcomes will be documented (paragraph 1.35); (iii) the executing agency will ensure that the roads financed by this operation are maintained at a level consistent with their purpose, as indicated in the project manual (paragraph 2.11); (iv) the executing agency will submit semiannual progress reports to the Bank, indicating the progress of each component and for the project as whole, including agreed indicators (Results Matrix) (paragraph 3.5); (v) the bidding documents for procurement of works under the project must include the environmental requirements in an updated environmental management project, with any additional actions needed to improve environmental performance (paragraph 2.4).			
Exceptions to Bank policies: None			
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [X] Headcount []			

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

I. DESCRIPTION, OUTCOMES AND RATIONALE

A. Introduction

- 1.1 **Economic and social context.** Between 2000 and 2008, El Salvador grew at a modest pace (averaging 2.1% annual growth between 2000 and 2004, 4% between 2005 and 2007, and 2.5% in 2008) that fell short of the average for Latin America (5.6%) and the world (4.9%).¹ The worldwide economic crisis took a heavy toll on the country in 2009, as the economy shrank by an estimated 3.5%.² The rural poverty rate, after falling significantly from 53.7% in 2000 to 35.8% in 2006, reversed trend, however, in 2007, rising again to 49% in 2008. In short, the last two years have seen the country lose much of the ground it had gained in terms of poverty reduction.
- 1.2 **Road transportation and infrastructure.** Roads provide the primary means of transportation for people and goods in El Salvador. The national road system, which is the responsibility of the Ministry of Public Works, Transportation, and Housing and Urban Development (MOPTVDU), includes 6,414 km of roads (2009), including: (i) 3,247 km of paved roads (50.6%), of which 2,851 km have an asphalt wearing surface and 396 km are of hydraulic concrete; and (ii) 3,167 km of unpaved roads³ (49.4%), of which 1,873 are gravel roads and 1,294 km are dirt roads. The country has a surface area of 21,040 km² and a population of 5.7 million people,⁴ 37.3% of whom live in rural areas, and thus the total density of the road system (2007) is about 1.6 km per 1,000 people and 477 km/1,000 km².
- 1.3 In general, the indicators on the overall state of the road system need to be updated on an ongoing basis and to have socioeconomic information that correlates to their impact on the population. In 2007, according to MOPTVDU data, 65% of the road system was in good condition, 21% in fair condition, and 14% in poor condition. These overall indicators, however, conceal the fact that many rural roads are impassable during the rainy season and maintenance has been inadequate in recent years due to budget limitations.
- 1.4 **Institutions in the transportation sector.** The MOPTVDU, acting through the Office of the Deputy Minister for Public Works (VMOP), is responsible for planning, rehabilitating, improving, and expanding the national road system with loans from multilateral organizations, donations, and local counterpart contributions. In the late 1990s and early 2000s, the MOPTVDU pursued an important road development and institutional modernization program, the most notable achievements of which were an improved national road infrastructure and

¹ Source: "Hacia la generación de más oportunidades: Fundamentos de una Agenda de Desarrollo Económico y Social en El Salvador," IDB document.

² Economic growth data published by the Central Reserve Bank of El Salvador.

³ There are also low-grade unpaved roads called neighborhood roads, which are the responsibility of municipal governments.

⁴ The latest population and housing census, taken in 2007.

the creation and implementation of the Road Maintenance Fund (FOVIAL), the entity responsible for maintaining the national road network.

B. Background, problem, and rationale

- 1.5 **Government policy.** In the past decade, El Salvador has focused on improving the national road system not only to make the country more competitive but also to help reduce poverty, though budget limitations have restricted investment in recent years (paragraph 1.9). In general, El Salvador has been successful in managing road maintenance through the work of FOVIAL. Still, the country faces huge challenges in terms of road infrastructure, in a setting where the most pressing social needs must be addressed, reversing the effects of the crisis, and making the most of limited resources for public investment.
- 1.6 Against this backdrop, the new leadership at the MOPTVDU has indicated to the Bank its interest in finding a more effective way of investing in the rural road system by pursuing economic and social objectives with an emphasis on economic development, greater opportunities for low-income people, and the broadest possible coverage. This policy also includes streamlining investment to avoid overinvestment in a particular type of road (e.g., in paving when not warranted by traffic levels). The new policy would be part of a rural road investment program over the medium and long terms.
- 1.7 **Institutional capacity.** The MOPTVDU has a technical team trained to manage traditional projects. The new policy, however, calls for VMOP personnel to receive technical training in the microeconomic analysis of productive activity related to road usage and its correlation to social research on people living in the project areas. An appropriate data baseline for rural roads (inventory, condition, characteristics of the area of influence, etc.) is needed to allow for effective implementation of this policy.⁵
- 1.8 **Complementary government initiatives.** The MOPTVDU, in conjunction with other government entities, is pursuing interagency initiatives to achieve a greater impact on development in regions with productive potential and high poverty rates. To this end, joint interventions are being planned for the VMOP to improve the rural road system and, for example, for the Ministry of Agriculture to stimulate productive activity or for the Ministry of Tourism to promote tourism.
- 1.9 **Investment in the road system.** Investments in the road system over the 2001-2009 period are summarized in Table I-1. Investment levels were high between 2001 and 2004, averaging US\$128 million per year for interurban (nonrural) roads and US\$26 million per year for rural roads. Due to a lack of financing in the 2005-

⁵ The Bank approved nonreimbursable technical-cooperation operation ATN/SF-11968-ES, Identification of Priority Investments in Infrastructure, which will help to develop details for, and implement, the country's new policy for rural road management (paragraph 1.24).

2009 period, investment fell to an average of US\$14 million per year for interurban roads and US\$20 million per year for the rural road system.

Table I-1
Investment in the road sector by the MOPTVDU and FOVIAL (millions of US\$)

Infrastructure	2001	2002	2003	2004	2005	2006	2007	2008	2009
Roads	89.1	31.7	171.3	220.5	18.0	1.3	37.4	5.0	12.3
Highways	51.4	15.3	16.9	19.5	5.9	11.4	4.6	5.7	70.5
Urban roads	-	4.0	23.9	3.9	25.7	14.4	36.7	6.0	14.3
Total	140.6	50.9	212.0	243.9	49.6	27.1	78.7	16.7	97.2

Source: MOPTVDU and FOVIAL

1.10 Road system maintenance. FOVIAL is responsible for maintaining the road system pursuant to the law that established it. Maintenance expenses over the past decade are summarized in Table I-2 below.

Table I-2
Routine road maintenance expenses by FOVIAL (millions of US\$)

Infrastructure	2001	2002	2003	2004	2005	2006	2007	2008	2009
Roads	-	-	16.7	21.1	29.5	28.9	22.6	27.6	28.2
Unpaved roads	-	-	12.6	15.7	27.6	17.7	19.8	20.9	13.7
Bridges, urban roads	-	-	-	3.2	5.7	4.1	7.1	12.7	0.9
Total	-	-	29.2	40.0	62.9	50.7	49.5	61.1	42.9

Source: FOVIAL

1.11 The creation and implementation of FOVIAL represents a major step forward in ensuring ongoing road maintenance (paragraph 1.5), and this has helped lend this activity an institutional character. FOVIAL's work, however, is still compromised by a lack of resources. Two factors have had an impact. First, the "maintainable road system" for which FOVIAL is responsible has expanded in recent years (from 4,400 km in 2002 to 6,600 km in 2009), causing a relative decrease in the budget (measured in \$/km); second, the Road Maintenance Fund Act⁶ was amended to put FOVIAL in charge of rehabilitating rural roads. This has led to the deterioration of many of the country's roads, and acutely affects rural roads, which are more susceptible to inclement weather and delays in maintenance. FOVIAL is considering, therefore, proposals to increase its revenues and reverse this trend.

⁶ Legislative Decree 208 of 30 November 2000, as amended by Legislative Decree 789 of 18 December 2008.

- 1.12 Road safety and the context. In El Salvador like all other countries in the region, road accidents take a heavy toll, with severe consequences in human, social, and economic terms. According to data from the Office of the National Civil Traffic Police, over the last decade accidents have claimed an average of 1,500 lives annually. Unsafe lane changes, driver distraction, and a failure to obey signals have been identified as the chief causes of road accidents. Pedestrian knock-downs account for 62% of all fatalities and this affects mainly low-income groups. At the outset, the new leadership at the MOPTVDU identified traffic safety as one of the Bank's priority areas of support. The Bank arranged for a strategic diagnostic of the problem of road safety, with a recommendation for an action plan. In addition, as part of the regional technical-cooperation operation for the rehabilitation, maintenance, and operation of roads in the Pacific Corridor of RICAM (RG-1744) in El Salvador, an information survey was taken for 342 km of road in the Pacific Corridor with a view to classifying the sections of road in terms of road safety and proposing infrastructure improvements. An important aspect has been the creation of an Executive Committee for Infrastructure Road Safety (CESVI). To this end, the present project incorporates road safety into the road works through curve improvements, speed bumps, pedestrian crossings, and road signs and markings and through the design and implementation of an educational campaign in the areas around the works. The support for road safety will continue to be coordinated through regional and national technical-cooperation projects.
- 1.13 **The problem.** Although El Salvador is a small country, the state of its roads and a low level of rural infrastructure development are important factors that help to account for a chronically depressed level of rural economic activity and rural poverty. This has multiple causes, but the problem of inadequate rural road infrastructure is part of the economic and social isolation inherent to this situation. Having a rural road system that slips into critical condition during the six-month rainy season has a serious negative effect on people's standard of living, as it hampers mobility, limits productive activity, hinders access to basic social services, and increases transportation costs and travel times.⁷ These problems are more acute in mountainous areas, requiring special road projects and, in some cases, stopgap measures by owners of nearby farms to allow for the use of all-terrain vehicles, if nothing else.
- 1.14 While the country lacks specific indicators to quantify the impact of rural road problems on economic and social development, international experience speaks eloquently on the effect of impassability on productive opportunities and access to

⁷ References of interest regarding the role of rural roads in economic and social development: (i) IDBDocs #1902727, Rural Access Index: A Key Development Indicator, WB 2006; (ii) IDBDocs #1902728, Rural Infrastructure and Agricultural Development, 2006; (iii) IDBDocs #1902729, Access to Markets and the Benefits of Rural Roads, 2000; (iv) IDBDocs #1902731, When Do Rural Roads Benefit the Poor and How? ADB 2006; (v) IDBDocs #1902734, Choosing Rural Road Investments to Help Reduce Poverty, WB 2002.

social services in rural areas.⁸ In visits to areas with rural roads potentially eligible for this program, conditions unfavorable to private investment and the pursuit of new productive activities were identified in connection with impassability problems, primarily in the rainy season.

- 1.15 **Project rationale.** The operation is consistent with the government's policy for improving rural infrastructure, which is aimed at: (i) ensuring year-round passability; (ii) reducing transportation costs for users of the rural roads to be improved; (iii) creating conditions conducive to the economic and social development of the country's rural population; (iv) facilitating transportation and mobility for agricultural microentrepreneurs and small-scale producers; (v) improving access to inputs for producers and rural residents; and (vi) facilitating the rural population's access to basic services (education, health care, etc.).
- 1.16 The purpose of the project is to help reduce poverty and boost economic growth for households in the area around the road works. In addition to specific improvements in the rural road system, the program also involves implementing a new approach to help promote growth, create opportunities, and achieve greater equitability as core objectives of the road development policy. This calls for moving beyond traditional investment-related decision-making based on economic conditions as opposed to economic and social concerns. At the heart of this program is its contribution to this qualitative change in rural road management, which is an important step towards achieving greater development effectiveness.
- 1.17 **The Bank's Country Strategy.** The operation fits in with the Bank's recently approved Country Strategy with El Salvador 2010-2014, a strategic objective of which is to improve the quality and management of the rural road system. The anticipated project outcomes support the goals for the transport sector set out in the Country Strategy. This project involves a major effort to achieve a more efficient way of making rural road investment (paragraph 1.6), as reflected in the project selection criteria and the design and implementation of a system for planning, supervision, and impact assessment of rural roads (paragraph 1.29), which is aligned with the Country Strategy in the sense of contributing to efficient public spending.
- 1.18 The Bank has extensive experience in carrying out rural road operations in various countries in the region. In El Salvador, it financed the Multiphase Program for

⁸ The document "*Apertura del potencial económico del sector rural de El Salvador*", prepared by an interdivisional group of the Bank's Regional Operations Department 2, states that one of the problems afflicting rural areas in El Salvador is the lack of uninterrupted vehicular access to rural areas.

Sustainable Roads in Rural Areas (Phase I) in the amount of US\$57.7 million, which was executed from 2002 to 2009.⁹

C. Objective, components, and costs

1. Objectives

- 1.19 The main objective of the project is to help improve rural road conditions in order to facilitate ongoing transportation activity in rural areas, with a focus on those areas with productive development potential.

2. Components

- 1.20 To achieve these objectives, the program has been structured into two components: (i) rural road works and supervision, which entails financing the rehabilitation and/or improvement of some 80 km of rural roads,¹⁰ including supervisory services; and (ii) institutional strengthening to boost the MOPTVDU's technical and management capacity so that the present operation can be implemented smoothly.
- 1.21 **Component I. Rural road projects and supervision (US\$32,650,000). Modality.** This operation has been designed using a multiple-works approach and calls for: (i) identifying a representative sample of two rural road improvement projects, analyzed and evaluated; (ii) adding another set of rural road improvement projects during the program, as determined by the MOPTVDU based on the sample and applying the agreed technical and economic criteria in the Project Manual; and (iii) preparing the general specifications for the design of the works.
- 1.22 **Project selection criteria.** Rural roads will be selected in accordance with their functional profile and the economic and social impact that improvements would have on the population, as indicated below.
- 1.23 Rural roads will be selected in a two-phase process. In phase one, each preselected road on the VMOP's current list of projects will be subject to an economic and social impact analysis, to be conducted in the project area by calculating an impact index¹¹ based on the following subindexes: (i) potential capacity to develop productive activity (limited by road conditions); (ii) size of the overall population and the poor population;¹² (iii) improved passability; and (iv) regional or

⁹ As indicated in the project completion report (PCR), this project has had positive direct effects in terms of reducing travel time, enhancing connectivity, and lowering vehicle operating costs. The project encountered difficulties in fulfilling its execution and disbursement periods due to factors beyond the executing agency's control. This new operation will take into account the lessons learned as set forth in the PCR, in particular: (i) price adjustment mechanisms; (ii) control of advance payments; and (iii) environmental mitigation measures and safety plans, *inter alia*.

¹⁰ Total length will depend on the amount of investment needed on selected roads.

¹¹ The impact index is calculated as the sum of the various subindexes, weighted by factors to be determined by the VMOP.

¹² El Salvador uses the Integrated Municipal Marginality Index, which measures hardship in terms of both income and basic needs (education, housing, etc.).

international connectivity capacity pursuant to a network concept, as each selected road should connect at least at one end to another road of equal or greater importance. In the second phase, an economic feasibility analysis will be conducted on projects with the highest impact index to verify economic and social profitability; this analysis will use a hybrid methodology that quantifies benefits in terms of producer surplus (project area) and consumer surplus (road usage).

- 1.24 The Bank is supporting the strengthening of rural road management at two levels. First, it has approved nonreimbursable technical-cooperation operation ATN/SF-11968-ES (Identification of Priority Investments in Infrastructure), which will contribute by providing baseline data on rural roads involved in the program, such as: (i) road characteristics and conditions; (ii) traffic volumes based on existing counts or future ones to be conducted with support from the VMOP; (iii) determination of areas of influence and an inventory of social and demographic conditions and economic activity in such areas; and (iv) proposed technical criteria for prioritizing investments on the basis of rural road conditions and usage. Second, the institutional strengthening component will be used to design and implement a system for planning, monitoring, and evaluating rural road investments within the VMOP.
- 1.25 **Profile of projects to be selected.** The rural road improvement works to be selected for the project must meet the following criteria set out in the project manual, including environmental conditions. These criteria include: (i) the roads already exist and are in use, and are not located in environmentally or socially sensitive areas, archeological sites, or indigenous communities; (ii) no route changes may be made, with the possible exception of specific improvements for safety reasons not requiring the procurement of rights-of-way; (iii) only gravel surface or surface asphalt treatment may be considered; (iv) basic road safety signage will be installed, including measures to reduce speed where appropriate; and (v) pedestrian crossings will be provided in populated areas. The engineering will be designed by the VMOP.
- 1.26 **Project sample.** The VMOP has analyzed the rural road improvement projects that are part of its current list of projects. As a result of this analysis, and pursuant to the basic selection criteria agreed upon (paragraph 1.23), two projects were identified for the sample.¹³ These two projects are listed in Table I-3.

¹³ With this program, the VMOP is ushering in a new methodology for selecting and evaluating rural road projects. Because the VMOP still lacks complete statistical data (regional economy, effects of limited passability in areas of influence, etc.) as well as specialized technical capacity, the analysis for identifying the sample was carried out with the incomplete information available and simplified selection criteria. Thus, the sample cannot be expected to represent an optimal prioritization of projects.

Table I-3
Project sample

Project	Km	Average daily traffic	Population in area of influence	Comments
Road LIB31N (Department of La Libertad Section San Pablo Tacachico-Cantón San Isidro Lempa	12,3	631	20,366	Flat open road
Road LIB22S (Department of La Libertad Section Et. LIB05W (Dv. Comsagua)-Dv. (Chiltiupán)	9,6	137	55,623	Mountain road

- 1.27 The projects will comply with the general guidelines for roads selected for the program (paragraph 1.1). The VMOP is reviewing the designs and budgets for these projects, and is evaluating them for compliance with the guidelines. **As a condition precedent to the first disbursement, the executing agency must reach agreement with the Bank on the works to be included in the project sample and their itemized budgets, in accordance with the terms and conditions previously agreed upon with the Bank.** The MOPTVDU's combined preliminary analysis of both projects found an internal rate of return of 20.8% and a net present value of US\$6.23 million.¹⁴ It was decided that the investment amount, as determined by the type of intervention, may not exceed the ceiling that would give an economic internal rate of return of 12%. **As a condition precedent to the first disbursement, the executing agency must reach agreement with the Bank on the economic evaluations of the two projects in the project sample, in accordance with the terms and conditions previously agreed upon with the Bank. Another condition precedent to the first disbursement will be the approval of a project manual that includes the technical, economic, and environmental criteria for the projects, as well as matters related to project maintenance.**
- 1.28 **Component II. Institutional strengthening (US\$1,450,000).** The project also includes institutional strengthening efforts for the MOPTVDU that focuses on supporting the smooth implementation of the operation, including the subcomponents described below:
- 1.29 **Planning, monitoring, and impact evaluation system for rural roads (US\$400,000).** The project calls for the design of and support for implementation of a planning, monitoring, and impact evaluation system for rural road investments with a view to strengthening the VMOP's capacity to make investments and to follow up and measure the outcomes. The component envisages funding for an evaluation of the impact of the investments and complements nonreimbursable

¹⁴ See document "Datos Relevantes Proyectos de la Muestra" (IDBDocs #35185257).

technical-cooperation operation ATN/SF-11968-ES (Identification of Priority Investments in Infrastructure) in the amount of US\$200,000 (paragraph 1.24) approved by the Bank.

- 1.30 **Training of personnel (US\$200,000).** The technical personnel of the VMOP and the senior management of the Ministry will receive training in such topics as planning, socioeconomic project evaluation, works procurement, and other areas to enhance execution. The VMOP will submit to the Bank a training plan for the present project.
- 1.31 **Equipment (US\$650,000).** The program envisages procurement of computer hardware and software as well as other items needed to execute the program effectively and accommodate UACI files, as established in the procurement plan¹⁵.
- 1.32 **Promotion of rural road safety (US\$200,000).** Activities will be pursued on two levels. First, a campaign to promote road safety will be designed, and second, the specific actions for this campaign will be carried out.

3. Program cost and financing

- 1.33 **Project budget.** The estimated cost of the project is US\$35 million (including taxes) as shown in the following breakdown by investment and source of financing.

Table I-4
Program cost and Financing (US\$)

Investment categories	IDB	
1. Administration	600,000	
1.1 Administration and auditing	600,000	1.7
2. Direct costs	34,100,000	
2.1 Civil works and supervision	32,650,000	93.3
2.2 Institutional strengthening	1,450,000	4.1
3. Unallocated costs	300,000	
3.1 Contingencies	300,000	0.9
Total	35,000,000	100.0

D. Results Matrix and major indicators

- 1.34 **Outcomes.** The main expected outcomes are: (i) expansion of the improved rural road system; (ii) increased economic activity in the project areas; (iii) lower vehicle operating costs and increased vehicle operating speeds; and (iv) reduced incidence of impassability. The indicators for these outcomes will be quantified after the VMOP completes the economic feasibility study (paragraph 2.9).

¹⁵ The executing agency will formulate an equipment plan to supplement the procurement plan.

- 1.35 **Evaluation.** The project will design evaluation mechanisms that make it possible to determine whether upon completion the operation's objectives have been fulfilled. This will help create a framework of lessons learned and provide feedback for public policy development and for the planning, monitoring, and evaluation cycle. To this end, the following will be determined during execution of the works: (i) baseline data for each project, in accordance with the categories previously agreed upon with the Bank; and (ii) the procedure and methodology that will be used to compile, process, maintain, and report the periodic data for comparison to the baseline data in order to evaluate project outcomes; these are special contractual conditions. The planning, monitoring, and evaluation system to be designed and implemented with the program's support will be used in these efforts. Surveys will be conducted in the selected project areas and in control areas. The executing agency must submit the following to the Bank's satisfaction: (i) within six months after the last disbursement, the outcomes of the impact evaluation in accordance with the guidelines previously agreed upon with the Bank; and (ii) within two years after completion of the last project in this operation, a follow-up survey of each beneficiary group and comparison group, in accordance with the guidelines previously agreed upon with the Bank. The methodology and operational aspects of the evaluation will be agreed upon by the executing agency and the Bank, and will be part of the aforementioned planning, monitoring, and evaluation system.¹⁶ In addition to allocating resources as described above (paragraph 1.29), the MOPTVDU must ensure that the evaluation mechanism is designed and implemented, and that the information required by the Bank is gathered and processed.

II. FINANCING STRUCTURE AND PRIMARY RISKS

A. Financing instrument

- 2.1 The financing structure reflects the nature of a multiple-works investment plan by the Bank for up to US\$35 million from the Ordinary Capital resources. The disbursement schedule is presented in Table II-1.

Table II-1
Execution timetable (millions of US\$)

Source	2011	2012	2013	2014	Total
IDB	5.6	11.2	11.2	7.0	35.0
Total	5.6	11.2	11.2	7.0	35.0

¹⁶ The program will be supported by the Bank's Office of Strategic Planning and Development Effectiveness, with which coordination efforts are under way.

B. Environmental and social risks and mitigation measures

- 2.2 **Safeguards.** This operation will improve or rehabilitate existing rural roads; it will not open new roads or expand road capacity. No route changes are planned, and as such the projects are not expected to generate negative environmental impacts because the physical work will be on a small to medium scale, using traditional engineering methods. Work will be executed on existing rights-of-way, and will not involve property changes, resident resettlements, or environmentally or socially sensitive interventions. The project has been classified as Category “B” in accordance with Bank (Policy OP-703). An environmental and social management report has been prepared by an internationally experienced environmental consultant. The project manual will include a description of public consultation in the areas targeted by the project, which have been done in accordance with national legislation and Bank policy.
- 2.3 During all phases of the program, the MOPTVDU’s responsibility for environmental management will fall to the Environmental Management Office of the Road Planning Unit, which regularly ensures implementation of the legal framework set forth in the Environmental Act and coordinates with the Ministry of the Environment and Natural Resources. The Environmental Management Office has professional staff trained and experienced in monitoring the environmental management of road projects in general, including rural roads, as well as in implementing the Bank’s environmental and social policies.
- 2.4 As a special contractual condition during project execution, the bid documents for works under the program must include the environmental requirements in an updated environmental management program, along with any additional actions needed to improve environmental performance.

C. Fiduciary risk

- 2.5 The MOPTVDU has experience in managing the road project cycle, both for rural roads and for major highways. It has also executed projects financed by the Bank and other multilateral cooperation institutions. The Bank’s cumulative experience, along with the lessons learned by the MOPTVDU in this type of project, will provide significant inputs for meeting future demand in the country and the region.
- 2.6 The MOPTVDU needs to be strengthened, however, in its ability to identify, select, and prioritize rural roads for this program. This need will be addressed with the program’s resources for institutional strengthening. Activities will be carried out to improve the systems for planning, analysis, and selection of roads to be improved or rehabilitated, as well as to promote road safety.
- 2.7 Resources will be disbursed in the form of advance payments through the Integrated Financial Management System (SAFI), which provides budgeting, accounting, and cash flow management for all government entities. The institutional capacity evaluation of the MOPTVDU ([IDBDOCS#35165013](#)) found

fiduciary risk to be low. Disbursements will be reviewed ex post with the help of a firm of n auditors acceptable to the Bank.

D. Other considerations and risks

- 2.8 **Technical viability.** The technical viability of the works will be ensured through the studies and design work to be carried out; these are standard works that do not require unconventional technologies or special technical safeguards.
- 2.9 **Economic feasibility.** The economic feasibility studies of the works in the project sample are being conducted by the VMOP. Once completed, they will be presented to the Bank. The projects in the sample must have an economic internal rate of return of at least 12% in order to be acceptable.
- 2.10 **Execution risks.** The works do not pose major technical challenges, and it has been confirmed that construction companies are available to execute the works to be financed.¹⁷
- 2.11 **Road maintenance.** The purpose of maintenance is to maintain the rural roads being targeted under the project in a condition compatible with the level of service to be provided. The executing agency is committed to ensuring that the roads financed under the present operation will be maintained. This will be stipulated in the project manual and will be a special contractual condition for project execution.

III. EXECUTION AND ADMINISTRATION PLAN

- 3.1 **Executing agency.** The executing agency will be the Ministry of Public Works, Transportation, and Housing and Urban Development (MOPTVDU), through the Vice Ministry of Public Works. The Institutional Cooperation Office (UFI) will be in charge of implementing the institutional strengthening component and the Institutional Financial Office and the Procurement Office (UACI) will lend support for project execution. To enable the Ministry to operate more efficiently, three specialists will be hired out of the program financing. The specialists will be a technical manager, who will act as general project coordinator, a financial specialist for the UFI, who will provide financial and accounting support, and a specialist for the UACI, who will assist with the procurement process. The specific functions of these individuals will set out in the Administrative/Financial Manual.
- 3.2 The executing agency will develop an administrative and financial manual for the project, which will set forth program activities and establish the responsibilities of participating entities in accordance with applicable Bank policies. **Approval of the project administrative and financial manual is a condition precedent to the first disbursement.**

¹⁷ The MOPTVDU will submit the quality standards for each road to the Bank for its no objection with sufficient advance notice prior to the start of each project.

- 3.3 **Procurement.** Procurement activity for the project will be carried out by the Procurement Office (UACI), which is responsible for all procurement (the UPV participates in the bidding process for road projects under its responsibility). The UACI's institutional capacity for procurement (IDBDOCS#35165013) was evaluated, applying the methodology of the Institutional Capacity Evaluation System to the Goods and Services Management System. The overall risk associated with procurement was found to be low, and the area in question was found to have a medium level of development.
- 3.4 The procedures for each type of procurement will conform to the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-7) of July 2006 as amended. The Bank will review procurement ex post as specified in Appendix I of documents GN-2349-7 and GN-2350-7, within the limits set forth in the procurement plan (Annex III), the Procurement Procedure ([IDBDOCS# 35175843](#)), and the Agreement and Fiduciary Requirements for the Execution of Procurement Processes ([IDBDOCS#35175848](#)).
- 3.5 **Monitoring.** As a special contractual condition during project execution, the executing agency must submit semiannual progress reports to the Bank describing the progress of each component and of the program as a whole, including the agreed indicators (Results Matrix). These reports will also include: (i) a description of the activities carried out; (ii) updated timetables of physical execution and disbursements; (iii) the extent to which the agreed indicators have been attained; (iv) a program of activities for the following six-month period; (v) a summary of the status of the program's financial execution and the flow of resources for the following six-month period; and (vi) the identification of possible events that could jeopardize the program. Within 90 days after the last disbursement, a final program report will be prepared, and this report will include, as a minimum: (i) the outcomes of the financial execution of each component; (ii) the extent to which targets have been met in accordance with agreed outcome indicators; and (iii) the extent to which contractual obligations have been fulfilled.
- 3.6 **External audits.** The MOPTVDU will submit the program's annual financial statements to the Bank within 120 days after the end of each fiscal year for the duration of the program. To this end, it will commission an external audit to be performed by an independent auditing firm acceptable to the Bank and in accordance with Bank requirements, on the basis of the terms of reference agreed upon with the Bank. The auditing firm will be selected and commissioned in accordance with the procedures set forth in the document on commissioning external audits (document AF-200). The cost of the audit will be included in the program cost. In addition, the executing agency will submit to the Bank financial reports generated by its integrated financial management system on a quarterly basis (unaudited), showing how resources have been executed.

- 3.7 **Ex post reviews of procurement.** At least once each year, the Bank will perform an ex post review of the procurement listed in Annex III. The Bank will use project resources to engage auditing services for these reviews.

DEVELOPMENT EFFECTIVENESS MATRIX - SUMMARY

Indicator	Score	Maximum Score
<i>I. Strategic Relevance</i>	High	
Section 1. IDB Strategic Development Objectives	6.6	10
Country Diversification	2.0	2
Corporate Initiatives	2.5	2.5
Harmonization and Alignment	1.1	3.5
Beneficiary Target Population	1.0	2
Section 2. Country Strategy Development Objectives	9.6	10
Country Strategy Sector Diagnosis	6.0	6
Country Strategy Sector Objective & Indicator	3.6	4
<i>II. Development Outcomes – Evaluability</i>	Highly satisfactory	
3. Evidence-based Assessment & Solution	6.5	10
4. Evaluation & Monitoring Plan	7.4	10
5. Cost-Benefit or Cost Effectiveness	7.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
<i>III. IDB's Role – Additionality</i>		
Section 7. Additionality	7.0	10
Technical Assistance provided prior to the project	3.0	3
Improvements in management of financial, procurement, monitoring, or statistics internal controls	4.0	4
Improvements in environmental, health, and labor performance	0.0	3

I. Strategic Relevance: This is a multiple works project that is designed to improve the state of road infrastructure in rural areas, especially those areas offering a high socioeconomic return to ensure uninterrupted communication with remote areas. The project is closely aligned with the Bank's priorities (transport sector, C/D Country) and the Bank's Country Strategy with El Salvador.

II. Evaluability: The project provides an excellent diagnostic of the problem of low connectivity in rural areas and the underlying causes. The solution proposed is well conceived and is presented in the evaluation plan the government has used to develop and strengthen M&E sector activities. The project is among the first in the area of rural roads that has a well-defined evaluation framework that measures impacts on passability and economic effects on the community.

III. Additionality: The additionality brought by this project derives from the use of a technical-cooperation project to prepare and improve the MOPTVDU's planning, monitoring, and evaluation systems.

RESULTS FRAMEWORK / INDICATORS MATRIX

Program objective	The main objective of the project is to help improve the state of rural road infrastructure in order to provide for year-round transportation in rural areas, especially in those areas with productive development potential				
Goal	The goal is to help reduce poverty and contribute to economic growth for families living in the project areas.				
Goal indicators	Concept	Unit	Baseline 2010	Target 2014	Comments
Income of families living in areas around the improved roads	Household income	US\$/month	Pending	To be determined	To be determined for each project in the sample and for subsequent projects.
Local index of economic activity	Agricultural output or representative economic activity of the area	Project-specific	Pending	To be determined	To be determined for each project in the sample and for subsequent projects.

Component I: Road projects and supervision					
Objective indicator	Concept	Unit	Baseline 2010	Target 2014	Comments
Decreased transportation costs					
1. Cost of operating a vehicle (US\$/veh.km) 2. User speeds (km/h)	Automobiles	US\$/veh.km			Indicators will be quantified after the economic feasibility study is completed.
		km/h			
	Buses	US\$/veh.km			Target for first year of road improvement works.
		km/h			
	Heavy trucks	US\$/veh.km			Year-round passability for first year of works.
		Km/h			
Improved access along rural roads					
Days of impassability or with severe restrictions on traffic along roads	Impassability	Days	To be determined per project	0	The baseline will be determined in the economic feasibility study.
Outcome indicator	Concept	Unit	Baseline 2010	Target 2014	Comments
Enhanced quality of rural road system					
Km of roads with an international roughness index of 3 m/km, complete with drainage and safety features.	Improved road	km			An improved road is one for which the surface has been improved and has been equipped with drainage and safety features.

Component II: Institutional strengthening					
Output indicator	Baseline 2010	Target 2011	Target 2012	Target 2014	Comments
Technical support and strengthening for the MOPTVDU's management capacity					
Planning, monitoring, and impact evaluation system designed and implemented	0		1		Target correlated with the target for ATN/SF-11968-ES.
Number of people trained at the MOPTVDU	0	450 people	450 people		The targets will be adjusted when the MOPTVDU presents the training plan to the Bank.
Computer equipment procured	0	148	148		As the targets will be reviewed, the MOPTVDU will need to submit to the Bank an equipment outfitting plan.
Specialized software procured		12	12		
Videoconferencing room		1	0		
Monitoring system		0	1		
Campaign to promote rural road safety designed and implemented on executed rural road projects.	0			To be determined	An educational road safety campaign will be carried out in the area around each project. As this is a multiple-works program, a sample of two projects has been selected, and the total number of projects will depend on the amount the executing agency submits to the Bank for consideration.

SUMMARY PROCUREMENT PLAN

PERIOD COVERED BY THIS PROCUREMENT PLAN: SEPTEMBER 2010 - AUGUST 2014

Ref. No.	Description and type of procurement contract	Estimated contract cost (US\$)	Procurement method (1)	Review (ex ante or ex post)	Source of financing and percentage		Pre-qualification (Yes/ No)	Estimated dates		Status (Pending, in process, awarded, canceled) (2)
					IDB %	Local / Other %		Publication of specific procurement notices	Completion of contract	
I.	Works ¹									
1.1	Road LIB31; section San Pablo Tacachico – Cantón San Isidro.	5,500,000	ICB	Ex post	100%	0%	No	10/2010	04/2012	Pending
1.2	Road LIB22S; section Et. LIB05W (Dv. Comasagua) –Dv. (Chiltiupán).	4,700,000	ICB	Ex post	100%	0%	No	10/2010	12/2011	Pending
II.	Nonconsulting services									
2.1	Training of technical and administrative personnel involved in the project	200,000	PC	Ex post	100%	0%	No	-	04/2012	Pending
III.	Consulting services									
3.1	Design and implementation of planning, monitoring, and impact evaluation system	400,000	QCBS	Ex ante	100%	0%	Yes	01/2011	03/2012	Pending
3.2	Design and implementation of rural road safety campaign	200,000	QCBS	Ex ante	100%	0%	Yes	06/2011	06/2013	Pending
3.3	Supervision of works on road LIB31; section San Pablo Tacachico – Cantón San Isidro.	165,000	QCBS	Ex ante	100%	0%	Yes	10/2010	04/2012	Pending

¹ This refers to the sample.

Ref. No.	Description and type of procurement contract	Estimated contract cost (US\$)	Procurement method (1)	Review (<i>ex ante</i> or <i>ex post</i>)	Source of financing and percentage		Pre-qualification (Yes/ No)	Estimated dates		Status (Pending, in process, awarded, canceled) (2)
					IDB %	Local / Other %		Publication of specific procurement notices	Completion of contract	
3.4	Supervision of works on road LIB22S; section Et. LIB05W (Dv. Comasagua) – Dv. Chiltiupán)	275,000	QCBS	Ex ante	100%	0%	Yes	10/2010	12/2011	Pending
3.5	Program audit	200,000	QCBS	Ex ante	100%	0%	Yes	06/2013	12/2013	Pending
IV.	Goods									
4.1	Equipment	650,000	NCB	Ex post	100%	0%	Yes	06/2011	12/2012	Pending

(1) Notes:

ICB: International competitive bidding

NCB: National competitive bidding

NCQS: Selection based on national consultants' qualifications

DC: Direct contracting

LB: Limited bidding

ICQS: Selection based on international consultants' qualifications

PC: Price comparison

QCBS: Quality- and cost-based selection

(2) Terminology to be used: Pending / In process / Awarded / Canceled

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/10

El Salvador. Loan ____/OC-ES to the Republic of El Salvador
Rural Roads for Development Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of El Salvador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the rural roads for development program. Such financing will be for the amount of up to US\$35,000,000 from the resources of the Single Currency Facility 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 ____ 2010)

LEG/SGO/CID/IDBDOCS#35287039
ES-L1045