Management Strategy Financial before the Disaster Risk

GOBIERNO DE
EL SALVADOR

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El Salvador is one of the countries with the greatest vulnerability to disaster risk due to our geographic location and the exposure to risk in which our population lives. We have seen this in the past in the face of various catastrophes such as the San Salvador earthquakes of 1986, Hurricane Mitch of 1998, the earthquakes of 2001 and Tropical Depression 12E of 2011. During 2020, in the midst of the global COVID-19 pandemic, we experienced two tropical storms “Amanda” and “Cristóbal”, in addition to hurricanes Iota and Eta that strongly affected the region and whose impact had repercussions on the economic performance and social well-being of our country. The advance of climate change worldwide suggests that the frequency and magnitude of this type of event will continue to increase, a situation that challenges us to make every effort to better prepare and face this situation.

The Disaster Risk Financial Management Strategy confirms our commitment to strengthen the country's public finances and fiscal resilience to the risk posed by the occurrence of disasters resulting from natural phenomena. It will strengthen fiscal mechanisms, tools and policies to safeguard the physical and socioeconomic security of Salvadorans. It will also develop actions to: generate greater knowledge and quantification of fiscal risk in the event of disasters; manage said risk by promoting reduction and mitigation actions; strengthen public infrastructure to reduce its potential impact in the event of disasters; have different financial instruments and mechanisms that allow timely mobilization of resources, minimizing their fiscal impact; and increase the efficiency, effectiveness and transparency of public spending destined for comprehensive disaster management.

This Strategy is a clear signal from the Government of President Nayib Bukele to international organizations and national and international markets that our country has a solid and resilient management of public finances. The implementation of this policy shows, once again, the work of the team led by the Minister of Finance together with the Vice Minister of Finance in compliance with our Constitutional and institutional mandate to ensure fiscal stability and sustainability to safeguard the well-being of the Salvadoran population, as well as the protection of our heritage and the socio-economic development of our beloved El Salvador.

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MINISTRY
FROM THE TREASURY

Since June 2019, President Nayib Bukele and his government team have defined generating opportunities for decent employment, sustainable growth, and a fair distribution of wealth as requirements for economic and social development as part of their country's priorities. To achieve these objectives, we have identified the need to create and implement policies and instruments that lay the foundations for achieving sustainable economic growth, serving as a guiding and integrating thread for all the efforts that the State is making to promote the economic and social development of its population.

The high level of disaster risk in our country, mainly due to seismic and hydrometeorological threats, has significant consequences for human and economic development. In this context, there is a continuous need to design strategies that reduce the risk and minimize the impact of these events. This new Government is committed to environmental sustainability and ecological transition, more appreciated and demanded after the COVID-19 pandemic, which will decisively condition investments and international trade, as well as the country's food security.

For this reason, the Secretariat of Trade and Investments, in coordination with the Ministry of Finance and with the support of the World Bank, determined the need to formulate a Financial Management Strategy for Disaster Risk in order to have access to instruments to improve fiscal resilience and have tools for a timely response. The implementation of well-designed risk management strategies can reduce future damage. Having financial tools can contribute to achieving development objectives and having significant growth that becomes sustainable over time despite the occurrence of disasters.

Jorge Miguel Kattan
Secretary of Commerce and Investments

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INVESTMENTS

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Executive Summary

The Financial Management Strategy for Disaster Risk (EGFRD) presented here is the roadmap that will allow us to continue advancing in the strengthening and resilience of our public finances. It establishes a framework of priorities around a mission, vision and four strategic lines to guide policies and actions to be better fiscally prepared. The development of this strategy has been led by the Ministry of Finance in close coordination with the Secretariat of Trade and Investment and with the technical assistance of the World Bank.

Why is it necessary to have a strategy?

Because El Salvador is one of the countries with the highest risk of disasters associated with natural events. Its geographic location and its geological and morphological characteristics mean that the country is periodically threatened by events of climatic, hydrometeorological and geophysical origin. In social and economic terms, the situation is aggravated considering that 95% of the population is exposed to the risk associated with more than one natural event.

Because the occurrence of disasters represents a risk to the well-being of citizens, inclusive development, fiscal stability and economic growth. The impact of disasters translates into losses in the well-being of the population, a slowdown in economic activity and a setback in inclusive development and poverty reduction. Events such as the earthquakes of 1986 and 2001 have caused damages and losses equivalent to 12 and 24% of GDP[1]. Likewise, events such as Hurricane Mitch and Tropical Depression 12E have had an impact equivalent to 4% of GDP. The occurrence of such events causes damage to livelihoods and critical infrastructure – roads, industry, electricity, water and sanitation services, among others.

Because if we are not prepared, the impact of disasters puts macro-fiscal stability and the sustainability of our public finances at risk. Emergencies such as those that occurred during 2020 are proof of this. The passage of tropical storms Amanda and Cristóbal during 2020, combined with the impact of the COVID-19 crisis, meant a GDP contraction of around 7.9 percentage points[2], a drop in current revenue collection of more than 6% compared to 2019[3], and an increase in public spending of more than US$2 billion. This does not take into account the impact of the Nejapa landslide, nor the impact of storms Eta and Lota, nor the droughts, which, despite being of lesser magnitude, also impacted the well-being of the population and the productivity of the country. Increased public spending to finance disaster-related needs, coupled with a decrease in tax revenues, results in an increase in the deficit, puts greater pressure on the level of public debt and further limits the fiscal space available to implement development programs.

1 Source: Assessment of damage, loss and needs. ECLAC, WB, 1986; 2001.
2 Results GDP El Salvador 2020 and Outlook 2021; BCR
3 Taken from published data from the General Directorate of the Treasury of the Ministry of Finance https://www.mh.gob.sv/downloads/pdf/700-DPEF-ET-2020-00019.pdf and from the Budget Execution Report Second Semester 2020, January 30, 2021.

In order to safeguard fiscal sustainability in the face of disaster risk, this Disaster Risk Financial Management Strategy has been defined under the following guidelines:

MISSION:
Ensure fiscal stability and sustainability through comprehensive management of fiscal risks associated with disasters.

VISION:
Public finances resilient to disaster risk to safeguard the lives of citizens, the country's assets and preserve development.

STRATEGIC LINES

1 Generation of risk knowledge on the potential fiscal impact of disasters.

Greater knowledge of risk will help guide decision-making for risk reduction and financing. Mechanisms and procedures will be strengthened to identify, quantify and evaluate fiscal risk in the face of disasters and their potential impact.
It involves the integration and consolidation of information in coordination with other public institutions, such as MARN and the General Directorate of Civil Protection, Prevention and Disaster Mitigation, mainly.

2 Combining financial instruments and mechanisms to mobilize resources in a timely manner in the post-disaster response and recovery processes

Having financial coverage in accordance with the characteristics of our country and our fiscal context will facilitate the mobilization of resources to assist the population affected by disasters. Identifying, evaluating, and managing a set of financial instruments for risk retention and transfer will allow us to allocate resources to be better prepared and address emergency, rehabilitation, and reconstruction actions, while also reducing the fiscal impact.

3 Disaster risk reduction through resilient public investment.

Having a public infrastructure that is resilient to the risk of disasters will reduce the impact of future events and, therefore, safeguard the lives of the population and our development. Likewise, from the field of public finance, it is a priority to incorporate disaster risk analysis and sustainable adaptation to climate change as a fundamental aspect of the planning and formulation processes of public investment to increase efficiency in the use of scarce public resources.

4 Increased efficiency, effectiveness and transparency of public spending on disaster risk reduction.

The efficient, effective and transparent allocation and execution of public resources is as important as the rapid activation of financial instruments. Having budgetary mechanisms and tools will allow for the identification, planning and visibility of expenditure on DRR during the budget cycle. This will also facilitate the implementation of the results-based management approach, which places the well-being of citizens at its core. Results-based management links public expenditure (budget) with prioritized needs and expected results through a logical framework.

1.
Risk Profile

1.1. Hazard, exposure and vulnerability make up disaster risk

At an international level, El Salvador is one of the countries with the highest exposure to the risk of disasters associated with natural events. According to the Climate Risk Index (IGRC), El Salvador ranks 16th among the countries with the highest climate risk4 in the world, while the INFORM Risk Management Index for Latin America and the Caribbean places it in third place in the region, with the highest threats and level of exposure to the risk of disasters5.

Its geographical location and its geological and morphological characteristics mean that the country is periodically threatened by events of climatic, hydrometeorological and geophysical origin. The International Disaster Database (EM-DAT)6, between 1969 and 2020, records that in the last 50 years El Salvador has been significantly impacted by more than one event per year, including public health emergencies. Its location on the subduction zone of the Cocos and Caribbean plates explains the occurrence of high-magnitude seismic and volcanic events. Regarding hydrometeorological threats, the country is recurrently affected by hurricanes, tropical storms, floods, landslides and droughts.

Of the total national territory, 63% presents high and very high seismic threat; 38% is susceptible to landslides; 35% is susceptible to severe meteorological drought; and 15% to high flooding7.

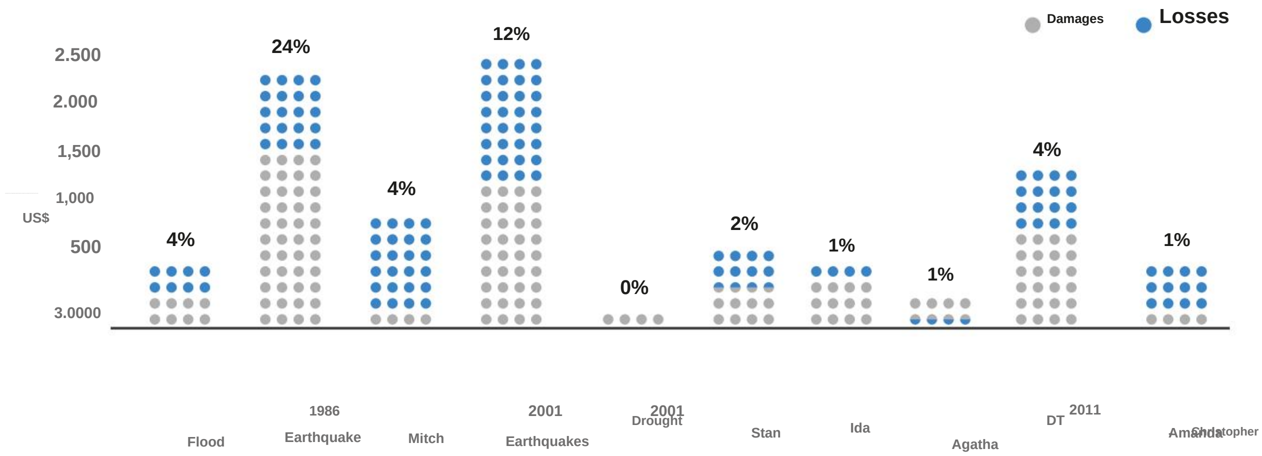
Earthquakes are the events with the greatest impact, and tropical storms and hurricanes are the most frequent events. The earthquakes of 1986 and 2001 caused damages and losses valued at US$ 4.2 billion (equivalent to 24% and 12% of GDP, respectively). Tropical storm 12-E in 2011 caused damages and losses of US$ 840 million, equivalent to 4% of GDP. 12-E produced the greatest volume of precipitation in the meteorological history of the country and consequent flooding in approximately 10% of the Salvadoran territory, which resulted in a declaration of a State of National Emergency due to the impact of 181 municipalities (see Chart 1).

El Salvador is one of the most vulnerable countries in the world considering the level of population and territory exposed to more than one threat associated with a natural event.
Thus, 88.7% of the country's territory is designated as a disaster risk area and 95.4% of the population lives in such areas. 20% of the population lives less than 10 km from an active volcano and 14% lives in areas highly susceptible to flooding (MARN, 2017).

The agricultural sector and transport infrastructure have been the most affected by severe hydrometeorological and geophysical events. The damage and losses by economic sector are associated with the characteristics and nature of the events. Both sectors accounted for more than 50% of the damage and losses. The impact of geophysical events accounts for 41% of the damage and losses (World Bank, 2017).

4 Global Climate Risk Index 2019, Germanwatch. See references section under author Eckstein et.al (2018).
5 INFORM 2020 Report. Report produced by the United Nations Office for the Coordination of Humanitarian Affairs.
6 EM-DAT; 1969 – 2020; 17 floods, 16 storms, 11 epidemiological events, 8 seismic events and 7 droughts.
7 Ministry of Environment and Natural Resources, El Salvador (2017) "National Report on the State of Risks and Vulnerabilities"

Chart 1. Damage and losses caused by severe events, period 1980 - 2020



Severe events during 2020: COVID-19 pandemic 1.2. and Tropical Storms Amanda and Cristobal

The COVID-19 pandemic and tropical storms Amanda and Cristóbal have once again highlighted El Salvador's vulnerability. The climatic and epidemiological events that occurred during 2020 reflect the level of risk in which the population lives, the effects of this on security, well-being and possibilities for economic and social development. As of March 2021, one year after the WHO declared COVID-19 a pandemic, more than 63,000 confirmed cases have been recorded and almost two thousand Salvadorans have died 8. It is estimated that poverty increased between 8% and 10% during 2020, considering the interruption in the population's income 9, especially that 56% of the workforce works in informal conditions (IDB 2020, World Bank, 2020). According to official data from the Central Reserve Bank of El Salvador, the economic situation suffered a significant contraction, with an estimated loss of 7.9% of GDP.

Tropical storms (TT) Amanda and Cristobal exacerbated the existing emergency situation. Just two months after the first confirmed case of COVID-19 in the country, tropical storms Amanda and Cristobal left more than 149,500 people directly affected and more than 330,000 in conditions of food insecurity (UN 2020). The post-disaster needs assessment (PDNA) for TT in the context of COVID-19 identifies an estimated total of losses and damages of US$2,915 million between March and July 2020 (UNDP, 2020). The transport and agri-food sectors were the most affected in terms of damage to physical infrastructure while economic losses were concentrated in the productive sectors of industry, commerce, tourism and services.

8 Information extracted on March 26, 2021 from https://covid19.gob.sv/ 9
Poverty estimated as the percentage of the population living on less than US$5 per day.

Table No. 1: Summary of the post-disaster needs assessment of TT Amanda and Cristobal in the context of COVID-19. (Figures in millions of dollars)

Sector	Damages	Losses	Total	Public Sector	Private Sector
Social	72	716	788	73%	27%
Productive	13	1,970	1983	0%	100%
I n frastructure	21	122	143	27%	73%
Total	**106**	**2,808**	**2,914**	**21%**	**79%**

Source: Loss, Damage and Needs Assessment (PDNA) prepared by the Government of El Salvador with the support of UNDP, the World Bank and the European Union. See references under "UNDP"

Box 1: Disaster risk in El Salvador10

El Salvador is one of the most vulnerable countries to the occurrence of severe events. The diversity of threats caused by natural phenomena that affect the country, added to the exposure of human lives and assets and its vulnerability, affect the significant risk of disaster that the country faces. Thus, we have that: The country is exposed to multiple geological threats (eg earthquakes, volcanic eruptions,

- among others) and hydrometeorological threats (eg excessive rainfall, storms, among others).
- Between 1990 and 2014, 40% of deaths due to disasters were due to seismic events, 27% to floods, 26% to landslides and 7% to other events.
- Between 1990 and 2014, 86% of economic losses due to disasters were due to seismic events, 10% of these losses were due to floods and 4% were due to other events.
- Since 2001, the average annual loss from disasters is equivalent to approximately 60% of the average annual expenditure on public investment.

Disaster risk in El Salvador

8 critical areas due to landslides caused by rain.

Historical landslides: **30%** occurred in October, 15% in September, **15%** in August, **15%** in June.

26% of the territory in moderate susceptibility to landslides, **38%** in high **and 1%** in very high.

4,175,806 people exposed to high and very high susceptibility to landslides.

509 rivers and streams, **58** basins and **10** flood-prone hydrographic regions.

10% of the territory is moderately susceptible to flooding, **8%** is highly susceptible and 7% is very highly susceptible.

904,362 people exposed to high and very high susceptibility to flooding.

73,339 most vulnerable homes exposed to high and very high susceptibility to flooding.

8,521 hectares exposed to moderate susceptibility to flooding, 29,959 to high and 20,945 to very high.

12 seismic swarm zones.

63% of the territory under high or very high seismic threat, 37% under moderate seismic threat.

349,593 most vulnerable homes exposed to seismic threat.

4,932,928 people exposed to high and very high seismic threat.

San Salvador, Santa Ana, and La Libertad, the largest number of vulnerable homes exposed to high and very high seismic threat.

In the case of seismic threat, the departments of San Salvador. La Libertad and Sonsonate concentrate the largest number of exposed population.

The departments of San Salvador, Liberty and Usulután has the highest concentration of vulnerable homes exposed to flood susceptibility

More than six active volcanoes.

1.3 million people live within 10km of a historically active volcano.

90% of the country is covered by rocks and soils of volcanic origin.

The departments of San Salvador, La Libertad and La Paz have a greater population exposed to susceptibility to high and very high flooding.

Four climatic zones identified.

Average annual rainfall 1863 mm: 85% of the total rainfall comes from showers and thunderstorms, and the remaining 15% from storms.

70% of the territory is susceptible to weak meteorological drought or greater, **53%** to moderate or greater and **35%** to meteorological drought

464,625 to meteorologically weak or major drought, **348,929** moderate to major and **223,089** strong

The departments of San Salvador, La Libertad and Sonante have the largest population exposed to high and very high susceptibility to landslides.

10 Box prepared with information from the "National Report on the State of Risks and Vulnerabilities" of the Ministry of the Environment. Environment and Natural Resources and GAR-2015 United Nations Office for Disaster Risk Reduction.

2.

Disaster Risk Financial Management

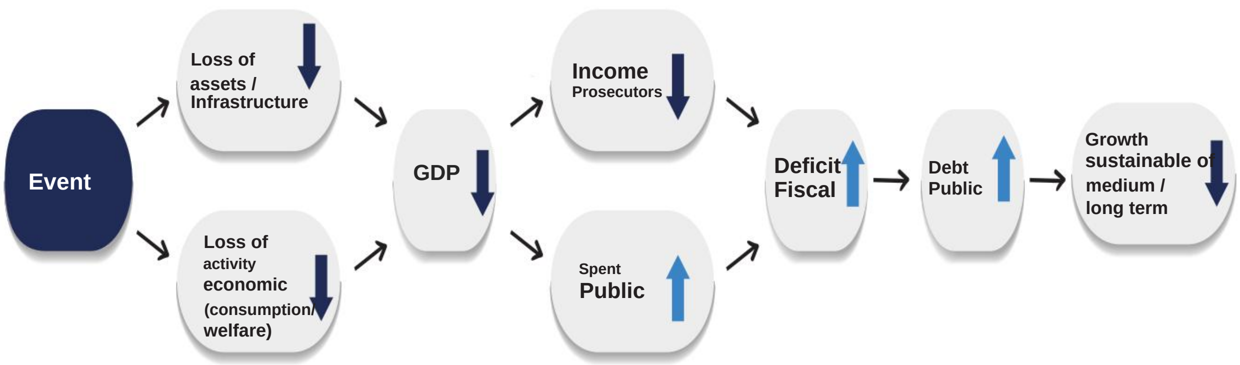
Fiscal risk and impact of disasters on development in 2.1. country

Having adequate financial management of disaster risk based on a national strategy that addresses prospective and reactive processes allows the country to mitigate existing risk, not generate new risks, and be better prepared to face financing requirements in emergencies. On the one hand, preventive disaster risk management allows for better identification and planning, contributing to reducing (or mitigating) potential losses and damages from disasters. It is estimated that investment in resilient infrastructure in middle-income countries generates US$4 in benefits for every dollar invested (Hallegate et. al, 2019). Having disaster resilience policies could increase the well-being of the population of El Salvador by US$393 million (Hallegate et. al. 2017). On the other hand, efficient reactive management allows for mobilizing and making available resources in time to face emergencies, and executing said resources effectively, in such a way as to help the population and economy recover with fewer long-term consequences (World Bank, 2019). The temporality of resource mobilization is key to reducing the impact of emergencies.

The occurrence of disasters represents a potential risk to the well-being of citizens, economic stability and the sustainable development of the country. A severe event or multiple events of lesser intensity in a short period of time could cause not only human losses, but also losses to infrastructure (loss of assets) - such as damage to roads, manufacturing and industry, access to services such as electricity, water and sanitation, among others - and a decrease in the aggregate consumption capacity (well-being) of the population, affecting the country's economic activity, reducing production levels.

A higher fiscal deficit puts the sustainability of medium-term development and growth plans at risk. A lower economic dynamism generated by the occurrence of a disaster negatively impacts the Gross Domestic Product (GDP), pushes for an increase in public spending to deal with the emergency and can, in turn, reduce tax revenues and increase public debt. (See figure 1).

Figure No. 1: Transmission of the fiscal impact associated with the occurrence of disasters due to severe events



Source: Ministry of Finance and World Bank, within the framework of Technical Assistance for Financial Management in the Face of Risk Disasters.

The Ministry of Finance (MH) plays an important role in promoting economic stability and the sustainability of public finances. In this sense, in its commitment to increase the resilience of public finances to the risk of disasters, the MH seeks to manage fiscal risks in a comprehensive manner, incorporating disaster risk analysis, in the face of various scenarios of impact on fiscal accounts. This analysis allows for the evaluation of alternative fiscal policies and financial instruments for DRR; they allow us to be better prepared to meet the needs of the population affected by disasters.

Thus, **the Medium and Long-Term Fiscal Framework prepared by the Ministry of Finance (MH) includes a section on fiscal risks in which it analyzes the potential impact of disasters on the main macro fiscal indicators.** The analysis of these scenarios allows the Directorate of Economic and Fiscal Policy to provide more solid information for the formulation of the public budget and for the implementation of fiscal reforms in accordance with the Law of Fiscal Responsibility and Transparency.

2.2. Institutional and Regulatory Framework for Management Disaster Risk Finance

The Disaster Risk Financial Management Strategy is based on the regulatory and institutional framework that regulates the country's fiscal stability and resilience, as well as on international and regional agreements and commitments signed by El Salvador on Disaster Risk Management, and the Civil Protection, Disaster Prevention and Mitigation Law. This regulatory framework is in accordance with the provisions of the 2030 Agenda for Sustainable Development11; the United Nations Sendai Framework for Disaster Risk Management; the Central American Comprehensive Risk Management Policy agreed upon by SICA; and various international and regional agreements.

i) The National System for Civil Protection, Prevention and Disaster Mitigation

Disaster risk management in El Salvador is governed by the "Civil Protection, Disaster Prevention and Mitigation Law"12. This law creates the National System for Civil Protection, Disaster Prevention and Mitigation (National PCPMD System), which has the mandate to effectively prevent, mitigate and address disasters caused by natural and human events in order to guarantee the life and physical integrity of people, as well as the security of public and private property. This system has an institutional organization led by a National Commission chaired by the Ministry of the Interior, a General Directorate in charge of coordinating initiatives, activities and instruments for the comprehensive management of disaster risk, the main one being the National Plan for Civil Protection, Disaster Prevention and Mitigation (National PCPMD Plan).

11 Disaster risk reduction is a cross-cutting aspect of the UN's sustainable development goals, particularly in the development of resilient infrastructure (goal No. 9) and sustainable cities (goal No. 11) https://sustainabledevelopment.un.org/topics/disasterriskreduction 12 Legislative Decree No. 777
of 2005,

Financial management in the face of disaster risk is an integral part of the National PCPMD System. The objectives of the National PCPMD System include the incorporation of prospective disaster risk management in development plans, the design and execution of civil protection plans to respond to the occurrence of disasters, and maintaining cooperative relations with international organizations that allow channeling information and resources. This requires policies, instruments, tools, and financial management mechanisms that enable the fulfillment of these objectives. Likewise, within the framework of the National PCPMD System, the Civil Protection, Disaster Prevention and Mitigation Fund (FOPROMID) is created as the main public financing instrument for the prevention and response to emergencies, mainly of greater frequency and low or medium magnitude.

The PCPMD National Plan, in line with the Sendai Framework for Disaster Risk Reduction, establishes investment in disaster risk reduction for resilience as one of its priorities.13 This priority includes strategic lines and actions with the aim of: (i) allocating resources for the development and execution of disaster risk reduction initiatives; (ii) promoting the adoption of risk retention and transfer instruments in public and private investments; and (iii) enhancing resilience to disaster risk in public and private investment processes.

Disaster risk management and financing involves coordinated work between different ministries and public institutions, municipal governments, private institutions and civil society organizations. Within the public institutions, the role of the Ministry of the Interior as leader of the National System of PCPMD stands out; the Ministry of Finance in the financial management of disaster risk (assessment of fiscal risks, administration of FOPROMID, management of financial instruments, and implementation of budgetary tools); the Ministry of Environment and Natural Resources in the monitoring and analysis of events and effects of climate change; the Ministry of Public Works in regards to the assessment of losses and damages in infrastructure mainly, and so on, each ministry within the scope of its functions. Managing disaster risk is a cross-cutting task for achieving sustainable and inclusive development.

ii) Fiscal Responsibility Law

At the end of 2016, the Fiscal Responsibility Law14 (LRF) was approved, with the aim of guaranteeing fiscal sustainability and macroeconomic stability as tools to generate social and economic development. This law establishes fiscal rules that set limits on the public deficit and debt, link macro-fiscal goals with the exercise of the public budget, guarantees budgetary allocation to social areas, and establishes greater transparency and accountability in the use of public resources.

The Medium and Long-Term Fiscal Framework (MFMLP) is established as the main tool that guides fiscal policy and public finance management to meet the objectives of the Law. This framework accompanies the budget project annually and incorporates the projection and goals of the main macroeconomic variables, the level of public debt and the programming of investment projects, expenditure and public subsidies, among others.

13 Priority No. III defined in the National Plan for Civil Protection, Prevention and Disaster Mitigation published by the General Directorate of Civil Protection, Prevention and Disaster Mitigation.
Legislative Decree No. 533 published on November 10 , 2016, approving the Law on Fiscal Responsibility for the Sustainability of Public Finances and Social Development.

In particular, this framework highlights the importance of having a financial management strategy in the face of disaster risk and incorporates the characterization and quantification of fiscal risks associated with the occurrence of disasters.

The Ministry of Finance is the public body responsible for ensuring compliance with this law and its objectives. Understanding that disasters associated with natural phenomena can jeopardize macroeconomic stability and the sustainability of public finances, the Ministry of Finance has among its functions the identification, evaluation and implementation of financial instruments that allow for the timely mobilization of resources to respond to the financing needs generated by disasters. Thus, for example, the Ministry of Finance manages the financial administration of FOPROMID, contracts financial instruments on behalf of the State, such as contingent credit lines or insurance, among others.

iii) Sendai Framework for Disaster Risk Reduction

The Sendai Framework, approved by the United Nations in 2015, represents the commitment of the international community to promote an agenda for risk reduction, reducing losses and increasing resilience to disaster risk. This framework proposes a series of principles and goals gathered around four action priorities in order to guide the agenda towards specific risk management measures to be adopted by member States. The action priorities defined in the Framework are: i) Understand the Risk; ii) Strengthen risk governance to manage said risk; iii) Invest in disaster risk reduction for resilience; and iv) Increase disaster preparedness in order to provide an effective response to "build back better" in the areas of recovery (rehabilitation and reconstruction). The financial management of disaster risk is a cross-cutting element for the fulfillment of the objectives established in the Sendai Framework.

iv) Central American Policy on Comprehensive Disaster Risk Management (PCGIR).

The PCGIR was adopted in 2010 by the countries of the region to guide the coordination and development of strategies and policies for comprehensive disaster risk management. As part of the articulating axes and measures of the PCGIR, the importance and transversality of financial management is established both in prospective and corrective risk management initiatives, as well as in reactive management and recovery processes. In particular, the relevance of having mechanisms for planning and economic evaluation of public investment that incorporate DRM criteria and mechanisms for financial management of investment through insurance[15] is highlighted. This policy is materialized through the Regional Disaster Risk Reduction Plans (PRRD), the most recent version of which promotes the development and adoption of financial management strategies for disaster risk at both the national and regional levels[16]. One of the most concrete initiatives in this line has been the signing of an alliance in 2015 between the Council of Finance Ministers of Central America (COSEFIN) and the Caribbean Catastrophic Risk Insurance Facility (CCRIF)[17].

15 CEPREDENAC – SICA (2011) "Central American Policy on Comprehensive Disaster Risk Management"
16 CEPREDENAC - SICA (2014) "Regional Disaster Risk Reduction Plan PRRD (2014-2019)"
17 Within the framework of the XLII Ordinary Meeting of Heads of State and Government of the Member Countries of the Central American Integration System (SICA), the Presidents of Central America, Panama and the Dominican Republic signed, on June 27, 2014, the agreement through which they agreed to "recognize the effort that the Council of Finance Secretariats and Ministries of Treasury of SICA (COSEFIN) has been making so that the member States, which are not yet a party, join, according to the needs of each one, the Caribbean Catastrophic Risk Insurance Facility (CCRIF) that is already effectively operating for the countries of the Community of Caribbean States (CARICOM), which would also constitute an important example of cooperation between our regions."

Box 2: Financial Management in the face of COVID-19, Amanda and Cristóbal.

In a context of limited fiscal space, the Declaration of a State of National Emergency, State of Public Calamity and Natural Disaster throughout the territory of the Republic authorizes the MH to manage the obtaining of financing from multilateral entities or organizations, cooperating agencies, international cooperation agencies and/or friendly countries. In line with the Declaration of a State of National Emergency, the Legislative Assembly may decree the temporary suspension, while the effects of the Emergency last, of the application of the Law of Fiscal Responsibility for the Sustainability of Public Finances and Social Development, and consequently the application of the fiscal parameters and goals required by said Law.

The set of economic and social measures promoted to address the COVID-19 crisis and its consequences are estimated at around 5.5% of GDP. The Ministry of Finance, based on the detailed information in the budget execution report for the second half of 2020, highlights the execution of US$ 1,453 million for pandemic care in the following areas: 46% (US$ 661.3 million) were transferred to FOPROMID, to finance the construction of hospitals, monetary transfers to households, expenses on health goods and services, and expenses on salaries for emergency care, 41% (US$ 600 million) was transferred to finance the Trust for the Economic Recovery of Salvadoran Companies (FIREMPRESA), and the remaining 13% (US$ 191.7 million) was transferred to the municipalities18.

Thus, El Salvador has had to resort to the following financial mechanisms and instruments to mobilize resources both for emergency response and for economic recovery and reactivation.

- **Budget reallocations.** It is estimated that 21% of the modified 2020 budget was allocated to the implementation of COVID-19 response policies. While the use of this type of mechanism allows for immediate liquidity to address the emergency, it also reduces funding for ongoing investment programs and projects that were planned in line with the needs of the population. Among the initiatives that allow for this reallocation, the reorientation of resources from the Annual Public Investment Program (PAIP)19 stands out.

- **Execution of FOPROMID.** The Civil Protection, Disaster Prevention and Mitigation Fund has been the main instrument through which funding has been channeled.
ment to respond to the COVID-19 emergency. At the end of the second half of the year -
As of 2020, FOPROMID had received transfers from the general budget for US$657.3 million of the US$4 million initially approved, which were transferred to the accounts of executing entities to finance emergency response initiatives19 .

18 Ministry of Finance, El Salvador (2021) "State Budget Execution Report, Second Semester 2020". General Directorate of Government Accounting, January 30, 2021.

19 Ministry of Finance, El Salvador (2020b) "State Budget Execution Report, First Semester 2020" General Directorate of Government Accounting. July 30, 2020.

Box 2: Financial Management in the face of COVID-19, Amanda and Cristóbal.

- **Issuance of short-term debt mechanisms.** The Ministry of Finance issued Treasury Certificates (CETES) as a short-term debt instrument for an amount of US$ 645.8 million, taking advantage of a window of favorable credit conditions and legislative authorization in December 2019, of the 2020 General State Budget 18. This allowed for liquidity to address the emergency20.

- **Activation of the contingent credit line with the Japan International Cooperation Agency (JICA).** The activation and transfer to the public budget of JPY 5 billion (approximately US$ 46.1 million) was arranged, equivalent to the entire Contingent Loan for Disaster Recovery with JICA signed in 201621. The use of this credit line has allowed the injection of liquidity for emergency response, but at the same time, it has exhausted the resources of a useful instrument to finance the rehabilitation and reconstruction stages, as well as future events. The total disbursement of the loan was transferred to FOPROMID for its execution.

- **Creation of new financing mechanisms such as the Economic Emergency, Recovery and Reconstruction Fund (FERRE).** A fund was created to finance activities such as monetary transfers to vulnerable households, provision of liquidity for MSMEs, financial support to the agricultural sector in general and employment subsidies. The operation and functioning of said fund was left in the hands of a Steering Committee made up of public authorities and representatives of the private sector, civil society and academia22 .

- **Increased borrowing capacity and loan management with multilateral organizations.** Given the magnitude of the emergency and the limited availability of instruments to provide the necessary liquidity, the country has had to resort to increasing its level of debt in the form of post-disaster loans. First, the Legislative Assembly authorized the Executive to raise the borrowing limit by up to US$2 billion in the national or international market to finance the Economic Emergency, Recovery and Reconstruction Fund (FERRE)23 .

20 Ministry of Finance, El Salvador (2021b) "State Budget Execution Report, Second Semester 2020" Directorate General Government Accounting Office. January 30, 2021.

21 The activation of this instrument was materialized through the issuance of legislative decrees DL 615 published on April 2, 2020 for US$ 42 million and DL 627 published on April 20, 2020.

22 Articles 11 to 14 of DL No. 608 published on March 23, 2020, regulate the purposes of the Fund, the creation of the Committee, the composition of its Board of Directors, and its powers. Its Board of Directors is composed of a representative of the President of the Republic, the Ministers of Finance, Health, Economy, Public Works and Transportation, and Tourism. On behalf of the private sector, a representative of micro, small, and medium-sized enterprises appointed by the Chamber of Commerce and Industry of El Salvador, a representative of the National Association of Private Enterprise, a representative of the Salvadoran Foundation for Economic and Social Development (FUSADES), a representative of the José Simeón Cañas Central American University (UCA), and one from the Higher School of Economics and Business (ESEN).

Legislative Decree DL No. 608 of March 26 , 2020.

3.

Mission, Vision, Objectives General and Strategic Lines

The Disaster Risk Management Strategy (EGFRD) establishes a framework for fiscal policy action to strengthen fiscal resilience in the event of disasters and emergencies. The high level of exposure and vulnerability to natural events, as well as their potential impact on the well-being of the population, social and economic development and the fiscal stability of the country, require a roadmap that prepares the country with the appropriate institutions, instruments and procedures to mitigate the risk that exists and be prepared for the risk of disasters.

Mission

Ensuring stability and sustainability prosecutor through comprehensive management of the tax risks associated with disasters.

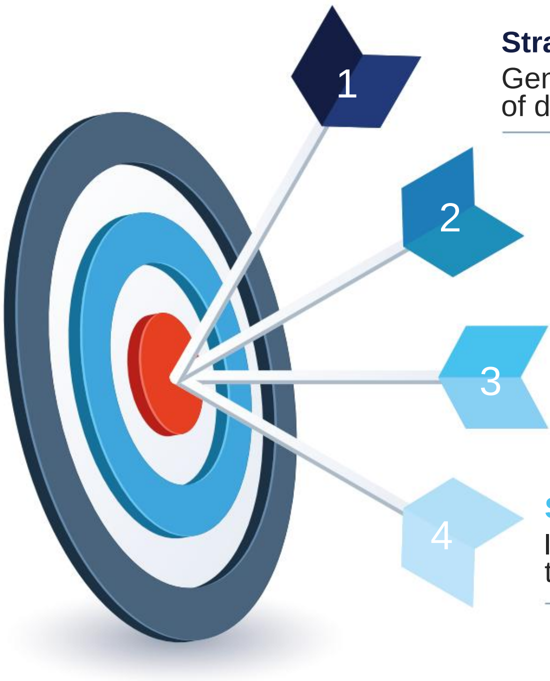
Vision

Finance resilient public infrastructure to the risk of disasters to safeguard the lives of citizens, the country's heritage and preserving development.

Aim General

Protect the sustainability fiscal in the face of disaster risk.

The fulfillment of the general objective of the EGFRD will be developed through work around four (4) strategic lines and will be materialized through an implementation plan that will be published in addition to this document. The Ministry of Finance will lead the work of each of these strategic lines and its implementation plan with the support of public and private institutions that contribute to strengthening the country's fiscal sustainability in the face of disasters.



Strategic Line No. 1
Generation of knowledge on the potential fiscal impact of disasters.

Strategic Line No. 2
Combination of financial instruments and mechanisms for the timely mobilization of resources in the event of an imminent emergency or emergency.

Strategic Line No. 3
Disaster risk reduction through resilient public investment.

Strategic Line No. 4
Increase in the efficiency, effectiveness and transparency of public spending on disaster risk management.

Each of these strategic lines is presented in detail in the following subsections, assessing their contribution to the fulfillment of the Mission, Vision and General Objective of the Disaster Risk Financial Management Strategy. Each of the following subsections presents the specific objective; the guiding principles within the framework of disaster risk financial management; the scope; and a preliminary identification of actions to be implemented under the leadership of the Ministry of Finance in coordination with other entities.

Although the details and planning of the actions to be developed will be addressed in the Strategy Implementation Plan, which will be worked on and published with a detail of actions and goals for the materialization of the objectives in the short and medium term, each line includes a preliminary list of actions. This allows for the establishment of a high-level roadmap on the priorities and guidelines proposed to achieve the objectives set.

Strategic Line No. 1: Generate knowledge on the potential fiscal impact of disasters.

Specific Objective:

Strengthen mechanisms and procedures to identify, quantify and evaluate fiscal risk in the face of disasters and their potential impact.

Beginning:

Effective financial management of disaster risk requires the generation of knowledge of the risk and its potential impact, in order to make informed decisions regarding risk reduction and disaster response. Procedures are needed to integrate information from multiple sources, which allow characterizing the country's risk profile, quantifying the exposed value of assets and estimating contingent liabilities, and evaluating the potential macro-fiscal impact of disasters (Figure 2).

Figure 2: Mechanisms and Procedures for generating knowledge of fiscal risk in the face of disasters

Knowledge of disaster risk informs decisions and actions regarding disaster risk reduction and preparedness. It is therefore the first critical step in managing the potential fiscal impact of disasters and articulates all the lines of action of this strategy. The analysis of historical information on the impact of disasters, the disaster risk profile, as well as the identification and characterization of the State's contingent liabilities is basic information to understand and evaluate potential losses; and above all, to formulate fiscal policies (income and expenditure) that aim at greater fiscal resilience of the country. In this sense, knowledge of fiscal risk in the face of disaster risk allows strengthening decision-making on public investment in disaster risk reduction and mitigation, as well as in the contracting of an optimal combination of financial instruments that allow the country to be more fiscally resilient to disaster risk.

Scope of the strategic line

1.1 Generate and integrate disaster risk information from multiple sources.

Strengthen the procedures carried out by the Ministry of Finance and entities linked to disaster risk management for the generation and integration of risk information. There have been significant advances in this area, through the work of the Observatory of Threats and Natural Resources of the Ministry of Environment and Natural Resources through the preparation of the National Report on the State of Risks and Vulnerabilities, and risk analysis in strategic priority infrastructure. Likewise, institutions such as the Directorate of Civil Protection, Prevention, and Disaster Mitigation, the Ministry of Health, the National Administration of Aqueducts and Sewers, or the Ministry of Public Works and Transportation, can contribute to the systematization of knowledge and standardized information that facilitates its use[25], and periodic updating. For example, two of the actions to be developed in the Strategy Implementation Plan are the adoption of technological systems for a rapid assessment of damages and losses in the event of disasters; and the preparation of a historical record of damages associated with disasters.

1.2 Identify and estimate the State's contingent liabilities associated with disasters.

Disaster risk can generate explicit and implicit financial obligations that must be assessed in order to safeguard fiscal stability. Failure to identify contingent liabilities in the face of disaster risk limits the fiscal capacity to respond to emergencies. On the contrary, having this information generates greater predictability in the management of public finances and allows the State to take action to be better prepared. If potential losses from disasters are quantifiable ex ante, measures can be taken to transfer the risk to the insurance and reinsurance market, or specific financial instruments can be contracted that allow us to respond to the activation of a contingency liability. For example, in 2016, based on risk assessments led by the Threat Observatory considering threats of recurrent frequency and low to medium magnitude, average expected annual losses[26] were identified in assets considered as lifelines[27] in the order of US$30 million.

1.3 Refine the estimation of the macrofiscal impact of disasters.

The estimation of the potential impact of disasters on public finances is part of the Medium and Long-Term Macro Fiscal Framework that is presented annually along with the budget bill. This progress reflects the country's efforts to maintain solidity in public finances through comprehensive management of fiscal risks, including fiscal risk due to disaster risk. Thus, the Macroeconomic and Fiscal Impact Analysis Unit (UIMF) of the Ministry of Finance[28] has identified the opportunity to strengthen the methodologies for estimating contingent liabilities, as well as the potential economic and fiscal impact due to disaster risk. This action is in line with the ongoing capacity building of the MH teams.

25 “National Inventory of Critical Investments in Strategic Infrastructure in the Face of Potential Climate Change Events” (2018) UNEP, UNDP, WRI, MOPT, ANDA, UN Environment and the German Agency for International Cooperation.
26 Average annual loss (AAL) represents the annual cost of risk without considering management fees.
27 Those assets of greatest importance to the country during and after a disaster, being a priority for attention to the emergency for recovery, and whose permanence is vital for the continuity of economic and social activity.
28 Executive Agreement number 129, dated February 3, 2021.

LE Nº1: Preliminary identification of priority actions

- Develop procedures and establish mechanisms for coordination and exchange of information between institutions that collect, analyze and generate knowledge on disaster risk.
- Develop and/or adopt technological tools to gather information on losses, damages and needs in the event of emergencies.
- Identify the main public assets with the highest risk of disasters and generate procedures for updating and periodically monitoring said assets. cadastre.
- Develop a methodology to value contingent liabilities due to disasters.
- Strengthen and train MH teams to enhance methodologies and tools for estimating fiscal risks in the face of disaster risk and maintain the incorporation of said analysis in the Medium and Long-Term Fiscal Macro.

Institutional leadership

The Economic and Fiscal Policy Directorate of the Ministry of Finance leads the development of actions within the scope established for the fulfillment of the specific objective of this strategic line.

Strategic Line No. 2: Combination of financial instruments and mechanisms for the timely mobilization of resources in the event of an imminent emergency or emergency.

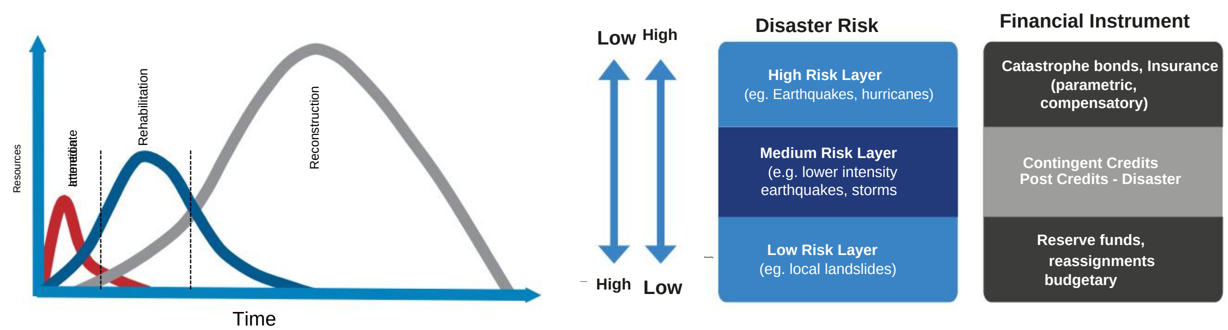
Specific Objective:

Identify, evaluate, and manage a set of financial instruments for risk retention and transfer that provide liquidity to finance response and recovery processes (rehabilitation and reconstruction), minimizing the fiscal impact of disasters.

Beginning:

The definition of an optimal combination of DRR financial instruments recognizes the temporal differences in resource requirements and that no single instrument is capable of responding to all needs (GFDRR, 2014). Resource requirements are incremental over time after the occurrence of a disaster. During the immediate response phase, resources are urgently needed to finance humanitarian assistance and urgent requirements. During the rehabilitation process, a higher level of resources is required to finance the temporary restoration of services, the construction of temporary infrastructure and/or the reactivation of economic activity. The highest level of resources is usually required during the reconstruction stage, as it generally includes the planning, design, contracting and execution of definitive infrastructure works. Resources for this stage are usually required over a longer time horizon, as they are in line with the execution cycle of the works and projects to be carried out (See Figure 3a).

Figure No. 3: (a) Temporality in the requirement of resources, (b) Financing by layers.



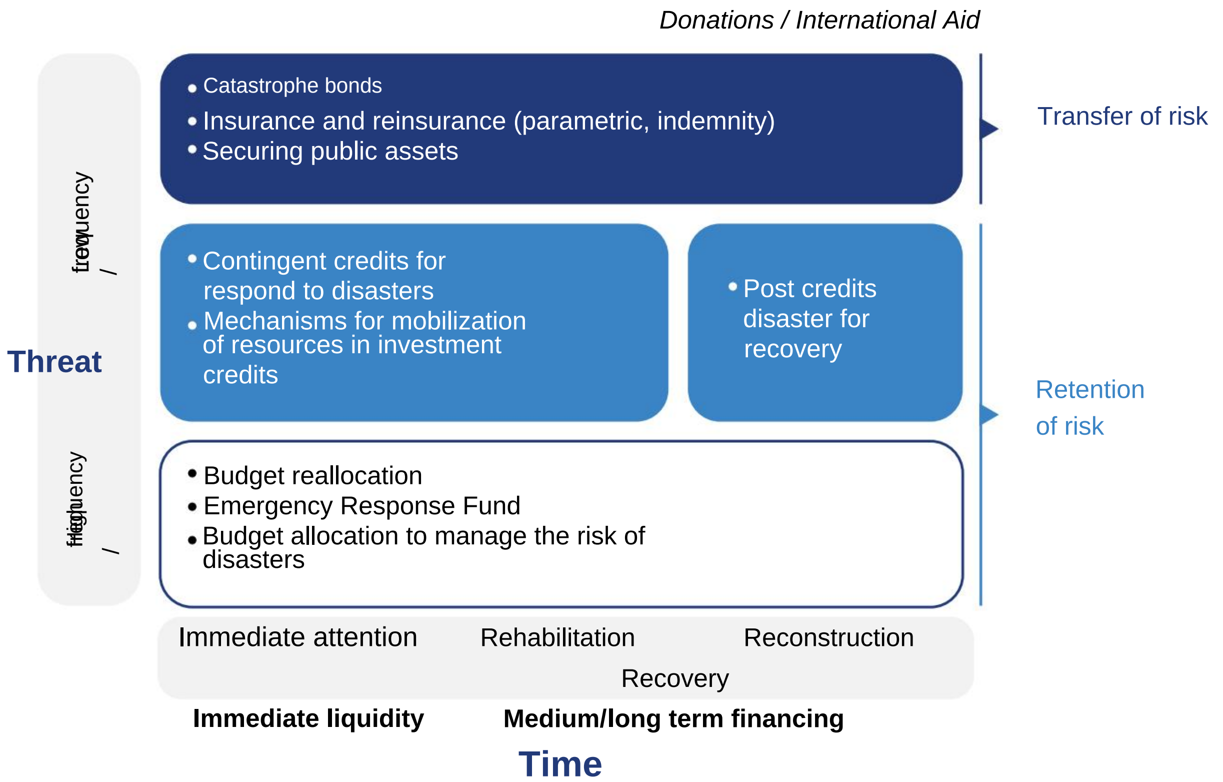
Source: Adaptation from Ghesquiere and Mahul, 2010.

Having a layered financing strategy allows resource mobilization efforts to be distributed by combining the advantages offered by different types of financial instruments. The definition of an optimal combination of financial instruments depends, on the one hand, on the level of risk coverage that is established as an objective and, on the other hand, how much of this risk can be assumed with own resources and when it is sought to be transferred to third parties (Figure No. 3b). There are instruments for risk retention and risk transfer, depending on who assumes the cost. Likewise, there are instruments that are contracted ex ante and ex post upon the occurrence of an event.

Risk retention instruments are those where the country covers its financing needs with its own resources. The provision of resources in the public budget, budget reallocation operations or the contracting of contingent credits are examples of risk retention instruments typically used to respond to disasters. The issuance of debt or the subscription of reconstruction credits are also risk retention instruments. Except for the receipt of international donations, the financing needs to deal with events in the past have been covered by the country through risk retention instruments, such as budget reallocations, contingent credit lines (with the World Bank and JICA), and the issuance of post-disaster debt.

Risk transfer instruments are those where the government 'transfers' part of the risk to a third party, usually capital markets, insurance and reinsurance. This type of instrument is usually more appropriate to provide coverage against infrequent but high-severity events, such as earthquakes and high-intensity hurricanes. For countries in the Central American region, the CCRIF has been established as a facility that provides sovereign catastrophic insurance. Likewise, Latin American countries such as Mexico or members of the Pacific Alliance have issued catastrophic bonds to provide coverage against high-intensity earthquakes and severe storms.

Figure No. 4: Existing financing instruments and mechanisms in a layered disaster risk financing strategy.



Source: Adaptation from Ghesquiere and Mahul, 2010.

Scope of the strategic line

2.1 Strengthen existing instruments and mechanisms for financial management in the face of disaster risk.

The Civil Protection, Disaster Prevention and Mitigation Fund (FOPROMID) enables rapid availability of resources and facilitates their implementation through simplified processes. There are opportunities for improvement in this Fund, for example, in terms of the processes associated with its administration and operation; and on how to balance the use of resources between prevention, reduction and risk management initiatives29. Carrying out a comprehensive improvement of its execution processes would facilitate its use in the face of the activation of different mechanisms or instruments that could be disbursed in FORPOMID to be executed through agile processes.

Likewise, the country currently has the potential to activate mechanisms for access to contingent financing with international organizations. Similar to the process of mobilizing resources to address the health and climate emergencies of 2020, if the country maintains solidity in the management of its public finances, it can resort to contingent mechanisms with the IMF or other international organizations.

Additionally, there is the availability to mobilize resources from existing Contingent Emergency Response Components (CERCs) as part of investment credits signed with the World Bank, once these operations are approved by the Legislative Assembly of the Republic of El Salvador. Without prejudice to having these mechanisms, the agility in the mobilization of resources and the efficiency in their use require the strengthening of the processes and institutions involved in their financial and operational management.

2.2 Strengthen the technical capacity to identify, evaluate and define a combination of financial instruments for risk retention and transfer in line with the risk profile and fiscal capacity.

Having an optimal combination of risk retention and transfer instruments requires an analysis of the characteristics and relevance of each instrument. An in-depth evaluation of the financial characteristics of each instrument will be carried out, such as contingent credits (CAT-DDOs), for example. Likewise, the relevance and convenience of having sovereign insurance instruments and promoting strategies for insuring strategic public assets, critical infrastructure and economic activities will be evaluated.

In terms of public asset insurance, the generation of knowledge on public assets and critical infrastructure exposed to disaster risk will inform the analysis of the convenience of having certain coverage. Likewise, the relevance of promoting the penetration of the insurance market in sectors whose economic activity is exposed to disaster risk (such as agribusiness or tourism) will be analyzed, as well as its promotion in the private sphere of housing and property insurance. This line includes the strengthening of financial market regulatory institutions, such as the Superintendency of the Financial System, due to its relevance in promoting and supervising the penetration of financial instruments for transferring disaster risk.

29 The World Bank has developed an analysis and proposals for strengthening FOPROMID within the framework of Technical Assistance for Financial Management in the Face of Disaster Risk for Central America.

LE No. 2: Preliminary identification of priority actions

- Strengthen FOPROMID through an analysis of administration and operations.
- Develop cost-benefit assessments of financial instruments for risk retention and transfer for eventual short/medium-term implementation.
- Formulate an insurance strategy for sovereign disaster risk, strategic public assets, critical infrastructure and economic activity.
- Prepare the teams of Project Execution Units with the WB for the eventual activation and execution of CERC components.
- Strengthen and train relevant public institutions in technical and methodological aspects for the evaluation, supervision and regulation of financial instruments.

Institutional leadership

The General Directorate of Investment and Public Credit together with the Directorate of Economic and Fiscal Policy lead the development of actions within the scope established for the fulfillment of the specific objective of this strategic line.

Strategic Line No. 3: Disaster risk reduction through resilient public investment

Specific Objective:

Incorporate disaster risk analysis and sustainable adaptation to climate change (SCA) as a fundamental aspect of public investment planning and formulation processes to reduce the level of infrastructure exposure and the vulnerability of the population to disaster risk. This will also minimize the impact on development and economic losses.

Beginning:

The Ministry of Finance, through the General Directorate of Investment and Public Credit (DGICP), the governing body of the Public Investment Subsystem (SIP), establishes the guidelines and procedures that govern the planning, formulation, and execution of public investment projects. The Public Investment Process, regulated within the framework of the Public Investment Information System (SIIP), includes the technical, regulatory, and procedural instruments through which entities and institutions of the non-financial public sector (SPNF) will identify, formulate, evaluate, prioritize, program, execute, and monitor public investment projects (PIP)30. The SIIP establishes the pre-investment, investment, and operation phases as part of the PIP life cycle, in which the project undergoes a transformation and maturation process, from its identification as an alternative to solve a need until its execution is completed and it is ready to begin its operation. In addition, the SIIP has planning instruments for the short and medium term, which allow the organization over time of the resources allocated to the development of studies and the execution of public investment projects of the different executing entities.

Incorporating disaster risk analysis and sustainable adaptation to climate change (SACCC) as fundamental aspects of the planning, formulation and execution processes of public investment contributes to increasing the country's resilience and minimizing the impact of economic losses. Recent studies show that the net benefit of investing in resilient public infrastructure is US$4 for every dollar invested. Likewise, a potential annual increase in the well-being of the Salvadoran population of around US$390 million is estimated by adopting policies that strengthen resilience to disasters (Hallegate et.al. 2017 and 2019). Taking into account the return that resilient investment has in social, economic and fiscal matters, it is appropriate to incorporate this issue in the policies, systems, plans and programs of the public administration, linking their formulation with the mandates established in the regulations on disaster risk management (civil protection, disaster prevention and mitigation), environment, planning and territorial development, mainly.

30 SAFI Technical Manual, Title VII, Literal C.1, Number 1, Standard on the Public Investment Process.

Scope of the strategic line

3.1 Incorporate disaster risk analysis and ASCC into public investment planning processes and instruments.

Consideration of disaster risk reduction and ASCC in public investment planning processes will contribute to reducing vulnerability in different sectors and productive activities in the country, allowing for sustainable development and greater well-being for the population. In this way, the country will be able to rely on coordinated public investment and planning processes and instruments, whose objective is to contribute to safeguarding human lives, reducing damage and losses in the economy and resulting socioeconomic effects, and facilitating emergency response and post-disaster recovery processes. Reducing disaster risk, through public investment in resilient infrastructure, will also improve the conditions of access to financial instruments such as insurance for public and private infrastructure, contributing to comprehensively strengthening fiscal sustainability in the face of disasters.

3.2 Define prioritization criteria related to DRR and ASCC in the life cycle of public investment projects.

All sectors have the responsibility to incorporate risk analysis into the entire cycle of public investment projects. Efforts will be made to ensure that public investment projects incorporate prioritization criteria related to DRM and ASCC from their formulation, so that risk factors for disasters are prevented, reduced and permanently controlled. To this end, the General Directorate of Investment and Public Credit (DGICP) will coordinate actions to develop tools that facilitate the incorporation of DRM and ASCC in the formulation of public investment projects.

3.3 Develop capacities in implementing institutions.

Adequate risk prevention and reduction requires coordinated work between the Ministry of Finance and the executing units of public investment projects. Moving forward in this direction involves developing and strengthening capacities to identify, formulate, evaluate and implement investment projects with a focus on DRR in all SIP institutions.

LE No. 3: Preliminary identification of priority actions

- Analyze and strengthen the regulatory framework for the incorporation of disaster risk analysis in Public Investment Projects (PIP).
- Develop technical and methodological guidelines for GRD and ASCC for the planning, formulation and evaluation of investment projects.
- Develop a protocol that defines the steps to follow to incorporate disaster risk analysis and climate change adaptation in the formulation of public investment projects.
- Generate tools to facilitate the incorporation of risk information in investment projects.
- Strengthen capacities in the Ministry of Health and project formulation and implementation entities on the incorporation of GRD and ASCC in the PIPs.

Institutional leadership

The General Directorate of Investment and Public Credit leads the development of actions within the scope established for the fulfillment of the specific objective of this strategic line.

29 The World Bank has developed an analysis and proposals for strengthening FOPROMID within the framework of Technical Assistance for Financial Management in the Face of Disaster Risk for Central America.

Strategic Line No. 4: Increase in the efficiency, effectiveness and transparency of public spending on disaster risk management.

Specific Objective:

Have budgetary mechanisms and tools that allow for the identification and visibility of expenditure on DRR throughout the budget cycle.

Principles and background:

Efficient, effective and transparent allocation and execution of resources for DRM is as important as having funding sources. Efficiency in public spending refers to the distribution of resources in those areas that generate the greatest value and therefore achieve the greatest benefit for each dollar available for DRM. Effectiveness, then, implies the fulfillment of the proposed objectives resulting from the implementation of those actions financed with public resources, that is, that the resources allocated for DRM achieve and generate the desired impact on the target population, either in terms of reducing their level of risk or addressing the human, social and economic needs that emerge when an event occurs. Thus, transparency in the destination and use of public resources allows us to identify and make visible in what and how the resources allocated for DRM have been used, linking the management of public institutions with citizens, allowing feedback, evaluation and continuous improvement.

The public budget is the main tool that allows ensuring the allocation of public resources to meet development objectives, such as DRR and adaptation to climate change. The allocation of resources for the development of specific actions by public institutions is the main vehicle that the country has to achieve the fulfillment of development objectives and goals. On the other hand, the stages of the budget cycle - formulation, discussion, approval, execution, monitoring and evaluation - promote the efficiency, effectiveness and transparency of public spending by being subject to prioritization and evaluation by the main public, political and social institutions.
The budget formulation process within the executive branch allows for prioritizing the allocation of scarce resources to those actions that generate the greatest value and for planning effective execution in line with development plans. Discussion and approval in the Legislative Assembly allows for enriching budget definitions, especially if there are spaces for citizen participation. Monitoring and evaluating budget execution allows for identifying opportunities for improvement in the use of public resources, providing feedback to the planning and formulation processes in a subsequent budget cycle.

The development of tools and mechanisms that link prospective, preventive and reactive processes of DRM throughout the budget cycle allows strengthening the efficiency, effectiveness and transparency of public spending for these purposes. Developing and implementing tools such as specific budget classifiers or labelers for DRM and the design and implementation of budget programs, as a strategy for achieving results, allow identifying and making visible the public spending that is being planned and executed by all those institutions that play a role in risk management processes. Likewise, developing budget mechanisms for DRM allows for having pre-established provisions and arrangements to ensure efficient and effective execution of resources. Thus, the use of the State's financial management information systems and public transparency to make DRM spending visible allows for traceability of the spending incurred in order to carry out evaluations with improved efficiency and effectiveness.

Scope of the strategic line

4.1 Identify opportunities for improvement in the identification of expenses allocated for DRR under the current budget structure by management areas.

The current budget system by management areas limits the ex-ante identification and comprehensive traceability of public expenditure incurred in DRR. There is the capacity to identify expenditure in DRR incurred by those institutions whose central function is related to risk prevention, reduction and attention, for example, the General Directorate of Civil Protection, which includes FOPROMID. Notwithstanding the above, it is difficult to distinguish expenditure in DRR incurred by the rest of the public institutions within the framework of the budget structure by management areas.

Opportunities for improvement in the identification and transparency of public expenditure on DRR will be worked on based on the evaluation to be carried out with the budget-formulating and executing institutions. Work will be done with the sectoral public institutions to generate knowledge and evaluate the use of the resources allocated and the type of actions carried out in disaster risk management, particularly those carried out to address the emergencies of 2020 and the actions planned to reduce future risk.

4.2 Develop budgetary tools for DRR within the framework of the implementation of the results-based programme budget.

El Salvador is in the process of implementing a reform to the public budget system by management areas towards a “Program Budgets with a Results-Based Approach” structure. This change represents a significant advance in terms of linking development objectives and goals with concrete actions to be developed by public institutions. The existence of budget programs or subprograms in DRR as part of the budget structure by programs opens the possibility of planning, identifying and evaluating public spending destined to meet the objectives of prevention, reduction and attention to disaster risk, since indicators are identified for each level of the structure to measure the results.

Budgetary tools in DRM will be developed and implemented at the level of programs, subprograms and activities within the framework of the implementation of the public budget reform. The General Budget Directorate (DGP) of the Ministry of Finance has already developed this process with the institutions of the Public Sector. Likewise, this effort will be complemented with procedures and mechanisms that allow the evaluation of the expenditure made by institutions for DRM in terms of the achievement of the objectives and goals set.

4.3 Establish protocols and procedures for accountability and active transparency in the use of resources allocated for DRR.

Mechanisms will be incorporated to make planning and use of resources for disaster prevention and response transparent. Within the framework of the current systems of public transparency and accountability, reports and statistics on the government's financial management in this area can be made available to citizens, for example, by publishing specific reports for free access.

LE No. 4: Preliminary identification of priority actions

- Analyze the current budget structure to identify opportunities to incorporate DRR.
- Design technical guidelines for budget formulation and execution entities to identify expenditure on DRR.
- Review, as appropriate, the design of budget programs with the institutions involved in DRR, as well as the budget classifiers.
- Develop evaluation and transparency tools for expenditure allocated to DRR.

Institutional leadership

The General Budget Directorate leads the development of actions within the scope established for the fulfillment of the specific objective of this strategic line.

Complementary actions - Implementation Plan

Following the publication of this Strategy, an "Implementation Plan" will be developed that will allow for the identification of actions to be developed in the short and medium term to achieve the objectives and guidelines defined herein. This process will be led by the Ministry of Finance in coordination with the Secretariat of Trade and Investment and all public institutions that are part of the Civil Protection System and play a leading role in disaster risk management. This Plan will have specific actions, products and goals for each of the strategic lines defined and explained in the previous sections. It will also identify the main institutions that will lead and collaborate in the development and achievement of these actions; and will establish indicators and mechanisms that allow for the periodic monitoring and evaluation of progress in the implementation and fulfillment of the Strategy.

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