

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

**TRANSPORTATION PROGRAM FOR THE SAN SALVADOR
METROPOLITAN AREA**

(ES-L1050)

LOAN PROPOSAL

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ELECTRONIC LINKS
REQUIRED
1. Annual work plan (AWP) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36261773
2. Monitoring and evaluation plan http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36261801
3. Environmental and Social Management Report (ESMR) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36254651
OPTIONAL
1. Ex post evaluation. Public Transportation System in Bogota, Phases I and II (Transmilenio) http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36231819
2. Economic assessment http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36262437
3. Public transportation system diagnostic http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35786895
4. AMSS public transportation system planning strategy http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35536871

ABBREVIATIONS

AMSS	San Salvador Metropolitan Area
BRT	Bus Rapid Transit
COAMSS	Council of Mayors of the San Salvador Metropolitan Area
ESMR	Environmental and Social Management Report
IFMS	Integrated Financial Management System
MNT	National Transportation Office
MOPTVDU	Ministry of Public Works, Transportation, Housing, and Urban Development
OC	Ordinary Capital
OPAMSS	San Salvador Metropolitan Area Planning Office
PEU	Project executing unit
PT	Public Transportation
SITRAMSS	San Salvador Metropolitan Area Integrated Transportation System
UACI	Unidad de Adquisiciones y Contrataciones Institucionales [Institutional Procurement Unit]
UFI	Unidad Financiera Institucional [Institutional Finance Unit]
VMT	Office of the Deputy Minister of Transportation

PROJECT SUMMARY

EL SALVADOR

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FINANCIAL TERMS AND CONDITIONS				
Borrower: Republic of El Salvador Executing agency: Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU), through the Office of the Deputy Minister of Transportation (VMT)			Source	OC
			Amortization period	25 years
			Grace period	4 years
			Disbursement period	4 years
Source	Amount (US\$)	%	Interest rate	LIBOR-based
IDB (OC)	45,000,000	100	Inspection and supervision fee	*
			Credit fee	*
Total	45,000,000	100	Currency	United States dollars from the Single Currency Facility
PROJECT AT A GLANCE				
Project objective: The objective of the project is to improve public transportation conditions and traffic in general in the San Salvador Metropolitan Area (AMSS). This objective will help structure a competitive, efficient, equitable city that provides sustainable mobility opportunities for the low-income population, while facilitating transportation to job opportunities and economic and social development. To achieve this objective, the project will comprise the following components: (i) engineering and administration; (ii) mass transit corridor; and (iii) institutional strengthening.				
Special contractual conditions: As conditions precedent to the first disbursement of the loan proceeds: (i) the borrower will present evidence that the project executing unit (PEU) has been established and that the project manager, a transportation specialist, a financial specialist, a procurement specialist, a social specialist, and an infrastructure specialist have been contracted or appointed (see paragraph 3.2); (ii) the borrower will present evidence that the technical management firm specializing in transportation has been selected (see paragraph 3.1); and (iii) the executing agency will place the Administrative and Financial Manual for the project into effect (see paragraph 3.5). As a condition precedent to the first disbursement of the loan proceeds for Component 2 (Mass Transit Corridor): evidence will be submitted that the executing agency has obtained the environmental permits required by national law for the project works and that the technical management firm specializing in transportation has been hired (see paragraph 2.5).				
Special execution conditions: (i) in addition to the bidding documents for each segment of the project works, if people or economic activities need to be relocated, the borrower will submit a resettlement plan to the Bank's satisfaction; and (ii) prior to the start of work on each segment, the borrower will submit, to the Bank's satisfaction, evidence of legal possession to the land needed for such works, and evidence of compliance with the Environmental and Social Management Plan and the resettlement plan previously agreed upon with the Bank (see paragraph 2.6).				
Exceptions to Bank policies: None.				
Special considerations: None.				
Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
Project qualifies as: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/>				

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, strategy, and rationale

- 1.1 **General context.** In 2009, there were 6.14 million inhabitants in El Salvador, an estimated one third of which live in the San Salvador Metropolitan Area (AMSS).¹ The country's population density has grown steadily in recent years, reaching 291 people per km² in 2008. Similarly, the proportion of urban population has also increased, with a majority of the population living in urban areas since 1994. By 2008, this proportion had risen to 65%. The city of San Salvador has become a metropolitan area in an urban agglomeration with its neighboring municipios, and is the country's central development hub.
- 1.2 **Urban transportation problems.** The main transportation and traffic problems in the AMSS include a preponderance of individual motor vehicles resulting in congested streets, and an oversupply of urban public transportation services. The country has close to 700,000 vehicles on the road with a geometric 8.4% year-to-year growth rate over the past 10 years, equivalent to 22 times the national population growth for the same period. Fifty percent of these vehicles are in the AMSS, with average annual growth of 7%, while annual population growth is 1%. The public transportation system accounts for 54% of travel and occupies 30% of the road space, while private vehicles account for 23% of travel, occupying 70% of road space. Taxis, motorcycles, and pedestrians account for the remainder.
- 1.3 From an operational perspective, despite the existence of regular bus stops, public transportation vehicles (PT) make unauthorized stops to pick up passengers, causing delays and affecting the quality of service. Virtually all routes cut across the city center where the main economic and social activities are conducted, and the area's narrow streets slow the flow of commercial vehicles, causing traffic jams. Moreover, the road infrastructure is unsuitable for such services, and the highly congested network impairs efficiency in the movement of passengers and cargo and other transportation-dependent economic activities. El Salvador has nearly 1,100 bus routes served by some 11,000 vehicles, close to 3% of the country's total vehicle stock. In the AMSS, 162 bus routes are in service, operated by 4,642 vehicles (42% of the national mass transit fleet) equally split between buses and minibuses. The average vehicle age is 14 years for buses, and 11 for minibuses.
- 1.4 The chief indicators for this management system may be summarized as follows: (i) large fleet size (significantly higher than 1 vehicle per 1,000 inhabitants and an oversupply of more than 50%); (ii) aging fleet (older than 10 years on average); (iii) inadequate vehicles (small and unsuitable); and (iv) low speed for commercial vehicles in the city center (10 km/h or less).

¹ The San Salvador Metropolitan Area comprises 14 *municipios*: Santa Tecla and Antiguo Cuscatlán in Departamento de La Libertad and San Salvador, Mejicanos, Ayuntuxtepeque, Cuscatancingo, Delgado, Soyapango, Ilopango, San Marcos, Nejapa, Apopa, Tonacatepeque, and San Martín.

- 1.5 The operating conditions of urban mass transit affect the quality of life and the competitiveness of the AMSS. On the one hand, PT users, mostly the lower-income segment, spend too much time traveling in uncomfortable and unsafe conditions, and have to pay for transfers because services are not integrated. On the other hand, road congestion negatively impacts transportation efficiency for passengers and cargo alike, as well as for other transportation-dependent economic activities.
- 1.6 Transportation sector planning, regulation, and management are centralized in the Office of the Deputy Minister of Transportation (VMT) and attached agencies.² As the sector's lead governing and policy-coordination body, the VMT has the authority and is responsible for executing ground transportation, traffic, and road safety programs, functions, or activities.
- 1.7 Several transportation studies were conducted over the past 15 years to gauge the AMSS's needs: (i) a master plan for urban development of the San Salvador Metropolitan Area, prepared by the Consortium Israel Institute for Transportation Planning and Research between 1995 and 1997; (ii) a study to select locations and determine minimum design specifications to reduce the concentration of interdepartmental mass transit terminals in the AMSS, conducted by the San Salvador Metropolitan Area Planning Office (OPAMSS) in 2000; (iii) a study to regulate and control the urban and interurban mass transit sector, prepared with the assistance of an individual consultant in 2001; (iv) feasibility and preliminary design for the principal mass transit hub of the San Salvador Integrated System, a study carried out by the firm TTC Engenharia de Tráfego e Transportes Ltda. in 2003; and (v) a mass transit pricing policy and financial sustainability study prepared by TTC in 2005.
- 1.8 An individual consultant hired in 2010 with resources from technical cooperation operation ATN/MT-8044-ES reviewed the findings of the studies, consolidating them in the AMSS public transportation system planning strategy (see [optional link 4](#)). The study concluded that the transportation supply should be strengthened through a large-capacity, integrated PT system, operating in exclusive lanes with feeder service from outlying neighborhoods and peripheral towns. The proposed transportation system consists in developing several corridors, the first of which will operate along the East-West axis, from San Martin to Santa Tecla. It will be known by its Spanish acronym SITRAMSS (San Salvador Metropolitan Area Integrated Transportation System). Loan proceeds will be used to finance the Soyapango to Metrocentro segment of this corridor (see Figure 1).
- 1.9 **Relationship with the Bank strategy and the country strategy.** The project is in line with the Bank's strategy with El Salvador 2010-2014 (document GN-2575), which is aligned with the country's development priorities. The strategy aims to reduce poverty and improve equity by improving access to opportunities for the poorest majority, through six priority areas: public finance, social protection, urban

² Ground Transportation Bureau, Transit Bureau, Transportation Policy and Planning Bureau, and Office of the Inspector General.

habitat, water and sanitation, transportation (including public transportation service), and energy. This operation seeks to provide a more efficient public transportation service, improve competitiveness and urban mobility in a safe environment, at a price that strikes a balance between cost and quality of service. In addition, the five-year investment plan for 2010-2014 includes modernization of the mass transit sector through implementation of this project. This project is also included in the Bank's programming document for 2011. Moreover, since the project contributes to environmentally sustainable transportation, it is aligned with one of the pillars of the Bank's Ninth General Capital Increase that prioritizes operations promoting climate change mitigation measures.

- 1.10 **The Bank's participation.** The Bank has supported El Salvador in the area of urban transportation by financing the following studies: (i) AMSS Master Passenger Transportation Plan (1997); (ii) regulation of El Salvador's passenger transportation sector (2001); (iii) technical and economical feasibility study for two divided highways and the design of implementation measures for the AMSS; and (iv) new public transportation system planning strategy (2010). The Bank has also been involved in developing and implementing programs to improve urban public transportation by establishing Bus Rapid Transit (BRT) systems in several Latin American cities (Curitiba and Fortaleza (Brazil), Lima (Peru), Cali (Colombia), etc. Several lessons on project design are being incorporated into this operation, including the following requirements: (i) the executing agency will have a suitable legal and institutional framework for system implementation; (ii) project information campaigns will be launched early on; (iii) owner-drivers will join business associations that are experienced and efficient at providing access to capital and the organizational discipline required by modern systems; and (iv) separate concessions will be used for system operation and collection services, etc. El Salvador will leverage the experience of these cities to make a qualitative leap from a less sophisticated model³ to one of the most advanced, without having to make major infrastructure investments as required for a train or underground system. The lessons learned from these projects, which have been substantiated by the BRT system impact studies conducted by specialized firms,⁴ point to the following results: (i) lower vehicle operating costs; (ii) increased commercial speed with the addition of elements such as prepaid tickets, level boarding, multiple doors, etc.; (iii) drop in the number of traffic accidents involving PT; and (iv) that formalizing public transportation through concessions strengthens transit operators and boosts tax revenues by curbing tax evasion, pervasive under the traditional

³ Characterized by weak, under-capitalized operators, without access to loans, where independent vehicle owners are loosely organized in an association of service providers, generally holding precarious permits, operating under a State with limited regulatory, inspection, and control powers compared to other more advanced models.

⁴ (German Agency for Technical Cooperation, Institute for Transportation and Development Policy, etc.) The ex post evaluation of the Bogota Transmilenio project is provided as an optional link. This service has become a global standard for high-capacity BRTs, traditionally only possible for a rail system totally segregated from general traffic (metro).

system, while increasing citizen safety in BRT-served areas. The proposed project is expected to produce similar results.

- 1.11 **Coordination with other institutions and donors.** No donor other than the Bank is currently involved in improving urban mass transit in El Salvador. Given the scope of the project, institutional participation and coordination is essential. Accordingly, the VMT initiated a coordination process with other institutions, including the Technical Secretariat of the Presidency, the Council of Mayors of the San Salvador Metropolitan Area (COAMSS), the OPAMSS, the National Transportation Office (MNT), the country's transportation sector, and the National Fund for Low-Income Housing (FONAVIPO). The VMT also agreed to hold joint meetings with the COAMSS and the MNT to share with them the advances and outcomes emerging from the project design and engineering studies.

B. Objectives, components, and costs

- 1.12 The objective of the project is to improve public transportation conditions and traffic in general in the AMSS. This objective will help structure a competitive, efficient, equitable city that provides sustainable mobility⁵ opportunities for the low-income population, while facilitating safe transportation to job opportunities and economic and social development. The project, covering the Soyapango–Boulevard del Ejército–Alameda Juan Pablo II–Metrocentro segment shown in Figure 1, will receive US\$45.5 million in financing and the operation will be self-sustaining.⁶ Loan proceeds will finance goods and services for institution-strengthening and the design, organization, construction, and implementation of an integrated public transportation system in the AMSS, prioritizing passenger movement on high-capacity buses in dedicated lanes (BRT) along the routes, connecting peripheral neighborhoods to areas that generate jobs and provide services. The project will reduce travel time, the transportation cost for users from outlying areas, and the number of traffic accidents in the corridors. It will also strengthen the public transportation industry and reduce environmental pollution.
- 1.13 Physical interventions include adapting a segregated lane, building bus stops and a transfer terminal, bus yards, works to revitalize downtown San Salvador making certain areas pedestrian friendly, and developing the feeder system. At the institutional level, the project is expected to reform the current regulatory framework and provide the public sector with better tools to plan, control, and oversee transportation operators. The project will also modernize the PT industry along the corridor by financing mechanisms to train existing bus operators to help them take part in the new public transportation system. It will also allow operators

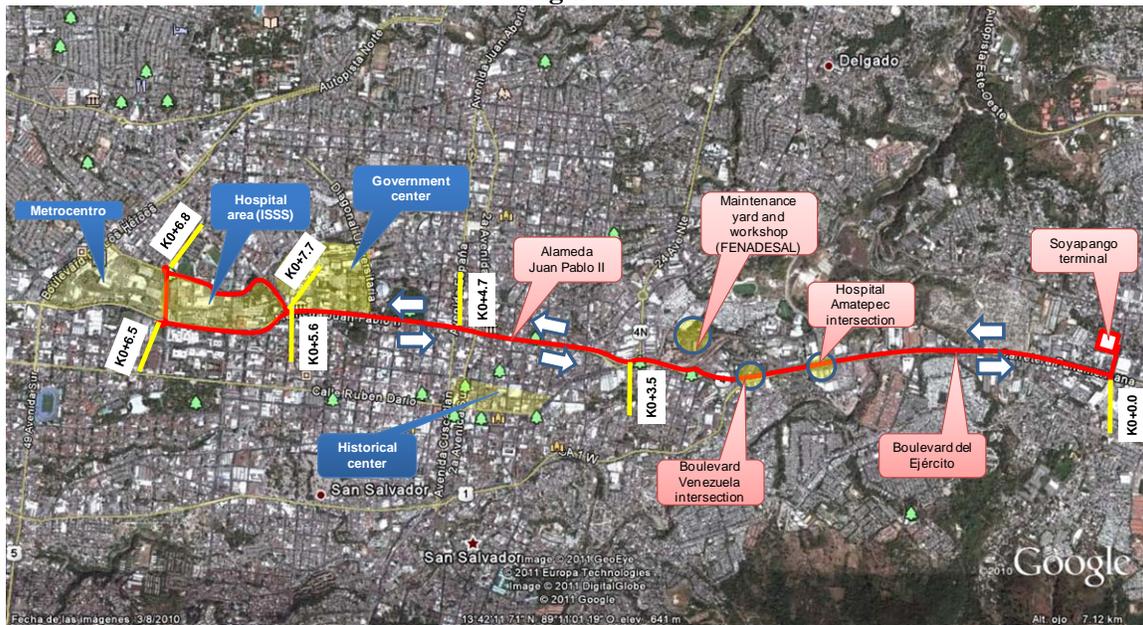
⁵ Sustainable mobility is understood to mean mobility able to meet the travel demands of the urban population, assuring universal access, safety, economic efficiency, and environmental suitability, through diverse means of transportation where there is more mass transit, non-motorized transport, and pedestrian traffic than private vehicular transport.

⁶ In operational terms, because ticket revenue will cover the operating costs of the new system.

to consolidate by linking them to the service through concession agreements, and to formalize employment within the companies.

- 1.14 The project consists of corridors with segregated, preferential lanes dedicated to high-capacity bus service with passenger access doors on both sides. This project will finance the Corridor from Soyapango–Boulevard del Ejército–Boulevard Venezuela intersection–Av. Independencia intersection–Alameda Juan Pablo II–Metrocentro, northward to Plaza México–Prolongación Boulevard Tutunichapa, eastward to Calle Guadalupe, southward–return via Alameda Juan Pablo II. This segment serves the major travel destinations including the Metrocentro commercial district and the institutional areas around the hospitals close to the Salvadoran Social Security Institute (ISSS), the Rosales Hospital, Maternidad Hospital, the government center, and universities. The segment will be integrated with feeder routes served by lower capacity vehicles.

Figure 1



- 1.15 An operations control center will schedule and control the buses, regulating the supply provided by bus operators. The center will also monitor the operation of stations in order to adjust, in real time, the number and frequency of buses on the road to meet the volume of demand. System passengers will pay an integrated fare covering the trunk corridor and the feeder routes, with an off-bus prepaid fare collection system. An independent firm will collect bus fares.
- 1.16 As in other countries, project start-up and operation were conceived as a public-private partnership. Infrastructure investments will be financed with resources from this operation. Operation of the high-capacity buses, however, will be granted on a concession basis to private bus operators who will be responsible for providing the rolling stock and the maintenance yard equipment. Their services

will be remunerated based on the number of kilometers traveled by the vehicles in accordance with the scheduled programming and frequency. Private investment was estimated at US\$19 million.⁷ The operations center will supervise the quality of service and provide customer service.

- 1.17 A private company contracted through a public bidding process will collect bus fares; this firm will be independent of the bus service operator companies. A trust fund will be established to administer the resources raised through the collection of bus fares, but not the project financing resources. These trust fund resources will be used to: (i) pay the bus fleet operators as specified in their respective concession agreements; (ii) cover the bus fare collection system expenses; and (iii) cover the project executing unit's administrative and operating expenses, including auditing and control of the operation and corridor safety. The bus fare will cover all transportation operator costs, the bus fare collection system, the fiduciary agent, and station maintenance costs. The VMT has full authority to set the value of the bus fare charged to users. Although there is a risk of setting bus fares too low to cover the system operating and maintenance costs, it should be noted that practically all Latin American cities operate with commercial fares that fully cover such costs. Therefore, the risk is considered low, all the more so since there is a policy decision on the proportion of costs to be covered by the commercial fare.
- 1.18 To achieve these objectives, the project will finance the following components.
- 1.19 **Component 1. Engineering and administration (US\$4.3 million).** The funds allocated to this component will be used to finance the following costs: (i) contracting the project's technical management firm in transportation (see paragraph 3.1); (ii) staff, equipment, and furnishings for the executing unit; (iii) preoperation; (iv) independent financial audits; (v) monitoring and evaluation; and (vi) supervision of works.
- 1.20 **Component 2. Mass transit corridor (US\$39.9 million).** The funds allocated to this component will be used to finance the design, organization, construction, and implementation of an integrated public transportation system giving priority to passenger mobilization in high-capacity articulated buses using a system of dedicated, segregated lanes. This component includes the following subcomponents: (1) infrastructure and urban environmental improvement; (2) operations control center; and (3) social and environmental viability.
- 1.21 **Subcomponent 2.1. Infrastructure and urban environmental improvement.** This subcomponent includes implementation of a 5.3-km segregated corridor and a mixed traffic corridor of approximately 2.5 km. Both the segregated lanes and the mixed traffic lanes will be reconditioned to withstand the weight of articulated buses. The segregated lane corridors will be physically separated from the mixed traffic lanes available for circulation by private vehicles, trucks, taxis, etc. The

⁷ The investment includes: (i) articulated buses (50), US\$12.5 million; (ii) conventional buses (20), US\$1.5 million; (iii) bus yards and workshops, US\$1 million; and (iv) fare collection system, US\$4 million.

funds allocated to this subcomponent will be used to finance the following works: (i) upgrading the lanes dedicated for high-capacity buses and reinforcing the road surface of the bus stop stations and the mixed traffic lane intersections; (ii) construction of sidewalks to facilitate access by non-motorized transportation to the integration terminals and stations; (iii) road signage and traffic signals at major intersections along the corridors to optimize traffic in general, giving priority to the mass urban transit flows; (iv) implementation of the measures specified in the environmental and social management plans for the works; (v) resurfacing and improving public spaces; (vi) design and construction of stations with elevated platforms for the trunk system; (vii) design and construction of the Soyapango terminal for transfers between the trunk route and feeder routes; (viii) property acquisitions (land and buildings) needed for the works; and (ix) pedestrian systems. Prepaid card dispensers and ticket validating machines will be installed at the stations and terminal.

- 1.22 **Subcomponent 2.2. Operations control center.** The funds allocated to this subcomponent will be used to finance the control center's technology platform, technical support to implement the comprehensive safety system, and equipment and furnishings for the management and control center.
- 1.23 **Subcomponent 2.3. Social and environmental viability.** The funds allocated to this subcomponent will be used to finance: (i) support and measures to mitigate impacts on current transportation system operators: entrepreneurial training and technical assistance for transportation companies; (ii) social communication: design and implementation of a public information campaign; and (iii) social viability, including: design of the project's social impact monitoring system, a study to identify job opportunities, and vocational training to support the operators' eventual reintegration into the labor market (see paragraph 2.8).
- 1.24 **Component 3. Institutional strengthening (US\$800,000).** The funds allocated to this subcomponent will be used to finance supplementary technical assistance and support to implement the transportation system, such as: detailed design of the operating and control system; qualification standards for bus drivers and vehicle maintenance personnel, system operating cost controls, contingency manuals (vehicle accidents, emergencies), among others.
- 1.25 **Cost.** The project has a total estimated cost of US\$45 million, to be financed with resources from the Single Currency Facility of the Bank's Ordinary Capital, according to the following breakdown by investment category:

Project costs and financing (in US\$)

	Categories	IDB	Total
1	Engineering and administration	4,300,000	4,300,000
1.1	Management firm	1,200,000	1,200,000
1.2	Executing unit	500,000	500,000
1.3	Equipment and furnishings	150,000	150,000
1.4	Preoperation expenses	200,000	200,000
1.5	Audits	200,000	200,000
1.6	Monitoring and evaluation	50,000	50,000
1.7	Supervision	2,000,000	2,000,000
2	Mass transit corridor	39,900,000	39,900,000
2.1	Infrastructure and urban environmental improvement	36,650,000	36,650,000
	Segregated corridor (*)	20,400,000	20,400,000
	Public space surfacing and improvements	5,550,000	5,550,000
	Trunk system access stations and bus stops (18)	3,600,000	3,600,000
	Integration terminal	4,000,000	4,000,000
	Property purchases	2,600,000	2,600,000
	Pedestrian systems	500,000	500,000
2.2	Control center	2,750,000	2,750,000
2.3	Social and environmental viability	500,000	500,000
3	Institutional strengthening	800,000	800,000
3.1	Studies	800,000	800,000
	PROJECT TOTAL	45,000,000	45,000,000

(*) Includes US\$5 million for grade separations at intersections.

C. Results Matrix and key indicators

- 1.26 The project aims to achieve the following outcomes: (i) physical: the execution of works; (ii) operational: reducing transportation times and costs; (iii) environmental and social: recovery of urban space by improving platforms, pedestrian crossings, bus stops, access areas, roadway signage, and lighting; and (iv) institutional and regulatory: planned, orderly, efficient, and transparent management of urban transit and transportation. The detailed Results Matrix is presented in Annex II.

II. FINANCIAL STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The project's total estimated cost will be US\$45 million, with financing broken down as indicated in the table in paragraph 1.24. The Bank resources will be provided through an investment loan. The disbursement period will be four years running from the effective date of the loan contract.

B. Environmental and social risks and mitigation measures

- 2.2 In general terms, the project's environmental and social impacts will be mostly positive given its urban nature and the limited magnitude of the works. The project will improve the quality of life for public transportation users in the cities of San Salvador and Soyapengo, offering a safe, rapid, clean, more economical, and fair public transportation system where users will no longer have to pay multiple carriers to reach their place of work or social services. The project will also help reduce air pollution and CO₂ emissions by reducing the number of vehicles circulating in the AMSS through the streamlining of bus routes and a significant reduction of aging and polluting buses currently on city streets. The system is also expected to attract new users from among private transportation services.
- 2.3 The project's planned works are simple from an engineering standpoint. Basically, they consist of resurfacing existing roads to adapt the bus corridors, and building terminals and bus stops. In this context, the chief potential adverse impacts are associated with the construction phase. These include: (i) the risk of contaminating waterways through improper disposal of materials; (ii) slow traffic near construction areas, with the risk of more accidents; and (iii) more noise and vibration close to hospitals, schools, etc. Considering that these inconveniences will be temporary and reversible, with known and easily implemented mitigation and control measures, the Bank classified the project as a Category B⁸ operation.
- 2.4 To ensure proper management of environmental and social issues during project implementation and to comply with the national legal framework and the Bank's environmental and social policies and safeguards, an Environmental and Social Management Report (ESMR) was developed during project preparation (see electronic link 3). The ESMR includes an Environmental Management Plan for the works, establishing the socioenvironmental measures required for preventing and mitigating potential adverse impacts associated with the construction work. The ESMR also considers: (i) special management measures for the construction and operation of the Soyapango terminal and the FENADESAL yard and workshop; and (ii) specific recommendations for road safety, accessibility, and relations in areas close to stations or stops, including the station serving the Amatepeque Hospital and the grade separation at the intersection of Boulevard del Ejército and Boulevard Venezuela.
- 2.5 In addition, prior to the first disbursement of the loan proceeds for Component 2 activities (Mass transit corridor), the borrower will submit evidence, to the Bank's satisfaction, that the executing agency has obtained the environmental permits

⁸ The experts at the Ministry of the Environment and Natural Resources (MARN), the Office of the Deputy Minister of Transport (VMT), and the Environmental Management Division at MOPTVDU (GGA/MOPTVDU) have already carried out a joint field visit to the project's possible corridors, terminal areas, and maintenance yards. MARN experts determined that the project's potential socioenvironmental impacts would range from not significant to moderate, and therefore classified the project as a Category 2 operation (equivalent to the Bank's Category B).

- required for project works under national legislation and has hired the technical management firm specializing in transportation. The permits are issued by the Ministry for the Environment and Natural Resources (MARN). The MOPTVDU has already begun the bidding process for the detailed engineering studies and socioenvironmental studies for execution of works and operation of the system, needed in order to apply for the Environmental Site and Construction Permit.
- 2.6 Moreover, in order to guarantee environmental and social sustainability, as a special execution condition, the borrower will submit, to the Bank's satisfaction: (i) together with the bidding documents for each segment of project works, in the event such works call for relocating people or economic activities—which is not anticipated—the corresponding Resettlement Plan with compensation and resettlement actions in accordance with Operational Policy OP-710; (ii) prior to the start of work on each segment, the borrower will submit evidence of legal possession of the land needed for the construction work; and (iii) evidence of compliance with the Environmental and Social Management Plan and the Resettlement Plan previously agreed upon with the Bank.
- 2.7 The risks associated with the project include, in particular, those relating to changing the transportation system and the resulting impact on current operators and users. Mechanisms will be designed to mitigate these risks by encouraging current operators to participate in the new public transportation system. Training workshops will be offered to those left out of the system to support their reintegration in the labor market. Publicity and awareness-raising campaigns will also be designed to inform the population of the characteristics of the BRT system, including the new operating rules, public transportation ethics, and environmental education practices associated with use of the new system.

C. Fiduciary risks

- 2.8 The MOPTVDU has experience executing road projects involving rural roads, highways on the primary road system, and urban roads in the AMSS. The institution has also executed projects financed by the Bank and other multilateral cooperation agencies. Nonetheless, the MOPTVDU needs to build its institutional capacity for urban public transportation projects. It was therefore determined that the most efficient way to execute this project is through the establishment of a specific project executing unit (PEU) supported by a technical management firm in transportation to help build PEU capacities in the areas of project construction and operations. The skill profile and hiring plan for PEU staff was also agreed, with an emphasis on: (i) capacity to contract and manage large works using the Bank's procurement procedures; (ii) capacity to manage planning and operations, in particular transportation operations and economics (costs and fares); and (iii) bidding processes for transportation and fare collection services.
- 2.9 Based on the information available on the MOPTVDU, the fiduciary team rated the overall risk to the project associated with procurement management as medium, and the analysis results show that the areas reviewed generally present medium levels of

development. For financial management, the risk was considered residually low given the proposed execution plan and the executing agency's fiduciary context.

D. Other issues and risks

- 2.10 **Economic assessment.** An economic assessment of project-generated impacts was conducted, and the most significant direct impacts were quantified. The direct benefits considered in the assessment of the component on public transportation improvement include cost savings in vehicle operations and time savings for users. The benefit due to operating cost reductions was determined on the basis of the reduction in kilometers traveled annually by buses and those planned under the new system, and the increase in commercial speed. The travel time benefit was calculated as the difference in time needed to complete an average route at the current speed and the time it will take once the BRT system is in operation, using a man/hour value weighted for different travel reasons. The economic assessment analysis considered a 15-year period running from completion of the works, using a 12% discount rate. The project's net present value (NPV) amounted to US\$67.9 million and the internal rate of return (IRR) was 30%. A sensitivity analysis of the most significant variables was conducted, confirming project soundness.
- 2.11 **Execution risks.** From a technical standpoint, the works do not present a high degree of difficulty and there are many national and international supervisory and construction firms experienced in the type of works to be financed. In terms of transportation, the project addresses issues too specialized for the VMT. Accordingly, the PEU will be created and supported by a management firm responsible for building staff capacity.
- 2.12 **Maintenance of the works.** The borrower, through the executing agency, has committed to properly maintain project works in accordance with generally accepted technical standards and to deliver an annual report to the Bank within the first quarter of each calendar year for three years following the completion of each work, indicating the condition thereof, throughout the disbursement period of the loan.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

- 3.1 The Republic of El Salvador is the borrower, and the executing agency is the Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU), through the Office of the Deputy Minister of Transportation (VMT). For project execution, the VMT will create the project executing unit (PEU) that will report directly to the Deputy Minister and will have at least a project manager and the following staff: a transportation specialist, a financial specialist, a procurement specialist, a social specialist, an infrastructure specialist, an architect, and an attorney. To support the PEU, a technical management firm in transportation

- will be hired, which will provide assistance to the executing agency in matters relating to engineering, future operation of the transportation system, including training of carriers, control center design, the transfer of successful experiences in BRT, the coordination of rates, the use of prepaid cards, technical specifications of the high-capacity buses, and other areas to contribute to effective implementation. **As a condition precedent to the first disbursement of the loan proceeds, the borrower will submit evidence that the technical management firm specializing in transportation has been selected, and as a condition precedent to the first disbursement of the loan proceeds for Component 2 activities, that the firm has been hired.**
- 3.2 **As a condition precedent to the first disbursement of loan proceeds, the borrower will submit evidence that the PEU has been established, and that the project manager, a transportation specialist, a financial specialist, a procurement specialist, a social specialist, and an infrastructure specialist have been contracted.** This key staff will be contracted in accordance with profiles and terms of reference agreed upon with the Bank. This staff may only be renewed or replaced with Bank approval.
- 3.3 The PEU will be responsible for planning, executing, monitoring, and coordinating the technical, operational, and fiduciary activities for project implementation and will have the following and other duties: (i) prepare and deliver to the Bank documentation (technical specifications, terms of reference, bidding conditions, etc.) pertaining to project procurements carried out by the MOPTVDU Institutional Procurement Unit (UACI); (ii) provide support and monitor the execution of contracts for works, goods, and services and authorize the corresponding payments; and (iii) keep records and monitor the status of works as well as construction and supervision costs. The PEU will gradually evolve from a unit devoted strictly to construction and start-up to one responsible for SITRAMSS operations, where most services will be provided by private companies and the administrative and operating costs will be covered by bus fare revenues.
- 3.4 The PEU will also coordinate project execution with the MOPTVDU Institutional Finance Unit (UFI), which is responsible for keeping project records and for financial management of the operation.
- 3.5 An Administrative and Financial Manual for the project will be prepared, establishing detailed procedures for the project's financial administration and procurements, provided these do not violate applicable Bank policies. The manual will include the following: (i) the activities and tasks of all participating VMT departments (budget, payments, bookkeeping, accountability, etc.); (ii) the procedures and systems used to record financial commitments and transactions as they take place; (iii) the key internal control measures and procedures adopted for project execution; and (iv) the procedures to administer external audit services. **As a condition precedent to the first disbursement of loan proceeds, the executing agency will present evidence of the entry into effect of the project Administrative and Financial Manual.**

- 3.6 **Procurement.** The procurement of goods, works, and services with Bank funds will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), approved in March 2011. The Bank's supervision of the procurement of goods and works and the contracting of services with project resources will be carried out as indicated in Annex III to this document.
- 3.7 **Disbursements.** The borrower will open a special account at the Central Reserve Bank to deposit the loan proceeds disbursed by the Bank, and a dedicated operating account at a commercial bank¹⁰ from which it will pay suppliers and contractors, using the Integrated Financial Management System (IFMS). Both accounts will be used exclusively for the project. In accordance with the provisions of the Bank's new Financial Management Policy (document OP-273-1), disbursements will be made as advances, based on project liquidity requirements. To this end, the PEU will prepare and periodically update a financial plan.
- 3.8 **Financial statements.** During the disbursement period, the borrower will submit annually to the Bank, within 120 days after the end of the borrower's fiscal year, the project financial statements, duly audited by an independent auditing firm acceptable to the Bank. The audit costs will be financed with proceeds from the loan. The project's last audited financial statements will be submitted to the Bank within 120 days after the last disbursement of loan resources.

B. Summary of arrangements for monitoring results

- 3.9 The following instruments will be used for project monitoring and evaluation: (i) annual work plan (AWP), Project Execution Plan (PEP), and Procurement Plan; (ii) semiannual monitoring reports; (iii) midterm evaluation (30 months after the effective date of this contract or when 50% of the loan proceeds have been disbursed, whichever occurs first); (iv) final report (60 days prior to the final disbursement); (v) audited financial statements; and (vi) Project Completion Report (PCR), including the ex post economic evaluation. These activities are described in detail in the Monitoring and Evaluation Plan.

C. Significant activities post approval

- 3.10 Resources from the Salvadoran Fund for Pre-Investment Studies (FOSEP)¹¹ were used to contract the project structure and engineering study, in accordance with terms of reference agreed upon with the Bank. This study will serve to: (i) confirm the route; (ii) determine the volume of demand and the design of stops and stations; (iii) determine the site for yards and other vehicle service areas; (iv) determine fleet

¹⁰ This arrangement will remain in place unless the Government of El Salvador implements a Single Payments Account.

¹¹ FOSEP is a public financial entity with independent legal status, domiciled in the city of San Salvador. It was created by Legislative Decree 532 of 18 May 1978.

size and characteristics; and (v) determine operating parameters to meet demand, among other issues. The study reports will serve as inputs in the preparation of bidding documents for project works.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The operation contributes to the lending program to small and vulnerable countries, as well as to support climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The operation contributes to the following Bank output: Number of people given access to improved public low-carbon transportation systems.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2575	The operation is aligned with the country strategy objective "implement the new mass transit system in the SSMA".	
Country Program Results Matrix	GN-2617	The operation is included in the Country Program Document for 2011.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Eevaluable	Weight	Maximum Score
	9.1		10
3. Evidence-based Assessment & Solution	9.6	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
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	A technical cooperation was used for the preparation of the "Strategy for the New Mass Transit System Planning" (ATN/MT-8044-ES).	
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.			

This is an investment loan in El Salvador that seeks to improve public transportation services in the metropolitan area of San Salvador. The operation is aligned with the country strategy and contributes to the strategic objective related to the implementation of a new public transportation system in the metropolitan area.

The diagnostic clearly identifies the most important problems and examines its causes. Magnitudes of the problems identified are established based on empirical evidence. The logic of the proposed intervention is clear and its effectiveness has been evaluated and demonstrated in other countries. Both outcome indicators and output indicators are SMART, have baselines and targets. An ex ante cost-benefit analysis was performed using reasonable assumptions. An ex post cost benefit analysis is foreseen as part of the operation's evaluation. The monitoring and evaluation plan is clearly defined according to Bank standards. Risks have been identified as well as mitigation measures and indicators to track their progress.

RESULTS MATRIX

Program objective	The objective of the project is to improve public transportation conditions and traffic in general in the San Salvador Metropolitan Area (AMSS). This objective will help structure a city that provides sustainable mobility opportunities for the population, while facilitating safe transportation to job opportunities and economic and social development.
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Program Results Indicators			
Results indicators	Baseline 2011	Target 2014	Comments
User satisfaction index	10	20	Surveys will be conducted upon program completion by consultants contracted with program funds.
Travel time for a public transportation passenger along the corridor between Soyapango and Metrocentro	50 minutes	40 minutes	Direct field measurements will be taken upon program completion by consultants contracted with program funds.
Operating costs for public transportation vehicles using the corridor	US\$54 million / year	15% decrease	Costs will be updated upon program completion.
Number of passengers carried by the system	160,000 passengers/day	200,000 passengers/day	Data to be obtained from the system control center.

Component 1	
Component 1 objective	To support development of the institutional framework needed for the effective implementation of the project by financing the executing unit's operating costs for project execution and general support for program coordination, evaluation, and implementation activities.

	Baseline	Year 1	Year 2	Year 3	Year 4	Frequency / Source
Contract a management firm	0	1				Semiannual / progress report
Establish the executing unit	0	1				Semiannual / progress report
Procure equipment and furnishings in accordance with the procurement plan	0	1				Semiannual / progress report
Audits	0		1	1	1	Semiannual / progress report
Evaluation and monitoring	0		1	1	1	At 18 months, 30 months, and program completion

Component 2	
Component 2 objectives	To construct and implement the first segment of the mass transit system

	Baseline	Year 1	Year 2	Year 3	Year 4	Frequency / Source
Segregated corridor in km	0	1	4.3			Semiannual / progress report
Resurfacing of roadways and public areas in km	0			2.5		Semiannual / progress report
Integration terminal (unit)	0			1		Semiannual / progress report
Trunk system access stations and stops (units)	0		9	9		Semiannual / progress report
Sidewalks (km)	0		4			Semiannual / progress report
Control center, fully equipped	0			1		Semiannual / progress report
Social and environmental viability						
Communications campaigns	0		2	1		Semiannual / progress report
Number of trained operators	0		150	150	100	Semiannual / progress report

Component 3	
Component 3 objectives	Institutional strengthening: complementary technical support to put the system into operation

	Baseline	Year 1	Year 2	Year 3	Year 4	Frequency / Source
Develop the BRT System Operational Plan (unit)	0	1				Semiannual / progress report
System Manuals Implemented (units)	0		3			Semiannual / progress report

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country	El Salvador
Name	Transportation Program for the San Salvador Metropolitan Area
Project No.	ES-L1050
Executing agency	Ministry of Public Works, Transportation, Housing, and Urban Development (MOPTVDU)
Prepared by	Santiago Castillo and Mario Castañeda (PDP/CES)

I. Summary

1. This report has been prepared in the context of the new financial management and procurement policies for IDB-financed projects.¹ It establishes the preliminary agreements and requirements for financial management and procurement agreed upon with the project's executing agency.
2. The MOPTVDU will be responsible for project execution through a project executing unit (PEU) to be established for this purpose under the Office of the Deputy Minister of Transportation. The PEU will be governed by the generally applicable public sector regulations for financial management, supplemented by the Bank's financial management policy.
3. Works, goods, and services will be procured using the Bank's policies and procedures (documents GN-2349-9 and GN-2350-9), with the support of the administrative structure of the respective MOPTVDU procurement and finance units.

II. Fiduciary context of the executing agency

1. The country financial management and procurement systems, as well as their internal and external control mechanisms, are clearly defined in Salvadoran legislation. By law, no monetary amount may be committed or paid unless the corresponding budgetary credit has been approved by the Legislative Assembly. The Government Financial Administration Act (AFI Act), which regulates financial management of the public sector, adopted the Integrated Financial Management System (IFMS), including budget, public debt, treasury, and government accounting subsystems.
2. Under the AFI Act, an Institutional Financial Unit (UFI) with financial management responsibilities was established at each of these government entities. This unit reports directly to the head of the respective entity. The law assigns regulatory responsibilities to the Ministry of Finance, while responsibility for financial transactions in the administrative process is assigned on a decentralized basis to the executing units, as in the case of the MOPTVDU.

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

3. At each government entity, the UFI's fiduciary duties are shared by the respective Internal Auditing Unit and an Institutional Procurement Unit (UACI). The Public Administration Procurement Act (LACAP) sets the rules governing this area. Regarding external control, under the Law of the Auditor General's Office, this agency is responsible for oversight of the Treasury.
4. For fiduciary matters, the execution plan agreed upon with the MOPTVDU includes creation of a project executing unit in the Office of the Deputy Minister of Transportation, employing a procurement specialist and a financial administrative accounting expert as direct reports. Both will coordinate their activities with the UACI and the UFI of the MOPTVDU in their particular areas in order to fulfill the fiduciary arrangements and those arising from the loan contract.

III. Fiduciary risk evaluation and mitigation measures

1. Based on available information regarding the MOPTVDU, the fiduciary team found that the project's overall procurement management risk is medium and that the examined areas also have, on average, a medium level of development (SD). Financial management risk was rated as residually low given the proposed execution plan and the executing agency's fiduciary context.

IV. Considerations for the special contractual conditions

1. It is recommended that the following agreements and requirements be included in the Special Conditions of the loan contract:
 - a. Condition precedent: Submission of a Project Administrative and Financial Accounting Manual for approval by the Bank.
 - b. Condition precedent: Evidence that the project executing unit was established, and specialists were contracted to manage project procurement processes and financial administration. These positions will be filled by staff who meet the profiles and terms of reference agreed upon with the Bank, and the selection and contracting process will have received the Bank's no objection.

V. Agreements and requirements for procurement execution

1. **Procurement execution.** The procurement-related fiduciary agreements and requirements establish the applicable provisions for performing all procurement required under the project.
 - Procurement of works, goods, and nonconsulting services: Works, goods, and nonconsulting services² arising under the project and subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents (SBDs). Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents acceptable to the Bank.
 - Procurement of information technology (IT) systems: Not applicable.

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

- Turnkey procurement (supply and installation): Not applicable.
- Procurement with community participation: Not applicable.
- Selection and contracting of consultants: Consulting service contracts arising under the project will be included in the initial procurement plan and will be executed using the Bank's standard request for proposals (SRFP).³ The list may be comprised entirely (100%) of national firms⁴ in the case of contracts for amounts below the thresholds established by the Bank for El Salvador.
- Selection of individual consultants: The selection will consider the qualifications of at least three qualified candidates for the job.
- Training: Not applicable.
- Recurring expenses: Operating and maintenance expenses required to make the project operational during its useful life. **Not applicable.**
- Business practices: All procurement processes must be conducted in accordance with international business practices, without imposing any procedure or practice that violates the essential principles of competition, efficiency, and economy.
- Advance procurement/retroactive financing: No advance procurement and/or associated contracts are planned for this project.
- National preference: Not applicable.
- Others: Before beginning the bidding process for the works, the executing agency must have acquired the land and/or rights and right-of-way, as well as the applicable environmental permits for project execution.

³ Policies for selection and contracting of consultants financed by the IDB ([GN-2350-9](#)), paragraph 3.9: Single-source selection must be duly justified.

⁴ The participation of foreign firms is not precluded.

2. Major procurement processes

Initial procurement plan

Description of planned procurement		Estimated amount	Procurement method	Estimated date
Works	Bidding process for the first segment – Phase 1A SITRAMSS	29,500,000.00	ICB	Q1 2012
	Competitive bidding process to design and build the Soyapango Terminal - SITRAMSS	4,000,000.00	ICB	Q3 2012
Goods	Bidding to procure goods for the VMT executing unit	350,000.00	ICB	Q1 2012
Services	Land purchases	2,600,000.00	DC	Q1 2012
Firms	Contracting of Management Firm to support the executing unit	1,500,000.00	QCBS	Q1 2012
	Works supervision - First segment – Phase 1 A SITRAMSS	2,000,000.00	QCBS	Q1 2012
	Specific studies for SITRAMSS construction	900,000.00	QCBS	Q2 2012
	Midterm and final evaluations	100,000.00	QCBS	Q4 2013
	Project audit	200,000.00	QCBS	Q1 2013
Individuals				

3. Procurement supervision

The Bank will perform ex post procurement reviews once each year. The frequency of the ex post reviews and the thresholds for ex ante contract reviews are consistent with the capacity assessment conducted. These thresholds and the frequency of ex post reviews may be adjusted as part of the procurement plan updates and revisions, based on the executing agency's performance and the progress in adopting the described corrective measures. The procedures applicable to each type of procurement are in line with the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and the Policies for selection and contracting of consultants financed by the IDB (document GN-2350-9). The Bank will review procurement performed with program resources 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.

Procurement procedures

Investment category	Threshold (in US\$ thousands)	Procurement procedure	Review type
Works	Greater than or equal to 5,000	International competitive bidding	Ex ante
	Greater than or equal to 350 and less than 5,000	National competitive bidding	Ex ante for the first 3 contracts, then ex post
	Less than 350	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
Goods and nonconsulting services	Greater than or equal to 250	International competitive bidding	Ex ante
	Greater than or equal to 50 and less than 250	National competitive bidding	Ex ante for the first 3 contracts, then ex post
	Less than 50	Shopping	Ex post
	No threshold	Direct contracting	Ex ante
Individual consulting services	No threshold	Comparison of individual consultant qualifications	Ex post
	No threshold	Single-source selection	Ex ante
Consulting services Firm of consultants	Greater than or equal to 200	Short list with broad geographic participation	All ex ante
	Less than 200	Shortlist may consist entirely of national consultants	All ex ante
	No threshold	Single-source selection	All ex ante

- 4. Records and files.** A single record-keeping system must be established and maintained at the procurement unit, duly identifying all procurement processes and allowing all documents for each stage of the process to be kept in a single file. In addition, an office must be set up to safeguard all files and ensure they have the necessary security protection. The head of the UACI will be responsible for maintenance and custody of project files and records. Project reports will be prepared and filed using the formats to be described in the aforementioned administrative manual.

VI. Financial management

- 1. Programming and budget.** The PEU will request a budget allocation once a year through the MOPTVDU, clearly identifying the project and making sufficient budgetary allowances to cover the execution commitments for each year.
- 2. Accounting and financial reports.** The Institutional Finance Unit (UFI) will be responsible for the project's accounting records and corresponding support documents through the Integrated Financial Management System (IFMS). The PEU will ensure sufficient cross-references are in place to identify the use of all resources.
- 3. Disbursements and cash flow.** The MOPTVDU will maintain a special account at the Central Reserve Bank, as well as a designated operating account at a commercial bank⁵ for

⁵ This arrangement will be kept in place unless the Government of El Salvador implements a single account system for payment purposes.

payments to suppliers and contractors, supported by the IFMS treasury subsystem. Both accounts will operate exclusively for the project. In accordance with the Bank's new financial management policy (document OP-273-1), disbursements will be based on liquidity needs. To this end, the PEU will prepare a financial plan that will serve as a basis for advance payments or any other form of disbursement deemed appropriate.

4. **Internal control.** The technical internal control regulations issued by the Corte de Cuentas de la República [Auditor General's Office]⁶ are applicable. An important ex ante control calls for the UFI's budget area to review the annual procurement programming using resources allocated in the respective budget. At a later stage, the budget area makes the budgetary commitment through an IFMS entry. Before payment of the obligations, the expenditure accrual entry is verified once more. Payment of the obligation is recorded immediately after the check is deposited or the amount is credited in the beneficiary's account. The PEU will comply with the institutional procedure.
5. **Internal audit.** The MOPTVDU has an internal audit unit, but this unit has limited resources. Its annual planning exercise is expected to include a review of project execution.
6. **External control and reports.** External control of the project will be entrusted to an independent auditing firm acceptable to the Bank. The external audit will be contracted through a bidding process open to tier-I firms, in accordance with the guidelines set forth in document AF-200. The terms of reference will be expanded and must be previously agreed upon with the Bank. The Bank will review this contracting process on an ex ante basis.
7. **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 quarterly, but this frequency may subsequently be adjusted. These reports may be submitted no more than 45 days after the end of each calendar quarter. The explanatory notes to the financial information will be designed to be consistent with the Bank's financial policies and tools. These reports will show the progress made in executing the activities set forth in the Project Execution Plan (PEP).
8. **Financial information.** In the first six months of execution, the financial information submitted will be reviewed on site and compared to the planning data. The fiduciary risks will be reassessed and it will be determined whether further on site supervision or desk reviews are needed.
9. **Execution arrangements.** The PEU will monitor execution of all project activities. As entity responsible for coordination, the PEU will ensure that annual work plan documents and periodic progress reports are prepared and updated, as well as the funding estimates to prepare the disbursement plans and the project management and monitoring instruments (PEP and procurement plan).

⁶ In El Salvador, a civil servant's responsibility to fulfill his/her duties is established by legislation. Consequently, officials may be subject to judicial proceedings in the event of nonfulfillment. Title III 'Civil service liability,' Articles 52-61 of the Law of the Auditor General's Office.

10. **Administrative Financial Accounting Manual.** The matters addressed in these fiduciary agreements and requirements will be set forth in detail in an administrative financial accounting manual, which will require the approval of the undersigned fiduciary specialists. The manual will specify, inter alia, that the PEU is responsible for ensuring that the MOPTVDU maintains all project records using the IFMS application, as well as all the supporting documentation, under the responsibility of the financial and procurement unit.
11. The MOPT will create a project executing unit (PEU) at the highest decision-making level, to coordinate the project. This unit will be under the direct supervision of the Deputy Minister of Transportation (Figure 1).

Figure 1: Organizational chart for project execution

