

TECHNICAL-COOPERATION PROPOSAL

PROGRAM FOR THE CREATION OF MICROENTERPRISES FOR SOLID WASTE COLLECTION

(TC-96-10-12-3-EC)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Fundación Gestión de Residuos Sólidos (FGRS)

AMOUNT AND	IDB: Technical Cooperation:	234,738 euros (nonreimb.)
SOURCE:	FGRS:	<u>56,337 euros</u>
	Total:	291,075 euros

The technical-cooperation funds will come from the European Economic Community Special Fund for the Financing of Small Productive Projects. The commitment of these funds by the Bank will be recorded in euros, and disbursements will be made in local currency.

FINANCING	Modality:	grant
CONDITIONS:	Execution period:	24 months
	Disbursement period:	30 months

OBJECTIVES: The general objective of the project is to improve environmental and public health conditions in five marginal urban neighborhoods and/or small and medium-sized cities in Ecuador through the creation and start-up of five microenterprises specializing in solid waste collection. The specific objectives are: (i) to create employment opportunities for low-income residents of these communities; (ii) to establish, through the microenterprises that are created, an appropriate and efficient solid waste management system in the neighborhoods involved; and (iii) to create conditions for and promote sustainability in order to disseminate and replicate the model, thus fostering the formation of more microenterprises to serve the needs of a greater number of municipalities.

DESCRIPTION: The Bank, by way of FGRS, will finance the following components: (i) identification, assessment, and advisory services for municipalities; (ii) formation of five community-based microenterprises with approximately ten persons each; (iii) provision of business advice; and (iv) dissemination and expansion of the concept in order to encourage other municipalities in the country to replicate the model.

**ENVIRONMENTAL
CLASSIFICATION:**

The Committee on Environment and Social Impact at its meetings on November 17, 1997, and March 29, 1999, reviewed this operation and recommended that the Bank's standards on solid waste management, as well as those mandated by the World Health Organization with regard to the management and operation of solid waste collection systems, be taken into account. It was specifically recommended that the eligibility criteria for participating municipalities include the existence of proper facilities for final disposal of solid waste. It was also recommended that microentrepreneurs be trained in technical aspects, environmental protection, and the handling of contaminants. It was suggested as well that provisions be made for the health and safety of the workers. These recommendations were taken into account by the project team in designing the present operation.

BENEFICIARIES:

It is anticipated that this project will benefit - through improved environmental and public health conditions - approximately 200,000 persons in five marginal urban neighborhoods and/or small and medium-sized cities in Ecuador. The five microenterprises to be formed under this project are expected to improve the living conditions of 50 families in the lowest strata of the population, thus directly benefiting approximately 200 persons.

RISKS:

Three risks may arise during execution of the project. First, there is the possibility that municipalities will fail to honor their contracts with the microenterprises and not pay the agreed fees. This situation could come about for either of two reasons: possible municipal budget cuts, or possible changes in selected municipalities as a result of municipal elections, which could lead to policy changes and the failure to renew contracts with the microenterprises. This risk has been mitigated by requiring that contracts be for a minimum of two years (the period needed to recover the investments by the microenterprises). Furthermore, the fact that the operating costs for the municipalities will be reduced from US\$21 to US\$16 per metric ton as a result of the project would make it difficult to justify returning to the traditional system of collection used by the municipalities. Finally, experience has shown that the substantial improvement in the quality of services in these areas would create strong resistance on the part of the beneficiary population to returning to the old system.

The second risk relates to institutional problems that FGRS could encounter during project execution. The institutional weaknesses that have been identified (for example, lack of institutional experience, low volume of assets and equity, as well as lack of experience in managing projects) are likely to affect the quality of execution. However, given the professional level of FGRS's members and their specialized experience in this field, as well as the Bank's requirement that FGRS obtain significant counterpart funding before disbursements begin for this operation, it can be concluded that FGRS will be in a position to implement and fulfill the project's objectives.

The third risk is that the microenterprises will not manage to obtain local credit to finance the procurement of vehicles and equipment necessary to carry out their activities. This risk will be mitigated through the efficient and proper preparation of financial feasibility studies and business plans for the microenterprises, which will be prepared by an expert in negotiating commercial loans; this expert will also be responsible for negotiating loans with the banks. Likewise, the availability of fresh funds for up to the equivalent of US\$15,000 (US\$3,000 per microenterprise) to be used for making initial payments will facilitate the microenterprises' access to credit and will allow for the immediate availability of vehicles and equipment.

**BANK STRATEGY
IN THE COUNTRY:**

The November 2, 1998, country paper for Ecuador (version 2) proposes a strategy for the permanent alleviation of poverty, improved distribution of income, and promotion of environmental conservation. It mentions that, in order to achieve this strategy's objectives, there must be support for privatizing State enterprises, as well as support for the activities of microenterprises.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

It is recommended that, in addition to the general contractual conditions, the technical-cooperation agreement include the following conditions precedent to the initial disbursement: (i) that FGRS demonstrate to the Bank's satisfaction that it has signed commitments with other potential funding sources and that they have sufficient resources to fulfill their counterpart obligations; (ii) that FGRS has reached agreement with the Bank on the terms of reference for the consultants responsible for carrying out the various program activities; (iii) that FGRS has submitted, to the Bank's satisfaction, a plan for execution of the project;

(iv) that FGRS demonstrate that agreements have been reached to carry out assessments with at least three municipalities; and (v) that FGRS demonstrate, to the Bank's satisfaction, that operating regulations have been implemented to control and regulate execution of the program (see par. 5.3).

In addition, the results of the midterm assessment will be used as a basis for determining future program disbursements (see par. 5.8 and 5.9).