

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

PRODUCTIVE CORRIDORS PROGRAM

(ES-L1075)

LOAN PROPOSAL

This document was prepared by the project team consisting of Galileo Solís A. (CTI/CPN), Project Team Leader; Carlos Morán (TSP/CES), Alternate Team Leader; Carlo Pietrobelli (IFD/CTI); María Carina Ugarte (IFD/CTI); Gregorio Arévalo (CTI/CME); M. Agustina Calatayud (IFD/CMF); Juan Carlos Páez (VPS/ESG); María Cristina Landázuri (LEG/SGO); Lilena Martínez (FMP/CES); Marco Alemán (FMP/CES); and Patricia Reyna (IFD/CTI).

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ABBREVIATIONS

AWP	Annual work plan
CENDEPESCA	Centro de Desarrollo de la Pesca y la Acuicultura [Center for Fishing and Aquaculture Development]
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa [National Commission for Micro and Small Enterprises]
DIGESTYC	Statistics and Census Bureau
FOMILENIO II	Second Millennium Challenge Corporation grant program
FONDEPRO	Fondo de Desarrollo Productivo [Productive Development Fund]
GCI-9	Ninth General Capital Increase
IFMS	Integrated financial management system
LEDA	Local economic development agency
MAG	Ministry of Agriculture and Livestock
MARN	Ministry of the Environment and Natural Resources
MCC	Millennium Challenge Corporation
MCS	Marine coastal strip
MINEC	Ministry of the Economy
MOPTVDU	Ministry of Public Works, Transportation, Housing, and Urban Development
MSEDC	Micro and small enterprise development center
MSME	Micro, small, and medium-sized enterprises
PCU	Program coordinating unit
SMEs	Small and medium-sized enterprises
UNI08S	Corsaín-Las Playitas road - La Unión department
USU08S	San Marcos Lempa-La Canoa road –Usulután department
WEF	World Economic Forum

PROGRAM SUMMARY

EL SALVADOR PRODUCTIVE CORRIDORS PROGRAM (ES-L1075)

Financial Terms and Conditions					
Borrower: Republic of El Salvador Executing agency: Ministry of the Economy (MINEC) and Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU)			Flexible Financing Facility*		
			Amortization period:	25 years	
			Original WAL	15.25 years	
			Disbursement period:	5 years	
Source	Amount (US\$)	%	Grace period:	66 months	
			Inspection and supervision fee:	**	
IDB (Ordinary Capital)	40,000,000	100	Interest rate:	Libor-based	
Local	0	0	Credit fee:	**	
Total	40,000,000	100	Currency:	U.S. dollars from the Bank’s Ordinary Capital	
Program at a Glance					
Program objective/description: The purpose of the program is to contribute to the economic growth of priority municipios in the marine coastal strip (MCS). The specific objectives of the program are: (i) to boost the competitiveness of micro, small, and medium-sized enterprises (MSMEs) located in these territories; (ii) to upgrade the local productive, operational, and logistical infrastructure to boost competitiveness; (iii) to strengthen environmental management of the MCS as a key element for achieving environmentally sustainable and balanced development in these territories; and (iv) to help to strengthen the institutional, regulatory, and public policy framework to support the development of productive corridors.					
Special contractual conditions: Conditions precedent to the first disbursement: (i) approval and entry into force of the program Operating Manual. The eligibility criteria are based on the operating rules of the various programs executed by the Comisión Nacional de la Micro y Pequeña Empresa [National Commission for Micro and Small Enterprises] (CONAMYPE) and MINEC’s Fondo de Desarrollo Productivo [Productive Development Fund] FONDEPRO program; (ii) signing of an agreement between MINEC and CONAMYPE establishing how CONAMYPE will carry out its activities under components I and IV; (iii) selection of the staff for the MINEC’s program coordinating unit (PCU) (one coordinator, one procurement support specialist, and one financial support specialist) (paragraph 2.3). Conditions precedent to the disbursement of funds for component II of the program: (i) in addition to those indicated in points (i) and (iii) above, signing of an interagency agreement among MINEC, MOPTVDU, the Ministry of Agriculture and Livestock (MAG) / Centro de Desarrollo de la Pesca y la Acuicultura [Fishing and Aquaculture Development Center] (CENDEPESCA), and the Ministry of the Environment and Natural Resources (MARN) which establishes provisions including how each ministry will participate in the procurement process to ensure the technical appropriateness of the works to be procured, the terms for transferring such works to the sector ministries once they are completed, and the way in which they are to be subsequently maintained and managed. Selection of staff for the MOPTVDU’s PCU (one coordinator, one procurement support specialist, and one financial support specialist) (paragraph 2.3). Other execution conditions: a commitment to comply with the environmental and social conditions provided in the ESMR .					
Exceptions to Bank policies: None					
Project qualifies as:					

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

A. Background, challenges, and rationale

- 1.1 For the Government of El Salvador, building a thriving, integrated, and diversified economy, with an equitable and inclusive social structure, is a stated priority.¹ To address this goal, the Government of El Salvador has an institutional framework that designs and executes productive development policies and is comprised of a group of institutions led by the Ministry of the Economy (MINEC).²
- 1.2 With a view to improving the development level and living conditions of the population in the marine coastal strip (MCS), one of the country's least developed areas, which covers 34% of the nation's territory, including 75 municipios and 22% of the country's total population, the Government of El Salvador has launched a 2012-2014 strategy for integrated and sustainable development of the MCS by stimulating the area's productive systems. In this context, the government requested the Bank's support to boost the competitiveness of micro, small, and medium-sized enterprises (MSMEs) in the MCS.
- 1.3 In recent years, the Salvadoran economy has been characterized by sluggishness. In fact, following the international crisis of 2009, the country's gross domestic product has grown at a modest pace, with an annual average increase of 1.7% between 2010 and 2012,³ compared to the regional average of 4.7%.⁴ El Salvador has also lost ground in its ability to compete: it was ranked ninety-seventh (out of 148 countries) in the World Economic Forum's (WEF) Global Competitiveness Index 2013-2014, far from the forty-eighth position it held in 2002-2004 (WEF, 2013).
- 1.4 The effects of the low growth are particularly visible in the less developed areas, such as the MCS, where 55.7% of households live in poverty, above the national average of 37.1%. Forty-two percent of the economically active population is underemployed (37% nationwide), and the illiteracy rate among those 10 years and older is 20.5%, compared to 15.9% nationwide.
- 1.5 Despite this situation, the MCS has significant assets that reveal its great potential: (i) 51% of the country's most fertile land; (ii) logistical infrastructure with international connections (the country's principal ports, Acajutla and La Unión; border crossings La Hachadura and El Amatillo); (iii) environmental wealth and diversity; and (iv) 100,000 km² of marine resources. The factors limiting the use of this potential to overcome the situation and drive economic growth in the area include:⁵ (i) low competitiveness of the MCS business community; (ii) insufficient productive infrastructure and strategic road connections for developing productive

¹ Five-year Development Plan 2009-2014.

² See [institutions supporting productive development](#).

³ Central Reserve Bank of El Salvador (2013).

⁴ Average economic growth in Panama, Costa Rica, Nicaragua, El Salvador, Honduras, and Guatemala between 2010 and 2012 (International Monetary Fund, 2013).

⁵ See the [problem tree](#).

activities; (iii) plunder of natural resources; and (iv) lack of coordinated public policies in the MCS region.⁶

- 1.6 **Low competitiveness of the MCS business community.** Data from MINEC⁷ show that the MCS business community is relatively less developed: while the MCS is home to 22% of the country's population, only 15% of businesses are located there. A diagnostic assessment of the MCS⁸ shows that most enterprises in the strip have limited business and management abilities, a low level of production integration in formal markets, human resources with low levels of technical qualifications, and poor access to business support programs. A study on the productive potential of the MCS conducted as part of the preparation for this program identified demand in the region's major sectors and supply chains (see [report](#)). An analysis of the requirements of the Fondo de Desarrollo Productivo [Productive Development Fund] (FONDEPRO)⁹ made it clear that, due to limited project management and development capabilities, the MSMEs located in areas outside of San Salvador have little access to this fund. Moreover, the primary activity of regional banks in the MCS is receiving remittances for local residents with relatives abroad, rather than financing business activities for MSMEs, which, for the most part, do not have access to credit. This situation shows that access to credit and financing is insufficient, preventing businesses from developing and growing. Data from the Comisión Nacional de la Micro y Pequeña Empresa [National Commission for Micro and Small Enterprises] (CONAMYPE)¹⁰ point to a gender gap in the MCS business community: while 64% of micro and small enterprises are managed by women, they have less education, poorer access to business services, lower sales and income, and higher levels of informality than those managed by men. Regarding recreational activities, the growing flow of visitors to these areas creates an opportunity to expand the development of business options such as restaurants and other services, offering new potential sources of income.
- 1.7 **Insufficient productive infrastructure and strategic road connections for developing productive activities.** The second Millennium Challenge Corporation

⁶ Various publications, such as the World Bank's Doing Business (2013) and Enterprise Surveys (2010) and the World Economic Forum's Global Competitiveness Report 2013, show that fostering a region's competitiveness and productive development requires a comprehensive approach that identifies and addresses the factors that limit development. For El Salvador, the reports suggest improving the business climate, institutional quality, transportation infrastructure, and access to training and financing.

⁷ Development of micro and small enterprises on the marine coastal strip; DIGESTYC, MINEC (2013).

⁸ Territorial diagnostic assessment of El Salvador's MCS, Technical Secretariat of the President's Office (2013).

⁹ The purpose of FONDEPRO, executed by MINEC, is to boost SME productivity and competitiveness through cofinancing grants for execution of SME projects.

¹⁰ Facilitation guidelines for women entrepreneurs and businesswomen. CONAMYPE, 2011.

program (FOMILENIO II),¹¹ currently pending approval by the U.S. Congress, will finance investments that include road connectivity upgrades in the MCS. To ensure development of the productive sectors, it is essential to supplement productive investments with strategic infrastructure in order to create nodes and connections that can boost and strengthen territorial coordination between production and demand. While there are roads connecting the productive areas, they fail to meet minimum quality standards and are thus impassable in the rainy season. Various diagnostic assessments¹² confirm the constant loss of fishing and agricultural products due to the absence of proper logistical handling and the temperature needed to preserve them in good condition, the absence of product storage systems, and a dearth of land connections to more easily integrate productive activities in the MCS with national and international markets. These shortcomings affect product quality, expose products to greater risk of contamination, and exclude producers (whether individuals, cooperatives, or micro and small enterprises) from the supply chains for domestic and international markets because of their failure to meet safety and quality standards. This has contributed to unsatisfied demand being met with imported products from neighboring countries.¹³

- 1.8 Approximately 40% of Salvadoran exports go to countries in the Central American region, primarily Guatemala and Honduras, while 46% are sent to the United States, and the balance to the rest of the world.¹⁴ One of the main constraints on El Salvador's foreign trade is that physical connectivity through the borders with Guatemala, the country's largest intraregional trade partner, and Honduras, the second largest partner, entails significant costs.¹⁵ In addition, Honduras provides access to global trade with the U.S. east coast and Europe through Puerto Cortés, making it essential to improve road conditions on the route to the border at El Amatillo, which is only 26 km from the port of La Unión.
- 1.9 The Gulf of Fonseca, southeast of the MCS, is shared with Honduras and Nicaragua. Its economy is based on fishing, local and regional leisure activities, and ports. The community of Punta Chiquirín is located on the mainland, and the islands of Zacatillo and Conchagüita lie on the gulf waters. For the development of

¹¹ The Millennium Challenge Corporation (MCC) was created by the U.S. Congress in January 2004 as an independent foreign aid agency to help combat global poverty. In El Salvador, the MCC has proposed a second investment totaling US\$365 million (US\$277 million from the MCC and US\$88 million from the Government of El Salvador) to improve the business climate, enhance the quality of education, and reduce transportation and logistics costs in the MCS. There are still additional unmet needs.

¹² MSED-LEDA (2012); FAO and OSPESCA (2012); ECLAC (2013) and IDB (2013).

¹³ According to the ECLAC diagnostic assessment (2013), only 5% to 10% of the shrimp processed in El Salvador's existing plants originates in the domestic market, while the remaining 90% to 95% originates in neighboring countries.

¹⁴ INTrade (2013).

¹⁵ The significant costs derive from the fact that, while countries such as Honduras and Guatemala have access to the Atlantic Ocean for the shipment of exports to the east coast of the United States, El Salvador must resort to more extensive logistical operations in order to reach these markets (Analysis of logistical performance in El Salvador, IDB, 2013).

productive activities, the existing pier infrastructure is inadequate and constitutes an obstacle to the growth of the tourism sector (recently supported by the Government of Japan through the Japan International Cooperation Agency) due to the difficulty experienced by visitors in boarding boats, particularly older adults, women, or persons with physical disabilities. With regard to fishing, fishermen at present board and disembark on the beaches, where their products cannot be properly handled after the catch. In addition, the Centro de Desarrollo de la Pesca y la Acuicultura [Center for Fishing and Aquaculture Development] (CENDEPESCA) has difficulty performing efficient oversight of the sector. Having identified the potential and recognizing the need for an initial push to achieve the first proper infrastructure in the region, the Corporación Salvadoreña de Turismo [Salvadoran Tourism Corporation] (CORSATUR) procured a draft design of three piers, which it deems necessary for the development of the communities adjoining the Gulf of Fonseca. In turn, the absence of appropriate land and marine infrastructure impedes access to basic services by the inhabitants of these areas, in addition to the lack of adequate leisure space. On the unpaved roads in the MCS, trucks transporting products barely reach an average speed of 22.7 km/hour at a cost of US\$3.19/km. Access to the Las Playitas area, which in recent years has become increasingly important as a tourism asset, is hindered by the poor condition of the road connecting it with the main network at the port of La Unión. Studies conducted by the IDB¹⁶ show that the access infrastructure for border areas and the port of La Unión is weak and vulnerable to climate conditions.

- 1.10 Lastly, investments in agroindustry and tourism in Jiquilisco Bay are struggling to develop their potential due to a lack of appropriate infrastructure. For example, in the winter, large companies in the area use boats to transport their production to San Salvador, since the current land route is impassable, leading to delays and higher costs (when passable, the average speed is 32 km/hour).
- 1.11 **Plunder of natural resources.** It is well recognized and has been documented that there is a positive correlation between mangrove forests and marine resources. A group of studies highlights that the volume of fish rises with the total mangrove forest area. There are even studies that show that a minimal reduction in mangroves results in a dramatic drop in these resources. In conclusion, a minimum mangrove forest is needed in order to achieve production of marine resources, which are the principal livelihood of marine area communities.¹⁷ Consequently, mangrove degradation limits the potential for use of fishing resources, thus affecting the communities whose livelihood depends on these activities. In the case of El Salvador, mangroves have diminished by 40% between 1980 and 2004 (FAO, 2005). Specifically, according to studies conducted by the Ministry of the Environment and Natural Resources (MARN), 15% of the MCS's current area (5,700 hectares) is degraded. The causes of this degradation include logging and conversion of salt-water forest to agricultural land; pollution from agrochemicals,

¹⁶ IDB (2013), Analysis of the logistical performance in El Salvador.

¹⁷ Robertson & Blaber (1992), Yañez-Arancibia et al. (1985), and Pauly & Ingles (1986).

solid waste, and domestic and industrial effluents; expansion of human settlements; and absence of sustainable management of resources (MARN, 2012). Keeping the management of mangrove forests within the communities has proven to be the most efficient method of mangrove management and conservation.¹⁸ There is an incentive for communities to protect ecosystems, the health of which is vital to a community's livelihood, since these ecosystems sustain many of the community's productive activities. While certain community programs¹⁹ and a certain level of awareness exist in the MCS, there are no structured programs and the authorities have made limited efforts to promote this concept.

- 1.12 **Lack of coordinated public policies in the MCS region.** Studies conducted for preparation of the strategy, the FOMILENIO II program, and this program²⁰ reveal the existence of several institutions supporting the productive sector. These institutions use diverse approaches and have a limited presence in the MCS. In response to this situation, in 2006, CONAMYPE created its regional centers to monitor the institutional work in the territories, and in 2012, the micro and small enterprise development centers (MSEDC) to offer comprehensive business support services. However, these initiatives are still incipient, are poorly coordinated, and have insufficient technical and financial resources available to respond to the needs of the productive sectors. CENDEPESCA is a Ministry of Agriculture and Livestock (MAG) agency responsible for proposing, promoting, and establishing measures to conserve, manage, and develop fishing resources, and for regulating fishing and aquaculture activities. This agency has a limited presence in the MCS. Its technical staff consists of 39 officials, in six regional offices, who have to perform this range of responsibilities without proper management systems. In addition, MINEC's Territorial Productive Development Department has regional offices for coordination with other institutions in the territories, facilitating business development and promoting investment. However, its staff in the municipios needs to be technically strengthened and its service delivery needs to be improved.
- 1.13 **The Bank's country strategy with El Salvador and consistency with the Ninth General Increase in the Resources of the Bank (GCI-9).** Given the program's impacts on the diversification and increase in the economic activity in the MCS, the objective of the program is framed within the Bank's area of support to enhance economic growth under the Bank's country strategy with El Salvador (2010-2014) (document GN-2575). In this regard, the strategy emphasizes that the Bank may support productive development, nurturing of MSMEs, and technological innovation.²¹ Execution of this program is expected to create the potential for higher tax revenues. Under the GCI-9 (document AB-2764) framework, this program is consistent with the lending program priorities of: (i) small and vulnerable countries;

¹⁸ Webb (2012).

¹⁹ See [environmental programs in execution](#).

²⁰ Maggi, Claudio (2012).

²¹ See document [GN-2575](#), IDB: Country strategy with El Salvador, 2010 – 2014, paragraphs 3.5 and 3.6.

- (ii) poverty reduction and equity enhancement; and (iii) climate change, sustainable (including renewable) energy, and environmental sustainability, by prioritizing the use of alternative energy sources as described in paragraph 1.22 and through studies aimed at improving environmental management of the MCS. With respect to the outputs established in the results matrix, the operation will contribute to the following: (i) individual beneficiaries of programs to foster higher labor market productivity; (ii) number of jobs added to the formal sector; (iii) kilometers of inter-urban roads built or maintained; (iv) productive MSMEs financed; and (v) number of projects with components contributing to improved management of protected land and marine areas. At the same time, this operation is aligned with the Bank's Sector Strategy Institutions for Growth and Social Welfare (document GN-2587), in the priority area of enhancing innovation and productivity for growth and social welfare by strengthening the institutional capacities of countries to design and implement policies that stimulate innovation and technological development.²² The program is consistent with the Government of El Salvador's Five-year Development Plan and with the Country Programming Document 2014.
- 1.14 The Bank has worked with the Government of El Salvador in areas related to those addressed in this program, similarly aligned with the Bank's country strategy. Loan 2583/OC-ES supports implementation of the comprehensive export promotion strategy; loan 2796/OC-ES seeks to improve conditions for entering the labor market; loan 2800/OC-ES supports innovation for competitiveness; and loan 2966/OC-ES complements this program with investments in tourism. The design of this operation has included lessons learned in designing programs in related areas as well as lessons learned related to execution costs of road programs.
- B. Program objective, components, and costs**
- 1.15 The purpose of the program is to contribute to the economic growth of priority municipios in the MCS.²³ The specific objectives of the program are: (i) to boost the competitiveness of MSMEs located in these territories; (ii) to upgrade the local productive, operational, and logistical infrastructure to boost competitiveness; (iii) to strengthen environmental management of the MCS as a key element for achieving environmentally sustainable and balanced development in these territories; and (iv) to help to strengthen the institutional, regulatory, and public policy framework to support the development of productive corridors. To achieve these objectives, the program includes the following components:
- 1.16 **Component I: Productive development for MSME competitiveness (US\$15.9 million).** This component is aimed at strengthening the productive

²² See document [GN-2587](#), Sector Strategy Institutions for Growth and Social Welfare.

²³ The 30 priority municipios are: Sonsonate, Acajutla, Caluco, Cuisnahuat, Izalco, Juayúa, Nahuizalco, Nahulingo, Salcoatitán, San Antonio del Monte, San Julián, Santa Catarina Masahuat, Santa Isabel Ishuatán, Santo Domingo de Guzmán, Sonzacate, Apaneca, Guaymango, Jujutla, San Pedro Puxtla, and San Francisco Ménendez (adjacent to Acajutla); La Unión, Conchagua, El Carmen, Intipuca, Meanguera del Golfo, Pasaquina, San Alejo, and Santa Rosa de Lima (adjacent to La Unión); and Jiquilisco and San Agustín (adjacent to Jiquilisco). See [map](#).

systems (productive corridors) of the various sectors that comprise the business community of the MCS in the priority municipios. This is to be accomplished through a series of instruments supporting MSME entrepreneurship and productive development. This component will strengthen the response capacity and product and service offerings of MSMEs through the instruments created by CONAMYPE for the cultivation and growth of business ventures in the MCS. New productive development support instruments, designed to address the specific needs of and demand from MSMEs in these territories, will also be implemented within FONDEPRO.

- 1.17 The business development services and programs include: technical assistance, business training, use of information and communication technologies, promotion of alliance-building and production coordination, support for innovation, entrepreneurship, quality improvement, women's entrepreneurship, development of new markets, development and attraction of new local investment, and support for the business formalization process. The MSEDs will support business development through advisory support, training, and business technical assistance services, and CONAMYPE's regional centers will support formalization, entrepreneurship, alliance-building, and business coordination. The nature of the proposed support activities for enterprises under this component will have the potential to increase their ability to access credit.
- 1.18 The support instruments will be in the form of partial cofinancing grants, and beneficiaries will be selected by means of open calls for proposals in response to demand from businesses in the various productive sectors. A high degree of transparency will be required of participants, and the evaluation criteria will be based on the quality and merit of the proposals. This component is designed to focus on MSMEs with the greatest potential for growth, by increasing their productivity. For this reason, sectors in which higher demand has been identified, such as the fishing and aquaculture chains (shrimp, artisanal fishing, and marine aquaculture), tourism, and agroindustry will be given priority. To be eligible to receive support in the form of business services or project cofinancing, an enterprise must at a minimum: be a registered Salvadoran company; be a micro, small, or medium-sized enterprise according to CONAMYPE criteria; submit a proposal with a clear economic feasibility and sustainability plan and a description of the identified needs; and obtain a favorable evaluation based on objective criteria.²⁴ In the case of CONAMYPE seed funds, startups or microenterprises that have a formalization plan may be considered. These criteria will be set forth in the program Operating Manual.
- 1.19 **Component II: Productive and logistical investments for competitiveness (US\$21.4 million).** This component will finance shared productive and commercialization infrastructure as required for boosting economic development in

²⁴ The eligibility criteria for selection of enterprises are: to have the greatest potential to increase productivity (accord to the project's technical evaluation), to be part of the priority value chains, to be located in one of the priority municipios, and to submit a proposal following the guidelines for the call for proposals.

the program intervention areas. It will also finance road works supplementing FOMILENIO II,²⁵ the improvement of existing roads, and better access to beaches where artisanal fishermen operate. It includes the following subcomponents:

- 1.20 **Subcomponent 2.1. Productive infrastructure (US\$6.7 million).** This subcomponent will finance dual-use (fishing and tourism) piers, partial works for a boardwalk, and investments in shared infrastructure (collection and distribution centers, commercialization centers, and cold-chain systems) to facilitate the development of economic activities in the program's target areas. Component resources will be used to finance: (i) works and their supervision; (ii) technical, economic, and socioenvironmental studies; and (iii) cost recovery, maintenance, and operation plans.
- 1.21 **Dual-use piers.** This includes construction of three dual-use piers, one on the island of Zacatillo, another on the island of Conchagüita, and a third at Punta Chiquirín. These piers will be joined to an adjacent street to facilitate access and connectivity. It also includes work to rebuild and upgrade the artisanal pier in the port of Acajutla. Upon the completion of project execution, CENDEPESCA will become responsible for operating and maintaining the piers.
- 1.22 To increase the impact of the investment in these piers, this subcomponent will finance supplementary productive infrastructure. This infrastructure consists of investments in collection and distribution centers to improve the quality and safety of fishing and aquaculture products, facilitating access to the national and international supply chains for the region's products, adding greater value, and reducing losses. The program Operating Manual will describe the process for deciding on these works. To ensure the maintenance and sustainability of these works, participants (cooperative and producers' associations) will be required to provide a management and marketing model, in accordance with the lessons learned and success stories of other collection and distribution centers in El Salvador.²⁶ The program will prioritize the use of alternative energies to supplement or replace connection to the power grid.
- 1.23 **Road work for the La Unión boardwalk.** The program will finance road work for the public spaces that will form the La Unión boardwalk. The boardwalk aims to create a dynamic area for the region's economic activity, improve living conditions, and promote economic activities related to products from the sea and tourism, while including the Gulf of Fonseca's island communities. This road work adjacent to the La Unión port runs from east to west along a stretch of approximately 600 meters.

²⁵ A letter of intent is being negotiated between the Bank and MCC to explore: cofinancing and execution of programs by national entities which the Government of El Salvador may designate for implementation or other agreements, alternatives for strengthening project coordination and implementation mechanisms, sharing information on cofinanced projects, and assessing participation in joint groups to improve dialogue between the parties.

²⁶ A collection and distribution center donated by the Spanish Agency for International Development Cooperation (AECID) operates on the El Cuco beach under a self-sustainability model.

Following execution, the Fondo de Conservación Vial [Road Conservation Fund] (FOVIAL)²⁷ will be responsible for operation and maintenance.

- 1.24 **Subcomponent 2.2. Road infrastructure (US\$14.7 million).** This subcomponent will finance road works supplementing those included in the project planned to be financed with resources from the Millennium Challenge Corporation (MCC).²⁸ It includes upgrades to highway UNI08S Corsain-Las Playitas. The approximate length is 6.8 kilometers, following a sinuous route with moderate to steep slopes. The current dirt road will be paved to improve access to Las Playitas and provide area residents with better access to the various basic services available in La Unión, thus boosting productive development. This subcomponent also includes rebuilding two lanes and adding shoulders along the 9.6 kilometer-long USU08S road connecting the communities of San Marcos Lempa and El Zamorán in the department of Usulután, including a bypass in the city of San Marcos Lempa and the purchase of the land necessary to secure the corresponding right-of-way. This road will shorten the travel time from the western part of Jiquilisco Bay to San Salvador, will benefit the area's productive development, and will boost both existing and planned investments.²⁹ Following execution, the Fondo de Conservación Vial [Road Conservation Fund] (FOVIAL) will be responsible for operation and maintenance of the road infrastructure.
- 1.25 **Component III: Environmental management of the marine coastal strip (MCS) (US\$500,000).** The objective of this component is to improve environmental management of the MCS for the sustainability of productive development activities in the priority territories.³⁰ To achieve this objective, studies will be conducted to support the viability of future ecosystem and landscape restoration actions in primary and secondary salt-water forests or mangrove and riparian forests. The component will include studies aimed at determining the load capacity of mangrove forests and their economic value and formulating a plan for sustainable use of fishing resources. In addition, MARN staff will be trained in sustainable management of ecosystems through international internships and courses.
- 1.26 **Component IV: Institutional strengthening (US\$1.05 million).** This component will finance activities in support of the institutions that will participate in the

²⁷ FOVIAL was created in 2001 as a strategy for the maintenance of works executed through the rural roads program (loan 1314/OC-ES). It is an autonomous institution with its own resources and is financed by the government budget and a US\$0.20/gallon fuel tax.

²⁸ The logistical infrastructure component of the second MCC grant project includes two activities: financing an expansion from 2 to 4 lanes along 27 kilometers of the coastal highway that connects the ports of La Unión and Acajutla and improving 5.7 kilometers of a road leading to the border crossing into Honduras at El Amatillo and modernizing the border-crossing infrastructure. Details are available at: [http://www.mcc.gov/documents/cn/cn-09192013-el_salvador\(2\).pdf](http://www.mcc.gov/documents/cn/cn-09192013-el_salvador(2).pdf).

²⁹ A financial evaluation of these sections yielded an internal rate of return of 29.24% and 24.3%, respectively.

³⁰ Environmental sustainability actions will make it possible to boost the current fishing, tourism, and agricultural activities.

program: MINEC, CONAMYPE, the LEDAs, and CENDEPESCA (see paragraph 3.1), to ensure that they have the proper tools to implement actions in support of the beneficiary entities and that the required information is generated to monitor, follow up on, and evaluate these interventions. Activities include: (i) georeferencing of businesses in the areas of intervention; (ii) development of a monitoring system to measure impact; (iii) activities aimed at developing a risk management culture; (iv) training aimed at improving the provision of services; and (v) strengthening of sector statistical systems.

Table 1: Program costs (in US\$ thousands)

Components	IDB	Total	%
I. Productive development for MSME competitiveness	15.9	15.9	39.75
II. Productive and logistical investments for competitiveness	21.4	21.4	53.5
III. Environmental management of the marine coastal strip	0.5	0.5	1.25
IV. Institutional strengthening	1.05	1.05	2.63
Management	1.15	1.15	2.87
TOTAL	40.00	40.00	100

C. Key indicators of the program results matrix

- 1.27 The principal indicators for evaluating program outcomes include the following: Business support activities and project cofinancing grants are expected to result in an increase of 20% and 10%, respectively, in the income and productivity levels of the beneficiary enterprises. Road investments are expected to result in an increase in average speed on the upgraded highways from 22.7 km/hour to 45 km/hour. Investments in dual-use infrastructure are expected to result in the construction of three piers with supplementary infrastructure support for proper handling of products. Lastly, a mangrove load study and five workshops are expected to improve environmental management in the area of intervention. Lastly, the increase and level of budget execution will measure the results of the institutional strengthening.

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 This operation will be an investment loan with an execution period of five years. The estimated cost of the program is US\$40 million, chargeable to resources from the Bank's Ordinary Capital.

Table 3: Estimated annual disbursements (in US\$ thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
TOTAL	3,313	14,639	13,515	3,715	4,818	40,000

- 2.2 A cost-benefit analysis was performed for the first three components, and a cost effectiveness analysis for component IV, using a social discount rate of 12% and a time horizon of 10 years. In the first analysis, the expected costs and benefits when executing each component were identified and valued. For component I, a sample was used included in the estimated demand figure for the analysis of MCS productive potential ([optional link 8](#)), identifying productivity and sales increases as benefits. To measure the benefits of the piers, the analysis focused on post-catch price increases, enhanced tourism activity, and improvements in the distribution and intermediation chains. The road infrastructure analysis used the HDM-4 (Highway Development and Management) tool. The analysis yielded a higher net present value than the social discount rate. A sensitivity analysis was performed to allow for uncertainty scenarios. The results of the [Program Financial Analysis](#) confirm the financial sustainability of the interventions.
- 2.3 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) approval and entry into force of the program Operating Manual. The eligibility criteria are based on the operating rules of the various programs executed by the CONAMYPE and MINEC's FONDEPRO program; (ii) signing of an agreement between MINEC and CONAMYPE establishing how CONAMYPE will carry out its activities under components I and IV; (iii) selection of the staff for the MINEC program coordinating unit (one coordinator, one procurement support specialist, and one financial support specialist).** Special contractual conditions precedent to the disbursement of funds for program component II in addition to those indicated in points (i) and (iii) above: (i) signing of an interagency agreement by and among MINEC, the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU), MAG/CENDEPESCA, and MARN, which establishes provisions including how each ministry will participate in the procurement process to ensure the technical appropriateness of the works to be procured, the terms for transferring such works to the sector ministries once completed, and the way in which they are to be subsequently maintained and managed; and (ii) Selection of staff for the MOPTVDU's PCU (one coordinator, one procurement support specialist, and one financial support specialist).
- B. Environmental and social safeguard risks**
- 2.4 The program will have a high positive impact, improving conditions of two roads and three piers, helping to boost MSME competitiveness, improving environmental management of the MCS, and strengthening the institutional framework. The program's negative impacts are deemed low to moderate, short-lived, and manageable by means of standard procedures. These impacts include: (i) logging; (ii) earth movement; (iii) temporary effects on terrestrial fauna; (iv) minor effects on agricultural and livestock farmers adjacent to the roads due to potential temporary or partial interruption of vehicle traffic; (v) temporary effects on marine fauna due to the work to be performed; (vi) temporary rise in marine turbidity; (vii) potential mortality of fish and other marine organisms due to anoxic conditions

temporarily arising from an increase in seawater turbidity; (viii) minor marine sedimentation potentially affecting mollusks and fish; and (ix) possible effects on, or displacement of, individuals or small businesses. The Environmental and Social Management Report (ESMR) includes an analysis of the typical associated socioenvironmental implications and verified compliance with the Bank's socioenvironmental policies. The ESMR also contains a more detailed description of the expected impacts during the program's construction and operation, as well as the management measures during program execution.

- 2.5 In addition, as provided in the Bank's Environment and Safeguards Compliance Policy (OP-703), this program has been classified as a category B operation. Aside from the requirements indicated in the ESMR,³¹ the program Operating Manual will include a list of activities that may not be financed with program resources³² and how the executing agencies will handle the program's environmental and social issues during execution.

C. Fiduciary risks

- 2.6 An institutional capacity assessment of MINEC and MOPTVDU indicates medium development and medium associated risk. The fiduciary risks arise from: (i) limited coordination between the MINEC PCU and other program actors potentially affecting compliance with the procurement plan and annual work plan (AWP); (ii) a potential work overload due to the fact that MINEC will manage the funds for program components I, III, and IV and will undertake overall program coordination. The proposed mitigating measures include creating coordination arrangements between participating institutions and reinforcing each PCU, the institutional financial units (IFU), and the procurement units at MINEC and MOPTVDU, which will manage the program's resources using a specialized and experienced staff. The program Operating Manual will describe the coordination arrangements and set forth the procedures, roles, and responsibilities of the MINEC PCU and the MOPTVDU PCU. In view of lessons learned, risk workshops will be conducted during execution to refine the program risk analysis.

III. PROGRAM IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of institutional implementation arrangements

- 3.1 **Borrower and execution arrangements.** The borrower will be the Republic of El Salvador. MINEC will execute components I, III, and IV, and MOPTVDU will execute component II. Each executing agency will create a PCU and will prepare the annual work plans (AWP) for the component it is executing, coordinating actions for proper execution. The executing agencies and the Bank will make decisions on any necessary AWP adjustments arising from outcome evaluations obtained from the MINEC PCU. The MINEC PCU will carry out interagency

³¹ See ESMR, section VI.

³² See [environmental exclusion list](#).

- coordination actions to ensure proper execution. Under component I, business services will be executed through CONAMYPE and project financing through FONDEPRO. The funds for component II will be disbursed and executed by MOPTVDU, and this ministry may engage the services of a managing company, as the Government of El Salvador and the Bank deem appropriate, to support the bidding processes for works. As a mitigating measure for any potential cost overruns under this component, the Bank will take special care to conduct a thorough quality review of the designs for the relevant works before granting its no objection.³³ Component III will be coordinated with MARN, and the institutional strengthening activities of component IV will be executed by MINEC in coordination with each of the entities to be strengthened through the program.
- 3.2 Competitive processes will be used to ensure a transparent and efficient allocation of public funds to the activities supporting the enterprises under component I. The selection and award process will consist of at least the following stages: launch of open call for proposals, receipt of proposal, evaluation of proposal, selection of beneficiary, and execution and monitoring of support activities and projects. The details of the process will be described in the program Operating Manual. Projects will be selected on the basis of quality and pursuant to international best practices as well as lessons learned from the Bank's extensive experience implementing these procedures.³⁴ In project cofinancing grants, the private sector will contribute a certain percentage.³⁵ The selection of priority municipios for this program was based on the following criteria: (i) low levels of competitiveness; (ii) demonstrated high potential due to strategic areas and assets; (iii) location on the marine coastal strip; and (iv) complementarity with other Bank and FOMILENIO II investments, thus avoiding duplication.
- 3.3 **Execution unit.** Each executing agency will create a PCU responsible for executing the AWP for the components assigned to it. Each PCU will hire a coordinator and staff to perform administrative and technical program support activities and will execute the program's strategies and plans. The PCUs' duties will be specified in the program Operating Manual.
- 3.4 The rules of execution will be specified in the program Operating Manual, which will be updated by the MINEC PCU, under terms agreed upon with the Bank. The program Operating Manual will set forth the execution, procurement, and financial procedures, eligibility requirements for program beneficiaries, interagency coordination, and responsibilities for program execution. For the execution of funds under competitive processes, after the Bank's no objection to the selection, the

³³ Infrastructure programs have yielded valuable lessons learned. An example of this is the Rural Roads for Development Program (loan 2369/OC-ES), which has achieved overall savings of 10% of the budgeted cost, mitigating the risk of cost overruns with a thorough quality review of project drawings and designs.

³⁴ Examples of the Bank's specific experience are provided in [optional link 18](#).

³⁵ The private sector's contribution may be made in kind. The program Operating Manual will specify the minimum percentage to be contributed by businesses with a view to facilitating greater access to support and cofinancing instruments.

beneficiary will sign an implementation agreement with CONAMYPE or MINEC establishing the amount to be financed, the eligible expenses, and the beneficiary's commitments. For the execution of each project, the beneficiary may use customary business practices, and CONAMYPE and MINEC will ensure compliance with the basic principles of the Bank's procurement policies.

- 3.5 **Financial and fiduciary management.** In terms of records and reports, both MINEC (components I, II, and IV, and management) and MOPTVDU (component II) will manage and have access to budgetary allocations for executing the components under their responsibility in their capacity as coexecuting agencies. The accounting records and support documents will be under the responsibility of the institutional financial units through the integrated financial management system (IFMS). For purposes of managing the funds disbursed by the Bank, the executing agencies will maintain a special account at the Central Reserve Bank of El Salvador and a designated operating account at a commercial bank for payments to providers and contractors, supported by the IFMS treasury subsystem; both accounts will be operated exclusively for the program. This arrangement may be revised, to the extent acceptable to the Bank, with a view to using the Single Treasury Account modality implemented by the Government of El Salvador. Each executing agency will process the disbursement requests to the Bank and the submission of the financial statements required for purposes of verifying the execution agreements. In accordance with the Bank's Financial Management Policy for IDB-financed Projects (document OP-273-2), disbursements will be made on the basis of program liquidity needs. Advanced funds will be replenished separately, allowing for parallel advances, thus avoiding delays.

- 3.6 **Procurement of goods and services.** Program procurement financed in whole or in part with the loan proceeds will be carried out in accordance with the Policies for the Procurement of Goods and Works 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). Standard Bidding Documents and Standard Requests for Proposals will be used when the procurement budget exceeds the country thresholds. For amounts below such thresholds, the Bank and the executing agency will agree on documents that are consistent with IDB policies. The modality of procurement supervision under the program is described in the program Operating Manual, which will include the initially identified procurement to be carried out during the program execution period, and will be approved by the Bank through the Procurement Plan Execution System (SEPA). The Bank may conduct annual ex post reviews, which will be included in the scope of the annual program audit. During program execution, the Open Management subsystem of El Salvador's Integrated Procurement System (SIAC) may be used, as approved by the Board of Executive Directors and described in Annex III.

B. Summary of results monitoring arrangements

- 3.7 **Annual work plans (AWP).** They will be prepared by each executing agency and delivered along with the year-end semiannual report for the year prior to the plan's

year. The AWP's will include a scheduling of activities, disbursement projections, and an updated procurement plan.

- 3.8 **Semiannual execution reports.** Within 60 days following the end of each half of the calendar year, the MINEC PCU will submit a report describing progress on program execution, including a list of outputs achieved and under way according to the program's Results Matrix indicators, a monitoring and evaluation report based on the plan designed by the project team, an analysis of identified problems and the corrective measures adopted, and any deviations from the plan in the execution of activities.
- 3.9 **Program monitoring and evaluation.** A monitoring and evaluation plan has been prepared. MINEC will be responsible for its execution and will prepare semiannual reports listing activities completed under the AWP. The plan provides results-monitoring indicators, specifying whether they are to be measured annually, biannually, or at the end of the program. Impact and outcome indicators will be measured using the most appropriate method for each component. Methods include: before-after, difference in differences, statistical pairing, and synthetic control. Specifically, component I will be evaluated using the difference in differences model, combined with the statistical pairing method. This will capture of average impact of the intervention, correcting for observable and nonobservable differences between beneficiary and nonbeneficiary enterprises in the program. The second method enhances the credibility of the results by identifying a group of control enterprises which, prior to the intervention, were the most similar to the beneficiaries.
- 3.10 **Financial statements and external audit.** MINEC will annually submit financial statements and the ex post procurement review report, audited by an independent audit firm acceptable to the Bank. The independent auditors will be contracted using a competitive process under the guidelines established in the Bank's Financial Management Policy. The terms of reference will be agreed upon in advance with the Bank. This contracting will be reviewed on an ex ante basis. The program's midterm financial monitoring will use the financial statements produced by the IFMS, and the disaggregation will be set forth in the notes and supplementary financial information. Initially, unaudited statements will be required quarterly, but the frequency may subsequently be adjusted. Quarterly statements will be submitted within 45 days following the end of every calendar quarter.

C. Significant design activities

- 3.11 An technical cooperation project, Support for the preparation of the Productive Corridors Program (ES-T1203), was designed to support the start of program execution. This project is aimed at accelerating program execution upon approval by the Legislative Assembly. The financing will cover the design of the PCUs, their teams, and training in project management. Approval of this technical cooperation operation is expected in July 2014.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	i) Lending to small and vulnerable countries, ii) Lending for poverty reduction and equity enhancement, and iii) Lending to support climate change initiatives, renewable energy and environmental sustainability.			
Regional Development Goals				
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity, ii) Number of jobs added to formal sector, iii) Km of inter-urban roads build or maintained/upgraded, iv) Micro/small/medium productive enterprises financed, 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	Increase in the net tax ratio.		
Country Program Results Matrix	GN-2756	The intervention is included in the 2014 Country Program Document.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.7		10
3. Evidence-based Assessment & Solution		9.3	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		3.6		
3.3 Results Matrix Quality		2.7		
4. Ex ante Economic Analysis		8.8	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		2.4		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		0.0		
5. Monitoring and Evaluation		8.1	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		5.6		
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				
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and reporting. Procurement: Information System.		
Non-Fiduciary				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality	Yes	During the implementation of the program special emphasis will be devoted to the characteristics of the beneficiaries, separating outputs and results on a gender basis.		
Labor				
Environment				
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	In order to support the design and initial phase of the program, the TC ES-T1203 was designed to provide operational support.	
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 proposed impact evaluation will allow to measure the effect of the program on productivity in the selected areas.	

The overall objective is to contribute to the economic growth of 3 core parts of the Coastal-Marine zone. The specific objectives are : i) to increase the competitiveness of Micro, Small and Medium Enterprises (MSME) located in these territories; ii) improve the logistics infrastructure for competitiveness ; iii) improve the environmental management of the Coastal Marine zone (FCM), and iv) to contribute to the strengthening of the institutional and policy framework to support productive development.

The results matrix presents the impact, outcome and product indicators related to the objectives and components of the program. Product, result and impact indicators are SMART. An economic analysis is presented for the entire program and for each operation. The monitoring and evaluation plan is based on a quasi-experimental analysis ad a before and after comparison, to identify and quantify the program's impacts on productivity in the areas of intervention.

The risks currently identified in the risk matrix are reasonable and they include mitigation measures and related metrics to track their implementation.

RESULTS MATRIX

General and specific objectives of the program.	The purpose of the program is to contribute to the economic growth of priority municipios in the marine coastal strip (MCS). The specific objectives of the program are: (i) to boost the competitiveness of micro, small, and medium-sized enterprises (MSMEs) located in these territories; (ii) to upgrade the local productive, operational, and logistical infrastructure to boost competitiveness; (iii) to strengthen environmental management of the MCS as a key element for achieving environmentally sustainable and balanced development in these territories; and (iv) to help to strengthen the institutional, regulatory, and public policy framework to support the development of productive corridors in the MCS.
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IMPACT INDICATORS

Impacts	Unit of measurement	Baseline	Target 2019	Means of verification / Comments
Change in tax revenue due to higher sales and income of beneficiary enterprises that experienced an increase in productivity. $\tau \otimes (\pi^B - \pi^{NB})$	Index (2013 = 1.00)	1.00	1.10	Impact indicator aligned with the Bank's country strategy with El Salvador. Calculated as the growth of the index of total factor productivity of beneficiary enterprises relative to the control group multiplied by average tax pressure. Program administrative database, business surveys, and data from the Ministry of Finance This indicator has been used to measure the contribution to economic growth in the absence of accurate data on economic growth or a cost-efficient method of gathering such information.

OUTCOME INDICATORS

Outcomes	Unit of measurement	Baseline	Target 2016	Target 2019	Means of verification / Comments
1: Increased competitiveness of micro, small, and medium-sized enterprises (MSMEs) located in the program's areas of intervention					
1. Change in the income level of enterprises benefiting from partial cofinancing grants (or nonreimbursable contributions) and coordination initiatives $\frac{F_{ANR}^t - F_{ANR}^{t-1}}{F_{ANR}^{t-1}} - \frac{F_C^t - F_C^{t-1}}{F_C^{t-1}}$	Difference in the percentage change in income between enterprises benefiting from partial cofinancing grants (or nonreimbursable contributions) and coordination initiatives and the control group	0% ¹	10%	20%	Calculated between enterprises supported by the program and the control group using the differences-in-differences method. Source: PCU records and business surveys. The business surveys will yield the baseline sales level of beneficiaries and nonbeneficiaries
2. Change in the employment level of producers benefiting from nonreimbursable contributions and coordination initiatives $\frac{L_{ANR}^t - L_{ANR}^{t-1}}{L_{ANR}^{t-1}} - \frac{L_C^t - L_C^{t-1}}{L_C^{t-1}}$	Difference in the percentage change in employment between producers benefiting from nonreimbursable contributions and coordination initiatives and the control group	0% ²	5%	10%	Calculated between enterprises supported by the program and the control group using the differences-in-differences method. Source: PCU records and business surveys. The business surveys will yield the baseline sales level of beneficiaries and nonbeneficiaries.
3. Change in productivity of producers benefiting from nonreimbursable contributions and coordination initiatives $\frac{P_T^t - P_T^{t-1}}{P_T^{t-1}} - \frac{P_C^t - P_C^{t-1}}{P_C^{t-1}}$ P is measured as sales at a constant value divided by the number of persons employed (P).	Difference in the percentage change in productivity between producers benefiting from nonreimbursable contributions and coordination initiatives and the control group	0% ³	5%	10%	Calculated between enterprises supported by the program and the control group using the differences-in-differences method. Source: PCU records and business surveys. The business surveys will yield the baseline sales level of beneficiaries and nonbeneficiaries.

¹ Baseline information is not available at this design stage since the beneficiary enterprises have not yet been selected. To determine the baseline, a survey of beneficiary and nonbeneficiary companies will be conducted during execution to determine their income, thus ascertaining the baseline measurement, and whether the proposed increase under the midterm and final target has been achieved. These surveys will continue the work that the Bank has been doing in El Salvador with the Ministry of the Economy's Bureau of Statistics and Census. In addition, the gathering of data for this indicator will include information separating women's and men's data so that each can be measured.

² See previous footnote. The survey will be used similarly to measure employment.

³ See footnote 1. The survey will be used similarly to measure productivity.

Outcomes	Unit of measurement	Baseline	Target 2016	Target 2019	Means of verification / Comments
2: Improved productive and logistical infrastructure for competitiveness					
1. Vehicle operating costs for automobiles	US\$/vehicle km	0.59	0.50	0.40	Periodic measurements by MOPTVDU
2. Speed for automobile users	km/hour	24.7	30	50	Periodic measurements by MOPTVDU
3. Vehicle operating costs for buses	US\$/vehicle km	5.93	5.50	3.5	Periodic measurements by MOPTVDU
4. Speed for bus users	km/hour	22.7	25	45	Periodic measurements by MOPTVDU
5. Vehicle operating costs for heavy trucks	US\$/vehicle km	3.19	3.00	2.15	Periodic measurements by MOPTVDU
6. Speed for heavy truck users	km/hour	22.7	25	45	Periodic measurements by MOPTVDU
7. Number of producers and artisanal fishermen who use new productive infrastructure (piers, collection and distribution centers, commercialization centers, and cold-chain systems)	Number of producers	0	200	400	Source: PCU records and business surveys based on CENDEPESCA records. Increases with respect to the baseline.
8. Additional time that products are preserved at the proper temperature to prevent losses.	Hours	0	24	48	Administrative logs of cold-chain system use.
3: Improved environmental management of the marine coastal strip (MCS)					
9. Change in favorable perceptions of environmental management of the marine coastal strip	Percentage of the population that considers management performance very good or good.	N/A ⁴	50%	60%	There is currently no measure for this indicator. A survey will be conducted as part of the environmental and social consultation process to measure the baseline for the indicator. Subsequently, the indicator will be measured through similar surveys conducted every two years. The indicator is the percentage of the population that considers management performance excellent or good.
4: Strengthened institutional and productive development policy framework					
10. Change in the investment in productive development policies by the institutions involved	Increase in the investment budget commitment for the year's first quarter by the institutions involved, measured with respect to a relative index.	1.00 ⁵	1.10	1.20	The change in investment is included as an indicator since an increase would reflect greater commitment and be a sign of acceptance that the institutional capacities of the strengthened entities have improved. Source: PCU records and budgets of the institutions involved.

⁴ A survey to be conducted during the environmental and social consultation process will be used to measure the baseline. Subsequently, surveys will be conducted every two years to measure the acceptance level.

⁵ The 2013 CONAMYPE budget for trade, investment, and productivity totaled US\$14,516,940 (Official Gazette, El Salvador).

OUTPUT INDICATORS

Outputs	Cost	Unit of measurement	Baseline	2014	2015	2016	2017	2018	Total	Means of verification / Comments
Component 1: Productive development for MSME competitiveness										
1. Number of CONAMYPE diploma recipients trained to evaluate assistance to micro and small enterprises	120,000	Number of diploma recipients	0	6	6	6	6	6	30	Program administrative database
2. Training of business advisors on issues such as PDP, government procurement, women's entrepreneurship, and business management	60,000	Number of training sessions	0	3	3	3	4	5	18	Program administrative database
3. Number of foreign internships for MSEDG personnel to allow them to become acquainted with the experience of SBDC in the U.S. or other, similar centers in Latin America.	360,000	Internships	0	15	15	15	15	12	72	Program administrative database
4. Number of training workshops for Campes advisors on how to use ICT to improve business management.	193,000	Training workshops for advisors	0	3	3	3	3	3	15	Program administrative database
5. Number of individual technical assistance workshops for enterprises on business management, quality, packaging, corporate image, and international markets	1,620,000	Assistance workshops	0	60	120	120	120	120	540	Program administrative database
6. Number of supply chains supported	800,000	Assistance workshops	0	5	6	7	8	10	36	Program administrative database
7. Number of technical assistance workshops for MSMEs to help them join supply chains		Assistance workshops	0	40	40	40	40	40	200	Program administrative database
8. Number of technology laboratories equipped	80,000	Laboratories	0	0	0	2	0	0	2	Program administrative database
9. Number of training workshops for businesses in the use of ICT	193,500	Training workshops for businesses	0	30	45	45	50	45	215	Program administrative database

Outputs	Cost	Unit of measurement	Baseline	2014	2015	2016	2017	2018	Total	Means of verification / Comments
10. Number of individuals trained in developing productive capacities, suppliers, quality, energy savings, and business management	420,000	Number of persons trained	0	75	120	120	120	125	560	Program administrative database
11. Number of studies on business potential in the program's target territories	140,000	Studies	0	7	9	12	0	0	28	Program administrative database
12. Number of business ideas (new projects) developed (with market tests and prototype design)	200,000	Projects supported	0	50	50	100	100	100	400	Program administrative database
13. Number of business ideas (new projects) implemented (commercially introduced into the market).	150,000	Business projects	0	10	10	10	10	10	50	Program administrative database
14. Women made aware and trained through a specific program on women's entrepreneurship.	75,000	Number of persons	0	10	30	40	50	70	200	Program administrative database. Baseline average results CONAMYPE 2008-2012.
15. Number of business ideas (new projects) implemented (commercially introduced into the market) through a specific program on women's entrepreneurship.	200,000	Business projects	0	5	8	9	13	15	50	Program administrative database
16. Number of new enterprises led by women that received cofinancing grants (seed capital) through a specific program on female entrepreneurship.	450,000	Number of businesses	0	5	5	5	5	5	25	This cost is associated with the initiatives under output 18, which together account for the entire seed capital portion of the program budget. Source: Program administrative database.
17. Number of production clusters and/or associations strengthened	660,000	Number of clusters or associations	0	0	2	2	2	2	8	Program administrative database
18. Number of initiatives supported with seed capital (except those led by women)	3,150,000	Projects	0	15	25	35	45	55	175	Program administrative database
19. Number of micro and small enterprises receiving business and tax services.	550,000	Number of enterprises	0	50	50	50	50	50	250	Program administrative database
20. Number of enterprises led by men that received cofinancing grants through FONDEPRO	3,648,000	Number of enterprises	0	8	8	8	7	7	38	Program administrative database

Outputs	Cost	Unit of measurement	Baseline	2014	2015	2016	2017	2018	Total	Means of verification / Comments
21. Number of enterprises led by women that received cofinancing grants through FONDEPRO	1,152,000	Number of enterprises	0	2	2	2	3	3	12	Program administrative database
Component 2: Productive and logistical investments for competitiveness										
22. Rehabilitated La Unión-Playitas road	3,850,000	Km of rehabilitated road	0	0	6.8	0	0	0	6.8	Program Operating Manual database
23. Rehabilitated San Marco Lempa – Canoas road.	10,850,000	Km of rehabilitated road	0	0	9.6	0	0	0	9.6	Program Operating Manual database
24. Dual-use piers built	4,400,000	Piers built	0	0	1	3	0	0	4	Program Operating Manual database
25. Road works for the La Unión boardwalk	1,100,000	Km built	0	0	0.6	0	0	0	0.6	Program Operating Manual database
26. Areas around the new piers have new shared-use infrastructure: collection and distribution centers	1,200,000	Infrastructure	0	0	0	1	1	1	3	Program Operating Manual database
Component 3: Environmental management of the marine coastal strip										
27. Study to survey field conditions in order to determine optimum depth	125,000	Study	0	0	1	0	0	0	1	Program execution report by MARN
28. Campaigns for sustainable management of coastal ecosystems	10,000	Campaign	0	1	1	1	1	1	5	Component execution report by MARN.
29. Studies to determine mangrove load capacity and economic value	20,000	Studies	0	1	1	0	0	0	3	Component execution report by MARN.
30. Salt-water forest and ecosystem management plan	72,000	Plan	0	1	0	0	0	0	1	Component execution report by MARN.
31. International training in sustainable management of coastal ecosystems	36,000	Training	0	3	3	3	0	0	9	Component execution report by MARN.
Component 4: Institutional strengthening										
32. MINEC staff trained in implementing support actions for beneficiary entities	42,400	Number of persons trained	0	5	7	9	12	16	40	MINEC program execution reports
33. Follow-up and monitoring business surveys in the program's areas of intervention	107,600	Surveys conducted	0	1	0	1	0	1	3	Program execution reports and database obtained from business surveys.
34. Georeferencing tool implemented for businesses in the area of intervention.	200,000	System	0	0	0	0	1	0	1	Program execution reports
35. Local economic development agencies equipped	250,000	Equipment	0	0	2	0	0	0	2	Program execution reports

Outputs	Cost	Unit of measurement	Baseline	2014	2015	2016	2017	2018	Total	Means of verification / Comments
36. Computer system for risk monitoring, follow-up, and management	50,000	Computer system	0	1	0	0	0	0	1	Program execution reports
37. Fishing statistics system	100,000	System	0	1	0	0	0	0	1	Program execution reports
38. National fishing and aquaculture registry system	100,000	System	0	1	0	0	0	0	1	Program execution reports
39. Fishing and aquaculture monitoring, control, and oversight system	100,000	System	0	1	0	0	0	0	1	Program execution reports

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: El Salvador

Project number: ES-L1075

Name: Productive Corridors Program

Executing agency: Ministry of the Economy (MINEC), with support from the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU)

Prepared by: Marco Alemán and Lilena Martínez (FMP/CES)

I. SUMMARY

- 1.1 This report was prepared on the basis of the fiduciary context of the executing agency and the financial management and procurement policies for projects financed by the Bank,¹ setting forth the financial management and procurement agreements and requirements for the program agreed upon with the executing agencies.
- 1.2 MINEC, as executing agency of components I, III, and IV, and MOPTVDU, as executing agency of component II, will be responsible for fiduciary management through their respective program coordinating units (PCUs). To comply with these fiduciary agreements and requirements, the PCUs will rely on the institutional units responsible for financial management and procurement at MINEC, as well as the respective units that perform these functions at MOPTVDU. Financial management will be performed in accordance with the Bank's Financial Management Policy for IDB-financed Projects (document OP-273-2), and a waiver will be requested in order to make an additional disbursement before 80% of the previous advance has been accounted for, as applicable, assuming that accounts have been rendered at an acceptably high level. Procurement processes will be carried out in accordance with Bank policies GN-2349-9 and GN-2350-9; potentially during program execution, the Open Management subsystem of El Salvador's national procurement system may be used, under the terms set forth below. The MINEC PCU will coordinate with the entities indicated in the loan proposal, as set forth in the program Operating Manual and the agreements signed for such purposes.

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

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCIES

- 2.1 The national financial management and procurement systems, as well as their internal and external control mechanisms, are clearly defined under Salvadoran legislation. By law, funds may not be committed or paid unless the concomitant budgetary credit has been approved by the Legislative Assembly. The Organic Law on State Financial Management (SFM Law) regulates financial management in the public sector and adopts the Integrated Financial Management System (IFMS), which includes budget, public credit, treasury, and government accounting subsystems.
- 2.2 Under the SFM Law, an institutional financial unit (IFU) with financial management responsibilities was created at each of these government entities. Each IFU reports directly to the head of the relevant entity. The law assigns regulatory responsibilities to the Ministry of Finance, while the responsibility for financial transactions in the administrative process is assigned on a decentralized basis to the execution units.
- 2.3 At each government entity, the IFU's fiduciary responsibilities are shared with the respective internal auditing unit and institutional procurement unit (IPU). The Public Administration Procurement Law, along with its implementing regulations, manuals, and directives, sets forth the provisions governing this area. With regard to external control, the Law on the Audit Court of El Salvador provides that this institution is responsible for overseeing public finance.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The fiduciary team concluded that the program's overall financial and procurement management risk is medium. This conclusion is essentially derived from the limited operating capacity and knowledge of Bank policies at the institutional fiduciary units. The identified risks and proposed mitigating actions are summarized below:

Table 1. Identified risks and proposed mitigation measures

Risks/ weaknesses	Preventive/corrective action	Date for compliance
Limited interagency coordination between the MINEC PCU and the other program actors (technical team, and management team) affecting performance under the procurement plan and the annual work plan (AWP).	Set forth specific institutional coordination arrangements and describe procedures, roles, and responsibilities in the program Operating Manual.	Approval and entry into force of the program Operating Manual is a condition precedent to the first disbursement of the loan proceeds.
Centralized coordination in a program with multiple actors could potentially lead to work overload.	It is recommended to reinforce the fiduciary areas (IFU-IPU) with additional experienced and specialized staff.	When the program launch workshop is conducted.
Limited knowledge of Bank policies. Program execution requires a procurement and finance staff with training on Bank policies and operating procedures.	Include ongoing training activities for personnel involved in management of goods and services and financial management in the AWP.	When the program is implemented.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACT

- 4.1 Presentation for Bank approval of the Operating Manual, setting forth any procedures to be applied for program management and execution, and arrangements for interagency coordination with participating entities, their respective roles and responsibilities in the context of program execution is a condition precedent to the first disbursement. In addition, the signing of an interagency agreement among MINEC, MOPTVDU, the Ministry of Agriculture/CENDEPESCA, and the Ministry of the Environment, which establishes provisions including how each ministry will participate in the procurement process to ensure the technical appropriateness of the works to be procured, the terms for transferring such works to the sector ministries once they are completed, and the way in which they are to be subsequently maintained and managed is a condition precedent to the disbursement of the loan proceeds for component II of the program.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The program provides for procurement of works, goods, and services and for selection and contracting of consultants in accordance with the Bank policies set forth in documents GN-2349-9 and GN-2350-9, respectively. Potentially during program execution, the Open Management subsystem of El Salvador's national procurement system may be used, under the terms set forth below. The program procurement plan will establish the procurement processes to be carried out

during the remainder of the execution period, which will be agreed upon by the executing agencies and the Bank. Procurement will be carried out pursuant to the bidding methods and ranges set forth in the procurement plan. The procurement plan will contain: (i) contracts by procurement modality; (ii) proposed procurement methods; and (iii) procedures used by the Bank to review the procurement methods. The executing agencies will update the procurement plan on an annual basis, simultaneously with the scheduled annual evaluations and prior to the end of each calendar year, together with the annual work plan (AWP) or in the event of material changes, covering the following 12 months of the program's execution period. Any proposed change to and/or review of the procurement plan will be submitted to the Bank for its no objection. The project team leader, with the support of the procurement specialist, will be responsible for approving the procurement plan and keeping it updated during the program execution period.

A. Procurement of works, goods, and nonconsulting services

- 5.2 Any of the methods described in the procurement policies may be used for the procurement of works, goods, and nonconsulting services, provided such method has been identified for the respective procurement process in the Bank-approved procurement plan.
- 5.3 The threshold for using international competitive bidding (ICB)² will be made available to the executing agency on the web page www.iadb.org/procurement. Below this threshold, the selection method will be determined in accordance with the complexity and characteristics of the procurement process in question, which will be reflected in the procurement plan.
- 5.4 Potentially during program execution, the Open Management subsystem of El Salvador's Integrated Procurement System (SIAC) may be used for the procurement of goods and the contracting of works and nonconsulting services for amounts up to the threshold for the shopping method for nonstandard works and the shopping method for nonstandard goods and services, as approved by the Board of Executive Directors. The use of this subsystem will be subject the signing of an agreement between the borrower and the Bank for its implementation, under the terms agreed upon with the Bank, and the implementation, on the basis of such agreement, of the strengthening initiative and fulfillment of the requirements established by the Bank and communicated to the borrower. The Bank will inform the executing agencies of the date as of which this Open Management subsystem may be used.

B. Contracting of consulting services

- 5.5 Any of the methods described in document GN-2350-9 may be used to select and contract consulting services. This method has been identified for the respective contracting process in the procurement plan. The threshold that determines the

² At present, the threshold for ICB is applicable to amounts greater than or equal to US\$5 million in the case of works and amounts greater than or equal to US\$250,000 in the case of goods and nonconsulting services.

inclusion of international consultants on the shortlist³ has been made available on the website www.iadb.org/procurement. Below this threshold, the shortlist may be entirely composed of national consultants from the borrower's country.

C. Initial procurement plan

- 5.6 For management of the procurement plan, the SEPA information system will be used.

D. Procurement supervision

- 5.7 In view of the fiduciary context of the country and the executing agency and the level of risk associated with this operation, the following thresholds have been initially determined for ex post supervision of:

- 5.8 Contracts for works, goods, and nonconsulting services: subject to the shopping method (initially, the first three contracts will be reviewed jointly with the executing agency). The processes identified in the procurement plan as using international competitive bidding (ICB) or national competitive bidding (NCB) will be subject to ex ante review.

- 5.9 Contracts with individual consultants (initially, the first three contracts will be reviewed jointly with the executing agency); in the case of consulting firms, contracts not exceeding US\$30,000.

1. Main procurement processes

- 5.10 The main procurement processes for each of the program's components have been identified in the loan proposal.

2. Procurement supervision

- 5.11 The procurement of works, goods, and consulting services using program resources will be supervised by the Bank in accordance with the procurement plan, Appendix I of documents GN-2349-9 and GN-2350-9, and the provisions set forth in the following table:

³ At present, the threshold for contracting consulting firms is for amounts greater than or equal to US\$200,000. For lower amounts, the shortlist may be entirely composed of national consulting firms.

Procurement procedures

Investment category	Procurement procedure	Type of review
Works	International competitive bidding	All ex ante
	National competitive bidding	All ex ante
	Shopping	Ex ante for the first three contracts and ex post thereafter
	Direct contracting	All ex ante
Goods and nonconsulting services	International competitive bidding	All ex ante
	National competitive bidding	All ex ante
	Shopping	Ex ante for the first three contracts and ex post thereafter
	Direct contracting	All ex ante
Individual consulting services	Selection based on the consultants' qualifications	Ex ante for the first three contracts and ex post thereafter
	Direct contracting	All ex ante
Consulting services by consulting firms	Shortlist with broad geographic participation	All ex ante
	Shortlist may be comprised of national consultants.	Ex ante for amounts greater than US\$30,000
	Single-source selection	All ex ante

- 5.12 During program execution, the thresholds and type of supervision may be changed.

3. Records and files

- 5.13 The Operating Manual will establish provisions in this regard, as well as the formats to be used during program execution.

4. Programming and budget

- 5.14 The country system will be used. On an annual basis, the executing agencies will process the budget allocation for the program, with budget credits in sufficient amount to cover the execution commitments for each year. The budget will include the required disaggregation for each program component, allocating budget line items so as to facilitate periodic monitoring of amounts committed and recognized for each component as a measure of program execution. This disaggregation will clearly include the budget allocation for activities under CONAMYPE's responsibility as an entity attached to MINEC.
- 5.15 The 2014 General State Budget Law (LPGE) includes a provision ensuring that annual budget ceilings are interpreted as a ceiling on fiscal-year expenditures and that commitments chargeable to externally financed projects are backed by overall availability of the loan.
- 5.16 **Accounting and financial reports.** The country system is used on a partial basis. The institutional financial units at MINEC (including at CONAMYPE) and MOPTVDU will be responsible for the program's accounting records and support

documents for the respective components through the Integrated Financial Management System (IFMS). MINEC (as well as CONAMYPE separately as an entity attached to MINEC) and MOPTVDU will maintain the necessary ancillary records to supplement the financial reporting requirements under the loan contract.

- 5.17 **Disbursements and cash flow.** The country treasury subsystem is used to manage disbursements. MINEC (and CONAMYPE separately) and MOPTVDU will each maintain a special account at the Central Reserve Bank of El Salvador, as well as a designated operating account at a commercial bank for payment to suppliers and contractors, supported by IFMS's treasury subsystem. The bank accounts will be operated exclusively for purposes of the program.
- 5.18 In accordance with the Bank's Financial Management Policy for IDB-financed Projects (document OP-273-2), disbursements will be made separately to each executing agency on the basis of liquidity needs. To this end, MINEC and MOPTVDU will each prepare a financial plan and the two will jointly prepare a consolidated financial plan to serve as a basis for advances or any other form of disbursement that may be deemed appropriate. Similarly, the funds advanced to each executing agency will be replenished separately to allow the two institutions to move forward independently and prevent one from delaying the other due to liquidity constraints. In each case, as an exception to the Financial Management Policy, the Bank may make further funds advances to an executing agency, requiring only an acceptably high level of account rendering for the previous advance.
- 5.19 This mechanism will be reviewed and adjusted in the event that the Ministry of Finance implements a single treasury account at the executing agencies.
- 5.20 **Internal control.** The technical internal control regulations issued by the Audit Court of El Salvador are applicable. The Operating Manual will include details of the activities to be considered in this regard.
- 5.21 **Internal audit.** The executing agencies responsible for fiduciary management have an internal audit unit with limited resources. The internal audit unit is expected, to the best of its ability, to include a review of program execution as part of its annual plan.
- 5.22 **External control and reports.** External control of the program will be entrusted to an independent auditing firm acceptable to the Bank. MINEC will engage this firm through a bidding process, in accordance with the guidelines set forth in Bank document AF-200. The terms of reference will be agreed upon 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 for Financial Reporting and Audits.
- 5.23 **Supervision.** Financial monitoring of the program will be conducted using the (unaudited) financial statements generated by the institutional application (IFMS), and any required disaggregation will be provided in the respective notes and

- supplementary financial information. Initially these reports will be required on a quarterly basis, but this frequency may subsequently be adjusted. It is estimated that these reports could be submitted no later than 45 days following the end of each calendar quarter. The explanatory notes to the financial information will be designed so as to be consistent with the Bank's monitoring policies and tools. These reports must evidence progress made in executing the activities set forth in the multiyear Project Execution Plan (PEP) and the corresponding financial plan.
- 5.24 In the first six months of execution, the financial information submitted will be reviewed on site and compared with the planning data. The fiduciary risks will be reassessed and it will be determined whether further on site supervision is needed, as opposed to desk reviews.
- 5.25 **Execution arrangements.** Each executing agency will be responsible for fiduciary management through program coordinating units (PCUs). To comply with these fiduciary agreements and requirements, the PCUs will obtain support from their institutional fiduciary and procurement units, as well as from the respective fiduciary units at CONAMYPE, CENDEPESCA, and MARN. The executing agencies will ensure that the annual operational planning documents and periodic progress reports are prepared and kept updated, together with the estimates of funds for preparing the disbursement plans and the updating of the program management and monitoring tools (PEP, procurement plan, and financial plan).
- 5.26 **Operating manual.** The issues set forth in these fiduciary agreements and requirements will be elaborated on in specific sections of an Operating Manual.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/14

El Salvador. Loan ____/OC-ES to the Republic of El Salvador
Productive Corridors 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 Productive Corridors Program. Such financing will be for the amount of up to US\$40,000,000 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 __ _____ 2014)