

SMALL ENTERPRISES AND MUNICIPALITIES SUPPORT PILOT PROGRAM

(TC-98-09-48-7)

EXECUTIVE SUMMARY

Beneficiary and Executing Agency:	Fondo de Inversión Social para el Desarrollo Local (FISDL)		
Beneficiaries:	Micro-, small and medium-sized enterprises, and selected municipalities		
Objectives:	The general objective of the program is to promote the development of private and public sector linkages to ensure better provision of municipal services. The specific objectives of the program are to: (i) raise the awareness of staff of municipalities and smaller scale firms of the opportunities of outsourcing municipal services; (ii) provide training for staff of municipalities in the identification of services to outsource, and in optimal bidding, contracting, regulation, and supervision procedures for contracting services from smaller firms; (iii) provide training and technical assistance to enable these smaller scale firms to participate in this process, and (iv) promote the dissemination of the pilot experiences and lessons learned.		
Financing:	Modality	Grant	
	MIF (Window I)	US\$	627,000
	MIF (Window IIIA)	US\$	773,000
	Recipient:	US\$	600,000
	Total:	US\$	2,000,000
Implementation Schedule:	Execution Period:	42 months	
	Disbursement Period:	48 months	
Contractual conditions:	1. Prior to first disbursement the Fondo de Inversión Social y Desarrollo Local (FISDL) will submit to the satisfaction of the Bank evidence that it has selected the program coordinator in accordance with terms and conditions previously agreed upon with the Bank. Prior to disbursement of funds for Components #1 and #2, the FISDL will present evidence to the Bank that it has (i) established the Fondo de Capacitación Municipal (FOCAM) and the Fondo de Capacitación y Asistencia Técnica (FOCAT) in accordance to the terms and conditions previously agreed with the Bank (see paragraphs 3.5 – 3.12), (ii) entered into effect the operating manual, which will include the operating framework and contracting procedures for the FOCAM and the FOCAT for the management of the program's activities in accordance with the terms and conditions previously agreed to with the Bank, and (iii) held at least five workshops to disseminate contracting models for, and successful experiences in, municipal service outsourcing (see paragraph 3.20).		
Exceptions to Bank policy:	None		

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 El Salvador was declared eligible by the Donors Committee for Multilateral Investment Fund (MIF) financing on December 3, 1993. This project is eligible for grants from the MIF's technical cooperation facility (I) and small business promotion facility (IIIA). The technical cooperation facility supports the shift in the Region from public sector monopolies and the legal, institutional and regulatory changes necessary to encourage sustainable private sector participation. The business promotion facility promotes the competitiveness and access to new markets of small scale firms.

II. BACKGROUND

A. The recent process of decentralization

- 2.1 The Republic of El Salvador has a territorial organization that consists of 262 municipalities distributed in 14 departments. These municipalities are run by local governments consisting of a mayor and a municipal council elected by direct vote. Three-fourths of municipal revenues derive from public expenditure transfers, channeled through the Fondo para el Desarrollo Económico y Social (FODES). While until recently municipalities have received a very limited transfer of public budget funds, in 1998 this percentage increased from 1% of the national budget to 6%, for a total of \$90 million last year. This is a beneficial shift since capacity to generate local revenue is limited. In one recent survey of seventeen municipalities¹, two thirds derived only 10% or less of their revenues from local taxes.
- 2.2 The Código Municipal establishes as one municipal responsibility the provision of the following services - civil registry ("registro civil"), markets, abattoirs, street and sidewalk sweeping and cleaning, garbage collection and disposal, cemeteries and funeral services, police services, and public lighting. Municipalities are exclusively responsible for applying and collecting fees for these services. In many cases, however, it appears rates set for fees do not cover the cost of services. A contributing factor is that a high percentage of the municipalities lack financial and accounting systems that would allow them to analyze the cost of providing a municipal service.²
- 2.3 In recent years, the FISDL has been the leading institution in local development in El Salvador, supported most recently by the Bank local development program (ES-0109). As part of the Government's present strategy, the FISDL's leadership role in decentralization has been extended to include support for municipal management. In this line, the FISDL is moving to transfer project responsibility to municipalities, while supporting their contracting of goods and services to help execute projects. In addition to the FISDL, a number of bilateral agencies are working to help develop municipal capabilities, including the GTZ and the U.S. Research Triangle Institute, both of which work in the area of municipal financial systems development, among others.

B. Outsourcing municipal services to firms

- 2.4 Currently private provision of public services in El Salvador is low. However, due to the increase in municipal funding, limited municipal capacity to execute projects, and

¹ Huáscar Eguino and Fabrice Henry, "Descentralización y Servicios Públicos Locales en El Salvador," Internal IDB Document, 1999.

² Of twelve municipalities surveyed as part of a Bank-contracted study to support preparation of this project, only two had done costing of service provision. "Diagnóstico de las Capacidades de los Gobiernos Locales para Contratar la Provisión Privada de Servicios en El Salvador," Carlos Briones, July 1999.

heightened interest in the benefits of contracting the private sector for public projects, there exists strong potential for it grow. Mayors have indicated their interest in this alternative citing cost reduction, expansion of coverage, and improvement of service quality as likely benefits. A survey of 66 municipalities noted 10 services the mayors wanted to contract out to the private sector, with waste collection and the maintenance of public lighting the most often cited.³

- 2.5 On the enterprise side, participating in the provision of municipal services represents an important new market for firms. While the provision of municipal services is a new product for many enterprises, there is already experience and know-how at a managerial and worker level in service provision. Smaller scale firms predominate in the service sector in El Salvador, with one survey of small firms identifying 4,469 enterprises in the service sector, compared to 3,700 in commerce and 2,240 in industry.⁴
- 2.6 Despite a demonstrated interest in outsourcing, the municipalities lack trained staff that are able to assess the cost of service provision, develop standards for outsourcing services, and prepare and supervise service provider contracts. On the enterprise side, SMEs need training and technical assistance in the preparation of bids and upgrading of their service provision.
- 2.7 The experience shows that it can be beneficial to outsource services, when it is done with knowledge of costs, adequate adaptation of fee rates, as well as adequate systems of selection of contractors and effective contracting, regulation and supervision mechanisms. Support is needed to enable more municipal contracting of firms for public projects. To ensure that a large number of firms are equally able to access the municipal service market, training and technical assistance is needed to equip them with an understanding of bidding and contracting procedures, costing and administering public projects, and technical aspects of delivery of specific services. There is also a need for training of municipalities in methods on how to work with small scale firms in particular. This is the objective of this program, which is oriented to deepening the links between the private sector and the public sector for the provision of municipal services in El Salvador.

³ Víctor Antonio Orellana, "El Salvador: Políticas de Descentralización y Capacidades de Gestión Administrativa y Financiera de las Municipalidades." October 1997.

⁴ DIGESTYC (1997).

III. DESCRIPTION OF THE PROGRAM

A. Objectives

- 3.1 The general objective of the program is to promote the development of private and public sector linkages to ensure better provision of municipal services. The specific objectives of the program are to: (i) raise the awareness of staff of municipalities and firms of opportunities of outsourcing of municipal services; (ii) through training improve the capacity of municipality staff in the identification of services to outsource, and in optimal bidding, contracting, regulation, and supervision procedures for contracting services from smaller firms; (iii) by providing training and technical assistance, enabling these firms to participate in these processes, and (iv) generate greater interest and ability to participate in municipality outsourcing by disseminating pilot experiences and lessons learned.

B. General description of the program

- 3.2 The overall strategy is to promote a series of successful municipal service outsourcing pilot experiences in the country. Only a limited number of municipalities will participate: those that demonstrate the capacity and interest to realize successful experiences. In terms of firms, micro-, small and medium-sized local enterprises of less than 50 employees⁵, from hereon called “small scale firms” will be eligible to participate. The support that will be provided will be *demand-driven*, and beneficiaries – municipalities and small scale firms - will *copay* for training and technical assistance. This copayment will serve to ensure the relevance of these services to their needs.
- 3.3 In regard to *municipalities*, training will be provided in financial analysis of costs by area of service to be outsourced, bidding and contracting procedures for the provision of services by small scale firms, and regulation and supervision of contractors and services. In regard to *small scale firms*, training and technical assistance will be provided for upgrading of human resource skills, preparation of bidding proposals and financing/investment plans, and quality assurance of services provided. In addition, information activities will permit municipalities to learn of successful outsourcing experiences and firms to understand opportunities generated by outsourcing of municipal services.

C. Components

- 3.4 The Program will have three components: (i) a Fondo de Capacitación Municipal, (ii) a Fondo de Capacitación y Asistencia Técnica for small scale firms, and (iii) an information component consisting of a Registro de Instituciones de Capacitación y Asistencia Técnica, and informational and promotional workshops.

**1. Component #1: The Fondo de Capacitación Municipal (FOCAM)
(US\$354,000, MIF; US\$196,000, local counterpart)**

- 3.5 The **Fondo de Capacitación Municipal (FOCAM)** will support training of municipal staff in processes of outsourcing municipal services. Municipalities will be declared eligible for support based on the evaluation and approval by a Comité Consultivo of a *service outsourcing proposal*, presented by one municipality individually or by several municipalities collectively. Municipalities will be selected based on a competitive process and specific selection criteria. Criteria will include (i) sustainability of the

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According to “La Red de Programas de Apoyo a las Micro y Pequeñas Empresas en El Salvador”, Carlos Briones, 1998, the term microenterprise is used in El Salvador to refer to a firm with less than 10 workers (some credit program establish 5 workers as a maximum) and small enterprise is defined in two alternative ways: up to 20 workers, and up to 50 workers. The more expansive criteria of up to 50 workers is used here for small enterprise.

outsourcing; (ii) capacity to locally finance the municipal services; and (iii) the service to be outsourced is one of the following: garbage collection and disposition, street and sidewalk cleaning, public lighting maintenance, maintenance of green areas, collection of utility fees and municipal taxes⁶. To be eligible, furthermore, these municipalities will need to also be in compliance with prevailing environmental and occupational health and safety regulation. (See Annex 5a: Reglamento Operativo del Fondo de Capacitación Municipal – FOCAM).

- 3.6 The FOCAM will be demand-driven, with a copayment requirement. Municipalities declared eligible for support can access training in value of up to an amount of equivalent to US\$14,000 during a period of up to 18 months after the approval of a project by the Comité Consultivo. Of the total value of the training contracted, the FOCAM will only cover up to 90% of the cost. A municipality will not be able to present more than one outsourcing project for one type of service during the duration of the program. A municipality will also not be able to access support for more than one outsourcing process at a time. As the initial 6 months of the 42 month execution period of the proposed program will be dedicated to initial tasks and information dissemination (see paragraph 3.18), this means that the fund will disburse over a 36 month period and each municipality will not be able to access more than US\$ 28,000 for the duration of the program.
- 3.7 Contents of training for staff of municipalities will include: detailed costing of municipal expense by service that could potentially be outsourced; development of technical standards for the delivery of services by third parties; preparation of contracts with the selected municipal service providers; and municipal supervision and evaluation mechanisms.
- 3.8 The goal is that forty processes of outsourcing municipal services will be supported during the duration of the program.

**2. Component #2: The Fondo de Capacitación y Asistencia Técnica (FOCAT)
(US\$500,000, MIF; US\$100,000, local counterpart)**

- 3.9 The **Fondo de Capacitación y Asistencia Técnica (FOCAT)** for small scale firms will provide training as well as technical assistance to all firms participating in an outsourcing process approved by the program. The fund will have two phases of access. The **first** will occur once the list is defined of the small scale firms that will participate in the selection process for the planned outsourcing⁷. Each of these firms will have access to an amount of up to the equivalent of US\$ 250 for technical assistance to prepare a technical and financial proposal, and corresponding business plan. The technical assistance services will need be carried out in their entirety during the planned time period for the call or invitation for submission of bids. (See Annex 5b: Reglamento Operativo del Componente del Fondo de Capacitación y Asistencia Técnica - FOCAT).
- 3.10 In a **second** phase those firms that are successfully selected as the provider of a service that is outsourced will have access to the FOCAT. These firms will be able to access an amount of up to US\$ 2,250 per firm, to be used in the 12 months subsequent to the date of outsourcing. In both phases, the subsidy authorized from the funds will in no case be able to exceed 50% of the total value of the training and technical assistance services.

⁶ There are experiences of municipal outsourcing of utility fee collection to firms in El Salvador, including for example in San Salvador for garbage collection fees. Collection of municipal taxes, a municipal responsibility, has not been outsourced to date: however interest has been indicated in doing so.

⁷ This list will be made of all those firms that access bid specifications as a result of a call for bids for a service. As a measure of their real interest in participating in the process a fee may be charged for access to specifications.

- 3.11 Technical assistance that small scale firms can access will include support for the process of preparing business plans and assistance in the preparation of financial and investment plans associated with the provision of these services, including the identification of viable mechanisms of financing. The type of training the firms can access will include skills benchmarking, upgrading, specialization and retraining for employees and owners, so as to improve the quality of municipal services provided.
- 3.12 The goal is that 600 firms will access support from the program to assist in preparing bidding proposals in the first phase, and that 200 will access support from the program for assistance in the provision of municipal services in the second phase.

3. Control and supervision for the FOCAM and FOCAT

- 3.13 One control will be the qualification of suppliers of training and technical assistance, a process that will be based on their presenting documentation providing proof of capacity and track record so as to qualify into the registry. An auditing system will help assure the information obtained is correct.
- 3.14 A second control consists of adequate contracts accorded between smaller scale firms or municipalities and the providers of training and technical assistance. These contracts will need to clearly specify the service product to be delivered (contents, hours, expected results, personnel involved, place of work), to facilitate the supervision of the delivery of the service. Additionally, the program disburses payment for the cost of service only after the service has been delivered, and against the presentation of declaration of satisfaction by the service beneficiary, and when evidence is provided of the beneficiary's copayment.

4. Component #3: Information Component (US\$178,400, MIF; US\$39,000, local counterpart)

- 3.15 The information component will provide a **Registro de Instituciones de Capacitación y Asistencia Técnica (RICAT)**, as well as **informational, promotional and training activities** regarding the project and outsourcing opportunities.
- 3.16 A) The **Registro de Instituciones de Capacitación y Asistencia Técnica (RICAT)** will be made up of a national registry of providers of municipal training services on the one hand, and of providers of training and technical assistance services for small scale firms on the other. These two registries will be centralized in one system, so as to standardize the management of information required from each institution. The data base of the RICAT will need to be accessible at a local level to each municipality interested in participating in the program, and declared eligible to do so. The FISDL technical municipal advisors – who to a certain extent will function as local promoters for the program – can play a role in promoting the participation of qualified local institutions.⁸ Qualification of suppliers of training and technical assistance into the registry will be based on their presenting documentation providing proof of capacity and track record, including legal configuration, years of experience, and services delivered. The information in the RICAT will be systematized and updated through an information system that will track service supplying institutions, and the technical assistance and training they deliver.⁹

⁸ An initial preliminary list of service providers was identified in assessments carried out in project preparation of the municipal services market and small firm services market, "El Mercado de los Servicios de Capacitación Municipal en El Salvador," and "El Mercado de Servicios Empresariales No-Financieros para las Micro y Pequeñas Empresas en El Salvador."

⁹ See Annex 5a - Reglamento Operativo del Fondo de Capacitación Municipal (FOCAM), and Annex 5b - Reglamento Operativo del Componente del Fondo de Capacitación y Asistencia Técnica (FOCAT).

- 3.17 Funds have been allocated as part of the RICAT that will allow the Executing Unit to contract technical support to systematically monitor and audit the quality of services delivered through the program on a continual basis. An additional mechanism of feedback on services delivered will come from the firms and municipalities receiving training and technical assistance who must document satisfaction with services delivered.
- 3.18 B) In addition, **the following training, informational, and promotional activities** are part of the program and will be key to its success:
- 3.19 (1) **Training events for the technical municipal advisors** of the FISDL will be held to inform them of the program and its potential, and reinforce their capabilities to support program execution. Funds have been allocated for training sessions to be held during the first six months of the program execution before funds are disbursed from the FOCAM and FOCAT, as well as throughout program execution.
- 3.20 (2) **Workshops to disseminate contracting models for, and successful experiences in, municipal service outsourcing.** Within the first six months of program execution, and before funds are disbursed for the FOCAM or FOCAT, at least five national workshops will be held - four regionally and one held in the capital – for mayors and other authorities of interested municipalities, staff of providers of training and technical assistance, and staff of small scale firms. These workshops will disseminate model contracts and procedures for, and successful experiences in, municipal service outsourcing, and model contracts for provision of training and technical assistance services through the program.
- 3.21 The EU will have at its disposition limited funds for technical support to develop the models that would be disseminated in these workshops, and applied afterward to support outsourcing processes. These would include model documents for calls for bids/invitations to participate in outsourcing processes, as well as model contracts both for outsourcing municipal services and contracting training and technical assistance services through the program. These models will be based on documents and contracts used successfully locally and regionally. Additional inputs and materials that can be developed with this fund, and subsequently disseminated, are: (i) brochures and guides on contracting models and procedures as well as (ii) models of municipal norms to ensure better provision of outsourced services, (iii) models of norms for the occupational security and health for firms contracted, and (iv) models for service fee rates and service fee collection mechanisms.
- 3.22 In addition, three workshops will be held at the end of the first, second and third years of program execution to disseminate case studies generated by the program itself. All workshops will detail “best practices” and include aspects such as identification of services suitable for outsourcing, cost analysis by service, mechanisms of contracting, processes of developing norms and technical standards for service delivery, and mechanisms of supervision and control.
- 3.23 (3) Finally, **promotional workshops will be held for small scale firms** interested in participating in the provision of outsourced municipal services, so as to ensure that the largest number possible of firms participate and benefit from the project. These workshops, that will be free, will provide specific information on the assistance the program can provide firms, as well as general information on bidding and contracting procedures.

IV. PROGRAM EXECUTION

A. Executing Agency

- 4.1 The Executing Agency of the program will be the Fondo de Inversión Social para el Desarrollo Local (FISDL). Created in 1990, as a special program of the Presidency of the Republic for channeling international cooperation funds for the investment of infrastructure in the social area, the FISDL was created by law in September 1996, as an autonomous public institution, absorbing the program Municipalidades en Acción (MEA), and administering, along with ISDEM, resources of the Fondo para el Desarrollo Económico y Social (FODES).
- 4.2 The FISDL is managed by a Consejo de Administración of 5 members: one named by the Comité Social, one named by the mayors, one representing NGOs in the social area, one delegate of the Presidency, and one president of the Consejo who is named by the President of the Republic. The FISDL has hired highly qualified new staff in the last twelve months, and implemented a number of institutional measures, in order to further strengthen its capacity and leadership role in local development. It has a staff of 248, of which 52 make up the technical team of the Dirección General de Operaciones, and who are working as technical municipal advisors, with each advisor attending to five municipalities. This ensures regular and direct contact with the mayors and municipal personnel, and the provision of technical support to the municipalities.
- 4.3 For the execution of the program, an Executing Unit (EU) will be set up within FISDL, which will work in coordination with FISDL's technical municipal advisors. The staff of the Executing Unit will be a Program Coordinator and a Technical Advisor. The FISDL will provide a locale as well as administrative and secretarial support, and support provided by the technical municipal advisors. Technical assessment of the municipal service outsourcing proposals will be the responsibility of the staff of the Executing Unit. In addition the Execution Unit will be responsible for supervising the contracting of technical assistance and training by municipalities and firms in the project. The municipal advisors will contribute to overview of the training delivered to staff of municipalities (for assignment of responsibilities within project see Annex 8 - Matriz de Descentralización de Funciones por Actor y Sistema). Measures that will support the execution of the project include the dissemination of outsourcing models and procedures (for which \$99,400 has been dedicated – see paragraph 3.20), and ongoing training to the 52 FISDL municipal advisors (for which \$70,000 has been allocated – see paragraph 3.19)
- 4.4 The staff of the Executing Unit will convene the constitution of a Comité Consultivo, integrated by the coordinator of the program, a representative of the Consejo de Administración del FISDL, a representative of the Corporación de Municipalidades de la República de El Salvador (COMURES), and a representative of the Asociación Nacional de la Empresa Privada (ANEP). Each of these members will have a vote on the committee. Only in cases of tie votes will the executive director of FISDL also cast a deciding vote.
- 4.5 The Comité Consultivo will be responsible for the final approval of institutions prequalified by the EU to participate in the RICAT. This committee will also review, based on proposals that could be submitted by the EU, possible adjustments – upward only – in the percentages of copayment required for participation in the FOCAM and the FOCAT. Finally, the Comité Consultivo will also provide final approval of municipal service outsourcing projects to be supported through the program, which will have already undergone technical assessment of the Executing Unit. Operating procedures of the program will be consistent with those of FISDL, modified to meet specific needs of this operation.

- 4.6 The contracting of consulting services as well as the acquisition of goods will be carried out in accordance with Bank policies and procedures.

B. Degree of preparation of program

- 4.7 The program is considered to be in an advanced state of preparation for the following reasons: (i) a detailed indicative operating framework, as well as indicative terms of reference for the technical staff and a consulting firm to support program monitoring and evaluation, have been prepared¹⁰, (ii) the Executing Agency has demonstrated a strong level of interest and commitment in carrying out the program, and (iii) careful surveys of municipalities and the business and municipal support services markets indicated strong interest on the part of municipalities, small scale firms and providers of support services in a program to support municipal service outsourcing to small scale firms.

C. Environment and social impact

- 4.8 This proposed program will help strengthen the ability of municipalities to resolve several environmental problems more efficiently, including the principal environmental problem which they confront, that of solid waste management. In this area, it complements two recently-approved projects - a loan for the decontamination of critical areas (ES-0074) which includes a component for solid waste management and a technical cooperation for the management of municipal solid waste (TC-9810062). In addition, the program will also have a positive environmental impact by supporting municipal street and sidewalk cleaning, and maintenance of green areas.
- 4.9 To be eligible to access program support, firms and municipalities will need to be in compliance with prevailing environmental and occupational health and safety regulation.¹¹ These will include the environmental norms and regulation for solid waste management the Ministerio de Ambiente y Recursos Naturales is introducing on a national level in connection with the decontamination of critical areas project.
- 4.10 The Committee on Environment and Social Impact (Comité de Medio Ambiente e Impacto Social – CESI) of the Bank considered this operation in meeting TRG-40/98 on October 23, 1998 and recommended that capacity-building measures in environmental and worker health issues, as well as outreach measures to women entrepreneurs, be included as part of the program. Compliance with these recommendations, which have been included as part of the program, will be part of the process of monitoring and evaluation.

V. FINANCING AND COST

A. Budget and Use of Resources

- 5.1 The total cost of the program is US\$ 2,000,000. FISDL will contribute US\$ 600,000 (30%), and the MIF US\$ 1,400,000 (70%) in non-reimbursable funds from Facility I. In addition, municipalities and smaller scale firms that are assisted through the program will contribute copayments totaling US\$55,000 and US\$600,000 respectively. This is additional cost recovery and not included in FISDL's contribution to the project. The

¹⁰ See Annex 6 – Términos de Referencia indicativos para el Equipo Técnico de la Unidad Ejecutora, and Annex 7 – Términos de Referencia indicativos para la Firma de Seguimiento y Evaluación.

¹¹ See Annex 5a - Reglamento Operativo del Fondo de Capacitación Municipal (FOCAM), and Annex 5b - Reglamento Operativo del Componente del Fondo de Capacitación y Asistencia Técnica (FOCAT).

program will have a duration of 42 months, of which the first 6 will be dedicated to the initial tasks and events of information dissemination and awareness-raising of the program (see paragraph 3.18). A revolving fund of up to 10% the amount of the MIF donation will be established, from which the Executing Unit can request disbursement of funds.

- 5.2 The summary budget, categorized by financing source (in US\$) is provided in the following table.¹²

CATEGORIES	MIF	FISDL		TOTAL
		Cash	In-Kind	
<i>I. MUNICIPALITY TRAINING COMPONENT</i>	<i>354,000</i>	<i>196,000</i>		<i>550,000</i>
<i>II. SMALL SCALE FIRM TECHNICAL ASSISTANCE AND TRAINING COMPONENT</i>	<i>500,000</i>	<i>100,000</i>		<i>600,000</i>
<i>III. INFORMATION COMPONENT</i>	<i>178,400</i>	<i>4,000</i>	<i>35,000</i>	<i>217,400</i>
<i>IV. TECHNICAL SUPPORT</i>	<i>201,600</i>			<i>201,600</i>
<i>V. ADMINISTRATION</i>			<i>265,000</i>	<i>265,000</i>
<i>VI. CONSULTANCY FOR MONITORING AND EVALUATION</i>	<i>90,000</i>			<i>90,000</i>
<i>VII. AUDITING</i>	<i>16,000</i>			<i>16,000</i>
<i>VIII. CONTINGENCIES</i>	<i>60,000</i>			<i>60,000</i>
TOTAL	1,400,000	300,000	300,000	2,000,000

- 5.3 Local counterpart resources will be used to finance part of the cost of the reference information system, administrative expenses and part of the fund for technical assistance. The MIF resources will finance the remaining costs of the operation of the three components, the contracting of a consultancy for monitoring and evaluation, and contingencies.

B. Sustainability

- 5.4 From the beginning of program implementation, firms accessing services of training and technical assistance through the program will assume a minimum of 50% of the costs of these services. On their part, municipalities will contribute 10% of their own resources to co-pay training services, which until now municipalities have largely received free of cost from the public sector. Based on the results of program evaluation, these subsidy levels can be reduced. Elements of the program that will contribute to increasing self-sustainability are: on the demand side increased information on, and awareness of, the existing supply of municipal and business non-financial services and of contractual practices to buy them, and on the supply side improved adaptation of services to the needs of municipalities and firms participating in outsourcing processes.
- 5.5 In the event that there is a need for continuation of the activities of the program beyond its presently specified duration, the FISDL can continue the program through its demonstrated capacity to channel national budget and donor funding. Presently, the FISDL assumes responsibility to finance 30% of total resources of the program, for the

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See Annex 2 for detailed annual project budget.

technical assistance and training fund for smaller scale firms and for the municipal training fund, as well as costs for the execution and administration of the program. In the course of the program, the FISDL can replenish its counterpart resources with resources from other donors. Each new contribution of resources to the program will need to be approved by the Comité Consultivo.

VI. PROGRAM JUSTIFICATION AND RISKS

A. Justification

- 6.1 This is a pilot experience that will promote the development of a market for outsourcing at the municipal level. The ability of small scale firms to provide certain municipal services will be strengthened, contributing to improved municipal service provision. The proposed program will have a demonstrative effect and generate lessons for municipal service outsourcing on a wide scale in El Salvador. The program will increase the awareness of municipalities as well as smaller scale firms of the opportunities presented by successful outsourcing of municipal services, by enabling them to learn of the results of pilot outsourcing experiences realized through the program, and to access information on similar experiences in the region. Training and technical assistance will be provided for 40 municipal initiatives and the estimated 600 firms that will participate in these initiatives.
- 6.2 The proposed program is consistent with the Bank's strategy to support capable local governments and private mechanisms for local economic development. It complements the Bank local development project (ES-0109) which has as one of its objectives increasing the budgeting and project planning capacity of municipal authorities, and provides US\$2 million in technical assistance to support this. In addition the proposed program is a fundamental complement to the recently approved decontamination of critical areas project (ES-0074). This last project provides US\$5 million in technical assistance, and US\$13.5 million in investment funds for the municipal management of solid waste. The investment funds are likely to generate important demand by municipalities and small scale firms for the support this proposed program can offer.

B. Risks

- 6.3 The risks of the program are associated with possible negative reactions to outsourcing of municipal services by service users if the outsourced service do not result in a better cost-benefit relationship, and the possibility that there are not enough smaller scale firms to carry out the outsourced municipal services with quality and efficiently. The first risk can be addressed through the appropriate and adequate design of the outsourcing projects, so as to ensure they result in a better cost-benefit relationship for the user. The second risk is mitigated through the promotion measures of the project to small scale firms, including dissemination of contracting models and procedures and outreach workshops specifically targeted to the firms, as well as through the technical assistance and training of the FOCAT.

VII. MONITORING AND EVALUATION

- 7.1 The principal instruments of monitoring will be semi-annual progress reports of the Executing Agency, FISDL. The reports will present information on the extent to which program objectives are being met, including: the number of participants in training courses and technical assistance sessions, with detail of participating municipality and/or firm; the number of training and technical assistance providing institutions participating in the program, with detail on the institutions and type of product offered; the number of courses and technical assistance delivered; and resources committed and disbursed. In

addition, the contracting by the Bank of a firm is proposed for the purpose of ongoing monitoring during the duration of the program, and evaluation of the program. The terms of reference will need to be prepared by the FISDL (an indicative draft is included as Annex 6), and receive the Bank's non-objection.

- 7.2 Two evaluations are provided for in the program: an intermediary evaluation once one third of the program resources are disbursed and another final evaluation 40 months into execution. A specialized firm will be contracted to carry out these evaluations. In the intermediary evaluation, an analysis will be made of the degree of compliance with indicators of the Logical Framework of the program, and include an assessment of the functioning of the FOCAM and FOCAT and their impact in supporting successful outsourcing experiences. In the final evaluation, an analysis will be made of the impact and results of the program, and a recommendation will be made of whether to finalize or continue support for outsourcing of services to smaller firms.

VIII. CONTRACTUAL CONDITIONS

- 8.1 Prior to first disbursement the Fondo de Inversión Social y Desarrollo Local (FISDL) will submit to the satisfaction of the Bank evidence that it has selected the program coordinator in accordance with terms and conditions previously agreed upon with the Bank. Prior to disbursement of funds for Components #1 and #2, the FISDL will present evidence to the Bank that it has (i) established the funds Fondo de Capacitación Municipal (FOCAM) and Fondo de Capacitación y Asistencia Técnica (FOCAT) in accordance to the terms and conditions previously agreed with the Bank (see paragraphs 3.5 – 3.12), (ii) entered into effect the operating manual, which will include the operating framework and contracting procedures for the FOCAM and the FOCAT, for the management of the program's activities in accordance with the terms and conditions previously agreed with the Bank, and (iii) held at least five workshops to disseminate contracting models for, and successful experiences in, municipal service outsourcing (see paragraph 3.20).

LOGICAL FRAMEWORK FOR THE PROGRAM

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Help make municipal services more efficient by encouraging the subcontracting of such services to SMEs.	<p>At the end of 3 ½ years:</p> <p>With support from the project, services will be outsourced in 40 municipalities on a pilot basis.</p>	Case studies prepared for dissemination during the program.	The delivery of a significant number of services could be improved (cost, quality, and coverage) through outsourcing and there are municipalities and SMEs interested in, and capable of, participating in the process.
Capacity of SMEs to deliver municipal services is increased and respective procedures are improved.	<p>At the end of 3 ½ years:</p> <ul style="list-style-type: none"> • 200 municipal contracts carried out for delivery of municipal services by SMEs; • In 80% of the participating municipalities, costing per outsourced service performed. • In 80% of participating municipalities, service sustainability increased as a result of the charging of fees; • 80% favorable acceptance of outsourced municipal services on the part of their clients. 	<ul style="list-style-type: none"> • Baseline study of municipalities and enterprises participating in the project; • Monitoring and evaluation reports; • Registry of projects presented and approved; • Registry of FOCAM and FOCAT beneficiaries. 	Participation in the outsourcing processes will require – and in turn will be invigorated by – technical assistance and training to be provided to the municipalities and SMEs.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<ul style="list-style-type: none"> • A Municipal Training Fund (FOCAM); • A Training and Technical Assistance Fund (FOCAT) for SMEs; • A registry of training and technical assistance institutions (RICAT); • A service to disseminate information on opportunities and experiences in municipal service outsourcing. 	<p>At the end of 3 ½ years:</p> <ul style="list-style-type: none"> • FOCAM and FOCAT in operation; • RICAT set up. 	<ul style="list-style-type: none"> • Register of case studies and presentations at awareness and dissemination workshops; • Register of FOCAM training and technical assistance beneficiaries; • Register of FOCAT training and technical assistance beneficiaries; • Number of institutions registered in the RICAT. 	<p>The dissemination of the program – and the related opportunities for training and technical assistance providers – to businesses and municipalities will generate sufficient supply of institutions and services registered in the RICAT to meet the demand that will emerge from the outsourcing processes tested in the context of the program</p>
<ul style="list-style-type: none"> • Execution of awareness tasks, including national workshops on successful experiences and training for Municipal Advisors; • Setup of the RICAT; • Approval of outsourcing projects and fund allocations; • Operation of the FOCAM and the FOCAT; • Dissemination of successful experiences. 	<p>At the end of 3 ½ years:</p> <ul style="list-style-type: none"> • 40 municipalities participating in the FOCAM; • 600 SMEs participating in the operation of the FOCAT; • At least five national workshops to disseminate contracting models and outsourcing procedures and to increase awareness of already existing regional and local outsourcing experiences; • At least five training events for Municipal Advisors; 	<ul style="list-style-type: none"> • List of participants in the five national awareness workshops, informational meetings prior to each outsourcing process, and three workshops to disseminate experiences; • List of participants in informational meetings prior to each approved outsourcing, and list of advisors participating in the training; • List of municipalities assisted by the FOCAM; • List of SMEs assisted by the FOCAT; 	<p>The benefits of an effective process of municipal service outsourcing dissipates any doubts and resistance on the part of municipal employees in their concern over possible job loss, and on the part of users, concerned about an increase in fees without the respective improvement in service delivery.</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> At least five suppliers of municipal training registered in the FOCAM, and at least 25 suppliers registered in the FOCAT; three project-generated case studies/models of increased and improved delivery of municipal services by SMEs; Three national workshops to disseminate successful outsourcing experiences are conducted during the program. 	<ul style="list-style-type: none"> RICAT registry. 	

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PROPOSED RESOLUTION

EL SALVADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR A SMALL ENTERPRISES AND MUNICIPALITIES SUPPORT PILOT PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Fondo de Inversión Social para el Desarrollo Local de El Salvador" and to take such additional measures as may be pertinent for the execution of the donor's memorandum referred to in Document MIF/AT- with respect to a technical cooperation project for a Small Enterprises and Municipalities Support Pilot Program.
2. That up to the amount of US\$1,400,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Multilateral Investment Fund. Of this total amount, up to US\$627,000 will be chargeable to the Technical Cooperation Facility, and up to US\$773,000 will be chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.