PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB5363

Project Name	Local Government Strengthening Project
Region	LATIN AMERICA AND CARIBBEAN
Sector	Public administration- Finance (50%); Sub-national government administration (50%)
Project ID	P118026
Borrower(s)	REPUBLIC OF EL SALVADOR
	Secretariat of the Presidency for Strategic Issues El Salvador
Implementing Agency	Subsecretariat of Territorial and Local Development (SSTD) of the Secretariat of the Presidency Salvadoran Institute for Municipal Development (ISDEM) Social and Local Development Investment Fund (FISDL)
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD
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1. Key development issues and rationale for Bank involvement

A. Short-run challenges for municipal development

1. **Over the last years the economic performance of El Salvador has remained stable, which entailed significant macroeconomic and social achievements.** During the period of 2005-2008 El Salvador registered an average growth rate of 3.68% compared with 2.05% during 2001-2004. However, the global crisis is showing significant effects on the country performance mainly caused by a deep decline in total exports, domestic investment and remittances income. In 2008 the GDP growth rate declined from 4.7% in 2007 to 2.5% and it is estimated that 2009 will close with a GDP decline of about 2.5 percent. On the fiscal front, tax revenues dropped drastically since the beginning of the year. By October 2009 tax revenues have declined by 11%. Current projections foresee a fiscal deficit increase of about 5% of GDP, in contrast with the deficit levels registered in 2008 of 3.1%.

2. The economic deceleration caused by the global crisis, has started to revert many of past year's achievements in terms of poverty reduction. Between 2001 and 2007 poverty sustainably declined from levels of 43.6 to 35.5 percent. By 2008, overall poverty increased to 42.3 percent, close to the levels observed in 2001. Both urban and rural population are being hurt by both the decline in remittances (more than 10 percent in 2009) and reduction in employment (at least 30,000 formal jobs).

3. **In response to the crisis, the new Salvadoran administration that took office in June 2009, designed and launched an Anti-Crisis-Plan with actions gearing at mitigating the effects of the economic crisis on the most vulnerable while preparing the conditions for economic recovery.** The Anti-crisis Plan covers the following components: (i) an income protection and employment generation program, (ii) creation of a universal social protection system, (iii) strengthening of public finances, and (iv) implementation of a comprehensive consultative process to prepare a National Development Plan.

4. **The financial crisis has also showed its effects at the municipal level**. Government revenues have decreased because of the financial crisis that has afflicted the world over the last year and a half. As a result the funds available for municipalities have also declined. Municipal governments have registered a loss in income of more than 15% which has entailed a decline in municipal infrastructure investment by 20%. The current transfer system from central government allocates 7% of central revenues - the vertical share - to municipalities, and as central government revenues have declined, so have the amounts allocated to municipal governments. Municipalities have no revenue powers and all their income is from central transfers and borrowing. Many of the municipalities are already in debt and a large portion of central transfers are being used for service payments to banks. These factors combined mean that municipalities have less money to spend. Meanwhile the needs continue to be enormous. Half of the country's houses do not have water connection and a million families (two thirds of the population) do not have sewer systems. Most of these families live in poverty. On the other hand, distance to paved ways for the poorest people living in rural areas exceeds 5 km, which doubles the distance for noon-poor families.[1] Municipalities need to invest substantially in infrastructure to improve basic services (clean water, electricity, local roads, etc). These investments in the short term would also have a positive impact on employment and economic activity, thus helping to counterweight the effects of the crisis. Therefore the government would like to provide municipalities with additional resources to increase employment and stimulate the rural economy. These resources would be earmarked for necessary and priority basic infrastructure and improving access to basic services.

5. **Hurricane Ida.** On November 8, 2009, El Salvador was severely hit by Hurricane Ida which triggered floods and mudslides causing more than 200 deaths, destroying 641 houses, damaging another 462 homes, destroying 43 bridges and damaging 64 others. Additionally, the hurricane damaged 210 paved roads and 135 non paved roads. According to preliminary assessments, total damages are estimated around US$239 million[2]. Although most of the necessary investment for reconstruction will be channeled through the central government, it is likely that part of reconstruction activities would require direct participation of affected municipalities.

B. Medium to long-term challenges for municipal development

[1] Recent Economic Developments in Infrastructure - Strategy Report (REDI-SR) Infrastructure Service Provision in El Salvador: Fighting Poverty, Resuming Growth. October 10, 2006. Report No. 37689-SV. Jordan Schwartz.

[2] United Nations, CEPAL December 2009 Report.

6. **In the last 10 years, El Salvador has made important attempts to reform the public sector focusing on modernization of the state**. Part of the policies of the new administration is to transform the public sector into a modern and efficient provider of public services. The new government is in the process of preparing a public sector and a decentralization strategy. Some of the current challenges to be considered by these strategies are: (i) the existing confusion in the administrative functions and responsibilities of the different levels of central and municipal governments; (ii) lack of clarity on expenditures assignations, (iii) lack of information of the efficiency of the services provided at the local level; (iv) appropriate distribution formula of transfer to the local governments (taking into account that the transfers to local governments has increased from less than 1% in 1997 to 7% in 2009); and (v) the difficulty to guarantee that the national objectives are compatible at the sub-national level.

7. **Clarity and transparency of expenditure assignments**. The current legislation provides for an assignment of expenditure responsibilities between the center and the municipalities. But the assignments lack clarity and transparency. To a large extent this is due to the predominance of concurrent or overlapping responsibilities between the center and local governments and lack of clear assignment for financing, regulation or implementation between different tiers. This will require the direct involvement of the Technical Secretary of the Presidency, Secretary of Strategic Affairs of the Presidency, as well as line ministries, other central agencies and COMURES representing the local governments.

8. **Municipal fiscal dependency and weak revenue autonomy**. There is a lack of significant revenue autonomy at the municipal level and large dependency on transfers. A more efficient, accountable, and fiscally responsible decentralization system will need local governments (particularly in larger urban areas) with sources of own revenues, such as the property tax (impuesto predial). El Salvador is among the very few countries in Latin America where this tax has not been assigned to local governments. This reform would also fit well in the plans of the Ministry of Finance to carry out a tax policy reform by 2012.

9. **Fiscal transfers biased in favor of smaller municipalities**. The current system of transfers is characterized by the dominance of FODES, a hybrid of equalization grants and vertical revenue sharing. Currently the funding rule for FODES is 7% of central government current revenues and the funds are distributed according to a formula with four variables: population (50%), equal share (25%), poverty measure (20%), and land area (5%). The population and poverty variables are weighted by an index that decreases in value (from 5 to 0.5) with the size of population, so the formula is heavily biased in favor of smaller municipalities. The entire transfer system, including the level of funding for FODES, would also be a good candidate for reform as a part of the overall inter-governmental design.

10. **Gaps on legal framework for municipal borrowing**. This is an area that has been gaining importance because of increasing lending by private banks to municipalities with the guarantee of FODES funds administered under intercept arrangements by ISDEM. The process is regulated by the fairly recent Law on Local Borrowing. Even though no major problems have developed so far, there are potential signs of trouble because of the moral hazard of government bail out that may be associated with the intercept role of ISDEM. Further, the Law on Local Borrowing lacks specific regulations about important issues such as total debt and debt service limits. The Ministry of Finance, which is responsible for overseeing, local borrowing, could be engaged in the medium term in updating the Law and streamlining local credit.

11. **Gaps on political and administrative decentralization**. There are aspects of political decentralization and administrative decentralization in El Salvador which require attention in the medium term. Even though mayors and local councils are democratically elected, the current system of “winner gets all” deprives local councils of any presence of political opposition, and as a result there maybe issues of accountability at the local level. With respect to administrative decentralization, there is an issue of the lack of permanent administrative staff for municipalities. After every election, the winning party brings its own staff. As a result it is difficult to build institutional capacity and permanent structures of governance at the local level. The recently approved Law on the Municipal Administrative Career may go a long way to remedy these problems but important implementation issues remain.

12. In El Salvador most of the public services, investments and resources have been highly centralized by the central government. From 1998 local governments started to have a more important but not sufficient to cover all of the needs in terms of investment and local service provision. In many cases, local governments used to serve as “compensation agents” to the deficiencies of the central institutions and sectors. Local governments can intervene to provide lacking basic services, but in general they do it in a fragmentary, discretionary and inefficient way.

13. **Municipalities are very diverse both in terms of overall characteristics and institutional capacities**. Based on a broadly accepted typology (PROMUDE-GTZ, 2007), municipalities are grouped into five types. Type 1 includes 11 municipalities with largest population, highest rate of urbanization and the lower level of Unsatisfied Basic Needs. Type 2 includes 14 municipalities of intermediate to large size, with a mix of urban and rural population but with a greater proportion of urban population, and intermediate/low level of Unsatisfied Basic Needs. Type 3 includes 65 municipalities of intermediate size, with a mix of urban and rural population but with a greater proportion of rural population, and intermediate level of Unsatisfied Basic Needs. Type 4 includes 103 municipalities of small to intermediate size, with mostly rural population and high level of Unsatisfied Basic Needs. Finally, Type 5 includes 66 municipalities of small size, with rural population and the highest level of Unsatisfied Basic Needs. Municipalities’ type 1 and 2 are stronger in terms of administrative and technical capacities, whereas municipalities type 3 to 5 are deficient mainly in terms of technical capacities required to prepare and execute investments.

14. **Municipalities, specially the small ones, do not have a functional organizational structure.** The executive power at the local level is highly concentrated. More than 25% of municipalities have staff without defined functional responsibilities. Most of them do not count with adequate equipment and space and lack effective financial or administrative systems. They fulfill their planning functions and carry out resources allocation with limited technical and economic criteria. The local infrastructure improvements are done as a response to communities’ demands, generally in an isolated way from a broader development plan. Often, construction of small potable water systems, streams canalization, channels of natural drainage, and establishment of drainage systems or public markets are performed without proper consideration of technical, economic and environmental sustainability.

15. The municipal situation reflects: high dependency of the fiscal transfers from the central government and limited own income generated by municipal taxes and rates; staff with low salaries; inefficiencies in the treatment of basic environmental problems, especially those related with pollution created by the deficient or nonexistent drainage systems and the lack of solid waste management; limited urban planning; limited coordination among development projects carried out in given municipalities; and few transparent and well organized internal processes and procedures. Human resources policies recently defined by law need to be implemented properly and few rural municipalities have an automated accounting system.

C. Bank Rationale

16. **The proposed project responds to the Government's request to support municipalities with additional financing as a result of the fall in municipal incomes triggered by the economic crisis and to resolve the longer term structural issues related to intergovernmental relations and fiscal decentralization**. In light of the above, the project would help mitigate the municipal financial crisis and the impact of hurricane Ida in the short term and address structural issues that limit the implementation of deeper fiscal decentralization policies as well as enhancing institutional capacities at the local level in the medium term.

2. Proposed objective(s)

17. The proposed Project would support the Government's Anti-Crisis-Plan by restoring the investment capacity of municipal governments in the short term, improving the legal framework of decentralization and strengthening technical and financial capacities of local governments and supporting institutions.

18. The objectives would be achieved by: (i) the provision of conditional grants to all 262 municipalities by a total amount of US$50 million; (ii) financing of reconstruction of the affected areas by Hurricane Ida; (iii) updating of the municipal normative framework that defines municipal and central government competences; (iv) establishment of medium and long term fiscal decentralization strategy; (v) technical assistance in the basic functions of municipal management, such as participative planning, budgeting, procurement, financial management and human resources management and (vi) strengthening of key entities in the national system to support decentralization policies such as the Ministry of Finance, Secretary of Strategic Affairs of the Presidency, Salvadorian Institute of Municipal Development (ISDEM), the Social and Local Development Investment Funds (FISDL) and Corporation of Municipal Governments (COMURES).

3. Preliminary description

19. **Component 1 - Basic Municipal Infrastructure (US$68 million)**. With the aim of reducing the financial gap of the 262 municipalities caused by the financial crisis and restoring the investment capacity of municipal governments, this component will finance, through conditional grants, an equivalent amount of 1.7% of the annual transfer that the central government provides to municipalities (US$50 million) channeled through a separate budget line item with specific criteria for distribution and expenditures. The conditional grant mechanism would allow Government to use project funds for -infrastructure investments that would be

prioritized through local planning. Second it would avoid a perception among municipalities that the increased funding will be sustainable and permanent. The Government wants this to be a one-time increase in revenues for municipalities (not a long-term liability on central resources). Any future increase in the 7% fiscal transfer would be based on the local government responsibilities and competencies once clarified and budget envelopes established for local service provisions. This is important because COMURES—the association of municipalities—has been lobbying for the last five year and continues to do so for an increased in untied non-conditional funding for FODES up to 9% of current government revenues. Finally with a conditional grant transfer funded by a separate budget line item Government would have the flexibility to use a formula that builds upon the current one for horizontal distribution of FODES funds that would allow them to address specific short-term geographical imbalances.

20. These resources will finance high-priority infrastructure sub-projects determined and prioritized through local planning by the municipalities and communities. The allocation of the funds to the municipalities would be based on criteria such as population, poverty levels, equity and geographic extension. In order to contribute to the promotion of the territorial development and to amplify the impact, sub-projects that benefit two or more municipalities will be preferably supported (mancomunidades and associations or in an independent way).

21. While it is the Governments desire that the subproject investments be implemented before the 2011 municipal elections, it is more realistic to anticipate that 4-5 years will be necessary to execute all subprojects in each of the 262 municipalities.

22. Resources allocated to reconstruction (US$18 million) would be focused in the 52 municipalities and communities most affected by Hurricane Ida. The resource distribution would be based on the level of affectation of the municipalities in line with the damages report and according to the reconstruction plan. The resources will be directly channeled to municipalities who will have the responsibility to contract public/private entities to execute the works according to the reconstruction plan. The approval and tracking of the works would be carried out by FISDL and/or Ministry of Public Works (MOP).

23. It is anticipated that the Project will have an environmental category B. Component 1 is the main investment component of the project and seeks to support municipalities in recovery from Hurricane Ida’s effects in addition to reducing the financial gaps generated by the financial crisis of recent years. The municipal sub-projects would be small to medium-scale (ranging from US$50 thousand to US$500 thousand) and demand-driven based on the priorities they establish for investment. Most investments will be focused on infrastructure including the potential to support solid waste management, water and wastewater investments, and youth sports facilities. However, given the limitations in regard to investment size, it is expected that the projects impacts would primarily involve short-term, small-scale, and reversible impacts during construction phase that can be mitigated through proper design and construction practices. No large scale or mechanical treatment plants will be supported while solid waste investments will be carried-out only to improve existing sites and closure, improved collection services, support for recycling, and improved conditions for workers. No new dump sites will be established and will be screened out during the evaluation phase. Because the project could finance road repairs and maintenance and minor solid waste management activities, an environmental assessment of the project and a framework for screening potential investments that complies with national

environmental law, local regulations, and Bank safeguards will be prepared and included in the Environmental Management Plan. Potential cumulative effects from investments will be analyzed in the environmental evaluation, with the intent to define investment selection criteria that would reduce or eliminate cumulative impacts from any investments. The Environment Assessment process will conduct a thorough review of counterpart institutional capacities, resources, locations, national legal framework, as well as municipal capacities and needs for environmental management, screening and monitoring at each level of project execution. The preparation and execution of the Environmental Management Plan will be monitored and reviewed by the Bank team to ensure that sufficient human and financial resources are allocated for project supervision as well as Municipal training. Additionally, an Involuntary Resettlement Policy Framework will be prepared during project preparation and an Indigenous Peoples Framework will be established, because there is estimated to be between 2 and 11 percentage indigenous peoples in the country. The Resettlement Policy and Indigenous Peoples Planning Frameworks will be monitored and reviewed by the Bank team to ensure that sufficient human and financial resources are allocated for project supervision as well as Municipal training. Similarly, draft TORs on the Social Assessment have been reviewed by the Social Development Specialist of the Bank and support will be provided to counter parts in the preparation of the social assessment.

24. During the preparation of the proposed Project, a fuller understanding of the relevant technical issues related to the menu of potential subproject investments along with the kind of implementation and delivery mechanisms needed to assure quality subproject investments and their sustainability will be defined.

25. **Component 2. Strengthening of Inter governmental relation and transfer system. Institutional Strengthening (US$3 million).** In the medium term the Government is interested in reviewing and strengthening the current system of inter-governmental fiscal relations. The President, the Secretary of Strategic Affairs and the Minister of Finance have all expressed the desire to put decentralized governance in El Salvador on a sounder footing. There is therefore a clear potential to implement in depth reforms of the current system. The Bank can assist the Government with these reforms using a variety of instruments such as policy forums within the government, policy forums with the participation of policy makers from other countries that maybe comparable to El Salvador in their history and political economy, bringing together experts in the field to think through and lay out options on various aspects of the inter-governmental such as those described in previous section, namely: clarity and transparency of municipal expenditure assignments; municipal fiscal dependency and weak revenue autonomy; fiscal transfers biased in favor of smaller municipalities; gaps on legal framework for municipal borrowing; and gaps on political and administrative decentralization.

26. Through this component it is expected to design policies, strategies, systems and capacities to develop and strengthening inter-governmental relations system. This component would involve the following activities: (i) review of the legal framework and strategy of decentralization and territorial development by clarifying municipal and sectoral competencies, estimate costs of the provision of specific services, promote a better fiscal collection and support municipal associations; (ii) solve gaps and incoherence in the policy framework and regulation of sectors that contribute to the decentralization agenda including fiscal inter-governmental relations (taxes, transfers, expenditure allocations, and accountability); (iii) define a strategy of fiscal decentralization for the medium and long term; and (iv) strengthening Ministry of Finance

and Secretary of Strategic Affairs to improve their capacity to define and maintain decentralization and territorial development policies.

27. **Component 3. Strengthening of Local Governments (US$7 million).** The main objectives of this component are the following: (i) provide assistance to the municipalities for the preparation and implementation of investments under Component 1; (ii) strengthen municipal capacity in the areas of procurement, financial management, human resources management, participative planning systems, and municipal service delivery; and (iii) strengthen ISDEM, COMURES and FISDL to improve the execution of technical assistance and training programs to municipalities.

28. Regarding investment preparation and execution, municipalities type 1 and 2 (PROMUDE-GTZ, 2007) will receive conditional grant transfers from component 1 but will not be supported with additional technical assistance for investments. Meanwhile, municipalities' type 3 to 5 will receive support for investment related technical assistance. Investments designed to benefit two or more municipalities will be encouraged by a proportionally larger assignment of resources for pre-investment related technical assistance. To further support municipalities for investment preparation and execution, FISDL will be subcontracted to monitor the process and results. Finally, municipalities needing support in any stage of the project cycle could request it to the project, who will in turn subcontract the services of FISDL, qualified development agencies and NGO's for that purpose. The proposed Project will support and strengthen institutions that will provide the necessary technical assistance or that the municipalities can sub-contract for all the work including the design and implementation of the subprojects.

29. Regarding the strengthening of management capacities of municipal governments, all municipalities would be eligible. Training programs will be prepared by ISDEM and subcontracted with qualified public institutions and NGO's. Such programs will be prepared based on demands identified during project execution and could be either to strengthen management comprehensively or for specific areas, such as: human resource management, transparency, procurement, financial management, participatory planning and budgeting, fiscal revenues management and infrastructure/services management. Training programs could be organized for existing municipal associations or mancomunidades for economies of scale. However, single municipalities could request tailored technical assistance to strengthen specific areas. Finally, to achieve expected results in all three components, ISDEM, COMURES and FISDL would be strengthen with appropriate, adequate and timely technical assistance.

30. **Component 4 - Project Management (US$ 2 million)**. Some outputs of this component could be: i) the efficient and effective coordination of the Project and an M&E system which measures progress in achieving project objectives; ii) provision of consultants, goods, and incremental operating costs which will support the operation of Project coordination integrated within ISDEM's structure; iii) establishment of institutional mechanisms, administrative systems, management information system, personnel, equipment and other elements needed for the implementation of the project; iv) effective fiduciary arrangements in place during implementation and safeguards policies complied with and coordinated by the administrative unit of ISDEM. The component has the following subcomponents: i) Project implementation

and management; ii) Communications strategy; iii) Planning, monitoring and evaluation; and iv) Studies.

31. **Institutional arrangements**. Overall coordination would be under the Subsecretariat for Territorial Development and Decentralization (SSDT) of the Secretariat of Strategic Affairs of the Presidency (SAE). The project advisory committee will be the National Council for Territorial Development (CONARES), composed by representatives from ISDEM, COMURES, FISDL, and the Commission from Congress for Municipal Affairs. Project execution will also involve a restructured ISDEM and FISDL, as well as other sectoral institutions, development agencies and NGO's. Detailed implementation responsibilities and organization structure will be developed during the next months.

32. Based on past and current activities of USAID's, GTZ, the Spanish and RECODEL in dealing with related municipal development, the task team has been meeting with each of these donors, seeking their participation in the missions and exploring cofinancing and collaboration in the Project. Each has expressed a strong interest to be involved in the preparation of the project and potentially in supporting the implementation of the project. While there may be additional financing provided by other donors, this would not increase the size of investments.

4. Potential risks and mitigation

Risk Factors	*Risk*	*Description of Risk*	*Mitigation measures*	*Residual risk*
Macro-economic				
Macroeconomic instability arising from fiscal pressures	**Substantial**	Fiscal pressures are likely to emerge from the sharp decline in current revenues associated with the economic slowdown and the rising public wage bill. Fiscal revenues between January and May 2009 fell by 11.7 percent compared to the same period last year. The fiscal deficit is expected to reach 5.1 percent by the end of 2009.	**Policy dialogue and analytical work**. The Bank team has maintained a continuous dialogue with the Government on potential responses to the crisis, and is providing advice on a range of areas, including tax reform legislation. The risk is also mitigated by the recent agreement between the Government and the IMF on a new three year Standby Program.	**Moderate**
Country engagement with World Bank				
Approval process of Bank loans in Congress	**High**	The new administration does not have the required majority to approve Bank loans in Congress. The approval process involves two votes by the Congress, requiring a simple majority in the first vote and a two-thirds majority in the second vote to approve the loan. During the previous CPS period, an impasse in the National Assembly on several	The recent history, including the approval of the Bank and IDB loans in late 2008, indicates that there is room for collaboration in the current environment. The Government and the Bank have engaged in a dialogue and consensus-building processes, including the involvement of the opposition in defining fiscal	**Substantial**

Risk Factors	*Risk*	*Description of Risk*	*Mitigation measures*	*Residual risk*
		domestic issues led the opposition to block US$500 million in new foreign borrowing requiring a sovereign guarantee, including five Bank operations as well as financing from other multilaterals.	priorities and providing the opportunity to comment on project design. In addition, this loan is being presented with the CPS and a package of loans to be approved by Congress which represent a carefully selected program focused on priorities where there is Broad support. It is hoped that this approach will minimize the chance that individual loans are captured in a political debate.	
Operation specific risks				
Technical Risk:	**Substantial**	Currently there is limited capacity and experience in policy setting related to intergovernmental relationships including fiscal decentralized and municipal capacity building. Limited capacity to design and implement municipal investment (conditional grants). Technical feasibility and sustainability of water/sanitation, solid waste and road infrastructure. Sustainability of municipal development activities and national level support entities.	In project design efforts will focus on key TA needed and establishing the sufficient incentives to define a decentralization strategy and appropriate implementation plan. Opportunities will be sought to expose counterparts to successful conditional grant transfer programs and lessons learned from these experiences. Sectoral ministries and other entities with experience in municipal infrastructure investments, i.e. FISDL, etc. will be incorporated into project design and execution. Assessing incentives and designing the project to include national and local level incentives for effective and efficient municipal management.	**Substantial**
Institutional Risk:	**Substantial**	Acceptance of new normative municipal legal framework. Project preparation.	A participatory process will be used involving Congress, COMUREs and ISDEM which represent municipalities. Capacity of SSDL will be augmented with individuals who can assist in project	**Moderate**

Risk Factors	*Risk*	*Description of Risk*	*Mitigation measures*	*Residual risk*
		Local political influence on project activities.	preparation. Civil society participatory process and audits will be promoted in project design. Forums to discuss and generate consensus.	
Implementation Risk:	**Substantial**	National government capacity to fulfill the responsibility of for a conditional grant program (planning, appraisal, monitoring) for diverse sectors and very different municipalities, plus all the Bank Safeguard and Fiduciary requirements. Limited capacity in policy making related to municipal framework/development. ISDEM limited (restricting – timing). Coordinating all donor and other stakeholder efforts related to municipal development. No experience with conditional grant implementation. Political pressure to disburse the funding quickly to respond to the 2011 municipal election.	The project will rely on existing in country capacity for managing the subproject investment lifecycle. During preparation, areas for institutional strengthening will be defined and incorporated into the project design. Environmental, social and fiduciary specialists are involved in the preparation of the environmental, social, and fiduciary frameworks. Designing sufficient TA activities to strengthening of SSDL, ISDEM and COMURES. A representative of RECODEL will be placed in SSDL to coordinate all donor support. Will utilize ISDEM's existing experience with FODES fiscal transfer and also FISDL, PNUD and NGOs experience with municipal investments. Clear eligibility and implementation criteria for disbursement of funds for the conditional grants will be defined and clearly and often communicated to national and local government authorities.	**Substantial**
Fiduciary Risk:	**Substantial**	Utilizing best practice FM/Procurement procedures for conditional grant arrangements.	Will need to design acceptable fiduciary controls based on precedence set in Ethiopia Protection of Basic Services I and II projects. Planning to use expost-	**Moderate**

Risk Factors	*Risk*	*Description of Risk*	*Mitigation measures*	*Residual risk*
			audits, list of qualified implementing service providers. Fully integrated implementing unit within ISDEM.	
Environmental Risk:	**Substantial**	Conditional Grant /Reconstruction investment apply environmental screening process.	Strengthen local government environmental screening capacity.	**Moderate**
Social Risk:	**Substantial**	Pro-poor distributional impact. Reconstruction potential resettlement on a small scale.	In design, make sure conditional grant distribution criteria are equity based. Analyze during social assessment.	**Moderate**
Overall Risk				
Overall Risk (including Reputational Risk)	**Substantial**			**Substantial**

4. Safeguard policies that might apply

Safeguard Policies Triggered ***(please explain why)***	**Yes**	**No**	**TBD**
Environmental Assessment (OP/BP 4.01)	**X**		

Component 1 is the main investment component of the project and seeks to support municipalities in recovery from Hurricane Ida's effects in addition to reducing the financial gaps generated by the financial crisis of recent years. The municipal sub-projects would be small to medium-scale (ranging from US$50 thousand to US$500 thousand) and demand-driven based on the priorities they establish for investment. Most investments will be focused on infrastructure including the potential to support solid waste management, water and wastewater investments, and youth sports facilities. However, given the limitations in regard to investment size, it is expected that the projects impacts would primarily involve short-term, small-scale, and reversible impacts during construction phase that can be mitigated through proper design and construction practices. No large scale or mechanical treatment plants will be supported while solid waste investments will be carried-out only to improve existing sites and closure, improved collection services, support for recycling, and improved conditions for workers. No new dump sites will be established and will be screened out during the evaluation phase. Potential cumulative effects from investments will be analyzed in the environmental evaluation, with the intent to define investment selection criteria that would reduce or eliminate cumulative impacts from any investments. An environmental assessment of the project and a framework for screening potential investments that complies with national environmental law, local regulations, and Bank safeguards will be prepared and included in the Environmental Management Plan. The Environment Assessment process will conduct a thorough review of counterpart institutional capacities, resources, locations, national legal framework, as well as municipal capacities and

Safeguard Policies Triggered *(please explain why)*	Yes	No	TBD
needs for environmental management, screening and monitoring at each level of project execution. The preparation and exaction of the Environmental Management Plan will be monitored and reviewed by the Bank team to ensure that sufficient human and financial resources are allocated for project supervision as well as Municipal training. Components 2 and 3 involve primarily technical assistance for municipal strengthening in regard to financial management, and to develop plans and pre-investment studies for municipal investment. Assistance that could be deemed too sensitive or have potentially broad social and environmental negative impacts will be screened out prior to approval for funding.			
Natural Habitats (OP/BP 4.04)	X		
Although it is not possible to identify important and critical natural habitats for the specific works to be included under the project, the EA will include a list of the most important natural habitats from a national and regional perspective, while the framework will include a procedure for review at a municipal level of important habitats and ensure that projects with potential impacts are screened-out or mitigation is provided for including compensatory areas as appropriate under national law and Bank safeguard policy.			
Forests (OP/BP 4.36)		X	
No forestry is to be funded under the project.			
Pest Management (OP 4.09)			X
No agricultural sub-projects will be included under the project. Roads management may entail use of herbicides, however this will be confirmed by the EA and the safeguard will be triggered including appropriate measures to be included in the ongoing management of these works.			
Physical Cultural Resources (OP/BP 4.11)	X		
It is possible that the civil works under component 1 might directly and/or indirectly affect cultural property in some locations sub-project component. These could include known local structures or sites of historic or culturally importance. The project screening and EA process during project implementation will ensure that such sites will be identified and appropriate actions taken if necessary. In addition, all construction contracts will include chance find procedures which will define specific measures to be taken in the event that PCR as defined under the policy are found during construction. All possible impacts on buildings or other sites of historical or archaeological significance will be mitigated as necessary.			
Indigenous Peoples (OP/BP 4.10)	X		
Indigenous peoples are believed to account for anywhere from 80,000 to 800,000, or 1.6 to 12% of El Salvador's population. Given that the project area potentially encompasses all 262 municipalities in the country, a number of these peoples may be affected. A social assessment will be conducted and its findings will be used in the preparation of an Indigenous Peoples Planning Framework (IPPF). The social assessment will include consultations with indigenous peoples representatives and their organizations, such as Asociación Nacional Indigena (ANIS), El Consejo Coordinador Nacional Indigena Salvadoreñio (CCNIS), and Asociación Coordinadora de Comunidades Indigenas de El Salvador (ACCIES), stakeholders and indigenous families to ensure their participation in a culturally adequate manner. The IPPF will			

Safeguard Policies Triggered *(please explain why)*	Yes	No	TBD
help to ensure that the principles outlined under OP 4.10 (i.e. screening, social assessment, consultation and participation, etc.) are taken into account during project preparation and implementation. The IPPF will also be agreed with the GOES and will be included in the Operational Manual. An Indigenous Peoples Planning Framework will be monitored and reviewed by the Bank team to ensure that sufficient human and financial resources are allocated for project supervision as well as Municipal training. Similarly, draft TORs on the Social Assessment have been reviewed by the Social Development Specialist of the Bank and support will be provided to counter parts in the preparation of the social assessment.			
Involuntary Resettlement (OP/BP 4.12)	X		
Because the location, timing and technical features of the potential infrastructure investments to be financed under the project remain unknown at this time, a Resettlement Policy Framework (RPF) will be prepared. The RPF will help to ensure that the principles outlined under OP 4.12 (i.e. avoid, minimize, mitigate, consult and disclose, value assets at replacement costs, etc.) are taken into account during project preparation and implementation. The project will also assist the government to assess salient issues and design social management systems to facilitate planning for activities needed to address the potential social impacts of future infrastructure investments. The RPF will be agreed with the GOES and will be included in the Operational Manual. A Resettlement Policy Planning Frameworks will be monitored and reviewed by the Bank team to ensure that sufficient human and financial resources are allocated for project supervision as well as Municipal training. Regarding the draft TORs on the Social Assessment, please see read the Indigenous Peoples section above.			
Safety of Dams (OP/BP 4.37)			
No dams are involved in the project and its associated sub-projects			
Projects on International Waterways (OP/BP 7.50)		X	
n/a			
Projects in Disputed Areas (OP/BP 7.60)		X	
n/a			
Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects (OP/BP 4.00)		X	

5. Tentative financing

Source:		($m.)
Borrower		3
International Bank for Reconstruction and Development		80
Local Govts. (Prov., District, City) of Borrowing Country		2
	Total	85

6. Contact point

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