Document of
The World Bank

Report No: NCO0000492

NOTE ON CANCELLED OPERATION REPORT
(IBRD-72780)

ON A

LOAN

IN THE AMOUNT OF US$ 40.2 MILLION

TO THE

REPUBLIC OF EL SALVADOR

FOR A

LAND ADMINISTRATION II PROJECT

November 9, 2007

Sustainable Development
Central America Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

Currency Unit = US$ 1.00

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

CABEI	Central American Bank for Economic Integration
CAS	Country Assistance Strategy
CMU	Country Management Unit
CNR	*Centro Nacional de Registros* (National Registry Center)
GEF	Global Environmental Facility
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
LAP I	Land Administration Project I (Phase I)
LAP II	Land Administration Project II (Phase II)
MEF	*Ministerio de Economia y Finanzas* (Ministry of Economy and Finance)
SIRyC	*Sistema de Información Registro y Catastro* (Property Registry and Cadastre Information System)

Vice President:	Pamela Cox
Country Director:	Jane Armitage
Sector Manager:	Ethel Sennhauser
Project Team Leader:	Frederic de Dinechin
NCO Team Leader :	Anna Corsi

EL SALVADOR

Land Administration II Project

CONTENTS

A. Basic Information

Country:	El Salvador	Project Name:	Land Administration II
Project ID:	P086953	L/C/TF Number(s):	IBRD-72780
Revised NCO Date:	11/9/2007		
Lending Instrument:	SIL	Borrower:	REPUBLIC OF EL SALVADOR
Original Total Commitment:	USD 55.8M	Disbursed Amount:	USD 0.0M
Environmental Category: B			

Implementing Agencies:
Centro Nacional de Registros
Ministry of Environment and Natural Resources (MARN)

Cofinanciers and Other External Partners:

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	09/07/2004	Effectiveness:	11/23/2005	5/31/2006 (R); 9/14/2006 (R)
Appraisal:	01/04/2005	Closing:	07/01/2011	07/01/2011
Approval:	03/15/2005			

C. Ratings Summary

Performance Rating by NCO

Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Satisfactory
Borrower Performance:	Unsatisfactory

D. Sector and Theme Codes

	Original	
Sector Code (as % of total Bank financing)		
Central government administration	10	
General agriculture, fishing and forestry sector	80	
Law and justice	5	
Sub-national government administration	5	

Theme Code (Primary/Secondary)		
Land administration and management	Primary	
Legal institutions for a market economy	Secondary	
Municipal governance and institution building	Secondary	
Personal and property rights	Primary	
Rural markets	Primary	

E. Bank Staff

Positions	At NCO	At Approval
Vice President:	Pamela Cox	Pamela Cox
Country Director:	Jane Armitage	Jane Armitage
Sector Manager:	Ethel Sennhauser	Mark E. Cackler
Project Team Leader:	Frederic de Dinechin	Frederic de Dinechin
NCO Team Leader:	Anna Corsi	
NCO Primary Author:	Anna Corsi	

F. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	04/30/2005	Highly Satisfactory	Satisfactory	0.00
2	12/27/2005	Satisfactory	Satisfactory	0.00
3	06/07/2006	Unsatisfactory	Unsatisfactory	0.00
4	03/30/2007	Unsatisfactory	Moderately Unsatisfactory	0.00

1. Context, Project Development Objectives, and Design (*drawing from PAD, briefly describe the country and sector background, rationale for Bank assistance, development objectives, components, costs and funding, implementation arrangements, risk analysis, and quality at entry):*

Country and Sector Background. Over the last 30 years, the Government of El Salvador promoted a land reform program through which 300,000 hectares of large farms were expropriated and distributed to cooperatives and individual beneficiaries. However, this effort was not supported by the creation of an updateable land information system, thereby impeding the development of the land market and the use of land-related information for planning purposes.

The Land Administration II Project (LAP II) built on the World Bank's competitive advantage in the region's land issues, with over 20 years of experience in land policies and operations and US$500 million invested and committed in land programs in Central America. It also built on the successful experiences gained through the Land Administration Project I (LAP I), a US$50 million loan that the Government of El Salvador signed with the Bank in 1996 to provide landowners with the necessary land security to transfer and invest in their land. LAP I, which is considered a best practice for land regularization in the region, regularized 60 percent of the parcels in the country and created and modernized the National Registry Center (CNR). LAP II was designed to complete the successful regularization of 100 percent of the country, while adding complementary activities such as: (i) titling of urban and peri-urban lands of social interest, (ii) strengthening of municipalities and (iii) delimitation and limited demarcation of protected areas. These last activities were to be complemented by the partially-blended Protected Areas Consolidation and Administration GEF project, which aims to catalyze the consolidation of key protected areas and develop a strategy for consolidating other protected areas, which is directly linked to the systematic land regularization process.

Project Development Objectives. The project aimed to improve land tenure security and land transactions by providing efficient, equitable, and accessible land administration services. The project objectives were consistent with the 2005 Country Assistance Strategy (CAS) and the government's 2004-2009 development agenda, as outlined in the National "Pais Seguro" Program. The project, by supporting better land administration services, would have facilitated better land-related investments and more productive and environmentally sustainable land use. The project would have helped to accelerate equitable growth and increase employment, expanding access to assets and markets, and enhance security by: (a) supporting completion of the parcel-based registry and building institutional capacity to support land title transfer; (b) developing local land administration services that are more equitable and accessible to the poorest, both in rural and urban areas; (c) addressing land administration in northern and eastern El Salvador, an area traditionally subject to unclear tenure regimes, site of the former civil conflict, and home to the poorest segment of the population; and (d) promoting, through the blended GEF project, nature conservation and consolidation of protected and ecologically sensitive areas.

Project Components. The total project cost was US$55.8 million, of which the World Bank would finance US$40.2 million and the Government of El Salvador $15.6 million. The partially-blended GEF-financed operation would have financed an additional US$5 million. The project had three main components:

Component 1: Land Regularization (77.9% of total project cost) was aimed at completing the regularization for the entire country. Regularization in this project context referred to the massive and systematic dissemination campaign, mapping, verification of rights, delimitation of properties, field conflict resolution, notification of results, and transfer of information to the Property Registry and Cadastre Information System (SIRyC). The component consisted of four subcomponents: (i) Review of Legal, Regulatory, and Administrative Frameworks, (ii) Land Regularization, (iii) :Legalization and/or titling of lands in Areas of Social Interest, and (iv) Delimitation and Limited Demarcation of Protected Areas. The first subcomponent would have supported short-term reforms needed to implement project activities efficiently and effectively, and longer-term reforms to continuously improve the national land administration system. The second subcomponent included cartographic and field activities as well as support for greater integration of parcel-based field data in the Land and Mortgage Registry and the National Cadastre. The third subcomponent would have supported, as a new activity with respect to phase I, the titling of a selected group of lands for the purpose of benefiting low-income social levels. The fourth subcomponent would have dealt with various land regularization activities within El Salvador's protected areas and mangroves.

Component 2: Decentralization of Land Administration Services (16.1% of total project cost) was oriented toward improving the execution of the day-to-day registry and cadastre services at local level. It would have allowed accessible land services as well as more effective maintenance of the parcel-based registry throughout the nation. This component included two subcomponents: Consolidation of the Strengthening of CNR's offices and Modernization of Land Administration Services at local level. The former would have strengthened the capacity of CNR's departmental offices and other local offices to provide local services including registration of sales, inheritance, mortgages, etc. as well as re-measurements or preparation of cadastre plans. The latter would have strengthened the ability of municipalities to provide maintenance of cadastre data and of land administration services. This was an important subcomponent because although municipalities are key partners of CNR for the maintenance of the parcel-based property registry, they had not been sufficiently strengthened under the first phase.

Component 3: Project Administration (5.6% of total project cost) was aimed at strengthening project administration so as to maximize inter-institutional coordination and thus the project's ongoing execution. This component would have financed the project's Monitoring and Evaluation system, and necessary audit services and studies related to land administration and other aspects of sustainable development.

Implementation Arrangements: The institution directly responsible for project implementation was the National Registry Center (CNR), a strong and financially sustainable institution created under the first phase of the project. CNR was to coordinate

the various participating agencies by means of agreements. Unlike the first phase, the second phase anticipated a much stronger institutionalization of the project in its administrative, procurement, financial, and technical areas. CNR was to directly manage financial and administrative aspects of the project, including loan funds, and the procurement process. In addition, CNR was to create a limited project coordinating unit to coordinate, monitor and evaluate the project's activities and assure overall project coordination both internally and externally, with participating agencies and the World Bank.

Risks: A number of critical risks were identified during the appraisal of the project, including the lack of participation by end-beneficiaries, poor coordination and lack of participation by national and local agencies, difficulties in obtaining congressional approval of necessary legal reforms, and risks of the project being politicized, given that it was dealing with a very sensitive issue – land. None of these risks were rated as high. Corresponding mitigation measures were designed, including the improvement in local social communication programs, the establishment of efficient coordination mechanisms, the use of administrative and executive decrees, and the establishment of an open dialogue with state sectoral institutions, municipal offices and civil society to avoid social conflicts and give more transparency to the process. The fact that the loan would not be approved by Congress was not identified as a major risk, given that the history of Bank (and IDB) projects in El Salvador was one of intensive and lengthy negotiations with all political parties, which eventually were successful in getting projects approved. Furthermore, the project was appraised over a year before congressional elections, leaving ample time for the project to be approved before the new Congress took office.

Monitoring and Evaluation: Under the project, CNR was to develop and implement an automated Monitoring and Evaluation system that would have allowed for three types of indicators to be monitored: (i) physical and financial execution indicators (e.g., number of km^2 covered by aerial photographs at 1/20,000 scale; US$100,000 total contract – $5 per km^2); (ii) results indicators (e.g., percentage of properties titled and registered in the Integrated Registry and Cadastre System); and (iii) outcome indicators of project development objectives (e.g., reduced cost and length of transactions). Outcome indicators were developed and agreed in close collaboration with CNR, a sophisticated land agency created at the time of the first Land Administration Project, whose model has been replicated worldwide. It was not considered appropriate to utilize downstream indicators -- such as changes in income levels of those registered or in land-related investments and productivity -- given that for these changes to occur, other interventions outside the scope of the project needed to occur. Improved land administration services are a necessary condition for higher productivity and income, but insufficient on their own to stimulate those increases.

2. Post-Approval Experience and Reasons for Cancellation.

(*main events leading to cancellation, steps taken to resolve problems, exogenous factors, identification of causes and responsibility if project failed, implications of failure):*

The factor leading to the cancellation of the Land Administration II Project was the government's failure to gain consensus and obtain the second and final Congressional approval by a qualified (two thirds) majority required for approval of external borrowing and for project effectiveness.

The project was approved by the World Bank Board on March 15, 2005, nine months after President Saca took office and a year prior to legislative elections. In El Salvador, it is the role of the legislative branch to approve the government's annual budget, including the approval of all external loans and credits. Loan signing by the government is conditioned on the prior legislative approval by the simple majority (50 percent + 1 vote). In the case of loans, final ratification by the qualified majority (two thirds of Congress) is required for the project to become effective. The Loan Agreement was signed on August 29, 2005, following its approval by the simple majority in Congress on July 21, 2005.

The importance of not losing the momentum after the first Congress approval was foreseen. However, the legislative agenda in the last months before the March 2006 legislative elections was dominated by priority key reforms requiring a qualified majority in an already politically divided Congress. Thus, due to other political priorities, the project loan agreement was not taken up for discussion in the outgoing Congress.

The new Congress took office in April 2006. The newly elected Congress was even more divided than the previous one, rendering approval by the qualified majority impossible without support from the main opposition party. In this difficult political situation, the project counterpart (MEF and CNR) worked with the Congress and relevant project actors to have the project approved, and in parallel kept working to meet all other project effectiveness conditions.

The Bank team maintained regular contact with the Resident Representative in San Salvador and the CMU team to ensure a coherent strategy for presenting this and several other projects in El Salvador to Congress after the country's elections. A number of missions were carried in June and August 2006 to closely work with the counterpart (including the Government and members of Congress from all parties) in an effort to ensure project ratification by Congress within the eighteen-month deadline from the Bank Board approval. The Country Director and Representative met on several occasions with members of the opposition to present the objectives of this and other Bank loans pending Congressional approval and answer their questions. They also gave several press interviews to explain the importance of the project for growth and poverty reduction. The dialogue with the new Congress was deepened during the visit to Washington D.C. on July 12, 2006 of a high level Congress delegation, which included members of the opposition. The agenda for the visit was planned jointly with the IDB (who faces the same problems in getting Congressional approval of their loans) and with the IMF, and included discussions of El Salvador's macroeconomic and fiscal situation, debt service capability, as well as detailed presentations on all pending loans and evaluations of prior Bank loans. In addition, all supporting documentation requested by the new Congress, including the evaluation of the first phase and audit reports, was promptly made available.

Given the political situation in the country, which made ratification through qualified majority more difficult than expected, the Government requested and the Bank agreed to extend the effectiveness deadline from November 28, 2005 to May 31, 2006, and subsequently to September 15, 2006.

On September 13, 2006, the loan was presented to the National Assembly. However, the National Assembly was unable to reach consensus and failed to ratify the loan. On September 15, the eighteen-month deadline from Board approval was not met and on September 21, 2006 the loan agreement was terminated.

Implications of project's cancellation. Following the Bank loan's cancellation, CNR signed a loan agreement with the Central American Bank for Economic Integration (CABEI) for $55 million to finance the second phase of the Land Administration project, thereby completing the land regularization process in the country and benefiting about 1,700,000 property owners. The CABEI's loan agreement did not require Congress approval since a recent law authorizes CNR to borrow directly from multilaterals without the need for a sovereign guarantee – something that cannot be done in the case of Bank loans, which require a sovereign guarantee.

3. Assessment of Bank Performance

(*lending process/ensuring Quality at Entry, supervision and implementation assistance role, compliance with Bank policies, justification for rating*)*:*

Rating: Satisfactory

The Bank performance is rated satisfactory. The project was very consistent with the priorities of the Government as highlighted in the National "Pais Seguro" Program and the CAS, both of which had a strong focus on accelerating broad-based growth, improving equity, and enhancing security and reducing vulnerability. The project was designed following a demand driven approach, building on the successful experience of the first phase of the project, and in coordination with other donors interested in supporting complementary operations in the country. During project preparation, the Bank's project team worked closely with the staff of CNR, on the basis of diagnostics which analyzed the outcomes of the first phase. The overall risk of the project was assessed as modest during project preparation, and a set of mitigating measures were designed. Despite the efforts by the Bank's project and Country Management teams to maintain a continuous and open dialogue with the Government and the Congress to facilitate ratification, due to the political deadlock, the Bank was unable to avoid the cancellation of the project.

4. Assessment of Borrower Performance

(*government and implementing agency performance, compliance with covenants, justification for rating):*

Rating: Unsatisfactory

The Borrower's performance is rated unsatisfactory. Despite the fact that there was a high degree of institutional ownership on the part of CNR, which also contributed to the effort of managing the difficult political process and the dialogue with the new Congress, the Government failed to have the loan ratified by Congress in the eighteen months following Board approval.

5. Lessons Learned

(both project-specific and of wide general application)

In countries such as El Salvador where loans have to be ratified by a qualified (two thirds) majority of Congress, and the Congress is deeply divided, the Bank needs to recognize that loans may not be approved, despite every effort to meet with opposition leaders, explain the purposes of the projects, answer questions, provide information on previous operations, as well as information on the macroeconomic, fiscal and debt situation. The risks of political gridlock and consequent failure to approve external loans were explicitly recognized in the FY05-FY08 CAS. There is a long history of political polarization in El Salvador and ratification and effectiveness of previous loans had been delayed for almost two years under the previous CAS. However, President Saca took office in June 2004 on a platform that emphasized consensus building with the opposition and consultations and outreach to civil society and the private sector. A Presidential Commission was created to promote consensus on critical issues that required national long term commitment and support across party lines. During the first year, this approach to consensus building appeared to be bearing fruit, and the government was successful in gaining support in the Assembly for key initiatives, for example on combating crime and violence.

The FY05-FY08 CAS, which was discussed by the Bank's Board of Executive Directors in early 2005, tried to reduce the risk of substantial delays in loan approval in two ways. For the DPL series, through which the bulk of lending was expected to be channeled, the Government expected that the concurrent submission of the DPLs and the annual budget to the Assembly would give it the leverage needed for prompt loan ratification. For investment loans, the Government's plan to bunch operations early in its tenure was expected to facilitate timely ratification. Therefore, during 2005, the Bank moved quickly to prepare a package of new operations, including a program of Development Policy Loans and selective investment operations for Land Administration (Board approval March 2005), Payment for Environmental Services (June 2005), Social Protection (October 2005) and Secondary Education (November 2005). The first DPL was approved by the Bank's Board in February 2005 and was approved by the National Assembly in August 2005, with the second DPL approved by the Board in December 2005. However, political polarization in the country deteriorated steadily. The new Congress that took office in April 2006 was even more divided and has operated in an atmosphere of deep distrust and confrontation between the different parties causing a paralysis of any reforms or external financing that requires a two-thirds majority. The Bank, the IDB, CABEI and IFAD have all had to cancel their pending loans: in other words the problem is not opposition to a specific project, but a complete breakdown in relations between the two main political parties since March 2006. It is hard to see that this could have been

anticipated by the Bank, and was not foreseen by other lenders in El Salvador either. Intensive efforts to build support for approval of external loans (including loans from the World Bank, IDB and Central American Bank for Economic Integration) were not successful despite the involvement of the LCR Vice President and Director, the President of IDB and senior management of CABEI.

Preparation of new operations planned under the CAS has been put on hold. Bank assistance has been reduced to Regional AAA (e.g. on crime and violence, land administration, energy), selective country capacity building on debt management, financial sector regulation, monitoring and evaluation for CCTs and workshops and conferences to disseminate findings of Bank work on relevant development topics such as remittances, informality, governance and anti-corruption, fiscal policy, etc. In addition, project teams are continuing to supervise implementation of the two projects left in the portfolio. The GEF-financed Protected Areas Consolidation and Administration Project – which had been partially blended with the Land Administration II Project – was approved by Congress on May 11, 2007 and became effective on May 29, 2007. The grant-financed operation only needed a simple majority (50 percent +1 vote) for its approval (unlike loans and credits which require two thirds majority), and hence needed support from only a handful of opposition members. The Bank's representative continues to meet regularly and share information with all the parties in the National Assembly and to work with other partners and stakeholders in trying to promote national dialogue on development issues.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Maria Alejandra Bouquet	Rural Development Specialist	LCSAR	
Malcolm D. Childress	Sr Land Administration Special	LCSAR	
Ann Jeannette Glauber	Environmental Spec.	LCSEN	
George Campos Ledec	Lead Ecologist	LCSEN	
Ketty Morales	Language Program Assistant	LCSAR	
Jorge A. Munoz	Sr Land Administration Special	LCSAR	
Paula Dias Pini	Senior Social Development Spec	LCSUW	
Luis R. Prada Villalobos	Sr Procurement Spec.	LCSPT	
Teresa M. Roncal	Operations Analyst	LCSAR	
Manuel Vargas	Sr Financial Management Specia	LCSFM	
Frederic de Dinechin	Sr Land Administration Special	LCSAR	Team Leader
Fernando Galeana	Junior Professional Associate	LCSAR	
Fabienne Mroczka	Financial Management Analyst	LCSFM	
Maria E. Nikolov	Senior Program Assistant	LCSSD	
Violeta Tan-Kuong	Temporary	WBISP	
Manuel Vargas	Sr Financial Management Specia	LCSFM	
Pilar Gonzalez	Counsel	LEGLA	
Lynn Holstein	Lead Land Administration Spec.	ECSSD	Peer reviewer
Frank Byamugisha	Operation Adviser	AFTDS	Peer reviewer
John Bruce	Sr. Counsel	LEGEN	Peer reviewer
Supervision/NCO			
Frederic de Dinechin	Sr Land Administration Special	LCSAR	
John Kellenberg	Sector Leader	LCSSD	
Anna Corsi	Land Administration Specialist	LCSAR	
Ketty Morales	Language Program Assistant	LCSAR	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY04	3.40	13.99
FY05	25.72	104.54
Total:	29.12	118.53
Supervision/NCO		
FY04		0.00
FY05	9.88	41.65
FY06	15.82	64.53
FY07	4.24	20.06
Total:	29.94	126.24

Annex 2. List of Supporting Documents

1. Project Concept Note
2. Project Appraisal Document
3. GEF Grant Agreement (P092292)
4. Project Information Document
5. Integrated Safeguards Data Sheet.