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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Mar-2023 | Report No: PIDA35512



BASIC INFORMATION

A. Basic Project Data

Country El Salvador	Project ID P178734	Project Name El Salvador Water Sector Resilience Project	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 15-Mar-2023	Estimated Board Date 27-Apr-2023	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Republic of El Salvador	Implementing Agency Administración Nacional de Acueductos y Alcantarillados	

Proposed Development Objective(s)

The proposed Project Development Objective (PDO) is to improve the quality, reliability, and efficiency of water supply services in selected areas of El Salvador, and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Components

- Component 1: Improve the quality, reliability and efficiency of water service provision in the selected areas of El Salvador
- Component 2: Modernize utility management and strengthen planning to improve resilience to climate risks
- Component 3: Project management
- Component 4: Contingent Emergency Response Component (CERC)
- Front-end fee

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
Environmental and Social Risk Classification	
Substantial	
Decision	
The review did authorize the team to appraise and negotiate	

B. Introduction and Context

Country Context

1. El Salvador is a small, dollarized economy, with one of the highest remittance net inflows (26.2 percent of GDP). The country also had one of the highest homicide rates in the world until large-scale government efforts against gang activity in 2022 succeeded in dramatically reducing violent crime. However, the country is facing three short-term challenges that are undermining the efforts to increase its potential growth: (i) fiscal imbalances, with no access to external borrowing (ii) a large current account deficit; and (iii) inflation. The country’s strategic location with access to many markets, a growing labor force, and a solid industrial base could support the expansion of the tradable sector and tourism. However, policy uncertainty and a poor regulatory environment weigh on private investment and innovation, depressing productivity growth.
2. El Salvador’s fiscal response to COVID-19 was successful in mitigating the impacts of the pandemic, but at the cost of significantly raising public debt. Recent reforms to the pension system will likely create additional fiscal space in the short run, but they are likely to deepen existing structural imbalances in the pension system and create contingent liabilities as the government guarantees a minimum pension over time. External imbalances and declining reserves can pose a challenge, especially as remittance growth moderates. Banks are profitable, have low non-performing loans, but reserve requirements have been reduced to finance the purchase of government short-term debt (11 percent of bank assets). Though a large part of the population has virtual wallets, the use of bitcoin as legal tender seems limited.
3. GDP is projected to grow by 2.8 percent in 2022 on the back of strong remittances, tourism, construction and the reduction in crime. Inflation doubled from 3.5 percent in 2021 to 7.2 percent in 2022, driven mainly by an increase in food prices (12.2 percent). Temporary energy and fuel subsidies played a major role in reducing the pass through of higher energy and fuel international prices, but this are expected to be withdrawn for 2023. For 2023, growth is projected at 2.3 percent on the back of private consumption, public investment and tourism. In the medium-term, GDP is forecast to converge to 2.1 percent, above historical averages, driven mainly by remittance-fueled household consumption, sustained crime reduction and tourism. In 2023, the poverty rate is projected to be 0.5 percentage points lower than in 2021, still below pre-pandemic levels.
4. El Salvador’s high vulnerability to climate change and natural hazards severely constrains its trajectory for inclusive economic growth. The country is among the world’s most affected by climate-related events and



other hazards. Average annual losses have been estimated at 60 percent of annual average public investment (2001–11)¹ affecting critical sectors such as water, sanitation, transportation, energy, health, education, and telecommunications.² It is estimated that 88.7 percent of its territory and over 95 percent of the population lives at risk of climate-related impacts such as droughts, storms,³ and floods and natural hazards such as earthquakes and volcanic eruptions.⁴ There has been a steady increase in droughts, storms, and floods impacting Central America in the last 30 years, a trend which is projected to continue. For example, there were 39 hurricanes from 2000–2009, compared to 9 in the 1990s and 15 in the 1980s.⁵ Climate change will increase rainfall intensity in El Salvador, leading to more frequent floods, while rising temperatures and changing precipitation patterns will contribute to more frequent drought. Projections for the period from 2040 to 2059 suggest that there will be an increase of 18.75 millimeters in annual maximum five-day cumulative rainfall and of 1.64°C in mean annual temperature, combined with a fall of -65.33 millimeters in annual precipitation overall. The occurrence of extreme rainfall events threatens food and water security and livelihoods across the country, with poor and vulnerable populations, including women, disproportionately affected by the impacts of floods.

Sectoral and Institutional Context

5. El Salvador is the driest country in Central America, with some regions suffering from water shortages and others from heavy rainfall, floods, and landslides. About 66 percent of El Salvador’s territory is exposed to high or severe drought risk and years of drought have prompted water rationing in both urban and rural areas.⁶ The country built and natural water storage capacity is limited and declining, with 607 m³/capita of dam storage (in comparison to a regional average of 2,900 m³/capita) and the country’s aquifers have receded by 4 meters in the last 20 years.⁷ This water insecurity has adverse effects on household well-being, negatively affecting human health and human capital development. At the same time, storms and periods of intense rainfall, exacerbated by climate change, posing a high risk of urban flooding and infrastructure damage from strong winds. In three of the major urban centers of San Salvador, Santa Ana, and San Miguel, there is a medium risk of droughts,⁸ a high risk of storms,⁹ and a medium-to-high risk of floods.¹⁰ Climate change is projected to increase the likelihood of droughts and the intensity of storms in these urban centers, and floods may become more likely and intense.¹¹ Across the country, high water stress (i.e., the insufficient availability of water for socioeconomic and productive uses), rising demand, climate change, and issues posed by transboundary watersheds and other

¹ Making Development Sustainable: The Future of Disaster Risk Management. Global Assessment Report on Disaster Risk Reduction, ed. by UNISDR, 4.2015 (Geneva: United Nations, 2015)

² Ministry of Environment and Natural Resources. 2017. *Plan de Acción de Restauración 2018-2022*. San Salvador: Ministry of Environment and Natural Resources.

³ In the context of this Project, the term “storms” includes hurricanes and extreme precipitation events with associated high winds and floods.

⁴ Ministry of Environment and Natural Resources. 2017. *Informe Nacional Del Estado De Los Riesgos Y Vulnerabilidades*. <http://rcc.marn.gob.sv/xmlui/handle/123456789/9>

⁵ USAID, 2017. *Climate Change Risk Profile: El Salvador*.

⁶ United Nations Disaster Information Management System. <https://www.desinventar.net/DesInventar/profiletab.jsp>

⁷ Setting the Basis for Water Security in Central America: Challenges and Policy Recommendations. Washington, D.C. World Bank.

⁸ Droughts impacted San Salvador and Santa Ana in 2009 and San Miguel in 2001, 2009, 2014, and 2018. (EM-DAT, 2023)

⁹ Recent examples include hurricanes Eta (2020) and Iota (2020) as well as tropical storms Ida (2021) and Julia (2022).

¹⁰ 10 floods impacted San Salvador from 2000–2015, while 4 impacted San Miguel and 2 impacted Santa Ana. (EM-DAT, 2023)

¹¹ Global Fund for Disaster Risk Reduction and World Bank. *Think Hazard*. <https://thinkhazard.org/en/>



factors are exacerbated by the fact that 90 percent of the El Salvador's surface water bodies are heavily polluted with industrial effluents, agricultural runoff, and untreated wastewater.

6. The low quality and efficiency of water supply and sanitation services are important factors in El Salvador's water insecurity. While access to basic water and sanitation services in El Salvador is high, standing at 97.9 and 82.4 percent respectively, these figures decrease to 77.4 and 17.1 percent respectively when it comes to *safely managed* water and sanitation services.¹² The low incidence of safely managed sanitation is due to the very low levels of wastewater treatment, which pollutes surface water bodies with untreated sewage. For potable water services, high rates of physical losses lead to inefficient use of limited water resources while high commercial losses and low tariffs mean there are limited incentives for households to engage in rational water use, both of which reduce resilience to droughts.

7. In December 2021, the Government of El Salvador approved a new General Law on Water Resources, which defines the legal framework for the use, management, exploitation, distribution, consumption, care, and protection of water resources on a national scale.¹³ The law created the Salvadorian Water Authority (*Autoridad Salvadoreña del Agua, ASA*) under the Ministry of Environment and Natural Resources to set policy and implement the legal framework for water resources management, including water allocation and establishing fees for water use and exploitation. The law also maps out the management of the sanitation subsector to the Ministry of Environment and Natural Resources and the potable water supply subsector to the Ministry of Health, to be carried out consistent with the guidelines and directives issued by the ASA. Currently, the government is developing legislation that would further strengthen the institutional framework governing the water supply and sanitation subsectors. The Bank will provide input into this reform process as part of its ongoing sector dialogue.

8. Urban water and sanitation services are provided primarily by the National Administration for Water Supply and Sewerage (*Administración Nacional de Acueductos y Alcantarillados, ANDA*¹⁴), with some participation of decentralized water service providers and schemes. ANDA provides water services for nearly 76 percent of the country's population (nearly all the urban population, 95.8 percent, and about 10 percent of the rural population), however, only 35 percent of its customers receive continuous water supply services. ANDA has high operating costs because the nature and state of water resources in El Salvador determine the configuration of water systems that are geographically dispersed, pump-intensive, and require significant treatment. Ninety percent of the 428 million m³ of water produced by ANDA on an annual basis requires pumping, of which 85 percent corresponds to groundwater sources. ANDA has 483 pump stations nationwide and most of the equipment has already surpassed its useful life. Energy consumption represents 42 percent of ANDA's total operating costs, and more than 10 percent of the energy produced in the country, contributing to greenhouse gas emissions. In terms of human resources, ANDA has 4.8 employees per 1,000 connections, mainly due to the non-renewal of outsourcing contracts since 2011, negatively affecting labor productivity. From an institutional perspective, ANDA does not currently have a specific department or team dedicated to the regular planning and implementation of a non-revenue water reduction program. In addition, only 22.7 percent of

¹² WHO and UNICEF Joint Monitoring Program. <https://washdata.org/data/household#!/table?geo0=country&geo1=SLV>

¹³ <https://www.asamblea.gob.sv/sites/default/files/documents/correspondencia/D1FE560D-0A54-44F1-9CC9-EC0151C221C1.pdf>

¹⁴ ANDA is a public enterprise founded by Decree 341 of 17 October 1961 as an autonomous public utility.



ANDA's workforce are women (slightly above the Latin America and the Caribbean average of 21.5 percent in water utilities), which reflects a gender disparity in women's participation in the water sector.¹⁵

9. Over the years, ANDA's financial performance has deteriorated with growing negative financial results. In 2020, as consequence of the pandemic, ANDA as many water utilities around the world, experienced financial impact reflected in loss of revenue and increase in costs. Although water consumption increased in the residential sector, it decreased in the non-residential sector, negatively affecting revenue billed. Moreover, the Government took several measures to alleviate the financial burden for households, among them, a deferral of water bill payments for three months. In 2021 revenues from tariffs covered 73 percent of operating costs (without depreciation), or 65 percent when depreciation is included. In 2022 revenues increased by 11 percent, as ANDA replaced about 50,000 micro-meters mostly to non-residential customers, which increased the volume billed and associated revenue. Operating expenditures however, increased by 23 percent, deteriorating even more the operating cost recovery ratio to just 65 percent. ANDA's administrative and operational costs have reached about US\$1.23 per m³ of water billed, exceeding by more than five times the current domestic tariff rate of US\$0.22/m³.

10. In the absence of a sectoral regulator, revisions to the tariff regime must be approved by ANDA's board and the executive branch, and rates have not changed since 2015. Therefore, ANDA has been increasingly relying on support from the Ministry of Finance to cover its debt service and operational costs, while the capacity for new investments is limited considering the country's ongoing fiscal constraints. The company's inability to timely pay its suppliers is having a negative impact on its purchasing and investments, resulting in limited participation from suppliers, abandoned tenders, and higher prices. In addition, ANDA's weak commercial management, with high levels of non-revenue water (64.8 percent), and a tariff policy not sufficient to cover operating costs, results in poor maintenance and replacement of infrastructure, generating a vicious cycle of inefficiency that continues to degrade the quality of water supply and sanitation services and drive operating costs higher.

11. In December 2021 and April 2022, ANDA finalized and adopted an Institutional Strategic Plan and a Business Plan, charting a vision and roadmap for ANDA's financial recovery. The short- and medium-term priorities are to improve the company's operating efficiency and the quality of water supply and sanitation services.¹⁶ As such, the Business Plan places a priority focus on improving efficiency, service levels, and customer satisfaction through investments in improving energy efficiency and strengthening commercial management, including a non-revenue water reduction program and a strong communication strategy. For the long-term, the Business Plan recommends the potential adoption of a new tariff framework to ensure coverage of efficient operating costs. Given the current low tariff levels, this new tariff framework would likely consist of tariff increases, accompanied by subsidies targeted to low-income households. The implementation of this new framework will only be feasible after marked improvement in the company's management and in the efficiency and quality of water supply and sanitation services provided by ANDA.

12. As part of its Institutional Strategic Plan, ANDA aims to reduce water quality complaints by 40 percent, strengthen its adaptive capacity and resilience to climate change, and reduce its greenhouse gas emissions and environmental impact through significant investments in energy efficiency, use of renewable energy sources,

¹⁵ Data collected as part of the Women in Water Utilities: Breaking Barriers report, beginning in November 2018. Data continues to be collected on a rolling basis.

¹⁶ These plans were developed with the support of the United States Agency for International Development (USAID).



and wastewater collection and treatment, among others. ANDA is working with several development partners,¹⁷ including the World Bank, to increase efficiency and improve the quality of service provision, which will catalyze a virtuous cycle of increasing operational and financial performance and ultimately lead to higher levels of safely managed water supply and sanitation services.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

13. The proposed Project Development Objective (PDO) is to improve the quality, reliability, and efficiency of water supply services in selected areas of El Salvador, and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Key Results

14. Key indicators to measure the progress towards achievement of the PDO include:

- Average additional hours of water supply services in the area of influence of the Project¹⁸ (Number)
- Improved energy efficiency in the area of intervention of the Project¹⁹ (kWh/m³ of water distributed)²⁰
- Reduction in the number of hours of power outage in the Torogoz water supply production system (Number)

D. Project Description

Component 1: Improve the quality, reliability and efficiency of water service provision in selected areas of El Salvador (total cost US\$80 million, all IBRD financing)

15. This component will increase the quality and efficiency of water services by financing works, goods, services aimed at improving the resilience of water supply infrastructure and water service delivery for the at-risk underserved population in the urban and peri-urban areas of San Salvador. The investments will make the population less vulnerable to climate-induced drought and water shortages by encouraging rational use of water, enhancing water availability through reduced physical water losses and improved continuity of water services, leading to more efficient use of limited water resources. The Project will also increase the resilience of water services to droughts, storms, and floods by considering climate hazards in infrastructure design and rehabilitation, as informed

¹⁷ These partners include the Inter-American Development Bank, the United States Agency for International Development, the Japan International Cooperation Agency, and the Spanish Agency for International Development Cooperation.

¹⁸ The area of influence of the Project (i.e., the area of influence of the Torogoz water supply system) includes the distribution network from the Torogoz Water Treatment Plant, as well as the geographically dispersed traditional systems (wells) that interconnect with the Torogoz distribution network.

¹⁹ The area of intervention of the Project covers six hydraulic sectors in the Torogoz water supply network that span seven municipalities (San Salvador, Apopa, Ciudad Delgado, Cuscatancingo, Ayutuxtepeque, Soyapango, and Mejicanos) where physical investments will be made in reducing non-revenue water and improving energy efficiency. These investments will produce benefits across the area of influence of the Torogoz water supply system in the MASS.

²⁰ This indicator measures the efficiency of both the energy efficiency and reliability interventions as well as the non-revenue water program given the unit of measure kWh/m³ distributed.



the Bank's Resilient Water Infrastructure Design Brief,²¹ and improving the reliability of water services. This component will have a particularly positive impact among female residents, as women are affected more adversely, individually and as caretakers, from the impacts of climate change. The component will also contribute to climate mitigation by reducing energy use by 25 percent in the area of intervention of the Project through reductions in physical water losses and improvements in energy efficiency. The following paragraphs describe the activities financed under this component.

16. **Physical and commercial non-revenue water loss reduction.** Component 1 will finance the implementation of a comprehensive non-revenue water reduction program targeting physical and commercial losses in the area of influence of the Torogoz water supply system, which supplies water to about 40 percent of the population in the area. The Project will support the establishment of a permanent management unit within ANDA that will plan and manage the company's non-revenue water program, through technical assistance on the institutional design and capacity building for the unit. For commercial losses, the Project's support includes the supply, installation, and replacement of micrometers and accessories, as well as a strong citizen engagement approach that incorporates community education to promote water savings through urban water demand management and public campaigns for the identification and regularization of illegal connections. In terms of physical water losses, the Project's support includes sectorization, smart bulk metering for monitoring and leak detection in selected areas of the network, trainings, and campaigns for the repair of visible and invisible losses, network modeling, and rehabilitation of networks and water connectors, as well as pressure control and management in an interconnected monitoring and control system.

17. **Energy efficiency and reliability.** Component 1 will also support the design and implementation of an energy efficiency program in the area of influence of the non-revenue water program, which will reduce greenhouse gas emissions and improve the efficiency of energy use. The energy efficiency program will be informed by hydraulic modeling of the network and include training on energy efficiency improvements and will finance rehabilitation of larger pump stations in the area of influence of the non-revenue water program, including associated equipment such as electrical panels, capacitors, and transformers, while promoting and supporting the use of low-energy consumption equipment and equipment standardization and installing telecontrol systems (SCADA) that prevent and reduce physical losses and energy use. This component will also finance the rehabilitation of existing power supply lines and the design and construction of redundant electrical interconnections to assure energy supply to critical bulk water infrastructure in the Torogoz water supply system, including during climate-induced storms and floods.

18. **Automation and operations and maintenance.** Additionally, Component 1 will boost preparedness and response to climate-induced droughts, storms, and floods by financing the acquisition of equipment, technical assistance, and training on asset management; predictive, preventive, and corrective maintenance programs; system operation and maintenance for efficiency optimization; and automation that prevent and reduce water losses and energy use as well as contribute to the rapid identification and repair of failures in the Torogoz water supply system.

Component 2: Modernize utility management and strengthen planning to improve resilience to climate risks (total cost US\$15.75 million, all IBRD financing)

19. To increase resilience to the identified climate hazards, Component 2 will support ANDA in its modernization process which includes implementing a new institutional structure (including a unit dedicated to non-revenue water reduction), simplifying internal processes for operational and commercial management, and support in the area

²¹ World Bank. 2020. *Resilient Water Infrastructure Design Brief*. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/34448>



human resource management, and digitalization (though new and/or upgraded technical, operational, administrative and commercial information systems that will be key to further develop a data-driven culture at ANDA), as well as developing key planning instruments for the provision of climate resilient water supply and sanitation services preparing the utility for a green, resilient and inclusive future.

20. Activities financed under Component 2 include: (i) preparation of master plans for water supply and sanitation for the cities of San Miguel and Santa Ana and (ii) development of risk profiles and contingency plans for climate events and emergencies for ANDA's priority water supply and wastewater systems. These planning instruments will improve the resilience of communities in the target areas and improve the resilience of water supply and sanitation systems considering the impact of climate change on the intensity and frequency of climate hazards (including droughts, storms and floods) and on the future quality and quantity of available water resources, as well as by incorporating principles of decision making under uncertainty and circular economy and prioritizing the use of renewable energy where technically and economically feasible.

21. Component 2 will also finance technical assistance to strengthen ANDA's institutional capacity for climate adaptation and mitigation, including by enhancing ANDA's responsiveness, efficiency, professionalism, citizen engagement, and inclusion to improve the operations and maintenance of water supply networks and ANDA's ability to quickly respond to and recover from climate-related hazards such as droughts, storms, and floods. The component will further support ANDA's commercial and community engagement units on improving citizen engagement and a gender unit and human resources department to increase gender equity in the workplace. Specifically, to increase women's representation in the water sector, the Project will finance activities including gender sensitivity and trainings, technical and operational trainings that include female staff, and selected actions from the recommendations of a gender study (to be developed with financing from the IADB) that are aligned with improving women's inclusion in the labor force.

22. Component 2 will further finance a tariff study that will propose a roadmap to gradually minimize distortions found in the current tariff structure, promote rational use of water, and better target subsidies. The study will ensure that the proposed tariffs are guided by the principles of financial sustainability, economic efficiency, equity, and simplicity.

Component 3: Project management (total cost US\$4 million, all IBRD financing)

23. Component 3 will provide project management support including financing of operating costs, technical assistance for capacity building, technical support, support towards the implementation of the Environmental and Social Framework as well as the Environmental and Social Commitment Plan, the preparation of progress reports, independent audits, as well as support on Project financial, procurement, environmental, and social management as needed.

Component 4: Contingent Emergency Response Component (CERC) (US\$0)

24. Component 4 will support potential disaster recovery needs by providing immediate response to an eligible crisis or emergency, as needed.



Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

25. The overall Environmental and Social risk classification of the project is Substantial. The Environmental Risk is Moderate and the Social Risk is Substantial.

26. Potential environmental risks and impacts are mostly related to the civil works for the rehabilitation activities, and these are expected to be site-specific, short-term, and effectively avoided, minimized, or mitigated subject to the establishment of proper environmental and social measures. Key environmental risks and impacts include (i) generation of solid waste, hazardous and non-hazardous, from residual construction materials, potentially including removing old asbestos-cement water or sewage pipes; (ii) nuisance related to dust generation, vibration, and noise; (iii) temporary disruptions to local traffic during the construction phase; and (iv) health and safety risks to the Project workforce and local communities. Exposure and vulnerability to natural disasters in the Project area may result in direct or indirect impacts on the work sites and/or surrounding areas.

27. The Project may include several social risks: (i) disproportionate impacts on vulnerable individuals or groups resulting from Project-supported reduction of commercial losses, for example through increased economic burdens for those who benefit from illegal water connections; (ii) risks related to civil works, including temporary disruptions to water service, traffic, noise, dust, and occupational and community health and safety; (iii) potential limited land acquisition or access restrictions resulting in small-scale involuntary resettlement; (iv) opposition from individuals or groups currently benefitting from illegal water connections resulting in escalation of social conflict; (v) crime and violence in the Project area, which may constitute a barrier to stakeholder engagement and a risk for contractors and workers; and (vi) risk of exclusion or perpetuation of exclusion of vulnerable groups resulting from the development or improvement of commercial management, including citizen engagement and community outreach activities, as well as resulting from the development of new master plans for water supply and sanitation, and contingency plans for emergencies and climate events. These risks have been assessed and will be managed, as described below, through measures contained in the project’s Environmental and Social Management Framework (ESMF), Stakeholder Engagement Plan (SEP), Resettlement Policy Framework (RPF), Labor Management Procedures (LMP), as well as the Environmental and Social Commitment Plan (ESCP), as well as through the development of specific Environmental and Social Management Plans (ESMPs) or Environmental and Social Impact Assessments and Resettlement Actions Plans (RAPs). Bank screening has determined that no Indigenous Peoples meeting the criteria of the Environmental and Social Standard 7 on Indigenous Peoples are present in the Project intervention area, which is limited to areas within the urban footprint of the MASS and in the cities of San Miguel and Santa Ana, in which the project will finance technical assistance activities for the development of water master plans.

28. As the specific location of subprojects is not yet known, ANDA has developed a draft Environmental and Social Management Framework (ESMF) to assess potential environmental and social risks and impacts and develop generic mitigation measures. The ESMF also requires environmental and social screening and classification of subprojects, as well as the development, consultation with local communities, approval and disclosure, of site/specific environmental and social management plans (ESMP) or Environmental and Social



Impact Assessments (ESIA) as deemed applicable during the assessment, before the start of works. The ESMPs or ESIAAs will contain specific measures to avoid, minimize or mitigate risks inherent to water and sanitation works, including traffic management, management of dust, noise, and vibration impacts, occupational and community health and safety, continuation of water service provision during works, disproportionate impacts on vulnerable and disadvantaged groups, among other issues. While Project activities under are not expected to have a negative impact on biodiversity, the ESMF includes guidance on biodiversity screening and mitigation measures to be applied in ESMPs or ESIAAs. In addition, where technically and financially feasible the ESMPs or ESIAAs will describe how the concept of universal access will be applied in works under the Project.

29. The draft ESMF also includes a characterization of vulnerable groups and the development of mitigation measures for risks and barriers to inclusion of these groups. Identified vulnerable groups include: (i) elderly populations; (ii) poor urban households; (iii) persons with disabilities; (iv) girls and women head of households; (v) children and adolescents; and (vi) LGBTI populations. Measures discussed in the ESMF include measures to ease the economic burden of water tariffs, through support for focalization of subsidies to individuals, as well as accessible communication and measures to ensure the participation of vulnerable groups in participation in stakeholder engagement activities.

30. The project may involve limited use of private security forces by ANDA or contractors to provide security for works. In the event that in-house or external security personnel are required to safeguard the security of the Project, its personnel or assets, the measures of the ESMF and/or the specific ESIAAs/ESMPs shall be implemented by ANDA or included in bidding documents and contracts, guided by the principles of proportionality and good international industry practices, and by applicable law, in relation to hiring, rules of conduct, training, equipping, and monitoring of such personnel. ANDA will also ensure the project's Grievance Redress Mechanism (GRM) can identify and respond to complaints related to the presence of security forces, including the project's mechanisms related to Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) complaints.

31. Given the type of civil works, some labor influx may be expected and there are risks associated with contextual crime and violence and the prevalence of SEA/SH in the country. El Salvador has in place laws related to sexual harassment and domestic violence as well as a national referral pathway protocol for gender-based violence (GBV) service provision. The Project's GRM will include specific mechanisms to process SEA/SH related complaints, and a service provider mapping. The LMP includes a worker code of conduct. The ESMF has undertaken an analysis of SEA/SH risks and risks related to labor influx in ESMP, including corresponding mitigation measures.

32. The draft Stakeholder Engagement Plan (SEP) outlines (i) who the key stakeholders are; (ii) how they are to be engaged; (iii) how feedback will be solicited, recorded and monitored over the Project; (iv) who will be charged/responsible with this engagement; (v) timeline for this engagement, and (vi) budget for implementation of the plan. During Project preparation, consultations were carried out between October 21, 2022, and November 17, 2022, in three rounds: (i) a technical consultation with experts and institutional stakeholders; (ii) a consultation with local communities in the Project intervention area, and (iii) a public consultation with larger participation from civil society. Stakeholders participating in consultation generally agreed with the Project's objectives and activities. The SEP includes more details on the feedback received during these consultations and how it has been incorporated in the Project. The Project will rely on ANDA's existing 915 customer service line as the main Project GRM.

33. The project will include mostly direct and contracted workers. Risks for project workers may include occupational health and safety risks from construction and rehabilitation activities, as well as risks related to work in areas with high levels of crime and violence. The LMP, prepared by the Borrower and disclosed by the Bank and



the borrower prior to appraisal, identifies Occupational Health and Safety (OHS) measures, and such measures will also be adopted in subproject ESMPs and bidding documents. The project will not hire children under the age of 18 and will promote transparency in terms and conditions of employment, non-discrimination, and equal opportunity. In addition, the LMP includes a GRM specifically for project workers. The GRM will work through the 915 service lines and the online contact. Worker grievances will be managed separately from other project grievances as they will be directed to the Department of Human Resources, where they will be addressed.

34. It is possible that some of the Project activities may cause temporary or permanent restrictions of access to land or cause involuntary physical or economic displacement. For this reason, ANDA has prepared a draft Resettlement Policy Framework (RPF). The RPF describes potential impacts, develops eligibility criteria for affected persons including owners and occupants and relating to new land acquisition and creation of new easements, as well as impacts on existing crops or structures. According to the RPF, compensation will be determined based on the principle of full replacement cost based on market rates, restitution of incomes, and resettlement assistance. Finally, the RPF describes the process and responsibilities for Resettlement Action Plans, they will be prepared, consulted with the affected parties, reviewed by the Bank, approved, and implemented, all in alignment with the subproject process to ensure they are fully implemented before any impacts take place. Resettlement costs will be paid with resources from ANDA and/or the government.

35. The Borrower also prepared and disclosed the Environmental and Social Commitment Plan (ESCP) on March 3, 2023. The ESCP includes all necessary measures that the Project will need to address during implementation in relation to all environmental and social instruments and in compliance with the ESF, as well as monitoring and reporting arrangements during Project implementation.

36. The draft ESMF, RPF, SEP, and LMP were disclosed by both the Borrower on March 3, 2023 and the Bank on March 6, 2023.

E. Implementation

Institutional and Implementation Arrangements

37. The Borrower will be the Republic of El Salvador, and the Government of El Salvador will assume responsibility for repaying the loan to the Bank (both principal and interest) with resources from the National General Budget. The MoF and ANDA will enter into a Subsidiary Agreement, which will enable the MoF to transfer loan funds to ANDA and establish the parties' respective roles and responsibilities in relation to Project implementation.

38. ANDA will be responsible for overall day-to-day Project implementation of Components 1, 2 and 3 and for coordination with other government agencies, development partners, and the stakeholders. ANDA has experience working with bi-lateral and multi-lateral development partners. ANDA has already established a Project Management Unit (PMU) that will be responsible for the overall coordination and technical oversight of the Project and will ensure compliance with (i) fiduciary management; (ii) reporting requirements and monitoring activities; (iii) the implementation of the World Bank's Environmental and Social Framework (ESF); and (iv) all relevant World Bank policies and procedures.

39. The Project Operations Manual (POM) will guide the implementation of Components 1, 2 and 3. The POM²² details (i) the functions, responsibilities, and composition of the PMU, (ii) a description of Project activities

²² The draft POM will be finalized 60 days after Project effectiveness.



and implementation arrangements; (iii) the Project administrative, accounting, auditing, reporting, financial, flow of funds, procurement and disbursement procedures; (iv) the monitoring indicators for the Project; (v) the grievance mechanism; and (vi) the Anti-Corruption Guidelines. If triggered, the Project's CERC (Component 4) will be carried out through one or more implementing entities to be defined following procedures established in El Salvador's Contingency Emergency Response Manual for investment projects financed by the IBRD as previously approved by the Bank.²³

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²³ El Salvador's CERC Manual defines that the participant entities may be the Ministry of Agriculture, Ministry of Governance and Territorial Development, and/or the Ministry of Public Works and Transport.



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APPROVAL

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