

INSTITUTIONAL TRANSFORMATION SUPPORT PROGRAM FOR THE INSTITUTO SALVADOREÑO DEL SEGURO SOCIAL

(ES-0134)

EXECUTIVE SUMMARY

Borrower:	The Republic of El Salvador	
Executing agency:	Instituto Salvadoreño del Seguro Social [Salvadoran Social Security Institute] (ISSS)	
Amount and source:	Borrower:	US\$1.6 million
	IDB (OC):	US\$5.8 million
	Total:	US\$7.4 million
Financial terms and conditions:	Amortization period:	15 years
	Disbursement period:	3.5 years
	Grace period:	3.5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% per annum on the undisbursed balance
	Currency:	Single Currency Facility in U.S. dollars
Objectives:	<p>The ultimate aim of the program is to support the process of institutional change at the ISSS so that it can assume gradually its basic function of providing health insurance. The specific objectives of the program are (a) to assist the ISSS with the design, testing, and evaluation of the mechanisms of institutional change that are needed to spur reform of the sector, (b) to lay the groundwork for building a consensus amongst the leading players on the institutional change at the ISSS, and (c) to strengthen the ISSS' strategic capacity to promote organizational learning and to produce and disseminate information in support of its institutional transformation.</p>	
Description:	<p>Under the present program, which is conceptually flexible and will be financed as an innovation loan, the ISSS will build a consensus and reach agreement to facilitate the fundamental changes that are needed for structural reform in the future. This incremental approach is expected to reduce the type of political debate inherent in reforms of this kind and to minimize the risks posed to future operations in the sector.</p>	

Although a consensus does not now exist in Salvadoran society on the best way to reform the social security health system, this program will raise resources to develop public information and social communications strategies that engender fundamental agreement on the institutional changes to the ISSS. In addition, the program will encourage the testing and evaluation of initiatives to prepare the ISSS and promote innovative actions in health services delivery and to expand health insurance coverage to groups in the informal sector. Upon completion of the program, the government will have a menu of policy-based options using the data collected and the lessons learned from the project.

The program will have a system of monitoring, evaluation, and learning to facilitate feedback by the ISSS. Major players in the health sector, including ISSS users and representative sector worker groups, will be involved in the operation of the system and its dissemination. A specialized firm of independent consultants, acceptable to the Bank, will be hired out of the proceeds of the financing to design and operate the system.

Given the program's innovative learning approach, it is essential that the results be appropriated and internalized as rapidly and as fully as possible. This means that an ISSS internal unit (the Planning Unit) with the technical capacity to coordinate the program would be preferable to using a coordinating or executing unit. In view of the foregoing, the executing agency will have a Technical and Administrative Support Unit (TASU), which will finance specialized consulting services. The costs of the TASU will be financed on a declining basis with program resources. In year one of the project, financing will be used to cover 70% of TASU costs, with the proportion falling to 35% from year two until completion of the program. The executing agency will cover the shortfall in TASU operating costs through specific allocations earmarked for this purpose in the local counterpart.

The program has been divided into three components:

Component 1. Preparation of ISSS for performance of health insurance function including (i) support to help prepare the ISSS as an institution for the task of designing, testing, and evaluating management instruments for developing a health insurance function and for improving basic management procedures in support of the strategy for institutional change, (ii) implementation of a pilot project to expand basic health coverage to groups in the informal sector, and (iii) the design of public information and social participation consensus-building strategies.

Component 2. Pilot project for contracting outpatient health services to perform small-scale controlled tests of innovations in the areas of bidding, contract adjudication, payments, and the production of a number of health services not requiring hospitalization.

Component 3. Pilot project for improving hospital management to test improvements in management and mechanisms to decentralize operations, performance budgeting, and outsources of certain support services such as laundry, security, and other similar support or administrative services at the *Roma and Amatepec*.

Relationship of the project to the Bank's country and sector strategy:

The strategy of ISSS transformation is fully consistent to the Bank's policy and its general strategy of support for national development. The Bank's policy seeks to spur economic development, macroeconomic stability, social well-being, and productive use of available resources. The Bank's strategy is intended to achieve its policy objectives by means of the following actions: (i) restoring economic growth, stability, and competitiveness, (ii) targeting poverty reduction and human capital development, and (iii) modernizing the State and increasing the levels of governance. The program entails activities designed to implement the Bank's strategy in an area of high impact for the well being of Salvadorian society. The lessons learned from the program will be useful in preparing a future operation of health sector reform. This program complies with the strategic guidelines fostered by the ISSS Administration and approved by its board of directors under the 2000-2005 five-year plan.

Environmental and social review:

The program is not expected to have any direct impact on the environment. As part of the program, basic hospital regulations have been conceived to permit testing and application of a government biosafety regulations, occupational health, and hospital waste management.

No change in the configuration of the ISSS or its staff size is anticipated under the program. It will foster the testing of joint service modalities, in which services offered by the private sector will be additional to, and supplement, what is now offered by the government.

Benefits:

The program is expected to produce a number of favorable social benefits of a short-term and medium-term perspective. In the short term, the main benefits are political and social to the extent that the program contributes to building a consensus on social security health reform and provides the GOES with a menu of policy options for ISSS institutional change.

In the medium term, if the process of institutional change that the program will promote as a pilot project becomes more widespread, its social impact will be considerable. In particular, initiatives such as improving health services management and broadening basic insurance coverage to include the informal sector will lead to further change down the road in the health sector so that poor and vulnerable groups can be brought into the social security system. In addition, adding reproductive health services to the basic health insurance scheme for the informal sector will serve as basis for further investment in human capital and improving the well being of women in El Salvador.

Risks:

The main risks associated with the program stem from: (a) the possibility that the lessons learned from this program are not incorporated into the future structural change of the sector, and (b) the resistance from organized labor to the new modalities for the delivery of service resulting from the transition to an operating system that features an insurance function. To alleviate these risks, the program has been designed such that during this stage financing will be provided only for controlled small-scale actions. In addition, the program provides for the design and early implementation of a system of monitoring, evaluation, and learning that, combined with public information and social communications strategies, will provide favorable management of the natural conflict that accompanies health sector reform.

Special contractual clauses:

As a condition precedent to submission of the program to the Board of Executive Directors of the Bank, an agreement must have been signed with the ISSS board of directors authorizing its management to enter into a funds transfer agreement with the Ministry of Finance. Conditions precedent to the first disbursement will be: (1) evidence that a funds transfer agreement has been signed between the borrower and the executing agency, and (2) evidence that the Technical and Administrative Support Unit has been set up.

For expenses in connection with preliminary and early start up activities incurred between 1 May 2000, and the date on which this operation is approved, the Bank may recognize up to US\$400,000 as chargeable to the IDB financing and up to US\$500,000 as chargeable to the local counterpart funding, provided that Bank procedures are followed.

Poverty-targeting and social sector classification:

Although this is not a poverty-targeted program the institutional reform to strengthen the ISSS insurance function and expand basic insurance coverage will open the way for institutional reforms that bring the poor and vulnerable into the social security system, and

integrate the ISSS with other players in the health sector, mainly the Ministry of Health.

The program does not promote changes in the configuration or size of the ISSS staff. It will encourage the testing of combined service modalities in which the private sector would provide coverage that supplements and complements the coverage now provided by the public sector.

**Exceptions to
Bank policy:**

None

Procurement:

International competitive bidding will be mandatory for all contracts valued at more than US\$250,000, in the case of goods, and at more than US\$200,000 in the case of services (paragraph 3.14).

In the case of contracts below these thresholds, procurement will be governed by the National Public Sector Procurement Act provided that these regulations do not conflict with the Bank's procurement policies, in which case they will be supplemented by the Bank's procedures.

I. BACKGROUND

A. Rationale for an innovation loan

- 1.1 The Instituto Salvadoreño del Seguro Social [Salvadorian Institute of Social Security] (ISSS) has adopted a strategy of institutional modernization, the general guidelines of which have been incorporated into the institution's five-year development plan for 2000-2005. The plan, which was approved by the ISSS' board of directors, steers the strategy of institutional change towards activities that strengthen its function as a health insurance provider, expand health coverage to workers in the informal sector, and develop alternative systems for generating and managing health services such as decentralizing responsibilities to hospitals in the system.
- 1.2 The government and the ISSS authorities clearly understand that the process of institutional change will need to be carried out in at least two different, consecutive stages. During the initial stage, which is the object of the present program, the ISSS will try to build a consensus on the principles underpinning the proposed reforms and the direction they will take. Also carried out will be fundamental changes that make it possible to interpret regulations, acquire management technologies, train human resources, and develop basic information systems in order to go on to the next stage, in which changes of a systemic or structural nature will be promoted.
- 1.3 Under the present program, which is conceptually flexible and will be financed as an innovation loan, the ISSS will build a consensus and reach agreement to facilitate the fundamental changes that are needed for structural reform in the future. This incremental approach is expected to reduce the type of political debate inherent in reforms of this kind and to minimize the risks posed to future operations in the sector.
- 1.4 Although a consensus does not now exist in Salvadoran society on the best way to reform the social security health system, this program will raise resources to develop public information and social communications strategies that engender fundamental agreement on the institutional changes to the ISSS. In addition, the program will encourage the testing and evaluation of initiatives to prepare the ISSS and promote innovative actions in health services delivery and expansion of health insurance coverage to groups in the informal sector. Upon completion of the program, the government will have a menu of policy-based options using the data collected and the lessons learned from the project.

B. Structural and institutional nature of the sector

- 1.5 Until 1998, the ISSS was the sole agency authorized to operate in the social security sector in El Salvador, administering the two existing plans (health and maternity insurance and disability insurance, old-age pension, and survivors' benefits). With the creation of Pension Fund Administrators, under the 1998 Pension

Administration Act the private sector was permitted to participate in the administration of pension plans. As a result of this move, the ISSS lost most of its pension plan members, and was left with less than one half of the market, a share that was further reduced in 1999.

- 1.6 Since 1998, then, the ISSS has been concentrating its efforts almost exclusively on health care, an area in which the agency has the entire market, since no other institution is authorized by law to participate in the administration of health care.
- 1.7 Established in 1954, the ISSS is one of the oldest social security institutions in Central America, evolving in much the same way as its counterparts in the region, with a focus on the direct delivery of health services in a culture of self-sufficiency. As a result of these developments, the agency has grown considerably, particularly in proportion to the country's size. The ISSS now has an extensive infrastructure of its own, consisting of 10 hospitals, 35 medical units, and 165 health posts. Operating this complex structure is a staff of nearly 11,000 employees who handle all of the procedures involved in the direct delivery of health services and provide the necessary financial and administrative support services and logistics.
- 1.8 The ISSS now has 541,000 contributing members and a beneficiary population of 925,000. The contributing members account for 22% of the economically active population (2.4 million) and, together with the beneficiaries, represent 15% of the country's population.
- 1.9 The ISSS provides general and maternal health care for workers in the formal sector of the economy and the coverage offered is better than that of other social security institutions in the region (member, spouse, and children under six). This coverage and its heavy operating burden affects the institution's capacity to satisfy the needs of the target population. This explains in part why, even through the ISSS is the only social security agency in El Salvador and one of the country's main suppliers of health services, it is unable to meet the needs of its natural market or to extend its benefits to nontraditional sectors of the economically active population.
- 1.10 The ISSS will need to overcome a number of obstacles in order to achieve these social objectives. First, there are legal problems occasioned by regulations which, if interpreted literally, would remove the institution's flexibility in offering care for population groups outside its traditional constituency (the informal sector for instance) or in covering the health needs of the very poor in ways other than those prescribed by law (see paragraph 1.25).
- 1.11 Second, there are political barriers that impede the use of delivery systems not involving direct delivery by the ISSS itself based on the assumption that such plans are instruments of privatization.

- 1.12 There are financial barriers, too. Although the ISSS's financial situation is far from critical, it does have management problems that generate high opportunity costs (excessive working capital invested in inventory, poor financial management of liquidity, etc.) which absorb resources that could otherwise be used for expanding coverage and/or improving the quality of service.
- 1.13 Lastly, there are institutional and organizational problems that cannot be ignored. The institutional difficulties have to do with an ingrained culture of a service-oriented care model with a strong medical presence that emphasizes hospital care. It does not have an economic approach that regulates and rationalizes decision-making. The organizational problems stem from an organizational structure, consistent with the self-sufficiency concept, that is highly centralized in terms of decision-making, more concerned with cost control than results, and based on operational specialization rather than integrated process management.
- 1.14 These difficulties notwithstanding, it is safe to say that there is no structural problem that cannot be overcome within a reasonable timeframe. The legal barriers have to do with regulation and can be surmounted if the law is broadened and there exists the political will to do so. In fact, the ISSS has already developed actions to deal with these problems such as a mechanism to protect against the constraints placed on its normal operations by internal conflict within the organization.
- 1.15 The situation is similar for its other constraints. Political and institutional problems can be overcome through a strategy of social (internal and external) communications to dispel myths and correct misinformation amongst officials and users. The financial constraints are much narrower in scope than those of the institution's counterparts in the region that have already embarked on the process of change. The organizational constraints do not pose an insurmountable problem either since they can be overcome by means of a strategy of planned change. Although these constraints cannot be fully removed in the short run, significant headway can be achieved with each one in a relatively short time if the process is introduced gradually without the use of extreme measures that are likely to spark conflict.

C. Relationship of the program to the Bank's strategy for the country

- 1.16 El Salvador has been moving forward with the modernization of the public sector since 1991. In 1999, the government issued "General Regulations for Modernization of the Executive Branch". The basic guidelines include identifying the (legal, organizational, and procedural) reforms and institutional strengthening actions that are needed to make entities in the public sector more efficient.
- 1.17 The strategy of ISSS transformation is fully consistent with the Bank's policy and its general strategy of support for national development. The Bank's policy seeks to spur economic development, macroeconomic stability, social well-being, and

productive use of available resources. The Bank's strategy is intended to achieve its policy objectives by means of the following actions: (i) restoring economic growth, stability, and competitiveness, (ii) targeting poverty reduction and human capital development, and (iii) modernizing the State and increasing the levels of governance.¹

- 1.18 The Bank is supporting the modernization of the Ministry of Public Education and Social Assistance under an operation that is to commence shortly and to promote decisive institutional changes. The ISSS and the Ministry have been coordinating their efforts, with the Bank's help, in anticipation of a program of joint reform to be promoted by the government. Also, the Bank is coordinating its assistance for the ISSS with USAID so that some of the basic designs that were funded by the latter can be tested under the present program.

D. Innovative and learning aspects of the program

- 1.19 The program will promote technical innovation in the design, testing, and evaluation of the fundamental institutional changes that the ISSS needs so that, without losing its position of importance in the sector, it can shift from its present function as a health services provider to a more effective and efficient operation as a health insurer. The program will also provide financing for innovation in public information and social communications with a view to promoting the consensus on deeper institutional change in the social security health sector.
- 1.20 The program will take 30 months to complete and will have a system of monitoring, evaluation, and learning to facilitate feedback by the ISSS. Major players in the health sector, including ISSS users and representative sector worker groups, will be involved in the operation of the system and its dissemination.
- 1.21 The mechanism and modality for program execution will have additional innovative and learning features. To ensure that the results can be collected and internalized as rapidly and as fully as possible, an ISSS internal unit (Planning Unit) rather than an external Coordinating or Executing Unit, will be in charge of coordinating general execution of the program, with the help of a Technical and Administrative Support Unit (TASU). As the program is implemented, the operating plans will be monitored on the basis of the semiannual technical reviews to be performed by the project team (SO2 and COF/CES) with the backing of a specialized firm.
- 1.22 Upon completion of the program, the executing agency will have acquired the experience, collected data, and learned lessons with which to formulate and assess the policy options that may be implemented, in conjunction with other Bank-financed programs as part of a program of structural change for the health sector.

¹ Inter-American Development Bank. El Salvador: country paper. Washington, D.C., April 2000.

E. Key institutional considerations

- 1.23 The main challenges facing the ISSS spring from traditional shortcomings that have characterized its insurance function vis-à-vis the relatively larger burden as direct provider of health services.
- 1.24 The main institutional problems confronting the agency include: (i) limited institutional flexibility to act on its target market through the use of nontraditional service delivery arrangements, (ii) constraints on execution capacity resulting from excessively centralized decision-making, (iii) inadequate system of incentives and organizational structure ill-suited to moving ahead with the basic processes with which it has been charged in the context of performance-based responsibility, (iv) absence or insufficient development of management mechanisms to permit efficient allocation of resources and performance control, (v) absence of a system of incentives in ISSS service provider organizations that promote efficiency and quality services, (vi) limitations of the insurance model in its capacity to cover the informal sector, and (vii) shortcomings in the agency's capacity to effectively communicate and report on policies and programs of change.
- 1.25 The institution's lack of flexibility is attributable to an excessively rigid interpretation of the law. It may therefore be concluded that the ISSS is unable to cover the health risks of low-income groups unless such coverage is provided on the same conditions as set out in the general regulations (for instance, amount of the premium, and determination of benefits). Thus a vicious circle is created in which the very poor do not have access to the health system since they lack the resources to pay for regular premiums. The Institute is also unable to reach this segment of the population because if it is underfunded it will be unable to deliver the health services specified by law and its financial situation would rapidly deteriorate. As a result, the very poor have no coverage at all and lack any care for even the most common ailments, which account for most health problems.
- 1.26 The ISSS's organizational structure has been configured over many years in response to the gradual expansion of the physical and human infrastructure associated with an economically inefficient direct service delivery model. The need for cost control has meant that decision-making is concentrated at the central level to minimize the possibility of duplication and repetition in the services network. The growth in operating expenses has brought about a similar process of concentration, attributable in this case to the possibility of achieving economies of scale but in a context without criteria that prevents rationalization because of a lack of information on costs and comparators.
- 1.27 This situation made the service providers (a powerful cost factor) concentrate on operational management, leaving responsibility for performance on the shoulders of the central government. A phenomenon known as "delegating upstairs" arises in which the authorities are eventually overwhelmed by the process, and any

possibility of assuming the strategic and global control functions is ruled out. Service providers, however, lack a budgetary plan that links the financial and programming areas, that encourages identification of targets and permits performance appraisal.

- 1.28 Accordingly, there is no accountability for results. Management is limited to performing activities without a framework of incentives that would reward outstanding performance and punish poor performance, thus indicating a clear path for the process of ongoing improvement.
- 1.29 It can be concluded therefore that important areas for developing and strengthening ISSS insurance capacity and ultimately supporting a process of reform are: (a) health services monitoring and hiring, (b) actuarial services, and (c) finance. These three areas must be coordinated with the Health Division and the Planning Unit in order to commence and sustain the process of ISSS institutional change.
- 1.30 All ISSS hiring has until now been carried out by the Supply Division. Although this division has considerable expertise in procurement, the contracting and monitoring of health services calls for new and highly specialized management, negotiation, and information mechanisms. That is why it is felt that a working group must be set up for the sole purpose of developing a health services contracting and monitoring function attached to ISSS Headquarters.
- 1.31 There is an actuarial and statistical services department that is responsible for compiling statistics. Although the ISSS has a relatively advanced data collection system the information is used almost exclusively to compile descriptive statistics. The development of an insurance function assumes capacity to use analytical statistics for projections, parameterization, and generation of decision-making criteria. Consequently, the area needs to be reinforced so that its strategy can be redirected to the task of producing information for analysis.
- 1.32 The finance department is also in need of consolidation in order to attain two basic objectives: to optimize the use of resources by rationalizing working capital and achieving more effective liquidity management, and to produce information on costs. Although neither of these objectives is attainable in the short term, significant progress can be made through preliminary strengthening of human and technological resources, which would set the stage for fully achieving the objectives in the medium term.
- 1.33 Lastly, a new strategic approach is needed for the communications department so that it can fully assume the actions of social communications pursued under the program, and be formally established as an ongoing, noneconomic activity.

F. Social and environmental considerations

- 1.34 Although this program is not targeted to poverty reduction, the strengthening of the ISSS insurance function as well as pilot projects to expand coverage will provide an institutional framework for triggering reforms that bring poor and vulnerable groups into the social security system and integrate the ISSS with other actors in the health sector, primarily the Ministry of Health.
- 1.35 The program is not expected to have any direct impact on the environment. As part of the program, basic hospital regulations have been conceived to permit testing and application of government biosafety regulations, occupational health, and hospital waste management.
- 1.36 No change in the configuration of the ISSS or its staff size is anticipated under the program. It will foster the testing of joint service modalities, in which services offered by the private sector will be additional to, and supplement, what is now offered by the government.

II. DESCRIPTION OF THE PROGRAM

A. Objectives of the program

- 2.1 The ultimate aim of the program is to support the process of institutional change at the ISSS so that it can gradually assume its basic function of providing health insurance. The specific objectives of the program are (a) to assist the ISSS with the design, testing, and evaluation of the mechanisms of institutional change that are needed to spur reform of the sector, (b) to lay the groundwork for building a consensus amongst the leading players on the institutional change at the ISSS, and (c) to strengthen the ISSS' strategic capacity to promote organizational learning and to produce and disseminate information in support of its institutional transformation.

B. Components of the program

- 2.2 The program will be carried out in parallel with a nonreimbursable operation chargeable to the Multilateral Investment Fund that will make microenterprises and small and medium-sized businesses in the Salvadoran health sector more competitive by supplying nonfinancial training services and technical assistance.
- 2.3 This program has been divided into three components, as described below. Table 2.1 shows the relationship between the problems identified, the proposed strategy, the program components, and the performance indicators.

Table 2.1

Problems	Global strategy	Indicators of success
<ul style="list-style-type: none"> (i) Constraints on operating capacity linked to excessive centralization in decision-making; (ii) Inadequate system of incentives and dysfunctional organizational structure to move forward with basic procedures that are the responsibility of the entity under the performance accountability framework; (iii) Absence or insufficient development of management instruments for efficient allocation of resources and monitoring of results. 	Institutional development of health insurance function.	<ul style="list-style-type: none"> • Regulations governing procurement of goods and services, budgeting by targets, hospital management: prepared, amended, adjusted, and implemented 12 months after commencement of the project. • Health care services hiring manual developed and implemented at the end of year one of the project. • The percentage of internal and external contracts that satisfy all standards contained in the manual stands at Y% upon completion. • The ISSS has estimates of unit costs for those procedures accounting for 50% of hospital releases based on 4 pilot hospitals, upon completion. • ISSS organizational structure adjusted to develop insurance function by the end of year one. • Monitoring and evaluation system functioning by the end of year one. • Plan to formally establish ISSS monitoring and evaluation system approved by board of directors upon completion of project.
(i) Constraints on insurance model for coverage of informal economy.	Expansion of coverage in the delivery of health services to groups in informal sector.	<ul style="list-style-type: none"> • Model for expanding insurance coverage approved by board of directors upon completion of project.
<ul style="list-style-type: none"> (i) Little institutional flexibility for acting on target market through nontraditional plans for service delivery; (ii) ISSS service provider organizations lack a package of incentives to promote an efficient product and quality services. 	Gradual and controlled transition from a modality of vertical integration to one of separation of financing and health services production functions.	<ul style="list-style-type: none"> • An operating manual for outsourcing of hospital outpatient services tested and adjusted upon completion of the project. • 10 contracts entered into with external providers meet all of the standards contained in the pilot operating manual upon program completion.
		<ul style="list-style-type: none"> • The ISSS has estimates of unit costs by type of service outsourced upon completion. • 80% (weighted) of targets of each management agreement satisfactorily attained by the 2 hospitals by end of year one of pilot project (30/06/02). • By end of year one of pilot project, ISSS has fulfilled all of the commitments contained in the 2 management agreements. • The pilot hospitals are ordering 50% of budget not corresponding to personnel services upon completion.
(i) Shortcomings in entity's capacity to effectively communicate and provide information on its policies and exchange programs.	Development of consensus strategies.	<ul style="list-style-type: none"> • A public information and social communications program will be designed and implemented at the end of year one. • A cooperation agreement with the Ministry of Education will be signed with the ISSS in order to incorporate social security into basic education study programs upon completion of the program.

1. Component 1. Preparation of ISSS for performance of health insurance function (US\$2.4 million)

- 2.4 The purpose of this component is to lay the foundations for institutional change that strengthens the ISSS in its function as a health insurance provider. To accomplish this objective, funding will be provided for studies, technical assistance, and training (i) to help prepare the ISSS as an institution for the task of designing, testing, and evaluating management instruments for developing a health insurance function and for improving basic management procedures in support of the strategy for institutional change, (ii) to carry out a pilot project to expand basic health coverage to groups in the informal sector, and (iii) to design public information and social participation consensus-building strategies.
- 2.5 **Institutional preparedness of the ISSS.** Funding will be provided to hire services to develop and implement management technologies and mechanisms to assist with the design and organizational development of the ISSS insurance function and initial adjustments to its present operational structure.
- 2.6 Given its present operating structure, it is considered important that organizational initiatives be carried out immediately in certain areas to speed along the process of strengthening the insurance function. These areas are contracting and health services monitoring, actuarial advisory services, financial management, and communications.
- 2.7 The program will make use of the entity's present organizational structure, without introducing structural changes, in order to create ad hoc working groups for the development of these areas. A similar approach will be put in place in the organizational units receiving services from these centralized areas such as the Health Division and the Planning Unit. Being of an operational nature and implemented through working groups, these activities will increase flexibility in the pilot projects and the learning process.
- 2.8 The program will provide funding for services to develop and adjust management and information system mechanisms in order to bring about the institutional changes that are needed to develop the insurance function. Under the program, funding will be provided for developing and testing internal regulations for procurement of goods and health services, decentralized hospital management, and performance budgeting. Health services procurement manual will be developed, validated, and evaluated, and studies will be funded to examine the legal, political, financial, actuarial, and institutional feasibility of the proposed social security reforms now under discussion in El Salvador.
- 2.9 **Pilot project to expand basic health insurance coverage for the informal sector in urban and rural areas.** Two pilot programs will be funded, one in the

metropolitan San Salvador area and the other in a rural area to be determined. The rural pilot project will encourage agricultural workers to become affiliated.

- 2.10 The component will finance services to assist with the design, costing, adjustment, and evaluation of basic insurance arrangements founded on a health benefits package supplied under agreements with public and/or private operators. The insurance model will encourage the sources of financing to come together in groups, the ISSS, the Ministry of Health, and other institutional players to coordinate their efforts, and incorporate reproductive health activities into the benefits package.
- 2.11 The insurance model or models put together under the program will be analyzed from a financial, economic, and legal standpoint to determine whether they are viable and may subsequently be replicated on a sustainable basis.
- 2.12 **Design and testing of public information and social participation consensus-building strategies.** Specifically, the program will provide financing for the hiring of services to develop a pilot social security learning project in primary schools based on an agreement between the ISSS and the Ministry of Education. Financing will also be provided for services for the design of a public information strategy and a training and learning program to boost participation and information on the part of key players in the process of social security reform in El Salvador.
- 2.13 **System of monitoring, evaluation, and learning.** Under the program, funding will be provided to hire a specialized firm to assist the ISSS gather, analyze, and disseminate information in order to monitor the progress, outcomes, and impact of the program. The firm will help the ISSS lay the foundations for formally establishing within itself the organizational capacity for monitoring, evaluation, and learning. The draft terms of reference for the hiring of this firm are found in the technical annexes of the program.
- 2.14 The main players in the social security sector, including ISSS users and representative worker groups, will have a hand in operating and disseminating information on the monitoring, evaluation, and learning from the program.

2. Component 2. Pilot project for contracting outpatient health services (US\$1.1 million)

- 2.15 This purpose of this component is to perform small-scale controlled tests of innovations in the supply and delivery of health services not requiring inpatient care or hospitalization. The innovations will be concentrated in such areas as bidding, contracting, payments, and monitoring of quality and costs for up to 10 outsourcing contracts. The services eligible for support under the program include doctors' and specialists' visits, laboratory, clinical, and pharmacy services, and x-ray and imaging services.

- 2.16 Under this component, financing will be provided for technical assistance services, training, and learning, as well as investment in basic information technology equipment. The purpose of these program activities is to design, implement, and evaluate: (i) an appraisal and adjustment of ISSS experiences with outsourcing of outpatient services, particularly community clinic arrangements; (ii) an external outpatient services management training and learning program; (iii) the design and costing of outpatient services based on a health benefits package that will include reproductive health care; (iv) technical assistance for the design and evaluation of payment and contracting mechanisms between the ISSS and external providers; (v) the development of modern systems and applications and for monitoring costs and outcomes of contracting outpatient health services; and (vi) the preparation and validation of a outpatient health services outsourcing manual. Funding will be provided for investment in information technology infrastructure to support the implementation of the applications developed.
- 2.17 It is expected that a specialized firm will be hired to assist the ISSS with this pilot project.

3. Component 3. Pilot project for improving hospital management (US\$2.4 million)

- 2.18 The purpose of this component is to help the ISSS implement and evaluate a program to boost the productivity and quality of hospital services by means of a pilot program for decentralization of hospital management at the *Roma and Amatepec* hospitals which were recently built and outfitted by the ISSS but which are not yet in service.
- 2.19 The pilot program will finance technical assistance, learning and training activities, and investment in basic information technology.
- 2.20 The program activities are intended to design, implement, and evaluate a decentralized hospital administration and management model to promote the gradual decentralization of ISSS programming and budgetary responsibilities and duties to the two pilot hospitals. The program will make use of management agreements to regulate the relationship between ISSS headquarters and beneficiary hospitals and will finance the development of modern hospital management applications and systems and assistance for outsourcing of hospital services such as laundry, security, and other similar support services.
- 2.21 It is expected that a specialized firm will be hired to assist the two hospitals carry out the pilot project. Amongst the tasks entrusted to this firm will be the design, operation, and formal establishment of a hospital performance monitoring system, that will gauge such factors as (i) standard hospital performance indicators²;

² Hernández, N., Consultanting report. Inter-American Development Bank. Washington, D.C., May 30, 2000.

(ii) timely fulfillment of targets contained in management agreements by the ISSS at its central level and by the hospitals (for instance, quality, procedural, and financial performance targets); and (iii) the timetable and scale of ISSS budgetary decentralization to the hospitals.

- 2.22 Although the monitoring subsystem for this component will feed the program monitoring, evaluation, and learning system, the Bank's nonobjection will be required for both the performance targets and the component monitoring indicators.

C. Program costs

- 2.23 The total cost of the program has been put at US\$7.4 million, broken down as follows: (i) US\$5.8 million from the Bank's Ordinary Capital, and (ii) US\$1.6 million in counterpart funding to be provided by the Salvadorian government through budgetary appropriations to the ISSS. Presented in Table 2.2 are the program costs.

Table 2.2 Costs by component and item (in US\$000s)

Item	IDB	GOES	Total	%
1. Component 1: Preparation of ISSS to carry out insurance function	1,968	481	2,449	32%
1.1 ISSS institutional preparedness and feasibility studies	441	99	540	
1.2 Baseline studies for design and execution of expanded coverage pilot projects	136	34	170	
1.3 Implementation of expanded coverage pilot projects	232	58	290	
1.4 Design and operation of health services hiring and monitoring unit	243	61	304	
1.5 Design and implementation of a learning pilot project for social security	252	63	315	
1.6 Design of information strategy for ISSS users	78	20	98	
1.7 Design and implementation of strategy for strengthening ISSS social participation	586	146	732	
2. Component 2: Pilot project for innovation in hospital outpatient health services management	920	231	1,151	16%
2.1 Adjustment to hospital outpatient services outsourcing model	243	61	304	
2.2 Design of plan for outsourcing of hospital outpatient services	38	10	48	
2.3 Outfitting with basic information technology for implementation of pilot project	240	60	300	
2.4 Implementation of outpatient centers pilot project	399	100	499	
3. Component 3: Pilot project to improve hospital management	1,933	496	2,429	34%
3.1 Adjustment of ISSS decentralized hospital management model	252	63	315	
3.2 Design of pilot plan for modernization of hospital management	74	19	93	
3.3 Outfitting with basic information technology equipment for pilot project	246	74	320	
3.4 Implementation of pilot project in 2 ISSS hospitals	1,361	340	1,701	
4. Design and operation of monitoring, evaluation, and learning system	512	128	640	9%
4.1 Technical assistance for preparation of contracting system	18	4	22	
4.2 Design and operation of system	430	108	538	
4.3 Final evaluation report of the program and proposed establishment of institution	64	16	80	
5. Administration	409	240	649	9%
5.1 Program administrative costs	301	240	541	
5.2 Financial audits	108	0	108	
6. Financial expenses	58	27	85	1%
6.1 Credit fee	0	27	27	
6.2 Inspection and supervision	58	0	58	
TOTAL	5,800	1,603	7,403	
% by source	78%	22%		

III. EXECUTION OF THE PROGRAM

A. Strategy

- 3.1 The borrower will be the Government of El Salvador and the executing agency will be Instituto Salvadoreño de Seguro Social (ISSS), which will enter into a funds transfer agreement with the borrower. The agency's line departments will be responsible for program execution, under the general coordination of the Planning Unit.
- 3.2 There are comparative advantages to having the Planning Unit coordinate program execution. It is an institutionally strong unit, with a qualified staff; it is familiar with Institute's development over time, has an awareness of the need for the changes proposed, and has authority over general management. Moreover, its understanding of the issues meshes well with aspects of economic culture, with the result that its approach to managing change gives priority to programming as a function of health needs within a sound framework of financial balance.
- 3.3 Given the program's innovative learning approach, it is essential that the results be appropriated and internalized as rapidly and as fully as possible. This means that an internal unit with the technical capacity to coordinate the program would be preferable to using a coordinating or executing unit.
- 3.4 Clearly, the Planning Unit is unable to assume fully the burden of coordinating program execution and fulfilling the reporting and operations requirements contained in the loan contract. So, it is essential that the Division be reinforced with more qualified staff and technology needed to meet the contractual commitments. In view of the foregoing, the Planning Unit will have a Technical and Administrative Support Unit (TASU), which will assist with the hiring of specialized services. The costs of the TASU will be funded on a declining basis with program resources. In year one of the program, financing will be used to cover 70% of TASU costs, with the proportion falling to 35% from year two until completion of the project. The executing agency will cover the shortfall in TASU operating costs through specific allocations earmarked for this purpose in the local counterpart.
- 3.5 The TASU will have a technical and an administrative support group. The technical group will in turn be divided into two units, one responsible for the loan program and the other for the program to support the contracting of private health services, which will be financed with technical-cooperation funding from the MIF. The ISSS Planning Chief will head the General Coordinating Unit. The ISSS Institutional Supply Unit will handle procurement for the program.
- 3.6 The TASU will have at least one General Coordinator, one Technical Coordinator, one Financial-Administrative Coordinator, one professional specialist, and other

administrative and support personnel to assist with the program. The Bank's nonobjection will be required for the terms of reference, the staff profiles, and the process of hiring TASU consultants. The regulations governing the membership and functioning of the TASU will include the Operating Regulations, which the borrower must present, to the Bank's satisfaction, through the executing agency within two months after the effective date of the loan contract.

- 3.7 The program resources will be deposited in a special bank account opened for this operation. The ISSS will be the agent authorized to disburse funds from this account, and will be responsible for keeping financial records and accounts to ensure proper financial administration of the program, and for submitting requests for disbursements, reports, and financial statements, as required by the Bank.
- 3.8 The program will be carried out in accordance with the annual operating plans, semiannual technical reviews, and a system of concurrent monitoring, evaluation, and learning. The selected design includes a flexible mechanism incorporating the following elements: (i) annual operating plans which will be adjusted on the basis of semiannual operating plans to be carried out by the Bank, and (ii) ongoing monitoring of the progress of the program and its indicators. A specialized firm of consultants will be hired to design and operate the program monitoring, evaluation, and learning system. Attached as an annex are the indicative terms of reference for this firm.
- 3.9 Given the nature of the program, the project team expects that the Bank will have to train the executing agency and assist it with the management of the logical framework, project management, monitoring and evaluation, and procurement and disbursements. In addition, the Bank's Country Office in El Salvador and the project team feel that given the technical requirements of the program additional staff will be needed for the Country Office.

B. Monitoring and evaluation

- 3.10 The Bank will monitor the program through the Country Office in El Salvador. The SO2 project team and the Country Office will conduct technical reviews every six months, to determine (i) the degree to which the activities and indicators agreed on in the program operating plan have been accomplished for the period just ended, (ii) the mechanisms for dissemination of information and learning in place, and (iii) the mechanisms for execution and coordination. Based on the findings of these reviews, the Bank may (a) request adjustments to the operating plan, including changes in program activities, (b) cancel components, and (c) increase the scale of the pilot projects or suspend them.
- 3.11 The progress of the plan of operations will be monitored semiannually on the basis of the project performance review (PPR) prepared for this operation. When 50% of the proceeds of the loan have been disbursed or fifteen months after the effective

date of the contract, the Bank will perform a mid-term review based on the PPR, to deepen the analysis of the semiannual technical reviews. A final report evaluating the program will be submitted upon completion of the program but prior to the final disbursement.

- 3.12 In replicating or extending the pilot programs through other Bank programs, consideration will be given to the lessons learned from the program monitoring, evaluation, and learning system as well as the findings of the final performance report.

C. Procedures for procurement of goods and services

- 3.13 International competitive bidding will be mandatory for all contracts valued at more than US\$250,000, in the case of goods, and at more than US\$200,000 in the case of services.
- 3.14 In the case of contracts below these thresholds, procurement will be governed by the National Public Sector Procurement Act provided that these regulations do not conflict with the Bank's procurement policies, in which case they will be supplemented by the Bank's procedures. The procurement schedule is attached as Annex II.

D. Disbursement schedule

- 3.15 A tentative disbursement schedule for the program is given in the table below.

Table 3.1 Disbursements (in US\$000s)

Source	Year 1	Year 2	Year 3	Total
IDB	2,045	2,017	1,738	5,800
Local counterpart	502	591	510	1,603
Total	2,547	2,608	2,248	7,403
%	34%	35%	31%	

E. Audits

- 3.16 The ISSS will submit to the Bank, within 120 days after the close of each fiscal year, the annual financial statements of the program and the executing agency, audited by a firm of independent auditors, acceptable to the Bank. The cost of the audit will be funded from the proceeds of the Bank financing.

F. Revolving Fund

- 3.17 In view of the activities envisaged and the pace of implementation planned for year one of the program, it is recommended that a revolving fund of up to the equivalent of 5% of the IDB financing, or US\$324,000, be established

G. Recognition of expenses

- 3.18 For expenses in connection with preliminary and early start-up activities incurred between 1 May 2000, and the date on which this operation is approved, the Bank may recognize up to US\$400,000 as chargeable to the IDB financing and up to US\$500,000 as chargeable to the local counterpart funding, provided that Bank procedures are followed.

H. Contractual conditions

- 3.19 As a condition precedent to submission of the program to the Bank's Board of Executive Directors, an agreement must have been entered into with the ISSS' board of directors authorizing its management to enter into a funds transfer agreement with the Ministry of Finance. Conditions precedent to the first disbursement will be: (1) evidence that a funds transfer agreement has been signed between the borrower and the executing agency, and (2) evidence that the Technical and Administrative Support Unit has been set up.

IV. RISKS AND BENEFITS

A. Benefits

- 4.1 The program is expected to produce a number of favorable social benefits of a short-term and medium-term perspective. In the short term, the main benefits are political and social to the extent that the program contributes to building a consensus on social security health reform and provides the GOES with a menu of policy options for ISSS institutional change.
- 4.2 In the medium term, if the process of institutional change that the program will promote as a pilot project becomes more widespread, its social impact will be considerable. In particular, initiatives such as improving health services management and broadening basic insurance coverage to include the informal sector will lead to further change down the road in the health sector so that low-income and vulnerable groups can be brought into the social security system. In addition, adding reproductive health services to the basic health insurance scheme for the informal sector will serve as basis for further investment in human capital and improving the well being of women in El Salvador.
- 4.3 The program will help to produce hospital regulations that include measures on biosafety and hospital waste management as well as worker health and safety actions for ISSS hospitals.
- 4.4 Although this is not a poverty-targeted program, the institutional reform to strengthen the ISSS insurance function and expand basic insurance coverage will open the way for institutional reforms that bring the poor and vulnerable into the social security system, and integrate the ISSS with other players in the health sector, mainly the Ministry of Health.
- 4.5 The program does not foster changes in the configuration of the ISSS or size of its staff. It will promote the testing of joint service arrangements in which services offered by the private sector will be additional to, and supplement, what is now offered by the government.

B. Risks

- 4.6 The main risks associated with the program stem from: (a) the possibility that the lessons learned from this program are not incorporated into the future structural change of the sector, and (b) the resistance from organized labor to the new modalities for the delivery of service resulting from the transition to an operating system that features an insurance function. To alleviate these risks, the program has been designed such that during this stage financing will be provided only for controlled small-scale actions. In addition, the program provides for the design and

early implementation of a system of monitoring, evaluation, and learning that, combined with public information and social communications strategies, will provide favorable management of the natural conflict that accompanies health sector reform.

- 4.7 No changes in the formal structure of the ISSS are anticipated under the program. The process of preparedness that it will support is based on the use of ad hoc working groups operating in key areas at the entity's headquarters. This approach is consistent with the "gradualist" strategy adopted by the Institute and will minimize any potential conflict arising from formal changes affecting the present hierarchical structure.
- 4.8 While the project was being prepared, the Bank commissioned a technical cooperation project, with funding from the Norwegian Fund for Innovation in Social Programs, to establish a basis for achieving social consensus on the process of health sector reform in El Salvador. Although a sector approach was used for the project, some important recommendations on preparation of the present program were made during its initial implementation. In addition, the program has benefited from design studies carried out by USAID as part of its program in support of health sector reform in El Salvador.

LOGICAL FRAMEWORK

Description	Performance indicators	Means of verification	Important assumptions
Prepare the ISSS gradually health insurance coverage in ry			Sustainability
GOES decides to embark on reform of a sector based on experiences ns learned from program	1.1 System of procurement and monitoring of health services formally established upon completion of program 1.2 Basic insurance expanded coverage model evaluated upon completion of program 1.3 Outpatient health services outsourcing model evaluated and functioning upon completion of program 1.4 Hospital performance budgeting system evaluated and functioning upon completion of program	1.1.1 Final project performance evaluation 1.2.1 Final project execution report	Purpose to aim a. Expanded coverage model macroeconomic terms b. GOES introduces reforms legal system and/or the leg framework of the social se system is reformed
s			Components to purpose
GOES decided to perform its health function	1.1 Procedures for procurement of goods, procurement of services, budgeting by targets, and hospital management prepared, modified, adjusted, and implemented 12 months into the project 1.2 Manual for procurement of health care services developed and implemented by the end of year one of the project	1.1.1 Project monitoring report 1.2.1 Midterm evaluation report	a. GOES decides to formally the pilot programs to be ca under the present program b. ISSS beneficiaries and aff well as groups representing workers agree on initiating of health sector reform

Description	Performance indicators	Means of verification	Important assumptions
Project for innovation in outpatient services management being implemented	1.3 The percentage of internal and external contracts that meet standards set out in manual at X% upon completion of program	1.3.1 Semiannual project technical review mission reports	
	1.4 The ISSS has estimates of unit costs for those procedures accounting for 70% of hospital discharges, based on 2 hospitals, upon completion	1.4.1 Progress reports by firm responsible for project monitoring and evaluation	
	1.5 Organizational structure of the ISSS adjusted to develop its function as insurer by the end of year one of program		
	1.6 Expanded insurance coverage model approved by board of directors by the end of year one		
	1.7 Monitoring and evaluation system functioning by end of year one		
	1.8 Plan for institutionalization of monitoring and evaluation system approved by board of directors upon completion		
	2.1 Operating manual for outsourcing of outpatient services tested and adjusted upon completion	2.1.1 Project monitoring report	
	2.2 Ten contracts executed by external suppliers satisfy all of the standards set out in the pilot project operating manual upon completion	2.2.1 Semiannual reports by firm responsible for project monitoring and evaluation	
	2.3 ISSS has unit cost estimates by type of service outsourced upon completion	2.3.1 Semiannual project technical review mission reports	

Description	Performance indicators	Means of verification	Important assumptions
management improvement ect implemented	3.1 80% (weighted) of targets set in each performance agreement satisfactorily fulfilled by the 2 hospitals by the end of year one of pilot project (06/30/02) 3.2 By the end of year one of pilot project, ISSS has fulfilled all of the conditions established in the 2 performance agreements	3.1.1 Periodic reports by hospital management support firm 3.2.1 Midterm evaluation report 3.2.2 Project monitoring report	
	Budget		Activities to components
organizational structure and res, including regulations baseline studies for design ution of two expanded e pilot projects, one for rural communities and the other ommunities implementation of expanded insurance coverage pilot for informal sector in urban l areas and support operation of ad ps in 3 areas: a) health procurement and monitoring, rial services; and c) financial and support for entation of pilot social education project		1.1.1 Project semiannual progress reports 1.2.1 Project technical review mission reports 1.3.1 Reports by firm in charge of project monitoring and evaluation	a. The project objectives and are fully consistent with the for modernization approved ISSS board of directors and conceived as a mechanism implementation of the strategy b. There are more than 3 local capabilities in economics and macro and micro projections services, and health service management (activities 1.3.1) c. MINEDUC signs agreement as scheduled (activities 1.3.2) d. Education on social security effectively incorporated in curriculums starting in early

Description	Performance indicators	Means of verification	Important assumptions
<p>Information strategy for users</p> <p>and support implementation of strategy to boost public participation and security</p> <p>and operate ISSS monitoring, evaluation, and learning system</p> <p>hospital outpatient services financing model</p> <p>a plan for implementing outpatient services financing model</p> <p>procurement in support of pilot project</p> <p>decentralized hospital management model for ISSS</p> <p>hospital management organization plan for 2 hospitals</p> <p>incentives and outsourcing model and administrative support</p> <p>procurement plan in pilot project</p> <p>pilot project</p>		<p>2.1.1 Semiannual project progress reports</p> <p>2.2.1 Semiannual project mission monitoring reports</p> <p>3.1.1 Semiannual project progress reports</p> <p>3.2.1 Semiannual technical review mission reports</p>	<p>e. ISSS implements public education campaign for users (activities)</p> <p>f. Firms submitting bids have developed organizational capabilities through the MIP and provide services under a competitive bidding procurement system</p> <p>g. Hospital personnel support outsourcing and outsourcing models</p> <p>h. ISSS beneficiaries and affiliates, as well as organized groups of workers agree on initial process of health sector reform</p>

PROCUREMENT PLAN FOR PROGRAM

Components/Activities	Financing (US\$ thousands)			Procurement Method	Precal.	
	IDB	Local	Total			
Strengthening ISSS capacity as an insurer						
Assessment of preparedness of ISSS and feasibility studies (consultants)	441	99	540	ICB	Yes	
Feasibility studies for design and execution of expanded coverage pilot projects (consultants)	136	34	170	PS/LCB	No	
Design and implementation of expanded coverage pilot projects (consultants)	232	58	290	LCB	No	
Organization and monitoring of health care services (consultants)	243	61	304	PS/LCB	No	
Design and implementation of social security education pilot project (consultants)	252	63	315	PS/LCB	No	
Design of information strategy for ISSS users (consultants)	78	20	98	LCB	No	
Design and implementation of strategy to boost public participation (consultants)	586	146	732	PS/LCB	No	
Support for innovation in Outpatient Management Services						
Design of model and plan for outsourcing of hospital outpatient services (consultants)	243	61	304	PS/LCB	No	
Implement and execute pilot projects (consultants)	437	109	546	ICB	Yes	
Technical strengthening for ISSS for pilot projects (procurement)	240	60	300	PS/LCB	No	
Management Improvement Pilot Project						
Design of hospital management improvement model and plan (consultants)	252	63	315	PS/LCB	No	
Implement and execute pilot plan (consultants)	1,438	360	1,798	ICB	Yes	
Technical strengthening for ISSS for implementation of pilot project (procurement)	246	74	320	PS/LCB	Yes	
Monitoring and Evaluation system						
Design and operation of monitoring and evaluating system (consultants)	512	128	640	ICB	Yes	
Financial audit of the program						
Design and operation of financial audit system (consultants)	108		108	LCB	No	

Components/Activities	Financing (US\$ thousands)			Procurement Method	Precal.	
	IDB	Local	Total			
Coordinating Unit						
Personnel (consultants)	190	213	402	PS	No	
Purchase of equipment (procurement)	25	5	30	PS	No	

International competitive bidding
Local competitive bidding
Price shopping

RGII-ES200P
ES-0134
Original: Spanish

PROPOSED RESOLUTION

**EL SALVADOR. LOAN No. ___/OC-ES TO THE REPUBLICA DE EL SALVADOR
(Program to Support the Institutional Transformation of the Instituto Salvadoreño
del Seguro Social ISSS)**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de El Salvador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to support the institutional transformation of the Instituto Salvadoreño del Seguro Social. Such financing will be for the amount of up to US\$5,800,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Financial Terms and Conditions" and to the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.